

**Attachment I to Exhibit 7-20
Reviewer's Guide for Financial Management Review of
HOME Participating Jurisdictions (PJs)**

This Attachment is designed to assist reviewers in conducting financial management reviews of HOME PJs. It provides useful questions to ask and information to aid in answering certain (but not all) questions contained in Exhibit 7-20, "Guide for Review of Financial Management." The numbers below correspond to the question numbers in this Exhibit.

A. FINANCIAL MANAGEMENT SYSTEM

1. Does the PJ record amounts budgeted for eligible activities as specified in the HOME regulations?

Review Procedures:

- a. Ask for a copy of the budget.
- b. Ask for a copy of the detailed expenditure report.
- c. Take the PJ's latest final/annual report and see if the PJ is using the list of activities in its accounting records.

- 2.a. Does the PJ record an encumbrance when contracts are executed, purchase orders issued, etc.? **NOTE:** If encumbrances are not recorded, the PJ should maintain information on obligations that is readily accessible.

Review Procedures: Look at the detailed transaction ledgers or expenditures ledger or purchase order journal, any of which may be the source of encumbrance information or obligations information.

- 2.b. Based upon a selected or random sample, are expenditures supported by invoices, contracts, or purchase orders, etc.?

Review Procedures: Using a selected or random sample, review these entries to the expenditures ledger and the source documentation. "Adequate support" means that the source documentation contains a description of what the funds were spent on, that proper signatures and approvals were obtained, and the purpose and amounts match.

3. If the accounting system is on a cash basis, can the PJ support accrual data in the Integrated Disbursement and Information System (IDIS) and the Consolidated Performance and Evaluation Report (CAPER) from documentation on hand?

AND

4. If the accounting system provides for accrual of expenditures, does the information reported to HUD reconcile with accounting records?

Review Procedures:

- a. Ask the PJ if its accounting system is on a cash or modified accrual basis.
 - b. Check the PR 27 Status of Funds Report and the CAPER. Check to see if the reports reflect costs and program income. This is the proof of accuracy.
 - c. Most PJs will have monthly reports of receipts and expenditures. If the PR-27 report were completed on a cash basis, it would total the same as all local reports combined. If the report was prepared with accrual data, it will include expended funds plus what is due and payable. Review fiscal year-end reporting on the grant program, the trial balance, cost accounting reports, budgetary summary or expenditure reports to confirm the figures in the PR-27 report. The figures should be the same with no adjustments necessary.
 - d. Among the costs that might be accrued as administrative costs paid with HOME funds are payroll (incurred but not to be paid in a week, for example); or direct or indirect costs such as utilities, space, telephone.
 - e. See if adjustments in the PJ's records that reflect accruals are also reflected in the PR-27 report.
5. Does the PJ identify expenditures with respect to the grant program?

Review Procedures:

- a. Identify cash accounts for grant funds.
 - b. Make sure you are looking at all the cash accounts.
 - c. Ensure that revenue accounts exist for program income.
 - d. Review expenditure ledger(s) (often a single level of information on expenditures against budgeted amounts/encumbrances and obligations, etc.).
6. Does the PJ identify expenditures by specific grant year?

Review Procedures: Most PJs will keep grant-by grant data, but plan a fiscal year program that is funded by grants. Select an item included on the PR-27 report and trace it back to the accounting records to ensure this same item is in the accounting records.

- 7.a. Does the PJ identify expenditures in its accounting records according to eligible activity classifications specified in the regulations that clearly identify the use of program funds for eligible activities?

Review Procedures:

- a. Check the project expenditure report. Some PJs will have reports that are comprehensive, while others show information in various parts of their accounting system.
- b. The PJ is to show how it expends grant funds by eligible activity. You cannot just show outlays or a general item like expenditures. Look at the detailed expenditure report.

C. INTERNAL CONTROLS

11.a. through i.

- a. Does the PJ have an organization chart that sets forth the actual lines of responsibility?
- b. Are duties for key employees of the PJ defined?
- c. Has the PJ obtained fidelity bond coverage for responsible officials?
- d. Does the PJ's chart of accounts include a complete listing of the account numbers used to support the control needed to ensure that resources used do not exceed resources authorized?
- e. Does the PJ's approval controls provide reasonable assurance that appropriate individuals approve recorded transactions in accordance with management's general or specific criteria?
- f. Does the PJ's controls over the design and use of documents and records provide reasonable assurance that transactions and events are properly documented, recorded, and auditable?
- g. Does the PJ's segregation of duties controls effectively reduce the opportunity for someone to perpetrate or conceal errors or irregularities in the normal course of duties?
- h. Is it clear that all personnel are responsible for communicating upward the PJ's operating problems and noncompliance with laws and regulations?
- i. Does the PJ's internal control procedures support its ability to prepare financial statements that are fairly presented in conformity with generally accepted or other relevant and appropriate accounting principles and regulatory requirements? (One level of assurance of the accuracy and integrity of data is provided by the attainment of an unqualified opinion on the audited annual financial statements and internal controls.)

Review Procedures:

- a. Ask whether there are written procedures that clearly define employee duties; the procedures for accounting activities such as recording entries; making journal entries; reconciling the accounting records; balancing subsidiary, ledger and control accounts; authorizations; bonding; handling checks, property and other valuables; managing loans, etc.
- b. Check the most recent audit of the PJ's financial management system (either an A-133 audit or an Independent Public Accountant audit of the PJ). If the audit does not show any weaknesses, this may be enough, especially if you have found no problems in this area in the past. Place a heavy reliance on the audit coverage of internal controls for this aspect of the PJ's financial management system.
- c. You may determine an area or areas not covered by the audit and randomly select some activities in the area or areas to test this/these part(s) of the system yourself.

E. PROGRAM INCOME

13. Are revenue-generating activities being undertaken?

Review Procedures: Ask about how much money has been generated in the time period between the start of the PJ's program year and the date of this monitoring. (Looking at the current year's budget may not evidence revenue-generating activities as the income could be coming from prior year activities.)

14. If revenue-generating activities are being undertaken, has the PJ established revenue accounts to record program income?

Review Procedures:

- a. Ask how it accounts for the revenue.
 - b. Check to see if there are receivables in the accounting records (and Chart of Accounts) to record revenues. The key is that the PJ must have a mechanism in place to record revenues when the transaction happens.
 - c. It is best to have revenues go into the grant cash account for which a daily cash balance report is available (or generated from a computerized system).
 - d. Check trial balance to see if such accounts are set up.
 - e. Check to see if the Action Plan reflects program income anticipated.
16. Does the PJ disburse program income to pay program costs before making cash withdrawals from the U.S. Treasury?

Review Procedures: Determine whether the cash account is used so that program income received (principal and interest payments, rental income, etc.) is used to pay program costs first. If something has been paid, ask for records or information on the accounts.

F. SALARIES AND WAGES

20. Are direct salaries and wages of employees chargeable to one grant program or cost objective based on payrolls documented in accordance with the generally accepted practice of the PJ and approved by a responsible official?

Review Procedures:

- a. Review time distribution sheets especially where the administering department administers other Federally- or locally-funded activities.
- b. Detail Testing: Scan through a list of transactions. Select 1 or more payroll transactions. Test the transaction(s) for purpose, benefit and how it was/they were paid.

G. INDIRECT COSTS

22. a. Are indirect costs charged to the program?
 b. If indirect costs are charged to the program, have Cost Allocation Plans and/or an Indirect Cost Rate proposal been developed in accordance with OMB Circular A-87, Attachments C and E?

Review Procedures:

- a. Prior to the monitoring:
- Check the most recent OMB Circular A-133 audit report (if PJ is subject to the A-133 requirements) to see:
 - if any indirect costs were charged;
 - if any findings were made; and, if so,
 - the status of such findings.
 - Check any monitoring reports for indirect costs findings.
 - If HUD does not already have the PJ's Cost Allocation Plan (CAP) and an Indirect Cost Rate (ICR) Proposal, call and ask for copies of the CAP and ICR. Determine if HUD is the cognizant agency.
- b. During monitoring, review indirect costs, using one or more of the following methods:
- » document review;
 - » interviews;
 - » testing transactions.
- c. Detail Testing: Scan through a list of transactions. Select 5 or 10, including audit costs; payment for a CAP; supplies; and some contracts (could be for several benefiting objectives). Test the transactions for purpose, benefit and how they were paid.

H. MINORITY-OWNED FINANCIAL INSTITUTIONS

23. Has the PJ used minority-owned financial institutions in conjunction with the grant program? (**Note:** Because PJs are not required to use minority-owned financial institutions, but *encouraged* to do so pursuant to 24 CFR 92.351(b), a "No" response to this question would **NOT** constitute a finding.)

Review Procedures: It is consistent with the regulations to inquire as to the PJ's use of minority-owned financial institutions for informational purposes, even though PJs are not required to do so. We are to indicate that HUD, as do other federal agencies, encourage PJs to use such financial institutions whenever possible.

I. OMB CIRCULAR A-133: AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

- 26.a. Does the PJ's written agreement with state recipients and subrecipients contain the requirement of following OMB Circular A-133 audit requirements?

Review Procedures: Review contracts and/or agreements between the PJ and State recipients or subrecipients for references to applicable audit requirements.

30. Did the PJ ensure that audit reports of its State recipients and subrecipients that expended \$500,00 or more in Federal awards in the fiscal year were submitted within thirty (30) days after receipt of the auditors report, but not later than nine months after the end of the audit period?

AND

33. Did the PJ ensure that the State recipient or subrecipient took appropriate and timely corrective action on audit findings?

Review Procedures: Ask for copies of audits submitted to the PJ. Review the reports for findings or questioned costs and determine whether the PJ has procedures in place to resolve the findings in the audit.

37. What is the PJ's process for reviewing and reaching determinations regarding the findings in the State recipient and subrecipient audits?

Review Procedures:

- a. Determine whether the PJ has a process for handling its audit findings.
- b. Who is in charge of the process?
- c. What procedures are in place to resolve audit findings and questioned costs?
- d. Interview parties responsible for taking action to resolve audit findings.
- e. If there were CPD or cross-cutting findings for which HUD CPD is the cognizant agency, review the follow-up actions that were, or are being, taken to implement the management decisions.