



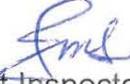
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To: ALL EXECUTIVE DIRECTORS
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

From: John M. Seeba 
Acting Assistant Inspector General for Audit

Subject: Summary Results of Quality Control Reviews (QCR)
for FY 2012 Financial Statement Audits

Date: March 20, 2014

The information presented below is a summary of the results of our QCRs of FY2012 Financial Statement audits conducted by Independent Public Accountants (IPAs). This is the third year of a four-year program designed to conduct a QCR of all IPAs performing audits of LSC grantees. IPAs and Executive Directors are encouraged to use the summary information in planning and conducting audits.

The primary purpose of a QCR is to determine whether the financial statement audit work, compliance audit work, and the associated review of internal controls over both financial reporting and compliance are conducted in accordance with applicable standards and the OIG guidance. The standards and guidance include Government Auditing Standards, American Institute of Certified Public Accountants standards, Office of Management and Budget (OMB) Circular A-133, and the OIG's Audit Guide for Recipients and Auditors, which includes the OIG's Compliance Supplement.

During this cycle, a total of 35 QCRs were conducted and are classified below.

- 4 met standards with no exceptions.
- 31 met standards with one or more exceptions.

Common exceptions identified in the OCR reports included:

- Interviews with staff personnel, executive director and intake personnel were not complete or adequately documented. A number of documented interviews did not meet LSC OIG guidelines. In addition, the interviews with the individual responsible for

maintaining and tracking the timekeeping system and Executive Director for Part 1635-Timekeeping were not conducted.

- The review of the organization's policy to ensure that they were consistent with LSC requirements was not always documented as performed.
- Recordkeeping requirements for the various LSC requirements were not always reviewed. Although not applicable in many instances, no positive assurance was noted in the working papers that the requirement was evaluated.
- Case file testing did not provide assurance that attributes were complete and specific to ensure cases tested complied with all LSC guidelines, restrictions, and eligibility requirements including those of the grantee organization
- The attributes defined for the cash disbursement test were not adequate to ensure that the auditor adequately reviewed the disbursements for LSC compliance.

Deficiencies identified in the QCR reports that indicated the auditor's reports were not properly reflective of OMB Circular A-133 efforts included:

- Instances in which the disclosures of findings or the existence of a management letter were not consistently noted in the auditor's report.
- Instances wherein major programs, other than LSC, were not properly selected or not adequately reviewed in accordance with OMB Circular A-133.
- An instance in which the auditor's report did not include appropriate footnote disclosures for the Schedule of Expenditure of Federal Awards.

Other issues identified in the QCR reports included:

- The form of the auditor's financial opinion did not meet current standards.
- The audit report was not submitted timely to LSC.
- The auditor had not obtained a peer review.

Recommendations for IPAs

- It was noted that those IPAs who provided specific sign-off and reference from the Compliance Supplement to the audit workpaper generally achieved the objectives of the supplement. IPAs should take care in documenting assurance that each direct and material compliance supplement element is addressed.
- Those IPAs who understood the nature of the requirements and the LSC program achieved a better degree in documenting compliance with those requirements. Such understanding was achieved in the planning process and through review of the grant agreement and other requirements and in discussion with the recipient personnel. IPAs

should ensure that planning is thorough and consider training of the compliance requirements both in-house and through LSC.

- The case file testing, staff interviews (including staff, executive director, intake staff, and timekeeping personnel), reporting and recordkeeping efforts, private attorney involvement and special grant award requirements provided consistent and complete coverage when the design of those workpapers was properly established. It also provided for a more efficient effort and also allowed for proper evaluation and reporting of evidential matter received from those efforts. IPAs should enhance the design of the case file test, staff interviews, reporting and recordkeeping, private attorney involvement and special grant award requirement workpapers.
- The cost allocation efforts were effectively completed when the IPA obtained the recipient's cost allocation plan, evaluated that plan to ensure full and complete allocation and then tested that allocation plan. This area was cited as a concern on 37% of the audits reviewed. IPAs should obtain, review and test the recipient's cost allocation plan.
- The review for client eligibility was cited as a concern on 29% of the reviews. The concern was diverse in that the inadequacy resulted from various factors including a lack of complete review of the grantee's policy, a review of over-income (over 125% of poverty level) clients, analysis of the intake process and the review for the maintenance of adequate support for client eligibility. IPAs should gain an understanding of the processes used by the grantee to evaluate client eligibility and ensure that the grantee follows that process.
- The review for property management requirements was also lacking on 14% of the audits reviewed. In those instances, it is apparent that the IPAs were directed toward satisfying the adequacy of the financial audit. The property management concerns included various elements including procurement and identification of LSC property on-hand. IPAs should ensure that LSC property on-hand and purchases of that property be reviewed to protect LSC's interests in such property.
- The majority of the audits reviewed had the LSC grant as the only major program. In cases where LSC is not the only program, IPAs should ensure that adequate coverage be provided in developing and documenting the audit coverage on the other major programs.
- The QCRs noted five occurrences when findings were inconsistently disclosed by the auditor in the auditor's report. The issues involved the lack of disclosure and/or submission of the management letter. IPAs should ensure that all audit issues are properly disclosed within the auditor's report.

If you have any questions regarding this Advisory please contact the Audit Help Line at 202-295-1671 or send an email to audits@oig.lsc.gov.