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To: ALL EXECUTIVE DIRECTORS
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

From: Roxanne Caruso *Roxanne Caruso*
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Subject: Results of Quality Control Reviews (QCRs) of Fiscal Year 2016
(FY2016) Financial Statement Audits Performed by Independent
Public Accountants (IPAs)

Date: July 9, 2018

Since 1996, LSC's annual appropriations acts have required that each person or entity receiving financial assistance from the Corporation be subject to an annual audit, to be conducted by an IPA. Each grantee contracts directly with an IPA to conduct the required audit in accordance with Government Auditing Standards (GAGAS), American Institute of Certified Public Accountants (AICPA) standards, Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and the OIG's Audit Guide for Recipients and Auditors, which includes Appendix A: Compliance Supplement for Audits of LSC Recipients (Compliance Supplement).

The OIG provides guidance to the IPAs and grantees, as well as general oversight of the IPA process. Our oversight activities include QCRs, independent reviews of financial statement audits conducted on-site at IPAs' offices by a CPA firm, McBride, Lock and Associates, contracted by the OIG to perform the reviews. 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 OIG guidance.

The information presented below is a summary of the results of QCRs of FY2016 financial statement audits conducted by IPAs. We encourage IPAs and Executive Directors to use the summary information in planning and conducting audits.

During this cycle, we conducted a total of 35 QCRs. Following are the overall results:

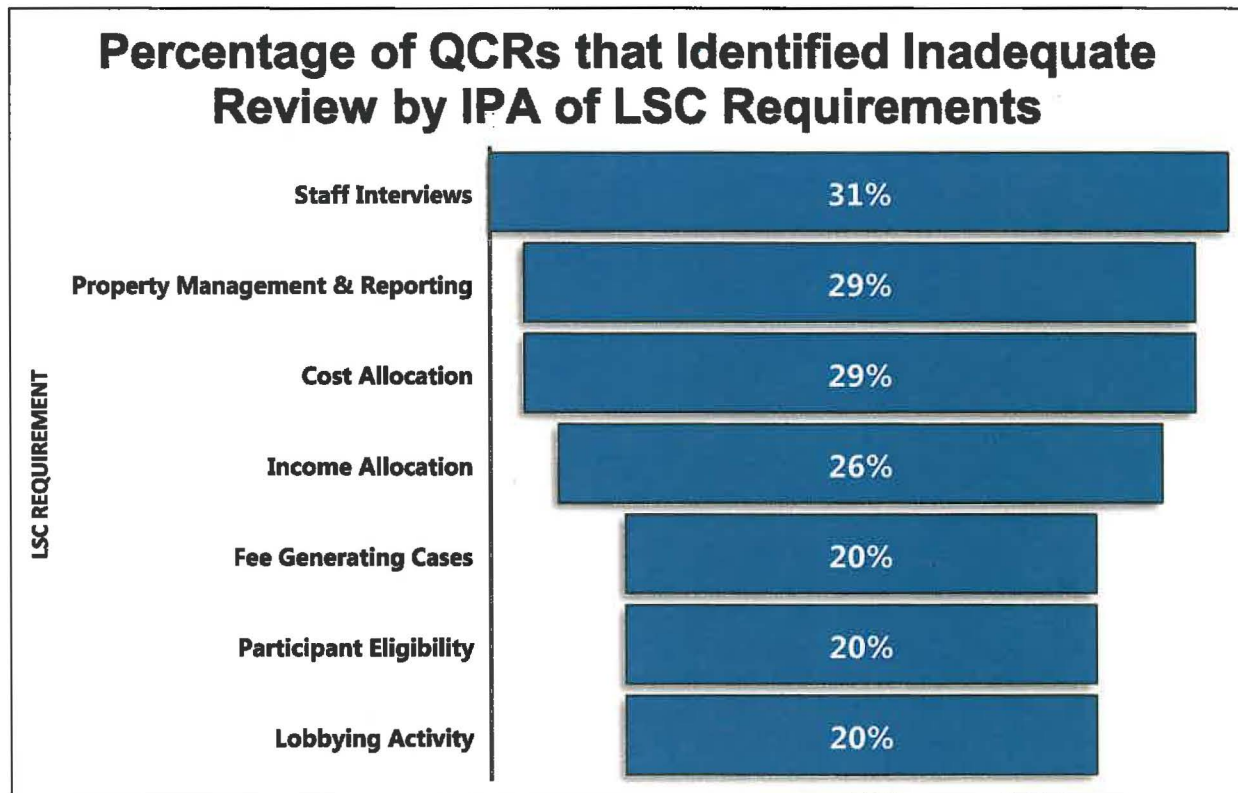
- 11 met standards with no exceptions;
- 1 did not meet standards; and
- 23 met standards with one or more exceptions

QCR Findings

Some IPAs Did Not Adequately Review and/or Document Evaluation of Compliance with LSC Requirements

The most common issues noted in the QCRs related to IPAs inadequately applying the suggested audit procedures contained in the Compliance Supplement to evaluate grantees' compliance with LSC requirements as well as inadequate documentation of the review.

The following table summarizes the most common findings by LSC requirement. The table illustrates, as a percentage of the total number of QCRs performed, the LSC requirements for which QCRs noted issues concerning the adequacy of the IPAs' reviews as well as issues regarding the documentation of the evaluation of compliance with the requirements.



Some IPAs' Work Did Not Adequately Demonstrate Compliance with Uniform Guidance

- In one instance the IPA audit report did not cite Uniform Guidance.
- In one instance the internal control review over the organization's significant accounting areas and processes was not adequately documented.
- In one instance the Schedule of Expenditure of Federal Awards did not report the correct LSC expenditures.
- In one instance the sampling plan was not adequately documented.

Recommendations for IPAs

General Recommendations

We recommend that IPAs:

1. Ensure that 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 OIG guidance.
2. **Completely** perform the suggested audit procedures contained in the Compliance Supplement and document assurance that each direct and material compliance supplement element is addressed.
3. Gain a thorough understanding of the LSC program and the nature of LSC requirements during the planning phase of the audit to adequately evaluate compliance with the requirements and document the results.

Recommendations to Address Most Common Findings

We recommend that IPAs:

4. Evaluate all case file tests, interviews (including staff, executive director, intake staff, and timekeeping personnel), reviews of reporting and recordkeeping efforts, and private attorney involvement to ensure compliance with LSC requirements. IPAs should also thoroughly document this evaluation.
5. Review recipients' compliance with LSC property management requirements including, but not limited to, acquisition of property with LSC funds and inspection of property purchased with LSC funds. IPAs should also ensure disclosure of property purchased with LSC funds on the audit report.
6. Obtain, review, and test recipients' processes for allocating costs and income and thoroughly document the results.

7. Review the results of attorney's fees testwork and related Compliance Supplement sign-offs and ensure the results are consistent with disclosures made in the audit report.
8. Strengthen testing of recipients' compliance with both financial eligibility and lobbying and rulemaking requirements. Testing should ensure the evaluation of the recipients' conformity with all Compliance Supplement requirements pertaining to these sections. The IPAs should adequately document this evaluation.

If you have any questions regarding this Advisory, please contact me by phone at 202-295-1582 or by email rcaruso@oig.lsc.gov. Thank you for your attention to these matters.