

Enhancing the Rigor and Reliability of LSC Grantee Financial Statement Audits

LSC OIG Presentation on Quality Control Review
(QCR) Findings and Recommendations

November 8, 2023



OFFICE OF INSPECTOR GENERAL

LSC | America's Partner
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LEGAL SERVICES CORPORATION

Agenda

OIG Audit Division's Role

Quality Control Reviews

Revised Audit Guide

Findings and Recommendations

Resources

Questions



Why Are We Here?

To Improve the Quality of Grantee Audits

1

Provide an overview of the LSC
OIG and the QCR Process

2

Summarize common QCR issues

3

Provide Actionable
Recommendations to prevent
issues and enhance audit quality



OIG Audit Division

To execute
our mission,
we:

Conduct audits

Perform desk reviews of all LSC grantee audited financial statements

Conduct Quality Control Reviews of a selection of these financial statements

Provide guidance to grantees and IPAs



Key Changes to LSC OIG Audit Guide and Compliance Supplement

- **Financial Audits and LSC OIG's Oversight Role are Mandated by 1996 LSC Federal Appropriation**
- **Audit Guide** – Issued in 1996 and revised for the first time in 2023
- **Compliance Supplement** – Previously updated in 2016 and updated again in 2023
- Updates are effective for audits of fiscal years ending on or after September 30, 2023

Major Program:

All LSC funds must be classified as a Major Program regardless of spending threshold. LSC grantees are no longer required to be treated as high risk. The LSC OIG Compliance Supplement must be followed.

Audit Procedures:

The Compliance Supplement contains revised guidance to include audit objectives and suggested internal control and substantive audit procedures.

Regulations:

We updated the following LSC regulations: Parts 1610, 1627, 1628, 1629, 1631 and 1635.



For more information please see <https://oig.lsc.gov/overview-of-audit-guidance>

Quality Control Reviews - Purpose

- We review IPA conducted financial statement audits, to ensure the work follows applicable standards and LSC and OIG guidelines.
- The OIG oversees QCRs conducted by McBride, Lock and Associates, LLC, a CPA firm under contract with LSC OIG.



Quality Control Reviews - Selection

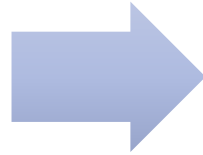
- **Risk-based Factors for Selection of IPAs:**
 - Length of time since the last review of IPA and grantee
 - Results of previous QCRs
 - Results of prior audited financial statements
 - Other factors



Quality Control Reviews - Process

Office of Inspector General

- Issues notification letters to selected IPAs and grantees



Contractor (McBride Lock, LLC)

- Contacts IPA to schedule a visit
- Reviews workpapers
- Issues a QCR report to the OIG



Quality Control Reviews – Follow Up



We transmit the QCR report to the IPA and grantee.



If issues are noted, we will provide recommendations, and in some circumstances, request corrective action.



We evaluate any corrective action and issue formal notice to the IPA and grantee of the results.



Results of FY2021 and 2022 QCRs

Met Standards with Recommendations for Future Audits

20%

Met Standards with No Exceptions

34%

Met Standards & Required Corrective Action

46%



General Findings

Lack of Documentation

- Most findings resulted from the IPAs either not performing the suggested audit procedures or not providing documentation to support their conclusions.
- LSC grantees are unique entities.
- Documenting performance of the Compliance Supplement steps is essential.



General Recommendations

Research

- Thoroughly understand the LSC program and all LSC requirements during audit planning

Evaluate

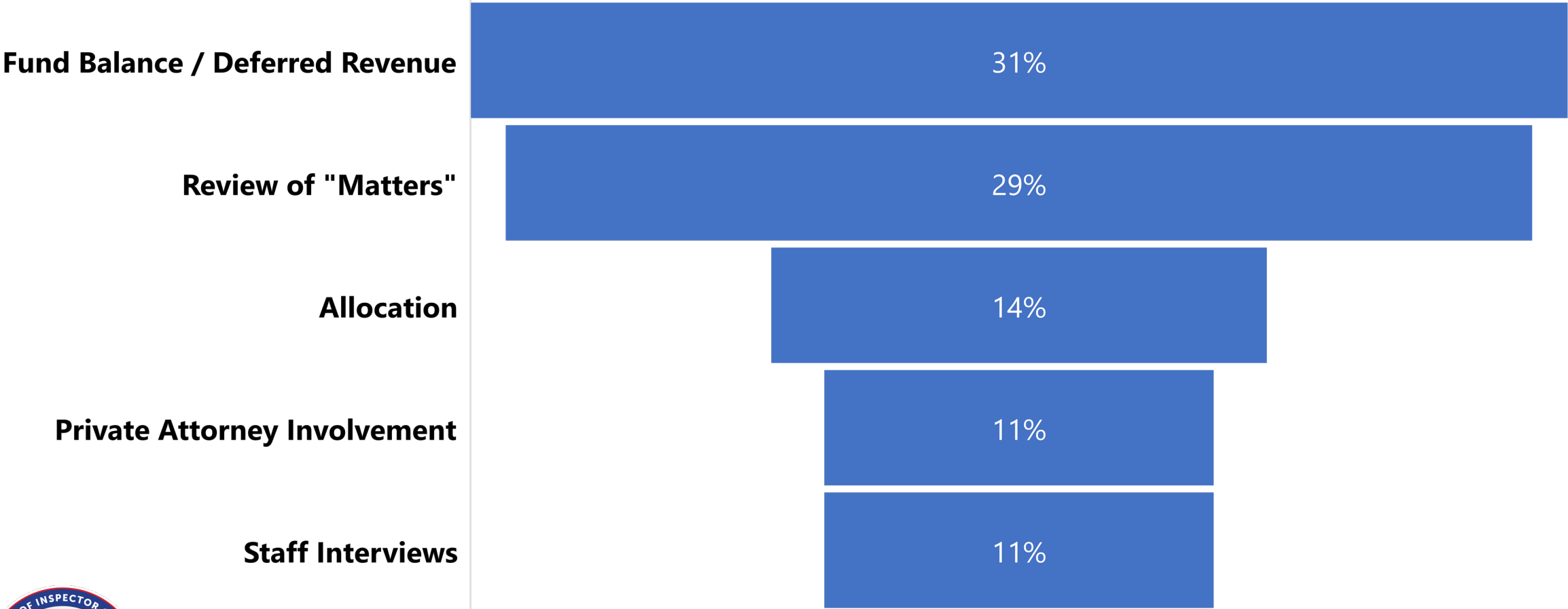
- Completely perform the suggested audit procedures

Document

- Fully document your assurance that you have met and addressed each Compliance Supplement element.



Most Common QCR Findings



Fund Balance

- LSC permits grantees to carry-over up to 10% of annualized support from one fiscal year to the next without LSC approval.
- When carryover exceeds 10%, LSC approval is required.
- We noted instances with miscalculated prior-year carry-over amounts.



Fund Balance - Recommendations

Ensure the grantee adequately analyzes prior-year carry-over to determine if LSC approval was requested.

If the grantee received a waiver, ensure that related expenditures complied with waiver requirements & are accounted for separately.

Document the results.



Fund Balance – Revenue Recognition

Cause of Findings

- Some IPAs did not properly recognize revenue.

Recommendation :

- Refer to LSC's Program Letter 23-2 which contains guidance on revenue recognition and its relation to fund balances.



Review of “Matters” – Cause of Findings

- Matters are defined in federal regulations as “an action which contributes to the overall delivery of program services but does not involve direct legal advice or legal representation of one or more specific clients.”
- Some IPAs attempted to review “matters” in case file test work.
- This would not result in adequate review.



Review of “Matters” - Recommendations



Allocation

Cause of Findings

- Some IPAs did not adequately review and test how the grantees allocated costs or revenue.

Recommendations:

- Obtain, review, and test the recipient's cost and derivative income allocation processes.
- **Document the Results**

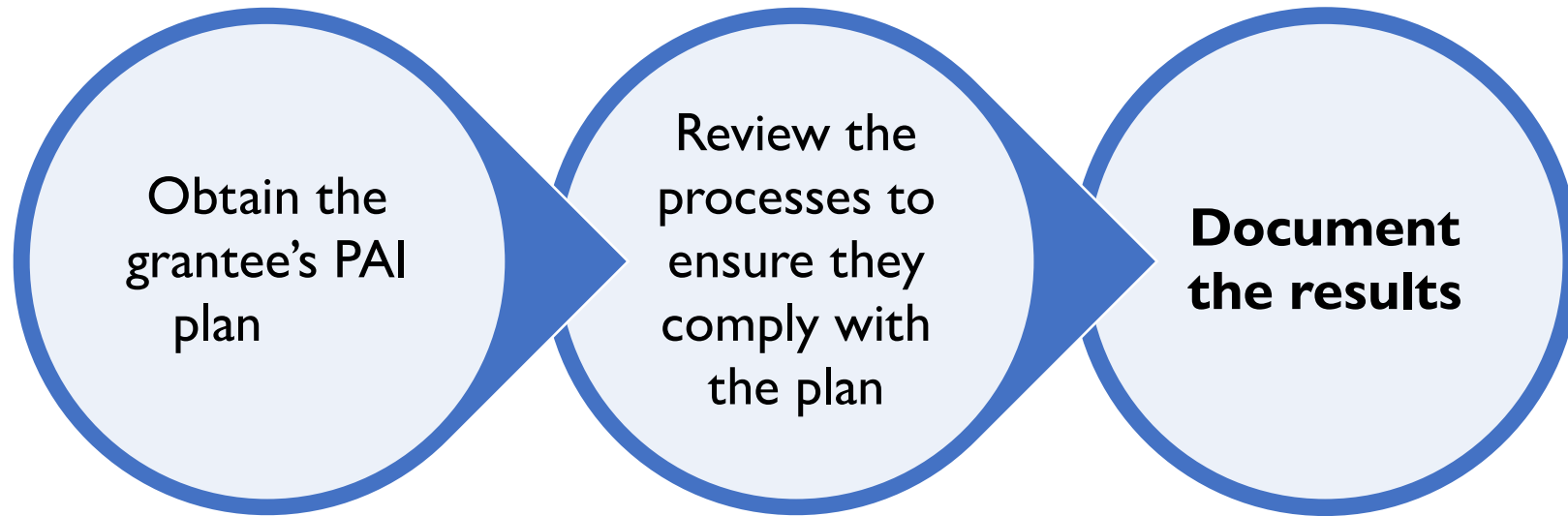


Private Attorney Involvement - PAI

- LSC grantees are required to devote an amount of LSC and/or non-LSC funds equal to at least 12.5% of their Basic Field grant to PAI.
- Grantees must develop a plan and budget to meet this regulation.
- Not all IPAs adequately documented their review of this plan and the grantee's PAI processes.



PAI - Recommendations



Staff Interviews

- Some IPAs did not document staff responses to all applicable parts of the Compliance Supplement.
- Some IPAs did not interview the relevant staff members.



Staff Interviews - Recommendations

- Ensure that all parts of the Compliance Supplement are considered and evaluated when performing staff interviews.
- Ensure all relevant staff members are interviewed.
- **Document the Results.**



Resources

- [OIG Audit Guidance](#) – includes links to the updated **Audit Guide and Compliance Supplement** and other information
- [LSC Program Letters](#)
- [LSC Federal Regulations](#)
- [LSC Financial Guide](#)
- [Common Quality Control Review Findings and Recommendations - Fiscal Years 2021 and 2022](#)



Questions?



For questions related to audit guidance, contact audits@oig.lsc.gov
For financial questions please contact fiscalquestions@lsc.gov

