

LSC OIG Audit Guide Training #6 (edited - 9.7.2023)

0:01

Good morning, everyone, and welcome to the Legal Services Corporation's Office of Inspector General Audit Guide Training.

0:10

My name is Carol Bates and I'm with LSCOIGI had the privilege of working on the audit guide update with our contractor Harper Rains and Knight.

0:22

And I'm now going to turn the presentation over to Harper, Rains and Knight.

0:27

They'll introduce themselves and then get started on the materials.

0:32

Thank you for joining us.

0:34

Thank you, Carol.

0:36

My name is Matt Farage, and I'm joined by another partner, Joey Fletcher and Supervisor Kevin Griot on this.

0:44

So they'll be monitoring this as we go along.

0:48

So without further ado, let's get started.

0:52

As Carol had stated, we were engaged by LSE OIG.

0:59

First was just to update the audit guide, which had not been updated for quite some time as everyone here is aware.

1:05

And then with some of the changes that were being done within LSC, they asked us to also look at Appendix A, an update with the compliance supplement as well.

1:17

So we took on that task for in in concert with the LCOIG.

1:26

As you can see the audit guide had not been updated to 1990 since 1996.

1:29

There have been significant changes since then in both auditing standards and the uniform guidance going from a 133.

1:39

And then the compliance supplement had not been updated since 2016, but there had been several updates to parts and some additional parts added as you can see listed there, part 16101627282931 and 35.

1:54

So with that in mind, we decided to take on both the autocuide and the compliance supplement with support from the OIG and concurrence from the OIG.

2:06

Before we get started, there's just some housekeeping items.

2:09

Please use the chat for any questions.

2:12

And also note that while we're presenting to both auditors and recipients, LSC, we all distinguish between LSC and LSCOIG throughout this process.

2:25

And there are certain things that the LSC is responsible for and certain things that the LSCOIG is responsible for.

2:30

And also this, this question has come a few times.

2:33

There is no CPE.

2:34

This is just an overview of the changes made.

2:37

So you're aware of it throughout the process and we highly recommend that both that anything that we cover is read in detail because we are not covering all of the information that was updated, just key aspects of what was changed that we as auditors think that you would want to be aware of going forward.

2:59

So the first thing we're going to discuss is some of the key audit changes in the audit guide.

3:04

The first one being the effective date is for audits of fiscal years ending on or after September 30, 2023, so the end of this month.

3:15

So just to be aware of that that's also when the compliance supplement is effective for.

3:22

So the major change that was made that we, so it's a little background.

3:28

So what we did also in this process was we talked to a lot of Ipas, we talked to LSCOIG, we talked to LSC.

3:36

We kind of we're like what are some issues that have been brought up by both auditors and recipients as a whole.

3:43

And one of the things that was kind of brought up is that no matter what that not everyone understood that LSC funds need to be treated as a major program when you're looking at it from a uniform guidance perspective.

3:59

So there is no threshold spending threshold for LSC funds.

4:02

If you receive LSC funds, they must be major programs and that's one of the key things to take away from this.

4:08

The other side of that is that all funds are not considered, they were considered high risk.

4:17

They are not necessarily considered high risk now unless they have met the high risk indicators.

4:22

So that's a change as well.

4:23

Prior to this all funds were high risk regardless of if there were findings or anything under underlined that would normally indicate you have high risk indicators.

4:36

So those are the main changes there.

4:40

We'll move on from there, but we just want to make that aware for everyone because that kind of changes how you look at things and it also impacts the the awardees in terms of they're no longer considered high risk unless they have those high risk indicators.

4:57

Some of the things we did as well as we deleted the sample audit agreement appendix, we felt that most firms use their own engagement letters.

5:06

So just we have guidance on that.

5:08

So it was just using those going forward and then also deleted the guide for Procurement of audit Services by Legal Service Corporation grantees appendix.

5:18

If you do want some guidance on kind of procuring and contracting for the audit that can be found at the National Council Not for Profits.

5:26

These links are all live in the document And Joey, if you could make sure this is shared with the the group in the chat, that'd be great.

5:39

May I just confirm we have shared the slides, they're available in the chat for download.

5:44

Great.

5:46

So some of the changes along the way, obviously there was the change to uniform guidance from OMB circular 133.

5:53

So we updated references and guidance to be more in line with what is out there that we use.

5:59

As from the audit side, again just we're trying to make sure this point is driven home.

6:05

While the uniform guidance is applicable to all not-for-profit entities, LSC audit guide is applicable to all entities who receive LSC funds.

6:12

So again if you receive LSC funds it needs to be audited and it needs to be treated as a major program for most purposes.

6:24

LSC funds are non federal funds.

6:25

However, recipients must report their expenditures on a scheduled expenditures of federal ward CIFA as prescribed in the LSE Financial Guide and IPA should consult uniform Guidance for planning and performing an audit of LSE funds.

6:40

And I I PAS must use the LSE Audit Guide in Appendix A compliance supplement to determine the appropriate procedures to perform.

6:47

And we'll get more into that as we continue on.

6:49

So we'll do a little deeper dive into the Appendix A and the changes that were made and some of the key things to take away from that section.

6:59

So again, this is there's no threshold calculation needs to determine if LSCOIG Fund auto Guide is required expenditures of any LSE funds expended in the current year requires that it ought to be conducted in accordance with the LSE Auto Guide.

7:17

So again, that's just saying that yes, if you're following Uniform Guides for Planning, you see that the threshold is \$750,000.

7:24

That does not apply because all LLC funds must be treated as major programs.

7:30

We have also updated for the standards as well.

7:33

So a lot of the standards are referencing to outdated standards.

7:38

So we updated all that whether it be a ICPA or Gagas with the GAO.

7:44

So both of all that's been updated to reflect the current standards that are out there and the web addresses have been updated for all the most current content.

7:56

So there wasn't a, there wasn't a heavy lift on the audit side, it was just making sure everything kind of was up to date because there's been a lot of changes since 1996 and then the key take away from from this section is obviously all LSE funds need must be treated as major programs.

8:14

However, LSC awardees or grantees are not necessarily high risk unless they meet the high risk indicators.

8:22

So those are the two changes to take away from this as well as just general updates for standards and things like that.

8:30

One of the other things we did was try to make it a little more audit friendly.

8:38

The language in both the audit guide and the compliance supplement and just some other, the key takeaways from this is the retention policy.

8:45

Ipas must maintain audit work papers for five years, previously was 3.

8:49

Again, we're aligning with guidance that's out there and added language that IPA should contact the IG immediately, the LSCOIG immediately if a recipient search client privileges.

9:00

So those are kind of additional things to consider as you're doing it from the audit side and most of this is presented from the audit side or it's incorporating items in that impact the grantees as well.

9:15

However, we're not going to get into any accounting questions per SE because those are really the the area of LSC.

9:22

This is really the the OIG side which is simply the audit side and the client supplement.

9:30

What we expect to see and what they expect to see.

9:33

Again, I guess is there any questions that we have specifically on the the audit guide and what we've covered so far.

9:44

Again, it's just it was pretty high levels major.

9:47

We didn't go into the detail changes.

9:48

We just kind of covered what would needed to be changed from standard side and also changing those two items major programs regardless of threshold and not including high risk out of default, but only if they reached it via the high risk indicators.

10:13

There's no questions.

10:13

I'll move on to the compliance supplement.

10:19

This is a little more detail.

10:22

Again like we've already stated this is effective at the end of this month, so be aware of that.

10:27

So all these changes are in place starting at the end of this month.

10:35

So again since the last compliance supplement, there were two new sections, 1629 bonding requirements for recipients as well as 1631 purchasing and property management.

10:45

And we'll get into those in a in a little bit in what they were, what the high level items are that you need to consider for these.

10:53

And another thing we did, we provide summaries of like regulatory provisions to add clarity and to ensure consistency with LSE regulations.

11:02

So as LSC regulations changed throughout the process, we try to mirror what they were doing in the the guide and add any clarity to it so that it was the auditors could clearly see what was needed and also the grantees were aware of the requirements.

11:20

So one thing that we did change which is to make it align a little bit more with guidance that's out there from other kind of single out uniform guided items is we included audit objectives for each

compliance supplement and then suggested audit procedures for internal control as well as suggested audit procedures for subsidy test.

11:39

So that was just kind of kind of mirror more of what we we saw out there in the from other you know from guidance audit compliance supplements.

11:48

So we're trying to make it a little more audit, audit friendly from that perspective.

11:53

We also added the must and should language when the word must is used and in case a requirement for the IPA.

12:00

When the word should is used, it indicates a best practice or recommended approach that should be strongly considered by the IPA rather than a requirement.

12:09

So again, must indicates requirement, should indicates it's strongly considered that you should use it.

12:16

And one thing we do as a firm when we do this kind of work is we just take the compliance supplement and that's our audit guide.

12:22

And if we do vary from the audit guide based on audit or judgment, we document why it's varied in the additional tests, which we'll we get into in a little bit too as well.

12:33

Again, the suggested audit procedures are just that, but the IPA must judge whether the suggested audit procedures are sufficient to achieve the stated objectives and whether the alternative audit procedures are needed.

12:44

The IPA should use professional judgment, determine if the suggested procedures are sufficient to achieve the audit objective or alternative procedures are needed.

12:51

And if you determine alternative procedures are needed because of specific circumstance to your audit, those need to be documented why you're doing it and why you're using alternate procedures.

13:05

So that when the OIG and their contractor reviews the audits for consistency across all of the awards and audits that they can see that it is that why you did it and then they can also take those into account for future revisions potentially.

13:24

And in each case the IPA must document the rationale when deviating from the suggested author season including the compliance supplement.

13:31

Again, we're just trying to drive that point home.

13:33

That was one of the items that was brought up in our discussion with LSCOIG and their contractor when they're doing the compliance reviews is just that there is some, some people would not do all the steps and they didn't document why 'cause these steps are driven exactly from the LSC guidance so that we're ensuring that they're using them funds correctly.

14:00

Again, the FPA must document its work.

14:03

The OIG quality reviews have identified deficiencies where Ipas have not adequately documented the audit work performed and conclusions reached in accordance with generally accepted government auditing standards.

14:14

Again, we're trying to drive this point home.

14:16

If everything must be documented, if you veer from anything document Y and then you know as you should stay as close to the compliance supplement as possible, use it as an audit guide and you'll you'll make sure that every step is done.

14:35

So now is there any questions on that that was just kind of high level just kind of some changes things we did because now we're going to get into the different parts of the and that the changes, the significant changes that were made in the either by addition or by changing a language by LSC in different parts as we go along.

14:55

If there are none I will continue on.

14:58

So use of non LSC funds Part 1610, updated permissible use of non LSC funds, the categorize and defined restrictions as extended restrictions, standard restrictions and limited restrictions and other restrictions and included reference to LSC program letter 22-3 which provides detailed program integrity guidance and updated the certificate of program integrity form and instructions.

15:23

And also if you have not received them, I would go on to LS CS website and look at all the program

letters and those give you detail on how to do the accounting of it, but also gives you insight from an auditor on what they're asking and what they're doing.

15:39

And those are very good letters to use and leverage.

15:42

So if you're not aware of we have not received them.

15:44

I would highly recommend going to LS CS website and downloading the ones that are applicable.

15:53

Sub grant requirements of part 1627 Define sub grants and procurement Contracts clarifies that is up to the recipient to make a case by case determination whether each agreement that is that it makes with another entity constitutes a sub grant or a procurement contract.

16:09

It also requires A recipient to obtain LS CS written approval when making a sub grant greater than \$20,000.

16:16

So again, we updated the audit steps to reflect these changes that were made by LSC Continuing on sub grant requirements part 1627, breaking in basic field grants and special purpose grants.

16:33

Sub grants may not be for a period longer than one year.

16:37

Unexpended funds at the end of the sub grant will be considered part of the recipients available LSC funds.

16:43

And that's the key difference between the special purpose grants which may not be for a period longer than the term of the grant.

16:50

And all unexpended special grant funds must be returned to LSC at the end of the sub grant with the exception of approval by obtained by LSC.

16:58

So there is a difference in those two items and we've presented this audit steps in such a way, but that is a change that was made by LSC so need to be aware of that.

17:12

Recipient Fund Balance is Part 1628.

17:14

Again, there's another program letter 23 two which added the LSC Guidance Information and Fund Balance Information to the Compliance Requirements section, added additional suggested audit procedures for this steps, and determined that no to include determining that no funds provided under a one time or special purpose grant were expended after the expiration date of the grant without the prior written approval of LSC.

17:40

If approval was not obtained, determine if all unexpended funds under such grants were returned to LSC.

17:47

So that's a change in the audit compliance supplement of of suggested audit steps.

17:54

1628 also had some other revisions 2 that we put in the compliance implement to verify that derivative income has been properly allocated to LSE fund as support and derivative income.

18:08

Yes at different meanings when the LSE World derivative Income is income earned by the recipient from LSE supported activities during the term of an LSE grant or contract and includes was not limited to income from fees or services including attorney fees and reimbursed cost sales and rentals of real and poor personal property and interest earned in LSE grant or contract advances.

18:31

We also added that to verify the recipients excess fund balance for the period under audit is calculated in accordance with 45 CFR.

18:39

Part 1628 includes LSE derivative income defined by section 1630 dot 2B.

18:45

So again those were changes that LLC made.

18:47

We made sure to reflect them in the supplements and in audit steps as well.

18:54

Program this is again we're talking about the program letters and the importance of them.

18:58

Program letter 23-2 revenue recognition.

19:01

It was created in response to recipient feedback on FASBY Accounting Standard Update 2820 eighteen DASH O8ASU2018-O8 guidance.

19:13

LSC issued the program letter of May May as of May 12th, 2023.

19:18

So again it's fairly recent.

19:19

So again if you have not read it, I would highly suggest reading it and being become comfortable with what it's it's doing.

19:26

Because it was done in response to various to the standards and recipient feedback to LSC, so LSC adjusted some items in it.

19:36

It supersedes 20-4 which was issued April 30, 2020.

19:41

On the letter restates that LSC basic field grants are considered non exchange transactions contributions with conditions and for further guidance recipients should refer to LSC Financial guide section 3.1 dot one dot a revenue recognition for additional guidance.

19:58

So again when changes are made they're driving home the it's not only in the LSC Financial guide but it's also in program letters.

20:07

So again those those items are.

20:10

It's very important to read and understand.

20:14

The new section is Part 1629 Bonding Requirements.

20:20

It states that a recipient must supply fidelity bond coverage for all employees, officers, directors, agents, and volunteers.

20:27

A recipient must carry Fidelity bond coverage or similar coverage at a minimum level of at least 10% of its annualized funding level for the previous fiscal year and cost of those bonds are allowed if expended in compliance with LSE Cost Standard Section 1630.

20:43

So again this is a new section.

20:45

If you're not aware of it, I would again I would take a look at it under get comfortable with it not only from LSE recipient side but also from an audit side.

20:58

LSE Fund Limit Part 1630 and 31 updated The Fund Limit recipients may spend on the below items without prior written approval from LSC up to \$25,000.

21:11

There is a little difference in the language in 1630 and 31 which we went to in a second, but it it updates.

21:18

The limit may spend on the below items such as a single purchase or single lease of personal property, a single contract for services, a single combined purchase or lease of personal property and contract for services and capital improvements.

21:33

The note is that there's a slight conflict in the regulations between part 1630 and 31 which LSE is aware of.

21:41

Parts 31 uses the wording more than 25,000 of LSE funds and part 1630 uses 25,000 or more.

21:51

Just to be aware, LSE is enforcing the language in part 1631, which states more than 25,000 of LSE funds, so just be aware of that as well.

22:01

LSE is aware of it, but they're enforcing 1631 language, not 1630.

22:07

Just something to be aware of that is being worked on as an LSE is aware of.

22:15

So purchasing a property Management Part 13, Part 1631.

22:19

Also a new section sets new standards for purchasing, leasing, using and disposing of LSE funded personal property and real estate and using LSE funds to contract for services.

22:31

Again, a new section, so just be aware of that.

22:34

We also added compliance supplement.

22:37

There's steps, audit steps to address this section as well.

22:45

Then also Time Keeping Requirements Part 1635 There are new time keeping requirements that require allocations of salaries and wages on records that accurately reflect the program.

22:56

The work performed applies to any attorney, paralegal, or other recipient employee who performs work that is charged to one or more awards as a direct cost.

23:07

Records must be supported by a system of internal control, comply with established policies and procedures, and proper documentation of client case number, dates and description of work so those changes were made.

23:20

Those changes are incorporated into Compliance supplement.

23:22

Again the change that was made.

23:24

So be aware of this as well.

23:28

That's all the changes that have been made.

23:30

Is there any, are there any questions?

23:32

Again, we didn't get into every single one, but we hit the highlights of items that were new parks that were new or parks that had changed or any specific questions on that.

23:40

Again, we're here for the and the LSCOIG are here for the audit side.

23:47

So if you have LSE specific questions in accounting, those have to go to LSE and we'll get to some links for that in a second.

23:58

All right.

24:00

The below links are there to for reporting submission requirements of LSC financial statement audits as well as relevant FAQs.

24:13

You can see the two links there.

24:14

Again those are active.

24:15

And just one reminder, LSC audits are due to the OIG 120 days after close of the recipients fiscal year which is different from uniform guidance requirements.

24:26

So again LSC audits are due to the OIG 120 days after close of the recipients fiscal year which is a difference from the uniform guidance.

24:35

And one other note on uniform guidance, it is in process of being updated.

24:40

So it's not been communicated out to the everyone, but it is working being worked on at the federal level.

24:48

There is no definite date of when it will be issued, but it is, it is in process, let's just say.

24:56

So that's just something else to be aware of and have on your radar.

25:02

Again, here is the links for audit questions.

25:05

Those should be directed to LSCOIG, which is at audits at lig.lsc.gov The accounting questions should be directed to the LSC, which are fiscal questions at lsc.gov And then there's some additional OIG websites here that you can look at and resources that are available.

25:27

Everything we've covered today has been updated is on their website.

25:31

It's also the the LSC parts are available there on the LSC website.

25:36

So if you need anything from the guidance of accounting LS, CS website, if you need anything from

the guidance of OI, GS for the audits, the OI GS website and everything, all these links are active, so you can click on them and go from there.

25:50

And that kind of concludes our kind of high level summary of all the changes that were made of the audit guide and the compliance supplement.

25:57

Again, those are not all inclusive.

25:59

They do and there are additional changes.

26:02

They just didn't raise the level of necessarily needing to be discussed in this meeting.

26:05

We didn't want to take too much time, so we suggest reading in full the audit guidance, audit guide and its appendix, including Appendix A as well as any new and additional new parts or updated parts to LSE guidance and as well as the program letters.

26:22

With that, we conclude and we'll wait for any questions anyone might have and we'll stay on for a little bit for those.

26:41

Carol, is there anything you want to add to this from the OIG perspective?

26:47

Matt, thank you.

26:48

There's nothing I'd like to add, but just be sure as when you start your next audit to use the current guidance, the updated audit guide and compliance supplement updated as of 2023.

27:07

And if you do have questions, please that send them to us at the OIG audits e-mail account.

27:15

We do monitor that regularly and we can get back to you.

27:19

Thank you for putting that up, Matt.

27:22

Yes.

27:22

So as you go start your next audit, any questions, send them to us at audits at oig.lsc.gov And that's all I wanted to emphasize.

27:35

Thank you, Matt.

27:37

No problem.

27:40

There are no questions that would wrap it up.

27:42

Like I said, I'll stay on for a few minutes just in case there are similar webinar presentation on the audit for beginners, there is not, but Carol, is that something you want to address?

28:02

It's just we have the audit guide is it's not a lengthy document, the appendix, obviously Appendix A, the compliance supplement is much more lengthy.

28:14

It if you're doing this for the first time, I know our firm had one a few years ago that I was not involved in the the key thing to take away if you're going to follow uniform guidances most auditors are going to is that threshold does not count.

28:31

So even if you have a fund, if you have a grantee that has you know, \$50,000 and you say, Oh well, that's not not the threshold's not met, that does not apply to LSC funds, It's still a major program and the compliance supplement must be used.

28:45

So I know that was an issue that we had and and oh gosh, and most auditors would if they're not aware of how LSC operates, right.

28:58

And we don't have another training session, but the we would encourage you to follow the compliance supplement.

29:07

It includes a summary of each regulation that is to be tested.

29:15

It includes audit objectives for each area as well as the audit steps to be used.

29:22

So the the update I believe is very clear in the expectations for conducting the audit.

29:30

But again, as you as you're performing it, if there are questions, please let us know.

29:36

One thing I'll add Carol is that you guys as the OIG you do desk reviews of each audit as well as doing more detailed compliance reviews using your contractor that if not every audit is subject to the compliance review, but every audit is subjected to the desk review, correct.

29:53

Yes, that is correct.

29:55

And and we do a review for certain key items in there.

30:01

One includes is private attorney investment calculated correctly, excess funds carryover calculated correctly is property presented to show both LSC purchase property and property purchase with non LSC funds.

30:22

So we do a high level review of every financial statement and report that does come in.

30:29

And I would also, oh, sorry, go ahead, Caroline.

30:31

I was going to say if we have questions about those, we do contact the IPA and I was gonna say that the, the compliance reviews there is a report that's issued that's on LS CS website where you can kind of see what issues they're seeing as a whole.

30:48

It's not specific to any audits, it's just as a whole.

30:51

Correct.

30:52

Correct, Yes.

30:54

So each year after the quality control reviews are done, as Matt said, we put out a report showing the the common issues that have been found with that round of audits, which will be a useful for any

auditor to see what you know they're looking for and what they're finding as issues if you want to improve your audit quality.

31:21

Any other questions?

31:29

If there are none, I will give you 15 minutes, 20 minutes back.

31:33

And and I'd like, Carol said, if there's any audit questions, you know, please e-mail them to audits at orig.lc.gov And if you have specific accounting questions, especially from the grantee side, the fiscal questions at lsc.gov is the link for that.

31:50

And if there are no additional questions, I'll say thank you for your time and have a great rest of your day.