



FASS - PH
Spring/Summer 2019



Session 5 – Single Audit Update

2 CFR Part 200 – OMB Uniform Guidance: Cost Principles, Audit and Administrative Requirement for Federal Awards (OMB Uniform Guidance)



2 CFR Part 200 Replaces

Cost Circulars

- A-21
- A-87
- A-122

Administrative Requirements

- A-102 (Common rule)
- A-110
- A-89

Audit Requirements

- A-133
- A-50

OMB Uniform
Guidance:
The “Super
Circular”



Exception to Effective Date - Procurement

- “For the procurement standards in §200.317-200.326, non-Federal entities may **continue to comply** with the procurement standards in previous OMB guidance (superseded by this part as described in §200.104) for **two full fiscal years** after this part goes into effect.
- If a non-federal entity chooses to use the previous procurement standards for an additional fiscal year before adopting the procurement standards in this part, the non-federal entity must **document this decision in their internal procurement policies.**”
- That non-federal entity will be required to comply with the 2 CFR 200 procurement standards for the fiscal year starting July 1, 2016 and ending June 30, 2017.



- Subpart D: Post-Award Requirements for Financial and Program Management
 - Internal controls: explicit IC requirements for awardees
 - Procurement standards: must be used by awardees
 - ◆ Simplified acquisition
 - ◆ Micro-purchase
 - ◆ Seal bids
 - ◆ Competitive proposals
 - ◆ Noncompetitive proposals
 - Sub-recipient monitoring and management
 - ◆ Risk assessment before sub-award
 - ◆ Information to be provided to sub-awardee
 - ◆ Monitoring procedures



Subpart E – Cost Principles

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- Allowable costs
 - Time and effort reporting
 - Prior Approval Requirements
- Direct Costs – Admin
- Indirect costs/allocation plans
- Required certifications
- Written policy for determining allowable costs



Cost Principles – Time and Effort Reporting

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A-87 – **Old** requirements

Charges to Federal Awards will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of the salaries and wages must be supported by personnel activity reports.

Records **MUST** be maintained for all staff members whose compensation is charged, in whole or in part, directly to awards.

These records **MUST**:

- Reflect an **after-the-fact determination** of actual activity (note: budget estimates do NOT qualify as support)
- Account for the **total activity**
- Be **signed** by the employee, or a responsible supervisory official having first hand knowledge of activities
- Be **prepared at least monthly** and must coincide with one or more pay periods



Cost Principles – Time & Effort Reporting

Uniform Guidance Requirements

- Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
 - Be supported by a system of internal control which provides reasonable assurance that the charges are *accurate, allowable, and properly allocated*;
 - Be incorporated into the *official records*
 - Reasonably reflect the *total* activity for which the employee is compensated
 - Encompass both federally assisted and all other activities compensated on an integrated basis, but may include the use of subsidiary records
 - Comply with the *established* accounting policies and practices of the Organization
 - Support the *distribution* of the employee's salary or wages among specific activities or cost objectives



Cost Principles – Time & Effort Reporting, cont'd.

New Requirements (cont'd.)

- Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
 - (viii) Budget estimates alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:
 - ◆ (A) **Reasonable** approximations of the activity actually performed
 - ◆ (B) Significant changes are identified and entered into the records in a **timely** manner
 - ◆ (C) **internal controls** includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates
 - (ix) Can be expressed as a percentage distribution of total activities



Time & Effort Reporting

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Do you have to change? Not necessarily...

- Focus on strengthening controls over time and effort report to ensure compliance with the overarching requirements
- Many organizations will not have to make significant changes.
- Other organizations may wait to see what passes a federal agency audit.



Cost Principles – Direct Costs

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	What Is New?	What Does This Mean To You?
Costs (generally)	<ul style="list-style-type: none">• Provides a common set of rules for allowable costs across ALL entity types• Prior Approval requirements - various conditions under which prior approval is required• Clarifies the allowable cost for certain expenses• Certain administrative expenses may now be allowable as a direct expense	<ul style="list-style-type: none">• Commonality in rules between different cost circulars• You will need to understand the prior approval rules in order to get advance federal agency blessing as required• Clarification on allowability of certain types of costs• Changes to cost classifications, cost allocation plans, and indirect cost rates may be necessary



Cost Principle – Administrative Support

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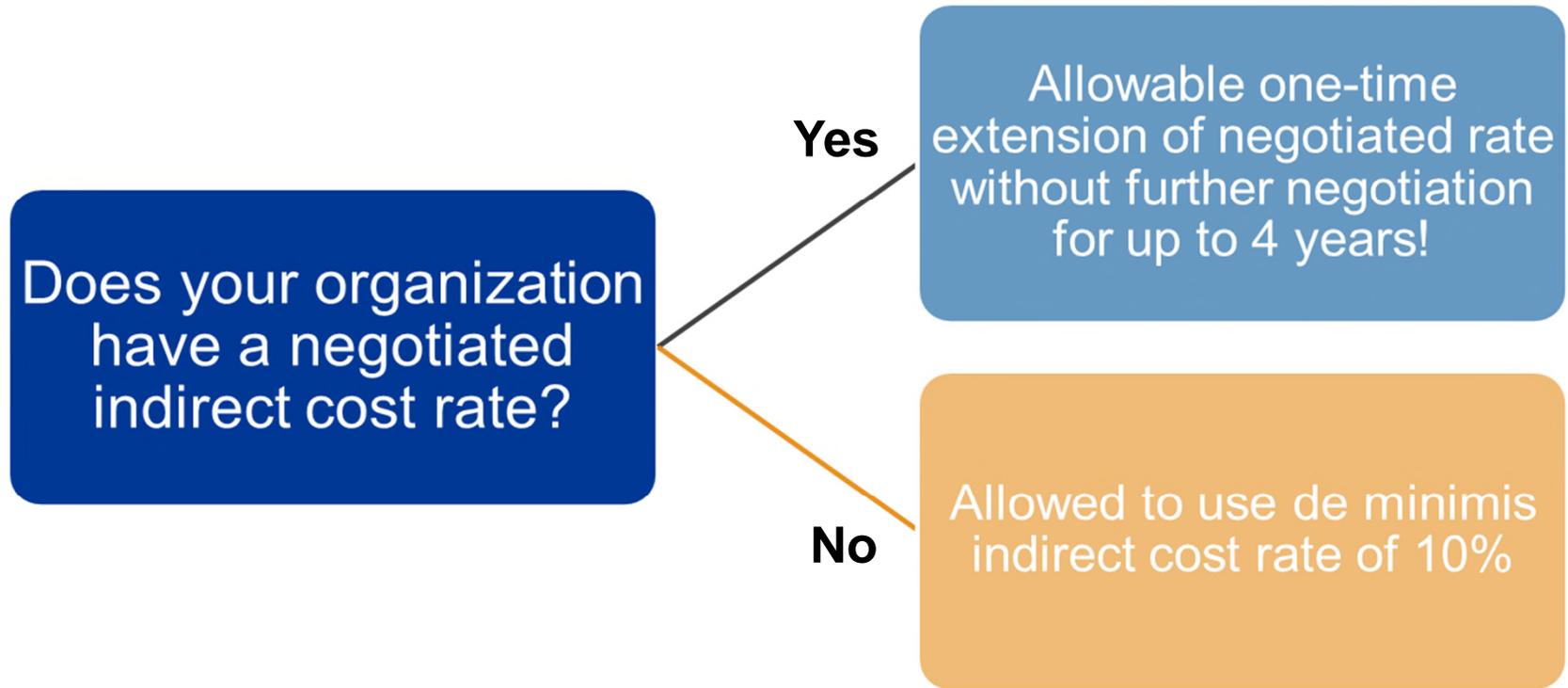
- Allowable to charge administrative support as a direct cost if:
 - Services are integral to a project/activity
 - Individuals involved can be identified specifically with that project/activity
 - Costs are included expressly in the budget or have prior written approval of the federal awarding agency
 - Costs are NOT recovered as indirect costs
- Should simplify charging of costs especially for smaller entities



Cost Principles – Indirect Costs

	What Is New?	What Does This Mean To You?
Indirect cost rate	<ul style="list-style-type: none"> • A 10% de minimis IDC rate is now available under §200.414 (f) • Allowable one-time extension of negotiated rate without further negotiation for up to 4 years! • IDC rate needs approval if govt receives more than \$35 million in DIRECT federal awards • Cognizant agency for approval is the federal agency with the largest dollar value of DIRECT federal awards. 	<ul style="list-style-type: none"> • Those that have NEVER received a negotiated indirect cost rate MAY be able to recoup certain additional costs by using the new 10% de minimis IDC rate • Those with a negotiated rate may be able to reduce administrative burden by requesting this extension. • May need approval of IDC rate • Cognizant agency may have changed





Cost Principles – Certifications and Written Procedures

	What Is New?	What Does This Mean To You?
Required certifications	<ul style="list-style-type: none"> Annual and final fiscal reports or vouchers requesting payment must include a certification signed by an official authorized to legally bind the organization Indirect cost rates and cost allocation plans require certification 	<ul style="list-style-type: none"> Certifications need to be established and processes designed to ensure continuing compliance Certification needs to be made regardless of whether plans require federal approval Individual at a level no lower than VP or CFO must certify
Written procedures	<ul style="list-style-type: none"> Grants reform requires written procedures for determining allowability of costs 	<ul style="list-style-type: none"> Your organization will need to develop these procedures



“By signing this report, I certify to the best of my knowledge and belief that the report is true, complete and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the federal award. I am aware that any false, fictitious or fraudulent information, or the omission of any material fact, **may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.**”



BAD Debt Expense and FDS Reporting

Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable. See also § 200.428

- Consequently many PHAs are reducing rental revenue by the amount of bad debt to satisfy UG. However, reducing tenant income results in bad debt expense being charged to federal awards since revenue is a component of the subsidy calculation
- Avoid this issue by using the COA line item for bad debt (96400)



BAD Debt Expense and FDS Reporting, cont'd.

- Reporting bad debt Expense on a non-Federal entity's financial statements does not constitute charging a Federal award.
- As stated in Section 200.400(d): *“The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-federal entity. However, the accounting practices of the non-federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the federal award.”*



- Subpart F: Audit Requirements
 - Basis for determining expenditures
 - Frequency
 - Audit costs
 - Auditee responsibilities
 - Auditors
 - ◆ Scope
 - ◆ Reporting and findings
 - ◆ Documentation
 - ◆ Major program determination
 - ◆ Risk assessment



Changes to Audit Requirements 1

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Single Audit Requirement	Current Requirements	Changes
Single Audit threshold	\$500,000	\$750,000; below threshold records available to agency and OMB
Type A/B threshold	\$300,000	\$750,000
High-risk Type A	Not audited as major program in last 2 years; significant deficiency, material weakness, material noncompliance, qualified opinion on compliance; questioned costs >\$10,000, known fraud, summary of prior audit findings misstated	Failed to receive unqualified opinion; material weakness; questioned costs > 5% of program expenditures



Changes to Audit Requirements 2

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Single Audit Requirement	Current Requirements	Changes
Type B programs	½ number of low-risk Type A programs	¼ of number of low-risk Type A programs No add'l risk assessment Small Type B = 25% of Type A/B threshold
Coverage rule	50% (normal) 25% (low-risk auditee)	40% (normal) 20% (low risk auditee)
Low-risk auditee	Audited in previous two audit periods; unqualified opinion on f/s and SEFA; no material weakness in YB report; SA report no material weakness, no noncompliance and no questioned costs > 5% of program expenditures; no late submission of DCF	Additional requirements: No going concern report GAAP f/s required (state law exception) No waivers given



Changes to Audit Requirements 3

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Single Audit Requirement	Current Requirements	Changes
Compliance requirements	14 requirements	In Compliance Supplement 12 requirements: <ul style="list-style-type: none"> •Activities allowed or unallowed •Allowable costs/cost principles •Cash management •Eligibility •Equipment and Real Property Management •Matching Level of Effort, Earmarking •Period of Performance •Procurement and Suspension and Debarment •Program Income •Reporting •Subrecipient monitoring •Special tests and provisions
Cost circulars	8 Circulars: A-21, A-87, A-102, A-110, A-122, A-133	One combined circular



Changes to Audit Requirements 4

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Single Audit Requirement	Current Requirements	Changes
Indirect costs and time and effort reporting		Changes to cost pools
Administrative requirements		Pass-through entities must use indirect cost rate negotiated at Federal level (flat rate of 10% total direct costs) Must pass on negotiated indirect cost rate to subrecipients FAR threshold set at \$150,000 Eliminates Cost Accounting Standards Vendor changed to contractor



Changes to Audit Requirements 5

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Single Audit Requirement	Current Requirements	Changes
Reporting changes		All contracting subject to consideration of auditor's peer review report Changes in reporting of non-cash awards Corrective action plan and summary of prior audit findings includes financial statement findings Summary schedule of prior audit findings include reason finding recurred. Standard numbering for CY and PY findings
Corrective action plans		Clock starts when FAC report submitted



Effect on Single Audit Reporting Package

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- Corrective Action Plan

- Separate document which must address each audit finding
- Name of person responsible, action planned, completion date
- Statement if auditee doesn't agree with the finding
- Statement if auditee believe that correction action not required



Effect on Single Audit Reporting Package, continued

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- Summary of Prior Audit Findings
 - Status of prior financial statement audit findings as well as status of prior year noncompliance
 - If prior year findings repeated reason for recurrence
 - Standardized numbering system; identify prior year finding number
- Schedule of Expenditures of Federal Awards
 - Must report amount passed-through to sub-recipient by program
 - ***Notes to SEFA must disclose indirect cost rate used***



Effect on Single Audit Reporting Package, cont'd.

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- Audit Findings reported in more detail
 - If use sampling, required to report whether sample was statistically valid
 - Threshold for reporting known or estimated likely question costs raised to \$25,000 from \$10,000
 - Abuse as defined in the Yellow Book now a part of the “OMB Uniform Guidance”



Common Single Audit Peer Review Findings

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- Incorrect determination of major programs
 - Failure to properly cluster programs
 - Failure to combine programs with the CFDA# when determining Type A programs
 - Incorrect threshold calculation
 - Failure to meet % coverage test
 - Failure to test Type A programs as a major program once every 3 years
 - Failure to apply risk-based approach to selecting major programs
 - Incorrect low risk auditee determination



Common Single Audit Peer Review Findings, cont'd

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- Failure to adequately test or document testing of internal control over compliance and compliance
- Failure to distinguish IC testing from compliance testing
- Failure to identify key controls
- Failure to follow agency audit guides and compliance supplements
- Use of Compliance Supplement as safe harbor
- Deficient assessment of fraud risk
- No determination of compliance materiality at three levels



Common Single Audit Peer Review Findings, cont'd

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- Current compliance requirements not considered
- Management rep letter not tailored or is misdated
- Unreported audit findings
- Deficiencies in the SEFA
- Misreported coverage of major programs
- Prior audit findings not updated
- Improper wording on findings
- Lag release in separate Single Audit report



- In addition to peer review findings
 - Missed major program based upon Type A program 2-year look back
 - Missed major program based on Type A program with prior year finding
 - Improper determination of low-risk auditee
 - Improper determination of low risk program

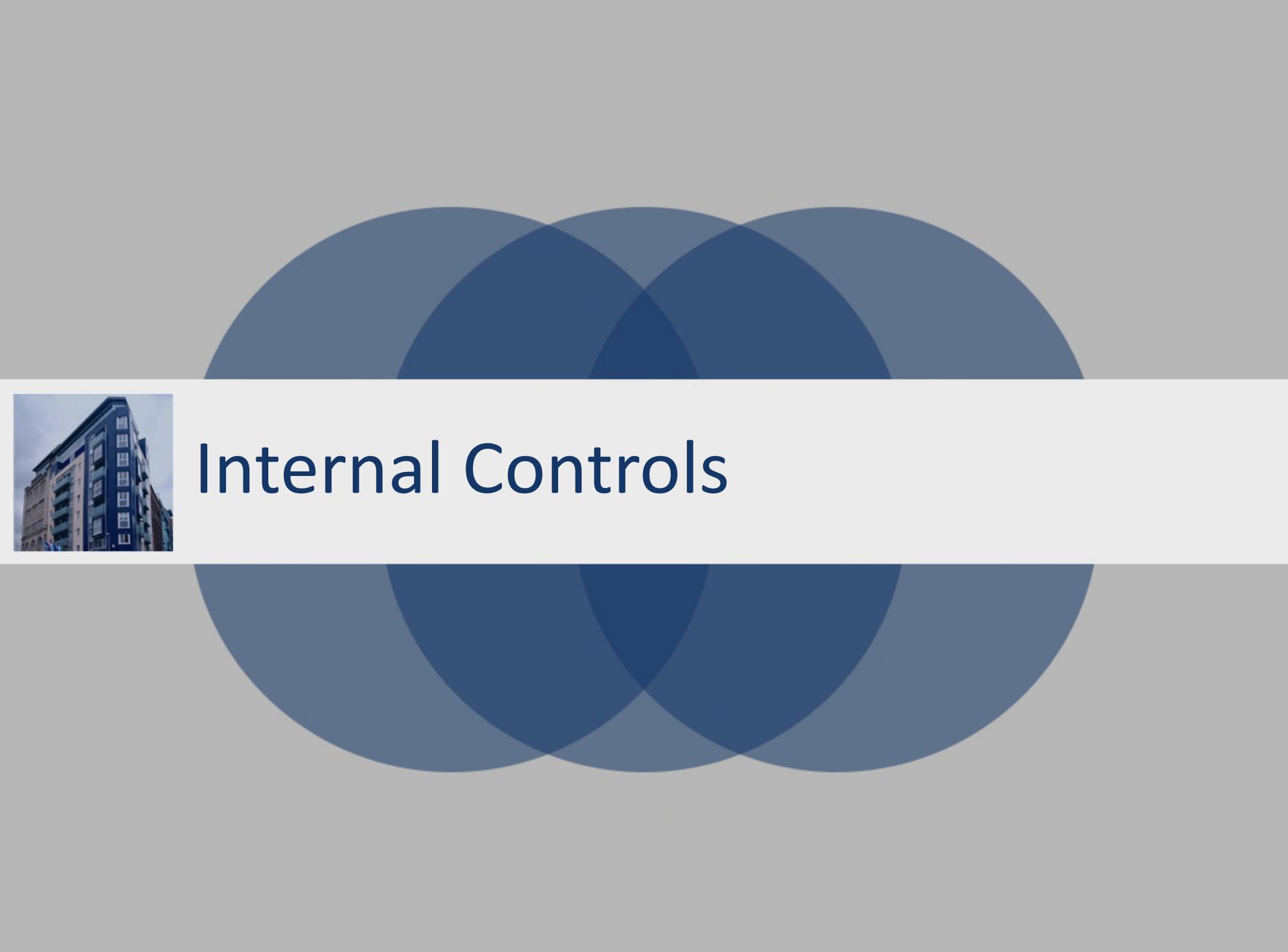


Subpart D – Administrative Requirements

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	What Is New?	What Does This Mean To You?
Requirements for non-federal entities (continued)	<ul style="list-style-type: none">• Establish and maintain effective internal controls (200.303)	<ul style="list-style-type: none">• Evaluate and monitor compliance• Take prompt action on audit findings• Safeguard protected personally identifiable/sensitive information• Best practice guidance Standards for Internal Control in the Federal Government (Green book) Internal Control Framework (COSO) Compliance Supplement, Appendix XI, Part 6





Internal Controls



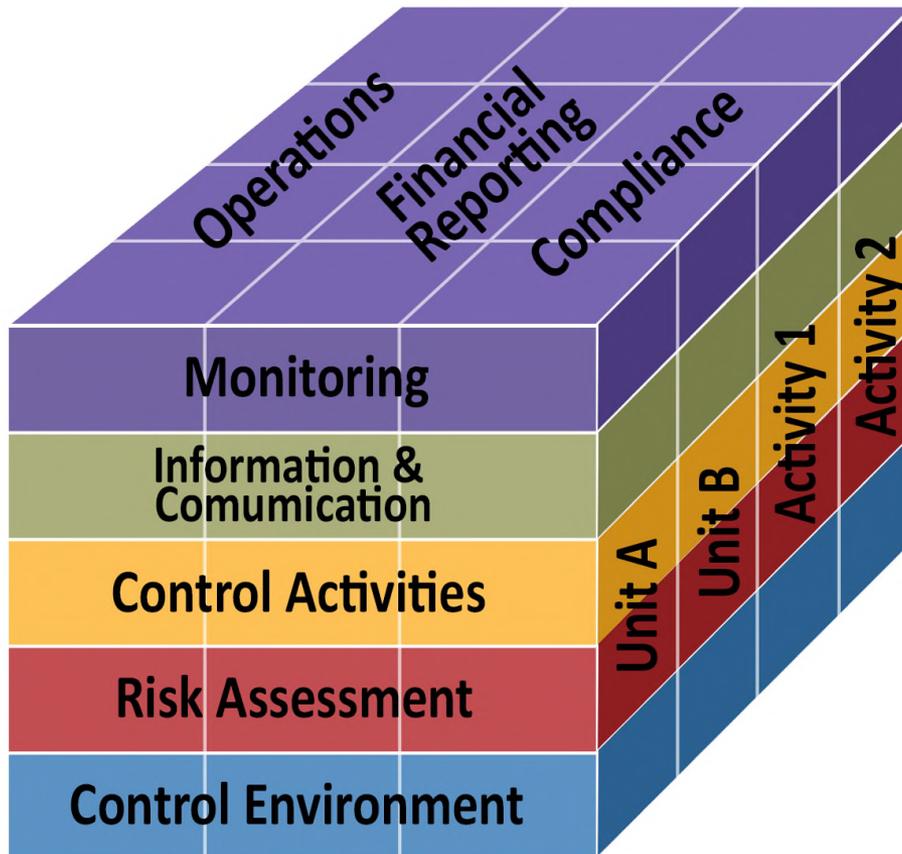
What are Internal Controls?

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- Internal controls address and minimize identified risks in key organization areas by establishing procedures and controls.



Subpart D – Internal Controls



- Provides reasonable assurance that entity is managing award in compliance with federal statutes, regulations, and terms and conditions of the award.



Management's General Role in Internal Controls

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Management should provide for reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations



The Board's Oversight Role in Internal Controls

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- Review budget variance to ensure actual costs are in line with budget estimates
- Review PHA action on tenant accounts receivable
- Review discussion of PHA payment status for accounts payable
- Review write-offs to ensure all are board approved
- Review bank statements to ensure all disbursements are approved, including electronic debits and cash withdrawals
- Review credit card statement detail—not just the summary
- Review petty cash reconciliation to verify all receipts are for valid expenses



Why are Internal Controls Important?

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- An organization should be concerned with internal controls to:
 - Protect its assets
 - Reduce the risk of fraud



17 Codified Principles

Control Environment	<ol style="list-style-type: none"> 1. Demonstrates commitment to integrity & ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk Assessment	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control Activities	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information & Communication	<ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates Externally
Monitoring	<ol style="list-style-type: none"> 16. Conducts ongoing and or separate evaluations 17. Evaluates and communicates deficiencies



Effect on the Audit

COSO Framework requires:

- **Each** of the five components and 17 principles be
 - **(1) present; and**
 - **(2) functioning**
- **Evidence** that the components, principles and attributes are operating in an integrated manner
- **Redefines reporting requirements**
 - Material weakness: component, principle, or attribute not present or not functioning
 - Significant deficiency: shortcoming in a principle or attribute



Internal Control Trends

- Recent government-wide initiatives have also contributed to improvements in financial management and placed greater emphasis on implementing and maintaining effective internal control over financial reporting.



Control Environment - Setting the Tone

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- A successful internal control environment requires management's commitment and support.
- Management's goal is not to make each person an expert in internal controls, but to increase awareness and understanding of why we need them and how we use them.



- Sets a positive and supportive attitude toward internal control and conscientious management throughout the organization
- Can also be thought of as the process of creating an ethical environment



Management's Role

- Managers must take systematic and proactive measures to:
 - Develop and implement appropriate, cost-effective internal control for results-oriented management
 - Assess the adequacy of internal control in programs and operations



Management's Role, cont'd.

- Separately assess and document internal control over financial reporting
- Identify needed improvements
- Take corresponding corrective action
- Report annually on internal control through management assurance statements



Grantees' Roles

- Grantee programs must operate and resources must be used:
 - Consistent with agency missions
 - In compliance with laws and regulations
 - With minimal potential for risk, waste, fraud, and mismanagement



Risk Assessments

- Refer to the identification, analysis, and management of uncertainty facing the organization.
- Focus is on the uncertainties in meeting the organization's:
 - Financial objectives
 - Compliance requirements
 - Operational objectives



- Internal control activities are the policies and procedures—as well as the daily activities—that occur within an internal control system to minimize risk.



Control Activities at Various Levels

- Entity level transactions – pervasive, pertain to multiple components
- Transaction level control – built into operational processes
- Always segregation of duties
- Smaller organizations require creativity and more action by Board



Five Control Activity Types

- 1. Preventive controls:** To limit the possibility of an undesirable outcome being realized
- 2. Corrective controls:** To correct undesirable outcomes that have been realized
- 3. Directive controls:** To ensure that a particular outcome is achieved or an undesirable event is avoided



Five Control Activity Types

4. Detective controls: To identify undesirable outcomes “after the event”

5. Performance controls: To orientate and motivate the organization’s people to focus on the achievement of targets that are appropriate for the achievement of objectives



Principle 10 – Control Activities

- Common Categories

- Top-level reviews
- Reviews by management at activity level
- Management of human capital
- Controls over Info Systems
- Physical control over vulnerable assets
- Establish and review performance measures
- Segregation of duties
- Transaction execution
- Accurate and timely recording
- Access Restrictions
- Documentation



- Information and communication encompasses the identification, capture, and exchange of financial, operational, and compliance information in a timely manner.
- People within an organization who have timely and reliable information are better suited to conduct, manage, and control the organization's operations.



Monitoring

- Monitoring helps to ensure that control activities and other planned actions to affect internal controls are executed in a proper and timely manner.
- Ongoing monitoring activities evaluate and improve the design, execution, and effectiveness of internal control.





Internal Control Suggestions



Internal Controls Review

- In assessing internal controls, practical areas for consideration include:
 - Segregation of duties
 - Bank reconciliation
 - Supporting documentation
 - Employees
 - Safeguarding assets



Segregation of Duties

- Certain accounting and bookkeeping functions are designed to cross-reference each other for accuracy.
 - If the same person is responsible for multiple duties, the natural checks and balance of your financial system is compromised.
- Giving a single person unbridled authority over your resources is not a wise practice.



Bank Reconciliations

- Bank statements can only help you find discrepancies if they are reviewed in a timely manner.
- At a minimum, bank statements should be reconciled once a month.



Supporting Documentation

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- Never sign checks, or any other document for that matter, without reviewing the supporting information.
- Though grantees often face a hectic work environment, it is not a wise practice to “take someone’s word for it.”



Though this sounds complex, it is quite simple . . .

- Safeguarding the organization's assets includes small tasks such as:
 - Locking up blank checks
 - Depositing all cash and checks daily
 - Password-protecting all your sensitive electronic data
 - Maintaining an inventory list of office furniture, electronics, etc.
 - Ensuring you have adequate insurance coverage for all your assets



HUD Internal Controls

- All HUD grantees are required to establish internal controls.
 - Internal controls are the plans, methods, and procedures adopted by management to help PHAs manage financial assets and adhere to an approved budget.
 - Internal controls help to prevent and detect loss of funds that the PHA could otherwise use for housing.



HUD IC and How it Relates to Financial Management

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- HUD Internal Controls, as it relates to financial management internal controls, is divided into six basic functions:
 - Payroll
 - Revenue
 - Expenditure
 - Property
 - Treasury/Cash management
 - Financial reporting



Deficiencies

- A **design deficiency** exists when a control necessary to meet the control objective is missing or an existing control is not properly designed.
 - Even if the control operates as designed, the control objective is not always met.
- An **operation deficiency** exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.



You Have Effective Controls If...

- Your organization has developed and communicated rules of operations to employees and members.
- Follow-up is done to ensure expectations are met.
- Financial duties are properly segregated.
- The accounting system tracks grant and matching funds separately.
- The accounting system is used to create financial reports.
- Proper safeguards over assets exist.





Risk Management – Developing Internal Controls



Focus of Risk Management

- The focus of good risk management is the identification and treatment of risks.



A Good Risk Management Process Involves:

- Methodically identifying the risks surrounding your business activities
- Assessing the likelihood of an event occurring
- Understanding how to respond to these events
- Putting systems in place to deal with the consequences
- Monitoring the effectiveness of your risk management approaches and control

This helps to :

- Improve decision-making, planning, and prioritization
- Allocate capital and resources more efficiently
- Improve the probability that you will deliver your services on time and in accordance with your budget



Put it in Writing

- Internal controls are formal operating policies and procedures for mitigating risk.
- These are calculated, discussed, refined, and incorporated into how an organization operates.



Purpose of Formal Written Internal Control Documents

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- Create and expand guidance for implementation of the controls
- Reduce the risk of errors and fraud
- Focus on high-risk areas in order to lessen the chances of errors and fraud
- Examine conflicting policies and duties (i.e., segregation of duties issues)
- Provide a system to create cross-training procedures
- Provide support for operational and performance decisions



Purpose of Internal Control Over Financial Reporting

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- Internal controls facilitate the preparation of reliable financial statements.
- Reliable financial statements must be materially accurate in all respects.
- Internal controls over financial reporting is a formal system of checks and balances, monitored by management and reviewed by an outside auditor.



Internal Control Documents

- Written internal control document(s) should be continuously reviewed and updated for changes within an organization's environment.
- Regular internal audits are needed to ensure that personnel are aware of the internal controls procedures and the process requirements that it documents.
- Writing internal control procedures without the necessary awareness and follow-up is counterproductive.



Misuse of Funds

- All nonprofits exist for a specific purpose with a defined mission.
 - Management is responsible for ensuring that the organization stays focused on its mission.
 - ◆ An excellent way to monitor an organization's progress is through its use of funds.
 - Many HUD grantees receive funding with restrictions or limitations on its use.
 - ◆ The improper use of these funds can cause HUD to withdraw the money, require repayment of the expended funds, and refuse to provide future funding.

