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ADVISORY

To: ALL EXECUTIVE DIRECTORS
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

From: Roxanne Caruso
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Subject: Results of Quality Control Reviews (QCRs) of Fiscal Year 2017
(FY 2017) Financial Statement Audits Performed by Independent
Public Accountants (IPAs)

Date: September 18, 2019

Since 1996, the Legal Services Corporation's (LSC) annual appropriations acts have required that each person or entity receiving financial assistance from the Corporation be subject to an annual audit, conducted by an IPA. Each grantee contracts directly with an IPA to conduct the required audit in accordance with Generally Accepted 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 Office of Inspector General's (OIG) 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 Quality Control Reviews (QCRs), which are independent reviews of financial statement audits conducted on-site at IPAs' offices by McBride, Lock and Associates, a Certified Public Accounting firm contracted by the OIG. 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 FY 2017 financial statement audits conducted by IPAs. We encourage IPAs and Executive Directors to use the summary information in planning and conducting audits of LSC grantees.

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

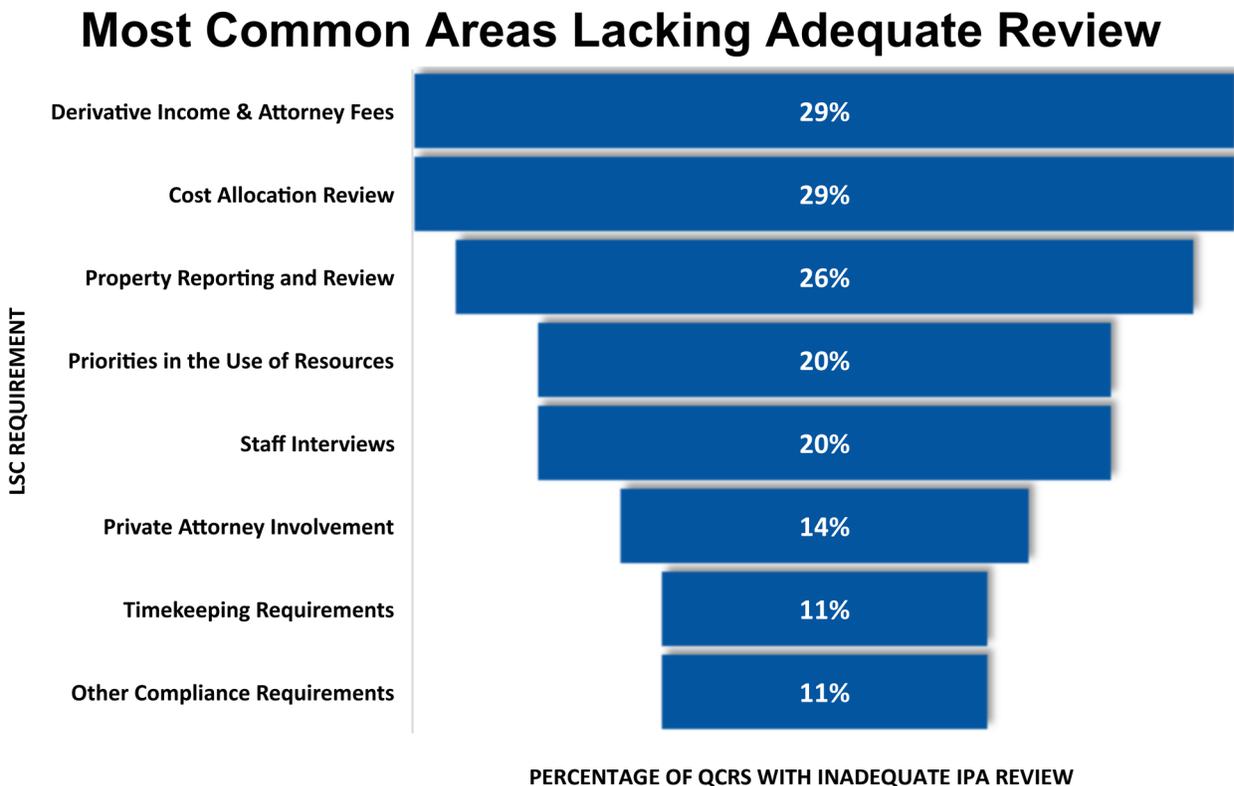
- Eleven met standards with no exceptions;
- Twenty-four met standards with one or more exceptions

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 chart illustrates, as a percentage of the total number of QCRs performed, the most common findings for which QCRs noted issues concerning the adequacy of the IPAs’ reviews as well as documentation of their evaluation of compliance with the requirement.



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

- In three instances, the IPA classified the recipient as low-risk. The LSC Compliance Supplement notes that it is highly unlikely an LSC recipient would be considered a “low-risk auditee.”
- In one instance, the IPA did not include LSC funds when determining major Federal programs. The OIG considers LSC grants as high-risk; therefore, LSC should always be included in an IPA’s major program determination.
- In one instance, the Schedule of Findings and Questioned Costs was not consistent with either the Independent Auditor’s Report on Compliance for Each Major Program or the Report on Internal Control Over Compliance in the reporting of instances of noncompliance.

Some IPAs' Work Needs Improvement to Ensure Compliance with GAGAS and AICPA Standards

- In two instances, the audit evidence supporting the amount reported as donated legal services or in-kind support was not adequate.
- In two instances, IPAs did not adequately perform audit planning. Specifically, IPAs did not properly consider either organizational changes or outside reviews of the recipient.
- In one instance, the Independent Auditor’s Reports submitted to LSC did not appear to be final as it did not include the firm’s letterhead and signature.
- In one instance, the IPA did not demonstrate evidence of supervisory review of certain work performed on the audit.
- In one instance, there was not adequate documentation of the IPA’s review of the cash receipting process.

Recommendations for IPAs

General Recommendations

We recommend that IPAs:

1. Ensure that financial statement and compliance audit work, as well as the associated review of internal controls, are conducted in accordance with applicable standards and OIG guidance.
2. **Completely** perform the suggested audit procedures contained in the Compliance Supplement and document their assurance that they have addressed each direct and material compliance supplement element.

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:

1. Review the results of attorney's fees audit work and ensure the results are consistent with disclosures made in the audit report. There were multiple instances where an IPA indicated in the workpapers that the recipient had not accepted any fee generating cases. However, the audit reported the acceptance of such fees.
2. Obtain, review, and test recipients' processes for allocating costs and income and thoroughly document the results.
3. 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 property purchased with LSC funds is disclosed in the audit report.
4. Strengthen testing of recipients' compliance with Part 1620 – Priorities in the Use of Resources. Testing should include an analysis of non-priority or emergency cases as well as “matters” to ensure these items are properly considered in the audit. The IPAs should adequately document this evaluation.
5. Evaluate the design of case file tests and interviews (including staff, executive director, intake staff, and timekeeping personnel), as well as the review of reporting and recordkeeping efforts, to ensure compliance with LSC requirements.
6. Review all external reports and changing conditions related to the recipient during the planning phase of the audit. The IPAs should document their consideration of these items and their determination of whether they warrant additional testing or other audit efforts.

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.