



Final Transcript

**HUD-US DEPT OF HOUSING & URBAN DEVELOPMENT:
Understanding Internal Controls**

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SPEAKERS

Petergay Bryan

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by and welcome to the Understanding Internal Controls 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]. As a reminder, your conference is being recorded.

I would like to turn the conference over to your host, Petergay Bryan.

Please go ahead.

Petergay

Hello, everyone. This is Petergay Bryan with Booth Management Consulting and I wanted to welcome you all to today's training on internal control requirements under the Uniform Guidance.

As the operator said, audio will be recorded during today's training and the playback number along with the presentation will be available to you on our SharePoint under the training document section.

Also, you should have received a copy of the PowerPoint presentation ahead of time in your email if you had signed up to receive this training. However, if you did not receive that email, if you look on your control panel, there is a section for handouts. If you expand that, you can just click on the PowerPoint in the handout section and you'll be able to download it and look at it while we go through today's training.

Within 28-to-48 hours, you're going to receive an email. It's going to be a thank you email that's saying thank you for participating in today's training and that will be your certificate. So, please make sure that you save that for your records as your certificate of training and having attended today's webinar.

We won't be taking live questions today due to the number of participants online. However, if you do have questions, we do have staff from Booth Management Consulting who are taking your questions live. If you expand your control panel, you'll see a section for questions. If you type your questions there, someone from Booth will respond to you immediately.

I do want to make mention of the fact that this training is directly geared towards participants in the Office of Housing Counseling Program, so if you do receive another grant from HUD that you're participating in today's training and you have questions based on those other HUD programs that you are participating in, we would not be able to respond specifically to those other programs as this training is designed for Office of Housing Counseling grant [audio disruption].

We'll go ahead and get started. Again, I'm Petergay Bryan. I'm an audit manager with Booth Management Consulting and we're the contractors that work with HUD's Office of Housing Counseling grant recipients for the financial and administrative requirements of the grant.

Today, we'll try to talk about the signing [ph], what internal controls are and talking about the requirements that became effective with the Uniform Guidance. We'll try to touch base on understanding the impact to agencies with the Uniform Guidance and the changes that have been made, how HUD will be implementing these new requirements that were imposed based on the Uniform Guidance and also available assistance to you all as participants in the Office of Housing Counseling Program.

Okay, I received a note that it's hard to hear. I'll speak a little bit louder. Hopefully, this is better. The next section that we're going to talk about is this requirement. So, it is not a new requirement for agencies to make sure that they have internal controls. However, if you have received the HUD grant before, you'll probably remember OMB A-133 talking about the administrative requirements for agencies who receive federal funds and in doing so, you were required to have strong internal controls over the grant programs.

The Uniform Guidance now encourages recipients of federal awards to better structure their internal control systems regardless of your award amount. So, you may have received \$5,000 or \$2 million from HUD, it doesn't matter what your award amount size is, you are required to have

internal controls for how you are administering the funds. Every grantee must be compliant with the requirements of the Uniform Guidance and the new guidance now clarifies between what agencies must do versus what they should do. Of course, if the language in the Uniform Guidance says that you must be compliant with a specific requirement, then of course, all the recipients of federal funding must make sure that they are in compliance.

In the language that says should, then it's a recommendation for you to follow those guidelines and, of course, it would be beneficial for you as the participant to try to follow the recommendations prescribed therein as long as it's beneficial to your agency on a cost benefit analysis type of thing.

The Uniform Guidance Part 200.303 outlines what grantees must do. Mainly, you must establish and maintain effective internal controls over your federal awards, so that you are providing reasonable assurance that your agencies managing the federal award in compliance with your grant agreements.

For your Office of Housing Counseling grant funds that you have received, you want to make sure that you have strong policies and procedures in place of how you will administer the fund and make sure that you are in compliance with what your HUD grant agreement specifies that you have to comply with, as well as the Uniform Guidance requirement for handling any type of federal awards.

You must comply with federal statutes, regulations and terms and conditions of awards. So, again, you're not only being required to be compliant with the Uniform Guidance requirements, but also the terms and conditions of your HUD Office of Housing Counseling grant award. You're also required to evaluate and monitor compliance on an ongoing basis, so periodically, you'll perform tests of controls to make sure that your controls are in place and your management will be responsible for evaluating and monitoring your compliance just to make sure that if there's a breakdown, you are able to catch it and remedy that breakdown.

Also, you're required to take prompt action whenever you find that there are instances of non-compliance. There's a timeframe for within which you want to make sure that you're addressing any areas of non-compliance. You don't want to wait until two years down the lane after

you've identified an issue before you start addressing it. Also, you're responsible for taking reasonable measures to safeguard personally identifiable information and other sensitive information. You want to make sure that you have policies and procedures for how you will safeguard PII—that's personally identifiable information and then, you have that sensitive information that you come in contact with while you're carrying out your functions.

The Uniform Guidance Part 200.303 further goes on to tell you what some of your should items are. So, the shoulds are a recommendation and they do recommend that you follow the coastal [ph] framework that's also known as the Green Book. The Green Book provides guidance for how agencies can design and implement internal controls as well as how they can go about conducting assessments to see whether or not those internal controls are effective. You can research that, see what's inside the framework and what applies to your agency and what you could apply to your agency reasonably and that's a recommendation for you. I would want to note that it's not a requirement that you strictly follow the Green Book or the coastal framework, but it is recommended and it's really, really helpful.

Here we have a diagram that pretty much summarizes what the Green Book encompasses. It's also about the five strategies. You have the strategic objectives; your operations, reporting and compliance objectives. So, for your strategic objectives, these are really the high-level goals that you have at your organization and that you would align with the mission of your organization. These will be able to help you to strategize where your agency wants to go and how you can move forward to achieving your goals of your company.

For your operations, those objectives really describe the efficient use of your resources that you have available. In you outlining those objectives, you'll be able to really look at your product [ph] quality on an ongoing basis as well as look at how you could provide good customer service to your clients and things of that nature.

As for your reporting objectives, you do need to make sure that you have reliable internal as well as external reporting. Your internal reporting will help you to make sure that you're measuring your key indicators and monitoring them on an ongoing basis so that your management can really take the necessary action that they need to. If they become aware of

something, they'll be able to act quickly, because they've been monitoring it through the use of your internal reports.

From the external reporting perspective, that really helps management to make sure that they're meeting the needs of their stakeholders and reporting timely and relevant information to their stakeholders. Your compliance objectives really are objectives that your agency would set forth to make sure that you're conforming with applicable laws and regulations. You're looking at the Uniform Guidance, also any federal awards that you may have. You're looking at the terms and conditions of those and just making sure that you are maintaining compliance with them and those that have be specified in your company's objectives.

Going down, we have eight components in the framework. It talks about how you could set your objectives, identify events, and conduct risk assessments, how to respond to risks, certain control activities that you could implement, how you can communicate to stakeholders as well as participants in your agencies and how you could monitor your program on an ongoing basis.

In a couple of slides later, we'll talk about an internal control assessment that we have developed. We'll talk briefly about some of these components as well.

Internal control is important because it supports efficiency in your agency. It really starts off with management setting the tone at the top as you may have heard your auditors say. It starts off with management setting the tone. You've outlined your objectives of your company and then, you talk about the components, whether or not you want to look at your internal environments, the various control activities that you will implement, how you will conduct certain risk assessments, how you will followup on that.

In outlining all of this, you promote efficiency in your agency. You'll be able to better comply with laws and regulations and your own policies that you have developed, because not only would you develop your policies and procedures, but you'll be monitoring them on an ongoing basis to make sure that you maintain compliance. It also seeks to eliminate fraud, waste and abuse and make sure that you are managing federal funds properly. You want to make sure that you're managing federal funds in accordance with the Uniform Guidance as well as in compliance with what your federal award specifies.

It's important to note that your management has to be the one to establish and maintain controls. That needs to be understood at your agency that it is always management's responsibility to establish what internal controls will be implemented and what procedures will they take to make sure that they're monitoring and maintaining those controls and making sure that those internal controls are operating properly.

Controls—they could be manual controls or electronic controls.

Regardless of whether or not they're manual or electronic, you want to make sure that there are controls in place for the procedures that are followed in administering federal funds. It's also important to note that no system of internal control is considered completely effective, and so that's why you have to continuously monitor it. Whenever you realize that there's a deficiency somewhere, you want to address that immediately to try to bridge that gap, or if you can't completely have specific controls in place, you'll have mitigating controls to support any area where there may be a deficiency.

In establishing or implementing your internal controls, you do want to consider the cost benefits analysis and make sure that the controls that

you're implementing make sense. If it's too expensive or it's going to require too many resources, but there is another way for you to do so without using as much resources, you'll want to consider all of those factors when you are about to implement certain internal controls.

The Office of Housing Counseling has four options currently that they use with grant recipients to see whether or not proper internal controls are in place at agencies and whether or not they're compliant with the requirements. The first is conducting financial and administrative reviews. The second option is to conduct an internal control assessment or an action plan. The third is to rely on the single audit reports for agencies that have single audit reports. For agencies that have an internal audit department, the fourth option is to rely on the report of the agency's internal audit report and we'll go through each option in a few minutes.

In option one, the financial and administrative review—this is where HUD has their contractor come onsite for one day, but prior to coming onsite, we do a lot of preliminary evaluations and working. Typically, we do our document requesting. We plan to come onsite for one day and we actually do testing of receipts and expenditures of agencies that submit expenses for reimbursement under the Housing Counseling Program. So, while

conducting the financial and administrative reviews, we do perform a limited testing of internal controls.

One of the things that we do is we will ask that agencies complete a segregation of duties grid for the payroll cash received and cash disbursement business cycles. In doing so, we really are able to see the participants in each of those business cycle areas and we're able to see who is performing what function. When agencies complete the grid, based on who performs what function, we can tell if there's a conflict and who's performing a function that they really should not be performing based on their title or based on their involvement in another process within that same business cycle.

We also review all of your policies and procedures for the key business process areas, so not only are we looking at your payroll, your cash receipts and your cash disbursement business cycle, but we're looking at your grant management business cycle; we're looking at your cost policies, your expense reimbursement business cycles. We're also looking at your organizational chart to see the hierarchy of individuals within your organization and in doing so, we're able to perform preliminary evaluation of who's performing what function, are there proper segregation of duties,

and are there proper controls in place. By looking at your policies and procedures, we're able to see are there proper documented controls in place in your policies and procedures.

Then, we would interview individuals from your agency to get a better understanding and make sure that perhaps we had a question on some of the functions that are being performed. In conducting the interviews, we get a better understanding of that while we're evaluating your agency. If we do find conflicts, we speak to someone at your agency to see do you have mitigating controls in place or is there something that you didn't document in your policies and procedures that we'd need to consider and things of that nature while we're trying to get an understanding of the internal control environment at your organization.

Those, in conjunction with actually performing minimum test essentials on your transactions will help us to see whether or not your controls are operating effectively, and we communicate that with you throughout the entire process.

Some new procedures that we would be conducting is we would take a look at your existing procedures and actually have you do a walk-through

to re-perform those procedures to make sure that whatever you have documented and is saved, is what your personnel actually performed while carrying out the function in the different business process areas. We would also request and review internal control policies if you have them, because we currently don't look specifically at your internal control policies and procedures. That is something that we would begin to do.

If you don't have policies and procedures, we would help you by documenting our understanding of the internal controls by conducting an internal control survey and interviewing management under various internal control components. We would also increase our sample size for test of controls just to see whether or not you do have these controls in place and whether or not they're operating effectively.

Under option two, we would conduct an internal control assessment and that is where we work very closely with someone at your agency to complete an internal control assessment. It's broken down into five categories, the first of which is to look at your controlled environment.

The questions that are in the internal control assessment survey, we're trying to see whether or not management in general and the policies that

you have at your agency does it appear to demonstrate a commitment to integrity and ethical values at your company? Does it talk about oversight? Who's responsible for having oversight at your company? Does it establish structure and authority and responsibility? So, who performs what function? Who has the authority to do what at your company? Does it speak to commitment to competence? Also, does it speak to enforcing accountability actions when necessary?

The second section of the internal control assessment has to do with a risk assessment. This is where management would, first of all, you'd have to specify the objective of the risk assessment. You look at your business processes, you see which areas you want to focus on and specify the objectives for whether to focus on this. Why are we focusing on it, and what specifically are we looking at? Does it identify risk? What risks threatened this specific business process? That would need to be identified and specified at your agency. How do you assess fraud risk at your company? How do you analyze significant changes within your business structure or within your daily operations at your company?

In the control activity section of the internal control assessment, we're looking at specific activities that management would set forth.

Management would have to develop different control activities over the business process areas and also over technology. How does management ensure that that is properly communicated to employees? So, does everyone know what role they play in making sure that these control activities work? You have to make sure that there's a channel for distributing that information in your company and, through the assessment, we're able to gauge that.

For the information and communications section, what is it like at your company for communicating information? Can you run your reports in a timely manner? I've done reviews where agencies didn't have access to their general ledgers and things of that nature, so things like that, of course, would indicate that they need to strengthen controls over their information and their communication and technology.

The assessment would help us to determine do you have information readily accessible to you? Are you able to conduct your analyses internally on a timely basis so that it can make a difference in your daily operations? Are you able to communicate internally and externally easily if necessary?

Also, in the final section of the internal control assessment is looking at your monitoring activities, looking to see what does management have in place for conducting ongoing evaluation of the internal controls that they have in place, and how are you evaluating any deficiencies that you found. How are you communicating those deficiencies that you found, and how are you addressing them?

The third option that the Office of Housing Counseling could explore is by looking at the single audit report and that would be for agencies that do have a single audit done. OHC would take a look at the report. If there are no significant deficiencies or material weaknesses, then they would accept the report as is and rely on that information to say there are no additional procedures to be performed and that the agency is in compliance with the internal control requirements of the Uniform Guidance.

If, however, by reading the single audit report, there were significant deficiencies, but no material weaknesses, then we would—and if those appear to impact the Housing Counseling Program or if they were related to something that could potentially impact the Office of Housing Counseling Program, then they would be noted as an observation and we

would inquire as to whether or not corrective actions had been taken to address those significant deficiencies and make sure that the course of actions are sufficient. If there were material weaknesses, we would treat those as findings and require written corrective actions be documented and implemented.

In option four, where agencies have separate departments for internal audits, an internal audit plan would have been developed and conducted and a report would have been issued. Any significant deficiencies noted in that audit report, as long it was not a material weakness, we would treat them as observations and it inquires to whether or not corrective actions are taken. Of course, if there were no deficiencies, we'd rely on that and rely on the fact there were no deficiencies noted and not perform any further testing. If there were significant deficiencies and if those in fact at the Housing Counseling Program, we would note the observation and follow up to see whether or not corrective actions had been taken.

If material weaknesses were noted, then we would treat those as findings and require that there were documented corrective actions that are taken and make sure that they're implemented timely. This exception is to differentiate between a significant deficiency and a material weakness. A

deficiency is the lowest grade or the lowest rank [ph] and that is when the design or the operation of a control did not prevent or detect an area of non-compliance. So, pretty much, your internal controls didn't work as far as either preventing a finding an area of non-compliance, or detecting an area of non-compliance.

A significant deficiency is a higher grade and that is where you have a deficiency or a combination of deficiencies in your internal control that adversely affects your agency's ability to comply with laws and regulations in your policies and procedures. Your material weakness would be significant deficiency or a combination of significant deficiencies that result in a more than remote likelihood that your agency will not be able to comply with laws and regulations, policies and procedures.

On this next slide, we provide an example of going from a deficiency up to a material weakness, and you'll see how with each one, the higher the threat. So with the deficiencies in this example, an agency or a person received checks from funding sources and the personnel did not deposit it promptly and they just kept it in the accounting office. That will be a deficiency because proper internal controls state that you should deposit

your checks daily actually, so that you can safeguard the assets, which is the cash.

A significant deficiency in a similar example is where the accountant receives the mail, they open the mail, they enter it into the system, and they prepare the payment voucher for a signature from the executive director. Now, all of these functions should be broken up for proper internal controls. Someone should be receiving, someone else should be opening and entering it into the system, and someone else should be preparing the payment voucher and then, prepare that package for signature for someone else in that business area.

Now we do know that some agencies are very small and sometimes you only have a few people who are able to perform functions and you're not able to fully implement proper segregation of duties, but there are mitigating controls that you can implement if you ever had that or if you are in that situation. There are mitigating controls that you can implement to make sure that you're still safeguarding the assets.

The third example with a material weakness is where the executive director is the person who received the check, records them in the

accounting system and is the only person who actually manages the accounting system. You can see here, one person is performing all of the functions, which could of course increase the potential for fraud, waste and abuse, and as I mentioned before, because we do know that some agencies may have two or three people in the entire agency, but there are mitigating controls that you can implement to make sure that there is some system of control in place. Of course, you'd have to document them in your policies and procedures and have the signatures and things like that to make sure that you have mitigating factors for that breakdown.

Here, for whenever there is a deficiency noted, one or two internal control deficiencies, usually, we recommend technical assistance for agencies who had just one or two internal control deficiencies. If they had three to four deficiencies, that would qualify as a significant deficiency, we would note an observation and we would recommend technical assistance in our reporting to HUD.

If we noted five or more internal control deficiencies, that would qualify as a material weakness and we would note that as a finding in our report to HUD and we would develop a corrective action plan with the agency and recommend technical assistance to help the agency to remedy that material

weakness and also to implement the corrective action plan. This would be for agencies that we conduct the financial and administrative review for, and agencies that we do the internal control assessments for.

After we conduct the financial and administrative review and are reporting to HUD, also after we conduct the internal control assessment and are reporting to HUD, based on that assessment, if there are significant deficiencies or material weaknesses noted, this is how we would treat the reporting of those items to HUD.

As the participants of the Office of Housing Counseling Program with HUD, you have a menu of services that are available to you. We have them specified here. We provide internal controlled training where we can either come onsite or we can remotely provide a full day or a half-a-day training to participants at your agencies to help them to implement their control plans or update documents and distribute their policies and procedures for internal controls.

For agencies that have sub-grantees, we also perform the same type of services for sub-recipients as well. So, if you were a parent agency and

you have a sub-grantee that has issues with internal controls, we do provide training to a sub-grantee as well.

For an action plan, we do conduct an internal control assessment, which I had previously mentioned to you all. We conduct internal control assessments to verify whether or not you're in compliance with the Uniform Guidance and we could provide, recommend technical assistance if after conducting that assessment, we note there are significant deficiencies noted. Then, we would recommend technical assistance and provide assistance to you all to make sure that you address those deficiencies noted.

Under the technical assistance umbrella, we conduct internal control plans where first we will assess what you have in place and provide recommendations for how you can improve your internal controls. Also, we could follow up on that with an action plan depending on how much assistance you may need.

We do also draft policies and procedures for agencies. We work with a lot of agencies and you perform the procedures, but you don't have them documented. You may have policies in place, but you don't have the

procedures documented either. So, we work with your agency closely to see what procedures are you performing and make sure that we document them and along the way, we would make recommendations for how you can improve your current policies and procedures that you have in place.

As for internal control corrective actions, we do provide assistance with that where we help agencies who have received a financial and administrative review or an internal control assessment. If after having the feedback, they get a report that cites a finding or an observation or a recommendation for a corrective action plan, we'd help you to implement your corrective action plan.

For agencies that have single audit findings, we would help those agencies with implementation of the corrective action plans to address those findings for any significant deficiency or material weaknesses that came about through their single audit report.

For financial analysis under that umbrella, we do conduct single audit finding followup where we help you with the implementation of the corrective action plan and we also follow up with you to make sure that it's operating effectively a couple of months down the line. In internal

audit followup, we also assist agencies with implementation of their corrective action plans for their internal audits and also in a couple of months, we check up with you to make sure that it's still operating effectively.

How to request service—firstly, you would contact your HUD POC. If you are a sub-grantee, you would reach out to your parent agency who would then reach out to the HUD POC. You will need to state the service that you need, any concerns that you have. You would want to specify the agency's names and the contact information for the person.

Your HUD POC would then communicate that to our HUD GPM. They would review the request and if they choose to approve it, then they would communicate that to us here at BMC. Once we receive approval, then someone from BMC immediately reaches out to your agency to let you know that your request has been approved. We'll work with you closely to ensure that you receive the assistance that you need.

If you have questions, please send them to housing.counseling@hud.gov and in the subject line please document, Internal Control Requirements Under the Uniform Guidance so that we'll know who to send these

questions to. And again, I want to make sure that I mention to you again that only participants in the Housing Counseling Program—because these trainings are designed specifically for those recipients, those are the questions that we are able to answer to at this time.

I want to thank you all for participating in today's training and have a good afternoon.