



**U.S. Department of
Housing and Urban
Development**

Office of Housing Counseling

**Model
Compliance
Monitoring
Procedures
that Comply
with OMB
Circular
A-133**

Table of Contents

INTRODUCTION.....	1
Purpose	1
Circular A-133 Application.....	1
1. PARTS OF THE CIRCULAR	2
Subpart A: General	2
Subpart B: Audits	2
Subpart C: Auditee’s Responsibilities	2
Subpart D: Federal Agencies and Pass-Through Entities	2
Subpart E: Auditors	3
Appendix A: Data Collection Forms	3
Appendix B: Compliance Supplement	3
2. HOUSING COUNSELING FOCUS.....	3
Sub-grantee Monitoring.....	3
HUD Housing Counseling Audit	3
Performance Review	4
Model Monitoring Policy	4
HUD Program NOFA Grant Funding Monitoring	4
How to Control Risk within an HCA	4
Who Has what Role when Monitoring	5
How to Conduct Self-Monitoring.....	5
3. HOW TO ESTABLISH EFFECTIVE MANAGEMENT WITHIN AN HCA.....	7
Agency Code of Conduct	7
Agency Structure and Reporting Channels.....	7
Agency Incorporating Documents and Bylaws, Housing Counseling Work Plan	7
Board of Directors, Governing Body, or Board of Commissioners	8
Policies and Procedures	8
Records Management.....	8
Internal Control Systems.....	8
4. ASSESSING AN HCA’S FINANCIAL MANAGEMENT COMPLIANCE	9
Financial Reporting	9
Determining Financial Compliance	9
5. HOW TO MONITOR PROCUREMENT AND CONTRACTING	10
Monitoring Procurement.....	10
6. AUDIT REPORT AND MONITORING REVIEW.....	11

Introduction

This Guide explores the Office of Management and Budget (OMB) Circular A-133 that defines standards for Federal agencies for auditing state and local governments, and nonprofit organizations expending Federal awards. This Guide outlines the audit compliance requirements and monitoring policies for a Housing Counseling Agency (HCA) defined in Circular A-133 with a focus on the requirements for sub-grantee monitoring requirements. Housing counseling agencies (HCAs) should examine OMB A-133 to ensure a complete understanding of the requirements summarized in this Guide. This Guide does not provide a comprehensive breakdown of the entire Circular.

Purpose

The purpose of Circular A-133 is to provide information to state and local governments, and nonprofit organizations that expend federal award dollars in excess of \$500,000 per year about conducting an audit of their finances. . An audit cannot be conducted by the entity being audited.

Circular A-133 Policy Statement

The standards set forth in Circular A-133 apply to all Federal agencies. If any statute specifically prescribes policies or specific requirements that differ from the standards provided in the Circular, the provisions of the subsequent statute shall govern. Federal agencies shall apply the provisions of the sections of the Circular to non-Federal entities, whether they are agencies expending Federal awards received directly from Federal awarding agencies, or are sub-grantees expending Federal awards received from a pass-through entity (an HCA or another sub-grantee).

Precedence

If a statute prescribes policies or requirements that contradict the standards put forth in Circular A-133, the provisions of the statute will govern. Provides guidance to Federal awarding agencies and limits their ability to impose additional or inconsistent requirements.

1. **Parts of the Circular**

Circular A-133 consists of the components listed below with a brief overview of the content within each component.

Subpart A: General

The General section includes information such as:

- ✓ List of entities in which the OMB is providing guidance
- ✓ Terms and associated definitions used within Circular A-133

Subpart B: Audits

The Audits section includes:

- ✓ An Audit requirement baseline
- ✓ Criteria for determining if an award has been expended
- ✓ Criteria for discerning between a sub-grantee and a vendor
- ✓ Miscellaneous audit details
- ✓ Audit frequency requirements
- ✓ Sanctions for non-compliance
- ✓ Program specific audit requirements

Subpart C: Auditee's Responsibilities

The Auditee's Responsibilities section provides guidance on the audit requirements of the auditee including:

- ✓ Auditee's responsibilities
- ✓ Auditor selection using procurement standards
- ✓ Financial statement preparation requirements
- ✓ Post audit requirements

Subpart D: Federal Agencies and Pass-Through Entities

The Federal Agencies And Pass-Through Entities section provides detailed information regarding responsibilities and post audit management decision requirements.

Subpart E: Auditors

The Auditors section includes requirements for the auditors conducting the audit:

- ✓ Audit scope
- ✓ Reporting
- ✓ Findings
- ✓ Determination of a major program using a defined risk based approach

Appendix A: Data Collection Forms

Form SF-SAC is used to collect and record the data. Form SF-SAC; as well as the single audit reporting packages for fiscal periods ending on or after January 1, 2008; must be submitted online. Information about the Form SF-SAC can be found at <http://harvester.census.gov/sac> .

To access and complete Form SF-SAC, create an online report ID at <http://harvester.census.gov/fac/collect/ddeindex.html>, and click **Enter New Form**.

A senior level representative of the auditee and the auditor must sign the form. Electronic signatures are accepted for submissions.

The audit must be completed and the data collection form and reporting package must be submitted by the earlier date of either 30 days after receipt of the auditor's report(s), or nine months after the end of the fiscal year end date, unless a longer period is agreed to in advance by the Department of Housing and Urban Development (HUD).

Appendix B: Compliance Supplement

The Compliance Supplement provides the auditor with information about the housing counseling program objectives, procedures, source of governing requirements, compliance requirements, program income, and reporting.

2. Housing Counseling Focus

Sub-grantee Monitoring

HUD Housing Counseling Audit

In accordance with Circular-A-133, grant recipients and sub-grant recipients that expend \$500,000 or more in a year in Federal awards must have a single or program-specific financial audit conducted for that year. Participating HCAs that are subject to this requirement must submit for such fiscal year a financial audit conducted by the HCA's Independent Public Accountant, certifying that the HCA maintains internal controls over Federal awards; complies with applicable laws, regulations and contract or grant provisions; and prepares appropriate financial statements. The audit must be conducted in accordance with the provisions provided in Circular A-133. HCAs should reference Circular-A-133 for additional guidance.

Housing counseling participants that do not expend \$500,000 or more in a year in Federal awards, must have an independent audit every two years. The audit must be prepared in accordance with generally accepted accounting principles and reporting

practices and must include an auditor's review report, a treasurer's report, and any supplemental schedules.

HUD must be provided a copy of all audit reports within 30 days of completion.

Performance Review

HUD may conduct periodic on-site or desk performance reviews of all participating HCAs. HUD reserves the right to monitor a participating HCA's performance, whether on-site, remotely or a combination of both, as part of the re-approval process or based on perceived risk. The performance review may consist of a review of the participating HCA's compliance with program requirements; including applicable civil rights requirements, and the HCA's ability to deliver quality counseling services.

The performance review involves, but is not limited to: compliance with basic program and applicable civil rights requirements; skills and experience of the manager and the housing counselors; the financial and administrative capacity of the HCA; program practices; compliance with conflict of interest requirements; facility and accessibility requirements and grant requirements, if applicable. HUD staff uses HUD Form-9910, Performance Review Checklist, as a monitoring tool when conducting and recording the results of the review.

Model Monitoring Policy

This Model Monitoring Policy provides HCAs with suggestions about management and operational practices that encourage sustainable program development. The purpose of monitoring can be internal as well as external. The use of these monitoring policies analyzes how well the HCA operates, how it responds to changes in funding and community needs, and how it identifies and manages risk. The Model Monitoring Policy is designed to help HUD-approved HCAs develop policies and procedures to assist in the compliance with the provision of OMB Circular A-133. It is designed to provide guidance for an HCA that receives funding under the HUD Housing Counseling Grant, HCAs that do not currently receive funding under this grant, and HCAs seeking HUD approval as a HUD-approved HCA. While the policies are focused on the HUD funding provided under the Housing Counseling Program Notice of Funding Availability (NOFA), this guidance may be applicable with regard to other Federal funding opportunities.

TIP Review the compliance supplement offered by each Federal agency when considering compliance with OMB Circular A-133.

HUD Program NOFA Grant Funding Monitoring

How to Control Risk within an HCA

Managing risk in an HCA starts with ensuring there is a complete understanding of the program itself from the top down and then establishing proper policies and procedures to execute the program effectively while keeping compliance with program guidelines, statutes, and laws. Policies and procedures need to be followed and monitored. Implementing a self monitoring process will help provide checks and balances within the HCA to identify areas where changes or improvements are necessary. With specific relation to financial management risk, Circular A-133, states that HCAs must be able to:

- ✓ Identify the HUD funds received and expended in a financial management system

- ✓ Maintain policies and procedures that ensure proper management of HUD funds in accordance with laws, regulations, and provisions of the HUD grant agreement
- ✓ Prepare appropriate financial statements, including all expenditures
- ✓ Ensure audits are prepared properly and submitted on time
- ✓ Correct any audit findings.

IMPORTANT: With proper written policies and procedures and a self monitoring process, an HCA can continually monitor the program and identify any challenges as they arise. The earlier a potential compliance risk is identified, the better chance an HCA has to resolving the issue before it effects the program.

Who Has what Role when Monitoring

Every HCA is responsible for monitoring its own HUD grant program activities and any sub-grantees to which funding has been passed-through. Local Housing Counseling Agencies (LHCAs) are responsible for monitoring their own HUD grant program activities. An Intermediary, Multi-State Organization (MSO), State Housing Finance Agency (SHFA), or the recipient of HUD funds are responsible for monitoring their own HUD program activities as well as those program activities of any sub-grantees to which it has provided HUD funding. A sub-grantee must adhere to the requirements set forth for the recipient and any requirements within the HCA's agreement with the recipient as well. With this said a recipient should have policies and procedures, including monitoring policies, in place for its own HCA as well as for its sub-grantees. These policies and procedures should be made available and agreed upon with each sub-grantee. It is not enough to rely on the information provided in quarterly performance reports from the sub-grantee to the recipient. A more hands on approach with on-site visits should be implemented and used.

With relation to the audit requirement set by Circular A-133, each HCA, whether the HCA is a recipient or a sub-grantee, is responsible for reporting directly through the designated online systems.

How to Conduct Self-Monitoring

Self-monitoring processes can help an HCA identify non-compliant areas within a program and provide an assessment of the HCA's progress toward accomplishing the HCA's program goals. Creating and conducting regular self-monitoring activities can be broken down into several steps. Suggested steps include; Identifying those with self-monitoring responsibilities, selecting areas to be monitored or measured, Determining how often to conduct monitoring activities, Identifying or creating monitoring documents or tool, Identifying monitoring techniques to be used, Creating a monitoring action plan for necessary improvements and creating a monitoring assessment report.

- ✓ **Step 1. Identify those with self-monitoring responsibilities.**

The HCA conducts a self-monitoring assessment to identify staff in the HCA who will have monitoring responsibilities. This step will be a continual process as the organization staff and structure change over time. Create an orientation component regarding the self-monitoring process for any new staff member and a review component for every staff member's performance review to keep everyone informed.

✓ **Step 2. Select areas to be monitored or measured.**

The list of areas to be monitored or measured by an HCA must minimally have the program compliance requirements set forth by the following documents and any documents, statutes, or laws referenced within these documents:

1. 24 CFR § 214 Housing Counseling Program
2. HUD Housing Counseling Handbook Program Compliance
3. Financial Management Compliance set by OMB Circulars
4. HUD Funding Grant Agreement Compliance

The self-monitoring can include more specific areas such as fundraising, service area coverage measurements, cross department training and even efficient use of technology measurements.

✓ **Step 3. Determine how often to conduct monitoring activities.**

The frequency of monitoring activities may vary for the areas identified to be monitored. It is suggested that most self-monitoring activities occur quarterly, but at a minimum on an annual basis. If an HCA uses annual self-monitoring policies they may not be truly self-monitoring because many of the compliance requirements mandate at least quarterly or bi-annual reporting.

✓ **Step 4. Identify or create monitoring documents or tools.**

This step may not be necessary every time the HCA performs monitoring as the documents and tools can be standard for each monitoring assessment. The use of standard monitoring documents or tools can create efficiencies within the monitoring process and ensure a standard level of information is collected when multiple staff members have monitoring responsibilities.

✓ **Step 5. Identify monitoring techniques to be used.**

Monitoring techniques will vary even depending on what area of the HCA is being monitored. For example, if an HCA is assessing the housing counseling activities provided by a counselor, a shadow evaluation or post counseling client survey might be used to obtain information. A shadow evaluation (Job shadowing, or following a staff member during daily routines to evaluate their work) would not be an effective technique to use when monitoring the ability to identify grant income and expenditures in the HCA's financial system. This area might best be monitored through a monthly financial report analysis.

Some monitoring techniques HCAs use include:

1. Staff interviews
2. Client surveys
3. Policy and procedure testing
4. Shadow evaluations
5. Report analysis and evaluations
6. Spot audits (on files, financial information, or system data)

IMPORTANT: An effective self-monitoring assessment must be conducted by someone other than the person who regularly performs the work.

✓ **Step 6. Create a monitoring action plan for necessary improvements.**

Self-monitoring requires that HCAs take action to resolve any inadequacies or make improvements to areas of the HCA's program. Create a list of the issues noted, specify actions required to resolve the issues, identify a timeline for completion of each action items, assign staff members responsible for the action items, and identify which areas of compliance are affected by the issues noted. Make note of any issues that need to be reported to HUD.

✓ **Step 7. Create a monitoring assessment report.**

As with any assessment, evaluation, or review; a completion report is necessary to distribute the information obtained and the outcomes achieved. This report is essential in keeping the HCA management informed about issues noted and corrective actions planned. A completion report may also be necessary for any HCA required to conduct self-monitoring processes by a grant agreement with HUD or a HUD funding recipient.

3. How to Establish Effective Management within an HCA

Self-monitoring should include a review and assessment of the culture of control within an HCA. The management structures and values within an HCA comprise the culture of control. An assessment of the culture of control generally includes the elements discussed in the following sections.

Agency Code of Conduct

Documenting an HCA's code of conduct clearly identifies the ethical standards with which management and staff must comply. The National Industry Standards for Housing Counseling and Education provides a template code of conduct that can be used by an HCA that has adopted the national standards. When monitoring an HCA, it is suggested to compare the National Industry Standards template to the HCA specific code of conduct to determine if the integrity and ethical values of the HCA meet the national standards. While not exclusive to the code of conduct, there must be language in the document outlining the conflict of interest process and how these conflicts are disclosed to impacted parties.

Agency Structure and Reporting Channels

The HCA should have a clear and concise diagram or other documents that depict the various business units that serve the clients are organized. In addition, the diagram should depict the supporting business units. Monitoring should evaluate how these units are structured and how the chain of command is set up to receive updates, schedule reports, and address emergencies.

Agency Incorporating Documents and Bylaws, Housing Counseling Work Plan

A review of an HCA's incorporating documents and by-laws should include review of the HCA's housing counseling work plan to determine if these documents are consistent. The same geographic service area and mission should be found in each document. The

documents should reference each other where appropriate. Depending on the outcome from any self-monitoring or monitoring review by a funding entity, an HCA should have a process defined to update or modify these documents as needed.

Board of Directors, Governing Body, or Board of Commissioners

The HCA's Board of Directors has as its primary function to offer ongoing continuous monitoring of all functions and operations of an HCA. In many ways, this entire monitoring policy can be used as a job description of the duties of the Board of Directors. In addition to monitoring the activities of the HCA, the Board of Directors must also provide oversight to the executive director or chief executive officer (CEO). When reviewing the monitoring activities of the board of directors it is crucial to determine what policies are in place to measure the performance of the executive director. The Board of Directors also establishes various committees to conduct specific functions on behalf of the Board. A Monitoring Committee may be established or another committee may be assigned to oversee the self-monitoring and other reviews conducted. The Board should define policies for performing self-monitoring or reviews of the HCA.

Policies and Procedures

An HCA should develop a consistent process to draft, approve, implement, and update policies. Inconsistent development and implementation of policies can lead staff to focus on the wrong tasks or prevent challenges from being addressed in a timely manner. While a policy on policies is not required, it is possible when reviewing an HCA's compendium of policies and procedure to determine if there is consistency in language, application, and reporting methods.

Records Management

Records management is one of the most important aspects of an HCA's management controls. HCAs must maintain and make available to HUD upon request documentation (such as time sheets, paid invoices, and payroll records) in support of expenses assessed to a HUD Housing Counseling Grant. Housing counseling grant or sub-grant recipients may be required to maintain additional records identified in the applicable grant agreement. A Records Management Policy should require an HCA to maintain secure control of HCA documents for a period of at least three years from the last date they were closed out. See OMB Circulars, HUD Housing Counseling Handbook, and Specific Grant Agreements for possible exceptions to this policy. When reviewing an HCA's records management, the HCA's policy and practice on document destruction for expired documents also needs to be reviewed for safe, secure, and complete control over each document within the records management system.

Internal Control Systems

The purpose of an internal control system is to prevent, detect, and correct errors and irregularities. An internal controls system depends on the skill sets and knowledge base of existing staff. Over time, an HCA will experience changes among staff, board members, and even clients and service types. Because of changing conditions within an HCA's operations as well as external factors, an HCA needs to determine whether the internal control system continues to be relevant and able to address new risks. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Monitoring of internal controls needs to determine if an HCA has taken steps to continuously seek to improve their decision making and processes.

Supervisory Oversight

Pursuant to 24 CFR § 214.303 (h), Staff and supervision, The agency must employ staff trained in housing counseling, and at least half the counselors must have at least six (6) months of experience in the job they will perform in the agency's housing counseling program. Supervisors of the housing counselors **must** periodically monitor the work of the housing counselors by reviewing client files with the housing counselor to determine the adequacy and effectiveness of the housing counseling. The agency **must** document these monitoring activities and make the documentation available to HUD upon request.

4. Assessing an HCA's Financial Management Compliance

Monitoring the fiscal and financial management systems of an HCA is central to a comprehensive monitoring review process. An HCA's performance in this area is critical to the organization's overall health and imperative to the provision of high-quality housing counseling to its clients. A successful monitoring of a financial management system will identify how an HCA tracks funds, makes business decisions, and determines if the decision are based on sound financial information. The scope of the review of the financial and fiscal management includes the following areas:

Financial Reporting

- ✓ Accounting records
- ✓ Funding drawdown
- ✓ Cash management and internal controls
- ✓ Audit reports
- ✓ Budget control
- ✓ Investments

Determining Financial Compliance

When reviewing the above referenced areas of the financial management the following criteria should be used to determine adequate financial management compliance:

1. Financial reporting is conducted on a regular basis and reports are submitted to the Board of Directors in a timely manner, with adequate depth and clarity.
2. Roles and responsibilities related to financial management and accounting are clearly defined. In addition, contingent plans are in place to ensure that alternate personnel are well versed in what to do if key personnel are absent or no longer with the HCA.
3. When developing the HCA budget there are procedures in place to conduct budget comparisons for the current period with prior periods.
4. All major capital expenditures are presented to the Board of Directors for review and approval based on analysis and cost comparisons.

5. In addition to complying with HUD guidelines for grant award related documentation, an HCA should have an agency wide policy(company policy) which is practiced by all staff to ensure complete and accurate records, timely payment processing, effective procedures, and the accounting system maintains control over cash, operating capital, and assets.
6. An HCA has a continuous improvement process for financial management and accounting controls. All financial management policies, procedures and accounting practices are in line with the generally accepted accounting principles.

5. How to Monitor Procurement and Contracting

Subcontracting out actual housing counseling activities is not permitted as a HUD-approved HCA. However, the HCA may procure non-housing counseling services from vendors. In these circumstances it is important to develop appropriate, fair, and consistent policies and procedures regarding Circular A-133 compliant procurement and contract administration.

When assessing an HCA's procurement and contracting program management, the first area of monitoring should be regarding the difference between large and small purchases. Within any housing counseling program at the local HCA level it is unlikely that any contract would exceed HUD's small purchase upper limit of \$100,000. Within a HUD intermediary, it is plausible that an organization may frequently exceed this small purchase limit. In cases where this limit is exceeded, HUD and Curricular A-133 procurement and contract administration policies are required to be followed.

For small purchases:

Seek out and obtain oral or written proposals from a sufficient number of qualified vendors. After evaluating the vendors and their corresponding proposals, the HCA normally awards a purchase contract to the vendor with the lowest acceptable price.

For purchase above the small purchase threshold:

Prior to seeking bids for services above this limit, an HCA should prepare a cost estimate and specifications regarding the desired purchase. Prior to publishing a notice seeking bidders, it may be appropriate to publish a pre-notice advising that a bid opportunity is forthcoming. The most acceptable format to conduct a procurement process for purchases over \$100,000 is through the sealed bids or formal advertising method of procurement. In this process bids are publicly solicited; and a firm-fixed-price contract is awarded to the responsible bidder whose bid is the lowest in price (conforming to all the material terms and conditions for the invitation for bids). This is the preferred method for procuring goods and services.

Monitoring Procurement

Monitoring procurement activities includes determining if the HCA took adequate steps to aggressively seek out possible bidders and whether the HCA has fair, consistent, and clear procedures for how to conduct these purchases. It is important that HCAs have a contingency plan in place to address a situation where a bid solicitation process nets too few or no bidders.

TIP Many HCAs have a tiered spending limit whereas a program director may spend up to a certain amount, above this amount the executive director must sign off, and above the executive director's spending limit requires a vote of the board or sign off from the Board

of Directors or a Board Committee.

6. Audit Report and Monitoring Review

An audit report is an independent assessment of the financial health of a HUD-approved HCA. When conducting a monitoring of an HCA or customizing a monitoring policy, the audit report can be a useful tool to identify areas on which the monitoring should be focus.

The author of the audit report should be a Certified Public Accountant, as selected by the HCA, or as determined at the discretion of the granting entity. If an HCA has multiple sub-grantees, it may be appropriate to hire or assign a single auditor to produce an audit report on each sub-grantee. It is not considered an independent audit report if the report is produced by an employee of the HCA subject to the audit.

This audit report can be combined with other activity reports such as HUD-Form 9902 to develop a matrix to identify HCAs that are selected for an onsite monitoring as compared to those that may only require a desktop review or remote monitoring review.

There are five main areas in an audit report that can assist in conducting a monitoring review or in the development of a monitoring policy.

- 1.** The opinion of the auditor is an executive summary of the report that generally states whether the auditor has reason to believe that the financial statements presented by the HCA accurately represent the HCA's financial health. The findings, concerns, or lack of such, in this opinion can be used to identify areas of risk. A lack of concerns or findings should allow the monitoring review to place the majority of the resources into reviewing other aspects of an HCA's performance.
- 2.** The auditor will provide an opinion on the Schedule of Federal Award Expenditures regarding whether it is a fair presentation, considering the financial statement as a whole. The Schedule of Federal Award Expenditures should minimally include a reference to the HUD housing counseling program grant award, assuming the HCA received such an award during the fiscal year covered by the audit report. This section will allow the developer of a monitoring policy to understand the nexus between various federal funding sources and how those intersections should be handled during the monitoring review. If multiple grant awards for housing counseling activities from various Federal sources are noted, the monitoring review will need to focus on the ability of the HCA to separate activities by funding source to avoid duplicate billing or double reporting of client activities.
- 3.** The financial statements report program income, expenses, cash flow, and overall HCA financial position covering the specified fiscal year. These statements should be used as a benchmark and as cross reference when reviewing an HCA's records, receipts, and grant award agreements. If an HCA's financial statements do not match the other documentation provided, this can indicate higher risk or a more complex situation where an HCA has various grant award that are funded across multiple fiscal years with varying start and end dates. Irrespective of the complexity, an HCA should have back up documentation, and other evidence to explain any real or perceived discrepancies in the financial statements.
- 4.** Audit report footnotes breakdown the HCA's organization, the accounting department, financial controls, and other program specific information. This section should be used to explain complex financial matters. When conducting a monitoring

review, this section identifies areas within the HCA that will take significant time or resources to monitor. The footnotes should reference other documents and reports found outside of the scope of the audit report.

5. The final section of the audit report covers findings as well as any recommendations provided by the auditor about how the HCA operates, controls their finances, and manages the program income. This section should be used when monitoring to confirm that the areas of concern determined during a monitoring review were also identified within this section of an audit report. If there is an area of concern in a monitoring review that should have been reported in an audit report, it may be a matter of timing, scope of work, or lack of full disclosure by the HCA. An audit report is not synonymous with a monitoring review. A monitoring review should take into consideration the findings of an audit report, but understand that the scope of a monitoring review should be much broader and more comprehensive than a standard audit report.