



Office of Inspector General
Legal Services Corporation

3333 K Street, NW, 3rd Floor
Washington, DC 20007-3558
202.295.1660 (p) 202.337.6616 (f)
www.oig.lsc.gov

ADVISORY

To: All Executive Directors
Grantee Independent Public Accountants

From: Roxanne Caruso *Roxanne Caruso*
Assistant Inspector General for Audit

Subject: Results of Quality Control Reviews of Fiscal Year 2020
and Fiscal Year 2021 Financial Statement Audits Performed by
Independent Public Accountants

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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 Independent Public Accountant (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 Requirements, 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 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 either on-site at IPAs' offices or virtually by McBride, Lock and Associates, LLC, 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 Fiscal Year 2020 and Fiscal Year 2021 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:

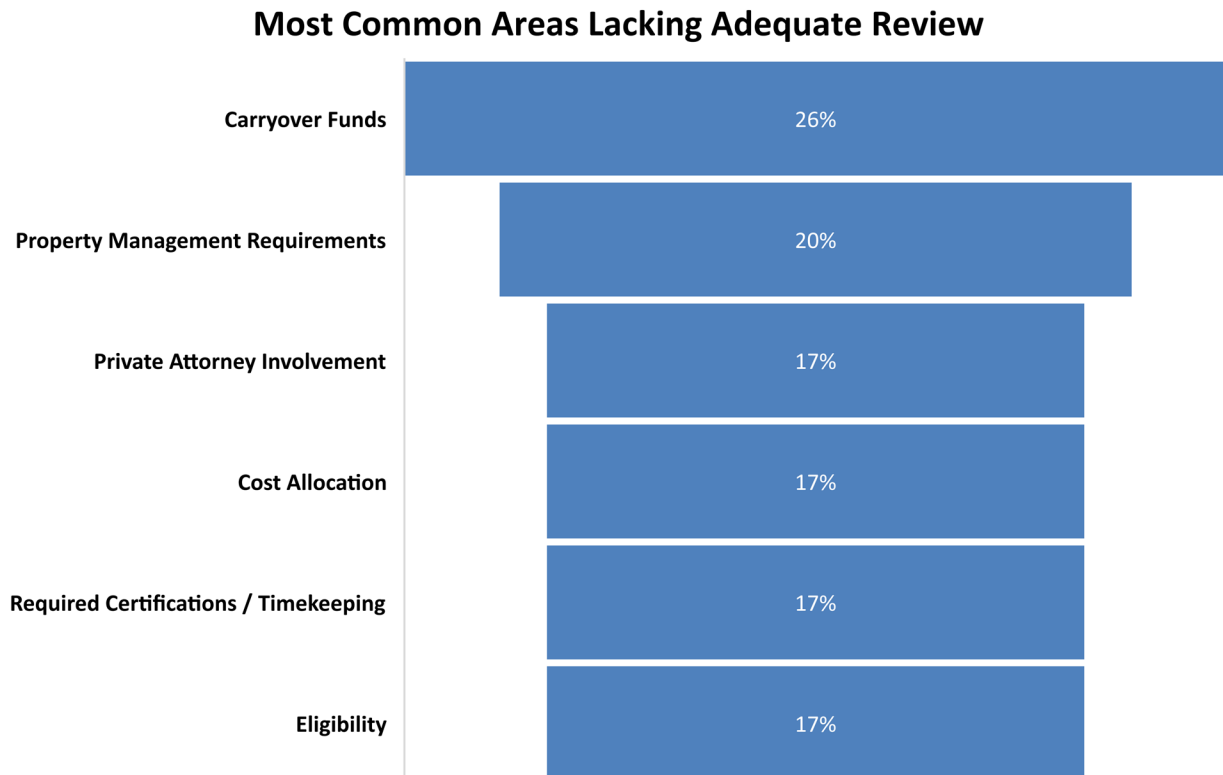
- Seventeen met standards with no exceptions.
- Fifteen met standards with one or more exceptions.
- Three did not meet standards.

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 IPAs' review.

The following chart illustrates the most common findings for which QCRs noted issues concerning the adequacy of the IPAs' review 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 major program efforts were not complete, or the major program was not properly identified.

One IPAs' Work Did Not Adequately Demonstrate Compliance with Generally Accepted Auditing Standards

- In one instance the audit workpapers did not evidence:
 - Supervision, review, and approval of the audit workpapers;
 - A disclosure checklist for nonprofit financial statements; and
 - Support for footnotes.

Causality

The causes for the noted issues primarily resulted from either inadequate documentation of the efforts performed or inattention to the detail of the LSC Compliance Supplement. It was also noted that on occasion the auditor demonstrated a lack of understanding of the requirements.

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. 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.
3. **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.

Recommendations to Address Most Common Findings

We recommend that IPAs:

1. Ensure that the recipient has adequate controls, including an adequate analysis of prior period carryover funds, to determine whether an excess fund balance waiver should be requested. Additionally, if a waiver has been requested, ensure that the recipient accounts for expenditures in compliance with the requirements of the waiver.
2. Document adequate support for LSC procured property reported on the financial statements. This should include support for any additions and dispositions of LSC

procured property as well as an evaluation of whether the property is adequately safeguarded.

3. Obtain the recipient's private attorney involvement plan and review their processes to ensure compliance with the plan.
4. Obtain, review, and test recipient's processes for allocating costs and income and thoroughly document the results.
5. Ensure that tests of recipient timekeeping processes include considerations of the posting of time to each case, matter, or supporting activity in compliance with LSC timekeeping requirements.
6. Document interviews with the recipient's Executive Director and appropriate staff regarding timekeeping.
7. Evaluate the recipient's compliance with eligibility requirements by performing a walkthrough of the intake process and a review of the recipient's intake and case acceptance, as well as certifications of intake personnel.

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.