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ADVISORY

TO: All Executive Directors
Grantee Independent Public Accountants

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SUBJECT: Quality Control Reviews

DATE: March 19, 2012

As you may know, the Legal Services Corporation (LSC) Office of Inspector General (OIG) has contracted with an Independent Public Accountant (IPA) to conduct Quality Control Reviews (QCRs) of the financial statement audits of LSC grantees. QCRs are designed 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, including Generally Accepted Government Auditing Standards (GAGAS), published guidance of the OIG, as well as the American Institute of Certified Public Accountants (AICPA) professional standards.

So far the OIG's contractor has completed 36 such QCRs. The OIG is sharing a summary of the QCR results (below) to make IPAs and Executive Directors aware of the types of deficiencies identified. The IPAs should use this information in planning and conducting audits, and incorporate these areas in the internal quality reviews of the audits. By doing this, similar types of deficiencies can potentially be prevented from occurring in the annual audits of LSC grantees.

The QCRs identified findings related to: (i) compliance with LSC requirements (ii) completeness and accuracy of financial information, and (iii) adherence to OMB Circular A-133 requirements. A summary of the issues follows.

LSC Requirements Review

Most of the issues identified in the QCRs resulted from either inadequate documentation of the efforts performed[1] or inattention to the detail in the LSC Compliance Supplement. The most common findings included:

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[1] AU section 339, *Audit Documentation (*AICPA *Professional Standards),* states that an auditor must prepare audit documentation that enables an experienced auditor, having no previous connection to the audit, to understand the nature, timing, extent, results, and conclusions of auditing procedures performed, and that the accounting records agree or can be reconciled with the audited financial statements or other audited financial information.

- No evaluation of compliance with any special terms and conditions included in the grant award.
- No assurance that case file testing attributes were complete and specific to ensure that cases tested complied with all LSC guidelines and restrictions including those of the grantee organization.
- The universe from which the sample was selected did not include all cases open and closed as listed in the LSC Compliance Supplement.
- The cash disbursement test attributes were not complete to ensure that tested disbursements complied with all LSC accounting guidelines and compliance restrictions.
- The review of the organizations' policies to ensure that they were consistent with LSC requirements was not documented.
- Interviews with staff personnel, the executive director, and intake personnel were not complete or adequately documented. In addition, assurance of communication of policies to staff was not evidenced.
- The review of reports required to be submitted to LSC was not always accomplished.
- Recordkeeping requirements for the various LSC requirements were not always reviewed for compliance. Although not applicable in many instances, no positive assurance was noted in the working papers that the requirements were evaluated.

Financial Review

The issues identified by the QCRs relating to the financial review were limited. Moreover, the audit work related to the internal control and fraud analysis was almost universally adequate. The principal issues were related to:

- Allocation of expenses to LSC and related grants
- Inadequacies related to the cash disbursement test
- Inadequate analytics and use of those analytics on the financial statement data.

A-133 Issues

The QCRs identified that certain requirements included in OMB Circular A-133 were not always followed. Examples of issues discussed in the QCRs include:

- Improper completion or untimely submission of the Data Collection Form
- Improper selection and review of other major programs
- Misstatements regarding expenditures or identification of programs on the Schedule of Expenditures of Federal Awards.

Should you have any questions on this Advisory please contact the Audit Help Line at 202-295-1671 or email at audits@oig.lsc.gov.