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ADVISORY

To: ALL EXECUTIVE DIRECTORS
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

From: Roxanne Caruso *Roxanne Caruso*
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Subject: Results of Quality Control Reviews of Fiscal Year 2018
and Fiscal Year 2019 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 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 Independent Public Accountants (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, 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 2018 and Fiscal Year 2019 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:

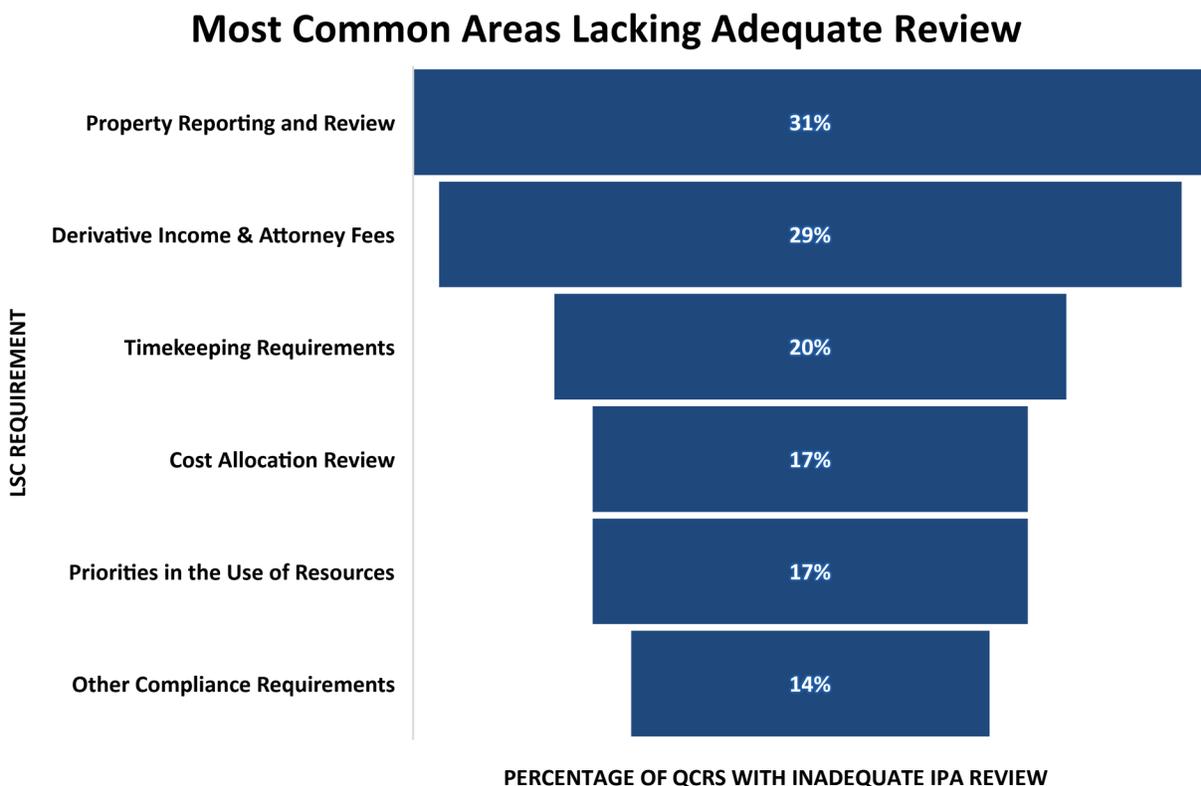
- nine met standards with no exceptions;
- twenty-six met standards with one or more exceptions.

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 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 two instances the IPA did not adequately document their efforts related to other major programs selected for review.
- In two other instances, the IPA made reporting errors in the Schedule of Expenditure of Federal Awards pertaining to the disclosure of subrecipients.
- In another instance 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."

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

- In one instance the IPA did not adequately perform follow-up on a prior audit.
- In one other instance, the IPA's workpapers did not adequately document their assessment of material noncompliance.

Causality

The causes for the issues noted primarily resulted from either inadequate documentation of the efforts performed or inattention to the detail in 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. **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 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.
2. Review the results of audit work pertaining to attorney's fees 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.
3. Evaluate the design of case file tests and interviews (including those of staff, executive director, intake staff, and timekeeping personnel), as well as the review of reporting and recordkeeping efforts, to ensure compliance with LSC requirements.
4. Obtain, review, and test recipients' processes for allocating costs and income and thoroughly document the results.
5. 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.
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.