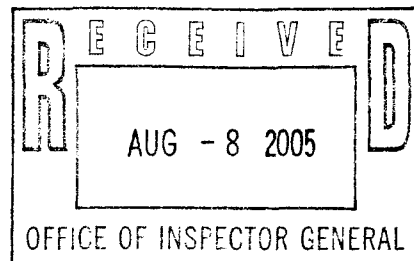


**PEER REVIEW REPORT
OFFICE OF INSPECTOR GENERAL
LEGAL SERVICES CORPORATION**





August 5, 2005

Mr. Kirt West
Inspector General
Legal Services Corporation
3333 K Street NW, 3rd Floor
Washington, DC 20007

Dear Mr. West:


Enclosed is the final Peer Review report on the Legal Services Corporation (LSC) - Office of Inspector General (OIG). This report is issued in accordance with the standards and guidelines established by the President's Council on Integrity and Efficiency.

We have enclosed your response to our draft report in its entirety as an appendix to this final report. While your response includes additional information with respect to the first three findings and the two observations, it did not alter the recommendations included in our draft report. Your comments specific to each recommendation have been incorporated into the report text under the respective findings. These comments indicate that you concur with our recommendations and appropriate actions will be taken by the LSC OIG to address our recommendations.

We are including four additional copies of the final report for distribution to the head of the agency, the Chair of the PCIE, the Vice Chair of the PCIE, and the Chair of the PCIE Audit Committee.

We appreciate the cooperation of your office throughout this peer review process.

Sincerely,


Fred E. Weiderhold, Jr.
Inspector General

Attachment

**OFFICE OF INSPECTOR GENERAL
LEGAL SERVICES CORPORATION**

Report Addressed To:

**Mr. Kirt West
Inspector General
Legal Services Corporation
3333 K Street NW
3rd Floor
Washington, DC 20007**

This report is privileged and confidential and prepared for the Legal Services Corporation (LSC), Office of Inspector General, in accordance with the standards and guidelines established by the President's Council on Integrity and Efficiency. Any other distribution of the report and letter of comments will be made at the discretion of the LSC Inspector General.

Report Issued By:

**NATIONAL RAILROAD PASSENGER CORPORATION
OFFICE OF INSPECTOR GENERAL – AUDIT
10 G STREET, NE, SUITE 3W-300
WASHINGTON, DC 20002**

**DATE OF REPORT: August 5, 2005
PROJECT AND REPORT NUMBER: 105-2005**

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OFFICE OF INSPECTOR GENERAL
LEGAL SERVICES CORPORATION**

PROJECT AND REPORT # 105-2005

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FOR OFFICIAL USE ONLY

August 5, 2005



Mr. Kirt West
Inspector General
Legal Services Corporation
Office of Inspector General
3333 K Street NW
3rd Floor
Washington, DC 20007

Dear Mr. West:


We have reviewed the system of quality control for the audit function of Legal Services Corporation in effect for the period October 1, 2003 through September 30, 2004. We conducted our review in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). We tested compliance with the OIG's system of quality control to the extent we considered appropriate. These tests included a review of the audits identified in the enclosure.

In performing our review, we have given consideration to the policy statement on quality control and external reviews, dated February 2002 issued by the PCIE. That statement indicates that an OIG's quality control policies and procedures should be appropriately comprehensive and suitably designed to provide reasonable assurance that the objectives of quality control will be met. It also recognizes that the nature, extent and formality of an OIG's system of quality control depends on various factors such as the size of the OIG, the location of its offices, the nature of the work and its organizational structure.

In our opinion, the system of quality control for the audit function of Legal Services Corporation in effect for the period October 1, 2003 through September 30, 2004, has been designed in accordance with the quality standards established by the PCIE and was being complied with for the year then ended to provide the OIG with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. Therefore, we are issuing an unqualified opinion on your system of audit quality control.

We have identified in a separate Letter of Comments dated August 5, 2005 other matters that came to our attention that do not affect our overall opinion.

Sincerely,


Gary E. Glowacki
Deputy Inspector General - Audits

Enclosure

Peer Review Scope and Methodology

Scope and Methodology

We tested compliance with the Office of Inspector General's system of quality control to the extent we considered appropriate. These tests included a review of 4 out of the 8 audit reports issued during the March 30, 2004 and September 30, 2004 semiannual reporting periods. In addition, we reviewed the Independent Public Accountant monitoring and the internal quality control reviews that were performed by the LSC OIG subsequent to our review period.

OIG Offices Reviewed

We visited the LSC OIG office in Washington, DC and performed our fieldwork at that location. The LSC OIG does not have any other branch offices.

Audit Reports Reviewed

The following audit reports were reviewed:

Report Number	Report Date	Report Title
04-02	12/11/03	California Rural Legal Assistance
AU 04-07	8/27/04	Western Michigan Legal Services
04-01	1/29/04	Legal Aid Society of Greater Cincinnati
AU 04-06	8/25/04	Legal Services of Northern California



August 5, 2005

Mr. Kirt West
Inspector General
Legal Services Corporation
3333 K Street NW, 3rd Floor
Washington, DC 20007

Dear Mr. West:

We have reviewed the system of quality control for the audit function of Legal Services Corporation (LSC) – Office of Inspector General (OIG) in effect for the period 10/1/2003 to 9/30/2004, and have issued our report thereon dated August 5, 2005. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting whether the OIG's internal quality control system was designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency (PCIE) and was being complied with for the year reviewed to provide reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. We conducted our review in conformity with standards and guidelines established by the PCIE. Our review would not necessarily disclose all weaknesses in the system or all instances of noncompliance with it because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of quality control. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a system of quality control to future periods is subject to the risk that one or more procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

As a result of our review, we identified reportable conditions, which did not affect our opinion set forth in our report dated August 5, 2005. A reportable condition for peer review purposes represents a significant deficiency in the design or operation of the reviewed organization's internal control that could adversely affect the organization's ability to comply with applicable auditing standards and established auditing policies and procedures. We identified the following reportable conditions:

Reportable Conditions

We noted the following reportable conditions and other observations applicable to the review period. However, the LSC OIG has already performed its own internal review of its internal quality control system, and identified many of the issues noted in this report for corrective actions.

Finding 1: Internal Quality Assurance Reviews

According to Government Auditing Standards Section 3.49, each audit organization performing audits and/or attestation engagements in accordance with GAGAS should have an appropriate internal quality control system. An audit organization's internal quality control system should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied.

During the review period, LSC OIG did not have an internal quality assurance process in place. This qualifies as a design deficiency according to the PCIE Peer Review standards.

According to the Acting Assistant Inspector General – Audits (AAIGA), resource constraints and a lack of direction by the former IG were the reasons for the internal quality assurance review process not being established. The main risk is that applicable auditing standards may not be followed and certain deficiencies may not be detected.

Recommendations

We recommend that policies and procedures should be developed for the internal review process. Also, periodic reviews of completed audits should be performed similar to those recently completed by the LSC OIG. In the future, consideration should be given to have someone other than the audit staff perform the quality reviews.

Comments of Responsible LSC OIG Official

Concur. At least annually, a quality assurance review will be performed to insure that all auditing standards are followed and any deficiencies identified. LSC OIG will give full consideration to having someone other than the audit staff performing the quality assurance reviews. This requirement will be documented on our revised audit policies. (Estimated Completion Date: August 31, 2005)

Finding 2: Internal Quality Control System

According to the PCIE guidance, the internal quality control system incorporates the design of policies and procedures to provide reasonable assurance that applicable auditing standards are adopted. PCIE Appendix A refers to the requirement for tracking

and monitoring of audit findings and independent reviews. Appendix F refers to the use of checklists as a quality control tool over individual audits.

We noted the following areas as design deficiencies:

1. According to the response provided by the AAIGA to PCIE Appendix A, there is a formal policy and tracking system for monitoring audit finding responses and closeout for grantees, but not for LSC management. LSC OIG is working to formalize a policy by June 05.
2. According to the response provided by the AAIGA to PCIE Appendix A, independent reviews are not required – they are performed at the discretion of the IG only.
3. Checklists are not being used to determine if all work paper, and report preparation procedures are being followed.

While the use of these tools and procedures is discretionary, in the absence of other compensating controls, there is a risk that applicable standards may not be followed and such a lack of compliance to standards may not be detected.

Recommendations

We recommend that LSC OIG consider incorporating the tracking and monitoring of audit findings on LSC operations. LSC OIG should also consider implementing independent reviews of all audits. In addition, we recommend the use of quality control checklists for work paper reviews, audit report reviews, and independent reviews.

Comments of Responsible LSC OIG Official

Concur. A preliminary system is in place where the OIG notifies LSC management which findings and recommendations must be tracked and receive OIG approval before being closed. A more detailed policy is being developed. All audits now are required to be independently referenced. Checklists will be incorporated as needed in our final revised policy. (Estimated Completion Date: August 31, 2005)

Finding 3: IPA Monitoring – Design and Compliance

According to PCIE guidance and Yellow Book standards, the work of Independent Public Accountants (IPA) under contract with LSC OIG should be adequately monitored and evaluated. According to the PCIE, LSC OIG is required to review the auditor's approach and planning; evaluate the qualifications and independence of the auditors (GAS 3.39-3.41, 3.03-3.06, 7.32-7.33); monitor the audit progress (PCIE Appendix G – 2.b. (5), (6)); and review the audit documentation to determine that it supports the audit report (PCIE Appendix G 2.d.).

During our review, we noted that IPA Monitoring procedures were not fully developed. The LSC OIG Audit Policies and Procedures Manual, Chapter 11, currently contains only a procedural outline to be used for IPA monitoring. The AAIGA indicated that the target date for completion of the IPA monitoring procedures is June 05.

To evaluate the adequacy of LSC OIG compliance with the standards, we utilized the February 2002 version of the Appendix G checklist developed by PCIE. We reviewed the results of LSC OIG's internal quality assurance review of IPA monitoring which identified eight areas of deficiency based on the use of an updated version of the Appendix G checklist. Since we used the older version of the PCIE program for all areas of the peer review, our results vary from those of LSC OIG's internal review.

Based on our review of Audit report #AU04-04, Fiscal Year 2003 Audit of the Corporation, dated 4/26/04, we concluded that LSC OIG did not adequately monitor M.D. Oppeheim & Company, Public Accountants (IPA), during their performance of the fiscal 2003 corporate annual audit. The following deficiencies were noted:

- There was no evidence that the IPA staff qualifications or independence were reviewed. (PCIE Appendix G – 2.a. (1), (3)).
- There was no evidence of OIG participation in a meeting between LSC Management and the IPA to discuss the audit objectives and approach. (PCIE Appendix G – 2.c. (1)).
- There was no evidence of LSC OIG participation in the entrance conference. (PCIE Appendix G 2.c. (2)).
- There was no evidence that periodic reviews were performed to determine the progress and problems encountered during the audit by the LSC OIG. (PCIE Appendix G – 2.c. (3)).

We reviewed the work performed by the LSC OIG for the FY 2004 corporate annual audit and noted a significant improvement in this area.

Recommendations

We recommend that LSC OIG finalize the IPA Monitoring procedures as planned. We also recommend that LSC OIG use the standards applicable to IPA monitoring when performing future IPA reviews.

Comments of Responsible LSC OIG Official

Concur. The provisions of and checklists contained in the GAO/PCIE Financial Audit Manual Section 650 were adopted for the FY 2004 work. These provisions and checklists will be contained in our final revised policy manual. (Estimated Completion Date: August 31, 2005)

Finding 4: Audit Supervision

LSC OIG has established a supervisory review policy according to the Yellow Book standards and PCIE guidelines. According to GAS 7.44 – 7.47, staff are to be properly supervised, including reviewing the work performed. Further, reviews of audit work should be documented. LSC OIG procedures indicate that the principal quality control from an operational standpoint is on-going supervision. The procedures also state that all audit work papers are to be reviewed by the supervisor. Upon completing PCIE Appendix F, we noted the following related to supervision:

		No documented evidence of work paper review	Review comments not present
04-02	California Rural Legal Assistance	X	X
AU 04-07	Western Michigan Legal Services	X	X
04-01	Legal Aid Society of Greater Cincinnati	X	X
AU 04-06	Legal Services of Northern California	X	X

In all of the audits reviewed, there were no supervisory sign-offs to verify that audit program steps were completed. In addition, a supervisor did not sign off the audit findings. In two of the four audits we reviewed, there was no indication of consistent supervisory involvement (PCIE Appendix F – 6.3, 6.5) in the entire work paper files. The work papers for 04-02 and 04-01 did not show documentation of review as required per GAS 7.47. In AU 04-07, there was no supervisory sign-off on the audit program. Adequate supervision of audits is essential for supervisors to satisfy themselves that the procedures are conducted properly and that audit objectives are met. The majority of the work papers in the administrative, background and fieldwork sections were not initialed and signed by a supervisor as required by LSC OIG policy.

In addition, the four audits in our sample contained “Supervisory Review Comments” (or Word red-line edit versions) pertaining to the audit report only. There were no review comments specifically pertaining to the administrative, background or fieldwork sections of the audit as required by PCIE Appendix F 6.4 and LSC OIG policy.

In summary, we noted that while LSC OIG has developed policies according to Yellow Book standards and PCIE guidelines with respect to supervision, compliance with these policies was inadequate.

Recommendations

We recommend increasing the level of supervision of audit work. In addition, supervisors should sign off on all work papers as evidence of review, including documenting comments and any follow-up actions taken.

Comments of Responsible LSC OIG Official

Concur. The level of supervision has increased significantly. All work papers require supervisory sign off once all questions and issues have been addressed. All supervisory reviews and follow up actions taken are required to be documented. (Closed)

Finding 5: Work paper Referencing

LSC OIG has established audit work paper policies according to the Yellow Book standards and PCIE guidelines. According to GAS 7.66 "Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions." LSC OIG policy states "Working papers should be indexed and cross-indexed, as appropriate, one to another, to working paper summaries and lead schedules, and to the draft and final reports". Upon completing PCIE Appendix F, we noted the following related to work paper referencing:

		One-way referencing	Inconsistent referencing
04-02	California Rural Legal Assistance	X	X
AU 04-07	Western Michigan Legal Services	X	
04-01	Legal Aid Society of Greater Cincinnati	X	X
AU 04-06	Legal Services of Northern California	X	X

In all of the audits we reviewed, we noted one-way referencing throughout the entire work papers. Most importantly, there was one-way referencing from the final indexed audit report to the work papers. As a result, we were unable to accurately trace all references to/from their source. While GAS 7.67 states that the quantity, type, and content of the documentation are a matter of the auditors' professional judgment, the referencing does not comply with the LSC OIG policy.

Additionally, we found instances of inconsistent referencing on work papers. For example, in 04-02, the draft audit report was referenced to F-1F, while the same statement in the final audit report was referenced to E-4 1-3/2. In 04-01, the draft report was referenced to the finding work paper E-2-1, but there was no underlying support reference for the finding. In AU 04-06, the draft report was referenced to work paper E-1 that contained case numbers, but the numbers could not be substantiated to their source. Proper audit documentation is important, as stated in GAS 7.68, to provide the principal support for the auditors' report, to aid auditors in conducting and supervising the audit, and to allow for the review of audit quality.

In summary, we noted that while the LSC OIG has developed policies according to Yellow Book standards and PCIE guidelines with respect to work paper referencing, compliance with these policies is inadequate.

Recommendation

We recommend enforcement of the LSC OIG cross-referencing procedures to ensure that all references or indexes flow to and from one another.

Comments of Responsible LSC OIG Official

Concur. LSC OIG cross-referencing procedures are now being enforced. (Closed)

Finding 6: Preparation of Audit Findings

LSC OIG has established policies related to preparation of audit finding according to the Yellow Book standards and PCIE guidelines. According to GAS 7.62, "Audit findings often have been regarded as containing the elements of criteria, condition, and effect, plus cause where problems are found." Further, LSC OIG requires findings of noncompliance to be documented with "condition, cause, criteria, effect, conclusion, and recommendation."

Upon completing PCIE Appendix F sections 10.2(b) and 10.8(a), we noted that the audit findings for the four audits we reviewed were not prepared in a standardized format. Separate finding sheets were not prepared for three of the four audits. Instead, the auditors used the Purpose, Scope, Source, Conclusion (PSSC) documents to incorporate some aspects of the recommended elements of findings and the format varied from audit to audit. In addition, the documents containing the findings did not specifically identify or label the finding elements described above.

Thus, while the LSC OIG has developed policies according to Yellow Book standards and PCIE guidelines with respect to audit findings, compliance with these policies is inadequate. Use of this audit finding documentation methodology assists the auditor in more effectively developing the audit findings and report. Additionally, finding sheets serve as an important link between the audit report and work papers.

Recommendations

We recommend creating a standard "finding sheet" to be used on all audits that are cross-referenced to/from the audit report and work papers. The finding sheets should include the elements mentioned in GAS 7.62-65.

Comments of Responsible LSC OIG Official

Concur. LSC OIG processes and procedures will continually be evaluated to improve the OIG operations. As part of this evaluation, a standard "finding sheet" will be created if

we find that the information already required in the work papers does not adequately serve as an important link to the audit report. (Closed)

Finding 7: Audit Plans

Yellow Book, PCIE standards, and LSC OIG policy set forth guidelines and requirements with respect to audit planning. According to GAS 7.07, audit planning should be documented and should include preparation of an audit plan (program). Further, according to GAS 7.43 (b), the audit plan may include information instructing each auditor about his or her responsibilities (such as reviewing audit work, drafting reports, and processing the final report).

We found that in all four audits we selected, the audit programs did not include certain steps, as suggested by GAS 7.43, necessary for the administration of the audit (i.e. supervisory review, drafting and issuance of reports, and holding entrance/exit conferences). When audit programs do not document certain steps, there is a risk that one or more steps required by the audit standards will not be performed. Including these steps as part of the audit program will ensure the audit is properly administered. In addition, incorporating certain steps, such as supervisory work paper review, in the audit plan will facilitate ongoing review by supervisors as we suggested under Audit Supervision earlier.

During our review of 04-01, we noted that the audit program was a photocopy of the program used for 04-02. In addition, because the audit program was a photocopy, the preparation and review signatures were identical to those in 04-02 even though the auditors assigned to 04-01 were not the same as 04-02.

Recommendation

We recommend that audit programs should incorporate the various steps required throughout the entire audit process and supervisors should review and approve the audit programs.

Comments of Responsible LSC OIG Official

Concur. All audit programs are required to incorporate the various steps required throughout the entire audit process. Supervisors will review and approve the audit program before program steps are accomplished. (Closed)

Other Observations

1. Audit Plan Coverage

During the review period, there were no Information Technology or Legal Services Corporation audits performed. The Strategic Plan for the Legal Services Corporation Office of the Inspector General (OIG) was developed in October 1999. The risk assessment presented as the basis for the plan identifies information technology as a medium risk. It also discussed the planned implementation of a new accounting system and rated the risk related to the system as high. According to the plan, Information Technology audits were scheduled to be performed in Fiscal years 2002, 2003, 2004 and 2005. Our review of audit reports issued from the OIG website indicates there were no information technology audits performed during the period 1996-2004.

The Strategic Plan also discussed the risk of fraud within LSC itself and deemed it to be medium, citing procurement activities as having the highest exposure. There were no LSC corporate reviews performed during the period.

The professional standards of American Institute of Certified Public Accountants also require auditors to consider IT risks that could result in misstatements. As an entity's operations and systems become more complex and sophisticated, it is more likely that the auditor needs to increase understanding of information technology internal controls.

By not performing IT or Corporate audits, the potential risks associated with these functions are not being addressed. A lack of LSC Corporate audits could mean potential exposure to fraud if it is not identified, and economy, efficiency and effectiveness of LSC operations are not assessed. A lack of Information Technology audits could fail to reveal issues associated with the integrity of the data processed through the systems, availability of information, and accuracy as well as reliability of data.

Recommendation

We recommend that LSC OIG consider performing Information Technology and Corporate reviews each year as part of the annual audit plan.

Comments of Responsible LSC OIG Official

Concur. Information Technology and Corporate reviews, as well as all other types of reviews, will be considered each year as part of the annual plan. However, the AIGA and the IG will exercise their judgment as to what to include each year in the annual plan.

2. Semiannual Report to Congress

Section 5(a)(6) of The Inspector General Act of 1978 specifies that the Semiannual Reports should contain "a listing, subdivided according to subject matter, of each audit report issued by the Office during the reporting period and for each audit report, where

applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.”

We noted that the two Semiannual Reports to Congress during the review period did not include a list of all audit reports issued, as required under section 5(a)(6) above. The reports included reference to section 5(a)(6), but indicated that it was not applicable. We believe this occurred because the LSC OIG erroneously thought that such a listing is not required when the audit reports have zero questioned costs or funds to be put to better use.

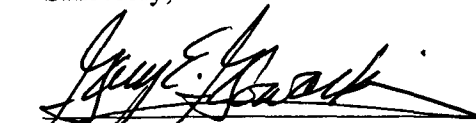
Recommendation

We recommend that the semiannual reports should include a list of all reports issued during the period.

Comments of Responsible LSC OIG Official

Concur. A list of all audit reports issued during the period will be included in the semiannual report.

Sincerely,


Gary E. Glowacki
Deputy Inspector General - Audit



Legal Services Corporation
Office of Inspector General

Inspector General
Kirt West

July 26, 2005

Mr. Gary E. Glowacki
Deputy Inspector General – Audits
National Railroad Passenger Corporation
10 G Street, NE, Suite 3w-300
Washington, DC 20002

Dear Mr. Glowacki:

Thank you and your staff for conducting the peer review of the Legal Services Corporation, Office of Inspector General audit program.

I have reviewed the draft Peer Review report and opinion letter and agree with all reportable findings and recommendations, which will be promptly implemented. My detailed responses are attached.

I appreciate the opportunity to comment on the draft Peer Review report and your opinion letter and look forward to receiving the final report. Please contact me on (202) 295-1650 if I can be of assistance.

Sincerely,

A handwritten signature in black ink that reads "Kirt West".

Kirt West
Inspector General

Attachment

Reportable Conditions

Finding 1: Internal Quality Assurance Reviews. Concur. The need for a formal internal quality assurance process was recognized as one of the main concerns for LSC OIG's audit program by the new Inspector General. As such, the Inspector General had a quality review conducted and, as indicated earlier in this report, identified many of the same issues noted in the peer review.

Recommendations

We recommend that policies and procedures should be developed for the internal review process. Also, periodic reviews of completed audits should be performed similar to those recently completed by the LSC OIG. In the future, consideration should be given to have someone other than the audit staff perform the quality reviews.

Comment of Responsible LSC OIG Official. Concur. At least annually, a quality assurance review will be performed to insure that all auditing standards are followed and any deficiencies identified. LSC OIG will give full consideration to having someone other than the audit staff performing the quality assurance reviews. This requirement will be documented on our revised audit policies. (Estimated Completion Date: August 31, 2005)

Finding 2: Internal Quality Control System Concur. There was no formal policy or system to track and monitor audit findings directed to LSC management because previous LSC IG's elected to only conduct reviews of grantee operations. Thus, such a policy served no purpose. However, reviews of LSC management have now been conducted and these reviews will be an integral part of the OIG's overall audit program.

Recommendations

We recommend that LSC OIG consider incorporating the tracking and monitoring of audit findings on LSC operations. LSC OIG should also consider implementing independent reviews of all audits. In addition, we recommend the use of quality control checklists for work paper reviews, audit report reviews, and independent reviews.

Comment of Responsible LSC OIG Official Concur. A preliminary system is in place where the OIG notifies LSC management which findings and recommendations must be tracked and receive OIG approval before being closing. A more detailed policy is being developed. All audits now are required to be independently referenced. Checklists will be incorporated as needed in our final revised policies. (Estimated Completion Date: August 31, 2005)

Finding 3: IPA Monitoring – Design and Compliance. Concur. The major issue with monitoring the work for the FY 2003 corporate audit was documenting the actual work accomplished. As noted in the finding, the OIG made significant improvement in this area for the FY 2004 corporate annual audit.

Recommendations

We recommend that LSC OIG finalize the IPA Monitoring procedures as planned. We also recommend that LSC OIG use the standards applicable to IPA monitoring.

Comment of Responsible LSC OIG Official. Concur. The provisions of and checklists contained in the GAO/PCIE Financial Audit Manual Section 650 were adopted for the FY 2004 work. These provisions and checklists will be contained in our final revised policy manual. (Estimated Completion Date: August 31, 2005)

Finding 4: IPA Audit Supervision. Concur.

Recommendations

We recommend increasing the level of supervision of audit work. In addition, supervisors should sign off on all work papers as evidence of review, including documenting comments and any follow-up actions taken.

Comment of Responsible LSC OIG Official. Concur. The level of supervision has increased significantly. All work papers require supervisory sign off once all questions and issues have been addressed. All supervisory reviews and follow up actions taken are required to be documented. (Closed)

Finding 5: Work paper Referencing. Concur.

Recommendations

We recommend enforcement of the LSC OIG cross-referencing procedures to ensure that all references on indexes flow to and from one another.

Comment of Responsible LSC OIG Official. Concur. LSC OIG cross-referencing procedures are now being enforced. (Closed)

Finding 6: Preparation of Audit Findings. Concur.

Recommendations

We recommend creating a standard "finding sheet" to be used on all audits that are cross-referenced to/from the audit report and work papers. The finding sheets should include the elements mentioned in GAS 7.62-65.

Comment of Responsible LSC OIG Official. Concur. LSC OIG processes and procedures will continually be evaluated to improve the OIG operations. As part of this evaluation, a standard "finding sheet" will be created if we find that the information already required in the work papers does not adequately serve as an important link to the audit report. (Closed)

Finding 7: Audit Plans. Concur.

Recommendations

We recommend that audit programs should incorporate the various steps required throughout the entire audit process and supervisors should review and approve the audit programs.

Comment of Responsible LSC OIG Official. Concur. All audit programs are required to incorporate the various steps required throughout the entire audit process. Supervisors will review and approve the audit program before program steps are accomplished. (Closed)

Other Observations

1. Audit Plan Coverage.

The previous IG made a decision that the LSC OIG would focus on grantee compliance because it was of greatest interest to our Congressional overseers and was the one thing that would have the most impact on continued funding. Thus audit focus was on the grantees and not on performance audits at the headquarters. In addition, the headquarters books were audited each year by a CPA firm, selected and monitored by the LSC OIG.

The technology audits referenced by in this area are not audits of technology, but audits of compliance with the grant provisions for technology grants administered by LSC. LSC OIG does not audit a grantees' technology. As far as the IT function within LSC HQ, it is neither complex nor sophisticated. However, since all functions within LSC HQ will be reviewed, the IT function will be audited in the coming months.

Recommendation

We recommend that the LSC OIG consider performing Information Technology and Corporate reviews each year as part of the annual audit plan.

Comments of Responsible LSC OIG Official. Concur. Information Technology and Corporate reviews, as well as all other types of reviews, will be considered each year as part of the annual plan. However, the AIGA and the IG will exercise their judgment as to what to include each year in the annual plan.

2. Semiannual Report to Congress

Disagree that the two semiannual reports to Congress do not contain a list of all audit reports. While the list may not have been in a particular format, all audit reports were listed. However, presenting the audits in a different format may be beneficial.

Recommendation

We recommend that the semiannual reports should include a list of all reports issued during the period.

Comments of Responsible LSC OIG Official. Concur. A list of all audit reports issued during the period will be included in the semiannual report.