LSC America's Partner for Equal Justice

LEGAL SERVICES CORPORATION

FINANCIAL GUIDE

- Effective January 1, 2023 -

Table of Contents

Table of Contents (cont.)

Table of Contents (cont.)

Section 1 - General Information

1.1 Purpose of this Guide

The Legal Services Corporation (LSC) provides grant funding for the provision of civil legal aid to low-income people in the United States, U.S. territories, and certain Pacific Island nations. The LSC Financial Guide (Guide) is designed to assist recipients and subrecipients with fiscal responsibilities in the stewardship of grant funds provided by LSC. Both LSC management and the Office of Inspector General (OIG) will refer to this Guide as part of oversight.

The effective date of this Guide is **January 1, 2023.** It supersedes all previous editions of the Accounting Guide for LSC Recipients and sets forth financial management guidelines and standards for recipients of LSC funds. These guidelines are intended to help recipients record and report financial information in a way that is useful for LSC and other readers of a recipient's financial statements. This Guide also serves as a guidance document for how to apply various laws, regulations, and directives governing financial management and administration of LSC grants. Throughout this Guide, “must” and “shall” mean requirements and “should” means a strong recommendation. Please see Appendix 2 for more information about common terms and Appendix 3 for the List of Acronyms.

This Guide does not restate LSC regulatory requirements but provides clarifications or descriptions of accounting and regulatory issues. The Guide contains several new requirements that recipients must adopt, and best practice recommendations for financial management, including example reports and methods of compliance with specific requirements. These illustrations do not preclude the exercise of the recipient’s professional judgment in developing additional or alternative accounting and reporting procedures that meet LSC requirements.

1.2 Compliance Resources

The following resources are referenced in this Guide and are important components of the total required fiscal management for LSC grants. Hyperlinks are provided, where available:

- LSC Act (42 U.S.C. 2996–2996l), LSC’s annual appropriation (incorporating provisions from Public Laws 104-134 and 105-119), LSC Regulations, Program Letters (includes Annual Compliance Supplements), and Advisory Opinions
- LSC Office of Compliance and Enforcement (OCE) Program Counsel and Fiscal Compliance Analysts (FCA)
- Recipient’s External Auditors
- LSC website and resources, including:
  - LSC Grant Programs
  - Grantee Guidance
- LSC Office of Inspector General (OIG) Audit Guide for Recipients and Auditors
- 2 CFR § 200 – Uniform Grant Guidance (UGG) – Federal grant rules that guide the

implementation of many LSC financial requirements

- LSC OIG Fraud Alerts, Fraud Corner, and Fraud Prevention Guide
- Generally Accepted Accounting Principles (GAAP)
- American Institute of Certified Public Accountants (AICPA) Accounting resources for not-for-profit entities
- Prohibited activities by funding source (LSC, Public, and Private funding)
- LSC Grant Terms and Conditions for each LSC grant (e.g., Basic Field, Technology Initiative, Pro Bono Innovation, Disaster Relief)
- LSC OIG website

1.2.1 Types of LSC Grant Funding

1.2.1.a Basic Field Grants

LSC Basic Field Grants provide funding to support the delivery of high-quality civil legal services and access to justice to low-income people in the U.S. and U.S. territories. Funds are awarded through full-service grants for all eligible people in a service area, and through specialized subpopulation grants to provide services for agricultural workers and their dependents or people in Native American communities. A service area is a geographically defined area, such as a state or multiple counties or cities within a state. General Basic Field Grants are for services to all eligible people in the service area. Native American and agricultural worker grants are limited to serving those populations in the service area (who may also be served through the general grant).

Grants are normally disbursed monthly and are calculated based on 1/12th of the total annual award. Normally, LSC provides a double payment in January and no payment in November to provide recipients with more up-front funding. All Basic Field Grants include in the award a schedule for disbursements.

1.2.1.b Special Purpose Grants

LSC's special purpose grants are awarded for a specific and limited purpose. For example, Technology Initiative Grants (TIG) seek to improve legal services delivery to the low-income population; and increase low-income persons' access to high-quality legal services, the judicial system, and legal information through technology. Pro Bono Innovation Fund (PBIF) Grants support the development of new and more robust pro bono efforts and partnerships that effectively serve more low-income people. Disaster Relief Emergency Grants provide funds to LSC recipients in areas with government-declared emergencies.

Almost all special purpose grants include a specific budget with performance milestones. Special purpose grants support a specific event, project, or single purchase or activity, or serve as a one-time infusion of resources to support the recipient's other activities. The grant award specifies the term of the grant and a schedule of disbursements, which is often linked to a set of performance milestones for TIG and PBIF awards.

After the expiration date of the grants, recipients must seek prior approval from LSC before expending one-time and special purpose grants. Absent approval from LSC, when a one-time or special purpose grant expires or is terminated, the unexpended amount must be returned to LSC. See 45 C.F.R. § 1628.3(g).

1.3 Recipient Responsibility

Any policies and procedures implementing the requirements of this Guide must be written (see Appendix 7. Required Accounting Policies and Procedures). Furthermore, any policies required in this Guide must also be reviewed and approved by the recipient's governing body.

Recipients must ensure their accounting policies and procedures are in accordance with the most recent accounting standards.

In accepting LSC funds, recipients agree to administer these funds in accordance with requirements of the Legal Services Corporation Act of 1974, as amended (Act), any applicable appropriations acts, and any other applicable law, rules, regulations, policies, guidelines, instructions, and other directives of the Legal Services Corporation, including, but not limited to, the LSC Audit Guide for Recipients and Auditors, this Guide, the Case Service Report (CSR) Handbook, grant Terms and Conditions, and any amendments to the foregoing. Each recipient will need to work closely with LSC to appropriately manage and report on the use of LSC grant funds. This Guide does not replace guidelines associated with specific LSC grant programs and other laws, regulations, and directives that apply because of state or federal law, or the requirements of other donor organizations. LSC promulgates regulations that govern recipients' use of LSC funds; these regulations appear at 45 C.F.R. Parts 1600—1644. As a condition of their grants, LSC requires recipients to adopt accounting policies and procedures that comply with these regulations and modify, as necessary, when the regulations are amended, or new regulations are issued. These regulations reflect the accounting policies that LSC requires for its recipients. Recipients should refer to the current version of regulations referenced in this Guide.

Section 2 – Accounting Systems and Governance

All recipients and subrecipients are required to establish and maintain adequate accounting systems and financial records to accurately account for all funds (both LSC and non-LSC funds). LSC requires recipients and subrecipients to (1) responsibly manage all funds pursuant to the cost standards and procedures of 45 C.F.R. Part 1630 and other LSC regulations at 45 C.F.R. Parts 1600-1644; and (2) record transactions in accounting records and, where required, prepare annual financial statements in accordance with GAAP.

2.1 Accounting Systems

2.1.1 General Accounting System Requirements

Recipients are required to use automated accounting systems with the minimum capabilities described below and to maintain their accounting records on a double-entry basis using GAAP accrual accounting. The accounting system must support fund accounting to segregate LSC funds from other revenue sources and accommodate the accumulation of costs by grant or contract.

2.1.1.a Accounting system capabilities

The recipient's accounting system must support all of the following:

- Chart of accounts that adequately meets reporting and management needs
    - Recipients must adopt written policies and procedures to request and approve changes to the chart of accounts. Approvals should occur at a reasonable frequency, informed by recipient's financial operations.
- Segregation of funds within the accounting system by general ledger (GL) account (no commingling)
- Tracking and accounting by funding source (e.g., receipts, expenditures, obligations)
    - Recipients must maintain adequate supporting documentation for all transactions, including evidence of approval by an authorized individual.
- Ability to identify and address unallowable costs
- Properly allocating costs across funding sources and cost centers
- Tracking and accounting for capitalized assets (e.g., cost, accumulated depreciation, funding source(s), gains/losses from disposals)
- Fully describe transactions that flow to the GL through subsidiary journals
    - Recipients must adopt written policies and procedures around direct entries to the GL, including supporting documentation and approval requirements.
- Collecting and reporting financial data for planning, controlling, budgeting, measuring, and evaluating direct and indirect costs

- Financial reporting that is accurate, current, complete, and compliant with all financial reporting requirements of the recipient's award or subaward

2.1.1.b Accounting system controls

The accounting system controls used must provide assurances that computers and the data they contain are adequately protected against theft, loss, unauthorized access, and natural disaster. The specific controls used should incorporate, at minimum, segregation of duties, user-specific access privileges, review and approval of financial transactions and supporting documentation, written approval of requests for system modifications, and data backups. However, these controls will vary with the type of software used, size of the organization, and the number of personnel involved in making, processing, and approving financial transactions. Regardless of the controls used, recipients and subrecipients must adequately safeguard all resources and ensure that they are used only for authorized purposes. Recipients should reference Section 2.5.3 Electronic Data Processing and Cybersecurity and Appendix 9 Self-Assessment Questionnaire to assess the adequacy of their accounting system controls required by LSC.

Additional sources that can aid in the design and evaluation of internal controls include:

- 2 C.F.R. § 200.303 Internal Controls and Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Controls. Although written for federal agencies (LSC is not a federal agency), this resource provides useful guidance on internal control systems and testing those systems.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). This site, designed for the private sector, has useful guidance involving an internal control framework and testing.
- Government Accountability Office (GAO) Yellow Book. The Yellow Book standards apply to audits of recipients and provide useful guidance regarding internal controls. The GAO issued a 2018 edition of the Yellow Book that replaces the 2011 version for audits of fiscal years ending on or after June 30, 2020.
- GAO Standards for Internal Control in the Federal Government.
- LSC OIG requirements and recommendations, including the OIG audit guide and the OIG's Quality Control Reviews and associated advisories.

2.1.2 Fund-Based Accounting

LSC recipients are required to maintain a fund-based accounting system for all funds that supports activity and amounts reported in the audited financial statements. See Section 3.1.1 LSC Funds on guidance related to the presentation of LSC grant activity in the audited financial statements.

2.2 Timekeeping and Time and Attendance

Recipients must have adequate systems and internal controls for collecting timekeeping records as required by 45 C.F.R. Part 1635 for any attorney, paralegal, or other recipient employee who performs work that is charged to one or more awards as a direct cost (as defined in 45 C.F.R. § 1630.5(d)). A case management system is fundamental to sound financial management and usually includes systems for tracking staff time on each case; 45 C.F.R. § 1635.4 governs recipients' timekeeping systems and records. As a separate matter, recipients must track time and attendance of all staff for payroll and compliance with labor laws such as the Fair Labor Standards Act (FLSA).

2.2.1 Timekeeping

Each recipient is required to maintain timekeeping records consistent with 45 C.F.R. Part 1635. All expenditures of funds for recipient actions are, by definition, for cases, matters, or supporting activities. The allocation of all expenditures must be carried out in accordance with 45 C.F.R. Part 1630. Costs identified specifically with grant awards are direct costs of the awards and are to be assigned directly to the award. Salary and wages charged directly to LSC grants and contracts must be supported by personnel activity reports.

2.2.2 Time and Attendance (Payroll)

Recipients must adopt written payroll policies and procedures. The policy must include payroll procedure details, roles/responsibilities, frequency, documentation requirements, and review/approval requirements (including changes/adjustments). Recipients' payroll processes should reduce the risk of errors, fraud, and regulatory penalties. The procedures must allow for proper segregation of duties in the payroll process.

Recipients must maintain time and attendance records for each employee that provide reasonable assurance that the recorded hours for payroll are authorized, complete and accurate. Further, recipients must maintain documentation that indicate employees' time and attendance records have been reviewed and approved by supervisors (or alternative personnel in a managerial role). Recipients are required to maintain for each employee a record of cumulative individual earnings and withholding amounts to prevent duplicate payments. Recipients must protect against unauthorized disbursements by documenting the authorization of adjustments to payroll disbursements. Any adjustments to payroll disbursements must be approved by an authorized individual independent of payroll preparation.

Recipients must maintain a labor cost distribution report that details each employee's hours worked, salaries and wages, and other payroll expenses (e.g., benefits) broken down by accounts/funding sources/cost centers. Please note that recipients may develop alternative reports to maintain the components of a labor cost distribution report.

- Recipients should consider the following when developing their labor cost distribution records:
    - Is the method to summarize the charges to the appropriate expense accounts efficient?

- Does the distribution record tie directly to the GL accounts?
- Does the format accommodate both fund and cost center accounting?

Recipients must use a payroll register when processing payroll. A payroll register should include a listing of gross and net pay (current period and year-to-date), check number (if applicable), hours worked, withholdings, deductions, and payroll accrual and use balances (e.g., vacation, sick leave, overtime/compensatory time). The payroll register must reconcile to the general ledger payroll accounts. LSC recommends that recipients review and reconcile the payroll register and payroll cost distribution by fund and cost center every month (See Section 2.2.3 Reconciliations).

Recipients must conduct a thorough review of each payroll before processing to verify hours, rates, or other bases of payment by reference to attendance records, employment authorizations, approved rate changes, etc. by someone not connected with the preparation or distribution of the payroll. Further, recipients must have procedures in place to review payroll totals against labor distribution totals (compiled from the original time records) and provide explanations for any variances. Throughout the payroll process, recipients are responsible for maintaining evidence of review (e.g., payroll register, labor cost distribution report, timekeeping reports). Finally, recipients must ensure payroll is disbursed upon proper review of all supporting documentation and conducted by appropriate personnel with proper segregation of duties. LSC recommends recipients disburse payroll from a bank account restricted to payroll purposes. If direct deposit is not used, payroll checks must be signed by persons not involved in preparing payroll. Similarly, the person authorizing the distribution of the payroll checks should be someone other than the preparer. Further, recipients must provide employees with access to their payroll information for each pay period.

Recipient procedures must provide for proper withholding and payment of applicable federal, state, and local income payroll taxes, as evidenced by quarterly Form 941 withholding reports.

2.2.2.a Other payroll-related policies

Recipients should formally maintain and update payroll-related policies (as needed) in the following areas:

- Authorized rates or salary ranges by employee group, experience, etc.
- Overtime policies and overtime rates to be paid
- Eligibility for benefits and limits
- Benefit costs to be paid by the employee
- Employee salary advances

2.2.3 Reconciliations

The labor cost distribution report, or alternative reports, must be reconciled against individual timekeeping reports. The purpose of reconciling the labor cost distribution report, or alternative reports, to the timekeeping reports is to support and document, at a minimum, that LSC funding is properly being used to pay the costs of an employee's time spent working directly on LSC-eligible activity. Failing to accurately reconcile the labor cost distribution reports, or alternative reports, may result in the improper allocation of payroll costs to funding sources. Therefore, recipients must reconcile timekeeping reports with the labor cost distribution reports, or alternative reports, on an annual basis, at a minimum, before final fund allocation entries are made in the accounting system. Recipients should exercise professional judgment as to the appropriate frequency of such reconciliations, taking into consideration factors such as, but not limited to, recipient size and the number of funders. Each recipient must adopt written policies and procedures (e.g., oversight, approval) to guide its staff in complying with this section.

Example:

> If a staff attorney's salary is 100% funded by LSC, time records should not reflect time spent working on LSC-ineligible cases. In a two-week pay period, a full-time salaried attorney worked 70 hours total (consisting of 35 hours of cases charged to LSC and 35 hours of cases charged to state Interest on Lawyer Trust Accounts (IOLTA) funding). Additionally, the attorney used 10 hours of vacation during the pay period. This pay period's salaries and benefits (including the cost of the vacation hours) should be allocated 50% to LSC and 50% to IOLTA.

2.2.4 Personnel Record Requirements

Recipients are required to maintain personnel files for each employee that include, at a minimum, a job description and documentation concerning any appointments, position reclassifications, salary information, payment adjustments, evaluations, promotions, and terminations. The personnel or payroll file must include a record of cumulative individual earnings and withholding amounts for the employee, as well as clear documentation that the appropriate person has approved salary and wage rates.

2.3 Record Retention

LSC has modified its record retention requirements to bring them closer to the federal Uniform Grant Guidance (UGG). Recipients are required to have a record retention policy that complies with LSC and all other funding source requirements.

Recipients are required to retain <u>all</u> financial records, supporting documents, statistical records, and all other records pertinent to the award for a minimum period of 3 years from the end of the grant term. For equipment, the three-year period begins at the date of disposal. Before disposal, all records related to the equipment must be maintained on file. The table below reflects LSC's minimum acceptable retention periods for specific documentation. Recipients should also refer to record retention requirements mandated by their respective states.

Retention Periods for Specific Documentation		
Three (3) Years	**Seven (7) Years**	**Permanent**
General Journal for each year LSC funds are received	Annual financial statements	Documentation related to land and buildings, including depreciation schedules and any 45 C.F.R. § 1631.19 annual accounting of LSC funds used for the purchase or maintenance of property purchased with LSC funds
General Ledger for each year LSC funds are received	Audit Reports	Corporate Charter and Certificate of Incorporation
Annual Reports	Federal Form 990 and working papers	Minutes of Board of Directors meetings, including the Committees
Subgrants and all contractual agreements	State information returns and working papers	Employee pension and insurance records
Timekeeping records	Payroll Master Ledger (Annual)	Legal Correspondence

2.3.1 Document Integrity

Recipients must have systems in place for maintaining and accessing all financial records in any form, including paper or electronic formats with sufficient protections from accidental destruction (e.g., fire, flood, data breach, server crash) and methods of recovery (e.g., secure backup systems). LSC recommends that recipients retain records in electronic format as the best method for both record protection and record recovery from backup systems. Each recipient must adopt written policies and procedures to comply with this section, and should consider the following:

- Standards for document integrity
- Backup procedures
- Guidelines for handling electronic files
- Archival of documents
- Periodic checkups of the reliability of the system
- Protecting sensitive information
- Internal controls (e.g., access to systems/documentation)

See 2.5.3 Electronic Data Processing and Cybersecurity for further information and requirements.

2.3.2 Document Destruction

LSC strongly encourages recipients to develop and implement a policy (in accordance with their record retention policy) to address the proper destruction of documents and data. Recipients should prioritize the protection of personally identifiable information (PII), client files, and other sensitive information. Recipients should implement certain safeguards (e.g., shred documents before disposal and proper media sanitization of electronic media devices before disposal or transfer) as part of its document destruction procedures.[1] Additionally, if notified by LSC Management, the OIG, the GAO, or their Independent Public Accountant (IPA), they must suspend any document destruction pending an ongoing review of any kind.

2.4 Budgeting

Grant recipients are required to establish a budgeting process that is organized, involves top management, and is closely tied to the goals and priority-setting process of the recipient. Budgets should be built logically, based on cost centers/functions that are then "rolled-up" to present the total budget, include all funds expected to be received during the year, and include any carry-over funds or carry over deficits. Schedules should document the assumptions made in arriving at final cost centers/functional budgets. Recipients are required to prepare and submit annual budgets to the Board (e.g., financial oversight committee) for review and approval. Budget-to-actual (total program and by funding source) variance reports (see Section 2.6 Internal Management Reporting) must be prepared monthly for review by the Executive Director, and submitted for Board review (e.g., financial oversight committee) quarterly.

2.5 Governance

Each recipient's Board of Directors or other governing body must have bylaws and resolutions or their equivalent that clearly define and communicate the Board's authority and responsibilities. These documents must include information regarding financial oversight committee(s), described below. The recipient's Board and committees should meet regularly and must document each meeting with minutes (including decisions made/approvals).

2.5.1 Financial Oversight Committee(s)

Each recipient's Board of Directors must establish a financial oversight committee(s) and identify the duties of the committee(s) in writing (see Section 2.5.1.a Responsibilities of the Financial Oversight Committee(s)). If the Board of Directors does not have a separate audit committee, the audit committee's functions should be performed by the financial oversight committee or another committee of the Board. For example, for recipients with small Boards, the full Board may take on the duties of the financial oversight and audit committees. The recipient is required

[1] See National Institute of Standards and Technology Special Publication 800-88 for more guidelines around media sanitization.

to define the duties and responsibilities of the financial oversight committee(s) in the recipient's bylaws, a Board resolution, or operating policies and procedures.

It is critical, and considered a best practice, that the financial oversight committee(s) have at least one member who is a financial expert, or have access to an independent financial expert. A practicing Certified Public Accountant (CPA), other than the recipient's IPA, may serve as a consultant to the committee, as long as they comply with the Yellow Book independence requirements. A financial expert has:

- An understanding of GAAP and financial statements
- Ability to apply GAAP in connection with preparing and auditing financial statements
- Familiarity with developing and implementing internal financial controls and procedures
- Capacity to understand the implications of different interpretations of accounting rules

More specific guidelines around board governance can be found in 45 C.F.R. Part 1607.

2.5.1.a Responsibilities of the Financial Oversight Committee(s)

The Financial Oversight Committee, subject to any requirements of state law, is required to:

1. Review and, if necessary, revise the budget and make recommendations to the full Board of Directors
2. Review quarterly the management reports prepared monthly with the Chief Financial Officer (CFO), controller, and/or outside CPA
3. Review accounting and internal control policies and make recommendations for changes and improvements
4. Regularly review and make recommendations about investment policies
5. Coordinate Board training on financial matters
6. Act as liaison among the full Board, external auditors, and staff on fiscal matters
7. Review and approve the Executive Director's timesheets[2], expenses, and compensation[3]

The Audit Committee, subject to any requirements of state law, is required to:

1. Hire and monitor the external auditor
2. Set the compensation of the external auditor
3. Oversee the auditor's activities

[2] Or an individual in an appropriate level of management who has knowledge of the Executive Director's daily activities could approve the Executive Director's timesheet.

[3] Review of the Executive Director's expenses and compensation is generally a responsibility of the Board. However, the review may be performed by any committee of the governing body.

   a. Meet with the auditor to discuss inquire about and review audit reports and financial statements, and the effectiveness of recipient's management of financial and accounting function
   b. Ensure audited financial statements are submitted to the LSC OIG no later than 120 days after the close of the recipient's fiscal year, as currently required by the LSC OIG Audit Guide
4. Review the audited financial statements, management letter, and management's response with staff and auditor
5. Set rules and processes for complaints concerning accounting and internal control practices
6. Review the annual Internal Revenue Service Form 990 for completeness, accuracy, and on-time filing and provide assurances of compliance to the full Board
7. Ensure the recipient's operations are conducted and managed in a manner that emphasizes:
   a. Ethical and honest behavior
   b. Compliance with applicable laws, regulations, and policies
   c. Effective management of the recipient's resources and risks
   d. Accountability of persons within the organization

2.5.2 Internal Controls

An LSC recipient, under the direction of its Board of Directors, is required to establish and maintain adequate accounting records and internal control procedures. Internal controls are the processes put in place, maintained, and overseen by the recipient's Board of Directors and management to provide reasonable assurance that the organization:

- Safeguards assets against unauthorized use or disposition;
- Produces reliable financial information and reporting; and
- Complies with regulations and laws that have a direct and material effect on its programs.

Detailed controls required by LSC are described throughout this guide. Appendix 9 Self-Assessment Questionnaire identifies all required controls and may be a useful tool for systematically reviewing existing policy and procedures. Please note that recipients have the responsibility to develop "compensating controls" for instances in which the recipient cannot comply with a requirement. A compensating control should provide some level of risk mitigation given the resource constraint and be adopted into recipient's formal policies and procedures.

2.5.2.a Accounting Policy and Procedures Manual

All recipients are required to maintain a current Accounting Policy and Procedures Manual (see Appendix 7. Required Accounting Policies and Procedures). The manual should provide clear descriptions of policies for processing, recording, and reporting financial transactions, documenting the authority of supervisory and other personnel to initiate and approve financial transactions, and establishing criteria to be used when modifying or eliminating accounting procedures.

Recipients must document the roles and responsibilities of accounting/finance personnel and others who are involved in financial procedures. Recipients should maintain organizational charts, job descriptions, policy statements, accounting manuals, and other materials to clearly define and communicate the authority and responsibilities of all personnel. These documents may be part of the accounting or other operational manuals. Recipients should develop an appropriate process to justify deviations from written policies and procedures.

2.5.2.b Segregation of Duties

The bedrock of an effective system of internal controls is the segregation of duties. Duties of individuals must be divided to minimize the potential for collusion, perpetration of irregularities, or falsification of the accounts. Duties must be segregated such that no individual can initiate, execute, and record a transaction without a second independent individual being involved in the process. For example, persons responsible for the custody of assets and conduct of operations should have no part in the keeping of or have access to records that establish accounting control over the assets and the operations. The objective is to provide the maximum safeguards practicable in the circumstances, giving due consideration to the risks involved and the cost of maintaining the controls. A strong system of internal controls can help grant recipients prevent and detect potential fraudulent acts and appropriately manage grant funds.

A minimum of three individuals is needed to establish segregation of duties and appropriate levels of review for financial management. These three people typically are:

1. One staff person with no other bookkeeping or accounting duties (e.g., a receptionist, office clerk, paralegal, or staff attorney with no other accounting duties);
2. One accounting staff person (e.g., a part- or full-time staff accountant or bookkeeper); and
3. One management person with approval authority (e.g., the Executive Director, Chief Financial Officer, or controller)

A basic level of segregation of duties is possible even for very small entities with only one accountant or bookkeeper. The required internal control policies and procedures described in this guide represent the minimum level of acceptable controls regardless of the size of the staff and the assignment of duties. Recipients should evaluate their organizations holistically, consider where additional controls are needed for the responsible stewardship of LSC funds, and implement internal controls appropriately.

LSC understands that recipients may not be able to comply with all segregation of duties requirements given various resource limitations (e.g., staffing constraints). In such cases, recipients have the responsibility to develop "compensating controls" in lieu of the specific segregation of duties requirement and adopt them into formal policies and procedures. For example, a recipient's Executive Director may be performing the bookkeeping functions, and therefore be unable to approve documents and transactions they prepare. In this instance, a board member might be appointed as the "management person with approval authority." If a recipient finds itself in this situation, the compensating controls must be documented and are subject to review by LSC.

2.5.3 Electronic Data Processing and Cybersecurity

Recipients are required to have written security policies and procedures for physical and digital assets including all financial data and records in any form (e.g., electronic data processing (EDP) and cybersecurity policies and procedures). These policies and practices should be part of an overall data and records security policy and an annual overall risk-assessment process. LSC recommends obtaining guidance from qualified experts in data and records security, including cybersecurity. LSC also recommends including in the risk assessment process consideration of appropriate insurance policies or determining if the recipient is sufficiently self-insured.

Recipients must establish physical, administrative, technical, and virtual/remote access controls and other measures to safeguard physical and digital assets (e.g., office space, computers, information systems, sensitive information, and financial data/records), including modifications to assets and systems. The policies should specifically address cybersecurity and the risks from cyber incidents such as data breaches, business interruption, and network damage. Recipients should also consider what actions (including notification) to take in the event of such cyber incidents. Examples of cyber incidents include theft, ransomware, social engineering fraud, failures of hardware or software, and unauthorized access and/or disclosure of personally identifiable information. LSC recommends obtaining guidance from qualified experts in data and records security, including cybersecurity.

Policies and procedures must include the following requirements:

- Perform (and document) an annual risk assessment
- Resolve any risk findings or conclusions
- Maintain physical access controls for servers and storage rooms
- Develop and periodically test an emergency disaster prevention and recovery plan
- Perform regular back up of electronic records and systems stored offsite or in a virtual environment with easy-to-use restoration options
- Formally assign computer and data security responsibilities

Recipients should implement these policies and regularly check that they are followed. Recipients should evaluate these policies and update them as appropriate through an annual risk assessment process. These controls will vary with the type of software used, size of the organization, and the number of personnel involved in making, processing, and approving financial transactions.

Risk assessment procedures will vary by recipient. However, at minimum, the process should:

- Identify the physical and digital assets susceptible to cyberattacks
- Identify risks to those assets (risks should be evaluated annually for changes)

- Evaluate the risks (e.g., high, medium, or low) based on likelihood and impact
- Document the results of the risk assessment, including the development and implementation of appropriate controls

2.5.4 Fidelity Bond Insurance

LSC requires recipients to have a fidelity bond or similar insurance pursuant to 45 C.F.R. Part 1629. This section summarizes those requirements, but recipients must review the full regulation for all requirements. LSC recommends that the Board of Directors ratify each policy/renewal that the fidelity bond or similar insurance coverage is held for all employees, officers, directors, agents, volunteers, and third-party contractors who handle LSC funds. The bonding must provide recovery for loss caused by such acts as fraud, dishonesty, larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction, wrongful conversion, willful misapplication, or any other fraudulent or dishonest act committed by these individuals.

Recipients are required to carry coverage of at least ten percent of their annualized LSC funding for the prior year. The minimum amount of this coverage is established at 45 C.F.R. § 1629.6.

Third Parties: Recipients are required to either hold fidelity bond insurance for or ensure it is held by any third parties performing outsourced billing, payroll, or collection services.

Subrecipients: Recipients are required to either extend their fidelity bond insurance to provide identical coverage to a subrecipient or must ensure the subrecipient holds fidelity bond insurance sufficient to meet regulatory requirements.

2.6 Internal Management Reporting

Recipients must prepare monthly management reports timely with management and Board review. Recipients should have policies that document the exact types of reports they consider necessary for their operations and their internal management reporting process; however, LSC requires the following reports:

1. Total Program Budget vs. Actual – provides monthly and year-to-date budget vs. actual that identifies and explains variances.
2. Funding Source Budget vs. Actual – provides monthly and year-to-date budget vs. actual that identifies and explains variances by funding source.
3. A monthly statement of cash on hand.

LSC recommends the following steps:

1. Consider known commitments that have had or will have a material effect on financial reporting.
2. Prepare Cost Center Budget vs. Actual – provides monthly and year-to-date budget vs. actual that identifies and explains variances by cost center (if applicable).
3. Include projections into reports to compare with actual expenses. Consider:

a. Total budget
b. Actual expenditures to-date
c. Projected total expenses for the year
d. Projected expenses for the remainder of the year
e. Projected variance over (under) budget
f. Supporting schedules that adequately document and support assumptions

2.6.1 Monthly Close

Recipients should close the general ledger monthly and maintain a detailed month-end close schedule identifying due dates and responsible individuals. Part of closing activities should include preparing a trial balance, statement of financial position, and statement of activities. Any out-of-balance conditions should be reconciled with evidence of review by a person other than the preparer of the reconciliation.

2.7 Financial Statement Reporting

A primary purpose of the financial statements is to disclose the sources of the recipient's resources and how those resources were used (i.e., "stewardship reporting"). The financial statements are required to report on the complete financial resources and operations of the recipient, including all non-LSC funds. The provision for full disclosure allows LSC and others to assess and evaluate the total legal assistance effort being provided by recipients. Full disclosure of a recipient's financial position via the financial statements allows LSC and others to evaluate the recipient's financial operations. A recipient's accounting records must support the amounts disclosed in the financial statements.

Each recipient should evaluate the reporting requirements stipulated by each funding source to ensure that the recipient follows proper accounting and external reporting requirements in preparing the financial statements and accounting records.

2.7.1 Annual Audit Requirements

It is the recipient's responsibility to ensure its accounting records and reports follow the most recent accounting standards. All LSC recipients are required to obtain an annual financial statement audit in accordance with the requirements of the LSC Act, LSC's annual appropriation, the OIG Audit Guide, and applicable GAAP standards. See Section 1009(c)(1) of the LSC Act and Section 509 of Public Law 104-134 (1996) (setting requirements for audits in lieu of those required by the LSC Act) (incorporated by reference in subsequent LSC appropriations).

A licensed, independent CPA firm must perform the audit in accordance with the AICPA attestation standards and issue an opinion on the organization's financial statements. The audit may not be performed by individuals who are involved with setting up or maintaining the recipient's accounting systems, day-to-day transactions, performing routine reconciliations, or other management reporting or consulting. Independence requirements are further defined by the GAO's Government Auditing Standards, known as the Yellow Book. Recipients can reference these standards for best practice guidance regarding IPA independence.

Recipients must submit their audited financial statements and management representation letter prepared by the IPA to the LSC OIG no later than 120 days post-close of the recipient's accounting period or as otherwise provided in the LSC OIG Audit Guide.

Failure to obtain an acceptable external audit of the financial statements may result in LSC recommending suspension of grant funding in whole or in part pursuant to 45 C.F.R. Part 1623 until the completion of an acceptable audit.

Single Audit: The recipient agrees to comply with the organizational audit requirements of 2 C.F.R. §§ 200.500-521, Audit Requirements, and further understands and agrees that funds may be withheld, or other related requirements may be imposed if any outstanding audit issues from 2 C.F.R. § 200.500-521 audits (and any other audits of LSC grant funds) are not satisfactorily and promptly addressed.

The Board of Directors is required to review the audited financial statements and management letter and evidence review in the meeting minutes. If the auditor has identified significant deficiencies or material weaknesses, recipient management and its Board of Directors are required to determine an appropriate course of action to remediate each area.

See Section 3.3 Fund Balance for specific requirements regarding how to report LSC fund balance in the audited financial statements.

2.7.1.a Subrecipients

All LSC subgrants subject to 45 C.F.R. Part 1627 must be included in the audited financial statements of the primary recipient or the subrecipient with appropriate cross-references (see 45 C.F.R. § 1627.4(f) accounting and auditing requirements for LSC subgrants). The LSC-approved subgrant agreement between the recipient and subrecipient must specify the audited financial statement reporting responsibility. As such, the notes to the financial statements—whether reported in the recipient's or subrecipient's financial statements—should fully disclose the nature of that relationship and the amount of the subgranted funds.

Section 3 – Managing LSC Grants

3.1 Recording and Reporting Funding

3.1.1 LSC Funds

LSC recipients are required to maintain a fund-based accounting system for all funds that supports activity and amounts reported in the audited financial statements. Recipients are required to report LSC funds and related activity as a separate column in the audited financial statements, and in a more detailed separate Supplemental Statement of Grant Activity (see Appendix 4 , Sample A) accompanying the financial statements. Each separate LSC grant must be reported by natural expense classification.[4] It is the recipient's responsibility to ensure its accounting records and reports follow the most recent accounting standards.

3.1.1.a Revenue Recognition

LSC grant awards (e.g., Basic Field Grants, special purpose grants) are considered non-exchange transactions/contributions with conditions. Therefore, in accordance with Accounting Standards Update (ASU) 2018-08 and Program Letter 20-4, LSC funding must be recognized as revenue as expenses are incurred, and unexpended grant amounts must be reflected in the recipient's liability account (e.g., deferred revenue).

3.1.2 Non-LSC Funds

Consistent with 45 C.F.R. Part 1610, a recipient may use non-LSC funds for the specific purposes for which those funds were provided. With limited exceptions, recipients must not use non-LSC funds for any activity prohibited by the LSC Act or prohibited by or inconsistent with Section 504. All funds received by a recipient from a source other than LSC must be accounted for as separate and distinct receipts and disbursements and are to be maintained in a recipient's accounting records. Also, the recipient's accounting system must be able to document the expenditure of non-LSC funds for any LSC-restricted activities, as discussed in 45 C.F.R. Part 1610 and for any legislative and rulemaking activities permitted in 45 C.F.R. § 1612.6.

Most restrictions on the use of LSC funds also apply to non-LSC funds, including private funds, public funds, and—in some situations—tribal funds. LSC explains which restrictions apply to which categories of non-LSC funds in 45 C.F.R. Part 1610 and the reference table at www.lsc.gov/restrictions.

[4] A method of grouping expenses according to the kinds of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, professional services, supplies, interest expense, rent, utilities, and depreciation (per ASU 2016-14).

3.1.2.a Donor/Funder (grants or contracts) Notification Documentation

Any recipient accepting a single contribution of funds of $250 or more from a source other than LSC must notify the source, in writing, of the LSC prohibitions and conditions that may apply to those funds. The full requirement appears at 45 C.F.R. § 1610.7. See Appendix 6 for a sample donor/funder notification letter. Recipients must keep records of these notifications, including the transmittal date.

3.1.3 Donations

Under GAAP, donations include cash or cash equivalents, stock (securities, etc.), material, space, property or use of property, and services provided without charge to recipients by individuals or organizations.

Recipients are required to recognize, record, and report all donations, including non-cash items as gifts-in-kind (exchanges), donated services, or donations (materials and property) in the recipient's financial statements as both support and offsetting expenses. The notes to the financial statements should disclose the nature of the gifts-in-kind, donations, or contributions, and the valuation techniques followed.

3.1.3.a Valuing Non-Cash Items

Non-cash items must be assigned a fair value when received. Fair value is determined using the most objective and clearly measurable basis available. If the value assigned to the donation/contribution is deemed material, the valuation should also be approved by the recipient's Board of Directors. Recipients should employ the most reasonable fair valuation method possible (e.g., appraisals, market comparisons, donor cost, estimate of value, predetermined fee schedule, hourly rate) and document how the valuation is determined. See Statements of Financial Accounting Standards (SFAS) 157 for guidance on determining fair value. [5] These valuations may be reviewed by the recipient's Board of Directors, LSC, external auditors, and other grantor organizations.

3.1.4 Derivative Income

See 45 C.F.R. § 1630.2(b) for the definition of derivative income. Income received or obtained as a result of the use of LSC funds is deemed to be derivative income from LSC sources. Recipients that earn derivative income must record that income as additional annualized LSC grant revenue, subject to the same requirements as funds granted by LSC.

In the event a recipient earns derivative income through the use of a combination of LSC and non-LSC funds, the recipient is required to record LSC's proportional share of the derivative

[5] SFAS provide detailed guidance on how to deal with a specific accounting issue. These statements are released by the Financial Accounting Standards Board (FASB), which is the primary accounting rule-setting body in the United States for GAAP.

income as additional annualized LSC grant revenue. LSC's proportional share is the ratio of LSC funds to total funds expended to support the activity.

Recipients must adopt formal written policies and procedures describing how each of its derivative income sources will be allocated between LSC and non-LSC funds.

3.1.4.a Examples of Derivative Income

LSC requires its recipients to maintain excess LSC funds in accounts or investments that earn reasonable interest or returns while also providing sufficient security over the funds. Other common sources of derivative income are rental income received, net income from the sale of assets, any amounts received as the result of a judgment, court order, or settlement, and attorneys' fees. Note that there are many examples of derivative income, and these common sources do not constitute an exhaustive list. Income derived from publications and/or from fundraising is not considered to be LSC derivative income.[6]

Attorneys' fees obtained by LSC recipients based on LSC-funded work are also derivative income under 45 C.F.R. § 1630.2(b). Attorneys' fees received must be allocated to the fund in which the LSC grant is reported in the proportion that the amount of LSC funds expended to support the case bears to the total amount expended by the recipient to support the representation. Attorneys' fees received shall be recorded during the accounting period in which the money from the fee award is actually received by the recipient. Attorneys' fees allocated to LSC are LSC derivative income subject to the same rules and restrictions as other LSC funds (*see* 45 C.F.R. § 1609.4).

3.2 Cash Management

Regardless of the systems in use, recipients must ensure they have sufficient internal controls, particularly segregation of duties or automated controls for:

- Receiving checks and cash
- Making bank deposits
- Retaining appropriate documentation
- Performing reconciliations
- Electronic Funds Transfer and wire transfers
- Cash disbursements (see Section 3.2.4)

[6] See Supplementary Information to the publication of 45 C.F.R. Part 1630 as a final rule 62 Fed. Reg. 68220 (December 31, 1997).

3.2.1 Bank Accounts

Recipients must adopt written policies and procedures to comply with this section.

Recipients must document and track all bank accounts, including the purpose, authorized signatory, custodian, opening date, and closing date (within the last three years). LSC recommends that recipients use one bank account to pay for operating expenses, except where a higher fraud risk warrants a separate account (e.g., payroll expenses). At minimum, recipients must notify the Board when opening, changing, or closing bank accounts with sufficient justification. Recipients must also document who has access to bank accounts (this includes all types of bank accounts and all related activities), and the date of access granted. This record must also indicate that access has been revoked when the individual leaves the position or transfers to a position without bank access duties.

For closed accounts, the recipient must keep documentation demonstrating that the bank was notified in writing not to process subsequent transactions. Unused checks for the account must be destroyed immediately upon closure.

Recipients must maintain a list of authorized check signers with evidence of Board review/approval. Recipients must also formally notify banks of authorized check signers, including any changes, and maintain supporting documentation.

3.2.1.a Payroll Bank Accounts

Recipients are strongly encouraged to use a bank account restricted to payroll purposes. Deposits to the payroll account must be controlled by an authorizing procedure that prevents duplicate deposits and over-deposits.

3.2.1.b Electronic Banking

Each recipient must have documented procedures and policies for all banking activities, including electronic banking, that evidence regular management review to ensure transactions are reasonable, accurate, and fully supported and outline safeguards and other control requirements related to electronic banking.[7] The Board of Directors must formally authorize and regularly review a list of any employees that perform or have access to online banking, including third-party payment system accounts[8], as evidenced in meeting minutes.

These records must also indicate when access has been revoked when the individual leaves the position/ transfers to another position without bank access duties.

[7] Recipients may refer to the Federal Financial Institutions Examination Council (FFIEC) for current guidelines and tools.

[8] Please refer to the LSC OIG's April 2020 Fraud Alert on Third Party Payment Systems.

Recipients must conduct a risk assessment of its electronic banking policies and procedures to identify areas that need additional safeguards and protections.[9] LSC encourages recipients to conduct this risk assessment in conjunction with the annual EDP and cybersecurity risk assessment (see Section 2.5.3).

When developing an electronic banking policy, recipients must incorporate all of its electronic banking activity, which may include:

- Direct deposit payroll
- Electronic employee expense payment arrangements
- Electronic payments to vendors (e.g., online bill pay)
- Other outbound electronic disbursement arrangements
- Electronic receipts arrangements with grantors/contributors
- Other inbound electronic funds receipts arrangements
- Wire transfers, on-line transfers, and telephone transfers
- Web/application-based transactions (e.g., fundraising via PayPal)

3.2.1.c Bank Statements and Reconciliations

Recipients are required to perform bank reconciliations for each bank account on a timely basis after the close of each month. Monthly reconciliations must be performed by an individual who does not initiate or transmit electronic transactions, has no access to cash, is not a check signer, and has no bookkeeping duties.

The individual who prepares the bank statement reconciliation must document this by including their initials or signature, and the date the task was performed. Bank reconciliations must contain a clear indication of effective review and approval by management, as evidenced by signature or initials and date. Signatures or initials must be via a physical or electronic system providing a reasonable indication of authenticity. Any checks identified as outstanding for six months or more are required to be investigated and resolved. Voided checks must be recorded and retained and entered in the general ledger as “VOID.” The reconciliation documentation must include evidence that identified adjustments were promptly made to the general ledger.

LSC recommends that bank statements be delivered *unopened*[10] to a designated member of management or directly to the individual who prepares the monthly bank reconciliations (which could occur through direct electronic access).

[9] The risk assessment performed by each recipient will vary. However, the risk assessment should consider the following key risk indicators: the frequency and amount of electronic banking transactions, type of electronic banking transactions, number of personnel involved in electronic banking (e.g., access), susceptibility to financial and technological errors; fraud, waste and abuse.

[10] This requirement applies only to paper copies of bank statements delivered via US postal mail.

Recipients must adopt written policies and procedures to guide its staff in complying with this section and consider the following:

- Comparison of checks with check register as to number, date, payee, and amount.
- Examination of signatures and endorsements, and procedures for the return of inadequately endorsed checks, paid by banks, to the banks for proper endorsements.[11]
- Examination of voided checks and accounting for serial numbers of checks.
- Comparison of dates and amounts of daily deposits, as shown by the cash receipts records with the bank statements.
- Test-check of details shown on authenticated duplicate deposit slips obtained directly from the banks against the corresponding details in the cash receipts records.
- The nature and amount of reconciled items should be clearly indicated on the reconciliation form.

3.2.2 Cash Receipts

Recipients must adopt written policies and procedures to comply with this section.

Recipients may periodically receive donations or payments in the form of cash or cash equivalents, such as checks or money orders. Recipients must maintain a cash receipts log and designate a non-accounting employee, who may also open the mail, to receive and record the cash and cash equivalents. The cash receipts log must list the date, amount, payor, and purpose of each check or cash item received.

Paper checks/money orders must be immediately restrictively endorsed. Bank deposits must be made weekly, daily when possible, by someone who does not perform any of the following duties: opening the mail, preparing the bank deposit slip, or posting cash receipts to the general ledger.

Recipients must maintain adequate cash receipts procedures and documentation to allow a reviewer to 1) trace the process (cash receipts log to the bank deposit to the general ledger posting), 2) confirm timeliness, and 3) verify segregation of duties.

3.2.3 Investments

Absent a resolution by its Board of Directors, recipients are required to manage LSC funds as follows:

- LSC funds held for operating expenses must be maintained in federally insured bank accounts.
- LSC funds in excess of the Federal Deposit Insurance Company limits and not needed for immediate operating expenses must be invested with another financial institution in federally insured accounts or certificates or invested in U.S. Treasury notes or bills or

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[11] LSC understands that electronic bank statements do not make checks available for viewing. Therefore, this requirement applies only to paper copies of bank statements delivered via US postal mail.

investment instruments, for example, money market accounts and repurchase agreements that invest in U.S. government securities.

If a recipient's Board of Directors adopts policies outside of these requirements, the Board of Directors is required to acknowledge, by resolution, the divergence from LSC's authorized policy and the acceptance of full responsibility for the security of any investments made outside of LSC's requirements. In cases of losses of LSC funds related to investment decisions made outside of LSC's requirements, for purposes of personal liability, the Board of Directors will be held to the standard of care imposed by applicable state or federal law.

Investment income earned on LSC grants, such as interest and dividends, must be reported as LSC derivative income (see Section 3.1.4) in the financial statements. Investment income may be used for any allowed activities under the recipient's current LSC grant. Information regarding the nature of and carrying amounts for each investment or group of investments must be disclosed in the notes to the financial statements.

Please note that contrary to the OMB UGG, investment income earned on LSC grants must be credited to the associated LSC grant fund as derivative income and may be carried over in some circumstances pursuant to the Part 1628 Fund Balance rule.

3.2.4 Cash Disbursements

Recipients must adopt written cash disbursement policies and procedures to comply with this section. At minimum, the cash disbursement policy must address the following:

- Are there controls to assure that payments are made only for allowable items with adequate supporting documentation and evidence of review?
- Are there procedures in place for timely review and approval of transactions (including electronic transactions)?
- Is there a system for filing all supporting documents (e.g., invoice, approval, check image) in such a manner so as to be readily located?
- Is there a list of approved/board-designated check signers who are independent from the disbursement preparation process?
- Is there a requirement prohibiting checks made payable to cash/bearer or blank?
- Is there a process to confirm disbursements are made to approved payees (e.g., active vendors, current employees)? Also, see Section 3.5 Procurement and Contracting
- Are there procedures in place to identify and prevent improper or duplicate payments?

Recipients must have documented procedures in place to verify invoice details (vendor, quantities, and price of goods/services received) against goods/services received. Recipients must have clear procedures for preparing, voiding, safeguarding, or otherwise canceling source documentation to prevent duplicate payments. For example, invoices should be clearly marked as paid with the check number (or other unique payment identification) and the pay date noted.

Overall, sufficient supporting documentation, including evidence of review, must be maintained for all disbursement transactions.

Checks (if used) to pay vendors must be prenumbered and used in consecutive order. Recipients are required to maintain a list in numerical order of used checks that include voided checks. Recipients may consider additional control measures related to higher risk disbursements (e.g., require a second check signer for amounts over a certain threshold). *See* section 3.2.1 Bank Accounts for applicability to electronic payments and banking.

Recipients must be able to demonstrate that they record expenditures in the general ledger in the appropriate accounts, and that subsidiary records agree with the general ledger posting.

3.2.4.a Employee Expense Reimbursements

Recipients are required to adopt written expense reimbursement policies and procedures. The policy should include procedure details, roles/responsibilities, reimbursement submission deadlines, documentation requirements, review/approval requirements. LSC recommends that the policy addresses the following:

- Allowable/reimbursable expenses
- Specific documentation requirements (e.g., detailed receipts, business purpose, formal reimbursement forms)
- Deadline to submit reimbursement requests
- Preapproval requirements
- Approval and review requirements (e.g., identify designated reviewers, evidence of review)

3.2.4.b Travel Expenses

Travel expenses are allowable costs for employees, members of the Board of Directors, and others who are in travel status on official business related to the award, including local travel.

Recipients must adopt written travel policies and procedures that address travel approval and reimbursement. The policy is required to identify acceptable mileage rates, spending limits, the definition of per diem allowances, the types of expenses intended to be covered by per diem allowances, and the types of required supporting documentation such as hotel folios, boarding passes, etc. Recipients are required to establish a reasonable threshold for the collection and retention of receipts for travel expenses, except per diem allowances, and establish a reasonable timeframe within which travel expense reports must be submitted for reimbursement.

LSC encourages recipients to use the Federal Travel Regulation (FTR) as a guide when developing their travel policies. LSC accepts FTR rates and policies for lodging and per diem allowances and any policies that are more restrictive than the FTR.

3.2.4.b.i Local Travel

Recipients are required to have detailed local travel policies. LSC recommends that, at a minimum, the policy include the following:

- Definitions of allowable/reimbursable expenses.
- Clear identification of the local travel area for each worksite.
- The requirement that all local travel reimbursement requests be submitted in the name of the traveler.
- The requirement that local travel reimbursements be approved by appropriate supervisors.
- The requirement that local travel reimbursements be delivered to the travelers only and no other staff.
- The requirement for receipts for local travel.
- The requirement to complete a separate and detailed local travel form that captures key information relating to local travel, including the business purpose and applicable case information.
- The requirement to reconcile all work product and case management system entries with travel reimbursement requests.

3.2.4.b.ii Travel Advances

In the event a recipient allows employees to request and receive travel advances, the recipient's travel policy must identify when the employee is permitted to request a travel advance, how much the employee is permitted to request, and the process for such an advance to be approved. The policy should also address those situations where an employee must repay an advance.

3.2.4.c Credit and Debit Purchase Cards

LSC strongly encourages the use of purchase cards to improve expense tracking, to minimize the administrative burden related to the use of petty cash funds, and to reduce the risk of fraud. If the recipient makes use of credit or debit purchase cards, it must have a written and Board-approved policy that, at a minimum, contains the following:

- Guidelines on personal use and disallowed charges
- Transaction and account limits
- Guidelines on properly documenting any deviations from policy (including approval)
- Guidelines for cash advances or ATM withdrawals
- Deadlines for providing supporting documentation for expenses (receipts, invoices, etc.)
- Procedures for authorized users to review and acknowledge credit and purchase cards policies.

3.2.5 Petty Cash

Petty cash is a small discretionary fund kept by an organization for expenditures to purchase lesser items, such as a small number of inexpensive office supplies or the reimbursement of an employee for minor work-related expenses.

Recipients that maintain a petty cash fund are required to adopt written petty cash policies and procedures. Petty cash must be maintained in a general ledger account reserved for petty cash, which is periodically funded up to a fixed amount. The fixed amount must be approved by the Board of Directors. All petty cash transactions must be recorded in the general ledger account. Recipients are required to perform annual "surprise" (i.e., unscheduled with no prior notice) counts of petty cash by someone not involved with petty cash. Recipients are required to provide evidence that the surprise counts occurred and were reviewed and approved by an individual at the appropriate level of the organization in accordance with its policy.

The policy must address the following:

- Identify the employees responsible for custody, disbursement, approval, and reconciliation with proper segregation of duties
- Require monthly reconciliation of all petty cash funds (including confirming actual cash balance against records) and outline proper documentation
- Describe allowable uses of petty cash (e.g., transaction limit, types of expenses)
- Describe the documentation necessary to support each petty cash disbursement
- Outline procedures to follow in the event there is an overage or shortage in the fund

3.2.6 Client Trust Funds

Client trust funds are funds received from or on behalf of a client. Client funds may not be commingled with any other funds. A separate escrow bank account must be opened and designated solely for client trust funds. A separate client trust record must be maintained for each client to document the receipt and disbursement of client funds. When an individual client's funds have been completely disbursed, the account should be closed.

Client trust funds are not the property of the recipient and must not be reflected in the statement of activity. However, the cash in the escrow bank account, and an offsetting liability balance, are reported on the statement of financial position, and changes in the client trust funds balance are reported in the statement of cash flows.

Client trust funds must be under general ledger control. A bank reconciliation must be performed monthly between the bank statements and general ledger balance and activity by an individual not involved with client trust operations. Any adjusting journal entries must be adequately supported, and any items outstanding for more than two months must be resolved. Internal controls used for other bank accounts, receipts, and disbursements are also required for client trust funds, including but not limited to:

- Use prenumbered checks for disbursements
- Document support for each disbursement and store with client file
- Issue prenumbered receipts for all money received from clients
- Maintain duplicate copies of receipts issued to clients
- Ascertaining at any time each client's balance held in trust

Recipients should consult with their state and local rules for the proper handling of client trust funds, including the treatment of interest on client trust accounts. Recipients must establish procedures (as part of their client trust fund policy) for the disposition of unclaimed client trust funds in accordance with state escheat laws/guidelines established by the state or local bar association. Please see Section 2.3 Record Retention and the LSC Grant Terms and Conditions for additional LSC retention requirements.

Each recipient must adopt written policies and procedures to guide its staff in complying with this section.

3.3 Fund Balance

Pursuant to 45 C.F.R. Part 1628, "fund balance" refers to the excess of LSC support plus the prior year carryover amount over expenditures of LSC funds (including capital acquisitions). *The fund balance policy portion of Part 1628 does not apply to one-time and special purpose grants* (see 45 C.F.R. § 1628.3(g)). In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, which affects the recognition of revenue dependent upon the classification of grants as either exchange or non-exchange transactions. LSC's Basic Field Grants are non-exchange transactions with conditions. As such, revenue must be recognized as conditions are met and any unexpended LSC Basic Field Grant funds must be recorded as deferred revenue. This will impact how fund balances are reported. Recipients must include in either a note to the financial statements or in the Supplemental Statement of LSC Grant Activity the unexpended amount of LSC Basic Field Grant funds by type and year, even if the balance in the fund is zero.

Total LSC support is the amount of Basic Field Grant funding awarded by LSC for a fiscal year plus amounts earned as derivative income. Total LSC support does not include:

- Special purpose and one-time grants
- Derivative income from special purpose and one-time grants
- In-kind contributions
- Income from publications and fundraising

Appendix 5 provides an example calculation of fund balance carryover.

Recipients are permitted to carry over excess funds of up to 10% of their LSC support from one year to the next and may obtain a waiver to carry over more than 10% of their LSC support (see 45 C.F.R. § 1628.4(a)). LSC carryover funds must be used on a "first-in, first-out" basis, before the expenditure of current grant funds awarded for the same purposes.

A waiver may be granted permitting a recipient to carry over a fund balance of up to 25% of the recipient's LSC support. A waiver to retain a fund balance exceeding 25% is available only under *extraordinary* and *compelling* circumstances (See 45 C.F.R. § 1628.4(a)(5)). A fund balance in excess of 10% must be repaid to LSC unless the recipient obtains a waiver.

3.3.1 Reporting Approved Excess Carryover in Financial Statements

Excess fund balances approved by LSC must be reported as a separate item in the audited financial statements. This may be done by establishing a separate fund or by providing a separate supplemental schedule as part of the audited financial statements.

3.3.2 Negative Fund Balance or "Fund Deficit"

Should LSC expenses during a period exceed LSC support, LSC is not obligated to fund the deficit. The deficit should be charged to other funds that are available to the recipient. However, LSC retains the discretion to allow deficits to be carried over in a statement of net LSC assets and be absorbed during future periods.

The use of current year LSC grant funds to liquidate deficit balances in the LSC fund from a preceding period requires the prior written approval of LSC. Within 30 days of the submission of the recipient's annual audit, the recipient may apply to LSC for approval of the expenses associated with the liquidation of the deficit balance in the LSC fund. A recipient's lack of prior written approval could result in questioned costs under 45 C.F.R. Part 1630 – Subpart C, which may result in funds being due to LSC.

3.4 Private Attorney Involvement (PAI)

LSC's regulations governing the PAI requirement are found at 45 C.F.R. Part 1614. A recipient must expend an amount equal to at least 12.5% of its Basic Field Grant - General on activities to include private attorneys, law students, law graduates, or other professionals in the provision of high quality, economical, and effective legal assistance and legal information to eligible clients. Funds for the LSC Basic Field Grant-Native American, LSC Basic Field Grant - Agricultural Worker, TIG, PBIF, and other special purpose grants are excluded from the PAI requirement. PAI expenses do not need to be funded by only the LSC Basic Field Grant - General award. In other words, PAI expenses can be paid out of any grant or other revenue source, to the extent allowable by those sources.

Frequently asked questions related to PAI, answered by LSC, can be found at the following link: PAI FAQs.

3.4.1 PAI Expenses

Expenses eligible to count toward the PAI requirement can be found at 45 C.F.R. § 1614.4. Donated in-kind goods or services are not eligible as expenses or offsets for the PAI expenditure requirement. As required by 45 C.F.R. § 1630.5(a)(1), for an expense to be deemed allowable, the recipient must be able to demonstrate the cost was actually incurred in the performance of the grant or contract and the recipient was liable for payment. As a result, donated services are not eligible PAI expenses. Nonetheless, in-kind goods or services must be reported on the audited financial statements.

Recipients are required to maintain sufficient documentation to support all PAI expenditures. Recipients must have written policies and procedures specifying the calculation of the PAI expenditure amount for a fiscal year and assessment of whether the minimum expense requirement per 45 C.F.R. Part 1614 was met. PAI support and expenses must be separately reported in the recipient's audited financial statements.[12] Financial and accounting staff should be familiar with qualifying expenditures to assist in tracking and reporting on PAI program costs.

3.4.2 Prohibited Activities

LSC funds must not be used to establish or maintain revolving litigation funds. See 45 C.F.R. § 1614.8. Please see 45 C.F.R. §§ 1614.4 and 1614.5 for rules regarding expenses that may not be included in calculating or reporting expenses accumulated towards the 12.5% PAI requirement.

3.4.3 Waivers

Although LSC expects recipients to meet their PAI requirement, there are circumstances (either temporary or permanent) that warrant a partial or full waiver of the requirement. Recipients may submit waiver requests for the current or next fiscal year. Waiver requests for a current year must be submitted before the recipient's fiscal year-end date. If a recipient fails with good cause to seek a waiver, or applies for but does not receive a waiver, or receives a waiver of a part of the PAI requirement and does not expend the amount required to be expended, the PAI expenditure requirement for the following year will be increased by an amount equal to the difference between the amount expended and the amount required to be expended.

3.5 Procurement and Contracting

The regulations governing recipient procurement policies and procedures are found at 45 C.F.R. Part 1631. The purposes of a procurement policy are to ensure that the most advantageous balance of price, quality, and performance is obtained when purchasing business-related products and services; and to minimize fraud, waste, and abuse in purchasing.

3.5.1 Procurement Policy Requirements

The basic elements for an effective procurement policy are competition, negotiating terms, documentation, and internal controls. Specifically, 45 C.F.R. § 1631.7 states that recipients must have a written procurement policy and procedures that meet the following requirements:

[12] LSC defines PAI support as the sum of funds awarded from LSC and/or non-LSC funding sources expended to support PAI activities and any donated PAI support; the funds do not represent a separate award. The total amounts for PAI support and expenses should be the same.

- Identifies competition thresholds.
- Establishes the grounds for non-competitive purchases.
- Establishes the level of documentation needed to justify procurements.
- Ensures there are internal controls that provide for segregation of duties in the procurement process; identifies which employees, officers, or directors have authority to make purchases for the recipient; and identifies the procedures for approving purchases.
- Establishes procedures to ensure quality and cost control in purchasing.
- Creates procedures to identify and prevent conflicts of interest in the purchasing process.

LSC recommends that recipients identify individuals to serve as objective evaluators of proposals and purchases. When evaluating and selecting vendors and products, recipients should consider price, performance, quality, past performance, and willingness to accept contracting terms. LSC recommends including various requirements in the procurement policy based on the type of procurement or related risk (e.g., competitive bidding required for transactions over a certain threshold, managerial approval only required up to a certain threshold related to office supplies).

3.5.2 Prior Approval Requests to LSC

Recipients using LSC funds to purchase real property must request and receive LSC's prior approval, regardless of the dollar amount of the purchase. For all real property purchased in whole or in part with LSC funds, recipients must execute and record with the deed or title an LSC property interest agreement identifying LSC's interest in the property with specific terms regarding encumbrances or disposition, consistent with 45 C.F.R. § 1631.14(c).

A recipient using more than $25,000 of LSC funds to purchase or lease personal property, contract for services, or make capital improvements must obtain LSC's prior written approval. Certain services are specifically exempt from the prior approval process; a list of exempt services is contained in 45 C.F.R. § 1631.2(g)(2).

Recipients are required to request prior approval as soon as they reasonably expect the purchase or contract to exceed $25,000 in LSC funds; the request must include the items contained in 45 C.F.R § 1631.8. The timelines for LSC's review and approval are outlined at 45 C.F.R. § 1631.3.

3.5.2.a Exigent Circumstances

Under exigent circumstances, recipients may use more than $25,000 in LSC funds without prior approval (see 45 C.F.R. § 1631.3(d)). Improper or last-minute planning are not exigent circumstances.

3.6 Property and Equipment

Each recipient must adopt written policies and procedures to guide its staff in complying with this section.

3.6.1 Capitalized Assets

Recipients must have procedures in place to properly account for and track all of their capitalized real and personal property, such as land, buildings, leasehold improvements, capital improvements, furniture, fixtures, and equipment.

Recipients must include capitalization requirements (e.g., threshold by asset type) in the property and equipment policy. For donated property, the fair value at the time of donation is the capitalized value.

In the year a capitalized asset was purchased/put into service, the LSC funds used towards the purchase of the asset is considered a current-year grant charge. Therefore, the depreciation expense of LSC-funded assets should not be included in LSC fund balance calculations, as it would be double counting from the initial expense treatment of the asset cost.

LSC requires capitalized property and equipment to be recorded in a property subsidiary ledger that reconciles to the general ledger. The property subsidiary ledger must include:

- Description of the property
- Date acquired
- Check number (if applicable)
- Original cost (if purchased)
- Fair value (if donated)
- Method of valuation (if donated)
- Salvage value (if any)
- Funding source(s)
- Estimated life
- Depreciation method
- Identification number
- Location

Recipients are required to report in their financial statements the value of LSC-funded vs. non-LSC funded property and equipment, including accumulated depreciation.

3.6.1.a Law Library

Law libraries are treated as property for accounting purposes. The costs of maintaining a law library should be expensed in the current period. Judgments as to what constitutes a maintenance item and what constitutes a capital addition must be made after evaluating the nature and significance of the items in question. Significant additions to the law library must be capitalized. The ordinary cost of maintaining a law library, such as updates, replacements, periodicals, loose leaf, etc., are charged as expenses. The law library may be depreciated over the useful life of the library. LSC recommends that recipients consult with their external auditors about whether to depreciate costs.

3.6.2 Physical Inventory

Recipients are required to conduct a physical count of assets listed in the property subsidiary ledger at least once every two (2) years. Recipients must document the inventory process and investigate and reconcile any differences between the physical inspection and property subsidiary ledger. In addition, the recipient's policies must document procedures for fixed asset write off, such as required approvals for recording write off transactions and the timeframe within which such transactions must be recorded.

Recipients must inventory information technology equipment that contains sensitive information, regardless of the equipment's value (e.g., any computer or device with confidential client information), and dispose of it appropriately.

3.6.3 Disposal

Recipient's policies must outline disposal procedures, controls, and documentation requirements. The ultimate disposition data must include the date, method of disposal, and approval. If the property was sold, recipients must record the sales price, valuation method, and gain/loss amount. Recipients must dispose of LSC-funded personal property in accordance with 45 C.F.R. § 1631.12 and LSC-funded real property in accordance with 45 C.F.R. § 1631.20. Recipients should properly write off disposed property from its accounting records.

3.7 Cost Principles

LSC's cost allocation rules are set out in 45 C.F.R. Part 1630. This section of the Guide provides additional details and clarification of the cost allocation rules within Part 1630. For additional guidance on cost-allocation concepts, LSC recipients may refer to 2 C.F.R. Part 200 (UGG); however, LSC is not a federal agency, and recipients are not bound to the cost allocation rules within 2 C.F.R. Part 200. Some of the UGG has been adopted by LSC and communicated through Program Letters. LSC recipients with questions on cost allocation should first refer to the above sources of guidance. Remaining questions can be forwarded to a recipient's assigned LSC FCA or to the OCE-monitored mailbox at fiscalquestions@lsc.gov.

Each recipient must adopt written policies and procedures to guide its staff in complying with this section.

3.7.1 Cost Allocation

Cost allocation is the cornerstone of non-profit financial management and reporting. LSC requires recipients to maintain accounting systems sufficient to demonstrate the proper allocation of costs to each funding source.

The cost allocation policy must address the following:

- Direct and indirect cost definitions
- Direct cost allocation methodology(ies)
- Indirect cost allocation methodology(ies) including allocation bases (e.g., total direct costs, direct salaries and wages, attorney hours, numbers of cases, numbers of employees)
- Frequency of allocation
- Who conducts the allocation and who performs the review

- Documentation requirements to support the allocation (e.g., labor distribution report, personnel activity reports, calculation work papers)
- Reconciliation process related to salaries and wages directly charged to LSC grants and contracts (see Section 2.2.3)
- Methodology to address "exception for certain indirect costs" (if applicable, see Section 3.7.1.a)

Overall, the recipient's cost allocation policy, procedures, and documentation must allow for third party review.

In accordance with 45 C.F.R. § 1630.5, all costs allocated to LSC funds must be allowable. Further, costs must be reasonable, necessary, and allocable. A cost is allocable to a particular cost objective, such as a grant, project, service, or other activity, in accordance with the relative benefits received. Costs may be allocated to LSC funds either as direct or indirect costs according to the provisions of this section. Recipients may have costs that are allocable to LSC and other funding sources, such as indirect costs. To prevent the misallocation of such costs to LSC grants, recipients are prohibited from charging their indirect costs to LSC upfront, and subsequently re-allocating those costs at any time, to the correct non-LSC grants.

Direct costs can be identified specifically with a particular grant award, project, service, or other direct activity of an organization. Direct costs include, but are not limited to, the salaries and wages of recipient staff who are working on cases or matters that are identified with specific grants or contracts. Salaries and wages charged directly to LSC grants and contracts must be supported by personnel activity reports per 45 C.F.R. § 1630.5(d).

Indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. A recipient may treat any direct cost of a minor amount as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives. Indirect costs must be allocated using a reasonable base or another base that results in an equitable distribution of indirect costs among funding sources.

An allocation base must be cost-driven and therefore, measures benefits provided to a cost objective (e.g., program, contract). For example, budgeted numbers or percentage of revenue are not allowable allocation bases.

3.7.1.a Exception for certain indirect costs

LSC allows its recipients flexibility to charge to LSC funds additional indirect costs through the exception in 45 C.F.R. § 1630.5(g). Recipients may charge additional indirect costs to the LSC grant only when a non-LSC funder refuses to pay indirect costs in full or in part, and the activity associated with the indirect cost is permissible under the LSC Act, LSC appropriations statutes, and regulations. Additionally, LSC Program Letter 18-2 clarifies that recipients are required to include unrestricted funds as a source of funds available to pay for such indirect costs.

3.7.1.a.i Refusals

A non-LSC funder's refusal to pay indirect costs in full or in part could take one of multiple forms, such as a cap on indirect costs or a statement that no indirect costs are allowed. Each funder may have different refusal language. The language may be documented in different ways; for example, it may be publicly written on the funder's website, or it may be written into the grant agreement, or both. The following are examples of refusal language that are publicly posted on two funders' websites:

> **Example 1:** "Our indirect cost policy provides that the indirect cost rate may not exceed 10% of the direct costs of the project (the following costs must be excluded from the direct costs of the project: consultants, contractors, subgrants, endowments, equipment, capital expenditures, fee-for-service charges, fiscal sponsor fees, and tuition)"
>
> **Example 2:** "Indirect cost rates for grants are subject to the following limitations: (a) 0% rate for government agencies and other private foundations; (b) up to 10% rate for US Universities and US community colleges; (c) up to 15% rate for non-governmental organizations, multilateral organizations, non-US universities, and for-profit organizations."

The indirect cost rate permitted by a non-LSC funder may not cover all of a recipient's general operating costs attributable to the work directly supported by that funder. Thus, the recipient may need to use other resources to cover the excess costs. Recipients should consider how non-LSC funding sources treat indirect costs when deciding whether to apply for funding from that source to avoid disproportionate allocation of indirect costs to LSC.

Silence on the part of the funder regarding indirect costs does not constitute a refusal. Also, a recipient's election to use the 10% de minimis threshold under the UGG, does not constitute an affirmative refusal to pay indirect costs above the 10% rate.

LSC recipients that use LSC funds per 45 C.F.R. § 1630.5(g) (indirect costs and LSC-eligible work with non-LSC funding) must have a policy and set of procedures to calculate and allocate those indirect costs consistent with the requirements of 45 C.F.R. § 1630.5(g) and Program Letter 18-2 or their successors. Under Program Letter 18-2, recipients must ensure that their policy includes all sources of funding that may be used to pay for indirect costs, including unrestricted funds.

3.7.2 Negotiated Indirect Cost Rate Agreement (NICRA)

A NICRA is the result of a process followed by a federal awarding agency and its recipient to determine the rate at which the federal agency will reimburse the recipient for its indirect costs. The recipient negotiates the rate with its cognizant federal agency and the rate must be accepted by any and all other federal awarding agencies.

Because LSC is not a federal awarding agency, LSC is not subject to this requirement. However, LSC recognizes that there are administrative advantages to the use of a NICRA. LSC recipients interested in charging indirect costs to LSC based on the NICRA must submit the NICRA to LSC for review. LSC will approve the use of NICRAs on a case-by-case basis. Disallowed costs, discussed below, must be removed from the indirect cost base to which the NICRA is applied for LSC's portion of indirect costs. Note that some costs deemed allowable by federal awarding agencies may be unallowable by LSC. LSC will also allow for recipients to use the 10% de minimis rate as allowed by the UGG.

3.7.3 Disallowed Costs

Disallowed costs are those that may not be charged to LSC funds and are unallowable per applicable statutes, regulations, or terms and conditions of the grant award. LSC regulations require that only costs "reasonable and necessary for the performance of the grant or contract" be charged to LSC grants (45 C.F.R. § 1630.5(a)(2)). In determining the reasonableness of a given cost, consideration is given to, among other factors, "whether the cost is of a type generally recognized as ordinary and necessary for the operation of the recipient or the performance of the grant" (45 C.F.R. § 1630.5(b)(1)).

The following are examples of disallowed costs for all LSC grants:

- Membership fees or dues paid to any private or non-profit organization, whether on behalf of the recipient or an individual (45 C.F.R. § 1630.7).
  - This restriction does not apply to payments for fees and dues mandated to practice a profession (e.g., mandatory bar dues) or required by the recipient as part of an employee's job position requirement.
- Contributions or gifts to another organization or an individual (45 C.F.R. § 1630.8).
- Alcohol
- Holiday cards
- Shot glasses
- Late fees

Some items usually are not allowed but may be allowed in some circumstances**.** For example, flowers, cakes, and promotional items or tokens of appreciation are generally not allowed**.** Nonetheless, some types of events, such as fundraisers or recognition events for volunteer attorneys, may justify using LSC funds for those expenses within the allowability of 45 C.F.R. Part 1630. A recipient should consult with LSC or seek an advance understanding under 45 C.F.R. § 1630.6(a) about situations that might justify those expenses with LSC funds.

Recipients are required to develop procedures to ensure disallowed costs are identified in a timely manner. Recipient fiscal management and staff personnel should be familiar with the prohibited activities and exceptions within the LSC Act and regulations.

3.7.3.a Meals and Refreshments

LSC prohibits using LSC funds for meals and refreshments, except for courtesy coffee, tea, and similar beverages and minor refreshments as part of employee recognition events or major substantive work events, or when they are necessary costs of conducting trainings, fundraising events, Board meetings, and conferences. Barring these exceptions, LSC has determined that costs related to meals and refreshments are unreasonable and unnecessary for the performance of any grant or contract funded by LSC. Although not bound by the UGG, LSC is using its definition of a conference for clarity.

Section 200.432 of the UGG defines a conference as *"a meeting, retreat, seminar, symposium, workshop, or event whose primary purpose is the dissemination of technical information beyond the non-Federal entity and is necessary and reasonable for successful performance under the Federal award."*

3.7.4 Related Parties

If a recipient has any related party transactions using LSC funding, recipients are required to have policies that describe the methodology by which the transaction/cost was calculated and provide the supporting documentation.[13] For example, a recipient providing financial and administrative services for its wholly owned subsidiary (a non-LSC recipient) would be subject to this requirement. Shared costs may include rent or space, information technology, personnel (including intake personnel), shared management, and any other overhead costs.

3.7.5 Credits

Applicable credits are receipts or reductions of expenditures, which operate to offset or reduce expense items that are allocable to grant awards as direct or indirect costs. See 45 C.F.R. § 1630.5(h). Applicable credits come in various forms, including:

- Purchase discounts
- Rebates or allowances
- Recoveries or indemnities on losses
- Refunds (including insurance refunds)
- Adjustments of overpayments or erroneous charges
- Tax rebates

[13] The FASB Accounting Standards Codification (ASC) glossary of Subtopic 825-10 Recognition and Measurement of Financial Assets and Liabilities page 51 defines related parties as a) Affiliates of the entity; b) Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; c) Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d) Principal owners of the entity and members of their immediate families; e) Management of the entity and members of their immediate families; f) Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; g) Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own interests. The FASB ASC glossary also defines the terms affiliate, control, immediate family, management, and principal owners.

LSC requires credits to be applied as a cost reduction or cash refund to the same fund from which the related costs were charged. For example, a change in an individual's travel itinerary to reduce a hotel stay likely results in a reduction in travel expenses. If LSC funds were utilized to pay for the original hotel reservation, the reduction in travel expense must be credited to LSC funds.

Recipients are required to include procedures regarding credits and expense reductions in their cost allocation policies.

3.8 Subgrants

Subgrant means an award of LSC funds or property or services purchased in whole or in part with LSC funds from a recipient to a subrecipient for the subrecipient to carry out part of the recipient's legal assistance activities. A subgrant has the characteristics set forth in 45 C.F.R. § 1627.3(b). Pursuant to 45 C.F.R. Part 1627, recipients may agree to pay LSC funds to an entity, such as a bar association, another legal services program, or private attorney to carry out specified program activities. LSC regulations set out the factors recipients should use to determine whether such an arrangement is an LSC subgrant at 45 C.F.R. § 1627.3. Additionally, under 45 C.F.R. § 1627.2(e)(2), a subgrant occurs whenever a recipient expends over $60,000 in LSC funds through a fee-for-service arrangement such as a contract with a private law firm or attorney to represent the recipient's clients.

Recipients must obtain LSC's prior written approval before using $20,000 or more of LSC funds for a subgrant. The recipient must monitor the activities of the subrecipient to ensure that the subgrant is used for authorized purposes; to determine the appropriate level of subrecipient monitoring; and to evaluate each subrecipient's risk of non-compliance with the LSC Act, LSC appropriations statutes, other applicable federal statutes, LSC's regulations, and additional applicable guidance such as Program Letters, this Guide, and the terms and conditions of the subgrant. The specific LSC requirements discussed below are some of the most critical to supporting effective fiscal subgrant oversight but are not the only LSC requirements that apply to subgranted funds and/or subrecipients. Each recipient must adopt written procedures and policies to guide staff in complying with this section and LSC's subgrant regulations and guidelines. Recipients must ensure that subrecipients have written policies and procedures consistent with applicable LSC requirements, including this Guide.

3.8.1 General Requirements

The recipient must conduct a risk assessment and determine, based on that assessment, the level of monitoring, oversight, and timing and frequency of onsite visits to the subrecipient to ensure the proper accountability and compliance with program and financial requirements and the terms and conditions of the subgrant.[14]

[14] The risk assessment performed by each recipient will vary. However, the risk assessment should consider the following key risk indicators for each subrecipient: the amount of LSC subgranted funds, property, or services

Subgrants made with LSC Basic Field Grant funds are required to be for a term of one year or less. Unused funds at the end of the subgrant period are considered part of the recipient's available LSC funds. Subgrants made with special purpose funds must not exceed the term of the special purpose, and, unlike Basic Field subgrants, funds not used in that period must be returned to LSC.

On an annual basis, the recipient must review the subrecipient's:

- Accounting manual and/or fiscal policies.
- Fidelity Bond, Employee Dishonesty, or Crime Coverage.
- Audited Financial Statements (if the subrecipient is required to perform an annual audit[15]).

The recipient must follow up and ensure that the subrecipient takes timely and appropriate action if 1) a subrecipient's Audited Financial Statements include significant findings (e.g., qualified, adverse, or disclaimer opinions, material weaknesses, significant deficiencies); 2) LSC has determined that the subrecipient has questioned costs, required corrective actions, other mandatory actions, or other concerns pertaining to the LSC funds provided to the subrecipient from the LSC recipient, which are detected by LSC through its oversight efforts (e.g., onsite compliance or performance reviews); or 3) a recipient becomes aware of compliance- or performance-related concerns through its oversight efforts.

The recipient must ensure that the subrecipient is maintaining a cumulative comparison report to track actual LSC income and expenses against budgeted LSC income and expenses with variances both over and under and their related explanations identified in the cumulative report.

Based on the results of its annual risk assessment, the recipient should determine whether the subrecipient's compliance should be tested in the following areas: LSC's internal control requirements governing bank reconciliations, cash receipts, cash disbursements, payroll, contracting and procurement, segregation of duties, general journals, EDP controls, and electronic banking, with reasonable sampling and testing. Recipients should refer to the appropriate sections of this Guide for more information.

The recipient must ensure that all of the subrecipient's cases paid for in part or in whole with LSC funds are included in the recipient's annual LSC CSR and are clearly documented as compliant with LSC's eligibility and the case documentation requirements of 2.1 of the CSR Handbook (2017

awarded to the subrecipient; size of the subrecipient and number of offices; susceptibility to financial and technological errors; fraud, and waste and abuse; internal controls weaknesses found during the OCE, Office of Program Performance, OIG, and other funding sources' compliance reviews and onsite visits; qualified, adverse, and disclaimer audit opinions, material weaknesses, significant deficiencies, questioned costs, and going concern issues; and the level of non-compliance with LSC regulations and accounting requirements and the terms and conditions of the subgrant agreement.

[15] Based on the terms of the LSC approved subgrant agreement, "subgranted funds may be separately disclosed and accounted for, and reported upon in the audited financial statements of a recipient; or such funds may be included in a separate audit report of the subrecipient." 45 C.F.R. § 1627.4(f)(1)(ii).

Ed.). A recipient cannot include in its CSR cases closed by a subrecipient that were not at least partially LSC-funded (see CSR Handbook (2017 Ed.), § 4.4).

If the subrecipient is required to submit invoices and supporting documentation to the recipient under the terms of the subgrant agreement, the recipient must review those documents for accuracy and sufficiency.

The recipient must ensure that the subrecipient has developed a methodology for attributing all LSC-derivative income (e.g., interest or earnings earned on its LSC funds held in any bank or investment accounts) proportionately to its LSC fund. Also, see Section 3.1.4 of this Guide for further guidance on Derivative Income.

The recipient must monitor the subrecipient for changes in key personnel, new or substantially changed case management and accounting systems, etc., as a part of its ongoing oversight efforts to ensure the subgranted funds are used for authorized purposes and performance goals are met.

The recipient must maintain records to evidence its monitoring of the subrecipient.

3.8.2 Cost Allocation and Documentation Requirements

The recipient must ensure that the subrecipient complies with LSC's subgrant fiscal and audit requirements and properly spends, accounts for, and audits funds or property or services acquired in whole or in part with LSC funds received through the subgrant. To prevent disallowance of costs not properly allocated or documented in the subaward, recipients must ensure that subrecipients have proper written cost allocation policies and procedures consistent with 45 C.F.R. Part 1630 (see Section 3.7.1) and provide for LSC and other oversight as required by 45 C.F.R. § 1627.4(g).

Subrecipients must maintain records to show how LSC funds were used to support their handling of cases and/or matters as described in 45 C.F.R § 1627.5. For matters, a subrecipient must maintain adequate documentation to show that its employees used LSC funds, in whole or in part, to carry out the activities in the subgrant agreement and in a manner consistent with LSC's restrictions and 45 C.F.R. Part 1610. For cases, subrecipients' attorneys and paralegals must maintain records showing: 1) the amount of time spent on a case; 2) the activity conducted by date; and 3) a unique client name of case number. Further, either the recipient or subrecipient must maintain records showing the problem and case closing type for each case (see 45 C.F.R. § 1627.5(c)).

If the subrecipient uses the subgranted LSC funds for indirect or common personnel or non-personnel costs, it must also have a written indirect cost allocation methodology, policy, and formula that provides for the fair and equitable allocation of these costs and is in compliance with 45 C.F.R. § 1630.5.

3.8.3 Private Attorney Involvement (PAI) Allocation Requirements

Not all costs allocable to a subgrant for engaging private attorneys may be allocable to a recipient's 12.5% PAI allocation requirement under 45 C.F.R. § 1614.2. In addition to the cost allocation and documentation requirements referenced above that allow a cost to be charged to an LSC subgrant, 45 C.F.R. § 1614.7 sets out additional fiscal recordkeeping requirements to ensure that recipients accurately identify costs of qualifying PAI activities under 45 C.F.R. § 1614.4.

Specifically, a subrecipient's records that support the direct or indirect costs of time attorneys and paralegals spend on cases and matters should note whether the time was spent on PAI activities.[16] All non-attorney and non-paralegal personnel PAI-related costs (e.g., receptionist, bookkeeper, intake staff, etc.) and non-personnel PAI-related costs (e.g., space, equipment, etc.) must be allocated on the basis of reasonable operating data.

3.8.4 Financial Reporting Requirements

All subgranted LSC funds are subject to the Audit Guide for Recipients and Auditors. Either the recipient or subrecipient can elect to audit and report the subaward funds separately by natural expense classification in its financial statements (see 45 C.F.R. § 1627.4(f)(1)). The subgrant agreement must specify financial reporting responsibility. The notes to the financial statements of both the recipient and subrecipient should fully disclose the nature of that relationship.

A common question relevant to subgrants has been, "Are agreements with a staffing agency for administrative staff, accounting firm for an annual audit, payroll servicer for payroll, human resources, and tax services, or a landscaper for lawn care and maintenance considered contracts or subgrants?" LSC's response is, "Each is a professional services contract because their services are ancillary, or necessary but not part of the delivery of civil legal aid, for operations and obtained from an entity that provides this service as part of its normal business operations to many different purchasers in a competitive environment."

3.9 Grant Fraud, Waste, and Abuse

LSC awards grant funds to recipients for specific purposes and requires them to use the funds within established guidelines. LSC's OIG has published a Fraud Guide for recipients. Recipients and subrecipients should read this document, evaluate their organizations for fraud risks, and take appropriate action to reduce the risks of grant fraud, waste, and abuse.

Recipients are required to establish a fraud response plan for handling suspected or discovered fraud. The plan must include steps to notify the LSC Inspector General in accordance with the requirements set out in the current Grant Terms and Conditions, or any current requirement, when a reportable event occurs.

[16] LSC provides a list of PAI activities for which the costs can be allocated towards a recipient's 12.5% PAI requirement at 45 C.F.R. § 1614.4.

Recipients and subrecipients are required to contact the LSC OIG to report suspicions of fraudulent behavior or the occurrence of fraud-related events. The LSC OIG maintains a fraud hotline that can be accessed via phone at 800-678-8868 or 202-295-1670 or via email at hotline@oig.lsc.gov. Individuals who contact the Hotline are not required to provide identifying information. Persons who report allegations are encouraged to identify themselves in the event additional questions arise as the OIG evaluates or pursues the allegations. The identities of persons reporting allegations through the OIG Hotline will not be disclosed without their consent unless disclosure is unavoidable.

APPENDICES

Appendix 1. General Additional Information

Effective Date

The effective date of this Guide is **January 1, 2023**. It supersedes all previous editions of Accounting Guidance.

Revisions to the Guide

LSC may periodically revise this Guide. A current version of the Guide will be posted on [LSC's website](). The recipient and its auditor should keep their copies of the Guide current, incorporating all revisions into the Guide. It is the responsibility of the recipient to furnish copies of the current Guide, and revisions thereto, to its auditors.

Cumulative Status of Revisions

Effective Date	Description
August 1976	Original Edition of Audit and Accounting Guide for Recipients and Auditors issued.
June 1977	Revised Original Edition of Audit and Accounting Guide issued.
September 1979.............	Revision to Pages 4-1 and 6-6.
September 1981.............	Revision to Pages ii, 4-1, 6-6, VII-3, and addition of Page 4-2.
January 1, 1986	Revised Edition of Audit and Accounting Guide issued.
May 1986	LSC permits recipients to use either Original or 1986 version of Audit and Accounting Guide.
August 13, 1986	Regulation 1630 replaced Chapter 4 of both the Original and 1986 Edition of the Audit and Accounting Guide.
December 31, 1995.........	Chapter 6 of both Original and 1986 Audit and Accounting Guide replaced by November 1995 Audit Guide.
December 31, 1996.........	November 1995 Audit Guide replaced by November 1996 Audit Guide.
August 14, 1997	1997 Accounting Guide replaced all accounting portions of both Original and 1986 Audit and Accounting Guide.
August 23, 2010	2010 Accounting Guide replaced the 1997 Accounting Guide.
January 1, 2023	2023 Financial Guide replaced the 2010 Accounting Guide.

Appendix 2. Common Terms Defined

When this guide states, "recipients must" or "recipients shall," LSC is requiring that recipients take the proscribed action. If LSC finds that a recipient does not comply with the requirement, LSC can take enforcement action against the recipient and require any other remedial actions related to the requirement.

When this guide states, "recipients should," LSC is urging recipients to take the proscribed actions for a particular purpose, though the actions are not required. If a recipient does not take the proscribed actions, then the recipient can still meet LSC's intended purpose through other actions. Nonetheless, LSC may require that the recipient explain or justify the sufficiency of its alternative actions. If LSC determines that the recipient's actions are insufficient, LSC may require that the recipient take new or different actions to achieve LSC's intended purpose.

When this guide states, "LSC recommends," LSC is providing the recommendation as a best practice example, and the proscribed actions are not required. Recipients may take alternative actions, so long as those actions comply with LSC's regulations, this guide, and applicable laws.

Appendix 3. List of Acronyms

AICPA	American Institute of Certified Public Accountants
ASC	Accounting Standards Codification, issued by the FASB
ASU	Accounting Standards Update, issued by FASB
CFR	Code of Federal Regulations, as found at www.ecfr.gov.
EDP	Electronic Data Processing
FASB	Financial Accounting Standards Board
FCA	LSC Fiscal Compliance Analyst
FTR	Federal Travel Regulations
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
LSC	Legal Services Corporation
NICRA	Negotiated Indirect Cost Rate Agreement
OCE	LSC Office of Compliance and Enforcement
OIG	LSC Office of Inspector General
OPP	LSC Office of Program Performance
PAI	Private Attorney Involvement
SFAS	Statements of Financial Accounting Standards
UGG	Uniform Grant Guidance

Appendix 4. Management Reports

This appendix provides sample internal reports that recipient management may use to monitor performance on a monthly, quarterly, and annual basis. These are sample reports that each recipient may modify to suit their specific needs; for example, the variance reports provide both dollar and percent variance, but a recipient may determine that only one is most useful to their organization.

Sample A is a supplemental statement of LSC Grant Activity which provides the amounts used in fund balance calculation, as described in Appendix 5. LSC recommends that a recipient periodically produce this report for management to monitor use of funds and take steps to ensure fund balances are below the 10% threshold.

Samples B and C provide current month and year to date budget-to-actual variance reports. At a minimum, LSC recommends Executive Management review these reports monthly and the Board of Directors review this kind of report every quarter. Management must set variance thresholds approved by the Board of Directors to support performance assessments. Those thresholds should be used to identify which variances are of further interest or concern.

Sample D is a summary of all revenues and support for a full year; however, it could be produced intermittently with other management reports. LSC recommends producing this report to assist management with planning budgetary resources.

Sample A. Supplemental Statement of LSC Grant Activity

FYE December 31, 20XX

	Excess Fund Balance	Basic Field Grant - General	Private Attorney Involvement (PAI)[1]	Agricultural Worker Grant	Native American Grant	Technology Initiative Grant[2]	LSC-funded Property[3]	Total
Funds received								
Grants and contracts	-	4,294,500	770,000	670,000	300,000	200,000	-	6,234,500
In-kind goods/services	-	-	160,000	-	-	-	-	160,000
Interest income	-	17,000	-	-	-	-	-	17,000
Rental income	-	30,000	-	-	-	-	-	30,000
Attorney fees	-	100,000	-	90,000	-	-	-	190,000
Gain on sale of assets	-	-	-	10,000	-	-	-	10,000
Other income	-	-	-	1,000	-	-	-	1,000
Total	**-**	**4,441,500**	**930,000**	**771,000**	**300,000**	**200,000**	**-**	**6,642,500**
Expenses								
Personnel expenses								
Salaries and wages	440,000	2,900,000	440,000	450,000	160,000	140,000	-	4,530,000
Employee benefits	75,000	410,000	86,000	100,000	20,000	20,000	-	711,000
Payroll taxes	36,000	160,000	45,000	40,000	10,000	11,000	-	302,000
Temp, contract and volunteer	25,000	153,500	-	1,000	500	-	-	180,000

[1] PAI support and expenses must be reported separately in the financial statements according to 45 CFR § 1614.7(b). This example indicates that LSC Basic Field-General funds fully support the PAI activity. However, LSC recipients may use LSC and non-LSC funds to support PAI activities. Note, LSC recipients may report PAI support and expenses in a separate schedule in the financial statements.

[2] Each LSC grant award must be reported separately; this includes each LSC special purpose grant. If there are several special purpose grants of the same award type (i.e., several TIG awards), each grant award must be separately reported.

[3] Recipients are required per Section 3.6.1 (Capitalized Assets) to report in their financial statements the value of LSC-funded vs. non-LSC funded property and equipment, including accumulated depreciation. This may be done in the Supplemental Schedule of LSC Grant Activity or elsewhere in the financial statements. In the year a capitalized asset was purchased/put into service, the LSC funds used towards the purchase of the asset is considered a current-year grant charge. Therefore, the depreciation expense of LSC-funded assets should not be included in LSC fund balance calculations, as it would be double counting from the initial expense treatment of the asset cost. The end of year balance reported under the LSC-funded Property column represents the net carrying value of LSC-funded property.

In-kind goods/services	-	-	160,000	-	-	-	-	160,000
Total personnel expenses	**576,000**	**3,623,500**	**731,000**	**591,000**	**190,500**	**171,000**	**-**	**5,883,000**
Other expenses								
Occupancy	39,000	380,000	45,000	50,000	15,000	-	-	529,000
Contract services to clients	-	-	100,000	-	-	-	-	100,000
Litigation expenses	11,000	80,000	8,000	9,000	2,000	-	-	110,000
Office and supplies	9,000	49,000	6,000	8,000	2,000	2,000	-	76,000
Communication	12,000	80,000	12,000	10,000	3,000	1,000	-	118,000
Library	6,000	40,000	5,000	5,000	2,000	500	-	58,500
Travel	7,500	49,500	3,000	22,000	3,000	12,000	-	97,000
Repair & maintenance	8,000	54,000	9,000	12,000	2,000	3,000	-	88,000
Depreciation/amortization	-	-	-	-	-	-	60,000	60,000
Contract services	3,000	19,500	3,000	8,000	1,000	30,000	-	64,500
Fees, dues and licenses	2,000	8,000	2,000	3,000	500	2,000	-	17,500
Training	3,500	19,500	2,000	3,000	2,000	14,000	-	44,000
Professional fees	1,000	5,000	1,000	1,000	500	-	-	8,500
Insurance	2,000	11,500	2,000	2,000	500	-	-	18,000
Other	-	-	1,000	-	-	-	-	1,000
Total other expenses	**104,000**	**796,000**	**199,000**	**133,000**	**33,500**	**64,500**	**60,000**	**1,390,000**
Total expenses[4]	**680,000**	**4,419,500**	**930,000**	**724,000**	**224,000**	**235,500**	**60,000**	**7,273,000**
Funds received over (under) expenses	**(680,000)**	**22,000**	**-**	**47,000**	**76,000**	**(35,500)**	**(60,000)**	**(630,500)**
Other changes								
Acquisition of property	-	(22,000)	-	-	-	(7,000)	29,000	-
Total other changes	**-**	**(22,000)**	**-**	**-**	**-**	**(7,000)**	**29,000**	**-**
Change in net property	**-**	**-**	**-**	**-**	**-**	**-**	**(31,000)**	**(31,000)**
Beginning of year							200,000	200,000
End of year							**169,000**	**169,000**
Change in deferred revenue	**(680,000)**	**-**	**-**	**47,000**	**76,000**	**(42,500)**		**(599,500)**

[4] LSC grant expenses reported in the Supplemental Schedule of LSC Grant Activity should agree with the Schedule of Expenditures of Federal Awards (SEFA).

Fund Balance/Unearned Revenue							
Beginning of year	680,000	605,000	-	57,000	58,000	138,000	1,538,000
End of year[5]	**-**	**605,000**	**-**	**104,000**	**134,000**	**95,500**	**938,500**

[5] Financial statements must report the unexpended LSC award amount/deferred revenue balance for each grant award, even if the balance is zero. This may be done in the Supplemental Statement of LSC Grant Activity or a note to the financial statements.

Sample B. Summary Revenue and Expense Variance Reports

LEGAL SERVICES PROGRAM, INC

Summary Monthly Variance Report

For the month of MAY 20XX

	Actual	Budget (May 20XX)	Variance ($)	Variance (%)	Variance Explanation
Support and Revenue	*a*	*b*	*c = (a-b)*	*d = (c/b)*	
Gov. Grants & Contracts	$364,301.00	$383,831.00	($19,530.00)	(5.09)	
Other Income	48,857.49	62,916.33	(14,058.84)	(22.35)	
Total Support and Revenue	$413,158.49	$446,747.33	($33,588.84)	(7.52%)	
Expenditures	*a*	*b*	*c = (b-a)*	*d = (c/b)*	
Salaries & Wages	$379,105.09	$341,703.50	($37,401.59)	(10.95)	
Other Expenditures	98,988.68	105,037.49	6,048.82	5.76	
Total Expenditures	$478,093.77	$446,741.00	($31,352.77)	(7.02%)	
Unexpended Funds	($64,935.28)	$6.34	($64,941.62)	-	

Summary Year to Date Variance Report

For the period January 1, 20XX to May 31, 20XX

	Year to Date Actual	Year to Date Budget	Variance ($)	Variance (%)	Variance Explanation
Support and revenue	*a*	*b*	*c = (a-b)*	*d = (c/b)*	
Gov. Grants & Contracts	$2,025,025.00	$1,919,155.00	$105,870.00	5.52	
Other Income	223,392.27	314,581.67	(91,189.40)	(28.99)	
Total Support and Revenue	$2,248,417.27	$2,233,736.67	$14,680.60	0.66%	
Expenditures	*a*	*b*	*c = (b-a)*	*d = (c/b)*	
Salaries & Wages	$1,778,180.14	$1,708,517.48	($69,662.66)	(4.08)	
Other Expenditures	432,153.37	539,187.50	107,034.13	19.85	
Total Expenditures	$2,210,333.51	$2,247,704.98	$37,371.47	1.66%	
Unexpended Funds	$38,083.76	($13,968.32)	$52,052.07	-	
Cash on hand at end of period	$312,267.00				

Sample C. Summary Detail Variance Reports by Cost Type

(can also be presented by cost center)

LEGAL SERVICES PROGRAM, INC

Detail Budget to Actual Expense Variance Report

For the month of MAY 20XX

	Actual	Budget (for May 20XX)	Variance ($)	Variance (%)	Explanation of Variance
Expenditures					
Salaries & Wages	*a*	*b*	*c = (b-a)*	*d = (c/b)*	
Lawyers	$155,112.44	$120,938.25	($34,174.19)	(28.26)	
Paralegals	117,614.18	99,947.58	(17,666.60)	(17.68)	
Clerical	9,592.74	12,751.75	3,159.01	24.77	
Administration	37,061.08	42,284.17	5,223.09	12.35	
Employee Benefits	59,724.65	65,781.75	6,057.10	9.21	
Total Salaries & Wages	$379,105.09	$341,703.50	($37,401.59)	(10.95%)	
Other Expenditures					
Consultant & Temp Services	$37,736.60	$26,817.58	($10,919.02)	(40.72)	
Equipment, Furniture	9,576.51	3,083.33	-6,493.18	(210.59)	
Equipment Leases	1,178.16	5,525.00	4,346.84	78.68	
Space & Utilities	22,986.66	22,094.17	-892.49	(4.04)	
Supplies & Postage	6,969.49	8,120.83	1,151.34	14.18	
Insurance & Bonding	4,162.00	4,500.75	338.75	7.53	
Telephone & Communications	9,156.49	12,433.33	3,276.84	26.36	
Litigation – General	1,982.17	5,250.00	3,267.83	62.24	
Retreat Expenses	2,200.00	2,000.00	(200.00)	(10.00)	
Board Travel	-101.85	750.00	851.85	113.58	
Admin. Travel	2,202.92	8,437.50	6,234.58	73.89	
Subscription & Books	39.75	3,508.33	3,468.58	98.87	
General Excise Tax	253.69	500.00	246.31	49.26	
Litigation	0.00	0.00	0.00	N/A	
Miscellaneous	646.09	2,016.67	1,370.58	67.96	
Total Other Expenditures	$98,988.68	$105,037.49	$6,048.82	5.76	
Total Expenditures	$478,093.77	$446,741.00	($31,352.77)	(7.02%)	

Detail Budget to Actual Expense Variance Report

For the period January 1, 20XX to May 31, 20XX

	Actual	Budget (as of 5/31/20XX)	Variance ($)	Variance (%)	Explanation of Variance
Expenditures					
Salaries & Wages	*a*	*b*	*c = (b-a)*	*d = (c/b)*	
Lawyers	$687,184.41	$604,691.25	($82,493.16)	(13.64)	
Paralegals	554,566.15	499,737.90	(54,828.25)	(10.97)	
Clerical	51,691.29	63,758.75	12,067.46	18.93	
Administration	193,908.64	211,420.83	17,512.19	8.28	
Employee Benefits	290,829.65	328,908.75	38,079.10	11.58	
Total Salaries & Wages	$1,778,180.14	$1,708,517.48	($69,662.66)	(4.08%)	
Other Expenditures					
Consultant & Temp Services	$86,637.45	$134,087.92	$47,450.47	35.39	
Equipment, Furniture	20,976.90	15,416.67	(5,560.23)	(36.07)	
Equipment Leases	11,358.28	27,625.00	16,266.72	58.88	
Space & Utilities	115,665.09	110,470.83	(5,194.26)	(4.70)	
Supplies & Postage	28,847.61	40,604.17	11,756.56	28.95	
Insurance & Bonding	27,160.00	22,503.75	(4,656.25)	(20.69)	
Telephone & Communications	45,055.52	62,166.67	17,111.15	27.52	
Litigation – General	20,340.19	26,250.00	5,909.81	22.51	
Retreat Expenses	25,794.00	24,000.00	(1,794.00)	(7.48)	
Board Travel	1,799.75	3,750.00	1,950.25	52.01	
Admin. Travel	35,697.79	42,187.50	6,489.71	15.38	
Subscription & Books	6,898.18	17,541.67	10,643.49	60.68	
General Excise Tax	1,550.81	2,500.00	949.19	37.97	
Litigation	0.00	0.00	0.00	N/A	
Miscellaneous	4,371.80	10,083.33	5,711.53	56.64	
Total Other Expenditures	$432,153.37	$539,187.50	$107,034.13	19.85	
Total Expenditures	$2,210,333.51	$2,247,704.98	$37,371.47	1.66%	

Sample D. Summary Revenues and Support

LEGAL SERVICES PROGRAM, INC
Summary of Revenue and Support
For the period of January 1, 20XX to May 31, 20XX

	Year to Date Actual	Year to Date Budget	Income over/(under)	Full Year Budget	Unspent Amount
Federal Revenue and Support	*a*	*b*	*c = a-b*	*d*	*e = d-a*
LSC – Migrant	-	-	-	-	-
LSC – Basic field	$498,505.00	$501,391.04	($2,886.04)	$1,203,338.50	$704,833.50
LSC – PBI	71,215.00	71,627.29	(412.29)	171,905.50	100,690.50
LSC – TIG 2	-	4,166.67	(4,166.67)	10,000.00	10,000.00
Special Kids Grant	114,039.00	125,000.00	(10,961.00)	300,000.00	185,961.00
Office of Aging	30,584.00	30,131.25	452.75	72,315.00	41,731.00
County Comm. on Aging	32,030.00	23,833.33	8,196.67	57,200.00	25,170.00
HUD – Supporting Housing	28,365.00	26,945.42	1,419.58	64,669.00	36,304.00
HUD – Fair Housing	82,500.00	76,388,75	6,111.25	183,333.00	100,833.00
HUD – Counseling Grant	4,912.94	17,123.75	(12,210.81)	41,097.00	36,184.06
IRS (LITC) Tax Project	13,749.99	22,500.00	(8,750.01)	54,000.00	40,250.01
Domestic Violence – TANF	10,894.00	12,500.00	(1,606.00)	30,000.00	19,106.00
AmeriCorps Grant	95,870.01	121,745.83	(25,875.82)	292,190.00	196,319.99
CDBG	11,600.00	20,000.00	(8,400.00)	48,000.00	36,400.00
Total Federal Revenue and Support	$994,264.94	$1,053,353.33	($59,088.39)	$2,528,048.00	$1,533,783.06
State Revenue and Support					
DHS Grant	$168,653.06	-	$168,653.06	-	($168,653.06)
State	333,330.00	$333,333.33	(3.33)	$800,000.00	466,670.00
DHS – Food Stamp Outreach	-	-	-	-	-
State Filing Fee	67,224.00	59,760.00	7,464.00	143,424.00	76,200.00
State – Rural	-	-	-	-	-
State Judiciary Grant No. 1	-	2,291.67	(2,291.67)	5,500.00	5,500.00
State Judiciary Grant No. 2	11,603.00	22,916.67	(11,313.67)	55,000.00	43,397.00
State Judiciary Grant No. 3	6,666.00	8,333.33	(1,667.33)	20,000.00	13,334.00
Grant – County No. 1	231,250.00	196,250.00	35,000.00	471,000.00	239,750.00
GA – SSI	166,700.00	208,333.33	(41,633.33)	500,000.00	333,300.00
Grant – County No. 2	-	1,250.00	(1,250.00)	3,000.00	3,000.00
Grant – County No. 4	22,500.00	16,666.67	5,833.33	40,000.00	17,500.00
Grant – County No. 3	22,834.00	16,666.67	6,167.33	40,000.00	17,166.00
Other Small State Grants	-	-	-	-	-
Total State Revenue and Support	$1,030,760.06	$865,801.67	$164.958.39	$2,077,924.00	$1,047,163.94
Other Revenue and Support					
Donations	$80,335.00	$125,000.00	($44,665.00)	$300,000.00	$219,665.00
United Way – County No. 1	29,111.00	31,666.67	(2,555.67)	76,000.00	46,889.00
United Way – County No. 2	7,500.00	7,500.00	-	18,000.00	10,500.00
United Way – County No. 3	1,712.00	1,665.00	47.00	3,996.00	2,284.00
Contract with Union	38,336.00	29,166.67	9,169.33	70,000.00	31,664.00
State Justice Foundation	41,665.00	62,500.00	(20,835.00)	150,000.00	108,335.00
Community Foundation	(7,930.00)	-	(7,930.00)	-	7,930.00
Misc. Grants	3,100.00	16,250.00	(13,150.00)	39,000.00	35,900.00
SSI Representation	-	-	-	-	-
Fee for Service – County No. 1	-	-	-	-	-
Clinics	750.00	6,250.00	(5,500.00)	15,000.00	14,250.00
Fee for Service – County No. 2	750.00	-	750.00	-	(750.00)
Fee for Service – County No. 3	27,184.00	33,333.33	(6,149.33)	80,000.00	52,816.00
Fee for Service – County No. 4	700.00	-	700.00	-	(700.00)
Interest	179.27	1,250.00	(1,070.73)	3,000.00	2,820.73
Total Other Revenue and Support	$223,392.27	$314,581.67	($91,189.40)	$754,996.00	$531,603.73
Total Revenue and Support	**$2,248,417.27**	**$2,233,736.67**	**$14,680.60**	**$5,360,968.00**	**$3,112,550.73**

Appendix 5. Fund Balance Excess Calculation

Please view this walkthrough with the source document Appendix 4a – Supplemental Statement of LSC Grant Activity, and 45 C.F.R. Part 1628. Recipients should perform and document this calculation as part of year-end procedures to determine if a fund balance waiver is required. LSC's Basic Field Grants are non-exchange transactions with conditions, and as such, revenue must be recognized as conditions are met and any unexpended LSC Basic Field Grant funds recorded as deferred revenue, which will impact how fund balances are reported. Recipients must include in either a note to the financial statements or in the Supplemental Statement of LSC Grant Activity the unexpended amount of LSC Basic Field Grant funds by type and year, even if the balance in the fund is zero.

1. Calculate LSC Year-end Fund Balance

Note that the fund balance includes only Basic Field Grant amounts. Special purpose and one-time grants are all excluded. If the portion of PAI funded with LSC Basic Field Grant funds is reported in a separate column (as shown in Appendix 4a – Supplemental Statement of Grant Activity), it is combined with the Basic Field Grant amount for this fund balance calculation. Also, any prior year unspent Basic Field Grant balance is included. As a reminder (per Section 3.6.1), in the year a capitalized asset was purchased/put into service, the LSC funds used towards the purchase of the asset is considered a current-year grant charge. Therefore, the depreciation expense of LSC-funded assets should not be included in LSC fund balance calculations, as it would be double counting from the initial expense treatment of the asset cost.

	Year-end Amount
Basic Field – General/PAI	$ 605,000
Basic Field – Agricultural Worker	$ 104,000
Basic Field – Native American	$ 134,000
Fund Balance (include prior year unspent balance)	**$ 843,000**

2. Calculate LSC Support, 10% Carryover, and Excess Fund Balance

These categories *are not included* in the calculation of LSC Support:

i. Special purpose and one-time grants
ii. Derivative income from special purpose and one-time grants
iii. In-kind contributions
iv. Income from publications and fundraising

Type of Support	**Year-end Amount**
1628.2(b)(1) Financial assistance awards (LSC Basic Field Grants)	
Basic Field - General (include LSC PAI if reported separately)	$ 5,064,500
Basic Field - Agriculture Worker	$ 670,000
Basic Field – Native American	$ 300,000
1628.2(b)(2) Derivative income	
Interest Income	$ 17,000
Rental income	$ 30,000
Attorney fees	$ 190,000
Gain on sale of assets	$ 10,000
Other income	$ 1,000
Total LSC Support	**$ 6,282,500**
Fund Balance (from step 1)	$843,000
10% Carryover (10% of Total LSC Support)	$ 628,250
Difference (Excess Fund Balance over 10% Carryover)	**$ 214,750**

In this example, the recipient will need to request a fund balance waiver for the $214,750 fund balance exceeding the 10% threshold in accordance with 45 C.F.R. § 1628.4. The fund balance waiver request must be submitted within 30 days after the recipient's submission to LSC of its annual audited financial statements. If the waiver request is not approved, this amount must be repaid to LSC.

3. Calculate the Fund Balance Percentage (see 45 C.F.R. § 1628.2(d))

Calculate this percentage to determine if the fund balance exceeds 25%, for which a special waiver demonstrating exigent circumstances is required.

Formula $$\frac{\text{Fund Balance}}{\text{Total LSC Support}} = \text{Fund Balance Percentage}$$

Calculation with sample values

$$\frac{\$\ 843{,}000}{\$\ 6{,}282{,}500} = \mathbf{13.42\%}$$

Appendix 6. Sample Donor/Funder Notification Letter

Recipient Letterhead

[Date]

[Donor Name]

[Donor Address]

Re: Donation

Dear Donor:

Thank you for your financial contribution in the amount of $[X.XX]. Your generous support aids [Recipient Name] to provide civil legal services in the [name of service area] to underprivileged individuals.

As you may know, [Recipient Name] is a 501(c)(3) non-profit corporation and your donation is tax deductible. Because we receive a grant from the federally funded Legal Services Corporation, we are required by 45 CFR Part 1610 to notify you that our funds may not be expended for any purposes prohibited by the regulations governing Legal Services Corporation. In addition, we are required to provide this notification to any donor who provides $250 or more to [Recipient Name]. No goods or services were provided to you in exchange for your donation.

On behalf of our Board, staff, and clients, we extend our deepest gratitude. Working together, one day all low-income individuals in [Recipient location] will have full and fair access to justice.

Sincerely,

John M. Doe, Esq.
Executive Director

<u>Note</u>: Recipients should use their own letterhead and other logos as used in the normal course of business (e.g., United Way/Other Grantors). Areas to be filled in by the recipient appear in brackets.

Appendix 7. Required Accounting Policies and Procedures

This Appendix complements Section 2.5.2.a Accounting Policy and Procedures Manual. Recipients are required to develop and maintain an accounting manual with all policies and procedures. In some cases, recipients may maintain certain policies in other operational manuals; for example, personnel manuals may be maintained elsewhere. This appendix describes the minimum required content of this manual. Please note that policies implementing the requirements of this Guide must be reviewed and approved by the recipient's governing body. Board minutes must indicate review and approval of the manual and any changes or updates made to it.

Recipients must have written accounting policies or procedures describing:

1. General ledger (GL) accounting controls (Section 2.1.1.a)
    a. Chart of accounts
    b. Direct entries to the GL
2. Payroll (Section 2.2.2)
3. Record retention (Section 2.3)
4. Document integrity (Section 2.3.1)
5. Electronic data processing and cybersecurity (Section 2.5.3)
6. Derivative income (Section 3.1.4)
7. Bank accounts and reconciliations (Section 3.2.1)
8. Electronic banking (Section 3.2.1.b)
9. Cash receipts (Section 3.2.2)
10. Investments (if applicable) (Section 3.2.3)
11. Cash disbursements (Section 3.2.4)
    a. Including travel & expense reimbursements, credit cards, advances.
12. Petty cash (if applicable) (Section 3.2.5)
13. Client trust accounts (Section 3.2.6)
14. Private Attorney Involvement expenditure calculation policy (Section 3.4.1)
15. Procurement and contracting (Section 3.5)
16. Property and equipment (Section 3.6)
17. Cost principles (Section 3.7)
18. Related parties (if applicable) (Section 3.7.4)
19. Subgrants (if applicable) (Section 3.8)

Appendix 8. Authority

In 1974, the United States Congress established the Legal Services Corporation ("LSC" or "Corporation") to provide legal assistance to eligible persons in civil proceedings. Legal Services Corporation Act, PL. 93-355, 42 U.S.C. § 2996 et seq._("LSC Act"). The Corporation is a non-profit corporation located in the District of Columbia. Congress appropriates federal funds to LSC on an annual basis. LSC, in turn, makes grants, or enters into contracts, with private attorneys, qualified nonprofit organizations, state or local governments or sub-state regional planning or coordination agencies to provide legal assistance to eligible individuals.

Recipients are required to serve their clients effectively and economically in compliance with the LSC Act, annual LSC appropriations laws, other federal statutes, and LSC regulations, rules, guidelines, and policies. As with many other federally supported programs, LSC is required to evaluate recipients of its funds to ensure compliance with applicable laws.

LSC has prepared this Financial Guide under the authority provided by the following sections of the LSC Act:

Records and Reports - LSC Act Section 1008:

> “(a) The Corporation is authorized to require such reports as it deems necessary from any recipient, contractor or person or entity receiving financial assistance under this title regarding activities carried out pursuant to this title.”
>
> “(b) The Corporation is authorized to prescribe the keeping of records with respect to funds provided by grant or contract and shall have access to such records at all reasonable times for the purpose of insuring compliance with the grant or contract or terms and conditions upon which financial assistance was provided.”

Audit - LSC Act Section 1009(c)(1):

> “The Corporation shall conduct or require each recipient, contractor, person or entity receiving financial assistance under this title to provide for an annual financial audit.” Additionally, Section 509 of LSC’s FY 1996 appropriation sets requirements for audits of LSC recipients in lieu of those required by the LSC Act. Public Law 104-134 (1996) (incorporated by reference in subsequent LSC appropriations).

Recipient's Non-LSC Funds - LSC Act Section 1010(c):

> “Non-Federal funds received by the Corporation, and funds received by any recipient from a source other than the Corporation, shall be accounted for and reported as receipts and disbursements separate and distinct from Federal funds...”

Hierarchy of Enforcement

The LSC Act and Regulations apply to all LSC recipients and subrecipients. LSC’s Office of Legal Affairs publishes advisory opinions to clarify the meaning of a regulation or to formalize LSC’s interpretation of a provision of law and are enforceable to all recipients and subrecipients.

LSC management issues program letters on a discretionary basis to add more detail around an existing or new topic. The annual compliance supplements addressing various issues that have arisen in the preceding year are also a type of program letter. Recipients should review new program letters and ensure they are complying with the most recent guidance.

Appendix 9. Self-Assessment Questionnaire

This appendix provides an optional self-assessment questionnaire composed of required and recommended internal controls and accounting policies and procedures. The questions contained herein are based on requirements presented in the body of this Guide. It is designed to facilitate an annual or periodic review of a recipient's organization. It is optional, but strongly recommended as a tool for recipient's management to direct attention to practicable revisions of accounting procedures or internal controls to strengthen, improve, or simplify the existing system. Recipients are recommended to print a copy of the questionnaire at least annually, complete, and file for future reference.

Date of Assessment:

Individuals completing assessment:

Name Title

____

____

____

____

____

A. Organizational and General Accounting

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
GENERAL ACCOUNTING				
1	Does the organization follow GAAP accrual accounting?	Yes 2.1.1	◯ Yes ◯ No	
2	Does the organization deviate from GAAP in any areas? If so, note which areas.	Yes 2.1	◯ Yes ◯ No	
3	Does the accounting system support fund accounting to segregate LSC funds from other revenue sources and accommodate the accumulation of costs by grant or contract?	Yes 2.1.1	◯ Yes ◯ No	
4	Does the organization recognize LSC grant revenue as expenses are incurred, and reflect unexpended grant amounts in the liability account (deferred revenue)?	Yes 3.1.1.a	◯ Yes ◯ No	
5	Does the accounting system support the following?	Yes 2.1.1.a	◯ Yes ◯ No	

	• Chart of accounts that adequately meets reporting and management needs • Segregation of funds within the accounting system by general ledger (GL) account (no commingling) • Tracking and accounting by funding source • Maintaining adequate supporting documentation for all transactions, including evidence of approval by an authorized individual • Ability to identify and address unallowable costs • Properly allocating costs across funding sources and cost centers • Tracking and accounting for capitalized assets • Collecting and reporting financial data for planning, controlling, budgeting, measuring, and evaluating direct and indirect costs • Financial reporting that is accurate, current, complete, and compliant with all financial reporting requirements of the organization's award or subaward			
6	Does the organization have written policies and procedures to request and approve changes to the chart of accounts?	Yes 2.1.1.a	◯ Yes ◯ No	
7	Are all entries to the general ledger flowing up from subsidiary journals? Are direct entries to the general ledger adequately supported and authorized?	Yes 2.1.1.a	◯ Yes ◯ No	
8	Does the organization have written policies and procedures around direct entries to the GL, including supporting documentation and approval requirements?	Yes 2.1.1.a	◯ Yes ◯ No	
9	Within subsidiary journals of the accounting system, are procedures sufficient to provide that all transactions are fully described, documented, and approved by the appropriate person?	Yes 2.1.1.a	◯ Yes ◯ No	
10	Does the automated accounting system accommodate fund accounting or cost center/functional accounting requirements?	Yes 2.1.2	◯ Yes ◯ No	
11	Does the accounting policy and procedures manual comply with requirements described in Section 2.5.2.a and Appendix 7 of this Guide?	Yes 2.5.2.a App. 7	◯ Yes ◯ No	
12	Are the following monthly management reports prepared timely with management and Board review? • Total Program Budget vs. Actual • Funding Source Budget vs. Actual • A monthly statement of cash on hand	Yes 2.6	◯ Yes ◯ No	

13	Is the general ledger closed monthly and does the organization maintain a detailed month-end close schedule identifying due dates and responsible individuals, with closing activities to include preparing a trial balance, statement of financial position, and statement of activities?	Best Practice 2.6.1	◯ Yes ◯ No	
14	Does the organization maintain required segregation of duties ("compensating controls" in lieu of the specific segregation of duties requirement)? Are compensating controls documented in the organization's policies and procedures?	Yes 2.5.2.b	◯ Yes ◯ No	
15	Does the organization have sufficient internal controls, particularly segregation of duties or automated controls for the following? • Receiving checks and cash • Making bank deposits • Retaining appropriate documentation • Performing reconciliations • Electronic Funds Transfer and wire transfers • Cash disbursements	Yes 3.2	◯ Yes ◯ No	
GOVERNANCE				
16	Does the Board of Directors have bylaws and resolutions or their equivalent that clearly define and communicate its authority and responsibilities, including the financial oversight committee(s)?	Yes 2.5	◯ Yes ◯ No	
17	Does the Board of Directors and financial oversight committee(s) meet regularly?	Best Practice 2.5	◯ Yes ◯ No	
18	Does the organization document all Board and committee meetings with minutes (including decisions made/approvals)?	Yes 2.5	◯ Yes ◯ No	
19	Does the financial oversight committee(s) include or have access to a CPA, other than the organization's IPA, or other independent financial expert?	Best Practice 2.5.1	◯ Yes ◯ No	
20	Does the financial oversight committee(s) have the following responsibilities? • Review and, if necessary, revise the budget and make recommendations to the full Board of Directors • Review quarterly the management reports prepared monthly with the Chief Financial Officer (CFO), controller, and/or outside CPA • Review accounting and internal control policies and make recommendations for changes and improvements • Regularly review and make recommendations about investment policies	Yes 2.5.1.a	◯ Yes ◯ No	

	• Coordinate Board training on financial matters • Act as liaison among the full Board, external auditors, and staff on fiscal matters • Review and approve the Executive Director's timesheets, expenses, and compensation • Hire and monitor the external auditor • Set the compensation of the external auditor • Oversee the auditor's activities • Review the audited financial statements, management letter, and management's response with staff and auditor • Set rules and processes for complaints concerning accounting and internal control practices • Review the annual Internal Revenue Service Form 990 for completeness, accuracy, and on-time filing and provide assurances of compliance to the full Board • Ensure the organization's operations are conducted and managed in a manner that emphasizes: 1) Ethical and honest behavior; 2) Compliance with applicable laws, regulations, and policies; 3) Effective management of the organization's resources and risks; and 4) Accountability of persons within the organization			
21	Does the Board of Directors review and approve the organization's written fiscal policies?	Yes 1.3	◯ Yes ◯ No	
22	Does the organization have a fidelity bond (or similar insurance) pursuant to 45 C.F.R. Part 1629?	Yes 2.5.4	◯ Yes ◯ No	
23	Has the Board of Directors ratified that fidelity bond insurance is held for all employees, officers, directors, agents, volunteers, and third-party contractors (if applicable) who handle LSC funds?	Best Practice 2.5.4	◯ Yes ◯ No	
ELECTRONIC DATA PROCESSING & CYBERSECURITY				
24	Does the organization have written security policies and procedures for physical and digital assets including all financial data and records in any form?	Yes 2.5.3	◯ Yes ◯ No	
25	Has the organization obtained guidance from qualified experts in data and records security, including cybersecurity?	Best Practice 2.5.3	◯ Yes ◯ No	
26	Do the security policies specifically address cybersecurity and the risks from cyber incidents, and are they evaluated and updated as necessary?	Best Practice 2.5.3	◯ Yes ◯ No	
27	Has the organization established physical, administrative, technical, and virtual/remote access controls and other measures to safeguard	Yes 2.5.3	◯ Yes ◯ No	

	physical and digital assets, including modifications to assets and systems?			
28	Do the security policies and procedures include the following requirements? • Perform (and document) an annual risk assessment • Resolve any risk findings or conclusions • Maintain physical access controls for servers and storage rooms • Develop and periodically test an emergency disaster prevention and recovery plan • Perform regular back up of electronic records and systems stored offsite or in a virtual environment with easy-to-use restoration options • Formally assign computer and data security responsibilities	Yes 2.5.3	◯ Yes ◯ No	
29	Does the organization have a risk assessment process that, at minimum, involves the following components? • Identifying the physical and digital assets susceptible to cyberattacks • Identifying risks to those assets (risks should be evaluated annually for changes) • Evaluating the risks (e.g., high, medium, or low) based on likelihood and impact • Documenting the results of the risk assessment, including developing and implementing appropriate controls	Best Practice 2.5.3	◯ Yes ◯ No	

B. Financial Statements & Reporting

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
AUDITED FINANCIAL STATEMENTS				
1	Do the financial oversight committee's meeting minutes reflect a discussion with management and the auditors to address audit findings, deficiencies, and proposed corrective actions?	Yes 2.7.1	◯ Yes ◯ No	
2	Are the audited financial statements submitted on time (no later than 120 days post close of the organization's fiscal year) each year to LSC's OIG?	Yes 2.5.1.a 2.7.1	◯ Yes ◯ No	
3	Does the Board of Director review the audited financial statements and management letter and evidence review in meeting minutes?	Yes 2.7.1	◯ Yes ◯ No	
4	Does the organization's management and Board of Directors determine an appropriate course of action to remediate any significant deficiencies or material weaknesses identified by the auditor?	Yes 2.7.1	◯ Yes ◯ No	

5	Is each LSC grant (and related activity) reported in a separate column (by natural expense classification) in the audited financial statements?	Yes 3.1.1	◯ Yes ◯ No	
6	Does the organization recognize, record, and report all donations, including non-cash items as gifts-in-kind (exchanges), donated services, or donations (materials and property) in the recipient's financial statements as both support and offsetting expenses?	Yes 3.1.3	◯ Yes ◯ No	
7	Does the notes to the financial statements disclose the nature of the gifts-in-kind, donations, or contributions, and the valuation techniques followed?	Best Practice 3.1.3	◯ Yes ◯ No	
BUDGETS				
8	Does the organization prepare and submit its annual budgets to the Board for review and approval?	Yes 2.4	◯ Yes ◯ No	
9	Do the budget schedules include assumptions upon which the budget is based?	Best Practice 2.4	◯ Yes ◯ No	

C. Bank Accounts and Reconciliations

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have written policies and procedures related to bank accounts to comply with Section 3.2.1 of this Guide?	Yes 3.2.1	◯ Yes ◯ No	
BANK ACCOUNTS				
2	Does the organization document and track all bank accounts, including the purpose, authorized signatory, custodian, opening date, and closing date (within the last three years)?	Yes 3.2.1	◯ Yes ◯ No	
3	Does the organization use one bank account to pay for operating expenses, except where a higher fraud risk warrants a separate account (e.g., payroll expenses)?	Best Practice 3.2.1	◯ Yes ◯ No	
4	Does the organization notify the Board of Directors when opening, changing, or closing bank accounts with sufficient justification?	Yes 3.2.1	◯ Yes ◯ No	
5	Does the organization document who has access to banking accounts (this includes all types of banking accounts and all related activities), and the date of access granted? Does the organization also indicate when access has changed (e.g., when an individual leaves the position or transfers to a position without bank access duties)?	Yes 3.2.1	◯ Yes ◯ No	
6	Does the organization maintain a list of authorized check signers with evidence of Board review/approval?	Yes 3.2.1	◯ Yes ◯ No	

7	Does the organization maintain supporting documentation for notification to banks of authorized check signers, including any changes?	Yes 3.2.1	◯ Yes ◯ No	
8	Are LSC funds held for operating expenses maintained in federally insured bank accounts, unless otherwise declared by the organization's Board of Directors?	Yes 3.2.3	◯ Yes ◯ No	
9	If the organization has a bank account restricted to payroll purposes, deposits to the account must be controlled by an authorizing procedure that prevents duplicate deposits and over-deposits	Yes 3.2.1.a	◯ Yes ◯ No	
10	Are LSC funds in excess of the FDIC limits and not needed for immediate operating expenses invested with another financial institution in federally insured accounts or certificates or invested in U.S. Treasury notes or bills or investment instruments, unless otherwise declared by the organization's Board of Directors per authorized policy?	Yes 3.2.3	◯ Yes ◯ No	
11	For closed bank accounts, does the organization document that the bank was notified in writing not to process subsequent transactions for that account and any unused checks for the account were destroyed immediately upon closure?	Yes 3.2.1	◯ Yes ◯ No	
ELECTRONIC BANKING				
12	Does the organization have written procedures and policies for all banking activities, including electronic banking, that evidence regular management review to ensure transactions are reasonable, accurate, and fully supported and outline safeguards and other control requirements related to electronic banking?	Yes 3.2.1.b	◯ Yes ◯ No	
13	Do the Board of Directors meeting minutes reflect authorization or de-authorization of employees to access online banking accounts, including third-party payment system accounts? Do minutes reflect that the list of authorized employees is regularly reviewed? Does the organization also indicate when access has changed (e.g., when an individual leaves the position/transfers to a position without bank access duties)?	Yes 3.2.1.b	◯ Yes ◯ No	
14	Does the organization conduct a risk assessment of its electronic banking policies and procedures to identify areas that need additional safeguards and protections?	Yes 3.2.1.b	◯ Yes ◯ No	
BANK RECONCILIATIONS				
15	Are bank reconciliations performed for each bank account on a timely basis after the close of each month?	Yes 3.2.1.c	◯ Yes ◯ No	

16	Are bank reconciliations performed by a person who has no access to cash, who is not a regular check signer, and has no cash bookkeeping duties?	Yes 3.2.1.c	◯ Yes ◯ No	
17	Does the reconciliation documentation include initials/signatures, dates the tasks was performed (preparation and review), and evidence that identified adjustments were promptly made to the general ledger?	Yes 3.2.1.c	◯ Yes ◯ No	
18	Are bank statements delivered unopened (physically or electronically) to a designated member of management or directly to the individual who prepares the monthly bank reconciliations?	Best Practice 3.2.1.c	◯ Yes ◯ No	
19	Are any checks identified as outstanding for six months or more investigated and resolved, and are voided checks recorded in the General Ledger as "VOID"?	Yes 3.2.1.c	◯ Yes ◯ No	
CLIENT TRUST FUNDS				
20	Does the organization have written policies and procedures related to client trust funds?	Yes 3.2.6	◯ Yes ◯ No	
21	Are client funds deposited into a bank account that is segregated from other award funds?	Yes 3.2.6	◯ Yes ◯ No	
22	Are separate client trust records maintained for each client to document the receipt and disbursement of client funds?	Yes 3.2.6	◯ Yes ◯ No	
23	When an individual client's funds have been completely disbursed, is the client's trust account closed?	Best Practice 3.2.6	◯ Yes ◯ No	
24	Are client trust accounts under general ledger control and are the client trust accounts statements reconciled monthly to general ledger balances by an individual not involved with client trust operations?	Yes 3.2.6	◯ Yes ◯ No	
25	Are prenumbered checks accompanied by supporting documentation used for all disbursements?	Yes 3.2.6	◯ Yes ◯ No	
26	Are prenumbered receipts used for all money received from clients? Are duplicate copies of the prenumbered receipts retained?	Yes 3.2.6	◯ Yes ◯ No	
27	Are adjusting journal entries adequately supported, and any items outstanding for more than two months resolved?	Yes 3.2.6	◯ Yes ◯ No	
28	Does the organization have procedures for the disposition of unclaimed client trust funds in accordance with state escheat laws/guidelines established by the state or local bar association?	Yes 3.2.6	◯ Yes ◯ No	

D. Cash and Cash Equivalent Receipts

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have written cash receipts related policies and procedures?	Yes 3.2.2	◯ Yes ◯ No	
2	Is a non-accounting employee assigned to receive and record cash receipts?	Yes 3.2.2	◯ Yes ◯ No	
3	Upon receipt, are cash and cash equivalents (checks, money orders) recorded in a cash receipts log with date, payor, amount, and purpose?	Yes 3.2.2	◯ Yes ◯ No	
4	Upon receipt, are checks and money orders restrictively endorsed?	Yes 3.2.2	◯ Yes ◯ No	
5	Is the bank deposit made by someone who does not open the mail, prepare the bank deposit slip, or post cash receipts to the general ledger?	Yes 3.2.2	◯ Yes ◯ No	
6	Are deposits made regularly (i.e., weekly or daily)?	Yes 3.2.2	◯ Yes ◯ No	
7	Are adequate cash receipts procedures and documentation maintained to allow a reviewer to trace the process (cash receipts log to the bank deposit to the general ledger posting), confirm timeliness, and verify segregation of duties?	Yes 3.2.2	◯ Yes ◯ No	

E. Payroll and Personnel Records

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have written payroll policies and procedures?	Yes 2.2.2	◯ Yes ◯ No	
2	Are timekeeping records consistent with 45 C.F.R. Part 1635?	Yes 2.2.1	◯ Yes ◯ No	
3	Does the organization maintain documentation that indicate employees' time and attendance records have been reviewed and approved by an employee’s supervisor (or alternative personnel in a managerial role)?	Yes 2.2.2	◯ Yes ◯ No	
4	Are salary and wages charged directly to LSC grants and contracts supported by personnel activity reports?	Yes 2.2.1	◯ Yes ◯ No	
5	Is the payroll reviewed (including supporting documentation) prior to processing to verify hours, rates, or other bases of payment by reference to attendance records, employment authorizations, approved rate changes, etc. by someone not connected with the preparation or distribution of the payroll?	Yes 2.2.2	◯ Yes ◯ No	

6	If there are adjustments to payroll, are these documented and approved by an authorized individual who is independent of payroll preparation?	Yes 2.2.2	◯ Yes ◯ No	
7	Is payroll disbursed from a bank account restricted to payroll purposes?	Best Practice 2.2.2 and 3.2.1.a	◯ Yes ◯ No	
8	If direct deposit is not used, are payroll checks signed by persons not involved in preparing payroll and authorized by someone other than the preparer?	Yes 2.2.2	◯ Yes ◯ No	
9	Are timekeeping reports reconciled with the labor cost distribution report (or alternative reports) on an annual basis, at a minimum, before final fund allocation entries are made in the accounting system?	Yes 2.2.3	◯ Yes ◯ No	
10	Does the organization use a payroll register when processing payroll? Does the payroll register reconcile to the general ledger payroll accounts?	Yes 2.2.2	◯ Yes ◯ No	
11	Does the organization review and reconcile the payroll register and payroll cost distribution by fund and cost center monthly?	Best Practice 2.2.2	◯ Yes ◯ No	
12	Does the organization have procedures in place to review payroll totals against labor distribution totals (compiled from the original time records) and provide explanations for any variances?	Yes 2.2.2	◯ Yes ◯ No	
13	Throughout the payroll process, has the organization maintained evidence of review (e.g., payroll register, labor cost distribution report, timekeeping reports)?	Yes 2.2.2	◯ Yes ◯ No	
14	Does the organization have adequate systems and internal controls for collecting timekeeping records as required by 45 C.F.R. Part 1635 for any attorney, paralegal, or other organization employee who performs work that is charged to one or more awards as a direct cost?	Yes 2.2	◯ Yes ◯ No	
15	Does the organization maintain time and attendance records for each employee to provide reasonable assurance that the recorded hours for payroll are authorized, complete and accurate?	Yes 2.2.2	◯ Yes ◯ No	
16	Does the organization maintain a record of cumulative individual earnings and withholding amounts for each employee to prevent duplicate payments?	Yes 2.2.2	◯ Yes ◯ No	
17	Does the organization provide its employees with access to their payroll information for each pay period?	Yes 2.2.2	◯ Yes ◯ No	
18	Does the organization maintain a labor cost distribution report (or alterative reports) that details each employee's hours worked, salaries and wages, and other payroll expenses (e.g., benefits) broken down by accounts/funding sources/cost centers?	Yes 2.2.2	◯ Yes ◯ No	
19	Does the organization formally maintain and update payroll-related policies (as needed) in the following areas?	Best Practice 2.2.2.a	◯ Yes ◯ No	

	• Authorized rates or salary ranges by employee group, experience, etc. • Overtime policies and overtime rates to be paid • Eligibility for benefits and limits • Benefit costs to be paid by the employee • Employee salary advances			
20	Does each personnel/employee file include the following? • Cumulative earnings and withholdings amounts • Documentation concerning appointments, evaluations, promotions, terminations, position reclassifications, and salary/wage rates • A job description	Yes 2.2.4	◯ Yes ◯ No	
21	Are federal, state, and local payroll taxes properly withheld and paid, as evidenced by quarterly Form 941 withholding reports?	Yes 2.2.2	◯ Yes ◯ No	

F. Procurement and Contracting

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have written procurement policies and procedures that meet the following requirements? • Identifies competition thresholds. • Establishes the grounds for non-competitive purchases. • Establishes the level of documentation needed to justify procurements. • Ensures there are internal controls that provide for segregation of duties in the procurement process; identifies which employees, officers, or directors have authority to make purchases for the organization; and identifies the procedures for approving purchases. • Establishes procedures to ensure quality and cost control in purchasing. • Creates procedures to identify and prevent conflicts of interest in the purchasing process.	Yes 3.5.1	◯ Yes ◯ No	
2	Does the organization's procurement policy require varying requirements based on the type of procurement or related risk (e.g., competitive bidding required for transactions over a certain threshold, managerial approval only required up to a certain threshold related to office supplies)?	Best Practice 3.5.1	◯ Yes ◯ No	
3	Has prior approval from LSC been requested for purchases of real property using any amount of LSC funds, or using more than $25,000 of LSC funds for	Yes 3.5.2	◯ Yes ◯ No	

	contracts for services, purchases/leases of personal property, or capital improvements?			

G. Cash, Check, and Card Disbursements

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
POLICIES AND PROCEDURES- ALL DISBURSEMENTS				
1	Are there written cash disbursement policies and procedures that address the following, at minimum? • Are there controls to assure that payments are made only for allowable items with adequate supporting documentation and evidence of review? • Are there procedures in place for timely review and approval of transactions (including electronic transactions)? • Is there a system for filing all supporting documents (e.g., invoice, approval, check image) in such a manner so as to be readily located? • Is there a list of approved/board-designated check signers who are independent from the disbursement preparation process? • Is there a requirement prohibiting checks made payable to cash/bearer or blank? • Is there a process to confirm disbursements are made to approved payees (e.g., active vendors, current employees)? Also, see Section 3.5 Procurement and Contracting • Are there procedures in place to identify and prevent improper or duplicate payments	Yes 3.2.4	◯ Yes ◯ No	
2	Are all checks pre-numbered and used in consecutive order?	Yes 3.2.4	◯ Yes ◯ No	
3	Is there a record in numerical order of all checks used including voided checks?	Yes 3.2.4	◯ Yes ◯ No	
4	Are documented procedures in place to verify invoice details (vendor, quantities, and price of goods/services received) against good/services received?	Yes 3.2.4	◯ Yes ◯ No	
5	Are there clear procedures for preparing, voiding, safeguarding, or otherwise canceling source documentation to prevent duplicate payments?	Yes 3.2.4	◯ Yes ◯ No	
6	Is sufficient supporting documentation, including evidence of review, maintained for all disbursement transactions?	Yes 3.2.4	◯ Yes ◯ No	
PETTY CASH				
7	If the organization maintains a petty cash fund, does it have written petty cash policies and procedures as detailed in Section 3.2.5 of this Guide?	Yes 3.2.5	◯ Yes ◯ No	

8	Is the petty cash maintained in a general ledger account reserved for petty cash, which is periodically funded up to a fixed amount approved by the Board of Directors?	Yes 3.2.5	◯ Yes ◯ No	
9	Are all petty cash transactions recorded in the general ledger account?	Yes 3.2.5	◯ Yes ◯ No	
10	Are annual "surprise" counts of petty cash conducted and documented by someone not involved with petty cash and are these surprise counts reviewed and approved by an individual at the appropriate level of the organization in accordance with its policy?	Yes 3.2.5	◯ Yes ◯ No	
11	Does the policy identify the employees responsible for custody, disbursement, approval, and reconciliation of petty cash with proper segregation of duties?	Yes 3.2.5	◯ Yes ◯ No	
12	Are all petty cash funds reconciled monthly?	Yes 3.2.5	◯ Yes ◯ No	
13	Are allowable uses of petty cash described and disbursements documented by appropriate documentation?	Yes 3.2.5	◯ Yes ◯ No	
14	Is there an established procedure in the event there is an overage or shortage in the petty cash fund?	Yes 3.2.5	◯ Yes ◯ No	
CREDIT & DEBIT PURCHASE CARDS				
15	Does the organization use purchase cards for expenses?	Best Practice 3.2.4.c	◯ Yes ◯ No	
16	If the recipient makes use of credit or debit purchase cards, does the organization have a written policy regarding credit or debit purchase cards that contains the following? • Guidelines on personal use and disallowed charges • Transaction and account limits • Guidelines on properly documenting any deviations from policy (including approval) • Guidelines for cash advances or ATM withdrawals • Deadlines for providing supporting documentation for expenses (receipts, invoices, etc.) • Procedures for authorized users to review and acknowledge credit and purchase cards policies	Yes 3.2.4.c	◯ Yes ◯ No	
TRAVEL & EXPENSE REIMBURSEMENT				
17	Does the organization have written expense reimbursement policies and procedures?	Yes 3.2.4.a	◯ Yes ◯ No	
18	Does the expense reimbursement policy address the following? • Allowable/reimbursable expenses • Specific documentation requirements (e.g., detailed receipts, business purpose, formal reimbursement forms) • Deadline to submit reimbursement requests	Best Practice 3.2.4.a	◯ Yes ◯ No	

	• Preapproval requirements • Approval and review requirements (e.g., identify designated reviewers, evidence of review)			
19	Does the organization have written travel policies and procedures that address travel approval and reimbursement?	Yes 3.2.4.b	◯ Yes ◯ No	
20	Does the organization use the Federal Travel Regulation (FTR) as a guide when developing travel policies?	Best Practice 3.2.4.b	◯ Yes ◯ No	
21	Does the organization's policy identify the following? • Acceptable mileage rates • Spending limits • Definition of per diem allowances and types of expenses covered • Required supporting documentation	Yes 3.2.4.b	◯ Yes ◯ No	
22	If the organization allows employees to request and receive travel advances, does travel policy identify: • When the employee is permitted to request a travel advance • How much the employee is permitted to request • The process for such an advance to be approved	Yes 3.2.4.b.ii	◯ Yes ◯ No	
23	Has the organization established a reasonable threshold for the collection and retention of receipts for travel expenses and a timeframe for travel expense reports to be submitted for reimbursement?	Yes 3.2.4.b	◯ Yes ◯ No	
24	Does the organization have a detailed local travel policy?	Yes 3.2.4.b.i	◯ Yes ◯ No	
25	Does the detailed local travel policy include the following? • Definitions of allowable/reimbursable expenses. • Clear identification of the local travel area for each worksite. • The requirement that all local travel reimbursement requests be submitted in the name of the traveler. • The requirement that local travel reimbursements be approved by appropriate supervisors. • The requirement that local travel reimbursements be delivered only to the travelers only and no other staff. • The requirement for receipts for local travel. • The requirement to complete a separate and detailed local travel form that captures key information relating to local travel, including the business purpose and applicable case information. • The requirement to reconcile all work product and case management system entries with travel reimbursement requests.	Best Practice 3.2.4.b.i	◯ Yes ◯ No	

H. Property and Equipment

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have written policies and procedures related to property and equipment?	Yes 3.6	◯ Yes ◯ No	
2	Does the organization have procedures to account for and track all of their capitalized real and personal property?	Yes 3.6.1	◯ Yes ◯ No	
3	Does the organization's property and equipment policy include capitalization requirements (e.g., threshold by asset type)?	Yes 3.6.1	◯ Yes ◯ No	
4	Is capitalized property and equipment recorded in a property subsidiary ledger that reconciles to the general ledger and includes the following? • Description of the property • Date acquired • Check number (if applicable) • Original cost (if purchased) • Fair value (if donated) • Method of valuation (if donated) • Salvage value (if any) • Funding source(s) • Estimated life • Depreciation method • Identification number • Location	Yes 3.6.1	◯ Yes ◯ No	
5	Does the organization report in their financial statements the value of LSC-funded vs. non-LSC funded property and equipment, including accumulated depreciation?	Yes 3.6.1	◯ Yes ◯ No	
6	Is a physical inventory taken and documented at least once every two years and compared to fixed asset records?	Yes 3.6.2	◯ Yes ◯ No	
7	Are differences between the physical inspection and property subsidiary ledger investigated and reconciled?	Yes 3.6.2	◯ Yes ◯ No	
8	Does the organization inventory information technology equipment that contains sensitive information, regardless of the equipment's value (e.g., any computer or device with confidential client information), and dispose of it appropriately?	Yes 3.6.2	◯ Yes ◯ No	
9	Is there a record of property disposal that includes the date, method of disposal, and approval?	Yes 3.6.3	◯ Yes ◯ No	
10	Is LSC-funded property disposed of in accordance with 45 C.F.R. 1631?	Yes 3.6.3	◯ Yes ◯ No	

I. Record Retention

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have a record retention policy?	Yes 2.3	◯ Yes ◯ No	
2	Does the organization retain all financial records, supporting documents, statistical records, and all other records pertinent to the award for a minimum period of three years from the end of the grant term? • For equipment, the three-year period begins at the date of disposal. Before disposal, all records related to the equipment must be maintained on file.	Yes 2.3	◯ Yes ◯ No	
3	Does the organization retain specific documentation as detailed in the table per Section 2.3 of this Guide?	Yes 2.3	◯ Yes ◯ No	
4	Are systems in place for maintaining and accessing all financial records in any form, including paper or electronic formats with sufficient protections from accidental destruction and methods of recovery?	Yes 2.3.1	◯ Yes ◯ No	
5	Does the organization have written policies and procedures related to document integrity to comply with Section 2.3.1 of this Guide?	Yes 2.3.1	◯ Yes ◯ No	
6	Are records retained in an electronic format?	Best Practice 2.3.1	◯ Yes ◯ No	
7	Has the organization developed and implemented a policy to address the proper destruction of documents and data, prioritizing the protection of personally identifiable information (PII), client files, and other sensitive information?	Best Practice 2.3.2	◯ Yes ◯ No	
8	Does the organization implement certain safeguards (e.g., shred documents before disposal and proper media sanitization of electronic media devices before disposal or transfer) as part of its document destruction procedures?	Best Practice 2.3.2	◯ Yes ◯ No	

J. Cost Principles

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization have written cost allocation policies and procedures?	Yes 3.7	◯ Yes ◯ No	
2	Does the organization maintain a cost allocation policy that addresses the following? • Direct and indirect cost definitions • Direct cost allocation methodology(ies) • Indirect cost allocation methodology(ies) including allocation bases (e.g., total direct costs, direct	Yes 3.7.1	◯ Yes ◯ No	

	salaries and wages, attorney hours, numbers of cases, numbers of employees) • Frequency of allocation • Who conducts the allocation and who performs the review • Documentation requirements to support the allocation (e.g., labor distribution report, personnel activity reports, calculation work papers) • Reconciliation process related to salaries and wages directly charged to LSC grants and contracts (see Section 2.2.3) • Methodology to address "exception for certain indirect costs" (if applicable, see Section 3.7.1.a)			
3	Does the organization's cost allocation policy, procedures, and documentation allow for third party review?	Yes 3.7.1	◯ Yes ◯ No	
4	If the organization engages in related party transactions, does it have policies describing the methodology by which the transaction/cost was calculated and maintain supporting documentation?	Yes 3.7.4	◯ Yes ◯ No	
5	Are applicable credits applied as a cost reduction or cash refund to the same fund from which the related costs were charged?	Yes 3.7.5	◯ Yes ◯ No	

K. Subgrants

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Has prior approval been requested for using $20,000 or more of LSC funds for a subgrant?	Yes 3.8	◯ Yes ◯ No	
2	If applicable, does the organization have policies and procedures to comply with LSC subgrant regulations and guidelines?	Yes 3.8	◯ Yes ◯ No	
3	If applicable, does the organization conduct a risk assessment and determine the level of monitoring, oversight, and timing and frequency of onsite visits to the subrecipient to ensure the proper accountability and compliance with program and financial requirements and the terms and conditions of the subgrant	Yes 3.8	◯ Yes ◯ No	
4	If applicable, does the organization ensure that subrecipients have written policies and procedures consistent with applicable LSC requirements, including this Guide?	Yes 3.8	◯ Yes ◯ No	
5	If applicable, does the organization review the following of the subrecipient's on an annual basis? • Accounting manual and/or fiscal policies	Yes 3.8.1	◯ Yes ◯ No	

	• Fidelity Bond, Employee Dishonesty, or Crime Coverage • Audited Financial Statements (if the subrecipient is required to perform an annual audit)			
6	If applicable, are LSC subgrants included in the audited financial statements of the primary recipient or the subrecipient with appropriate cross-references, per the subgrant agreement?	Yes 2.7.1	◯ Yes ◯ No	

L. Other

	Control Description	Requirement & Reference	Yes/No	Notes/Initials
1	Does the organization notify non-LSC funding sources contributing $250 or more in accordance with 45 C.F.R Part § 1610.7?	Yes 3.1.2.a Appendix 6	◯ Yes ◯ No	
2	Does the organization have written policies and procedures describing how each of its derivative income sources will be allocated?	Yes 3.1.4	◯ Yes ◯ No	
3	Does the organization record LSC's proportional share of the derivative income as additional annualized LSC grant revenue?	Yes 3.1.4	◯ Yes ◯ No	
4	Does the organization disclose information regarding the nature of and carrying amounts for each investment or group of investments in the notes to the financial statements?	Yes 3.2.3	◯ Yes ◯ No	
5	If a fund balance waiver is required, did the organization submit a waiver request in accordance with 45 C.F.R. Part 1628?	Yes 3.3	◯ Yes ◯ No	
6	Does the organization maintain sufficient documentation to support all PAI expenditures?	Yes 3.4.1	◯ Yes ◯ No	
7	Does the organization have written policies and procedures specifying the calculation of the PAI expenditure amount for a fiscal year and assessment of whether the minimum expense requirement was met?	Yes 3.4.1	◯ Yes ◯ No	
8	If a PAI waiver is required, did the organization submit a waiver request in accordance with 45 C.F.R. 1614?	Yes 3.4.3	◯ Yes ◯ No	
9	Does the organization separately report support and expenses for each of its LSC awards, carryover balances, and PAI activity?	Yes 3.3.1, 3.4, Appendix 4	◯ Yes ◯ No	
10	Has the organization established a fraud response plan for handling suspected or discovered fraud, including steps to notify the LSC Inspector General in accordance with the requirements set out in the current Grant Terms and Conditions, or any current requirement, when a reportable event occurs?	Yes 3.9	◯ Yes ◯ No	

11	If applicable, has the organization contacted the LSC OIG to report suspicions of fraudulent behavior or the occurrence of fraud-related events?	Yes 3.9	◯ Yes ◯ No	