



OFFICE OF
HOUSING COUNSELING

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



Facilitated by
Booth Management Consulting
7230 Lee Deforest Drive, Suite 202
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/
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.

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



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- Please submit your text questions and comments using the Questions Panel. We will answer some of them during the webinar.
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Audit Manager
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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?



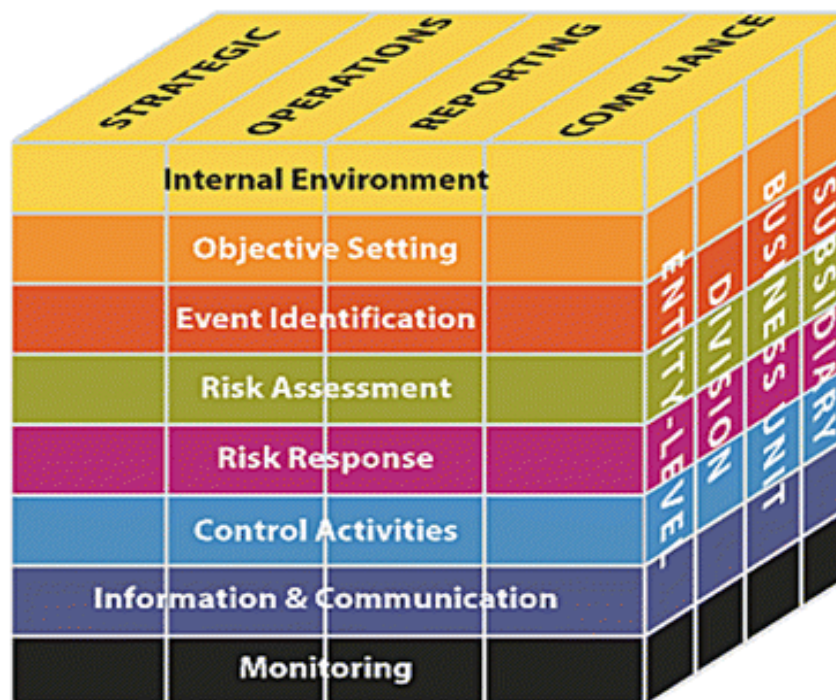
UG §200.303 states the internal control structure “**should**”:

- 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
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.**