

**Privileged and Confidential
Attorney-Client Communication**

To: [Firm Management / Executive Committee]

From: [Internal Auditor / Compliance Officer]

Date: [Insert Date]

Subject: Internal Audit Report: Independent Contractor Misclassification Risk

1. Executive Summary

This audit evaluates the firm's current engagement of independent contractors to determine the risk of misclassification under applicable labor laws. Misclassification presents significant financial and legal exposure, including unpaid payroll taxes, back wages, and penalties.

2. Scope of Review

The audit reviewed the following areas:

- Current inventory of 1099 contractors (contract attorneys, paralegals, and consultants).
- Existing written agreements and Statements of Work.
- Operational control measures (e.g., firm email access, office space usage, and supervision).
- Financial reporting and payment processing methods.

3. Key Findings

[Insert specific findings here, e.g., "Several contract attorneys are working full-time hours without a defined end date."] or [Insert: "Contractors are utilizing firm-provided hardware and are subject to the same performance reviews as W-2 employees."]

4. Risk Assessment

Based on the [ABC Test / IRS Common Law Test], the following risk levels have been identified:

- **High Risk:** [Number] contractors performing core legal services under direct supervision.
- **Moderate Risk:** [Number] administrative consultants with long-term tenure.
- **Low Risk:** Specialized third-party technical vendors.

5. Recommendations

To mitigate identified risks, it is recommended that the firm:

- Convert high-risk contractors to W-2 employee status immediately.
- Update all contractor agreements to include clear "Right to Control" language.
- Implement a mandatory 12-month maximum duration for temporary engagements.
- Standardize the onboarding process through Human Resources rather than individual departments.

6. Conclusion

The firm must address these discrepancies to ensure compliance with Department of Labor (DOL) and IRS regulations. A follow-up review is scheduled for [Insert Date].

Sincerely,

[Signature]

[Name and Title]