



OFFICE OF  
HOUSING COUNSELING

# U.S. Department of Housing and Urban Development Office of Housing Counseling



Facilitated by  
**Booth Management Consulting**  
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Columbia, MD 21046

## Understanding Internal Controls

March 26, 2019 at 2 PM EST

# Webinar Logistics



1. Audio is being recorded. The playback number along with the PowerPoint and a transcript will be available on the HUD Exchange at [www.hudexchange.info/programs/housing-counseling/webinars/](http://www.hudexchange.info/programs/housing-counseling/webinars/)
2. The Training Digest on HUD Exchange will be updated when the webinar is posted.
3. Handouts were sent out prior to webinar. They are also available in the Control Panel. Just click on document name to download.

# Questions & Comments



There may be Q&A periods. If so, the operator will give you instructions on how to ask questions or make your comments.



# Other Ways to Ask Questions



- Please submit your text questions and comments using the Questions Panel. We will answer some of them during the webinar.
- You can also send questions and comments to *housing.counseling@hud.gov* with the webinar topic in the subject line.

# Please Mute Your Phones During Discussions



All the phones may be unmuted by the operator. If so, mute your phone during these discussions until you want to make a comment.



# Certificate of Training



- If you logged into the webinar, you will receive a “Thank You for Attending” email from GoToWebinar within 48 hours.
- Print out and save that email for your records.



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**Facilitated By  
Petergay Bryan  
Audit Manager  
Booth Management Consulting**

# Training Topics



- Define and clarify Uniform Guidance internal control requirements
- Understand the impact to Agencies
- Outline the implementation of the new requirements
- Available Assistance



# 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?



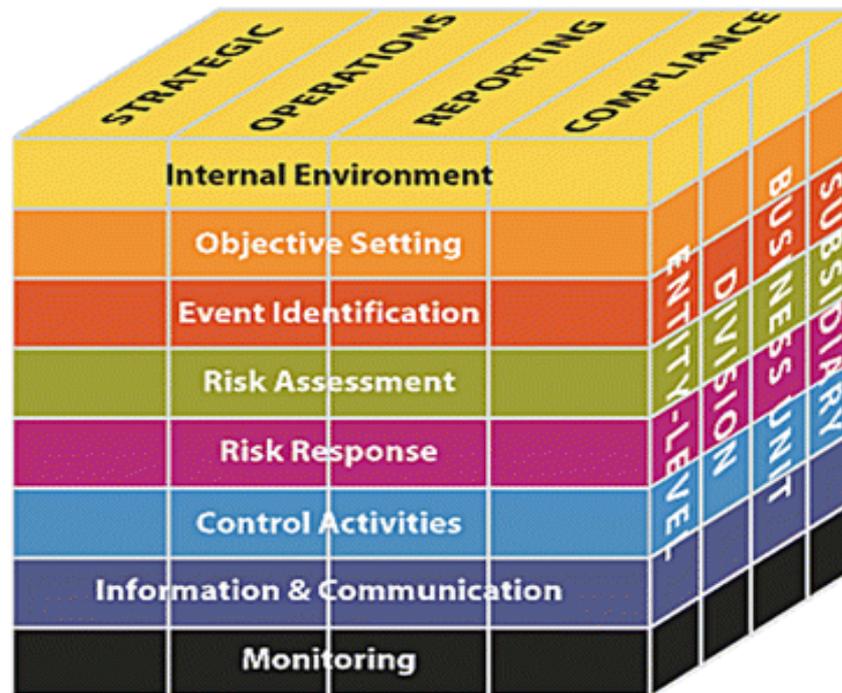
UG §200.303 states the internal control structure “**should**”:

- 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?



## Minimizes Damages to an Agency's Reputation and Other Consequences

### Good Controls Support:

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

### 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?



- **Option 1:** Conduct Financial & Administrative Reviews
- **Option 2:** Conduct Internal Control Assessment (Action Plan)
- **Option 3:** Rely on Single Audit Reports
- **Option 4:** Rely on Agency's Internal Audit Report



# How Will OHC Comply?

## Option 1: Financial & Administrative Reviews



### Existing Procedures:

- Review segregation of duties for relevant process areas (Payroll, Cash Receipts, and Disbursements)
- Review policies and procedures
- Review organizational chart
- Minimum test of controls

### New Procedures:

- Perform existing procedures
- Request and review internal control policies and procedures, if available
- If no policies and procedures:
  - a. Document understanding of internal controls (IC Survey)
  - b. Interview management on the IC components
  - c. Increase sample size for test of controls

# How Will OHC Comply?



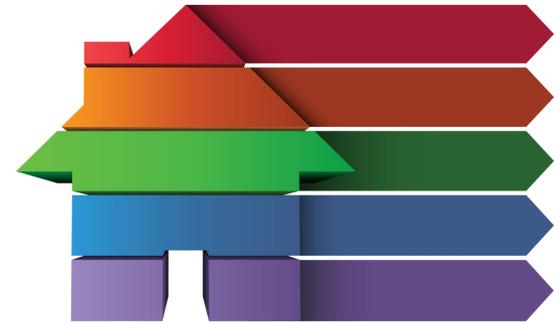
## Option 2: Internal Control Assessment

### Control Environment:

- Demonstrates a commitment to integrity and ethical values
- Exercises oversight responsibility
- Establishes Structure, Authority, and Responsibility
- Demonstrates Commitment to Competence
- Enforces Accountability

### Risk Assessment:

- Specifies Suitable Objectives
- Identifies and Analyzes Risk
- Assesses Fraud Risk
- Identifies and Analyzes Significant Change



# How Will OHC Comply?

## Option 2: Internal Control Assessment



### Control Activities:

- Selects and Develops Control Activities
- Selects and Develops General Controls Over Technology
- Deploys Through Policies and Procedures

### Information & Communication:

- Uses Relevant Information
- Communicates Internally
- Communicates Externally



# How Will OHC Comply?



## Option 2: Internal Control Assessment

### Monitoring Activities:

- Conducts Ongoing or Separate Evaluations
- Evaluates and Communicates Deficiencies



# How Will OHC Comply?



## Option 3: Single Audit Report

### 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?



## Option 4: Agency's Internal Audit

### 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 Assessments

| Internal Control       | Requirement                             | 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 |

# Significant Deficiency & Material Weakness



## Proposed Reporting of Deficiencies in Single Audit or Internal Audit

| Internal Control       | Requirement                             | Follow-up Action  |
|------------------------|---|---|
| Deficiency             | 1-2 internal control deficiencies       | Obtain statement of corrective actions taken an/or implemented  |
| Significant Deficiency | 3-4 internal control deficiencies       | Obtain copy of Corrective Action Plan and the Status  |
| Material Weakness      | 5 or more internal control deficiencies | Obtain verification of the execution of corrective actions and potentially conduct an Internal Control Review |

# 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 Policies and Procedures | Assist with updating and/or developing internal control plans  | Optional             |
| Internal Control Corrective Actions      | Assist in the implementation of corrective actions from a FAR for internal control observations and findings | Remote               |

## Financial Analysis

| Menu                            | Description  | Onsite and/or Remote |
|---------------------------------|--|----------------------|
| Single Audit Findings Follow Up | Assist with the implementation of corrective action plans for Single Audit internal control material weakness and findings | Remote               |
| Internal Audit Follow Up        | Assist with the implementation of corrective actions for single audits   | Remote               |

# Requesting Services



1. **REQUEST** - HUD POC emails a BMC GTM and requests the service: States service required, grantee name, agency's contact information, and available information to complete the service
2. **APPROVAL**: GTM reviews the request, verifies it meets contractual requirements, and schedules with BMC
3. **COMPLETION**: BMC will complete the service and submit the final deliverable to the GTMs



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

**“Understanding Internal Controls”**  
in the Subject line

**Note: Only questions related to the HUD, Office of Housing Counseling, Comprehensive Housing Counseling grant will be accepted and responded to.**