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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 2015
(FY2015) Financial Statement Audits Performed by Independent
Public Accountants (IPAs)

Date: May 30, 2017

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)¹, 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 FY2015 financial statement audits conducted by IPAs. IPAs and Executive Directors are encouraged to use the summary information in planning and conducting audits.

¹ Eight fiscal year 2015 audits reviewed were issued using the OMB Circular A-133 standards.

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

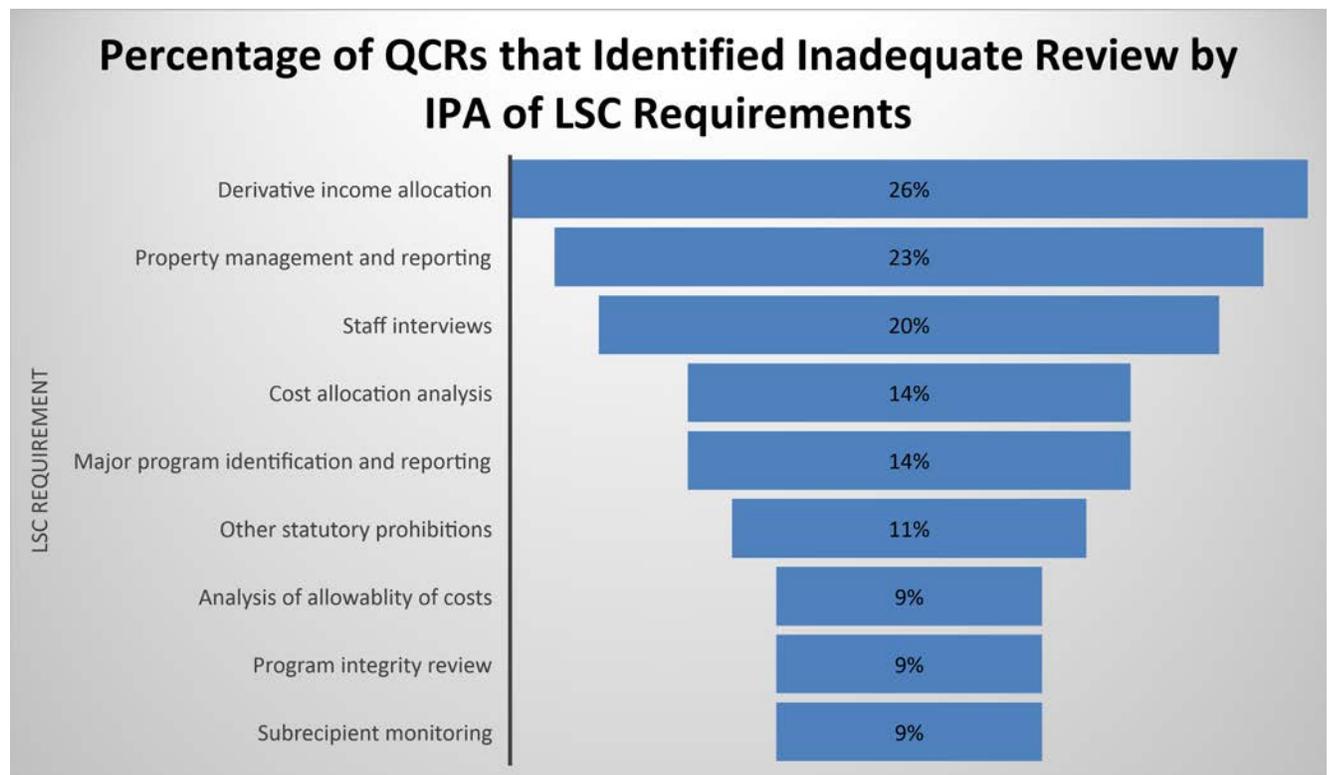
- 11 met standards with no exceptions;
- 2 did not meet standards; and
- 22 met standards with one or more exceptions.

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



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

- In three instances, IPAs issued audit reports citing OMB Circular A-133 when it appeared from the workpapers that the IPAs used Uniform Guidance. In each instance, the IPAs revised the report citing the proper guidance. However, the IPAs did not reissue the reports to LSC or appropriately recall previous versions of the report.
- In three instances, IPAs did not properly select or adequately review the major programs, other than LSC, as determinable using OMB Circular A-133 or Uniform Guidance.

Recommendations for IPAs

General Recommendations

We recommend that:

1. 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. 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. 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

We recommend that:

4. IPAs obtain, review, and test recipients' processes for allocating income and costs and thoroughly document the results.
5. 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. 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. IPAs ensure the determination of major programs, per Uniform Guidance, is performed accurately and documented adequately in the audit workpapers. IPAs should ensure that audit coverage of major programs is appropriate.
8. IPAs issue audits citing the appropriate OMB Guidance. Additionally, if an IPA corrects and reissues an audit report, the IPA should recall the previous version and submit the revised audit, accompanied by an explanation of the changes, to LSC OIG.

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