



**How to Deal in the Compliance World**  
**(Using the Concepts of Accountability and**  
**Transparency To Promote An Effective**  
**Environment of Compliance with Governing**  
**Laws and Regulations and Provisions of**  
**Contracts and Grants)**

**Presented by John Sanderlin**  
**City Auditor, City of Norfolk**  
**July 13, 2009**



# Agenda

- Overview
  - The World of Compliance - What Subrecipients Need to Know to Meet Compliance Requirements from an Auditor's Perspective
- Accountability and Transparency in the Pop Culture
  - The Public Accountability and Transparency Shift
  - You, Accountability and Transparency
- Embracing the Concept of Accountability and Transparency
  - Mr. and Mrs. Bad Syndrome
  - Mr. and Mrs. Scared Syndrome
  - Accountability and Transparency as Your Partners
- The Road To Avoiding The Scared and Bad Syndromes Through Accountability and Transparency As the Focus
  - Beating the “Mr. and Mrs. Bad “ and “Mr. and Mrs. Scared” Syndrome
  - Indicators that You are on the Wrong Road/Signs of Trouble
- Summary
- Questions and Answers

# Accountability and Transparency in the Pop Culture

## The Public Accountability and Transparency



- The environment for which government and business operate has changed with a push for more accountability and more oversight. A political shift and global expectation.
- Public Scrutiny - “Public all up in your business”
  - Focus on Public Accountability and Transparency (shift/move from a telescopic to microscopic view – moving from the mountain top to valley approach)

# You, Accountability and Transparency

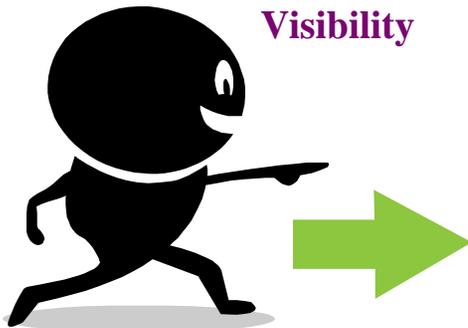
**What does this  
(accountability  
and transparency)  
got to do with me?**

**Well, you may already know the answer---**You are accountable to the public for public dollars.

**\*Taxpayers are stakeholders in your programs and services**

(the transferring of tax dollars to support public services for programs the government chooses not to do itself/a spread of taxpayers dollars to achieve some public objective or policy/extension of the government/American public dollars being used on American public needs.

**Answerability  
Responsibility  
Liability  
Visibility**



# You, Accountability and Transparency



- As public scrutiny becomes the norm and expectation, organizations must take a more inward look to ensure they can meet what the public demands for accountability and transparency. (Measuring up against established expectations as a minimum).

# Embracing Accountability and Transparency

Mr. and Mrs.  
BAD Syndrome



- Mr. Bad - Accountability and transparency, I don't care about any of that accountability stuff and transparency, what is that?, just another fancy title for something or another that has no practicality or significance or relevancy.
- Mrs. Bad – That's right. I am out trying to do real things that affect ordinary real people. I will spend the money the way I see fit. I don't care about anything or anybody that stands in the way of what I want to do to help the common man.





## Mr. and Mrs. BAD Syndrome



- Mr. Bad - Let the government show up, send their monitors, auditors and any other “tors”. My books are open, but there will be nothing in them and nothing outside of them.
- Mrs. Bad – That’s right, we’re bad - Supporting documentation -- that’s nothing but a bunch of red tape along with all those nonsense progress reports – quarterly something or another they call them. Again, I am out here dealing with the every day struggles of people and don’t have time for dealing with regulations, accounting stuff, and a bunch of rules by people who are out of touch.





## Mr. and Mrs. BAD Syndrome

- Mr. Bad – I sent in a proposal, they liked it, they gave me money and I spent it – that’s how I see it.
- Mrs. Bad - Now, how is that for accountability and transparency?! Now lets just get back to helping people and forget all that hogwash. I’m bad.
- Mr. Bad – I know I’m bad





## Mr. and Mrs. SCARED Syndrome



- Mr. Scared – All this accountability and transparency stuff is too much for me. I don't grasp it or understand it. It's so mysterious and causes me anxiety and I'm having a panic attack even now- all this talking about it.
- Mrs. Scared – Yeah, it all petrifies and makes me so nervous that the bottom of my stomach feels like it is about to drop. We're trying to do good for the community and fill the void we see, but to get this money from the City of Norfolk with so many strings attached is just too much with so much uncertainty.
- Mr. Scared – I know, it's scary to think what would happen if we don't follow all the rules and regulation and do all they ask.





## Mr. and Mrs. SCARED Syndrome



- Mr. Scared –They could ask for the money back, set back all the good we've done, even put us in jail. It'll be like a detective story with a bunch of suspense scenes with detectives eyeing us and treating us like criminals.
- Mrs. Scared - Yeah, I'm worried about auditors and monitors and inspectors all showing up then hauling us off to prison with cameras all around.
- Mr. Scared – It all freaks me out and makes me so anxious and afraid



# You, Accountability and Transparency

Accountability

You

Transparency



Connecting the dots of

You, Accountability, and Transparency

Accountability

You

Transparency

# The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency As the Focus

## How to beat (beating) the “Mr. and Mrs. Bad” and “Mr. and Mrs. Scared” Syndromes



- Having an accounting system for accumulating costs for each Government grant or contract
- Having an accounting system that is adequate for billing costs on Government grants or contracts
- Having an accounting system that is controlled by the general ledger
- Recognizing and allowing government representatives to have access to (1) financial statements, including general ledger, trial balances, tax returns, bank statements, etc., (2) loan agreements and evidence showing compliance with these agreements, (3) rental agreements, (4) Board of Directors' minutes, and (4) employee payroll tax returns (Federal).





## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency As the Focus

- Having accounting system to segregate direct costs from indirect costs (The cost accounting system must identify what costs are considered direct, and what costs are considered indirect. Once these criteria are defined, they must be consistently applied.)
- Identifying and accumulating of direct costs by contract/grant (commonly referred to as a job order cost accounting system).
- Having a logical and consistent method for the allocation of indirect costs
- Accumulating costs under general ledger control. (the job order cost accounting system should reconcile with the general ledger)
- Having a timekeeping system that identifies employees' labor by contract or grant (the ability to track employees' time spent on each work activity.)





## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency As the Focus

- Having a labor distribution system that charges direct and indirect labor to the appropriate contract or grant or indirectly allocated. (Once an employee's time is segregated, the costs must be allocated to the appropriate cost contract, grant or indirect allocation.
- Having interim (at least monthly) determination of costs charged to a grant or contract through routine posting to books of account. Accounting system should be able to produce at least monthly appropriate reports that show the results of charges to contracts/grants/projects.
- Excluding from costs charged to Government contracts or grants that are not allowable pursuant to Contract Cost Principles and Procedures, or other contract provisions such as A-122 (costs that are expressly unallowable -- e.g., bad debts; contributions or donations; entertainment; and fines and penalties -- must be excluded from billings).

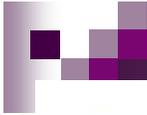




## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

- Identifying expressly unallowable costs and segregates them in the books and records (or on some alternate acceptable informal basis that readily reconciles with the books and records). While these costs may be legitimate business expenses, they will not be accepted by the U.S. Government as allowable costs.
- Having documented policies and procedures
- Adhering to budgets established within your contract
- Assessing whether expenditures pass public scrutiny test (reasonable)
- Maintaining supporting documentation
- Adequately documenting accomplishment of goals and objectives
- Having adequate Internal Control Structure (COSO Model)





## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency As the Focus

- Correcting previously noted/reported deficiencies
- Reading and knowing grant agreement terms
- Monitoring key contract requirements as control points to monitor
- Being familiar with applicable regulations
- Being familiar with program compliance requirements
- Maintaining adequate, complete, updated program files of participants and determination of their eligibility
- Providing reasonable assurance grant awards are expended only for allowable activities and that the costs of goods and services charged to awards are allowable and in accordance with the applicable cost principles and award terms and conditions.





## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

- **Knowing the Types of Compliance Requirements**
  - Allowable Costs/Cost Principles
  - Eligibility
  - Equipment and Real Property Management
  - Program Income
  - Procurement and Suspension and Debarment
  - Subrecipient Monitoring
  - Reporting
  - Special Tests & Provisions





## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

Types of Major Program Compliance Requirements (OMB-A-133)	Compliance Requirement is Applicable (Y or N/A)	
<b>A.</b> Activities Allowed or Unallowed	<b>Y</b>	Specific activities that are allowed or not allowed for a program
<b>B.</b> Allowable Costs/Cost Principles	<b>Y</b>	A-122; A-121 Costs of goods and services are allowable and in accordance with applicable cost principles and award terms and conditions
<b>C.</b> Cash Management		
<b>D.</b> Davis-Bacon Act		



## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

Compliance Requirements (OMB-A-133)	Compliance Requirement is Applicable (Y or N/A)	
<b>E.</b> Eligibility	<b>Y</b>	Must comply with the program requirements specifying the criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify
<b>F.</b> Equipment and Real Property Management	<b>Y</b>	Records are maintained for equipment acquired with grant funds, equipments is adequately safeguarded and maintained, disposition is in accord with federal requirements and awarding agency and adequately compensated for its share of any property sold or converted to non-federal use.

## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

Compliance Requirements (OMB-A-133)	Compliance Requirement is Applicable (Y or N/A)	
<b>G.</b> Matching, Level of Effort, Earmarking (Level of Effort and Earmarking are not applicable to the R&D cluster of programs).		
<b>H.</b> Period of Availability of Federal Funds	<b>Y</b>	Expenses of the program occurred within the period of the award and payment was made within the award period
<b>I.</b> Procurement and Suspension and Debarment	<b>Y</b>	Use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110 and that of the City.

## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

Compliance Requirements (OMB-A-133)	Compliance Requirement is Applicable (Y or N/A)	
<b>J.</b> Program Income	<b>Y</b>	Gross income received that is directly generated by the federally funded project during the grant period is correctly earned, recorded, and used in accord with program requirements (unrecorded or miscoded)
<b>K.</b> Real Property Acquisition and Relocation Assistance		

## Cont'd..... The Road to Avoiding the SCARED and BAD Syndrome Through Accountability and Transparency

Compliance Requirements (OMB-A-133)	Compliance Requirement is Applicable (Y or N/A)	
<b>L.</b> Reporting – Financial/Performance	<b>Y</b>	Reports include all activity of the reporting period, are supported by underlying accounting or performance records, and fairly presented in accordance with program requirements
<b>M.</b> Subrecipient Monitoring		
<b>N.</b> Special Tests and Provisions		



# Signs of Trouble

- Supporting documents missing or unavailable for review.
- Only copies of documents available for review.
- Slow in paying suppliers or nonpayments to suppliers, employees, etc.
- Billing costs that were not incurred on the contract.
- Expressly unallowable costs as specified in cost principles

(mutually agreed to unallowable costs, including directly associated costs. The mutual agreement must be in writing, and specify, in detail, what costs are to be unallowable in the future and have occurred prior to the submission.)



## Cont'd..... Signs of Trouble

- No formal signed agreements or contracts; however, large sums paid for "services rendered" based on invoices with few specifics.
- Lack of detailed invoices, trip reports or studies to justify expenses.
- Services paid for were used to improperly obtain, distribute or use information or data protected by law or regulation.
- Services paid for were obtained or performed in some way that violated a statute or regulation prohibiting improper business practices or conflict of interest.
- Services paid for violated a Federal, state or local statute or regulation.



## Cont'd..... Signs of Trouble

- Poor internal controls over key functional areas, such as purchasing, receiving and storing.
- Lack of separation of duties between purchasing and receiving.
- Lack of separation of duties in the purchasing and accounting department. Buyers should be rotated to prevent familiarity with specific vendors.
- None or few policies on ethical business practices.
- Poor enforcement of existing policies on conflicts of interest or acceptance of gratuities.
- Purchasing/Accounting employees maintaining a standard of living obviously exceeding their income.
- A one-time payment for services or materials usually bought from another vendor(s). The kickback recipient could be using the company to obtain his payoff.



# Cont'd.... Signs of Trouble

- Original documentation consistently unavailable for review.
- Consistently poor, illegible copies of supporting documentation.
- Different supporting documents provided for the same item with unit prices varying widely for the same part, for no obvious reason.
- Changes to the original documentation that do not appear to be authentic, such as different print or incorrect spacing.
- Information on the original document does not match information obtained from third party sources, such as confirmation letters to vendors/subcontractors or assist audits.



## Cont'd..... Signs of Trouble

- Significant differences between proposed and actual unit costs or quantities with no corresponding changes in work scope or job requirements.
- Specific individuals proposed as "key employees" not working on the contract.
- Employees' skills do not match the skill requirements as specified for their labor category or the contract requirements.
- Employees typically charged indirect by the company being charged direct to the contract.
- Partner, officer', supervisors and other high level employee time being charged in noncompliance with the contract terms or with the company's established accounting policies and procedures.



# **Cont'd..... Signs of Trouble**

## **Management Characteristics and Influence over the Control Environment**

Ineffective or no communication of company values

History of fraud

Failure to correct previously reported conditions

Inadequate monitoring of significant controls

Ineffective accounting staff

Domination by one person or a small group

A significant portion of compensation / bonus based on profits

High turnover of key people

Excessive management participation in accounting matters

# Cont'd..... Signs of Trouble

Weak financial condition

Inadequate internal controls

Inadequate accounting system / records

Inadequate time keeping system

No internal/external audits

Significant related party transactions

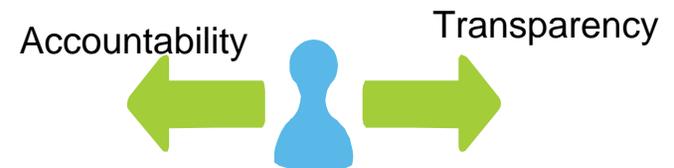
Overly complex organizational structure



# Summary

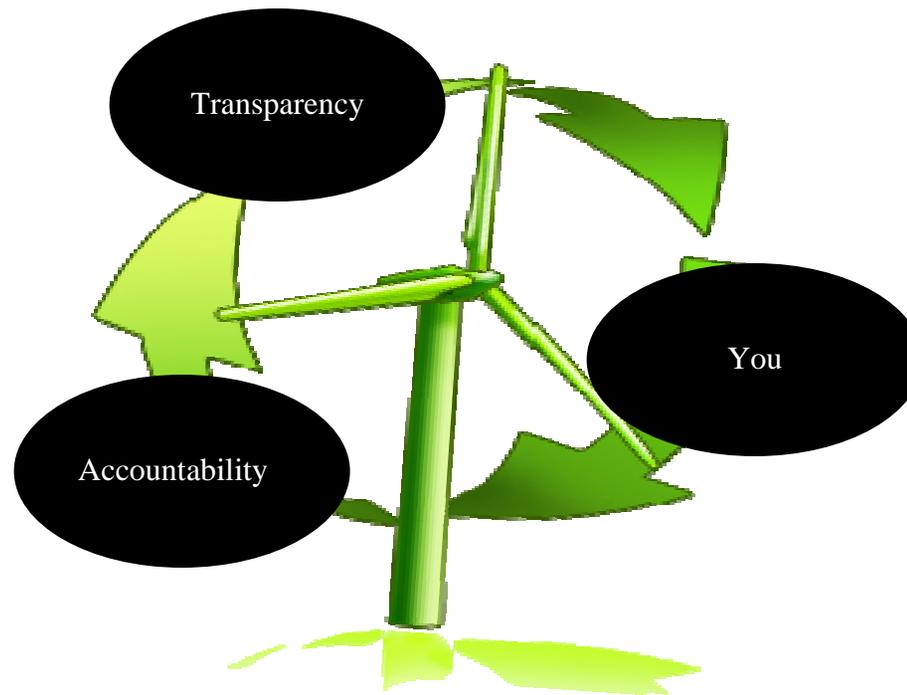
- Let the concepts of accountability and transparency guide you
- Transform your attitude in implementing government programs and carrying out activities under government programs

## Rocking , Moving, and Swaying with Accountability and Transparency



# Summary

## Rocking , Moving, and Swaying with Accountability and Transparency





# The End We Got This!





# Questions and Answers

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# Contact Information

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