

Dimethylaminoazobenzene (1218-0044); § 1910.1016 N-Nitrosodimethylamine (1218-0081).

A copy of the proposed information collection request (ICR) can be obtained by contacting the employee listed below in the addressee section of this notice.

**DATES:** Written comments must be submitted to the office listed in the addressee section below on or before October 15, 1996. The Department of Labor is particularly interested in comments which:

- Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility.
- Evaluate the accuracy of the agency's estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used;
- Enhance the quality, utility, and clarity of the information to be collected; and
- Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submissions of responses.

**ADDRESSES:** Comments are to be submitted to the Docket Office, Docket No. ICR-96-11, U.S. Department of Labor, Room N-2625, 200 Constitution Ave. NW, Washington, D.C. 20210, telephone (202) 219-7894. Written comments limited to 10 pages or less in length may also be transmitted by facsimile to (202) 219-5046.

**FOR FURTHER INFORMATION CONTACT:** Copies of the referenced information collection request are available for inspection and copying in the Docket Office and will be mailed immediately to persons who request copies by telephoning Vivian Allen at (202) 219-8076.

#### SUPPLEMENTARY INFORMATION:

##### I. Background

The 13 Carcinogens Standard is designed to provide protection for employees from the adverse health effects associated with occupational exposure to the aforementioned 13 carcinogens. The standard requires employers to develop signs and labels to warn employees about the hazards associated with the 13 carcinogens. Employers must provide training to employees prior to being authorized to enter regulated areas. Also employers

are required to notify OSHA area directors of regulated areas, changes to regulated areas, and of incidents/emergencies. A medical surveillance program for employees considered for assignment to enter regulated areas must also be established and implemented.

##### II. Current Actions

This notice requests an extension of the current OMB approval of the paperwork requirements contained in the separate 13 carcinogen information collection requests. However, since the 13 carcinogens have been combined into one standard, the Agency is requesting clearance for the 13 carcinogens under one package, OMB clearance number 1218-0085. Extension is necessary to provide continued protection to employees from the health effects associated with occupational exposure to the 13 carcinogens.

*Type of Review:* Extensions.

*Agency:* Occupational Safety and Health Administration.

*Title:* the 13 Carcinogens Standard.

*OMB Number:* 1218-0085.

*Agency Number:* Docket Number ICR-96-11.

*Affected Public:* Business or other for-profit, Federal government and State, Local or Tribal governments.

*Total Respondents:* 97.

*Frequency:* On occasion.

*Total Responses:* 1,606.

*Average Time per Response:* Time per response ranges from 5 minutes to maintain records to five hours to develop an emergency/incident report.

*Estimated Total Burden Hours:* 2,569.

*Estimated Capital, Operation/*

*Maintenance Burden Cost:* \$82,875  
Comments submitted in response to this notice will be summarized and/or included in the request for Office of Management and Budget approval of the information collection request; they will also become a matter of public record.

Dated: August 7, 1996.

Adam M. Finkel,

Director, Directorate of Health Standards Programs.

[FR Doc. 96-20605 Filed 8-12-96; 8:45 am]

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#### LEGAL SERVICES CORPORATION

##### Audit Guide for LSC Recipients and Auditors

**AGENCY:** Legal Services Corporation.

**ACTION:** Proposed revisions to the LSC Audit Guide for Recipients and Auditors.

**SUMMARY:** The Legal Services Corporation (LSC) hereby publishes for

comment by interested parties proposed revisions to the November 1995 LSC Audit Guide for Recipients and Auditors. The proposed revisions incorporate the audit requirements and additional provisions imposed by Congress through 110 Stat. 1321 (1996). There will be seven appendices to the revised Audit Guide, which in themselves establish no new rules, regulations or guidelines for recipients and auditors.

**DATES:** Comments should be received in writing on or before September 12, 1996. Late comments will be considered to the extent practicable. Where possible comments should reference applicable paragraph numbers in the proposed revision. To facilitate conversion of the comments in computer format for analysis, respondents are asked to send a copy of the comments on either a 3.5 or 5.25 inch diskette in ASCII format.

**ADDRESSES:** Comments should be submitted to the Office of Inspector General, Legal Services Corporation, 750 First St., N.E., 10th Floor, Washington, DC 20002-4250.

**FOR FURTHER INFORMATION CONTACT:** Karen M. Voellm, Chief of Audits (202) 336-8812.

**SUPPLEMENTARY INFORMATION:** Section 1009(c)(1) of the Legal Services Corporation Act, 42 U.S.C. 2996h(c)(1), requires that the Corporation either directly "conduct, or require each grantee, contractor, or person or entity receiving financial assistance" from the Corporation to provide for an annual financial audit. LSC's FY 1996 appropriation act, 110 Stat. 1321 (1996), declared that audits conducted pursuant to the provisions of Section 509 of that Act shall be in lieu of the financial audits otherwise required by Section 1009(c) of the LSC Act. In addition, Congress: (1) Mandated that routine on-site monitoring of grantee compliance be accomplished through annual audits conducted by independent public accountants (IPAs or auditors), 110 Stat. 1321, section 509 (a) and (c); (2) provided that such audits be conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, under the guidance established by the OIG, 110 Stat. 1321, section 509(a); (3) increased the restrictions and prohibitions on the types of activities in which recipients may engage, 110 Stat. 1321, sections 504-508; and (4) established special requirements for interim reporting by recipients on noncompliance with laws and regulations identified by their IPAs during the course of the audit, thereby placing special emphasis on recipients'

compliance with laws and regulations, 110 Stat. 1321, sec. 509(b). Congress also made sanctions available to the Corporation and the OIG for audits that were not conducted in accordance with the guidance established by the OIG, 110 Stat. 1321, sec. 509(c). The proposed revisions to the Guide incorporate these requirements. The proposed revisions include, but are not limited to: (1) Interim reporting requirements by the recipient on instances of noncompliance found by the auditor during the course of the audit; (2) changes to the submission date for audit reports; and (3) additional reports/notifications from the auditor.

There will be seven appendices to the Audit Guide. One of the appendices to the Audit Guide will be a revised Compliance Supplement which will identify additional regulations that the auditor should examine in the course of the recipient's annual audit and will contain suggested audit procedures for the auditor to assess compliance with applicable laws and regulations. The other appendices will include a sample audit agreement, a Guide for Procurement of Audit Services, a summary findings form, the recipient's and the auditor's 5-day notification to the OIG of the auditor's special report on noncompliance with laws and regulations, and the auditor's notification on cessation of services. Because the appendices themselves establish no new rules, regulations, or guidelines for recipients, they are not published for comment and will be promulgated without formal adoption by the Corporation's Board of Directors.

For the reasons set forth above, LSC proposes the Audit Guide to read as follows:

#### Legal Services Corporation

#### *Audit Guide for Recipients and Auditors*

#### Foreword

Under the Legal Services Corporation (LSC) Act, LSC provides financial support to organizations that furnish legal assistance to eligible clients. Section 1009(c) of the LSC Act requires that LSC either conduct or require each recipient of LSC funds to provide for an annual financial statement audit. In 1995, LSC promulgated an Audit Guide to replace the audit portions of both the original and the 1986 LSC Audit and Accounting Guide for Recipients and Auditors. The 1995 Guide required that recipient audits be conducted in accordance with Office of Management and Budget Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

In 1996, pursuant to 110 Stat. 1321 (1996) (Pub. L. 104-134), Congress:

1. Mandated that routine on-site monitoring of grantee compliance be accomplished through annual audits conducted by independent public accountants (IPAs or auditors);
2. Provided that such audits be conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, under the guidance established by the OIG;
3. Declared that audits conducted pursuant to the provisions of Section 509 shall be in lieu of the financial audits otherwise required by Section 1009(c) of the LSC Act;
4. Increased the restrictions and prohibitions on the types of activities in which recipients may engage; and
5. Established special requirements for interim reporting by recipients on noncompliance with laws and regulations identified by their IPAs during the course of the audit, thereby placing special emphasis on recipients' compliance with laws and regulations.

This legislation contains substantial and fundamental changes in the law governing grants to LSC recipients. It incorporates restrictions in the legal work LSC recipients may participate in, and changes the way compliance with these restrictions will be monitored. The IPA's special attention is directed to Appendix A, the Compliance Supplement, in planning the audit. The Compliance Supplement identifies by asterisk (\*) practice restrictions that are considered material to the LSC program. Because of the increased reliance on IPAs for assessing recipients' compliance with these restrictions, the OIG is planning a heightened quality assurance review program. The overall objective of the quality assurance review program is to ensure the quality of the auditor's work, and it will focus on, among other things, the auditor's testing of compliance with laws and regulations and related internal controls.

Pursuant to the audit requirements of 110 Stat. 1321 (1996), LSC is promulgating this revised Audit Guide. Seven appendices have been attached to this Audit Guide for use by recipients and auditors, as follows:

Appendix A—The Compliance Supplement provides notice to both recipients and their auditors of the specific LSC regulations which are to be tested for compliance. The Compliance Supplement will change as LSC rules, regulations and guidelines are adopted, amended or revoked, but it establishes no new rules, regulations or guidelines itself.

Appendix B—A Sample Audit Agreement contains mandatory and suggested provisions which recipients should consider incorporating into their audit agreements.

Appendix C—A Guide for Procurement of Audit Services prepared by the LSC Office of Inspector General (OIG) in the spring of 1994 and revised in 1995. This Guide is intended to assist recipients in planning and procuring audit services.

Appendix D—A Summary Findings Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions, along with instructions.

Appendix E—The Recipient 5-day Letter to the OIG of the IPA's "Special Report on Noncompliance with Laws and Regulations" ("Recipient 5-day Letter").

Appendix F—The Auditor 5-Day Letter to the OIG of the IPA's "Special Report on Noncompliance with Laws and Regulations" not Reported by Recipient ("Auditor 5-Day Letter").

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## Appendix G—Auditor Notification on Cessation of Services

Note: Appendixes A–G do not appear in the Federal Register. See **SUPPLEMENTARY INFORMATION**.

Authorities: The Legal Services Corporation Act of 1974, as amended, § 1008 (a) and (b), (42 U.S.C. 2996g (a) and (b)); § 1009(c)(1), (42 U.S.C. 2996h(c)(1)); and § 1010(c), (42 U.S.C. 2996i(c)); The Inspector General Act of 1978, as amended, 5 U.S.C. App. 3, § 4(a)(1); and § 4(b)(1); 110 Stat. 1321 §§ 501–509 (1996).

### I. Introduction

The Office of Inspector General (OIG) of the Legal Services Corporation (LSC) is responsible for establishing and interpreting LSC audit policy pursuant to the Inspector General Act of 1978, as amended, and the LSC Board of Directors' resolution of May 13, 1995. In 1996, pursuant to the requirements of Section 509 of 110 Stat. 1321 (1996), Congress: (1) Mandated that routine on-site monitoring of grantee compliance be accomplished through annual audits conducted by IPAs; (2) increased the restrictions and prohibitions on the types of activities in which recipients may engage; (3) increased the OIG responsibility for oversight; and (4) declared that the audits conducted pursuant to Section 509 of 110 Stat. 1321 (1996) were in lieu of the financial audits otherwise required by the LSC Act section 1009(c). This Guide incorporates those requirements. The OIG will examine the audits to identify noncompliance with laws and regulations, questioned costs and reported control deficiencies. Program-related findings and issues identified in the review of the audit reports will be forwarded to management for action.

#### I-1. Purpose

This Audit Guide provides a uniform approach for audits of LSC recipients and describes recipients' responsibilities with respect to the audit. The Audit Guide is to be used in conjunction with the Compliance Supplement (Appendix A). The Audit Guide and the Compliance Supplement provide the auditor flexibility in planning and performing the audit, encourage professional judgement in determining the audit steps necessary to accomplish audit objectives, and do not supplant the auditor's judgment of the audit work required in particular situations. Auditors should be aware that all practice restrictions identified in the Compliance Supplement by asterisk (\*) are considered material to the program, and the failure of a recipient to comply with the requirements may affect the recipient's eligibility for funding. The suggested procedures

included in the Compliance Supplement do not cover all the circumstances or conditions likely to be encountered during the course of an audit.

#### I-2. Required Standards and Guidance

Audits of recipients, contractors, persons or entities receiving financial assistance from LSC (all hereinafter referred to as "recipients") are to be performed in accordance with Government Auditing Standards (GAS or GAGAS) issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Organizations; and this Audit Guide.

For purposes of OMB Circular A-133, the LSC Compliance Supplement is to be followed for LSC funds, and it also includes restrictions and prohibitions on the use of non-LSC funds. Accordingly, the OMB Compliance Supplement for Audits of Institutions of Higher Education and Other Nonprofit Institutions does not apply to LSC funds. Each recipient of LSC funds is required to have a financial audit in accordance with the requirements of this Guide, and such audit shall include an assessment of the recipient's compliance with the laws and regulations identified in the Compliance Supplement (Appendix A).

#### I-3. Applicability

The requirements of this Audit Guide apply to all recipients and subrecipients of LSC funds, except where specific provisions have been otherwise made through grant or subgrant agreements. This Audit Guide does not apply to grants to law schools, universities or other special grants, which are covered by special provisions. Exceptions to these audit requirements will be determined by the OIG in consultation with LSC management.

#### I-4. Authority

This Audit Guide has been prepared under the authority provided by the following sections of the LSC Act, the IG Act and 110 Stat. 1321 (1996):

##### Records and Reports—LSC Act section 1008:

(a) The Corporation is authorized to require such reports as it deems necessary from any recipient, contractor, or person or entity receiving financial assistance under this title regarding activities carried out pursuant to this title.

(b) The Corporation is authorized to prescribe the keeping of records with respect to funds provided by grant or contract and shall have access to such

records at all reasonable times for the purpose of insuring compliance with the grant or contract or terms and conditions upon which financial assistance was provided.

##### Audit—LSC Act section 1009(c)(1):

The Corporation shall conduct or require each recipient, contractor, or person or entity receiving financial assistance under this title to provide for an annual financial audit.

##### Recipients' Non-LSC Funds—LSC Act section 1010(c):

Non-Federal funds received by the Corporation, and funds received by any recipient from a source other than the Corporation, shall be accounted for and reported as receipts and disbursements separate and distinct from Federal funds. . . .

##### Duties and Responsibilities—IG Act sections 4(a)(1) and 4(b)(1):

4(a) It shall be the duty and responsibility of each Inspector General, with respect to the establishment within which his Office is established—(1) to provide policy direction for and to conduct, supervise, and coordinate audits \* \* \* relating to the programs and operations of such establishment.

4(b)(1) In carrying out the responsibilities specified in subsection (a)(1), each Inspector General shall \* \* \* take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General \* \* \*.

##### Audit Requirements—Section 509 of 110 Stat. 1321, Public Law 104-134 (1996):

(a) An audit of each person or entity receiving financial assistance from the Legal Services Corporation under this Act (referred to in this section as a 'recipient') shall be conducted in accordance with generally accepted government auditing standards and guidance established by the Office of the Inspector General and shall report whether—

(1) The financial statements of the recipient present fairly its financial position and the results of its financial operations in accordance with generally accepted accounting principles;

(2) The recipient has internal control systems to provide reasonable assurance that it is managing funds, regardless of source, in compliance with Federal laws and regulations; and

(3) The recipient has complied with Federal laws and regulations applicable to funds received, regardless of source.

(b) In carrying out the requirements of subsection (a)(3), the auditor shall select and test a representative number of transactions and report all instances of noncompliance to the recipient. The

recipient shall report in writing any noncompliance found by the auditor during the audit under this section within 5 business days to the Office of the Inspector General and shall provide a copy of the report simultaneously to the auditor. If the recipient fails to report the noncompliance, the auditor shall report the noncompliance directly to the Office of the Inspector General within 5 business days of the recipient's failure to report. The auditor shall not be liable in a private action for any finding, conclusion, or statement expressed in a report made pursuant to this section.

(c) The audits required under this section shall be provided for by the recipients and performed by independent public accountants. The cost of such audits shall be shared on a pro rata basis among all of the recipient's funding providers and the appropriate share shall be an allowable charge to the Federal funds provided by the Legal Services Corporation. No audit costs may be charged to the Federal funds when the audit required by this section has not been made in accordance with the guidance promulgated by the Office of the Inspector General. If the recipient fails to have an acceptable audit in accordance with the guidance promulgated by the Office of the Inspector General, the following sanctions shall be available to the Corporation as recommended by the Office of the Inspector General:

(1) The withholding of a percentage of the recipient's funding until the audit is completed satisfactorily.

(2) The suspension of recipient's funding until an acceptable audit is completed.

(d) The Office of the Inspector General may remove, suspend, or bar an independent public accountant, upon a showing of good cause, from performing audit services required by this section. Any such action to remove, suspend, or bar an auditor shall be only after notice to the auditor and an opportunity for hearing.

The Office of the Inspector General shall develop and issue rules of practice to implement this paragraph.

(e) Any independent public accountant performing an audit under this section who subsequently ceases to be the accountant for the recipient shall promptly notify the Office of the Inspector General pursuant to such rules as the Office of the Inspector General shall prescribe.

(f) Audits conducted in accordance with this section shall be in lieu of the financial audits otherwise required by

section 1009(c) of the Legal Services Corporation Act (42 U.S.C. 2996h(c)).

(g) The Office of the Inspector General is authorized to conduct on-site monitoring, audits, and inspections in accordance with Federal standards.

(h) Notwithstanding section 1006(b)(3) of the Legal Services Corporation Act (42 U.S.C. 2996e(b)(3)), financial records, time records, retainer agreements, client trust fund and eligibility records, and client names, for each recipient shall be made available to any auditor or monitor of the recipient, including any Federal department or agency that is auditing or monitoring the activities of the Corporation or of the recipient, and any independent auditor or monitor receiving Federal funds to conduct such auditing or monitoring, including any auditor or monitor of the Corporation, except for reports or records subject to the attorney-client privilege.

(i) The Legal Services Corporation shall not disclose any name or document referred to in subsection (h), except to—

(1) A Federal, State, or local law enforcement official; or

(2) An official of an appropriate bar association for the purpose of enabling the official to conduct an investigation of a rule of professional conduct.

(j) The recipient management shall be responsible for expeditiously resolving all reported audit reportable conditions, findings, and recommendations, including those of sub-recipients.

(k) The Legal Services Corporation shall—

(1) Follow-up on significant reportable conditions, findings, and recommendations found by the independent public accountants and reported to Corporation management by the Office of the Inspector General to ensure that instances of deficiencies and noncompliance are resolved in a timely manner, and

(2) Develop procedures to ensure effective follow-up that meet at a minimum the requirements of Office of Management and Budget Circular Number A-50.

(l) The requirements of this section shall apply to a recipient for its first fiscal year beginning on or after January 1, 1996.

#### I-5. Effective Date

This Audit Guide is effective for audits of LSC programs for periods ending on or after December 31, 1996, except as otherwise authorized by the Corporation.

#### I-6. Communicating with the OIG Regarding Audit Matters

Recent legislation has brought a number of changes in the communication needs of recipients, IPAs, and the OIG. Because of these changes, the OIG is making special efforts to facilitate additional communications needs. We are currently expanding the use of electronic reporting by electronic mail through the Internet, as well as providing a World Wide Web page for interactive "Questions and Answers."

In addition, the OIG also has a staff of auditors available to answer questions, or address audit issues by telephone or facsimile.

The phone numbers and addresses are: Telephone—(202) 336-8812; Fax—(202) 336-8955; E-Mail—XXX; Internet—<http://oig.lsc.gov/>

#### I-7. Revisions to the Guide

The OIG will periodically revise the Audit Guide and its appendices through bulletins or replacement sections. Revisions may reflect changes to public law, corporate regulations, auditing standards, or other guidelines. Revisions should be incorporated into the recipient's copy of the Audit Guide, and furnished to the Independent Public Accountant (IPA) by the recipient. Questions relating to any revisions should be directed to the OIG. Information concerning the Audit Guide and any revisions will be posted periodically and available on the LSC OIG World Wide Web page.

#### I-8. Cumulative Status of Revisions

Effective date	Description
August 1976 .....	Original Edition of "Audit and Accounting Guide for Recipients and Auditors" issued.
June 1977 .....	Revised Original Edition of Audit and Accounting Guide issued.
September 1979	Revision to Pages 4-1 and 6-6.
September 1981	Revision to Pages ii, 4-1, 6-6, VIII-3, and addition of Page 4-2.
January 1, 1986 ...	Revised 1986 Edition of Audit and Accounting Guide Effective.
August 13, 1986	Regulation 1630 Replaces Chapter 4 of both the Original and 1986 Edition of the Audit and Accounting Guide.
December 31, 1995.	Chapter 6 of both Original and 1986 Audit and Accounting Guide replaced by Audit Guide.

Effective date	Description
December 31, 1996.	Revision to November 1995 Audit Guide to adopt audit provisions of 110 Stat. 1321 (1996).

## I-9. Responsibilities of Recipients

### A. Maintain Adequate Internal Controls

Recipients, under the direction of their boards of directors, are required to establish and maintain adequate accounting records and internal control procedures. Until revised, guidance relating to these responsibilities is found in both LSC's Original and 1986 Edition of the "Audit and Accounting Guide for Recipients and Auditors," referred to in I-8, above.

Internal Control is defined as the process, put in place by the recipient's board of directors, management, and other personnel, designed to provide reasonable assurance of achieving objectives over:

1. Reliability of financial reporting;
2. Compliance with laws and regulations that have a direct and material effect on the program; and any other laws so identified in the Compliance Supplement; and
3. Safeguarding of assets against unauthorized use or disposition.

### B. Provide Audited Financial Statements

Recipients are responsible for preparing annual financial statements and arranging for an audit of those statements to be completed and submitted to the OIG within 90 days of the recipients' fiscal year ends. While the recipients' boards of directors have the final responsibility for the appointment of the auditor, pursuant to Section 509(d) of 110 Stat. 1321 (1996), the OIG has direct authority to " \* \* \* remove, suspend, or bar an independent public accountant, upon showing of good cause, from performing audit services required by this section \* \* \* ", based upon rules of practice to be promulgated by the OIG.

Pursuant to Section 509(c) of 110 Stat. 1321 (1996), the recipient's failure to provide an acceptable audit in accordance with the guidance promulgated by the OIG may result in the following sanctions: (1) The withholding of a percentage of the recipient's funding until the audit is completed satisfactorily; or (2) the suspension of the recipient's funding until an acceptable audit is completed.

A written agreement between the recipient and the IPA must be executed and, at a minimum, should specifically

include all matters described in Section II-1 of this Audit Guide (Subsections A through H). Contracts or engagement letters should also contain an escape clause that would allow, without significant penalty, modification or cancellation made necessary by changes in law.

Appendix B is a sample audit agreement that includes the required matters described in Section II-1, and additional provisions which can be used to document the understanding between the recipient and the IPA. Recipients should consider incorporating these additional provisions in their audit agreements.

In procuring audit services, recipients may refer to the Guide for Procurement of Audit Services (Appendix C).

### C. Requirements for Recipient 5-Day Reporting to the OIG on Noncompliance with Laws and Regulations

Section 509(b) of 110 Stat. 1321 (1996) states that recipients "shall report in writing any noncompliance found by the auditor during the audit \* \* \* within 5 business days to the Office of the Inspector General and shall provide a copy of the report simultaneously to the auditor. If the recipient fails to report the noncompliance, the auditor shall report the noncompliance directly to the Office of the Inspector General within 5 business days of the recipient's failure to report. The auditor shall not be liable in a private action for any finding, conclusion, or statement expressed in a report made pursuant to this section."

In fulfilling this requirement, recipients are required to report to the OIG all instances of noncompliance with respect to the practice restrictions identified in the Compliance Supplement as reported by the auditor in accordance with Section II.1.G of this Guide. The recipient must report to the OIG within five (5) business days after receiving the report of noncompliance from the IPA. The recipient's submission to the OIG pursuant to this section should include a transmittal letter, and a copy of the auditor's report to the recipient on the noncompliance (See Appendix E for Recipient 5-Day Letter). Reports submitted pursuant to the requirements of this section must be sent to the OIG by facsimile, E-mail or registered mail. The recipient is also required to simultaneously provide a copy of its report to the OIG to the auditor using the same manner of communication (facsimile, E-mail or registered mail).

### D. Corrective Action Plans

Consistent with Section 509(j) of 110 Stat. 1321 (1996), recipient management shall be responsible for expeditiously resolving all recommendations and audit findings which include: (1) Reportable conditions in internal control; (2) material noncompliance with laws and regulations identified in the LSC Compliance Supplement (Appendix A); and (3) questioned costs, including those of sub-recipients. Recipients are required to develop and submit to the Corporation corrective action plans within 30 days of submission of the audit report to the OIG. The corrective action plan must specifically describe the corrective action taken or planned in response to the recommendations and audit findings identified by the IPA. The corrective action plan must identify: (1) Each finding as reported by the IPA; and (2) the action that will be taken and the date by which it will be taken or completed. If the recipient disagrees with the finding or believes corrective action is not required, it shall provide an explanation and specific reasons (e.g. regulatory or legal requirements) that corrective action is not required. If practical, and as an option, a recipient may incorporate its corrective action plan in its response to the auditor's findings and recommendations. However selection of this option shall not preclude submission of the audit reports within the required time frame, nor serve as a basis for an extension request.

Pursuant to the requirements of Section 509(k)(1) of 110 Stat. 1321 (1996), LSC management has the responsibility for follow-up on " \* \* \* significant reportable conditions, findings and recommendations found by the independent public accountants and reported to the Corporation management by the Office of Inspector General to ensure that instances of deficiencies and noncompliance are resolved in a timely manner \* \* \* " To facilitate the responsibilities of LSC management and the OIG, recipients are required to submit the corrective action plans to the OIG; the corrective actions plans will be forwarded to LSC management by the OIG.

## II. Audit Performance Requirements

### II-1. Auditor Requirements

#### A. Objectives

The primary audit objectives are to determine whether:

1. The financial statements are presented fairly, in all material respects, in conformity with Generally Accepted

Accounting Principles (GAAP), or other Comprehensive Basis of Accounting;

2. The internal control structure provides reasonable assurance that the recipient is managing funds, regardless of source, in compliance with applicable Federal laws and regulations, and controls are in place to ensure compliance with the laws and regulations which could have a material impact on the financial statements; and

3. The recipient has complied with applicable provisions of Federal law, Corporation regulations and grant agreements, regardless of source of funds, which may have a direct and material effect on its financial statement amounts and on the LSC program.

#### *B. Reports*

The IPA will prepare the audit reports required by GAS and OMB Circular A-133. Recipients should ensure that the management letters are included with the report submissions to LSC, as well as the Summary Findings Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions (See Appendix D for form and content). The IPA has additional responsibility under Section II.1.G. for interim reporting of noncompliance with certain laws and regulations.

#### *C. Qualifications of the IPA*

The comprehensive nature of auditing performed in accordance with GAS places on the IPA the responsibility for ensuring that: (1) The audit is conducted by personnel who collectively have the necessary skills; (2) independence is maintained; (3) applicable standards are followed in planning and conducting audits and reporting the results; (4) the IPA has an appropriate internal quality control system in place; and (5) the IPA undergoes an external quality control review. IPAs must meet the qualifications stated in GAS.

#### *D. Audit Working Papers*

The audit working papers are to be prepared in accordance with GAS, and are to be retained by the IPA for at least three years from the date of the final audit report.

#### *E. Access to Audit Working Papers*

The audit working papers are to be available for examination upon request by representatives of LSC and the Comptroller General of the United States. The LSC Act, § 1009(d), prohibits access by the Corporation and the Comptroller General's to any reports or records subject to the attorney-client privilege. To the extent not protected by

the attorney-client privilege, the Corporation, including the OIG, is provided with access by Section 509 (h) of 110 Stat. 1321 (1996) to " \* \* \* financial records, time records, retainer agreements, client trust fund and eligibility records, and client names \* \* \*." The audit working papers are subject to Quality Assurance Review by the LSC OIG.

#### *F. Disclosure of Irregularities, Illegal Acts and Other Noncompliance*

During an audit, if matters are uncovered relative to actual, potential, or suspected defalcations, or other similar irregularities, the IPA will comply with Statement on Auditing Standards (SAS) Number 53, "The Auditor's Responsibility to Detect and Report Errors and Irregularities," and SAS Number 54, "Illegal Acts by Clients." While the auditor may contract directly with the recipient for audit services, it is emphasized that any items considered by the auditor to justify reporting to the recipient's program director and/or board of directors, should also be included in the management letter for LSC's consideration. If such items relate to the recipient's capabilities to safeguard and account for LSC funds, the IPA shall notify immediately the Office of Inspector General at (202) 336-8812. The reporting requirements under this section are separate and distinct from the special reporting requirements discussed at Section II.1.G below.

#### *G. Requirements for Auditor 5-Day Reporting to the OIG on Noncompliance with Laws and Regulations*

Section 509(b) of 110 Stat. 1321 (1996):

(1) Recognizes the auditor's responsibility to select and test a representative number of transactions and report all instances of noncompliance with laws and regulations;

(2) Provides that the auditor shall not be liable in a private action for any finding, conclusion, or statement expressed in a special report on noncompliance made pursuant to this section; and

(3) Places additional responsibility on the auditor to report all instances of noncompliance directly to the OIG, in the event the recipient fails to notify the OIG within five (5) business days of receipt of the auditor's interim report on noncompliance.

The IPA is responsible for providing sufficient information to the recipient on the findings of noncompliance to facilitate the recipient meeting its interim reporting responsibilities under

Section I.9.C of this Audit Guide. The laws and regulations requiring special reporting are defined in the Compliance Supplement (Appendix A). When a determination has been made that an instance of noncompliance has occurred, IPAs are to report immediately to the recipient. The IPA's report to the recipient shall be generated at such a point during the course of the audit that sufficient competent evidential matter has been obtained by the auditor to reach a conclusion on the particular instance of noncompliance. The IPA's report to the recipient pursuant to this section should not await completion of the audit reports identified in Section III of this Audit Guide. The IPA's special report to the recipient shall be in letter format and shall specifically contain, at a minimum, the following: (1) A description of the particular instance(s) of noncompliance discovered during the course of the audit; and (2) the circumstances surrounding the instance(s) of noncompliance.

Within five (5) business days after issuance of the IPA's special report to the recipient, and in accordance with Section I.9.C of this Guide, the auditor should receive from the recipient a copy of the recipient's 5-day letter to the OIG. If no such copy is received, the IPA shall, within five (5) business days of the recipient's failure to provide the required copy of its report to the OIG, submit a copy of the report directly to the OIG. This statutory procedure thus ensures that the OIG will receive a copy of the IPA's special report on noncompliance within ten (10) business days after the recipient's receipt of the report from its auditor (See Appendix F for the Auditor 5-Day Letter to the OIG). The auditor's submission to the OIG under this section must be transmitted by facsimile, E-mail or registered mail.

#### *H. IPA Notification to OIG on Cessation of Audit Services*

Pursuant to Section 509(e) of 110 Stat. 1321 (1996), the IPA is required to notify the OIG when it ceases to provide audit services to the recipient. The IPA shall notify the OIG within five (5) business days of its termination or cessation of services to the recipient. (See Appendix G for the notification form.)

#### *II-2. Review of Internal Controls*

In accepting LSC funds, recipient management asserts that its accounting system is adequate to comply with LSC requirements. As part of the review of internal controls, the auditor is required to evaluate the effectiveness of the recipient's accounting system and

internal controls. The primary objectives of this evaluation are to ensure that resources are safeguarded against waste, loss and misuse, and that resources are used consistent with LSC regulations and grant conditions.

### II-3. Assessing Compliance With Laws and Regulations

The requirements set out in the Compliance Supplement (Appendix A) are those which could have a material impact on the LSC program. Accordingly, examination of these compliance requirements are part of the audit. As stated in Section I-1 of this Guide, Congress increased the restrictions and prohibitions on the types of activities in which recipients may engage. In addition, there are special requirements for the recipient and auditor to report to the OIG on noncompliance with laws and regulations. The failure of a recipient to comply with the practice restrictions contained in the Compliance Supplement may affect the recipient's eligibility for LSC funding.

The Compliance Supplement specifies the objectives and provides suggested procedures to be considered in the auditor's assessment of a recipient's compliance with laws and regulations. The suggested procedures can be used to test for compliance with laws and regulations, as well as to evaluate the related controls. Auditors should use professional judgement to decide which procedures to apply, and the extent to which reviews and tests should be performed. Auditors are required to select and test a representative number of transactions. Some procedures require a review and evaluation of internal controls. If the reviews and evaluations were performed as part of the internal control structure review, audit procedures should be modified to avoid duplication. Auditors should also refer to the grant agreements for additional requirements.

In certain cases, noncompliance may result in questioned costs. Auditors are to ensure that sufficient information is obtained to support the amounts questioned. Working papers should adequately document the basis for any questioned costs and the amounts reported.

### II-4. Audit Follow-Up

Consistent with GAS paragraph 4.10, the auditor is required to follow-up on known material findings and recommendations from previous audits that could affect the financial statement audit and, in this case, the program. The objective is to determine whether timely and appropriate corrective action has

been taken. Auditors are required to report the status of uncorrected material findings and recommendations from prior audits. These requirements are also applicable to findings and recommendations issued in a management letter.

### III. Audit Reporting Requirements

#### III-1. Audit Reports and Distribution

IPAs should follow the requirements of GAS, OMB Circular A-133, Statement on Auditing Standards (SAS) 74 and Statement of Position (SOP) 92-9 (and any revisions thereto) for guidance on the form and content of reports. The OMB Circular A-133 reports must reference the LSC Audit Guide and Compliance Supplement. In addition to the reports required under OMB Circular A-133, IPAs are required to submit a Summary Findings Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions (Appendix D). Three copies of the audit reports, Summary Findings Form on Noncompliance with Laws and Regulations, Questioned Costs and Reportable Conditions and the management letter, where applicable, are to be submitted to the LSC OIG within 90 days of the recipient's year end.

#### III-2. Extension Requests for Audit Submissions

Under exceptional circumstances, an extension of the 90-day requirement may be granted. Requests for extensions must be in writing, and directed to the Office of Inspector General. Extension requests must be made at least two (2) weeks prior to the date the audits are due, and will only be granted for unforeseen, extraordinary and compelling reasons. All other requests will be denied.

#### III-3. Views of Responsible Officials

Consistent with GAS paragraph 7.38, auditors are encouraged to report the views of responsible program officials concerning the auditors' findings, conclusions, and recommendations, as well as corrections planned, where practical.

### IV. Reference Materials

A. Title X—Legal Services Corporation Act of 1974, 42 USC 2996, to 2996.I.

B. 45 Code of Federal Regulations Part 1600 to 1642.

C. Government Auditing Standards, issued by the Comptroller General of the United States, 1994 Revision.

D. OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

E. AICPA Professional Standards, Volume I.

F. AICPA Integrated Practice System, Not-For-Profit Organizations Audit Manual.

G. Practitioners Publishing Company Guide to Audits of Nonprofit Organizations, Seventh Edition (June 1994).

H. AICPA Statement of Position (SOP) 92-9, Audits of Not-For-Profit Organizations Receiving Federal Awards, December 28, 1992.

I. Pursuant to LSC Regulations, 45 C.F.R. 1630.4(g):

The Circulars of the Office of Management and Budget shall provide guidance for all allowable cost questions arising under this part when relevant policies or criteria therein are not inconsistent with the provisions of the Act, applicable appropriations acts, this part, the Audit and Accounting Guide for Recipients and Auditors, and Corporation rules, regulations, guidelines, and instructions.

Among the OMB Circulars which should be referred to if not inconsistent with LSC policies are:

Office of Management and Budget (OMB) Circular A-50, Audit Follow-up.

OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.

OMB Circular A-122, Cost Principles for Nonprofit Organizations.

OMB Circular A-123, Internal Control Systems.

OMB Circular A-127, Financial Management Systems.

Dated: August 7, 1996.

Victor M. Fortunato,

*General Counsel.*

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## NATIONAL TRANSPORTATION SAFETY BOARD

### Sunshine Act Meeting

**TIME AND DATE:** 10:00 a.m., Tuesday, August 20, 1996.

**PLACE:** The Board Room, 5th Floor, 490 L'Enfant Plaza, SW., Washington, DC 20594.

**STATUS:** Closed to the public under Exemption 10 of the Government in Sunshine Act.

### MATTERS TO BE CONSIDERED:

6700 Opinion and Order: Administrator v. Buckel, Docket SE-14129; disposition of the Administrator's appeal.