



## Final Transcript

**HUD-US DEPT OF HOUSING & URBAN DEVELOPMENT: Internal Control Requirements Under the Uniform Guidance**

July 11, 2017/12:00 p.m. EDT

### **SPEAKERS**

Petergay Bryan

### **PRESENTATION**

Moderator                   Ladies and gentlemen, thank you for standing by. Welcome to the Internal Control Requirements Under the Uniform Guidance conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. [Operator instructions.] I would also like to let you know that today's conference is being recorded.

I will now turn the conference over to our host, Petergay Bryan. Please go ahead.

Petergay

Hello, everyone. I am Petergay Bryan, Audit Manager with Booth Management Consulting. Today we're going to be doing a training where we will discuss the internal control requirements under the newly affected Uniform Grant Guidance. Audio is available, but you would have to call the number and put in the access code that's up on your screen here. Again, as Trisha, I think her name is, I'm sorry just mentioned, audio will be recorded, and the handouts and transcript will be available on SharePoint under training documents. You'll be muted during the presentation, but if you do have questions, I'll give you instructions on how you can pose those questions later on, in a few seconds.

You did receive handouts, which will include the PowerPoint presentation that we're going to be going over today. If you also click your control panel in the handout section, you will see where we also attached the copy of the presentation that we're going to be reviewing today. At the end of today's training, within 24 to 48 hours, you're going to receive a thank you email, and that's going to be your certificate of training. So please keep that in your records as proof that you received the training today.

If you have questions during today's call, please either type them in the comments section that's right here. So in the control panel, again, there's

a section that says questions. You can type your questions there, and we have someone from Booth Management Consulting who will be answering questions as I go through the presentation. If you still have questions, you can send them to, and I'll tell you in a few slides the email address that you'll send those questions to if we are not able to answer those questions today. Also, at the end of the session, I will pause and you'll press star six, and we'll open up the lines for any live questions that you wanted to have in the discussion forum. At the end of the training, I'll provide an email for you to send any questions that you think of after today as it relates to the topic of training.

Again, I'm Petergay Bryan, Audit Manager with Booth Management Consulting. Booth Management Consulting were contracted by HUD to conduct the financial and administrative reviews of the housing counseling grants that you receive from HUD. We also conduct training as it relates to the financial management requirements of the grant. We provide technical assistance related to the grant as well. We also conduct action plans where we do a preliminary high-level review of your housing counseling grant program for compliance with HUD as well as Uniform Grant Guidance requirements.

Today, we're going to talk a little bit about the internal control requirements that became effective with the Uniform Grant Guidance. We'll try to get you to understand the impact of the changes on HUD. We'll also outline the implementation of the new requirements. What resources we have available to us is two, and we'll also take any comments or questions that you have. Any areas of concern that you have, you can also pose them and we'll try to work through them with you.

The Uniform Grant Guidance Part 200.303, this is where we would refer you to as far as the regulatory requirements to determine what do you all need to know about internal controls. It describes internal controls as a process implemented by the non-Federal entity to help you guys to provide reasonable assurance regarding the achievement of your objectives of your agency. The main objectives that you want to make sure that you're meeting by implementing internal controls is that you want to have operating effectiveness and efficiency, you want to ensure reliability of your reporting—any reports that you submit externally or any internal reports that you develop, you want to make sure that those reports are reliable—you want to ensure that your agency is being compliant with the applicable laws and regulations as they relate to any Federal awards

that you may have. During today's exercise, we're going to dig in a little bit more on how you can achieve operating effectiveness and efficiency, how you ensure that your reporting will be reliable, and how you ensure that you're in compliance with the applicable laws and regulations.

The Uniform Grant Guidance requirements on internal controls, they are not new. Agencies were always required to have proper internal controls. It's just that with the Uniform Grant Guidance now in place, they wanted to make sure that agencies who receive Federal funds were expressly informed that hey, you have to make sure that you have proper assistance in place to ensure that you're not having fraud, waste, and abuse as they relate to the Federal funding that you do receive.

Under OMB A-133, all of those requirements were moved, and they are now compiled into the administrative requirements of the Uniform Grant Guidance. Pretty much, I want to encourage any non-Federal entity that receives Federal funding, you want to make sure that you are having a better structure for how you manage and how you implement your internal controls. It doesn't matter the size of your award, so even if you only receive \$5,000 from the Federal Government or you receive \$10 million from the Federal Government, you're still required to have proper internal

controls in place, and you're still required to monitor those funds. You're still required to be in compliance with all aspects of the Federal award, regardless of the award amount.

The Uniform Grant Guidance has clarified what must be complied with versus should. Whereas in the old OMB Circular, they may have said okay, you should comply with this so, in that sense, it was just a recommendation, but now in the Uniform Grant Guidance, they have clarified it to say you must be in compliance with these requirements. In the next slide over here we'll talk about what those requirements are. Regardless of your award amount, as long as you're receiving Federal funds from a Federal agency, you must establish and maintain effective controls over the award. You are responsible for providing reasonable assurance that your agency is managing the funds, and that you're being compliant with what the award stipulations and what the Federal requirements are.

You also have to make sure that you're compliant with any Federal statutes or regulations. You're also responsible for evaluating and monitoring your compliance. You're also required to take prompt action whenever there is an incidence of non-compliance. Whatever actions you

take you want to make sure that you have proper supporting documents to show that okay, we did address this incidence of non-compliance, and we have resolved it. You want to make sure that you're maintaining documents to show that.

You also are responsible for taking reasonable measures to safeguard personally identifiable information and any other sensitive information. That is very important. So names, addresses, social security numbers, things like that for your clients, you want to make sure that you're keeping that sensitive information encrypted, or you're safeguarding that information and making sure that that's not being widely spread to individuals who should not have access to that information.

The Uniform Grant Guidance still says that you should be in compliance with the Green Book, that's pretty much the standard for internal controls in the Federal Government, and also the committee of sponsoring organizations, the COSO. These pretty much have a lot of information that you could go to to research. If you wanted to know what are internal controls, the different types of internal controls, how you could implement certain internal controls, this is a tool for you to use. You go there, read them, research them, and it would help you to develop your own internal

control policies and procedures and see how your agency could best implement those policies and procedures.

The generally accepted model for internal controls in the Green Book as well as the COSO it talks about the operations of your agency. You want to make sure that you have operating effectiveness. Whenever you implement or you develop an internal control procedure, you want to make sure that every person in your agency who is relevant to that internal control is aware of the procedures that you guys would need to perform. Once everyone has an understanding of the part that they play and what they need to do, then that's going to then make sure that segregation of duties are in place, and in mitigating segregation of duties that you needed to implement, you would also implement that as well. Just make sure that everyone in your agency knows the part that they should play in making sure that the control operates effectively.

When you talk about the reporting, if you do have proper internal controls in place, then you would have reports that are going to be relevant, also information that's going to be accurate, because you are going to have people who are going to prepare the reports, and someone is going to review the reports, reconcile the reports, and things like that. All of those



controls that you put in place pretty much ensures that the reporting is going to be accurate. At the end of the day, once you have those things in place, essentially, you will likely be compliant with the applicable laws and regulations or any requirements of the award that you have been granted.

When you talk about the control environment, you're talking about the management of the company. So you're talking about the managers and the board of directors. You want to make sure that the board of directors are independent. You want to make sure that the management personnel in your company are being objective, and that they are separated from whoever is going to prepare the reports, and then the managers would actually go in and do their review of the report.

When you talk about risk assessment, you're looking at your agency and you're trying to see okay, what are some risk factors, what are some things that are risky to our business. If you are able to do that, then you'll be able to implement controls to address those risks. Your control activities are pretty much the steps that you're going to take to make sure that proper internal controls are being upheld within your company.

Information and communication is just about how you spread that information to all of the employees, upper level management and to your board of directors just to make sure that everything is uniform. Everyone knows, again, what role they're going to be playing in making sure that the company is operating smoothly and that internal controls are being properly implemented and carried out. Then your monitoring activities are how you periodically review to make sure that the controls are properly being conducted.

It's important to have good internal controls because it promotes efficiency. It also promotes compliance with laws, regulations, and the policies that you have documented and issued to personnel in your agency. Again, it seeks to eliminate fraud, race, and abuse in your company. A few things that we wanted to point out is that management has to establish and maintain internal controls. It isn't sufficient to just draft internal control policies and procedures. Once they have been drafted, you want to make sure that management has shared them with everyone in the agency.

Management wants to make sure that everyone has a clear understanding of the roles that they will play. They also want to make sure that they're maintaining those controls by doing follow up. You also want to test the

system to see okay, are the controls that we implemented, do they work or was it properly designed and was it properly implemented by your staff.

When we talk about controls, it's not just the manual controls. So it's not just controls in place that personnel will perform, but you want to test your electronic systems as well to make sure that it does what it needs to do.

For example, if you wanted to run a report of your accounts receivable and when you run your report you're getting accounts payable information in there, then you know that your system wasn't properly designed or the report wasn't run properly. But you want to do those types of testing to make sure that the controls that are in place are actually working as designed.

Another thing that's important to note is that no system of control is considered to be completely effective. Once you've documented and implemented your internal controls, don't make the assumption that it's going to be completely effective 100% of the time. So that's why you do your random testing to make sure that it continues to work as designed.

Also, what I think that agencies should always consider is the cost benefits. How much is it going to cost your agency to implement a proper system of internal controls? If the costs outweigh the benefit then you

want to consider some alternatives as far as how you would go about doing that.

A lot of times, from what I've seen in conducting the financial and administrative reviews of HUD's grantees, is that the smaller agencies are unable to implement complete segregation of duties in some very important areas, but there's a workaround to it. There's always a workaround and a way for you to mitigate certain risks. One of the things that we always recommend is if you cannot completely segregate certain duties, then you want to have additional layers of review just so that you're making sure that you're avoiding fraud, race, and abuse by having the added layers of review being done by maybe the board of directors or the CEO. They could take on some additional functions just to make sure that there's some mitigating factors in place.

When our company conducts a financial and administrative review, when we look at internal controls, the thing that gives us the most information is when we look at your segregation of duties grid. Pretty much what that means if you haven't had a review from us before, we send out an Excel spreadsheet and we list different activities in the payroll, cash receipts, and cash disbursement business cycles, and we have you tell us who has the

ability to perform each of those functions that we have listed there. Once we look at that, because typically certain functions should be segregated, the same person should not have the ability to do certain functions. When we look at that grid, we can tell okay, there appears to be a conflict here where a person is performing all of the functions of the agency. So that's what we do, and we'll, of course, follow-up with the agency if we saw any conflicts. So that's one of the things that we review.

We also review your documented policies and procedures because, of course, that's where your internal controls start. You have to draft policies and procedures for each of your business cycles, and then issue them to personnel in your agency, and then you implement those documented policies and procedures. So, we look at your segregation of duties grid, we look at your documented policies and procedures and we look at your organizational chart.

Your org chart is going to tell us who are the key players in your company, what functions do you have segregated, do you have an accounting department, an HR department, a housing counseling department, who is performing what function, do you just have one or two people in your company. We can see that by looking at the org chart. We

take all of this information together and then we perform a minimum test of controls. We also do a minimum test of controls when we do the cash disbursement testing to see okay, are there any approval layers before certain types of purchases are made, is someone signing off on a purchase order or signing off before a payment is made. Things of that nature are what we look at when we currently do our financial and administrative reviews.

Because of the Uniform Grant Guidance and the requirements that are now in place, we are going to be performing those existing procedures, but we're going to be doing a little bit more, because we have to make sure that the agencies are being compliant with these new requirements. One of the things that we're going to be doing is we are going to take a look at your documented internal control procedures, if you have them available, to see what does your agency have documented and what do you guys have in place to make sure that you're being compliant with these new requirements.

If there are no policies and procedures available for us to review, then we're going to give you an internal control survey where we're pretty much trying to get an understanding of how your agency makes sure that

you have proper internal controls. We would then interview someone from management about the internal control components, and we would increase our sample size. So when we did our cash disbursements testing, we did only five samples. When we did payroll, we only did five, so we may increase that to ten for each of the cycles to make sure that we're covering a big enough sample size to see whether or not there's any breakdown in the internal controls.

Some alternatives that we have proposed to HUD is for agencies that have received a single audit, if per review of the single audit there were no significant deficiencies or material weaknesses, then we will just rely on that information and perform no additional procedures. However, if the agency had any significant deficiencies but no material weaknesses, then we would treat that as an observation, and we would inquire with your agency to see whether or not any corrective actions were taken to address that. If there were any material weaknesses noted, then we would treat that as a finding, and we would require your agency to perform corrective actions if you haven't already done so.

As an alternative we would also develop an internal audit plan. We would conduct testing. So that's the testing I previously mentioned where not

only would we just look at the segregation of duties grid and the policies and procedures, but we would increase our sample size and make sure that certain other things are being captured. If we noted any significant deficiencies but no material weaknesses, then we will treat that as an observation. If there are material weaknesses, then we will treat those as findings and require corrective actions.

A deficiency is pretty much when the design or operation of a control doesn't operate in the way that it was designed, or the internal control wasn't designed properly to detect or prevent the incidence of non-compliance. That is what a deficiency is. A significant deficiency is one deficiency or a combination of deficiencies that affects your ability to comply with the laws or the grant requirements. A material weakness is a combination of significant deficiencies or a significant deficiency that would result in more than just a remote likelihood that you would not be compliant. It has to be greater than a remote likelihood of non-compliance for us to deem it a material weakness.

As an example for a deficiency, here we state checks that were received by your agency from, for example HUD, it wasn't deposited timely and maintained in the accounting office. For proper internal control, any



deposit that you receive it should be timely deposited. Usually we recommend that you deposit it daily, but it should be deposited timely in order for you to safeguard that asset. A significant deficiency example would also be if an accountant receives the mail, enters it into the system, and prepares a payment voucher for the executive director to sign. In a system where there's proper internal controls, the same person should not be able to open the mail and enter the transaction into the system. Those two duties should be properly segregated.

A material weakness would be where the executive director, he or she receives the checks, they record them in the accounting system, and they are the only person who handles the cash receipt and recording transactions from start to finish. That is definitely a material weakness because it has to be broken up. Again, for agencies that are smaller, even if it's just the executive director and one other person, you can use your board of directors again, to make sure that there's an added layer of review and one person does not have the responsibility for doing all of the transactions within your company, because then there's a greater risk to HUD, and there's a greater risk to how your agency is handling Federal funds.

Our proposed reporting of deficiencies when we conduct [indiscernible] between one and two internal control deficiencies, we may just recommend technical assistance for that. If there were three to four deficiencies, then we would report that as an observation and propose some technical assistance so it would get drafted in a report that we submit to HUD. If you had five or more internal control deficiencies, then that would be deemed a finding. We would propose a corrective action plan for you to fix the material weakness and those five or more deficiencies, and we would also provide technical assistance to your agency.

BMC, we currently provide an entire eight-hour session to implement internal controls or to draft your policies and procedures. Depending on the agency and depending on how much work they need, we can do a full-day or a half-day training where we actually work with people from your agency. We look at your current policies and procedures that you have in place. We work with your agency to draft or reform the policies and procedures you have in place and help you guys to implement that control plan.

For agencies that have subgrantees, we also provide the same service to your subs. We will spend either a full day or a half day drafting policies

and procedures and also helping them to implement those policies and procedures to make sure that anyone who's involved in the process, they know what their responsibilities are, they know what needs to be done, and it will just be for management to manage it going forward, but we'd definitely help you guys to set it up.

Another thing that we do is we conduct internal controls assessments where we look at the current state of your internal controls. For example, if you didn't have any policies and procedures—well first we would ask you, what do you have in place? Do you have policies and procedures in place for internal controls? If you didn't have any policies and procedures in place, then we would work with you to draft that. If you did have them in place, however, we would review them and assess them to see okay, there is a deficiency here or this policy needs to be updated, because there's a risk that we see here. Then we'd work with your agency to get you to a place of being compliant and get you to a place where you have policies and procedures in place that are covering all of the key areas.

We also develop internal control plans in our technical assistance to agencies where we assess what you have in place and provide recommendations for how you can improve them. Again, if you wanted

us to work with you to improve them, that assistance is available to you.

We, again, draft policies and procedures where we work with someone from your agency one-on-one and give you the tools in which to have your policies and procedures updated and documented.

We also conduct internal control corrective action plans with you. We would go over that with your agency. Any single audit findings that you may have, we work with your agency to develop corrective action plans that addresses the single audit finding, and we also help you to find ways in which to resolve those findings.

The process for requesting service, if you were interested, is you always first go through your HUD POC. So you would send your HUD POC an email or give them a call or send them a letter requesting service. It should state the nature of service that you require. Once the POC received that information, then they would contact our HUD GTM and let us know your name, which is your agency name and the contact information of the person who we should reach out to if the service is approved. Then they would also give us a synopsis of what is happening and the type of service that you may need. If we got approval from the HUD GTM, then we would contact your agency and schedule a date to conduct a session,

whether it be an action plan or provide technical assistance to you guys.

We will contact you directly but only after we have received approval from HUD.

Some of the benefits of proper internal controls and also from us providing these services to you guys is we would provide comprehensive assistance to grantees, especially grantees that have subgrantees or grantees that are smaller agencies and don't have the funds necessarily to do this type of work. We would reduce the burden of implementing the internal control requirements under the regulations. We could potentially reduce findings that may have resulted from the financial and administrative reviews, if you guys were not to implement or update your internal control processes and activities.

We would also be able to provide you with financial and administrative technical assistance that you can transfer to any other Federal program, because once you learn it and once you update these policies for your HUD program, then it's, of course, going to be companywide and you would be able to apply to any of the other funding that you may receive from Federal agencies. It would also reduce the administrative burden for

you guys, again, if you had subgrantees, it would reduce the burden of you being required to provide that training to your subs.

I will open up the floor now for questions, if you had any.

Moderator [Operator instructions.] At this time there are no questions queuing up.

Petergay At the beginning of the session, I mentioned that there was an email address that you could send any questions that you may have after today or later on today to. Here it is, it is [housing.counseling@hud.gov](mailto:housing.counseling@hud.gov), and please put in the subject line internal controls requirements under the Uniform Grant Guidance whenever you send that email. That just makes it easier for us to identify the training session that you attended and that you need answers to.

I'm sorry. I'm looking at the written questions that came in, and I think my colleague responded to them except the one question where someone, Ms. Victoria Carter [ph], asked if the executive director could make deposits from funders, meaning grant checks, for example, although they have an accountant.

The answer to that question would depend on whether or not the executive director is also documenting or posting the receipt of funds to the accounting system. Pretty much what I was saying earlier on is that you don't want to have one person who is receiving the funding, recording it into the system, reconciling the bank reconciliation, things of that nature. As long as all of those functions are being segregated, different people are performing these functions, then you will be fine.

Another question was whether or not the PowerPoint presentation would be available online. Again, it's going to be in SharePoint under the training section. It's also in the control panel, so the same control panel where you popped it out to ask the question, there's a section for handouts and it's also attached there.

Ms. Virginia Holman had also sent you an email with the PowerPoint presentation attached. Of course, if you still have questions, and if you haven't received it through any of those mediums, please send us an email and we can send it to you. I don't think there are any more questions.

Thank you so much for your time. I hope you enjoy the rest of your day.

Thank you.

Moderator

Ladies and gentlemen, that does conclude your conference for today.

Thank you for your participation and for using AT&T's Executive

TeleConference Service. You may now disconnect.