

INTERNATIONAL TRADE COMMISSION

[Investigation No. 337-TA-374]

In the Matter of Certain Electrical Connectors and Products Containing Same; Notice of Commission Determinations (1) To Adopt the Administrative Law Judge's Initial Determination Denying Complainants' Motion for Temporary Relief and (2) Not to Review the Administrative Law Judge's Initial Determination Finding Respondent Foxconn International in Default

AGENCY: U.S. International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the Commission has determined (1) to adopt the presiding administrative law judge's (ALJ's) initial determination (ID) in the above-captioned investigation denying the motion of complainants AMP Inc. and The Whitaker Corporation for temporary relief, and (2) not to review the ALJ's ID finding respondent Foxconn International in default.

FOR FURTHER INFORMATION CONTACT: Jay Reiziss, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-205-3116.

SUPPLEMENTARY INFORMATION: The Commission instituted this investigation on May 8, 1995, based on a complaint filed by AMP Inc. of Harrisburg, Pennsylvania and The Whitaker Corporation of Wilmington, Delaware (collectively "complainants"). 60 FR 25247. The following firms were named as respondents: Berg Electronics, Inc. ("Berg"); Hon Hai Precision Industry Co., Ltd. ("Hon Hai"); Foxconn International ("Foxconn"); and Tekcon Electronics Corp ("Tekcon"). The Commission also provisionally accepted complainants' motion for temporary relief.

The presiding ALJ held an evidentiary hearing on temporary relief from June 28, 1995, through July 12, 1995. On September 8, 1995, the ALJ issued an ID (Order No. 25) denying complainants' motion for temporary relief. On September 8, 1995, the ALJ also issued an ID (Order No. 23) finding respondent Foxconn in default pursuant to Commission rule 210.16. On September 20, 1995, the parties filed written comments concerning the temporary relief ID. The parties filed reply comments on that ID on September 25, 1995.

This action is taken under the authority of section 337 of the Tariff Act of 1930, 19 USC § 1337, and

Commission rules 210.42 and 210.66 (19 CFR 210.42 and 210.66). Copies of the public versions of the IDs and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street S.W., Washington, D.C. 20436, telephone 202-205-2000. Hearing-impaired persons are advised that information on the matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810.

By order of the Commission.

Issued: October 10, 1995.

Donna R. Koehnke,
Secretary.

[FR Doc. 95-25830 Filed 10-17-95; 8:45 am]

BILLING CODE 7020-02-P

DEPARTMENT OF LABOR

Office of the Secretary

Glass Ceiling Commission; Open Meeting By Teleconference

Summary: Pursuant to Title II of the Civil Rights Act of 1991 (Pub. L. 102-166) and Section 9 of the Federal Advisory Committee Act (FACA) (Pub. L. 92-462, 5 U.S.C. App. II) a Notice of establishment of the Glass Ceiling Commission was published in the Federal Register on March 30, 1992 (57 FR 10776). Pursuant to section 10(a) of FACA, this is to announce a teleconference meeting of the Commission which is to take place on Wednesday, November 1, 1995. The purpose of the Commission is to, among other things, focus greater attention on the importance of eliminating artificial barriers to the advancement of minorities and women to management and decisionmaking positions in business. The Commission has the practical task of: (a) Conducting basic research into practices, policies, and manner in which management and decisionmaking positions in business are filled; (b) conducting comparative research of businesses and industries in which minorities and women are promoted or are not promoted; and (c) recommending measures to enhance opportunities for and the elimination of artificial barriers to the advancement of minorities and women to management and decisionmaking positions.

Time and Place: The Open Meeting By Teleconference will be held on November 1, 1995 in Room C2313 at the Department of Labor, 200 Constitution

Avenue, NW, Washington, D.C. 20210 beginning at 1:00 pm and continuing until approximately 2:00 pm (EDT).

The purpose of this meeting is to conduct a full Commission vote on the Recommendations Report that will be submitted to the President and Select Committees of Congress.

Individuals with disabilities who wish to attend should contact Ms. Loretta Davis (202) 219-7342 if special accommodations are needed.

For Further Information Contact: René A. Redwood, Executive Director, The Glass Ceiling Commission, c/o U.S. Department of Labor, 200 Constitution Avenue, N.W., Room C-2313, Washington, D.C. 20210. Telephone (202) 219-7342.

Signed at Washington, D.C., this 12th day of October 1995.

René A. Redwood,

Executive Director, Glass Ceiling Commission.

[FR Doc. 95-25825 Filed 10-17-95; 8:45 am]

BILLING CODE 4510-23-M

Glass Ceiling Commission Closed Meeting

Summary: Pursuant to section 10(a) of FACA, this is to announce a meeting of the Glass Ceiling Commission which is to take place on Wednesday, October 25, 1995.

Time and Place: The closed meeting will be held on Wednesday, October 25, 1995 from 1 p.m. to 2 p.m. and held at the U.S. Department of Labor, Room C2313, 200 Constitution Avenue, NW., Washington, DC.

The Commission will meet in closed session in order to discuss commercial characteristics of applicants for the Frances Perkins-Elizabeth Hanford Dole National Award For Diversity and Excellence in American Executive Management. The closing of this meeting is authorized by section 10(d) of the Federal Advisory Committee Act and Section (c)(4) of the Government in the Sunshine Act (5 U.S.C. 552b(c)(4)). This closing allows the Commission to discuss matters which if disclosed in an open meeting would reveal information that would not customarily be released to the public by the applicants.

For Further Information Contact: Ms. René Redwood, Executive Director, Glass Ceiling Commission, U.S. Department of Labor, 200 Constitution Avenue, NW., Room C-2313, Washington, DC 20210, (202) 219-7342.

Signed at Washington, DC this 12th day of October, 1995.

René A. Redwood,

Executive Director.

[FR Doc. 95-25826 Filed 10-17-95; 8:45 am]

BILLING CODE 4510-23-M

LEGAL SERVICES CORPORATION**Audit Guide for LSC Recipients and Auditors**

AGENCY: Legal Services Corporation.

ACTION: Final audit guide for recipients and auditors.

SUMMARY: The Legal Services Corporation (LSC or Corporation) hereby publishes as final the Audit Guide for Legal Services Corporation Recipients and Auditors (Audit Guide), which was adopted by the LSC Board of Directors on October 6, 1995. This Audit Guide will replace the audit portions of both editions (1981 and 1986) of the current "Audit and Accounting Guide for Recipients and Auditors" (Audit and Accounting Guide). The Audit Guide will be maintained as a separate document under the authority of the LSC Office of Inspector General (OIG). The accounting and financial reporting requirements of the Audit and Accounting Guide will remain in effect until amended in the future, and will remain the responsibility of LSC management. All questions regarding LSC accounting requirements should be directed to LSC's Office of Program Evaluation, Analysis and Review (OPEAR).

The Audit Guide prescribes the use of Government Auditing Standards (GAS or GAGAS), and Office of Management and Budget (OMB) Circular A-133. There will be three appendices to the new Audit Guide, which in themselves establish no new rules, regulations or guidelines for recipients, and as such are not published herein. The Appendices are: (1) The Compliance Supplement; (2) the Sample Audit Agreement; and (3) the Guide for Procurement of Audit Services by Legal Services Corporation Recipients.

EFFECTIVE DATE: The requirements of the Audit Guide are effective for audits of fiscal years ending on or after December 31, 1995, except as otherwise authorized by the Corporation.

FOR FURTHER INFORMATION CONTACT: Charmaine Romear, Office of Inspector General, Legal Services Corporation, 750 First St., N.E., 10th Floor, Washington, DC 20002-4250 (Telephone: (202) 336-8840).

SUPPLEMENTARY INFORMATION: The Legal Services Corporation Act requires that the Corporation "conduct, or require each grantee, contractor, or person or entity receiving financial assistance" (Section 1009(c)(1)) from the Corporation to provide for an annual financial audit. Historically, the Corporation has chosen to require recipients to provide the annual audit pursuant to the

Corporation's audit guidance provided in the Audit and Accounting Guides.

On July 30, 1976, the Legal Services Corporation published in the Federal Register its "Audit and Accounting Guide for Recipients and Auditors" (41 FR 29951-29979). Pursuant to Section 1008(e) of the Legal Services Corporation Act (42 U.S.C. 2996(g)(c)), the Corporation thereafter requested (41 FR 32794) and received comment from interested persons. The Audit and Accounting Guide became effective on October 4, 1976.

On July 19, 1977, the Corporation published a notice instructing recipients to use the revised Audit and Accounting Guide (June 1977) that had been distributed in June of 1977. (42 FR 37077). The instruction was effective immediately upon publication. There were additional unpublished revisions in September 1979 and 1981, and a separate "Fundamental Criteria of an Accounting and Financial Reporting System"; each was issued directly to grant recipients.

On February 20, 1985, the Corporation published a notice of availability of a revised Audit and Accounting Guide that had been distributed February 11, 1985. (50 FR 7150). The notice established a 90-day period for the submission of comments. On November 29, 1985, after adoption by the Corporation's Board of Directors, the final publication of the revised Audit and Accounting Guide appeared in the Federal Register. (50 FR 49276). This version of the Audit and Accounting Guide became effective January 1, 1986. Shortly thereafter, however, the Corporation gave recipients the option of using either the September 1981 or the January 1986 version of the Audit and Accounting Guide.

On May 24, 1995, pursuant to the LSC Board Resolution of May 13, 1995 which transferred responsibility for establishing audit policy to the OIG, the OIG published in the Federal Register for public notice and comment the proposed Audit Guide for LSC Recipients and Auditors. (60 FR 27562-27567). The initial notice established a 30-day comment period. The comment period was subsequently extended for 30 additional days to July 24, 1995 through two published notices. (60 FR 30901 and 60 FR 34303).

The Audit Guide makes one major change in the current standards. All financial statement audits for periods ending on or after December 31, 1995, will be conducted pursuant to GAS and OMB Circular A-133, except as otherwise provided by the Corporation.

Twenty-two comments were received. The comments from the American Institute of Certified Public Accountants (AICPA), and the Center for Law and Social Policy (CLASP) have been referenced in the Supplementary Information, as they mirrored those of many other respondents. The comments were analyzed and discussed before the Finance Committee of the LSC Board of Directors in September 1995.

Some of the comments raised issues that relate to the proposed Fiscal Year 1996 (FY96) Appropriation. No response is made to those comments at this time; however, the Corporation is aware of the varying 1996 Appropriation Bills passed by the House and the Senate. The Corporation will consider the application of the audit requirements of this Audit Guide when the Appropriation is enacted.

Several comments were received opposing or requesting the Corporation's re-consideration of the requirement for GAS and OMB Circular A-133 because of increased audit costs, decreased LSC funding for FY96, the impact of staff reductions, and in some cases, the impact on the program's current auditors who may not be qualified to conduct such audits. Adoption of GAS for audits of LSC grants will increase accountability and credibility with the Congress and the public. Audits performed under OMB Circular A-133 will cost more; however, this increased cost will significantly enhance accountability. Although we expect an initial cost increase, we also expect a subsequent reduction in audit costs as auditors become more familiar with the LSC requirements, and as programs become better prepared for the audits. We believe the incremental costs are not substantial, and are balanced by the concomitant savings as a result of a more focused and less intrusive monitoring mechanism.

As to the comments regarding the impact on Independent Public Accountants (IPAs) who are not qualified under GAS, the impact is not necessarily negative. A requirement that the auditor meets the requirements of GAS ensures that a recipient is audited by an IPA with specific training, and thus increases accountability.

There were comments expressing concern about the timing of the adoption of the new audit requirements (December, 31, 1995 audits), and the impact on a program's ability to respond effectively during a period of budget cuts, staff reductions and pending imposition of new restrictions for FY96. Most recommended implementation for audits of fiscal year ends after December 31, 1995. The AICPA recommended

implementation at least six months after finalization of the Audit Guide and the Compliance Supplement. CLASP recommended a voluntary adoption for programs which are not already subject to the requirements and do not have binding audit agreements. The Corporation's Budget Request for FY96, distributed to all current recipients February 1995, contained a statement that the Corporation intended to implement GAS and OMB Circular A-133 for fiscal years ending December 31, 1995, and after. In May 1995, after the transfer of the audit function to the OIG, the OIG published the proposed Audit Guide for comment in the Federal Register. The Board of Directors, having reviewed the comments, has decided to adopt the Audit Guide. Given this history, recipients have had adequate notice that the new requirements were likely to be adopted and it is not unreasonable to implement the new Audit Guide effective December 31, 1995. Moreover, implementation of the new Audit Guide will significantly enhance the fiscal compliance monitoring conducted on behalf of the Corporation, adding comprehensive on-site examination of a recipient's compliance with fiscal regulations to the current desk reviews and on-site compliance reviews. Achieving implementation on December 31, 1995, is particularly important from the perspective of audit coverage—recipients with fiscal years ending on December 31 receive approximately 63% of the total annualized LSC grants. The OIG will extend a one-time exemption on the initial application of these requirements for the following groups of recipients:

Category 1: Programs receiving less than \$300,000 in total federal funding (which includes LSC funding), and are not currently required to have a GAGAS audit or an A-133 audit. The one-time exemption is automatic, and does not require prior notification to the OIG.

Category 2: Programs which are not eligible for funding effective January 1, 1996. The one-time exemption is automatic, and does not require prior notification.

Category 3: Programs receiving \$300,000 or greater in total federal funding (which includes LSC funding), and currently have binding contracts for generally accepted auditing standards (GAAS) audits. Exemptions will only be granted upon written request, and will only apply to contracts in effect prior to July 1, 1995, which must be submitted to the OIG along with the exemption requests.

Most comments and calls received by the OIG expressed the need to give the

recipients and auditors an opportunity to review and comment on the Appendices. Some of these comments expressed concern about, or seemed to be attributable to the statements made in the initial publication that the Appendices were not published as they established no new rule or regulation, and that they would be promulgated without formal adoption by the Corporation's Board of Directors. The Appendices were not published in the Federal Register for notice and comment because none of the documents established new rules or regulations. Rather, they were a reflection of already existing regulations and accounting standards that had been previously subject to notice and comment. Notwithstanding this, it was always intended that recipients and interested parties would be given an opportunity to comment on the Appendices. The "Compliance Supplement" was distributed for notice and comment to recipients and interested parties on August 30, 1995. The "Sample Audit Agreement" is merely a model which recipients may find useful. The "Guide for Procurement of Audit Services by Legal Services Corporation Recipients" was previously distributed in April 1994 to all LSC recipients. Any future revisions to the Audit Guide or its Appendices that reflect or implement new policies or rules would be published for notice and comment in the Federal Register, and would be distributed to recipients and interested parties for comment.

Two Appendices referenced in the May 24, 1995 Federal Register notice of the "Audit Guide" were more appropriate to the LSC Accounting Guide, and will be drafted by management. We, therefore, excluded the following from the Audit Guide: 1) Model Format for Audited Financial Statements and Footnotes; and 2) the Fundamental Criteria of an Accounting and Financial Reporting System. Both Appendices were excerpts from the previous Audit and Accounting Guides to make auditors aware of existing LSC requirements for internal control from an audit perspective, and to achieve some form of standardization in the classification of accounts reported in the annual audits. These documents would be subject to review and revision in the near future as a result of changes to two accounting standards for non-profits, Statements of Financial Accounting Standards (SFAS): SFAS 116, Accounting for Contributions Received and Contributions Made; and SFAS 117, Financial Statements of Not-for-Profit Organizations.

There were several comments recommending deletion of paraphrases or quotes from the GAGAS and GAAS standards. It was stated that GAS and GAAS contain sufficient guidance to the auditor, and it was suggested that to streamline the Guide these requirements be incorporated by reference only. Except where special emphasis was needed, we have deleted the restated existing standard.

Some comments disagreed with defining LSC as a major program in the initial publication. The general view was that LSC should not impose criteria for determining a major program for the purposes of OMB Circular A-133 as the Circular already defines the criteria for such determinations. The Audit Guide has been revised to eliminate the reference to LSC as a major program.

Financial Responsibilities of Recipients (Section I-7, Subsection A): The AICPA suggested that the Audit Guide, in discussing the objectives of a financial system, adopt language that is consistent with the definition of internal controls in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The AICPA also suggested that the title of the Section, "Maintain Adequate Accounting System," be changed to "Maintain Adequate Internal Controls." Both suggestions reflect the view within the audit community that management's responsibility for maintaining adequate internal controls should be emphasized.

The AICPA's suggestion that the Audit Guide adopt the COSO definition of internal controls is contingent on revisions to existing audit standards, viz. Statement on Auditing Standards (SAS) 55, "Consideration of the Internal Control Structure in a Financial Statement Audit." Since SAS 55 revisions have not yet been finalized or implemented, we did not make any revisions to the Audit Guide; however, we have revised the Audit Guide to adopt the suggested title.

Basis for Precluding the Appointment of the Auditor (Section I-7, Financial Responsibilities of Recipients, Subsection B): Comments questioned the definition of the phrase "if a conflict of interest exists" as a basis for LSC preclusion on the appointment of an auditor. The respondents argued that GAS addresses auditor independence, and that LSC should not establish different independence standards. We have revised the language to ensure consistency with GAS. The Audit Guide makes reference to the qualification requirements of GAS as one of the bases for LSC's preclusion of the appointment of the auditor.

Retention Period for Audit Working Papers (Section II-1, Audit Requirements, Subsection D): There were comments stating that the eight year period for retention of the audit working papers was too long and burdensome. The retention period has been revised to three years, consistent with the requirements of OMB Circular A-133.

Access to Audit Working Papers and Impact on Attorney Client Privilege (Sections II-1, Audit Requirements, Sub-sections E and G): There were several comments on third party access to information that is protected by the attorney-client privilege, an issue which was raised by management prior to the publication of the proposed Audit Guide. The general concern was that the Audit Guide, under the sections related to "Access to Audit Working Papers," and "Privileged or Confidential Information," did not identify the LSC Act restriction (§ 1009(d)) on access to attorney-client privileged information, nor did it provide guidance on how such information should be handled in the course of the audit. CLASP suggested that the language on "Privileged and Confidential Information" (Section II-1, Subsection G of the initial notice) be deleted and access be discussed under "Access to Audit Working Papers" (Section II-1, Subsection E). We agreed with the concerns expressed and adopted CLASP's recommendation. The Guide has been revised to delete Section II-1, Subsection G. In addition, the LSC Act restriction has been referenced under Section II-1, Subsection E. We have not accepted CLASP's suggestion that the provisions of state codes of ethics concerning confidential information also be included as a restriction on access. Similarly, we have not accepted management's suggestion that auditors be cautioned to exclude from their working papers material which might be protected. The OIG believes that an audit guide is not the proper vehicle for resolving disputed issues, and that auditing standards provide adequate guidance to the auditors with respect to confidential and/or sensitive information. The Corporation's Board has adopted the OIG position.

Disclosure of Errors and Irregularities and Illegal Acts to Third Parties (Section II-1 Audit Requirements, Subsection F): The AICPA expressed the concern that the terminology used in this section was inconsistent with GAS and the requirement for the notification to the OIG appeared to exceed the requirements of Statement on Auditing Standards (SAS) 53, "The Auditor's Responsibility to Detect and Report

Errors and Irregularities" and SAS 54, "Illegal Acts by Clients." The Corporation, pursuant to the applicable grant condition and the IG Act, believes that it should be notified of irregularities and illegal acts that come to the attention of the auditor in the course of the audit. This position is consistent with the Corporation's position taken in the 1981 and 1986 Audit and Accounting Guides. The language in the May 24, 1995 notice of the Audit Guide was retained. In addition, the Audit Guide was revised to identify the criteria for the auditor's reporting of such matters that come to his/her attention during the audit, consistent with the 1981 Audit and Accounting Guide.

Review of Internal Controls (Section II-2): The AICPA commented that the "Fundamental Criteria of an Accounting and Financial Reporting System" (Appendix D) can be helpful to auditors in assessing the internal control structure as required by GAS and OMB Circular A-133. However, they suggested that the Guide "should clearly state that the auditor's responsibility for considering and reporting on the organization's internal control structure does not exceed the requirements of" GAS.

We do not believe that the language as written in the initial notice requires revision; however, for reasons previously expressed and unrelated to this comment, we deleted reference to the "Fundamental Criteria for an Accounting and Financial Reporting System." No further revisions were deemed necessary.

Audit Follow-up on Immaterial Findings (Section II-4, Audit Follow-up): Some comments questioned the requirement for the auditor to follow-up on immaterial findings disclosed in the management letter, stating that the requirement exceeded GAS. Management believes that the requirement for the auditor's follow-up of findings in the management letter is appropriate. This requirement is consistent with the 1981 and 1986 Audit and Accounting Guides.

Audit Objectives (Section II-1, Subsection A): The AICPA commented that the term "results of operations" is no longer used in describing financial statements of not-for-profit organizations and recommended substitute language. The Audit Guide was revised to adopt the AICPA's suggested language.

Audit Reports (Section II-1, Subsection B): The AICPA commented that the audit reports referenced in the May 24, 1995 notice identified the reports required under GAS, but did not

include the additional reports required under OMB Circular A-133. We have deleted the reports identified in the initial notice and instead made reference to GAS and OMB Circular A-133.

Assessing Compliance with Laws and Regulations (Section II-3): The AICPA suggested that the Audit Guide refer to the laws and regulations as having a material effect on the "program" as opposed to the "organization's financial statements." We have adopted the AICPA's suggestion and revised the Audit Guide accordingly.

Audit Report Due Dates (Financial Responsibilities of Recipients, Section I-7, Subsection B): The AICPA commented that the 90-day submission date for the reports was inconsistent with the 13-month requirement of OMB Circular A-133. The Corporation is aware of the inconsistency with OMB Circular A-133, but has chosen not to expand the time limit to 13 months. LSC recipients are currently required to submit their audit reports within 90 days of the close of the audit period. Given the increased attention paid to the activities of LSC grantees at this time, we do not believe it would be prudent to expand that requirement to 13 months. While the Audit Guide requires a submission date that is much shorter than the requirements of OMB Circular A-133, a majority of LSC recipients have been able to submit the audit reports within the period. Based on an OIG analysis of submission of 1993 audits conducted in accordance with OMB Circular A-133, we found that 34% of the recipients submitted reports within the 90 days, and an additional 65% submitted the reports well within the 60 day extension period currently allowed. We believe that these statistics indicate that LSC current requirements are not overly burdensome, in that 99% of recipients comply with the permitted 150 days. We, therefore, extended the 90-day submission requirement to 150 days. Extensions should no longer be necessary, and will be granted only in exceptional cases.

In addition to the general and specific comments noted above, there were minor comments related to the use of inconsistent terms or phrases within the Audit Guide, or the Audit Guide's reference to certain auditing standards without a title description. While these comments do not require a separate response, we have considered them and have revised the Audit Guide accordingly.

For the reasons set forth above, the LSC Audit Guide reads 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. The Act requires that LSC either conduct or require each recipient of LSC funds to provide for an annual financial statement audit.

In 1976, LSC adopted an "Audit and Accounting Guide for Recipients and Auditors" of LSC funds. The Audit and Accounting Guide was amended several times through 1981. Then, effective January 1, 1986, a fully revised Audit and Accounting Guide was published. LSC subsequently declared the 1986 Audit and Accounting Guide to be just an alternative to, rather than a binding replacement of, the amended original Audit and Accounting Guide.

In 1995, LSC promulgated the following Audit Guide to replace the audit portions of both the original and the 1986 Audit and Accounting Guide. In addition, LSC will attach three appendices to this Audit Guide for use by recipients and auditors.

Appendix A. The Compliance Supplement provides notice to both recipients and their auditors of the general federal requirements and 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 which contains provisions LSC recommends recipients consider incorporating in 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.

It is anticipated that the accounting portions of both the original and the 1986 Audit and Accounting Guide will also be replaced in the future. Until so notified, recipients should continue to refer to the 1981 and 1986 Audit and Accounting Guide for LSC financial accounting requirements.

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Introduction

The Office of Inspector General (OIG) of the Legal Services Corporation (LSC) is responsible for establishing and interpreting LSC audit policy pursuant to a resolution adopted by the LSC Board of Directors on May 13, 1995. The OIG will periodically revise the Audit Guide and related audit policies and will review audit reports to ensure compliance with appropriate auditing standards and the policies prescribed by the Audit Guide. The OIG will examine the audits to identify reported control deficiencies, questioned costs and financial-related instances of noncompliance. 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' financial 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 judgement of the audit work required in particular situations. 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 Not-for-Profit Organizations; and this Audit Guide.

For purposes of OMB Circular A-133, the Compliance Supplement is to be followed for LSC funds. Accordingly, the OMB Compliance Supplement for Audits of Institutions of Higher Learning and Other Non-Profit Institutions does not apply to LSC programs.

The requirements of the 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 is not intended to 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 conjunction with LSC management.

3. Authority

This Audit Guide has been prepared under the authority provided by the following sections of the LSC Act and the IG Act:

Records and Reports—LSC Act § 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 § 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 § 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 § 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 * * * (C) take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General * * *.

I-4. Effective Date

This Audit Guide is effective for audits of LSC programs for periods ending on or after December 31, 1995, except as otherwise authorized by the Corporation.

I-5. Revisions and Supplements to the Guide

The OIG will periodically revise the Audit Guide and its appendices through bulletins or replacement sections. Revisions may reflect changes to corporate regulations, auditing standards, funding requirements, or other published guidelines. Revisions should be incorporated into the recipient's copy of the Audit Guide, and furnished to the Independent Public Accountants (IPAs) by the recipients. If there are any questions regarding the content of any revisions or supplements, please contact the OIG prior to the audit.

I-6. 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.

Effective date	Description
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.

I-7. Financial 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 with regard 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-6, above. An effective financial system should accomplish the following objectives:

1. Resources are safeguarded against waste, loss and misuse;
2. Resources are used consistent with LSC Act, regulations and grant conditions;
3. Management is provided with timely, accurate financial information sufficient to manage the resources of the recipient; and
4. Reporting is reliable and in sufficient detail to demonstrate to funding sources and the general public the recipient's commitment to accountability for the resources with which it has been entrusted.

B. Provide Audited Financial Statements

Recipients are responsible for preparing annual financial statements and arranging for an audit of those statements to be completed within 150 days of the recipient's fiscal year end. The recipients' boards of directors have the final responsibility for the appointment of the auditor. However, consistent with the authority granted in the LSC Act § 1009(c)(1), LSC reserves the right to preclude the appointment of an auditor if experience has shown the auditor's work to be unsatisfactory and/or the auditor does not meet the qualification requirements of GAS.

A written agreement between the recipient and the IPA must be executed and, at a minimum, is to specifically include all matters described in Section II-1 of this Audit Guide (Subsections A through F). Contracts or engagement letters should also contain an escape clause that would allow, without significant penalty, modification or

cancellation made necessary by changes in the law.

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

In connection with the procurement of audit services, recipients should refer to the Guide for Procurement of Audit Services (Appendix C).

II. Audit Performance Requirements

II-1. Audit 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 institution is managing Corporation funds in compliance with applicable laws and regulations, and controls ensure compliance with the laws and regulations that could have a material impact on the financial statements; and
3. the recipient has complied with applicable provisions of federal law, Corporation regulations and the grant agreement that may have a direct and material effect on its financial statement amounts.

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.

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 Government Auditing Standards.

D. Audit Working Papers

The audit working papers will be prepared in accordance with GAS, and

will 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 will be available for examination upon request by representatives of LSC and the Comptroller General of the United States. The LSC Act, § 1009(d), restricts the Corporation and the Comptroller General's access to any reports or records subject to the attorney-client privilege. The audit working papers will be subject to Quality Assurance Review conducted by the LSC OIG.

F. Disclosure of Irregularities, Illegal Acts and Other Non-Compliance

If, during an audit, 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) 336-8830.

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 that could have a material impact on an organization's financial statements. Accordingly, examination of these compliance requirements are to be included as part of the audit.

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. 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 can be modified to avoid duplication. Auditors should also refer to the grant agreements for additional requirements.

In certain cases non-compliance 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. 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. In addition, 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 and Statement on Auditing Standards (SAS) 74 (and any revisions thereto) for the content and format of the reports. Four copies of the audit reports and management letter, where applicable, are to be submitted to the LSC OIG within 150 days of the recipient's year end. Under exceptional circumstances, an extension of the 150-day requirement may be granted. Requests for extensions should be in writing, and directed to the Office of Inspector General.

III-2. 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; Public Law 93-355, amended by Public Law 95-222 and 98-166.

B. 45 Code of Federal Regulations Part 1600, *et seq.*

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 Non-Profit 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 might be referred to if LSC policies are not dispositive:

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

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

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

4. OMB Circular A-123, Internal Control Systems.

5. OMB Circular A-127, Financial Management Systems.

Dated: October 13, 1995.

Victor M. Fortunato,

General Counsel.

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NATIONAL INSTITUTE FOR LITERACY

Advisory Board; Meetings

AGENCY: National Institute for Literacy Advisory Board, National Institute for Literacy.

ACTION: Notice of meeting.

SUMMARY: This Notice sets forth the schedule and proposed agenda of a forthcoming meeting of the National Institute for Literacy Advisory Board