



2017 CDBG-DR Problem Solving Clinic



Using Internal Audits for Successful Grant Administration



Welcome & Speakers

- Session Objectives
 - Explain key rules and requirements for complying with CDBG-DR Internal Audit requirements
 - Discuss role of internal auditing in successful grant administration
- Speakers
 - Tom Tiffin, HUD
 - Sue Southon, ICF



Agenda

- Importance of internal audits
- Internal audit requirements
- Internal auditor's role
- Determining there are sufficient internal controls
- Internal auditing and subrecipient oversight



Why is HUD focusing on Internal Audit functions?

- OIG 2016 Audit Plan called for improving HUD's execution and accountability for grant funds
- As a result, HUD intends to focus on internal controls and audit functions to:
 - Improve grantee control and accountability for grant funds
 - Improve oversight of subrecipients
 - Improve enforcement of returning unobligated or unspent funds



What are the Internal Audit requirements?

- For 113-2 and 114-113 grantees:
 - Included as Federal Register notice requirement
 - Included in the checklist items requiring specific policies and procedures
- For 114-223 and 114-254 grantees:
 - Included in checklist items requiring specific policies to prevent fraud, waste and abuse



What is an Internal Auditor?

- Audits grantee activities for program and financial compliance.
- Reviews program actions to identify potential issues of fraud, waste and abuse
- Independent auditors **DO NOT** report to program staff
 - Report to the Chief Elected Official or Legislative Body



What is Internal Auditor's role vis a vis grantee?

- An independent auditor is procured by an independent agency (not the grantee) – often OMB or Comptroller of grantee jurisdiction
- Independent auditor is not part of the Grantee's organizational structure, but may interact with program staff to identify issues and improve operational processes and procedures
- Auditors perform periodic (and often unannounced) file reviews to assess compliance with proper financial management procedures, cross-cutting federal regulations, and duplication of benefits analysis



What do Internal Auditors do?

- Monitor, analyze and assess risks and controls of the organization
- Review information on the organization's compliance with state and federal policies and laws and confirms that information
- Make reports and recommendations to the grantee, chief elected official and/or legislative body designated to oversee the CDBG-DR grantee
- Provide report (at least annually) affirming role in detecting fraud, waste and abuse



What are the expectations for an Internal Auditor?

- The governing Federal Register notice or financial compliance checklist sets forth specific requirements for an internal auditor
- Provide ongoing assurance that grantee is maintaining internal controls to comply with laws, regulations, and provisions of contracts or grant agreements
- Should be performed at least annually - more often based on risk assessments



Tasks performed by an Internal Auditor

- Monitors the establishment and maintenance of effective internal control of Federal Award
- Provides independent third party oversight
- Takes prompt action when instances of noncompliance are identified
- Safeguards PII and other sensitive information



Questions that verify status of sufficient internal controls

- Does the grantee have an organizational chart that sets forth lines of authority?
- Is there an assessment of capacity to administer the grant and a plan adopted to address any capacity gaps?
- Are there any staff vacancies, and if so, is there a hiring plan to fill the vacancies?
- Are there position descriptions in place for key personnel?



Questions that verify status of sufficient internal controls (continued)

- Does the grantee's segregation of duties effectively provide for internal controls?
- Is a plan in place to communicate upward the grantee's operating problems and any noncompliance with laws and regulations?
- Does the grantee have a chart of accounts and does the use of these accounts provide the internal control necessary to ensure that resources used do not exceed resources authorized?



Questions that verify status of sufficient internal controls (continued)

- Does the grantee's have clear and specific approval controls with written policies and procedures?
- Are transactions and events correctly documented, recorded, and auditable?
- Are operations consistent with written policies and procedures?



Questions that verify status of sufficient internal controls (continued)

- Do the grantee's internal control procedures support its ability to prepare financial statements that conform with generally accepted accounting procedures, principles and regulatory requirements?



Why is an Internal Auditor important to successful grant administration?

- Ensures grantee is in compliance with:
 - Applicable Federal regulations
 - Federal Register guidance
- Helps to avoid findings and concerns from OIG audit
- Avoids findings and concerns from HUD monitoring visit
- Ensures accuracy of information
- Ensures effective grant management



What is an Internal Audit?

- An independent, objective assurance and consulting activity
- Designed to add value and improve an organization's operations
- Must be provided in Grantee's Certification of proficient controls, processes and procedures
- Points out the best and most disciplined approach to:
 - Improved risk management
 - Better regulatory compliance
 - Enhanced management control
 - Top quality governance processes



What is a typical audit scope?

- Program policies and procedures
- Financial internal controls
- Eligibility of costs and procurement methods
- Evaluation of adequacy of internal controls in place to mitigate risks
- Evaluation of allow ability of transactions
- Consistency of practice with published policies and procedures



Applicability of Internal Audit functions to Subrecipient oversight

- Same policies and practices that are used by Internal Auditor can be used by Grantee in Subrecipient oversight
- Monitoring plan can be developed based on these principles and risk assessments



2017 CDBG-DR Problem Solving Clinic



Questions?