



Final Transcript

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

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SPEAKERS

Peter Gay Bryan

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by, and welcome to the Understanding Internal Controls conference. During the call all lines will be in a listen-only mode. [Operator instructions]. As a reminder, we are recording today. One moment.

I will now like to turn the conference over to Peter Gay Bryan. Please go ahead.

Peter Hello, everyone. Welcome to the HUD – Office of Housing Counseling training on Understanding Internal Controls. This training is specifically

for participants of the Office of Housing Counseling Grant Program. If you do receive another HUD Grant, but you're not a participant in this program, then any questions after today, we perhaps will not be able to assist you with.

As the moderator already said, audio will be recorded during today's training. The playback number, along with the PowerPoint and the transcript, will be available to you on the HUD Exchange at the link that's on your screen here, and the training digest is going to be updated once the webinar is posted on the HUD Exchange.

If you registered for the training, then you should've received an email with an attachment and a copy of the handout, so you could actually follow through and take notes. However, if you didn't receive that, you could just expand your control panel, and you'll see a section that says Handouts, you can just double click on the document and download it so you can take notes today.

I will not be pausing for live questions, however, if you do have questions, we have personnel here who will respond to your questions in real time. Just type in your question, if you expand your control panel you'll see the

question box, you can just type in your questions, and then we have staff online that's waiting to assist you.

If, after today's training, you think of any additional questions, or if you wanted to make some comments, you can send those to housing.counseling@hud.gov, again, housing.counseling@hud.gov. In the subject line you'll put the topic of today's training, so that the recipient can then distribute the questions appropriately.

If, for any reason, your lines are unmuted by the operator, if you are not planning on speaking, please go ahead and mute your phones so as not to interrupt the conversation. If you logged in on your computer, then within the next 48 hours you're going to receive an email from GoToWebinar, and it'll be a thank you for attending email. We ask that you print this out and save it in your records as your certificate of training. Note that there won't be any attachments or anything like that, it will just be the email saying thanks for having attended today's training.

If you wish to receive credits, you could go to the HUD Exchange and search by the topic of the training today or the date, the training date, and click on the webinar, and then select Get Credits, and follow the

instructions on how you could go ahead and receive credits for having participated today.

I'm Peter Gay Bryan, the Audit Manager at Booth Management Consulting. We are the contractor that has been working with HUD for several years now, and working directly with Office of Housing Counseling Grant recipients. We have provided a number of various types of technical assistance to agencies, training. We've conducted financial and administrative reviews, where we review for compliance with the HUD and Uniform Guidance requirements. We've conducted action plans, and provided technical assistance to agencies relative to the financial aspects of the grant. So we do have a number of years of experience in working with the grant, working with the grant recipients, as well as with HUD staff and representatives.

The purpose of today's training, we'll talk about internal controls, we'll primarily be focusing on that. We definitely want to define what internal controls are, and what the Uniform Guidance requirements are as it relates to internal controls. Now, you know that the Uniform Guidance, that's a regulatory body that you want to make sure that you're in compliance with, as participants in this grant program.

We also want to help you guys to understand the impact of the Uniform Guidance requirements to agencies in the program. The Uniform Guidance came out and was effective in 2014, so there's been a lot of changes that has impacted agencies since the changes have been made, and we just want to make sure that you are aware of what those changes are, and how it impacts you, and how you could go forward and making sure that you're in compliance with what the regulations require of you.

We'll also talk about how HUD plans to review or take a look at these new requirements, based on the participants in the program, and then we'll discuss the types of assistance that's available to you as participants in the OHC Grant Program.

The Uniform Guidance, so Part D, Part 200.303, it defines internal controls for us, and it says that an internal control is a process that's implemented by a non-federal entity, such as yourself, that's designed to provide reasonable assurance regarding the achievement of your agency's objectives, as they relate to operating effectiveness and operating efficiency, the reliability of the reports, so that may be internal reports or external reports, and compliance with applicable laws and regulations.

Basically, what this means to you is, it's all of the processes that you have put in place, as the non-federal entity, that you have specifically designed to give you reasonable assurance that you can achieve the objectives of your company. You want to make sure that any internal controls that you develop, that they're operating effectively, and shows that there's operation efficiency. You also want to make sure that you are able to produce reliable reports, whether it be internal reports or external reports for review, and you want to make sure that these controls ensure that you guys are in compliance with the HUD Grant requirements, as well as the Uniform Guidance requirements.

This is not a new requirement from the old O&B [ph] circulars. If you've been receiving this, or other federal awards in the past, then you may be very familiar with O&B A133. Now, with the Uniform Guidance, O&B A133 has been compiled into the Uniform Guidance. As you know, the Uniform Guidance is just made up of all of the old O&B circulars. This O&B A133 is just one of the O&B circulars that was rolled up into the Uniform Guidance. So it moved from the audit requirement section of the O&B A133, into the administrative requirement of the Uniform Guidance. So when you take a look at the Uniform Guidance sub-part D, you'll see it

there where it speaks to internal controls and what agencies are required to do.

It's pretty much encouraging participants in federal grant programs, so as a non-federal entity, to make sure that you are better structuring your internal controls as you have in place, so that you can lead [ph] your company's objectives, and that you can make sure that you're in compliance with the Uniform Guidance requirements, as well as HUD's requirements.

Regardless of your award amount, whether it be \$10,000, \$5,000, \$50,000, \$2 million, you are still required to be in compliance with the Uniform Guidance requirements on internal controls. It doesn't matter what your award amount is, and it also doesn't matter if you're a sub-grantee, as long as you are a recipient of the HUD OHC Grant Fund, you have to make sure that you're in compliance.

So every non-federal agency must comply, as I said. And it also clarifies the meaning of must versus should. Should is something that's recommended, as like a best practice, but if the guidance says that you must do it, then as recipients of the Office of Housing Counseling Grant,

then you have to make sure that you are carrying out those duties, and you're making sure that you're in compliance with those must clauses specified in the Uniform Guidance. These things are not optional for you.

Here we've outlined for you what the guidance says that you must do as a recipient of the Office of Housing Counseling Grant Program. The first thing is that you have to make sure that you have established, and you're maintaining effective control over the federal award. And so, you're making sure that you're providing reasonable assurance that your agency's managing the award in compliance with the federal statutes, regulations, and the terms and conditions of the award. So by accepting the HUD OHC Grant award, you have to make sure that you've established effective internal control over the award process, and how you're going to be managing these funds for the period of performance of the grant.

You also have to make sure that you're in compliance with the federal statute, so the Uniform Guidance, and any other federal regulations that's specified in your HUD Grant award, you want to make sure that you're in compliance with that. So if you need to bring in your accounting personnel if they're more familiar with the regulations, then you can do

that, but you want to make sure that you know what the requirements are, and that you're compliant with them.

Also, it's your responsibility to make sure that you're evaluating and monitoring your compliance throughout the period of performance of the grant. And if there are any areas where there's an issue of non-compliance that you've identified, you have to take prompt action to remedy that before it turns into something bigger, or just to make sure that the incidence of non-compliance doesn't continue.

And then you also want to make sure that you're taking the reasonable measures to safeguard personally identifiable information, and any other sensitive information. So PII, or sensitive information, is any information that can, whether directly or indirectly, allow the identity of a person to be inferred. So this could be their Social Security number, driver's license information, any financial data, biometric identifiers, and things like that. You want to make sure that you are taking reasonable measures to safeguard that information, especially when dealing with your clients.

The Uniform Guidance also gives you some recommendations. This is what it says about things that you should do. Of course you're not

required, as a non-federal entity, to strictly follow this, but it's a recommendation. So the recommendation is that non-federal entities, such as yourself, should be in compliance with the standards for internal control and the federal government, which is pretty much the green book. That has been issued by the Committee of Sponsoring Organizations of the Treadway Commission, also called the COSO.

Pretty much what this is, is the COSO framework, it was pretty much designed to help organizations improve their organizational performances and governance. So it gives guidance to management employees on how they can evaluate their enterprise risks, risk management, as well as their internal control processes. Entities that go ahead and use the green book, they use this so that they can help to design their own internal controls and implement them, and to check on the operating effectiveness of their internal controls at their agencies, and see whether or not they're meeting their business objectives.

Now, note that the green book is the standard for federal entities, so this is what federal entities use when they're looking at their internal controls, whether it's designing them or implementing them, so this is just a

reference for agencies to use when looking into their internal controls that they have in place.

So here we have a queue [ph] which speaks to the green book and the COSO framework, and it's really just talking about the five different components of internal control that the green book speaks to. So it talks about the control environment, it talks about conducting risk assessments, the different control activities, how you communicate information and how you monitor your internal controls. We'll go through the 17 principles under each of these 5 components in a few slides to come.

Good internal controls help agencies to support efficiency, because, of course, it starts with the policies and procedures that you have in place. Actually, it starts with the top, it starts with the management employees that you have at your company, the mindset which you communicate to your staff through having standard policies in place, to then which you apply the procedures to make sure that you're meeting your company's objectives. So in having that set at the top, and then issuing that to your employees, you facilitate efficient [ph], also, you facilitate compliance with the laws and regulations, and the policies that you have set for your employees to follow. And they also seek to eliminate fraud, waste, and

abuse, which you want to make sure that you're doing everything that you can to eliminate that as much as possible, and any instances of non-compliance.

[Audio disruption] related to internal controls speaks to the fact that management, they're the ones who are responsible for establishing and maintaining internal controls at your agency. So your management employees have to think about, okay, what are the controls that we have to have in place so that we can make sure that we're meeting our company's objectives. Also, how do we go about maintaining those controls? Management is fully responsible for that.

Controls, they apply to any manual versus electronic systems. A lot of smaller agencies, their controls may be more manual. You have to factor that in, and you have to have a lot of controls in place, even though the systems are manual. And then for the agencies that have more electronic systems, then you have to think about what electronic controls you need to put in place to seek to eliminate fraud, waste, and abuse.

Also, we know that no system of control can be considered completely effective, but it is on management to do a cost-benefit analysis when

thinking about internal controls, just to see what makes sense. A way that, I guess, the costs, to see whether or not it would be beneficial for you to implement that specific control, and if not, then you want to see what mitigating factors could you implement that are less costly.

The Office of Housing Counseling in considering these changes, and in considering the requirements that agencies have to make sure that they're in compliance with, in addressing that, the Office of Housing Counseling will take actions, depending on the type of entity and what the entity has in place. So for agencies that have been selected for financial and administrative reviews, then we would take a look at their internal controls while performing those reviews, and what a financial and administrative review is, is where HUD, Office of Housing Counseling, hires contractors, like ourselves, to actually come on site and perform a review, not an audit, but a review for compliance with HUD's policies and procedures, and the Grant agreement policies and procedures, as well as the Uniform Guidance requirements. We'll talk a little bit more about what we do during that process in a couple of slides.

Another option is to do an action plan, where we do a full internal controls assessment. I'll also speak to that in a couple of slides to come. We can

rely on single audit reports, depending on what the results of those reports were, or we can rely on an agency's internal audit report if that agency had an internal audit done, where they took a look at the internal control, and assessed the internal controls for operating effectiveness. And, of course, we'll spend some time on each of these in a few minutes.

In the first option where we do financial and administrative reviews, what we typically do is we ask agencies to complete a segregation of duties grid on business process areas that directly impact the HUD Grant. So we're looking at payroll cycle, receipts and disbursement cycles. We're looking at the policies and procedures that you have in place over the business process areas. We're looking at your organizational chart. We're conducting interviews with personnel. We're doing walk-throughs with people, and we're performing a minimum test of controls. What we also ramped it up to do in order to address the requirements of the Uniform Guidance, perform those procedures, but we also request to review the internal control policies and procedures that they may have. If they don't have internal controls policies and procedures, then we may do an internal control survey, where we're speaking to personnel and trying to get an assessment of the current standing of the agency, and what internal controls you may have in place.

We're also interviewing your management on the different internal control components, just to get a better understanding, and we'll perhaps increase the sample size for a substantive testing to test for controls. So any controls that you may have in place, or say that in your policies and procedures, when we increase our sample size, we can verify, actually, if those internal controls are actually operating effectively based on your company's own policies and procedures.

In the second option, which is to do an internal control assessment in the form of an action plan, we are pretty much looking at the 17 principles, well, the 5 components of the COSO framework, so we're following that, and then we're also looking at the 17 principles that the green book specifies for agencies when they're setting up their internal control system.

So the first component is a control environment. When we're looking at the control environment section and trying to assess your agency's current standing, internal control standing, we're looking to see whether or not you are demonstrating a commitment to integrity and ethical values in your agency's statement. We're looking at any oversight responsibility

that you have taken to make sure that your employees know what to do, and any oversight action that may be necessary for certain issues that may come up. We're looking to see if you have structure, if you've established authority and responsibility within your agency; if you've demonstrated a commitment to competence, as well as enforce accountability whenever you needed to.

We also look at the risk assessment that your agency has done. Have you identified any potential risk to your agency that could impact your ability to perform under the grant? Have you taken a look any fraud risks? Have you done an analysis to see how changes could potentially impact the brand, and so forth?

When we talk about the control activities, we're looking at the control activity that you have developed and you've issued amongst your employees at your company. Do you have control over technology? Have you issued policies and procedures to everyone who will participate in a certain business process area? When we talk about information, are you making sure that your employees are using quality information, or they have quality information to use in the first place? How do they get to relevant information? How is information being communicated internally

and externally? How are reports being run? How are reports being issued, and such forth?

When we talk about the monitoring activities, we're looking to see are evaluations being done on an ongoing basis to see whether or not the internal controls that you've put in place are operating effectively again. Also, if there are any deficiencies that you've noticed, how do you make sure that you address those, and how are those deficiencies communicated to people in your organization?

So when we do the internal control assessment, we look at all of these different components to then draft a report to you guys, as the entity, as well as to HUD, letting them know what your current standing, as of our report date, looks like. And, of course, if you need further assistance, we would, of course, help you.

On the single audit front, agencies that have a single audit done, we do know that once a single audit is done, then internal controls is a big piece of what your external auditors review for. We do rely on the single audit report, and the work that has been performed by your external auditors.

If there are no significant deficiencies or material weakness, then we accept the report as compliant, and we don't do any follow-up procedures on agencies at all. However, if there was a significant deficiency, but not a material weakness, then we may identify that as an observation, and we'll follow up with you as the agency to see what corrective actions you have taken. If you've had a material weakness, then we would treat that as our finding, and require that you provide supporting documents for how that finding was addressed.

If you had an internal audit done where your agency developed an internal audit plan and did actual testing, and looked at your internal controls, then any significant deficiency that was identified, as long as these potentially could impact the HUD Office of Housing Counseling Grant Program, then we would treat that as an observation and inquire about any corrective actions that you have taken.

If there were material weaknesses identified, then we would treat those as findings, as long as they could potentially impact the Office of Housing Counseling Grant Program, and require supportive documents to see what corrective actions were taken, and whether or not they were sufficient.

A deficiency is when the design or the operation of a control doesn't support the prevention or a detection of compliance. Because remember, that is the intent of internal controls, you create them to prevent or detect any issues of non-compliance that could potentially happen. A significant deficiency is a deficiency, or a combination of deficiencies in internal control, that could adversely affect your ability to comply with the laws and regulations and your own policies and procedures.

Material weakness is a significant deficiency, or a combination of significant deficiencies, that could result in more than a remote likelihood that your agency hasn't complied with laws, regulations, and your own policies and procedures.

So, as an example, for a deficiency, here we have an example here.

Checks are received by your agency from funding sources, and you're not depositing them timely, and they're being maintained in the accounting office. Now, you know that once monies are being received, you should be depositing them timely, preferably daily, so as to safeguard the asset, which is the cash. So not doing so is a deficiency in your internal control.

A significant deficiency example is where an accountant receives your mail, they open the mail, they enter it into the system, they prepare for a

payment to the payment voucher package, and they assign it for signature by the executive director, and this accounting personnel performed many functions. They have access to receiving mail, opening the cash or the payment, entering it into the system, and then preparing it for payment. There was no segregation of duty at all in this entire process. This person should not be allowed to do all of that. So that would be a significant deficiency, because there wasn't only one deficiency, it was a combination of a few, and there were no mitigating controls in place in this example.

The third example, which is an example of a material weakness, is where the executive director receives checks from funding sources, they record them in the accounting system, and they're the only ones that manage the accounting system. Again, there are no internal controls in place whatsoever, one person is doing everything, and this is an indication of a material weakness, because there's not safeguard in place to make sure that fraud, waste, or abuse does not happen.

Those are just some examples for you to bear in mind as you're preparing and addressing your own internal controls. Here we have some how to handle these situations, and how they will be looked at. When deficiencies are identified, there are one to three internal control

deficiencies, then we may recommend some technical assistance to that agency to help them to address that. Any significant deficiencies identified then may result in an observation, but we do provide technical assistance to help agencies. And for any material weaknesses that are identified, like five or more internal control deficiencies, then these would be identified as findings, and a course of action plan would need to be drafted by the agency, and we could provide technical assistance to help you to remedy that material weakness.

For agencies that have the single audit or internal audit done that had deficiencies identified, then we'd obtain the statement for the corrective actions and see whether or not those were implemented. For significant deficiencies, if they had three or four internal control deficiencies, then we'd obtain a copy of their corrective action plan and the status of that plan. For material weaknesses with five or more internal control deficiencies, we'd obtain verification of execution of the corrective action plan, and potentially conduct an internal control review of that agency to assist them.

Now, as participants of the Office of Housing Counseling Program, we do provide assistance. Of course these are free of cost. It is just to help

agencies as they go forward in carrying out the functions of the grant. We do conduct training for agencies on internal controls. It could be a full or half-day training, to help them to implement policies and procedures, or even their internal control plan. For agencies that have sub-grantees, we do the same, with helping sub-grantees to implement their internal control plan at their agency.

As far as action plans, we conduct internal control assessments where we're doing an assessment of the grantee's internal controls to see whether or not they comply with the Uniform Guidance requirements, and we recommend any technical assistance or training after conducting that assessment, and we actually facilitate the technical assistance and training.

And technical assistance, we help with updating or developing internal control plans or policies and procedures over the key business process areas. We also help agencies to implement the corrective action plans that they have drafted themselves, to address any observations or findings that have been identified.

For agencies that had the single audit done, we help with the follow-up to look and help them with the implementation of those corrective action

plans, to address any material weaknesses or significant deficiencies that have been identified. For the agencies that have an internal audit done, we help with implementation of any corrective action plans from that as well.

In requesting assistance, if you need it, you would send an email to your HUD POC, if you needed any assistance with any of these areas, letting them know the type of assistance needed, and who at your agency would be responsible for completing the service. If your HUD POC approves, then they would communicate that to our GTM. If the GTMs approve, then they would let us know, and once we have received approval, then we would contact you directly to schedule the type of assistance needed.

We'll contact you by email, most likely, you set up a phone call, just to get a better understanding of what you need, and then discuss a date for which we would facilitate the assistance. And then we'd provide you with a deliverable, if it's a report or drafting templates for you, whatever the case may be, then we would submit the deliverable to you, and a copy to your HUD POC as well.

If you have any further questions, please submit those questions to housing.counseling@hud.gov. Again, if you have questions, please submit them to housing.counseling@hud.gov.

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Host: Kristen Villalvazo

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I want to thank you all so much for your time. Have a good day.