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Grantee Audit Follow Up Process

The attached Grantee Audit Follow Up Process establishes a system for the Legal Services Corporation to ensure that findings and recommendations relating to grantee operations addressed to grantee management are effectively resolved and that corrective action is completed and reported in a timely manner. It is intended to incorporate the concepts of Office of Management and Budget Circular A-50, *Audit Follow Up*.

The Grantee Audit Follow Up Process delineates the respective roles of LSC management, the Office of the Inspector General, and the LSC Audit Follow Up Official in ensuring prompt and proper resolution of grantee audit findings and recommendations and the implementation of corrective action. The Process also ensures that a complete record of actions taken on such findings and recommendations is maintained. The Process applies to findings and recommendations addressed to grantee management contained in audits, investigations, and other reviews of grantees or grantee operations conducted by Independent Public Accountants, LSC OIG and/or contractors performing on behalf of the OIG, the Government Accounting Office, and other authorized reviewing entities of LSC grantee programs, operations, and contractors.

John McKay
President

Edouard Quatrevaux
Inspector General

October 28, 1997

GRANTEE AUDIT FOLLOW UP PROCESS

1. **PURPOSE.** The Grantee Audit Follow Up Process establishes a system for the Legal Services Corporation (LSC) to ensure that findings and recommendations relating to grantee operations addressed to grantee management are effectively resolved and that corrective action is completed and reported in a timely manner.
2. **AUTHORITY.** LSC Act of 1974, as amended; IG Act of 1978, as amended; LSC's fiscal year 1996 and 1997 Appropriations Acts, 110 Stat. 1321 (1996), 110 Stat. 3009 (1996). Cf. OMB Circular A-50.
3. **OBJECTIVES.** The principal objectives of the Grantee Audit Follow Up Process are:
 - a. to delineate the respective roles of the designated Audit Follow Up official, LSC management, and the Office of Inspector General (OIG) in the Grantee Audit Follow Up Process;
 - b. to provide procedures (i) for resolution of audit findings and recommendations addressed to grantee management which are contained in reports on grantees or grantee operations prepared by Independent Public Accountants (IPAs), OIG, the General Accounting Office (GAO), or other authorized reviewing entities and (ii) for corrective action on such findings and recommendations;
 - c. to establish a system of monitoring to assure that final action is taken on agreed upon corrective action plans.
4. **POLICY.** Grantee Audit Follow Up of findings and recommendations is an integral part of good management and is a responsibility shared by LSC and grantee management. Corrective actions taken to implement findings and recommendations enable LSC management to improve the effectiveness and efficiency of LSC and grantee operations. An effective grantee audit follow up system not only ensures the prompt and proper resolution of audit findings and recommendations and the implementation of corrective action, it also ensures that a complete record of actions taken on findings and recommendations is maintained. These policies and procedures are intended to incorporate the concepts of Office of Management and Budget (OMB) Circular A-50, *Audit Follow Up*.
5. **SCOPE.** The Grantee Audit Follow Up Process applies to findings and recommendations addressed to grantee management contained in audits, investigations, and other reviews of grantees or grantee operations conducted by IPAs, LSC OIG and/or contractors performing on behalf of the OIG, GAO, and other authorized reviewing entities of LSC grantee programs, operations, and contractors. Statutory requirements of the GAO or the OIG

concerning reporting and follow up of audit findings and recommendations are not superseded by this Process.

6. **REPORTS.** Grantee audit findings and recommendations are addressed to grantee management and are found in reports issued by grantee IPAs, OIG, GAO, or other reviewing entities. The reports can be issued in the form of a financial statement audit, financial-related audit, performance audit, investigative report, inspection report, management letter, or other acceptable report format. Audit reports of grantee programs and operations are initially submitted to the OIG to ensure that the audits were conducted in accordance with applicable audit standards and requirements, *e.g.*, GAAS, GAGAS, OMB Guidance, OIG audit policy, and for identification of findings and recommendations for referral to LSC management for follow up.

7. **DEFINITIONS.**

The following definitions are used in the Grantee Audit Follow Up Process:

- a. **Audit Follow Up Official (AFO).** The official designated by the LSC President to reconcile disagreements between the OIG and LSC management as to the resolution of grantee audit findings and recommendations.
- b. **Corrective Action Plan (CAP).** A plan submitted by the grantee to implement audit findings and recommendations. The CAP describes the corrective action taken or planned in response to each finding and recommendation and, where appropriate, dates for achieving the action. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.
- c. **Disallowed Cost.** A questioned cost that LSC management, has sustained or agreed should not be charged to LSC funds.
- d. **Final Action.** The completion of all actions that LSC management has concluded are necessary to implement the approved CAP; or an LSC management decision that no corrective action is necessary.
- e. **Finding.** A statement reported by a grantee IPA, OIG auditor and/or investigator, GAO auditor and/or investigator, or other reviewing official about a grantee regarding compliance, efficiency, effectiveness, fraud, waste, and abuse, including a finding by the OIG that funds may be put to better use. A finding is fully supported by available information and documentation evaluated or investigated during the performance of a review. Findings are the basis for recommendations.
- f. **Funds Put to Better Use.** OIG finding that funds could be used more efficiently if

grantee management took actions to implement and complete recommendations.

- g. **Material Weaknesses.** A material weakness in the internal control structure is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- h. **Open/Closed Findings and/or Recommendations .**

 - i. **Open.** Findings and recommendations are considered “open” for semi-annual reporting purposes when final action has not been accomplished. Thus, a finding or recommendation is considered open until all corrective actions have been fully implemented and LSC management has received from the grantee sufficient documentation supporting the implementation of the corrective action and a certification as to the completion of such implementation.
 - ii. **Closed.** Findings and recommendations are considered “closed” for semi-annual reporting purposes when final action has been accomplished. Thus, a finding or recommendation is considered closed when all corrective actions have been fully implemented and LSC management has received from the grantee sufficient documentation supporting the implementation of the corrective action and a certification as to the completion of such implementation. A copy of the certification should be provided to the OIG.
- i. **Questioned Cost.** An incurred cost that is found to: (1) be a possible violation of a provision of a law, regulation, contract, or other agreement or document governing the use of LSC funds; (2) lack adequate supporting documentation; (3) be unnecessary or unreasonable given the intent of the expenditure.
- j. **Recommendation.** An action proposed by a grantee IPA, OIG auditor and/or investigator, GAO auditor and/or investigator, or other reviewing official to correct or improve an activity or condition reported as a finding in a report on a grantee or its operations or to prevent future occurrences of the deficiency identified in the finding. Recommendations may include a recommendation by the OIG that funds be put to better use.
- k. **Referred/Issued Findings and/or Recommendations.**

 - i. **Referred.** Significant findings and recommendations issued to grantees by their IPAs, GAO and other reviewing entities are **referred** by the OIG to LSC management for Follow Up action. Other findings reported by grantee IPAs,

GAO, or other reviewing entities are provided to LSC management by the OIG for information only.

- ii. **Issued.** Significant findings and recommendations reported by the OIG, including contractors reviewing grantee operations on behalf of the OIG, which relate to grantee operations are **issued** by the OIG to LSC management for Audit Follow Up action. Other findings reported by the OIG are provided to LSC management by the OIG for information purposes only.
 - l. **Resolution.** The point at which (1) LSC management agrees with the grantee's proposed corrective action plan or accepts the grantee's disagreement with a reported finding or recommendation and (2) the OIG concurs or, if the OIG does not initially concur, the OIG and LSC management reach an agreement or, if no agreement can be reached, the AFO issues a decision on the matter.
 - m. **Sufficient Documentation .** Written evidence substantiating a grantee's assertion that corrective action has been accomplished, including a certification statement.
 - n. **Unsupported Costs.** Costs reported as questioned because of a lack of supporting documentation.
8. **CRITERIA FOR FOLLOW UP ACTION:** Findings and recommendations will be referred or issued to LSC management for Follow Up only after a determination by the OIG that the findings or recommendations are significant. Significant findings or recommendations are those deemed by OIG to require management's attention based on quantitative and/or qualitative conditions contained in the finding. In addition, only the following types of findings and recommendations will be referred or issued to LSC management for Follow Up:
- a. Instances of material Non-Compliance with laws and regulations . Materiality will be considered in terms of the seriousness of the violation given the purpose of the pertinent statutory of regulatory restriction or requirement, whether the occurrence of the violation is frequent or part of a pattern of violations rather than an isolated occurrence, the duration of the violation, or whether the recipient has had prior notice of the violation;
 - b. Instances of Questioned Costs or Unsupported Costs;
 - c. Instances of Material Weaknesses;
 - d. Reportable conditions that taken in whole or in part are indicative of a systemic problem;
 - e. Uncorrected findings or recommendations from prior reports.

9. PROCESS.

The Grantee Audit Follow Up Process is invoked when the OIG formally **refers or issues** findings and recommendations from audit reports related to grantee activities to LSC management for resolution and corrective action.

- a. **Reporting Process.** The grantee reporting process as it relates to IPA reports is described in the *Audit Guide*.
- b. **Resolution Process.**
 - i. The OIG will **refer** to LSC management findings and recommendations from audit reports on grantees by IPAs, GAO, or other reviewing entities , within 30 days of OIG’s receipt of the audit report and CAP,¹ or will **issue** to LSC management findings and recommendations prepared by the OIG as soon as the reports are finalized.
 - ii. In addition to the findings and recommendations referred or issued for follow up, the OIG will forward the CAP when received.² If the grantee failed to submit a CAP in a timely manner, upon notification by the OIG, LSC management will require that it do so immediately.
 - iii. LSC management will review each finding and recommendation referred or issued, along with the CAP proposed by the grantee to determine if it is satisfactory. If the proposed corrective action is deemed unsatisfactory, LSC management will work with the grantee in developing a satisfactory CAP. If LSC management determines that the finding does not require follow up, LSC management will notify the OIG. LSC management and the OIG will then follow steps vi. through xi. of this resolution process as set out below.
 - iv. LSC management will ensure that proposed corrective actions are consistent with law, regulations, and LSC policy and, when accepting the grantee’s disagreement with a reported finding or recommendation, will ensure that the grantee provides an adequate written justification containing the legal and

¹ Five-day letters will be sent to LSC management the day of receipt for informational purposes only. Findings in five-day letters will require follow up only when formally referred for follow up by the OIG. Such referral may await receipt and review of the audit report by the OIG.

² Under the *Audit Guide*, grantees are required to submit CAPs within 30 days of submission of the audit report by to the OIG. As an alternative, grantees may incorporate a CAP into the response to the auditor’s findings and recommendations.

factual basis for the disagreement.

- v. Within 30 days of receipt of referred or issued findings and recommendations, LSC management will notify the OIG of the corrective action agreed upon by LSC management and the grantee, or of LSC management's acceptance of the grantee's disagreement.
- vi. OIG will notify LSC management within 15 days of its concurrence or non-concurrence with the corrective action agreed upon by LSC management and the grantee, or with LSC management's acceptance of the grantee's disagreement.
- vii. If the OIG concurs, the finding and/or recommendation will be considered resolved.
- viii. If the OIG does not concur, the AFO has 15 days within which to seek resolution by agreement between LSC management and the OIG.
- ix. If no agreement can be reached within the 15 days, the AFO will issue a decision within 7 days. The AFO's decision on referred or issued findings will be considered final and the finding and/or recommendation will be considered resolved.

c. Corrective Action Process .

- i. Grantees will provide a written CAP for each finding and/or recommendation in accordance with the *Audit Guide*. In lieu of or in addition to a CAP, if the grantee disagrees with the finding or recommendation or believes corrective action is not required, the grantee shall provide an explanation and specific reason(s) (e.g., legal and/or factual basis) that corrective action is not required.
- ii. LSC management will ensure that all corrective actions have been taken by the grantee within six months of the date on which a finding or recommendation is referred or issued for follow up.³

³ Although, in most instances, corrective action will be implemented within six months of referral or issuance by OIG, OIG and management recognize that in the rare case implementation of corrective action within the six month period may not be achieved. This likely will be due to the nature of the corrective action to be implemented or because disallowed costs have been appealed under 45 CFR Part 1630. In such cases, management will provide notice to the OIG and implementation of corrective action will occur no later than six months from resolution. (In the case of questioned costs under Part 1630, this means that any appeal and recovery of the

- iii. LSC management will require the grantee to provide sufficient documentation to ensure that the corrective action has been fully implemented, and will require the grantee to certify in writing that all corrective actions have been implemented.
- iv. LSC management will notify the OIG of all completed corrective actions and provide the OIG with copies of the grantee certifications.
- v. Upon receipt of the notification of completion, the OIG will close the respective findings and recommendations, and will include in the Semi-Annual Report to the Congress (SAR) the number of closed recommendations. The OIG will report in the SAR the status of open findings and recommendations.

10. RESPONSIBILITIES.

- a. LSC Management is responsible for:
 - i. following up in an appropriate and timely manner;
 - ii. ensuring that this Grantee Audit Follow Up Process and implementing procedures are in place;
 - iii. ensuring that corrective action is taken in a timely manner;
 - iv. ensuring that all LSC management actions relating to the Grantee Audit Follow Up process are fully documented;
 - v. working with the OIG and the AFO in reconciling disagreements between LSC management and the OIG;
 - vi. reviewing responses to audit reports and proposed resolutions and corrective actions to reach resolution.
- b. LSC Office of Inspector General is responsible for:
 - i. ensuring that IPA reports are submitted in a timely manner, complete, and presented in accordance with applicable audit standards;
 - ii. overseeing the work of non-Federal auditors in performing audit work in connection with grantees;

amount disallowed must occur within six months of resolution.)

- iii. referring findings and recommendations reported by grantee IPAs, GAO, or other reviewing entity, or issuing findings and recommendations reported by the OIG;
- iv. reviewing responses to audit reports and proposed resolutions and corrective actions;
- v. working with LSC management and the AFO in reconciling disagreements between LSC management and the OIG.

TIMETABLE FOR GRANTEE AUDIT FOLLOW UP PROCESS

OIG REFERRED OR ISSUED FINDINGS/RECOMMENDATIONS	
ACTION	TIME LINE
OIG refers or issues findings and recommendations to LSC management	Within 30 days of receipt of an audit report and CAP or as soon a practical after completion of OIG audit reports
LSC management notifies the OIG of agreed upon Corrective Action Plan, or acceptance of grantee's disagreement with findings and recommendations	30 days from receipt
OIG provides concurrence or nonconcurrence	15 days
Resolution of disagreement sought	15 days
AFO decision	7 days
CAP is fully implemented by grantee and notification of completion is provided to the OIG	6 months from OIG referral or issuance of finding/recommendation