

# Enhancing Grantee Audits - MP4

0:04

All right.

0:04

Thank you so much, Ted.

0:06

Good afternoon, everyone.

0:09

Welcome to the Legal Services Corporation Office of Inspector General's presentation entitled Enhancing the Rigor and Reliability of LSE Grantee Financial Statement Audits.

0:23

This is a presentation highlighting the findings and recommendations identified and issued during our annual and most recent quality control reviews of select LSE recipient audits.

0:37

My name is Portia Browser.

0:40

I am the Director of Audit Operations and I'm joined today by my colleagues Carol Bates, Audit Manager, Andrew Hensel, Senior Auditor, and fellow Auditor Ted Michelec.

0:54

Ted is serving as our gracious meeting facilitator this afternoon and we will hear from both Carol and Andrew later.

1:04

Before we get started, I guess for those just a few who have just popped in, Ted shared earlier that a copy of the slide deck for today's presentation as well as the related audit advisory will be uploaded in the Zoom chat box for your convenience today and ease of future reference.

1:26

Lastly, we're happy to take questions again following today's presentation.

1:31

You're also free to post those within the chat box or save them for the end of the presentation.

1:37

You know where you can unmute and share then.

1:39

But until then, we respectfully ask that you just keep your microphones muted until the end with that started or I'm sorry, with that, well, let's get started.

1:52

All right.

1:53

So today's agenda this afternoon we will revisit for some and share with others the Office of Audits role and how it contributes to the OI GS mission.

2:05

We're going to provide a background of the quality control review process itself and Carol is going to share highlights of updates made to our most recently revised audit guide and compliance supplement.

2:20

And at the end, Andrew is going to walk us through the results of the QCRS conducted this cycle, including a summary of the findings and recommendations identified by our contractor.

2:33

And we will wrap up with a list of resources that we hope are helpful to you guys in the future.

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And we'll then answer any questions you might have about today's presentation.

2:48

So what brings us here today?

2:51

I've actually just mentioned a lot of this already, but today we're looking to not only share a brief overview of the OI GS QCR process, but we'll also highlight the most common issues identified during this year's QCR cycle.

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And then we'll share actionable recommendations that we hope will prevent future occurrences of the issues found with ultimately the long term goal of enhancing audit quality over time.

3:24

So there are several ways in which the Office of Audits works to execute its mission or to execute the OI GS mission rather.

3:35

These include, but are not limited to, conducting audits of both LSC management and its grantees performing desk reviews of all audited financial statements prepared and issued by those grantees and their Ipas.

3:52

Conducting quality control reviews of a selection of those financial statement audits and the providing guidance to grantees and Ipas through the LSCOIG Audit guide, which includes the compliance supplement and just to help make the distinction, desk reviews.

4:14

The desk reviews of the audited financial statements are focused but somewhat limited in scope.

4:22

The OIG conducts a desk review of all 131 currently of LS CS grantees and those reviews are performed in house by our Audit division.

4:36

So in comparison, while the OIG oversees the process, the performance of the quality control reviews are contracted out and they Intel a more thorough or rigorous review of the audit work papers and audit documentations that support the IP as work and audit of the financial statements.

4:58

I will now pass the presentation to Carol who will touch on updates to one of the most significant resources and criteria behind our QCRS, the LSCOIG Audit Guide and Compliance Supplement.

5:12

Cheryl, thank you Portia.

5:15

Other than a few bulletins issued in the 1990s, we have not changed the audit guide since it was first published in 1996.

5:26

The updated Audit Guide and Compliance Supplement, which is available on our website, is effective for audit audits of LSC grantee fiscal years ending on or after September 30, 2023.

5:44

The update is to include audit standards updates and references.

5:50

For example, the original Audit Guide talked about OMB circulars and that is the circulars are now included in uniform guidance.

6:03

Please note that the LS, I'm sorry, the significant change that we would like to highlight in the updated audit guide is that LSC recipients are no longer required to be classified as high risk.

6:24

If the Uniform Guidance Risk Assessment determines A recipient as high risk, then it must be classified as such.

6:35

However, the LSC Act and the 1996 LSC appropriations require LSC recipients to have an annual audit.

6:48

Therefore, LSC grant funds must be considered as major program regardless of the amount.

6:57

So to recap, no longer high risk, but LSD funds are considered major programs.

7:06

The compliance supplement was last issued in 2016.

7:12

Its revision include audit objectives, suggested audit procedures for each of the parts of the Code of Federal Regulations which is included in the supplement.

7:26

The revisions also include adding or updating new or changed LSD regulations and the list is on this slide.

7:38

We conducted audit guide training earlier this year and a link to that training will be on our website soon.

7:46

Thank you, Portia, and I'll hand the presentation back to you.

7:52

Thank you, Carol for sharing that update.

7:56

So ultimately, the purpose of conducting the quality control reviews is really quite simple.

8:02

It's to ensure that the work of the Ips who are contracted by LSE grantees adhere to applicable standards and LSE and OIG guidelines.

8:14

So as we shared earlier, currently the QCRS are conducted by a contractor.

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On that contractor is McBride Lock and Associates to the CPA firm again contracted by the OIG and they're really familiar with the OIGS guidance and all of the applicable auditing standards.

8:38

Let's see.

8:39

So to offer a bit of insight into our selection process, we aim to review each grantee and IPA at least once every four to five years.

8:50

The timing of the selections are largely based on the grantees, so for example, if an IPA happens to audit multiple LSE recipients, that IPA may have more frequent QCRS than others.

9:06

Overall, we take a risk based approach to selecting which Ipas and grantees will be reviewed each year.

9:13

And those risk based factors include the length of time since the last QCR, the results of previous QCRS including the number of findings or repeat issues that might have been found, the results of the prior audited financial statements and other factors that are typically based on the Ipas and grantees themselves.

9:36

So that can include, for instance, the number of extension requests that a grantee or an IPA might make for additional time to submit their financial statements to the OIG.

9:49

And it might also include whether or not an IPA is new to a particular grantee or just LSE in general.

10:00

The quality control review process itself is somewhat intricate as well.

10:06

Once the grantees and Ipas have been selected, we issue notification letters to everyone.

10:12

The contractor who will ultimately conduct the review will then reach out to the IPA to schedule a virtual or an on site visit.

10:22

Before the COVID-19 pandemic, the visits were conducted in person and on site at the IP as location.

10:30

Now we've shifted to more of a hybrid approach for now, offering the opportunity to conduct the reviews safely, sometimes a bit faster and in a way that's most convenient for everyone's current workplace arrangements and policies.

10:46

Now we've received a few questions from those of you who we believe are new to the process.

10:51

There may sometimes be a lag in timing between the notification letter you received from our office, the OIG to the time that the contractor reaches out, and this is just really largely due to how we coordinate the scheduling of things, travel and other logistical planning This sort of happening in the backgrounds.

11:14

Once the review's completed, the contractor issues a report to our office which is then reviewed and additional questions or discussions might occur between us just as we seek to understand the results of the review.

11:33

Once the once the OIG has reviewed the contractor's report, we then transmit that report to the IPA and the LSE grantee.

11:44

Let's see next slide, Andrew.

11:46

I believe there we go.

11:50

Nope.

11:50

I'm sorry, one more back.

11:52

If any issues are noted, we provide recommendations and if warranted, indicate whether a corrective action is required before closing the QCR.

12:04

In those instances, we evaluate the corrective action and issue a formal and usually final notice of the results.

12:13

In very rare cases, if it's determined that an audit has not been performed in accordance with standards, or if corrective action does not result in a satisfactorily addressing the QCR issues identified, the OIG has the authority to then debar, suspend, or remove independent public accountants from performing audit services for LSE recipients.

12:39

Now this is all in accordance with Part 1641 of the LSE regulations.

12:44

And of course this is not ever something we really, you know, truly desire to do.

12:48

So it's really just to assist in ensuring that recipients receive acceptable audits.

12:57

Now that we've given you a sense of how the process itself works, let's dig into the results of the latest rounds of QCRS performed of fiscal year 21 and 22 recipient audits.

13:11

Andrew, the floor is yours.

13:13

Thank you, Portia.

13:15

So this charge shows the results of our most recent batch of QCRS.

13:20

We performed 35 QCRS in this batch and as you can see, most of the QC Rs did not require corrective action and in fact just over about a third of them had no exceptions at all.

13:34

We noted issues in 1/5 of the audits that were not substantial enough to require follow up, so instead we provided recommendations for future grantee audits.

13:46

However, for 46% of the reviews we found issues that warranted follow up corrective action and documentation from IBAS.

13:56

Our goal with this presentation is to provide some insight on the most common issues that have been identified and to offer recommendations that when implemented, can help produce more rigorous audits and also reduce the need for follow up documentation.

14:15

First, I'm going to go over some general findings and then we'll talk about some more specific findings related to specific compliance supplement parts.

14:25

But in general, most of the findings resulted from Ipas either not performing the suggested procedures in the compliance supplement or not providing adequate documentation to support their conclusions.

14:39

Please remember that LSC grantees are unique and they are governed by both federal regulations and LSC guidance.

14:48

The updated Audit Guide and Compliance Supplement provides suggested audit steps to ensure that LSD grantees follow these regulations and guidelines and to documenting.

15:00

Completion of these steps is essential in producing rigorous audits and again in minimizing the need for follow up documentation.

15:10

So our recommendations generally are to research, evaluate and document research means to take the time to fully understand the LSE program, including LSE, the grantees and the LSE requirements.

15:28

This also includes, you know, program letters on the LSE website and other other guidelines.

15:35

Summaries of the applicable federal regulations can be found in the compliance Supplement as well.

15:43

Also, next is to evaluate, so we recommend that you completely perform the suggested audit procedures for each applicable part in the compliance supplement.

15:54

If the directed material procedure is not performed, then you should document the alternative procedures used to accomplish the objectives.

16:04

And this is a refrain we'll be coming back to a few times, but document documentation is key to ensuring that all applicable procedures have been performed.

16:15

We recommend that you fully document your assurances that all of the required or all of the compliance supplement elements have been addressed.

16:27

Now we'll move on to findings related to specific compliance supplement parts out of our bat.

16:34

Last batch of 35 QCRS, you'll see that 31% had issues related to fund balance or deferred revenue, 29% related to a review of matters, 14% related to allocation and 11% for both Pai private attorney involvement and staff interviews.

17:01

So first we'll talk about fund balance.

17:03



LSC allows grantees to carry over up to 10% their annualized support from one fiscal year to the next without any need for approval.

17:14

Annualized support includes the total of the LSC basic field grants, the Native American grants if the grantee receives them, as well as any migrant grants.

17:24

One time or special purpose grants such as disaster grants.

17:28

TIG grants and other similar grants should not be included in this calculation.

17:34

If the amount of carryover exceeds 10%, the grantee should reach out to LSC to request a waiver.

17:42

This request is made after the submission of the financial statements.

17:47

If the grantee received the waiver in the prior year, that should be reviewed as part of the current year audit.

17:55

We've noticed some instances of whether it's been a lack of this review or whether it's been miscalculations of the prior year carryover.

18:05

So our recommendations to avoid issues related to fund balance are to ensure that the grantee adequately analyzes the prior year carryover to determine if approval was requested.

18:19

If approval was requested in a waiver received, then we ask that you ensure that related expenditures complied with the waiver requirements and that they're accounted for separately in the grantees accounting system and then document the results.

18:40

Related to fund balance is revenue recognition.

18:44

In April of 2020, LSC issued updated guidance on revenue recognition and the treatment of deferred revenue.

18:52

This guidance is found in Program letter 23-2 which we have linked at the end of the slideshow and it indicates that LSC basic funds are non exchange contributions with conditions and that unexpended basic field amounts should be reflected in the liability accounts.

19:11

We found issues where the audits did not properly recognize revenue and we recommend that you familiarize yourself with the program letter for additional guidance on this matter.

19:25

Next for matters.

19:28

We also found issues in the review of matters.

19:32

Matters has a somewhat unique definition in the LSC world, so matters are defined in the Federal regulations as an action which contributes to the overall delivery of program services, but doesn't involve direct legal advice or representation of 1 or more specific clients.

19:54

Our reviews found that some Ipas attempted to review matters in their case file test work, however.

20:01

According to the Definition of matters, this would not adequately provide coverage of matters because they are not directly related to case files.

20:10

Our recommendation is to familiarize yourself with LS ES Definition of Matters and a summary of that is found in the Compliance Supplement, and you can also find it in the Federal Regulations.

20:21

Strengthen Testing to Include Coverage of Matters and then document the results.

20:33

Moving on to allocations, some Ipas did not adequately review the grantees allocation of both cost and or income.

20:43

For instance.

20:44

In some cases there was a lack of documentation of the allocation methodology in general or in other cases a lack of review of indirect allocations such as administrative salaries for income allocations.

20:59

There was sometimes discrepancies between the work papers and the audit report in the amount of attorney fees recognized.

21:08

Our recommendation is to obtain, review and test the recipients cost and derivative income allocation processes and again fully document the results.

21:22

Private attorney involvement or Pai grantees must devote an amount of LSC and or non LSC funds equal to 12.5% of their basic field grants.

21:38

Remember this calculation only includes a percentage of basic field, not any of the other LSC grants.

21:45

Grantees also must develop a plan and budget to meet this regulation.

21:50

We found that some Ipas we do not adequately document a review of the Pai plan or and or the grantees processes.

22:01

Our recommendation is to obtain and review the grantees Pai plan, review their processes to ensure compliance with the plan and again document the results.

22:16

Finally, for staff interviews, many parts of the Compliance supplement have suggested audit procedures to interview staff about any activities falling under those associated restrictions in the compliance supplement.

22:33

We've found several instances where Ipas did not adequately document the staff responses to all of the applicable parts.

22:45

Additionally, the Compliance Supplement contains guidelines on which staff members and how many staff members should be interviewed, and we found that some Ipas did not interview the correct number or the relevant staff members.

23:00

So our recommendation is to ensure that all parts of the Compliance Supplement are considered and evaluated when performing staff interviews and ensure all relevant staff members are interviewed and to fully document the results of these interviews in your workbook first.

23:20

This is all of the summary of the findings and the recommendations.

23:25

And of course, if you have any questions, you can also reach out to us at any time.

23:29

And with that, I will pass it back to you, Portia.

23:31

All right.

23:33

Thank you, Andrea.

23:36

We'll wrap up the presentation today by sharing this list of resources that are not only critical to informing your audits of LSE grantees, but will be instrumental in building that understanding and that sense of familiarity we mentioned earlier with not just LSC, but the unique needs and requirements of their grantees.

23:59

The copy of the presentation we shared should have links embedded within the slides, but these resources are also very easy to find and access from both the OI GS website and LS CS website.

24:17

Again, thank you everyone.

24:19

That concludes our presentation this afternoon.

24:23

We'll now open the floor to any questions you might have as they relate to today's presentation.

24:29

Again, we just ask that you avoid asking any that are specific to your current or previous audits.

24:35

However, you're free to send really any of those directly to the audits mailbox to that e-mail address that's there on the screen.

24:44

And we'll follow up with you guys as soon as we can.

24:48

But with that, Ted, are there any questions we have on the floor at the moment?

24:57

Looks like we just had one come in.

25:02

It says there is no contract example like there was under the 1996 guide.

25:07  
Correct.

25:09  
And I can handle that.

25:11  
Sure, Carol.

25:13  
All right.

25:14  
You are correct.

25:15  
There is no contract example as there was under the 1996 guide.

25:21  
We chose to take that out because there are other air places to get more up to date procurement information and we actually included some of those in our our training that we held on the audit guide and compliance supplement.

25:46  
So Caroline, I can go ahead and send you some more information.

25:53  
I'll e-mail it to you where you can find information on contracting for audit services.

26:04  
Thank you.

26:04  
Carol.

26:06  
We have one more question.

26:08  
It says what should auditors be testing for other matters regarding compliance.

26:15  
I'm not sure if we have specific guidance with that.

26:24

With respect to, I think as you guys know, the OIG, when we issue our audit guidance, we also have to be careful with respect to our independent standards.

26:33

But I'm gathering you're asking for clarity that if you are not testing during case testing, what does that testing look like?

26:42

We might actually have to sort of do a little bit of research to make sure we give you something that doesn't necessarily impede upon your professional judgment with respect to that, if that's OK.

26:56

If I can just add, you know in the compliance supplement, we also have the suggested audit procedure to review a sample of activities that are considered matters and then to determine whether those activities fall within the written priorities.

27:10

So this also involves a review of the priorities of of the grantee and we can, you know if if you send us an e-mail, you know, we could provide some more clarity on that Bud.

27:23

That's all I have.

27:26

Thank you.

27:26

Thank you.

27:27

Would you like me to take the next question?

27:29

Sure.

27:30

Go ahead, Carol.

27:31

OK, Jeffrey, to let you know.

27:34

Right now, the training session on the Audit Guide and Compliance Supplement is not on our website.

27:42

We are working to post it, and we'll be sending out an e-mail to the grantee and the IPA community when it is posted.

27:52

And I will take your, I have your information and when it's posted, I'll be sure to send you an e-mail with a link.

28:00

So it's coming soon.

28:05

Thank you.

28:05

Carol.

28:10

I'm not seeing any other questions right now.

28:14

Just a reminder that after this presentation, after this session, you can refer to the slides and if those don't answer your questions, then we have some contact information towards the end of the presentation as well.

28:28

Hey Ted, this is Charlie.

28:30

Do you mind if I just ask a question, I've been trying to type for the last three minutes and I can't get the message to you, but that's OK.

28:36

So my question is, my question is probably for Andrew.

28:39

I mean like I said was was the issue with you know the non compliance, was it the CP as did not, Did they say they did something and they didn't or was it that the regs were not clear enough or they didn't understand the the regulations that they were supposed to comply with?

28:56

I'm just trying to figure out what the issue is.

28:59

Is it is it the regs or is it the CPA saying we did this but we didn't do it?

29:06

I, you know, I can't because this is a general thing.

29:10

And so we saw different circumstances for different auditors and for different reports.

29:16

So, but generally I don't think it was that they weren't doing it.

29:19

It's just that there wasn't enough documentations for us to be sure that everything was covered.

29:25

Like maybe they did, you know, a lot of times in the exits with the contractor, they would mention that they did some other testing, but we just didn't get that documentation.

29:34

Oh, OK.

29:34

A lot of times it's just as simple as that.

29:36

There are, of course there are.

29:38

You know, we see a little bit of everything.

29:41

But yeah, it's generally that.

29:45

Thanks Andrew.

29:52

Thank you.

29:52

Andrew.

29:54

I'm not seeing any more questions right now.

29:57

Portia, did you want to add anything else?

30:00

I don't suppose if we don't have any more questions then that ultimately concludes our presentation.



30:07

Again, we encourage you guys if you have any follow up questions to send them to the audits mailbox at [oig.lsc.gov](mailto:oig.lsc.gov) and we hope that you found the information helpful.

30:22

Truly and we thank you guys for joining us today.

30:26

Thank you everyone for joining.

30:29

All right, well, this concludes the presentation.

30:31

Thank you all.

30:31

Thank you.

30:32

Good afternoon.