



STATE OF VERMONT

DEPARTMENT OF PUBLIC SAFETY

GRANTING PLAN PART 3

FINANCIAL MONITORING

Effective Date July 1, 2016

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Chapter One:

Introduction

This plan serves as the general guidance for the Audit Division of the Department of Public Safety (DPS) for financial monitoring recipients of grant funds. DPS issues subawards through: 1) state funds and 2) passing through other funds to subrecipients. In this guide the term recipient and subrecipient is used for both a state fund grantee and a pass-through subrecipient. The monitoring process is the same regardless of funding source and additional checks are administered to ensure compliance with the terms of each grant agreement and funding source.

Source of Governing Requirements

The subrecipient monitoring regulations governing Public Safety financial monitoring include; Agency of Administration (AoA) Bulletin 5 “Policy For Grant Issuance and Monitoring”, 31 USC 7502(f)(2)(B) “Single Audit Act” of 1996 (Pub. L. No. 104-156), 2 CFR 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (referred to as Uniform Guide throughout this document), program legislation, federal awarding agency regulations, and the terms and conditions of awards.

Subrecipient monitoring activities will vary in scope. The auditor is expected to make conclusions based on reasonable (not absolute) assurance that program compliance has occurred. In consideration of the department resources and to produce reasonable assurance of program compliance; a sample will be the basis of findings. This financial monitoring program incorporates varying procedures relative to: the size of the grant award, type of organization, complexity of compliance requirements, subrecipient’s prior experience with DPS grants and prior monitoring results.

The auditor will report issues of non-compliance to management in a timely manner. Financial monitoring documentation must clearly demonstrate the monitoring work done, the findings, corrective actions recommended, and the response from the subrecipient(s). Subrecipient financial monitoring is an internal function of the Department of Public Safety and the financial monitoring reports are issued for the use of DPS management. The DPS auditor will utilize processes outlined in this guide.

Public Safety subrecipients include other state departments/agencies, political subdivisions, city, town, village, county, and other regional government units, non-profit organizations, and others who receive grants and cooperative agreements through the Department of Public Safety.

Auditor’s Technical Knowledge

The Public Safety staff assigned to perform financial monitoring must possess adequate professional competence for the tasks required. Competence is derived from a combination of education and experience. Maintaining competence through a commitment to learning and development is an important element for auditors. Competence enables an auditor to make sound professional judgments.

Auditors performing financial monitoring should be knowledgeable in U.S. Generally Accepted Accounting Principles (GAAP), or the applicable financial reporting framework being used. They should be knowledgeable in the American Institute of Certified Public Accountants’ (AICPA) generally accepted auditing standards and the corresponding Statements on Auditing Standards (SAS). They should be knowledgeable of the Governmental Auditing

Standards *i.e.* *Governmental Accountability Office (GAO) Yellow Book*. They should apply the standards set in this guide. They should be competent in applying these standards.

State of Vermont VISION Grant Tracking Module

In order to monitor subrecipient's Single Audit compliance; Public Safety utilizes the State of Vermont (SOV) VISION Grant tracking module. This is a state-wide required tool to ensure all SOV subrecipients submit a Single Audit to all agencies and departments in the state that issued an award to that organization. VISION Grant tracking module ensures the subrecipient's Single Audit Report is monitored and a management decision letter (MDL) is issued in accordance with Uniform Guidance Subpart F.

Grant Tracking Module Process

Financial Administrators issue subrecipient agreements through a process of solicitation, application, review, and award issuance. For more details on subaward issuance, refer to the Granting Plan Part 2 & 4. After grant agreements are fully executed, financial administrators enter the information in the VISION Subrecipient Grant Tracking Module.

Subrecipients will be instructed in their subrecipient agreement to submit the State of Vermont Subrecipient Annual Report (SAR) within 45 days after their year-end. The Department of Finance and Management (F&M) mails reminders of this requirement to the subrecipient.

The SAR must be mailed to:

Department of Finance & Management
Financial Operations Division
109 State Street – 3rd Floor
Montpelier, VT 05609-5901

The Department of F&M enters information from the SAR report into VISION subrecipient module. If the SAR report is not received, the VISION system shows the subrecipient as delinquent.

F&M determines the state agency that is the primary pass-through for each subrecipient. When Public Safety is designated as the state's primary pass-through for a subrecipient, the audit unit is responsible for ensuring the SAR reports are sent in to F&M. If the SAR is delinquent in VISION, the DPS audit unit adds the subrecipient to the Public Safety's Restricted Parties List.

In addition to ensure the SAR is timely submitted, the audit unit is responsible for reviewing Single Audit Reports. Single Audit Reports are reviewed utilizing a Single Audit review checklist. The audit unit will follow the process outlined in F&M Bulletin No. 5; requiring coordination with other state agencies for the resolution of audit findings and issuing the state's Management Decision Letter (MDL) within 6 months after receiving a Single Audit Report. The Single Audit review process is documented by the DPS auditor in VISION Subrecipient Grant Tracking Module.

Financial Monitoring

The purpose of a *financial monitor* is to examine subrecipient internal controls and financial management systems to ensure subgrantees are in compliance with federal and state regulations. The terms review or monitoring are used interchangeably in this document to refer to DPS financial monitoring. *Program monitoring* is the responsibility of the department program workcenters as it relates to the functional aspects of the program. The goal of financial monitoring is to ensure DPS awards were in fact used for appropriate allowable purposes consistent with grant requirements, the financial reporting are prepared in accordance with applicable regulation(s), and adequate internal controls are in place.

Financial monitoring will be conducted independently from program monitoring. However, whenever possible, it is suggested that a joint review is conducted for a more cost effective method of monitoring. This would limit the amount of inconvenience to the subrecipient and save on transportation expense for the department. Each monitoring review would be conducted independently at the monitoring site.

Financial Monitoring Mission:

The Financial Monitoring objectives are to:

- *Determine the accuracy and allowability of financial transactions*
- *Evaluate financial and operational procedures for adequacy of internal controls and provide advice and guidance on control aspects of new policies, systems, processes, and procedures*
- *Determine the level of compliance with department, state, and federal laws and regulations*
- *Evaluate the accuracy and allowability of the entity's cost allocation plans*
- *Document and report fraud, waste, and abuse*

Financial Monitoring Procedures:

The steps in Public Safety financial monitoring procedure are stated below:

- I. Sample Selection - Determining the Type and Extent of the Review*
- II. Planning and Reviewing Submitted Reports*
- III. Conducting the Review*
- IV. Preparing Workpapers*
- V. Financial Monitor Report*
- VI. Resolution*

I. Sample Selection:

The sample selection process is based on priorities defined by the Vermont Agency of Administration (AoA) through Bulletin 5, related AoA guidance, policies and procedures, federal regulations and grant guidelines.

The Public Safety audit unit will develop a **financial monitoring plan** (to be discussed later in this guide) every six months. DPS will select a minimum of 25 subrecipients to audit each year and make priorities based on this criteria.

1. Single Audit Recipients

- a. The auditor should obtain and review Single Audits for all current subrecipients. Subrecipients who expend \$500,000 or \$750,000 or more of federal funds per fiscal year, in accordance with the Circular A-133 or the*

Uniform Guide (depending on the report date of the audit entity), will be identified by the VISION system as requiring a Single Audit. The Vermont Department of Finance and Management (F&M) in accordance with AoA Bulletin 5; will assign a primary state agency which will be responsible for reviewing and distributing the subrecipient's Single Audit report as well as entering any findings or grant considerations about the subrecipient into the Subrecipient Tracking System. The primary is also responsible for coordinating a management decision on behalf of all state agencies and departments who have awards listed on the Schedule of Expenditures of Federal Awards (SEFA).

- b. **Grant awards** to Single Audit recipients may require additional monitoring specific to the individual grant requirements not covered by the broader Single Audit. The DPS monitoring of these subrecipients will entail a review of only grant funds that are passed through the Department of Public Safety.*

2. Mandatory Monitoring *Subrecipients that must be monitored by DPS due to:*

- a. SOV issued requirement.*
- b. Mandatory as determined by a Federal Agency.*
- c. Mandatory as determined by DPS Management.*
- d. Mandatory as a result of evidence of potential fraud waste or abuse has come to the attention of the audit unit.*

3. High-Risk: history or current development

- a. In any instance where the Financial Office notes irregularities in financial reports, reporting errors on a recurring basis or late reporting on a repetitive basis regardless of the amount of the grant award, the audit unit may be asked to schedule monitoring visits.*

4. Amount of subrecipient agreement

- a. Subrecipients who expend greater than \$500,000 or \$750,000 (circular A-133 or 2 CFR 200) in federal funds must receive a Single Audit, if DPS is the state's primary pass-through we may select this subrecipient for monitoring.*
- b. Subrecipients who expend DPS awards between \$300,000 and \$750,000 per fiscal year will have a higher likelihood of a financial monitoring.*
- c. Subrecipients who expend less than \$500,000, if chosen, the review measures pursued will assimilate the review measures for a subrecipient expending between \$300,000 and \$750,000 for the same grant program.*

5. Region: *The financial monitoring schedule will sample small awards based on a region in order to efficiently travel and be cost effective in scheduled visits.*

Financial Monitoring Plan:

The financial monitoring plan is a course of action to accomplish the financial monitoring objectives. In its final form, the plan establishes the frequency and total number of reviews to be conducted over a six month period. The Auditor(s) and their supervisor shall prepare the plan on at least a biannual basis. Various subgrantees will be screened for the sample selection, and when selected, entered into the financial monitoring plan. The plan should be an active on-going process to be reviewed frequently. Considerations for change are staffing, budgeting time, travel and training, mandates and any other factors that will cause the plan not to succeed. All changes and modifications are to be documented as to the causes. This will serve solely as an aide for future plan development and monitoring. With respect to financial monitoring of subrecipients, the selection of 25 subrecipients each year is the overall objective.

The plan is supported by program control lists.

Program Control Lists:

1. **VISION Expenditure Query:** *The Auditor will perform a query from the VISION system to determine subrecipient payments with account code beginning with 55NNN and a query for awards entered into the VISION grant tracking module. This list will serve as the tool to identify the amount of funds granted to DPS recipients. This list is to be utilized as the starting point for financial monitoring selection.*

The VISION Expenditure Query will identify:

- Fund source (federal or state)
- Project number
- Program number
- Payment date
- Payment amount
- Payee (subrecipient)

2. **VISION Single Audit Query:** *The Auditor will perform a query from VISION to determine subrecipients with a Single Audit requirement. When a Single Audit is required the subrecipient has 9 months from their fiscal year end to complete the audit. The auditor must contact the subrecipient and request a copy of the Single Audit report if it is on file. In addition, the auditor should utilize the Harvester feature on the U.S. Census webpage to determine when Single Audit reports are complete (<http://harvester.census.gov/sac/dissemin/asp/incompleteEntity.asp?submit=Return+to+Status+Entity+Search>).*
3. **Previous Financial Monitoring File:** *Files are maintained from previous Public Safety prepared financial monitoring reports. These reports provide some of the most significant evidence to influence the selection process. Contained in the financial monitoring file should be the auditor's workpapers that are the basis for conclusions of the engagement.*
4. **Other considerations:** *Through communication with financial administrators and DPS management, the auditor will identify subrecipients who: have a mandatory monitoring requirement and have a history high risk behavior.*

Method of Financial Monitoring:

The method for each engagement is determined by the below guidelines.

1. **Telephone review:** *Telephone interviews are the least costly and time consuming engagement. This is the most limited method of monitoring and would be used to inspect an issue that may not be clear in a document submitted by the subrecipient.*
 - a. *The auditor initiates the phone call indicating this is a financial monitor of a DPS award telephone review and that the interview will need to be with the responsible official or appointed designee. The auditor discusses the issue(s) of concern and documents the interview. In some instances the subrecipient may not have the data readily available and a follow-up phone call is necessary. In that case the date and time for follow-up should be established.*
 - b. *The auditor creates an financial monitoring letter and forwards it to the subrecipient in a timely manner indicating that the review was conducted by telephone and is limited in scope. The report will address the issues discussed and corrective actions that need to occur (if any).*

2. *Desk or office review: This is a less costly and time consuming than a site visit yet still satisfies financial monitoring requirements. This method is mainly a document review process and can be used for subrecipients that had little or no issues in past department financial monitoring.*
 - a. *The auditor initiates the contact after the pre-monitor planning. The contact should be by telephone indicating a desk financial monitor will be conducted and indicates the items in question. An appointment letter is forwarded to the subrecipient confirming the financial monitor and states the item(s) in question. The auditor will forward the DPS Financial Monitor Questionnaire to be completed and signed by the responsible agent of the subrecipient. Any additional request for documentation should be specific, e.g. submit copies of the original invoices for expenditures over a specific amount, etc.*
 - b. *Upon completion of the review, the financial monitoring letter is forwarded to the subrecipient in a timely manner indicating that the financial monitor was limited to a desk review. The report will address the issues discussed and corrective actions that need to occur (if any).*
3. *Onsite or Field review: The site review offers the most comprehensive method of subrecipient financial monitoring. Though this type of review is more costly, it is mandatory under the Uniform Guide. Most importantly, site visits are an effective tool for monitoring that allows the auditor greater flexibility to expand or change the scope of the review where needed.*
 - a. *The auditor initiates contact after the pre-monitoring planning. The contact should be by telephone indicating an onsite financial monitoring will be conducted and indicates the subawards in question. An appointment letter is sent to the subrecipient confirming the financial monitor and stating the awards to be reviewed. Request for documentation is standard and the subrecipient should be following the grant agreement requirement for making documentation available for review.*
 - b. *Upon completion of the review, the financial monitor letter is forwarded to the subrecipient in a timely manner indicating that the financial monitor was a site visit. The report will address the areas reviewed and corrective actions that need to occur (if any).*

II. Planning and Preparing Workpapers:

Risk Assessment

After determining a financial monitoring schedule the next step of preparing for an engagement is to perform a risk analysis of the subrecipient. The audit unit utilizes the DPS Risk Assessment Tool, found in the DPS Granting Plan Part 2. The Auditor should pull the files for the previous engagements and review the workpapers and financial monitor letter. The auditor should check in VISION Vermont Grant Tracking module for notes from Finance and Management as well as other auditors in regards to monitoring issues. The auditor also needs to search the federal audit database to see what has been reported in the last submitted Single Audit at the Federal Audit Clearing House. <https://harvester.census.gov/facweb/>.

Sample

From the risk assessment tool the auditor is able to determine what programs to sample during the review. Vision Queries should be run detailing all subawards (Account Code beginning with 55) to the subrecipient within the past

three years. The auditor will select the awards for review based on the risk assessment results and the availability of awards granted to the subrecipient within the last three years.

Determine Grant Compliance Requirements

The auditor should research the grants in question by determining the applicable federal compliance requirements for each CFDA, as well as any requirements specific to each grant. This research will generate a list of items for verification or examination. The items in question should be set up in workpapers and will assist in the plan for the review.

1. **Grant Agreement** - *The auditor should review the subrecipient agreement and determine problem areas and incorporate them in the items for review.*
2. **Research** - *Upon completion of the grant agreement review, it may be necessary to research sources that will inform, educate or support the areas in question. Typical sources are the federal regulations, federal award manuals, state statute, the Uniform Guidance and communication with federal grant administrators. The auditor should be familiar with the Uniform Guide concerning terminology, definitions and procedures as it relates to the subrecipient.*

PRE-MONITORING ANALYSIS:

One of the most important steps in a quality examination is the *pre-monitoring analysis* of the subrecipient's award and a determination of which items should be questioned. The Auditor should review all payment documentation and make notations for each item such as OMB citations and why there is a concern. Use of a spreadsheet for determining questioned expenses is recommended. This will ensure uniformity in the development of the workpaper and will develop a standard format for audits of a similar nature.

One step that should be taken at this point is a general search for possible *conflict of interest* transactions. Those who are in a position to make purchase and contracting decisions should not have a conflict of interest to the recipient of funds. An example of this research is utilizing the State of Vermont Secretary of State Corporate Database to see if members of the board for non-profit organizations are also in management positions in another organization that is benefiting from grant funds (i.e. related party transaction).

The following are **examples** demonstrate methodologies for development of the Pre-Audit analysis:

1. *From the review of financial statements check the following:*
 - a. Program income and expenses are reviewed in respect to the Uniform Guidance. As an analytical tool, it may be necessary to prepare a year-by-year comparison in a computer spreadsheet of expenditures to determine trends.
 - b. Note and be prepared to examine prepaid or accrued items. Generally, grant programs are written to avoid deferred items. Areas where deferrals can arise are bonding cost, payroll, fringe benefits and contingencies. A timing issue may occur when the expenditure may not be allowable in the current period, but is allowable in the next consecutive period.
2. *From the review of a request for reimbursement:*

- a. *Look for unallowable costs under Uniform Guidance, the grant agreement (budget and items as specified in attachment D), and the grant guidelines.*
- b. *Look for potential reoccurring items, potentially unallowable items under the subrecipient's policies (i.e. per diems), weakness in documentation, internal control weaknesses, and duplication of costs.*

CONTACT: Schedule the Review:

At the conclusion of the pre-monitoring analysis, the next step is to contact the subrecipient and schedule an appointment. Contact is accomplished either by telephone or e-mail and followed up by an appointment letter. The auditor should document all contact in their workpapers.

Auditors should arrange to make appointments at a time that will meet the convenience of the subrecipient and the department (normally within 1 to 4 weeks). In arranging for a convenient time to start the review, it is advisable to contact the subrecipient's contact person. The contact person's name, telephone number and mailing address will be obtained from the subrecipient agreement. For municipalities, the treasurer/clerk contact information is available through the Vermont Secretary of State's webpage.

Telephone contact - The telephone contact is the most expedient method to start the review process. It is necessary for the auditor to contact the responsible person/official. The auditor will identify him or herself as being from the Department of Public Safety and state the purpose of the call. During the initial call the auditor should indicate:

- *Type of review.*
- Name of the grant and grant number to be reviewed.
- An appointment date and time.
- Projected time length of the review. (i.e. 4 hours, one day, or a specific number of days)
- Preliminary review...appropriate items from check list.
- A list of items in question that may be discussed and will be forwarded in the appointment/confirmation letter.
- The auditor will solicit any questions the subrecipient may have regarding the review process.
- Verify the address as many organizations have multiple addresses.
- For field reviews, indicate adequate workspace will be needed, and a desk with access to a phone and electrical outlet.

Conclude the contact by stating that a confirmation letter will be sent confirming the time and date of the review and including the list of items in question. The subrecipient should be instructed that if any problems arise to contact the auditor.

Scheduling Issues: Scheduling the monitoring appointment tends to be a difficult task. The department auditor is to maintain control in setting the appointment but this is not meant to force undue hardship on the subrecipient. There should be some lead time for the subrecipient to get ready for a monitoring visit.

Below are some factors that will affect the timing of appointments:

Case workload - This is the number of subrecipients under review (work in process/open cases) and the listing of subrecipients with appointments that have been scheduled for review.

Case time - The question will always be asked, how long will it take to conduct the review and prepare the monitor report? There is no magic answer and the auditor should always be prudent in projecting the case time.

Obstacles or delays - Obstacles and delays are going to happen. Major problems are circumstances where the auditor is unable to control the appointment schedule. In that case, the auditor will then involve his/her manager to resolve the difficulty. It is expected that the auditor will control minor setbacks and delays. It may not be prudent, for example, to schedule appointments immediately after the subrecipient's fiscal year-end. The books are being closed and financial personnel are generally very busy with those procedures.

Acceptable delays include:

- Illness
- Staffing shortages
- Vacations
- Fiscal closing
- Audit
- Other Emergencies
- Natural Disasters
- Records destroyed

Appointment/Confirmation Letter: Preferably on the same day of the phone call, the confirmation letter should be sent to the subrecipient. Copies should be sent to DPS financial administrators. The purpose of the confirmation letter is to avoid any misunderstandings between parties. The letter should establish the date and time of the review. The contents of the letter are a reiteration of the telephone conversation and any necessary attachments. The letter should be on department letterhead.

III. CONDUCTING THE REVIEW

The Site-Visit:

Be mindful to leave early enough that you arrive on time. The auditor should call ahead if they anticipate arriving 15 minutes or later than the scheduled time.

Upon arrival the auditor should introduce themselves and hand the attendees their business card to properly identify themselves. Record those present for the site visit.

Explain the steps you will be taking as applicable:

1. *Going through a questionnaire to find out about the organization's history and structure. As well as getting familiar with the organizations financial system and policies and procedures.*
2. *Will be requesting a copy of relevant policies and procedures for compliance with the grant terms.*
3. *Will be requesting financial statements (if not already received)*
4. *Will be requesting other relevant documents.*
5. *Will be reviewing their grant files.*

6. *Will be reviewing bank statements and timesheets.*
7. *Will discuss all questioned costs.*
8. *Will conduct an exit interview before the auditor leaves to inform subrecipients of issues found and, when and what to expect in the audit letter. Inform the subrecipient they must respond to audit letters within the specified time or they will be added to the DPS Restricted Parties List and will be ineligible to receive payments or awards while on this list. They may contact the auditor if they have any questions to resolve the review findings.*

INTERVIEW:

Experienced auditors consider the interview the most important element of the review, mainly because it sets the tone of the review. The auditor should maintain control of the interview by being courteous, a good listener, flexible, reasonable and knowledgeable. The interview should be informal, but professional.

The interview should open with an overview of the review process (as described earlier). The auditor will inform the subrecipient that this review is to gather information and documentation to ensure compliance with regulations. During the exit interview all questioned items will be discussed and this information will later be included in the financial monitoring letter. The financial monitoring letter will specify a date that management (subrecipient) is to respond to questioned costs, if management needs more time they should respond within the time period indicated in the financial monitoring letter and request a specific date when findings should be concluded. The management response should be in writing and it should indicate the reasoning behind issues in question. If both parties agree on the existence of disallowed findings, repayment procedures will be discussed.

Finally, it is proper to take notes during the interview. These notes are part of the review workpapers. Remember, these notes are important and may be referenced from time to time.

General Fieldwork is the process of gathering information then analyzing and evaluating that information. The financial monitoring objectives and procedures should be performed so that the most important and significant review steps are completed first. The review process and opinions are summarized in the workpapers.

Fieldwork should be performed at the subrecipient's location to facilitate communication with the subrecipient. The auditor should maintain contact with the responsible official and keep him/her informed of the monitoring observations and other developments throughout the review. With this understanding, the subrecipient may be able to provide additional information or adopt procedures promptly to rectify any deficiencies uncovered.

Throughout the site-visit, professional judgment should be used to:

1. *Determine whether information gathered is sufficient, relevant, and useful to conclude the audit objectives (items of concern/question).*
2. *Reassess the monitoring objectives, scope and procedures to ensure efficient use of monitoring resources.*
3. *If the subrecipient is uncooperative or disruptive it may not be beneficial to continue the site-visit.*
4. *Decide if the objective or scope should be modified*
5. *Note best practices identified*
6. *Decide if additional hours should be allocated to achieve expanded audit objectives*
7. *Request (if not received) copies of financial statements and certificate of insurance*

8. *Test and review costs included in cost allocation plans and other rates that are applied to grant costs*
9. *Review and discuss documents within the grant file including bids and contracts*
10. *Utilize the Financial Monitoring Questionnaire*

In general, all monitoring work performed should be documented. Each review procedure should be supported by workpapers (schedules, memos spreadsheets) on which testing has been performed and results are documented. There should also be an overall conclusion documented on the monitoring procedures for each of the audit steps completed.

Fieldwork includes:

1. *Gaining an understanding of the grant program, the prescribed policies and procedures, supplementing and continuing to build upon the information already obtained in the pre-monitoring analysis*
2. *Observing conditions or operations*
3. *Interviewing people*
4. *Examining the accounting records*
5. *Analyzing data and information*
6. *Reviewing systems of internal control and identifying internal control points*
7. *Evaluating and concluding on the adequacy (effectiveness and efficiency) of internal controls*
8. *Conducting compliance testing*
9. *Conducting substantive testing*
10. *Determining if appropriate action has been taken in regard to significant audit concerns and corrective actions reported in prior financial monitoring reports*

Financial Management Systems and Records:

The grantee (Public Safety) has the right to access all the subrecipient's books, documents, papers and other records pertinent to the grant award 2 CFR Subpart F §200.508(d) and State of Vermont Standard Attachment C. There are other federal and state laws that mandate such access. Most subrecipients are aware of their responsibility to furnish the books and records to the examiner. However, the examiner should use the financial monitoring questionnaire as a reference guide and be prepared to discuss these with the person in charge of accounting.

Before reviewing records, the auditor should go through the audit questionnaire with the person in charge on the accounting system, and determine how the books and records are maintained. If necessary, have the person interviewed walk you through various transactions. This will enable the auditor to understand how the daily routine operates and will assist in the examination process. The auditor should not hesitate to ask the designee to repeat areas that he/she does not understand. Experienced auditors will always ask the "whys" until they are satisfied.

Request a copy of the chart of accounts and compare the accounts to the financial statement. Determine how the general ledger balances flow to the financial statement. A worksheet may be used to modify the balances and is prepared either by the subrecipient or the independent auditor. In either case secure a copy of the worksheet, as it will be required to follow the transformation/reclassification of accounts. Monthly journal records and year-end closing entries prepared by the subrecipient or their independent auditor should be available.

Accounting records may be manual or automated. Generally, small grant programs will be either manual or computer spreadsheet, and larger programs will be automated. Automated records may simplify the financial monitoring review process. A discussion with the subrecipient regarding tailoring a general ledger report that would facilitate the

search for specific data should be conducted. This report should include a listing of vendors by date and amounts by account code.

SCOPE OF REVIEW:

It is recognized that all examinations will vary in scope to some degree. An auditor is expected to pursue the examination to a point where, with reasonable certainty, he/she concludes that all items necessary for a proper determination of compliance have been considered. The auditor is expected to extend the review to include all unusual and uncertain items. In deciding the extent to pursue an issue, the auditor must consider the amount of time necessary to review the issue in relation to the potential end results. Also, the auditor must use sound judgment in deciding at what point an review should be concluded.

Certain areas are not visible during the pre-audit process and unfold as the auditor is progressing in the examination. As a guide, the auditor should be cognizant of:

- Significant items
- Reasonable cost
- Unallowable cost
- Independent Contractors
- Organization polices
- Debarred parties
- DUNS Requirement
- Inadequate records
- Inadequate controls
- Informant or media data
- Supplanting
- Related Party Transactions
- Conflict of Interest
- Improper Documentation
- Fraud (reserve)
- Equal Employee Opportunity Plan (EEO)

Significant items-The definition of significant item by the AICPA Statement of Auditing Standards is whether the item will affect the decision of interested parties. The decision makers in regards to municipalities are the taxpayers who are affected by the activity of the government. The auditor should keep in mind the significance of costs to that particular organization as well as to the Department of Public Safety and to the specific grant program. Below are several factors that must be considered when determining whether an item is significant.

- a. **Comparative size** – a questionable expense item of \$50.00 with total expenses of \$25,000.00 may be significant; however, if the total expenses are \$300,000.00, ordinarily the \$50.00 item would not be significant.
- b. **Absolute size** – despite the comparability factor, size by itself may be significant. For example, a \$25,000.00 item may be significant even though it represents a small percentage of grant expenditures.
- c. **Inherent character of the item** – although the amount of an item may be insignificant, the nature of the item may be significant. For example, entertainment, lobbying, and related party transactions.
- d. **Evidence of intent to mislead** – this may include missing, misleading or incomplete schedules, statements, falsified invoices or incorrectly showing of an item.

Reasonable cost – 2 CFR Subpart E §200.404 defines reasonable cost. If in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Consideration shall be given to:

- *Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the subrecipient.*
- *The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; federal, state and other laws and regulations; and, terms and conditions of the federal award.*
- *Market prices for comparable goods or services.*
- *Whether the individual(s) concerned acted with prudence in the circumstances considering their responsibilities to the government unit, its employees, the public at large and the federal government.*
- *A significant deviation from the established practices of the governmental unit, which may unjustifiably increase the federal award's cost.*

Debarred parties – 2 CFR 200 Subpart C §200.205 and the SOV Bulletin 5, restrict Federal awards, subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal programs or activities. It is the grantee and the subrecipient's responsibility to implement the prohibition. The list of parties that are suspended or debarred is on-line at: www.sam.gov. The auditor should inquire if any vendors paid from grant funds are debarred or suspended. The auditor should advise the subrecipient to establish a procedure to check for suspended or debarred parties to satisfy compliance.

Inadequate records – Subrecipients are required to retain and make available all grant related supporting documents for a period of three years following the end of the grant and for whatever time is required to satisfactorily resolve issues arising from audits and financial reviews. If records are determined to be inadequate, it is a violation of the Uniform Guidance and is an audit finding to be reported. Oversight areas are to be reported in an informative manner so as to educate the subrecipient and that a follow-up is necessary for compliance.

Inadequate records can be described as records that contain no documentation of the transaction prior, during or after and lead to no definitive conclusion.

Supplanting - The concept of supplanting originates in the grant program legislation. The Department of Public Safety has several sources of Federal funds and the citations of supplanting would be from their respective legislative programs and Federal financial guidelines. The rationale of supplanting is that federal funds are to be used to supplement budgets, *not to replace or supplant* award or subrecipient appropriations. In practice, the concept of supplanting is complex to determine and document. It is the responsibility of the subrecipient to document that supplanting has not taken place. Careful consideration must be given to budgeted items which are reimbursed with federal funds and for personnel costs for positions which existed prior to, and will exist after the grant period.

An illustration of supplanting: the subrecipient hires an employee to be funded by an award. The position funded by the grant was previously funded by local funds. In addition the subrecipient had submitted a town budget that allocated local funds for this position. This is supplanting. Prior to filling a position, a subrecipient must document they do not have allocated local funds for the position. If they budget for the position, they should note it is with federal funds. If they make adjustments to the

budget to reallocate the local funds from the position to another cost; this needs to be documented and needs to occur prior to filling the position and funding it with federal funds.

Fraud - The auditor must be prepared to potentially find fraudulent transactions. When examining a questionable transaction, the auditor should use professional judgment in determining if the transaction was a result of negligence, gross negligence, or fraud. Fraud occurs from a willful intent to deceive. Federal regulations also state other transactions such as a conflict of interest as fraudulent. Be aware that inadequate records and supplanting may be signals for deception. If these actions are present, consult with your supervisor.

When the evidence supports that the subrecipient appears to have willfully intended to deceive, it is tantamount to fraud and is to be referred to the Commissioner of Public Safety for review and further action. The subrecipient will provide documentation to the Commissioner of Public Safety and next steps will be determined.

Exit conference - Often referred to as a closing conference, the auditor will arrange a meeting with the subrecipient. The conference may be formal or informal. Generally, formal meetings will include all the participants of the review process and depending on the seriousness of the financial monitoring findings may necessitate a formal meeting. It is acceptable to have an informal meeting involving the auditor and responsible official. The meeting should be formatted to review what has happened during the review process and to ensure that both parties have an understanding.

The auditor will inform the subrecipient of the need for a corrective action plan for significant findings, e.g., internal controls, documented weakness, etc. The auditor will also inform the subrecipient that a financial monitoring report will be prepared and submitted to the subrecipient. Included in the conference, the auditor will discuss the payment procedures for the agreed findings and the appeal process for disputed findings.

IV. PREPARING WORKPAPERS

Workpapers document the review. All workpapers should be maintained in the auditor's file. Workpapers serve both as tools to aid the auditor in performing his/her work, and as written evidence of the work done to support the auditor's report. Information included in workpapers should be sufficient, competent, relevant and useful to provide a sound basis for the financial monitoring findings and recommendations.

Audit workpapers should document the following aspects of the auditing process: (1) planning; (2) the examination and evaluation of the adequacy and effectiveness of the system of internal controls; (3) the information obtained and the conclusions reached; (4) reporting; and (5) follow-up.

Standard 420 of the Standards for Professional Practice of Internal Auditing defines **sufficient, competent, relevant and useful** as follows:

- Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- Competent information is reliable and the best attainable through the use of appropriate audit techniques.

- Relevant information supports audit findings and recommendations and is consistent with the objective for the audit.
- Useful information helps the organization meet its goals.

Quality of Workpapers - Qualities of good workpapers can be summarized as follows:

- Complete – workpapers should be able to “stand alone.” This means that all questions are answered and a logical, well-thought out conclusion can be reached for each review segment.
- Concise – workpapers should be condensed to documentation that serves a useful purpose.
- Neat – information should be organized in a logical and orderly manner. When a review workpaper is completed, it should be integrated with others related to the same subject.

Workpaper economics - During the review process the auditor will be reviewing original documents and will have to make a decision whether to make a copy of the data or not. Documents must be relevant; the auditor will write down in the workpaper the observation of data when a copy is not made. When data is voluminous it is acceptable to copy only the relevant parts of the information to support the observation. The objective of workpapers is to document the conclusions of the review. Avoid duplication; do not maintain multiple copies of the same information.

Financial Monitoring Workpapers may include:

- *Planning documents and review procedures*
- *Questionnaires, checklists and narratives*
- *Result of internal controls evaluation*
- *Notes resulting from interviews*
- *Organizational data and job descriptions*
- *Copies of important documents*
- *Information about operating and financial policies*
- *Analysis and test of transactions, processes and account balances*
- *Results of analytical review procedures*
- *Letters of representation and confirmation (appointment letter)*
- *Financial Monitoring Letter stating: (1) work performed by the auditor (2) findings (3) recommendations*
- *Management Response from the subrecipient*
- *Copy of returned funds (if any)*
- *Other correspondence*

Workpaper techniques - Standardized workpapers may be developed for specific grants to enable consistent financial monitoring of multiple subrecipients. The following are typical financial monitoring workpaper preparation techniques:

- *Each financial monitoring workpaper should contain a heading consisting of the name of the organization or function being examined, a title or description of the contents or purpose of the workpaper, the grant agreement number, and the date or period covered by the review.*
- *All monitoring evidence (documents) should clearly identify the source.*
- *Abbreviations and symbols – the use of symbols and abbreviations will have meanings in conjunction with the meanings set forth in the U.S. Government Printing Office Style Manual.*
- *Cross-referencing – the auditor should document the trail of information that leads to a finding.*

- *Indexing – the system of indexing audit worksheets should be simple and leave room for flexibility. All indexed papers should have a cover page to show how to find specific documents.*
- *Electronic Documentation – Public Safety Auditors may often receive information through an electronic medium. This should be noted in the financial monitoring file and saved in the auditor’s subrecipient electronic file. Common electronic documentation are e-mails, webpage information, Microsoft Word or Adobe files for financial statements and subrecipient policies and procedures, and other documents such as digital pictures taken by the auditor.*
- *Workpaper assembly - financial monitoring file checklist should be the first page of an audit file. The financial monitoring file checklist will standardize the assembly process.*

V. REPORTING AUDIT FINDINGS

After a phone review, desk review, or site visit the auditor needs to compile all workpapers and review documentation. The auditor should determine if they have sufficient evidence to confirm objectives of the audit have been met. The next step is to write the financial monitoring report.

A subrecipient financial monitoring tests for compliance with regulations and guidelines of the subrecipient agreement. Has the subrecipient complied with terms of the agreement? (1) expended within the performance period of the grant (2) allowable expenditures in accordance with attachment A of the grant agreement (3) have met the payment provisions of attachment B of the grant agreement (4) complied with the standard provisions of attachment C of the grant agreement (5) complied with the specific grant requirements (Uniform Guidance, Bulletin 5, grant program guidelines, etc.) referenced in attachment D & E of the agreement. Has the subrecipient complied with applicable laws regulating the organization? (1) State of Vermont Statutes (2) Handbook for Vermont Municipal Treasurers (3) State of Vermont Uniform Accounting Manual for the County Sheriffs’ Departments (4) other regulations passed by governing bodies.

Financial monitoring findings can be derived from a number of sources. Common findings occur when the subrecipient has failed to comply with a state/federal regulation or grant guideline.

Below are common findings:

- *The auditor may in the course of filling out the audit questionnaire; determine the subrecipient does not have sufficient controls for their financial management system as required under the 2 CFR 200 Subpart D.*
- *The auditor may in the course of examining the VISION subrecipient module; determine the subrecipient has not had a Single Audit performed in accordance with 2 FR 200 Subpart F.*
- *The auditor may in the course of filling out the financial monitoring questionnaire; determine the subrecipient has not complied with EEOP.*
- *The auditor may in the course of examining subrecipient grant file; determine the subrecipient has not complied with 2 CFR 200 Subpart E §200.420-§200.475, selected items of cost.*
- *The auditor may find that subrecipients that are not a State, did not follow 2 C.F.R. §200.318-§200.326 and their own procurement procedures.*
- *The auditor may in the course of examining expenditure documentation; determine the expense is not allowable under 2 CFR 200 Subpart E or grant guidelines.*

- *The auditor after discussing the process followed for a particular grant; may find an instance of conflict of interest. In the case of verbal evidence, the auditor should record the discussion and the person in which they were speaking.*

If there are financial monitoring findings that demonstrate an error on the part of Public Safety in executing the award; the auditor will either arrange to meet with the Public Safety staff involved or meet with the director of the program to discuss the issue. Then the auditor will provide documentation to the Commissioner of Public Safety and next steps will be determined.

The format of financial monitoring reports will reflect either the single audit report or limited audits in accordance with Generally Accepted Auditing Standards (GAAS) or Generally Accepted Government Auditing Standards (GAGAS). The Single Audit report is required by 2 CFR 200 Subpart F and renders an opinion on financial statements, internal controls, compliance, findings/questionable costs, and a corrective action plan.

The auditor should compose the financial monitoring letter in a clear manner that allows the responsible official to review and respond to the findings. The letter should state the checks performed, the issues observed and recommendations to remedy the findings. After the letter is drafted, the auditor should send it to their supervisor for review. It may be necessary to meet and discuss issues that arose from the review prior to sending the subrecipient the report.

VI. RESOLUTION

If a response is necessary, the financial monitoring letter should state the date in which a reply is expected (normally 45 days after the date of the letter). During the discussions with the subrecipient it should be understood that findings have a final review before being sent out and that they need to respond within the time period specified by the financial monitoring letter. If they need more time to complete the issues identified, they should specify the date in which they expect to complete the response. The subrecipient must send a response by the date specified by the financial monitoring letter (even if the response is to simply request more time). If the subrecipient does not respond by the time indicated in the financial monitoring letter, they will be placed on the DPS Restricted Parties List.

It should be understood that the burden of proof is the responsibility of the subrecipient and that it is in their best interest to provide the proper documentation. The auditor may encounter a circumstance where an item of concern cannot be fully documented. Auditors should exercise sound judgment, which will permit reasonable determinations under Federal and state regulations.

Corrective action plan – 2 CFR 200 Subpart F §200.511, indicates at the end of the financial monitoring, the subrecipient shall prepare a corrective action plan to address each of the findings. The plan should include the name of the person responsible for the plan, the measures they will take to correct findings and the anticipated completion date. Follow-up procedures are discussed to ensure implementation of the corrective action plan. All errors or discrepancies should be addressed.

Disputed findings - Disputed findings generally result from the interpretation of regulations. If the subrecipient disputes a finding within their management response letter it should properly document facts, interpretation and citation of federal and state regulations. This statement may satisfactorily resolve the findings. Unresolved findings should not be negotiated for the sake of resolution; the

objective is to determine if grant compliance has occurred. If the auditor disagrees with the subrecipient's position he/she will present all documentation to the Director of Administration.

POST FINANCIAL MONITORING QUALITY ASSURANCE MEASURES:

The auditor is responsible for performing financial monitoring work in accordance with this guide. For quality control purposes, when a financial monitoring file is reviewed, the reviewer shall initial and date the financial monitoring file checklist.

Review of the financial monitoring file:

- *Check if adequate documentation exists to substantiate findings contained in the financial monitoring letter.*
- *Check documentation to verify there has not been any issues overlooked.*
- *Record any deficiencies, comments, etc. on the financial monitoring file Checklist and an additional memo if necessary then request a response or correction from the auditor who prepared the review.*