



OFFICE OF  
HOUSING COUNSELING  
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# **U.S. Department of Housing and Urban Development Office of Housing Counseling**

## **Internal Control Requirements Under the Uniform Guidance**



Facilitated by  
**Booth Management Consulting**  
7230 Lee Deforest Drive, Suite 202  
Columbia, MD 21046

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**Facilitated By  
Robin Booth, CPA  
Audit Principal  
Booth Management Consulting**

# Training Topics



- ❖ Define and clarify the new internal control requirements
- ❖ Understand the impact to Agencies
- ❖ Outline the implementation of the new requirements
- ❖ Resources to assist Agencies
- ❖ Comments and Questions

# What is Internal Control?

§200.303 Internal Controls found in Sub-Part D-Post Federal Award Requirements, Standards for Financial and Program Management, of the Uniform Guidance means:

“A process implemented by a non-Federal entity [e.g., institution of higher education], designed to provide reasonable assurance regarding the achievement of objectives” in the following categories:

- (a) Effectiveness and efficiency of **operations**
- (b) Reliability of **reporting** for internal and external use
- (c) **Compliance** with applicable laws and regulations

# Is this a New Requirement?

## NOT A NEW REQUIREMENT

- ✓ Moved from the Audit Requirements (OMB A-133) into Administrative Requirements
- ✓ Encourages non-Federal agencies to better structure their internal controls
- ✓ Award amount is irrelevant
- ✓ Every non-Federal agency must comply
- ✓ Clarifies the meaning of “**MUST**” and “**SHOULD**” (“Must” is not optional; “Should” is recommended)

# How Does it Impact Agencies?

UG §200.303 states the non-federal entity **“MUST”**:

- ❖ Establish and maintain effective internal control over federal awards that provide reasonable assurance that the non-federal entity is managing the Federal award in compliance with federal statutes, regulations, and the terms of the award
- ❖ Comply with federal statutes, regulations, and terms and conditions of awards
- ❖ Evaluate and monitor compliance
- ❖ Take prompt action when instances of non-compliance are identified
- ❖ Take reasonable measures to safeguard personally identifiable information and other sensitive information

# How Does it Impact Agencies?

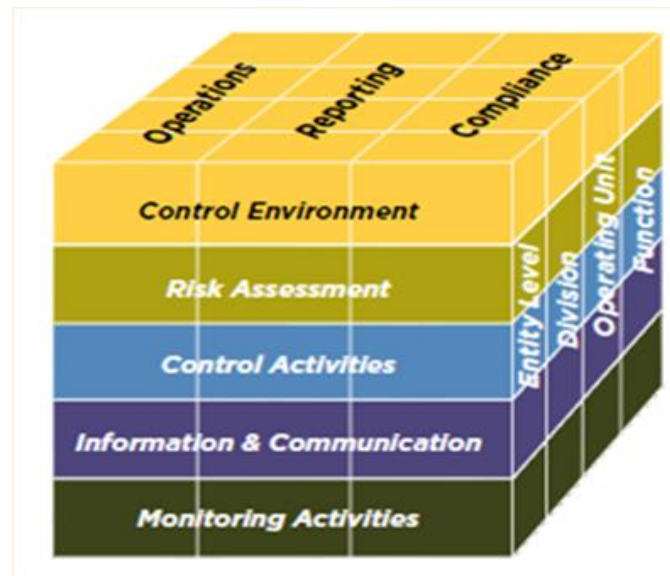
UG §200.303 states the internal control structure  
**“SHOULD”**:

- ✓ Be in compliance with *Standards for Internal Control in the Federal Government* (Green Book) issued by the Comptroller General of the United States and the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Committee on Sponsored Organizations.
- ✓ Note that it is not a requirement that the non-federal entity strictly follow the Green Book or the COSO Framework

# What is the Integrated Framework?

## Generally Accepted Model for Internal Control Green Book and COSO

Committee on  
Sponsored  
Organizations





# Why is This Important?

## Good Controls Support:

- ✓ Efficiency
- ✓ Compliance with laws, regulations, and policies
- ✓ Seek to eliminate waste, fraud, and abuse

*Minimizes damages to an agency's reputation and other consequences*

## Additional concepts related to internal control include:

- ✓ Management must establish and maintain the controls
- ✓ Controls apply to manual as well as electronic systems
- ✓ No system of control can be considered completely effective
- ✓ Considers cost vs. expected benefit

# How Will OHC Comply?

## Internal Control is a Part of Financial & Administrative Reviews

<b>Existing Procedures</b>	<ul style="list-style-type: none"><li>• Review segregation of duties for relevant process areas (Payroll, Cash Receipts, and Disbursements)</li><li>• Review policies and procedures</li><li>• Review organizational chart</li><li>• Minimum test of controls</li></ul>
<b>New Procedures</b>	<ul style="list-style-type: none"><li>• Perform existing procedures</li><li>• Request and review internal control policies and procedures, if available</li><li>• If no policies and procedures:<ul style="list-style-type: none"><li>✓ Document understanding of internal controls (IC Survey)</li><li>✓ Interview management on the IC components</li><li>✓ Increase sample size for test of controls</li></ul></li></ul>

# How Will OHC Comply?

## Proposed Alternatives for IC Compliance

### Agencies with a Single Audit and OHC Grant are on Federal Awards Schedule:

- If no significant deficiencies or material weaknesses, accept the report as compliance with no additional procedures.
- If significant deficiencies but no material weaknesses, treat as an “Observation” and inquire as to corrective actions.
- If material weaknesses, treat as a “Finding” and require corrective actions.

# How Will OHC Comply?

## Proposed Alternatives for IC Compliance

### Agencies conduct internal audits:

- ☐ Develop an Internal audit plan.
- ☐ Conduct internal audit testing.
- ☐ If significant deficiencies but no material weaknesses, treat as an “Observation” and inquire as to corrective actions.
- ☐ If material weaknesses, treat as a “Finding” and require corrective actions.

# Significant Deficiency & Material Weakness

## Deficiency

- ✓ When the design or operation of a control does not support prevention or detection of compliance

## Significant Deficiency

- ✓ Deficiency, or combination, in internal controls that adversely affects the agency ability to comply with laws, regulations, and policies and procedures

## Material Weakness

- ✓ A significant deficiency, or combination, that results in more than a remote likelihood that the agency will not comply with laws, regulations, and policies and procedures

# Significant Deficiency & Material Weakness

## Examples

### Deficiency

- ✓ Checks received from funding sources are not deposited timely and are maintained in the accounting office. *Checks should be deposited timely preferably daily to safeguard the asset, which is cash.*

### Significant Deficiency

- ✓ The accountant receives mail, unopened, enters it in the system and prepares a payment (voucher) package for signature by the Executive Director. *The same person should not open mail and enters the transactions in the system.*

### Material Weakness

- ✓ The Executive Director receives checks from funding sources, records them in the accounting system, and is the only person that manages the accounting system. *One person should not perform all of these functions, increases the potential for fraud waste and abuse.*

# Significant Deficiency & Material Weakness

## Proposed Reporting of Deficiencies in FARs

Internal Control	Requirement	FAR Reporting
Deficiency	1-2 internal control deficiencies	No reporting, may recommend technical assistance
Significant Deficiency	3-4 internal control deficiencies	Observation with technical assistance
Material Weakness	5 or more internal control deficiencies	Finding, corrective action plan, and technical assistance



# Available Services

## Training

Menu	Description	Onsite and/or Remote
Internal Control	Full and 1/2 day training to implement an internal control plan or policies and procedures	Optional
Sub-grantee	Full and 1/2 day training to sub-grantees on internal controls and the requirements	Optional

## Action Plan

Menu	Description	Onsite and/or Remote
Internal Control Assessment	Conduct an assessment of the grantees internal control to verify compliance with Uniform Guidance and recommend technical assistance and/or training	Optional



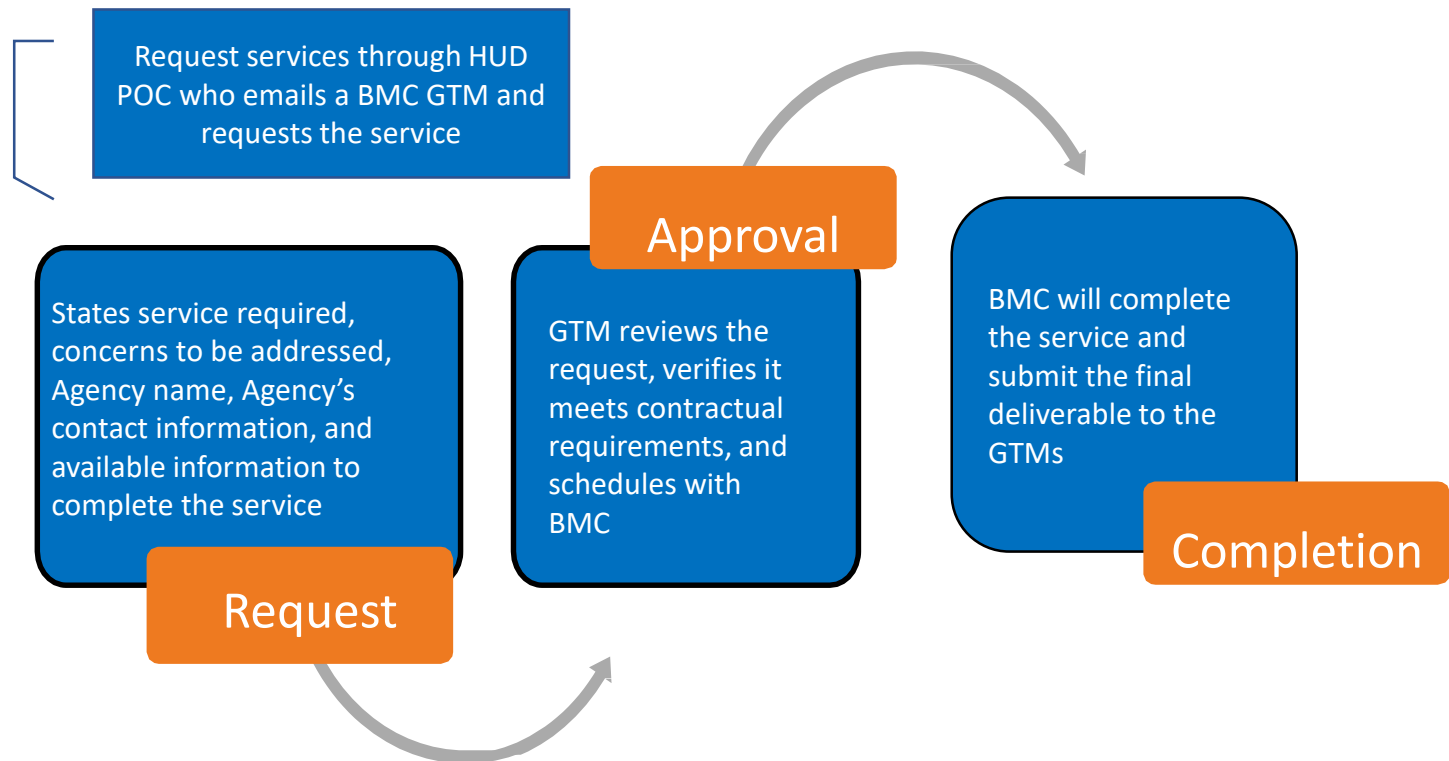
# Available Services



## Technical Assistance

Menu	Description	Onsite and/or Remote
Internal Control Plan	Assess and provide recommendations for improving their internal control and/or develop an internal control plan. This could be follow up assistance from an Action Plan depending on how much assistance the agencies need.	Remote
Internal Control Policies and Procedures	Assist with updating and/or developing internal control plans	Remote
Internal Control Corrective Actions	Assist in the implementation of corrective actions from a FAR for internal control observations and findings	Remote
Single Audit Findings Follow Up	Assist with the implementation of corrective action plans for Single Audit internal control material weakness and findings	Remote

# Requesting Services



# Benefits to Grantees



Comprehensive assistance to grantees to minimize the burdens of implementation of new regulations



Potentially reduce findings during financial reviews



Provide financial and administrative technical assistance to grantees that can be transferred to other federal programs



Reduce administrative burden through training of sub-grantees

# Comments and Questions



**Please forward any questions to:  
[housing.counseling@hud.gov](mailto:housing.counseling@hud.gov)  
with**

**“Internal Control Requirements Under the  
Uniform Guidance”  
in the Subject line**

