

# FINANCIAL MANAGEMENT



FLORIDA DEPARTMENT of  
ECONOMIC OPPORTUNITY

# Review of Financial Management

- Financial Management System
- Internal Controls
- Accuracy of Report Information
- Program Income
- Salaries And Wages
- 2 CFR 200 Subpart F
- FFATA/FSRS Reporting Compliance
- Financial Progress and Timeliness

# Financial Management System

The participant's financial management is evaluated for compliance with regulations:

- Title 24, Part 570 of the Code of Federal Regulations: Housing and Urban Development
  - Subpart I—State Community Development Block Grant Program
  - Subpart J—Grant Administration
- OMB Super Circular 2 CFR 200
  - Uniform Guidance

# Financial Management System (cont.)

## 24 CFR 570 Subpart I—State Community Development Block Grant Program

- Objectives of the guidelines are to ensure:
  - Project costs are reasonable;
  - Prior approval before charging pre-award costs;
  - Sources of project financing are committed;
  - CDBG funds are not substituted for non-Federal financial support;
  - Project is financially feasible;
  - Funds are disbursed on a pro rata basis with other finances provided to the project.
  - Recordkeeping requirement to maintain sufficient records to demonstrate the state has met the public benefit standards

# Financial Management System (cont.)

## Subpart J - Grant Administration regulations\*

- Objectives of the guidelines are to ensure:
  - Amounts budgeted are for eligible activities
  - Funds obligated when contracts are executed, purchase orders issued
  - Access to information on obligations readily available
  - Maintains adequate source documentation
  - Sample of expenditures are reviewed to determine whether they are supported by invoices, contracts, or purchase orders

\* Subpart J applies to all non-State units of local government.

# Internal Controls

- Participants have an organization chart to demonstrate established actual lines of responsibility/approving authorities
- Key employees duties are well defined
- Approval controls must provide reasonable assurance that appropriate individuals approve recorded transactions
- Transactions and events are properly documented, recorded, and auditable

# Internal Controls (cont.)

- Administrative Costs
  - All funds have been spent only for reasonable and necessary costs of program operation; and
  - All program funds have not been used for general expenses of state or local government.
- Financial procedures must support the ability to prepare financial statements that are fairly presented in conformity with generally accepted or other relevant and appropriate accounting principles and regulatory requirements

# Accuracy of Report Information

- Systems and/or procedures must ensure that accurate information is collected and reported to HUD
- Financial information (e.g., drawdowns, unexpended balances) recorded in HUD's financial management systems (DRGR/LOCCS) match the official accounting records of the program participant
- At a minimum, the reporting must include:
  - Amount budgeted
  - All disbursements to date
  - Program income and other revenue
  - Actual expenditures/disbursements



# Program Income

- Program Income (PI) follow
  - 24 CFR 570.489(e) for State governments
  - 24 CFR 570.504 for Non-State governments
- Revenue-generating activities (e.g., rehabilitation, economic development loans)
- Establish revenue accounts to record PI
- Disburse PI to pay program costs prior to making further cash withdrawals from the U.S. Treasury draw requests from DEO
- PI received after closeout shall be used for activities that meet one of the national objectives in §570.901<sup>1</sup>

<sup>1</sup> 570.901 references to §570.208

# Salaries and Wages

- Charges for salaries and wages, whether treated as direct or indirect costs, must be based on payrolls documented and approved by a responsible official(s) of the governmental unit
- Salaries and wages solely charged to the program must be supported by periodic certifications that employees worked solely on that program for the reporting period
- Indirect costs must be billed in accordance with an approved Cost Allocation Plan or agreed upon Indirect Cost Rate pursuant to 2 CFR 200 Appendix VII.

# OMB SuperCircular 2 CFR 200

- Grantees (or subrecipients) that meet the annual expenditure threshold ( $\geq \$750,000$ ) must have a single audit conducted
- Participant's audit report has:
  - an opinion on whether the financial statements conform with GAAP
  - complied with the laws, regulations, and provisions of contracts or grant agreements
- Define the Participant's corrective actions taken to resolve findings

# FFATA/ FRSR Reporting

- Federal Funding Accountability and Transparency Act (PL 109-282)
  - Applies to federally funded grants/contracts awarded on or after Oct. 1, 2010 for \$25,000 or more
  - Two-tier Reporting (reported through USASpending.gov)
    - Prime Award Data – reported by Federal Agency (HUD)

# USING INTERNAL AUDITS FOR SUCCESSFUL GRANT ADMINISTRATION



# Welcome and Speakers

- Session Objectives
  - Explain key rules and requirements for complying with CDBG-DR Internal Audit requirements
  - Discuss role of internal auditing in successful grant administration

# Agenda

- Importance of internal audits
- Internal audit requirements
- Internal auditor's role
- Determining there are sufficient internal controls
- Internal auditing and subrecipient oversight

# Why is HUD focusing on Internal Audit Functions?

- OIG 2016 Audit Plan called for improving HUD's execution and accountability for grant funds
- As a result, HUD intends to focus on internal controls and audit functions to:
  - Improve grantee control and accountability for grant funds
  - Improve oversight of subrecipients
  - Improve enforcement of returning unobligated or unspent funds



# What is an Internal Auditor?

- Audits grantee activities for program and financial compliance.
- Reviews program actions to identify potential issues of fraud, waste and abuse
- Independent auditors DO NOT report to program staff
  - Report to the Chief Elected Official or Legislative Body

# What is an Internal Auditor's role vis-à-vis grantee?

- An independent auditor is procured by an independent agency (not the grantee) – often OMB or Comptroller of grantee jurisdiction
- Independent auditor is not part of the Grantee's organizational structure, but may interact with program staff to identify issues and improve operational processes and procedures
- Auditors perform periodic (and often unannounced) file reviews to assess compliance with proper financial management procedures, cross-cutting federal regulations, and duplication of benefits analysis

# What do Internal Auditors do?

- Monitor, analyze and assess risks and controls of the organization
- Review information on the organization's compliance with state and federal policies and laws and confirms that information
- Make reports and recommendations to the grantee, chief elected official designated to oversee the CDBG-DR grantee
- Provide report (at least annually) affirming role in detecting fraud, waste and abuse

# What are the expectations for an Internal Auditor?

- The governing Federal Register notice or financial compliance checklist sets forth specific requirements for an internal auditor
- Provide ongoing assurance that grantee is maintaining internal controls to comply with laws, regulations, and provisions of contracts or grant agreements
- Should be performed at least annually—more often based on risk assessments

# Tasks Performed by an Internal Auditor

- Monitors the establishment and maintenance of effective internal control of Federal Award
- Provides independent third party oversight
- Takes prompt action when instances of noncompliance are identified
- Safeguards PII and other sensitive information

# Questions that verify status of sufficient internal controls

- Does the grantee have an organizational chart that sets forth lines of authority?
- Is there an assessment of capacity to administer the grant and a plan adopted to address any capacity gaps?
- Are there any staff vacancies, and if so, is there a hiring plan to fill the vacancies?
- Are there position descriptions in place for key personnel?

# Questions that verify status of sufficient internal controls (continued)

- Does the grantee's segregation of duties effectively provide for internal controls?
- Is a plan in place to communicate upward the grantee's operating problems and any noncompliance with laws and regulations?
- Does the grantee have a chart of accounts and does the use of these accounts provide the internal control necessary to ensure that resources used do not exceed resources authorized?

# Questions that verify status of sufficient internal controls (continued)

- Does the grantee's have clear and specific approval controls with written policies and procedures?
- Are transactions and events correctly documented, recorded, and auditable?
- Are operations consistent with written policies and procedures?



# Questions that verify status of sufficient internal controls (continued)

Do the grantee's internal control procedures support its ability to prepare financial statements that conform with generally accepted accounting procedures, principles and regulatory requirements?

# Why is an Internal Auditor important to successful grant administration?

- Ensures grantee is in compliance with:
  - Applicable Federal regulations
  - Federal Register guidance
- Helps to avoid findings and concerns from OIG audit
- Avoids findings and concerns from HUD monitoring visit
- Ensures accuracy of information
- Ensures effective grant management

# What is an Internal Audit?

- An independent, objective assurance and consulting activity
- Designed to add value and improve an organization's operations
- Must be provided in Grantee's Certification of proficient controls, processes and procedures
- Points out the best and most disciplined approach to:
  - Improved risk management
  - Better regulatory compliance
  - Enhanced management control
  - Top quality governance processes

# What is a typical audit scope?

- Program policies and procedures
- Financial internal controls
- Eligibility of costs and procurement methods
- Evaluation of adequacy of internal controls in place to mitigate risks
- Evaluation of allow allowability of transactions
- Consistency of practice with published policies and procedures

# Applicability of Internal Audit functions to Subrecipient oversight

- Same policies and practices that are used by Internal Auditor can be used by Grantee in Subrecipient oversight
- Monitoring plan can be developed based on these principles and risk assessments

# Questions?

