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## ADVISORY

**To:** ALL EXECUTIVE DIRECTORS  
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

**From:** John M. Seeba  
Assistant Inspector General for Audit

**Subject:** Results of Quality Control Reviews (QCRs) of Fiscal Year 2014  
(FY2014) Financial Statement Audits Performed by Independent  
Public Accountants (IPAs)

**Date:** July 12, 2016

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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, Office of Management and Budget (OMB) Circular A-133<sup>1</sup>, 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 financials 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.

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<sup>1</sup> One audit, for fiscal year 2015, was reviewed using the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

The information presented below is a summary of the results of QCRs of fiscal year FY2014<sup>2</sup> financial statement audits conducted by IPAs. IPAs and Executive Directors are encouraged to use the summary information in planning and conducting audits.

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

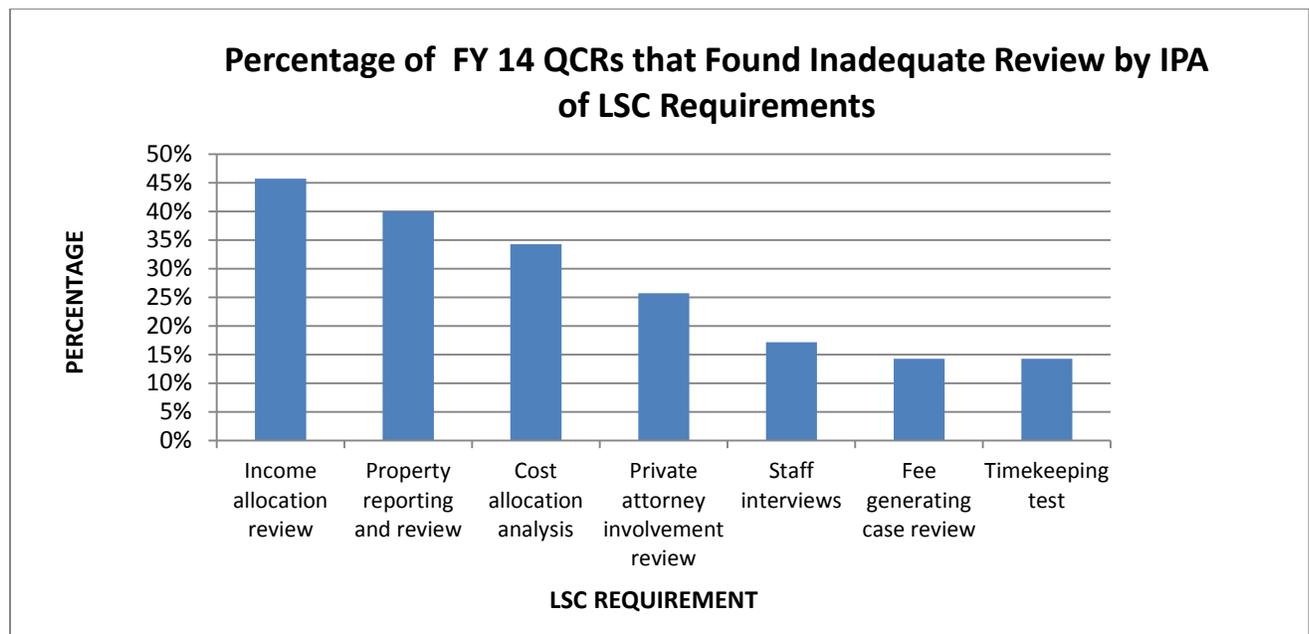
- 6 met standards with no exceptions;
- 2 did not meet standards; and
- 27 met standards with one or more exceptions.

### **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 and/or documenting the review.

The following table summarizes, as a percentage of the total number of QCRs performed, the LSC requirements for which issues of the adequacy of IPAs' reviews and/or documentation of evaluation of compliance with LSC requirements were commonly noted.



<sup>2</sup> During this cycle of QCRs, we reviewed 34 financial statement audits for fiscal year 2014. We reviewed one financial statement audit for fiscal year 2015. For the sake of simplicity, in this report we refer to the batch of 35 audits reviewed this cycle as FY2014 financial statement audits.

## **Some IPAs' Work Did Not Adequately Demonstrate Compliance with OMB Circular A-133**

- In four instances it was noted that major programs as determinable using OMB Circular A-133 requirements, other than LSC, were not properly selected or not adequately reviewed in accordance with OMB Circular A-133.
- In one instance the Findings and Questioned Costs did not report a finding that was included in the audit report.
- In one instance, the corrective action plan was not included in the audit report.

## **Recommendations for IPAs**

### **General Recommendations**

1. We recommend that IPAs 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. We recommend that IPAs **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. We recommend that IPAs 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**

4. We recommend that IPAs obtain, review, and test recipients' processes for allocating income and costs and thoroughly document the results.
5. We recommend that IPAs 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.
6. We recommend that IPAs ensure that case file tests, interviews (including staff, executive director, intake staff, and timekeeping personnel), and reviews of reporting and recordkeeping efforts, and private attorney involvement are adequately evaluated to ensure compliance with LSC requirements and that IPAs thoroughly document the evaluation.
7. We recommend that IPAs ensure the determination of major programs, per OMB guidance, is performed accurately and documented adequately in the audit workpapers. IPAs should ensure that audit coverage of major programs is appropriate.

If you have any questions regarding this Advisory, please contact Roxanne Caruso at 202-295-1582 or email [rcaruso@oig.lsc.gov](mailto:rcaruso@oig.lsc.gov). Thank you for your attention to these matters.