

Revisions to November 1996 LSC Audit Guide for Recipients and Auditors (Audit Bulletin 97-01)

Updated: 24 November 1997

INTRODUCTION: Consistent with Section I-7 of the 1996 LSC Audit Guide, the Office of Inspector General (OIG) periodically revises the Audit Guide to reflect changes to public law, corporate regulations, changes in auditing standards or other guidelines. This bulletin recognizes changes that have taken place in the requirements of the revised OMB Circular A-133, auditing standards, corporate regulations and guidance, and 5-day special reports. It also serves as a reminder of existing audit requirements that may have been overlooked by recipients and auditors. The revisions reflected herein provide implementing guidance to recipients and auditors.

AUTHORITIES: The Legal Services Corporation Act of 1974, as amended, § 1008(a) and (b), (42 USC 2996g(a) and (b)); § 1009(c)(1), (42 USC 2996h(c)(1)); and § 1010(c), (42 USC 2996i(c)); The Inspector General Act of 1978, as amended, 5 USC App. 3, § 4(a)(1); and § 4(b)(1); 110 Stat. 1321 §§ 501-509 (1996).

EFFECTIVE DATE: This bulletin is effective for audits of LSC programs for periods ending after July 31, 1997, except as otherwise authorized by the LSC OIG.

REVISED OMB CIRCULAR A-133: The Office of Management and Budget (OMB) revised the requirements for single audits of not-for-profit organizations, as well as state and local governments, which became effective for fiscal years beginning after June 30, 1996. In summary, the revisions, which are codified in the OMB Circular A-133 (revised June 24, 1997), are as follows:

- increased thresholds for single audits (from \$25,000 to \$300,000);
- modified the auditor's approach to determining major programs to be tested;
- revised audit reporting requirements in terms of form and content of the audit reports and supplementary information;
- specified grantee management responsibility for ensuring compliance and timely follow-up and corrective action on audit findings;
- required certifications from grantee management and the auditor on the results of the audit;
- established a new due date for the audit submission (from 13 months to 9 months);
- required the submission of a data collection form; and
- established new criteria for determining audit cognizant and oversight agency assignments.

AUDIT THRESHOLDS: Revised OMB Circular A-133 increased the threshold for a Single Audit from \$25,000 to \$300,000 of federal awards expended. LSC's 1996 and 1997 appropriation law takes precedence over the revised OMB Circular A-133 audit requirements. Accordingly, the increased audit threshold specified in revised OMB Circular A-133 does not

apply to recipients of LSC funds. There is no change in audit requirements for recipients of LSC funds. The applicability of the requirements of the 1996 LSC Audit Guide specified in paragraph I-3 remains unchanged.

DETERMINATION OF MAJOR PROGRAMS: The revised OMB Circular A-133 provides for a risk-based approach for determining major programs. For purposes of this revision, the LSC program is considered a Type A program. Auditors should be aware it is highly unlikely that the LSC recipient would be considered a "low-risk auditee" based on the criteria defined in Sections 525(b)(c) and (d) of OMB Circular A-133. Compared to prior years, the LSC program has significantly higher risk as a result of prohibitions and restrictions imposed by the 1996 appropriation law. A majority of the new restrictions have only been in effect for one year and have not been time-tested. In 1996, there were new and interim regulations which were subsequently finalized during 1997.

AUDIT REPORTS: The revisions to OMB Circular A-133 have simplified the number, form and content of the auditor's reports. Under the combined format the reports that are now required at a minimum are:

- Report on the Financial Statements and the Supplementary Schedule of Expenditures of Federal Awards (may be issued separately);
- Report on Compliance and on the Internal Control over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards;
- Report on the Compliance With Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133; and
- Summary of Findings and Questioned Costs (with findings referenced appropriately by number to allow for easy identification of the audit findings during audit follow-up).

Auditors should contact the American Institute of Certified Public Accountants (AICPA) for guidance on the form and content of the reports. Sample reports can be found on the [AICPA web site: Illustrative Auditor's Reports Under Circular A-133 – Updated for SAS No. 117](#). Further guidance can be found in [Government Auditing Standards and Circular A-133 Audits - AICPA Audit Guide](#).

CORRECTIVE ACTION PLANS AND AUDIT FOLLOW UP: Corrective Action Plans are still required pursuant to § I-9.D of the 1996 Audit Guide. For recipients who elect to incorporate the corrective action plan as part of the management response rather than a separate submission, please ensure that the text of the auditor's report is captioned appropriately "Corrective Action Plan". Requirements for audit follow up remain as specified in § II-4.

CERTIFICATIONS: Currently, auditors or recipients or subrecipients of LSC funds would not be required to submit the certifications required by the revised OMB Circular A-133.

DUE DATES: The due date for audit reports remain at 120 days of the recipient's fiscal year end as specified in §§ I-9.B and III-1.

DATA COLLECTION FORM (DCF): Pursuant to the requirements of OMB Circular A-133, the form is required to be submitted to the Federal clearinghouse designated by OMB. This form is designed to summarize the results of the audit and provide the federal government with a data base of information. Guidance on the preparation and submission of this form will be disseminated by the OIG in the near future. Until such time, auditors are to continue using the Summary Report Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions (SRF) required under § III-1 and more fully described in Appendix D.

As a reminder to auditors, these forms must be submitted electronically. Audit submissions are considered unacceptable unless these forms are submitted by the auditors. If the auditors experience difficulty in submitting these forms, please call the OIG Audit Helpline at 1 202 295 1671, or send an E-mail (audits@oig.lsc.gov) or fax (1 202 337 6616) to our office.

AUDIT COGNIZANT AND OVERSIGHT AGENCIES: The LSC OIG is the audit oversight agency for recipients and subrecipients of LSC funds.

AUDITING STANDARDS: The reporting requirements of § II-1.G., Disclosure of Irregularities, Illegal Acts and Other Noncompliance, remain the same. However, the reference to Statement on Auditing Standards (SAS) Number 53, "The Auditor's Responsibility to Detect and Report Errors and Irregularities" is changed to SAS Number 82, "Consideration of Fraud in a Financial Statement Audit" because SAS Number 53 has been superseded by SAS Number 82.

CORPORATE REGULATIONS AND GUIDANCE:

COMPLIANCE TESTING: The 1997 LSC appropriation law continued the previous restrictions and prohibitions, recognized special circumstances involving domestic violence cases, and added a restriction consistent with the Assisted Suicide Funding Restriction Act of 1997.

The 1996 Audit Guide included a Compliance Supplement (Appendix A) that applies to LSC programs. The Compliance Supplement is currently being revised to reflect the changes to laws and regulations.

5-DAY SPECIAL REPORTS: The 1996 Audit Guide included requirements for special reports to the OIG on instances of noncompliance (§§ I-9.C and II-1.H). The Compliance Supplement is currently being revised and revisions will include redefining the criteria for submission of the 5-day Special Reports on instances of noncompliance with laws and regulations. For the purposes of special reporting requirements, the recipient's "5-day Special Report" to the OIG on Noncompliance with Laws and Regulations will be limited to any instances of noncompliance with respect to the practice restrictions identified in the revised Compliance Supplement. Procedural or administrative items will not be required to be reported on the "5-day Special Report".

LSC ACCOUNTING GUIDE: All references to the 1981 and 1986 Audit and Accounting Guide for Recipients and Auditors with respect to accounting requirements have been superseded by the LSC Accounting Guide for Recipients issued August 1997. All questions regarding the accounting and financial reporting requirements of LSC are to be directed to LSC management at

1 202 295 1522 or E-mail (info@lsc.gov).

REMINDERS OF EXISTING REQUIREMENTS AND GUIDANCE:

NOTICE OF CESSATION OF AUDIT SERVICES: As a reminder and pursuant to § II-1.I of the 1996 Audit Guide, the auditor is required to notify the OIG, when the firm ceases to provide audit services to the recipient. The notification is required within 5 business days of the auditor's termination or cessation of services to the recipient. A notification form is included at Appendix G of the 1996 Audit Guide.

OIG WEB SITE: We have updated our Web site for valuable information on current audit requirements, answers to frequently asked questions, links to OMB Circular A-133, pro forma audit reports under AICPA consideration, etc. Recipients are urged to retrieve this on-line information. The address is <http://www.oig.lsc.gov/>