

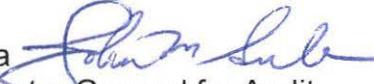


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To: ALL EXECUTIVE DIRECTORS
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

From: John M. Seeba 
Assistant Inspector General for Audit

Subject: Summary Results of Quality Control Reviews (QCRs) for FY2013
Financial Statement Audits

Date: March 13, 2015

The information presented below is a summary of the results of our QCRs of FY2013 Financial Statement audits conducted by Independent Public Accountants (IPAs). This is the fourth year of a four-year program designed to conduct a QCR of all IPAs performing audits of LSC grantees. IPAs and Executive Directors are encouraged to use the summary information in planning and conducting audits.

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 the OIG guidance. The standards and guidance include Government Auditing Standards, American Institute of Certified Public Accountants standards, Office of Management and Budget (OMB) Circular A-133, and the OIG's Audit Guide for Recipients and Auditors, which includes the OIG's Compliance Supplement.

During this cycle a total of 35 QCRs were conducted and are classified below.

- 5 met standards with no exceptions.
- 2 did not meet standards.
- 28 met standards with one or more exceptions.

Common exceptions identified in the QCR reports included:

- Interviews with staff personnel, executive director and intake personnel were not complete or adequately documented (9 instances). The number of documented interviews did not meet LSC specified requirements (2 instances). In addition, the interviews with the individual responsible for maintaining and tracking the timekeeping system and Executive Director for Part 1635 - Timekeeping was not always conducted (7 instances).
- The review of the organization's policy to ensure that it is consistent with LSC requirements was not always documented as performed (5 instances).
- The case file sample was not selected from all cases that were opened and/or closed during the period (3 instances).
- Recordkeeping requirements for the various LSC requirements were not always ensured. Although not applicable in many instances, no positive assurance was noted in the workpaper that the requirement was evaluated (12 instances).
- Assurance that case file testing attributes were complete and specific to ensure compliance of the case tested with all LSC guidelines and restrictions including those of the grantee organization (4 instances).
- The attributes defined for the cash disbursement test were not adequate to ensure that the auditor adequately reviewed the disbursements for LSC compliance (5 instances).

Deficiencies identified in the QCR reports that indicated the auditor's reports were not properly reflective of OMB Circular A-133 efforts included:

- In two instances, the disclosures included in a management letter were not submitted to LSC.
- In three 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 Schedule of Expenditure of Federal Awards was not inclusive of all Federal programs.
- In one instance, the audit finding was not fully supported by the audit evidence in the workpapers.

Other issues identified in some of the QCR reports included:

- The form of the auditor's financial opinion did not meet current standards,
- The audit evidential matter for the financial statements was inadequate, and
- The auditor had not properly planned the audit using a fraud analysis that was based on available information.

Recommendations for IPAs

1. It was consistently noted that those IPAs who provided specific sign-off and reference from the Compliance Supplement to the audit workpaper generally achieved the objectives of the supplement. We recommend that the IPAs take care in documenting assurance that each direct and material compliance supplement element is addressed.
2. Those IPAs who understood the nature of the requirement and the LSC program achieved a better degree in documenting compliance with those requirements. Such understandings were achieved in the planning process and through review of the grant agreement and in discussion with the recipient personnel. We recommend that the IPAs ensure that planning is thorough and consider training of the compliance requirements both in-house and through LSC.
3. The case file testing, staff interviews (including staff, executive director, intake staff, and timekeeping personnel), reporting and recordkeeping efforts, and private attorney involvement provided consistent and complete coverage when the design of those workpapers were properly established. It provided for a more efficient effort and also allowed for proper evaluation and reporting of results obtained from those efforts. We recommend that the IPAs enhance the design of the case file test, staff interviews, reporting and recordkeeping, and private attorney involvement.
4. The cost allocation efforts were effectively completed when the IPA obtained the recipient's cost allocation plan, evaluated that plan to ensure fair and complete allocation and then tested that allocation plan. Issues, on several audits, involved the grantee using an inappropriate allocation basis such as budgeted revenues. The cost allocation concern was cited on 43% of the audits reviewed. We recommend that the auditor obtain, review and test the recipient's cost allocation plan, as well as obtaining assurance of an appropriate allocation basis.
5. The review for client eligibility was cited as a concern on 11% of the reviews. The concern was diverse in that the inadequacy resulted from various factors including a lack of complete review of the grantee's policy, a lack of review of over-income (over 125% of poverty level) clients, insufficient analysis of the intake process and the review for the maintenance of adequate support for client eligibility. We recommend that the eligibility review process be properly reviewed by IPAs to ensure a complete audit effort.

6. The review for property management requirements was also lacking on 26% of the audits reviewed. In many instances, it is apparent that the IP As efforts were directed only towards satisfying the adequacy of the financial audit. The lack of property management review included procurement and identification of LSC property on-hand. We recommend that the IPAs ensure that LSC property on hand and purchases of that property be reviewed to protect the LSC interests in such property.
7. The majority of the audits reviewed had the LSC grant as the only major program. As noted, however there were three issues regarding the determination of or coverage on the other major programs. We recommend that additional oversight be provided by the IPA in developing and documenting the audit determination and coverage on the other major programs.
8. The QCRs noted two occurrences when a management letter was issued but not provided to LSC. We noted another instance of the Single Audit report, issued under separate cover, not being submitted to LSC. We recommend that the IPAs ensure that all management letters and applicable reports are submitted to LSC.

If you have any questions regarding this Advisory, please contact Roxanne Caruso at 202-295-1582 or email rcaruso@oig.lsc.gov.