
LEGAL SERVICES CORPORATION**Proposed Revisions to Accounting Guide for LSC Recipients****AGENCY:** Legal Services Corporation.**ACTION:** Notice and Request for Comments.

SUMMARY: The Legal Services Corporation (“LSC”) intends to revise the Accounting Guide for LSC Recipients to reflect changes that have occurred since the last publication of the Accounting Guide in 1997 and is soliciting public comment on the proposed changes. The proposed revisions incorporate: (1) New internal control provisions for electronic banking transactions; (2) financial oversight concepts from the Sarbanes

Oxley Act of 2002; (3) references to the accounting standards codification by the Financial Standards Accounting Board (FASB) released on July 1, 2009; (4) key practices to enhance fraud prevention; (5) provisions in other LSC policies, including the LSC Property Acquisition and Management Manual and LSC Program Letters; (6) revisions to accounting procedures and internal controls to reflect current best practices; (7) updated and new references to other

sources of information; and (8) other changes to clarify existing provisions. The proposed revisions to the Accounting Guide for LSC Recipients (2010 edition), in redline format indicating the proposed changes to the current Accounting Guide (1997), can be located by accessing LSC's Web site at http://www.lsc.gov/pdfs/proposed_revisions_to_accounting_guide_for_lsc_recipients.pdf.

DATES: Please submit comments by March 19, 2010.

ADDRESSES: Interested persons are invited to submit written comments on the proposed revisions to the Accounting Guide for LSC Recipients (2010 edition) by mail, fax or e-mail to Chuck Greenfield, Program Counsel, Legal Services Corporation, 3333 K St., NW., Washington, DC 20007; 202-295-1549 (phone); 202-337-6813 (fax); or AccountingGuide@lsc.gov (e-mail).

FOR FURTHER INFORMATION CONTACT: Chuck Greenfield, Program Counsel, Legal Services Corporation, 3333 K St., NW., Washington, DC 20007; greenfieldc@lsc.gov (e-mail), (212) 295-1549 (phone) or (212) 337-6813 (fax).

SUPPLEMENTARY INFORMATION: Under the Legal Services Corporation Act, as amended, LSC "is authorized to require such reports as it deems necessary from any recipient, contractor or person or entity receiving assistance" 42 U.S.C. 2996g(a). LSC is also "authorized to prescribe the keeping of records with respect to funds provided by grant or contract and shall have access to such records" 42 U.S.C. 2996g(b). Further, LSC "shall conduct or require each recipient, contractor, person or entity receiving financial assistance * * * to provide for an annual financial audit." 42 U.S.C. 2996h(c)(1). In addition, "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" 42 U.S.C. 2996i(c).

Under authority of the Legal Services Corporation Act, LSC published the Accounting Guide for LSC Recipients. The Guide sets forth LSC's accounting, financial management and reporting guidelines. In general, LSC requires recipients and subrecipients of its funding to: (1) manage LSC and non-LSC funds in a stewardship manner and pursuant to the cost standards and procedures of 45 CFR 1630; and (2) record transactions in accounting records and prepare annual financial statements in accordance with generally accepted accounting principles (GAAP). The current version of the Accounting Guide was last updated in 1997.

In an effort to update the Accounting Guide to reflect more current accounting and financial oversight practices, as well as to respond to grantee financial issues mentioned in a Government Accountability Office (GAO) report, and as a result of the recommendations of the LSC Fiscal Advisory Group, LSC developed a number of proposed revisions to the Guide. The revisions are in the following eight categories:

(1) *New internal control provisions for electronic banking transactions.* The current Accounting Guide does not discuss in detail electronic banking. Electronic banking arrangements and transactions are now common. Many recipients of LSC funding conduct a significant portion of their financial transactions electronically. LSC itself transmits funds electronically to all recipients. The proposed revisions add a new section on electronic banking to the Fundamental Criteria and include sections on the authorization process for electronic banking activities, the authorization process for employees that initiate and transmit electronic fund transactions, review and approval procedures for electronic banking transactions, supporting documentation for electronic banking transactions, recording electronic banking transactions in the general ledger, bank reconciliations and safeguards. Section 3-5.15. New sections on electronic transactions have also been added to the Accounting Procedures and Internal Control Checklist in Appendix VII. Sections G2, G3, and M of Appendix VII.

(2) *Financial oversight concepts from the Sarbanes Oxley Act of 2002.* While only limited provisions of the Sarbanes Oxley Act of 2002 are required of non profit corporations, LSC has determined that certain financial oversight concepts found in Sarbanes Oxley are appropriate for recipients of LSC funds. An example is the current Accounting Guide requirement that recipients of LSC funds have a financial oversight committee of their board of directors, but not a separate audit committee. The proposed revisions require that recipients must have a financial oversight committee that engages in all the activities of an audit committee, including: hiring the auditor; setting the auditor's compensation; overseeing the auditor's activities; setting rules and processes for complaints about accounting practices and internal control practices; reviewing the annual IRS Form 990 for completeness, accuracy, and on-time filing; providing assurances of compliance to the full board; risk assessment; governance; and ethics reviews. Section 1-7. In addition,

the proposed revisions consider it a best practice for the board of directors to have an audit committee separate from the finance committee and for the board to have at least one member who is a financial expert or for the board to have access to a financial expert. Section 1-7. It should be noted the LSC Board of Directors at its January 30, 2010 meeting will consider the possibility of engaging in rulemaking to require recipients to have separate audit committees on their board of directors. Should there be a regulatory change requiring recipients to have a separate audit committee, there would be a subsequent change to section 1-7 (Responsibilities of the Financial Oversight Committee or Committees) of the Accounting Guide (2010 edition.)

(3) *References to the accounting standards codification by the Financial Standards Accounting Board (FASB).* FASB released a new codification of its accounting standards on July 1, 2009. The standards, an authoritative listing of generally accepted accounting principles (GAAP), are referred to in numerous sections of the Accounting Guide. All references to the accounting standards in the Accounting Guide have been updated and new references have been inserted to reflect new section numbers in the FASB accounting standards codification.

(4) *Key practices to enhance fraud prevention.* While the current Accounting Guide lists the elements of an adequate accounting and financial reporting system, including the use of specific internal controls and risk assessment, there is no separate section on fraud prevention. The proposed revisions add a fraud prevention section that details key practices to help prevent fraud. Section 3-6.

(5) *Provisions in other LSC policies, including the LSC Property Acquisition and Management Manual and LSC Program Letters.* Subsequent to the publication of the Accounting Guide in 1997, LSC issued other guidelines for recipients of LSC funds that impact on the Accounting Guide. For example, the LSC Property Acquisition and Management Manual (PAMM), issued in 2001, requires recipients to capitalize and depreciate all nonexpendable property with a cost in excess of \$5,000 and a useful life of more than one year. However, the current Accounting Guide uses \$1,000 as the capitalization and depreciation threshold. The proposed revisions to the Accounting Guide change the threshold to \$5,000 to be consistent with the PAAM. Appendix IV, Section 1. In addition, LSC has issued Program Letters 08-2 (March 20, 2008), 08-3 (December 18, 2008) and

09–3 (December 17, 2009) that contain guidance to recipients on compliance and fiscal management issues. Those Program Letters have been referenced in the proposed revisions to the Accounting Guide. Section 2–3.1. Also, the LSC Board of Directors at its January 30, 2010 meeting will consider the possibility of engaging in rulemaking to modify or eliminate 45 CFR Part 1642 (attorneys' fees) to reflect changes contained in the Consolidated Appropriations Act of 2010, P.L. 111–117. Should there be a regulatory change to 45 CFR Part 1642 there would be a subsequent change to section 2–2.6 (Court-Awarded Attorney Fees) of the Accounting Guide (2010 edition.)

(6) *Revisions to accounting procedures and internal controls to reflect current best practices.* Appendix VII of the current Accounting Guide (1997) contains a checklist of accounting procedures and internal controls. The proposed revisions update the checklist to reflect current best practices.

(7) *Updated and new references to other sources of information.* The Accounting Guide (1997) contains numerous references to other sources of information. The proposed revisions update and make new references where appropriate.

(8) *Other changes to clarify existing provisions.* The proposed revisions clarify existing sections to make the provisions easier to understand.

LSC invites public comment on the proposed revisions to the Accounting Guide. Interested parties may submit comments to LSC by March 19, 2010. The proposed revisions to the Accounting Guide for LSC Recipients (2010 edition), in redline format indicating the proposed changes to the current Accounting Guide (1997), can be located by accessing LSC's Web site at http://www.lsc.gov/pdfs/proposed_revisions_to_accounting_guide_for_lsc_recipients.pdf.

Dated: January 27, 2010.

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