



FINANCIAL MONITORING



Financial Monitoring

- ❖ **Purposes and Goals for Financial Monitoring are the same as for Program Monitoring:**
 - ❖ **Assist grantee to manage program effectively and to the best advantage of the program beneficiaries**
 - ❖ **Insure that program is being managed according to all applicable statutes, rules and regulations**



When does Financial Monitoring happen?

- ❖ **Financial Monitoring is done simultaneously with program monitoring**
- ❖ **Financial monitoring may also be done when there is indication grantee needs assistance to manage the grant effectively and efficiently**
 - ❖ **Not expending funds timely**
 - ❖ **Not accomplishing benchmarks within budget**



General Areas Covered

The following information is general in scope and does not address program particulars

Different programs may have program-specific financial management requirements – refer to grant agreement and program handbook, or contact funder for additional (written) guidance



General Areas Covered

- 1. General financial management & record keeping,**
- 2. Advances**
- 3. Federal cash transactions report**
- 4. Internal controls**
- 5. Accuracy of report information**
- 6. Program income**
- 7. Salaries & wages**



General Areas Covered

- 8. Indirect costs**
- 9. Minority-owned financial institutions**
- 10. Lump-sum drawdowns**
- 11. Compliance with OMB circular A-133 (audits of states, local governments and nonprofit organizations)**
- 12. Financial & cash management procedures**
- 13. Cash match if applicable**
- 14. Subrecipient /recipient monitoring**



Financial Management System

Checking for:

- 1. Recording amounts budgeted for eligible activities**
- 2. Recording amounts obligated when contracts/purchase orders executed**
 - ✓ If not recorded, information is readily accessible**
- 3. Documentation of expenditures**
- 4. If cash accounting, documentation supporting accrual information in reports**
- 5. If accrual accounting, reconciles with reported information**



Financial Management System

Checking for (cont'd):

- 6. Expenditures identified with grant program**
- 7. Expenditures identified by specific grant**
- 8. Accounting records clearly show use of grant funds for eligible purposes**
- 9. Any use of funds for ineligible expenditures**
- 10. Accounting records show unexpended/unobligated balances**
- 11. If advance funds are requested, are they spent with timeliness (3 days or <)**
- 12. If program has sub-grantees, are procedures in place to minimize time between transfer of funds to and spending of funds by sub-grantee?**



Financial Management System

Documents to have ready:

- ❖ **Ledgers, detailed journals**
- ❖ **Written financial procedures for organization**
- ❖ **Bank statements**
- ❖ **Record of program activities**
- ❖ **Program income & cash match log**
- ❖ **Sub-grantee agreements**
 - ✓ *Requirements & provisions*
 - ✓ *Deadlines*
 - ✓ *Disbursements*
 - ✓ *Monitoring letters and reports*



Financial Management System

Documents to have ready (cont'd):

❖ Payroll records

- ✓ *Timesheets*
- ✓ *Wage/salary verification*

❖ Supporting documentation

- ✓ *Detail of expenditures*
- ✓ *Canceled checks (front & back)*
- ✓ *Receipts*
- ✓ *Invoices*
- ✓ *Payment requests*



Federal Cash Transaction Report

Checking for:

- ❖ **If required, program has submitted timely & complete reports for last 3 periods**
- ❖ ***Any problems where cash is being held more than 3 days***
- ❖ **If needed, narrative explanations for excessive balances of cash advances, actions to reduce**
- ❖ **If needed, narrative explanations for excessive balances of cash advances for sub-grantees, actions to reduce**
- ❖ **If advances bearing interest, plan to return that income to HUD**



Federal Cash Transaction Report

Reports to be reviewed:

- ❖ **Line of credit control system (LOCCS)**
- ❖ **Integrated disbursement & information system (IDIS)**



Internal Controls

Checking for:

- ❖ **Organization chart that shows actual lines of responsibility**
- ❖ **Duties for key program employees defined**
- ❖ **Fidelity bond for responsible employees**
- ❖ **Chart of accounts set up to control amount of resources used vs. resources available**
- ❖ **Approval controls for recorded transactions in accordance with general management criteria**

Audit reports:

- ✓ ***Program related findings & concerns***
- ✓ ***Results of prior year audit***



Internal Controls

Checking for:

- ❖ **Document controls support transaction documentation, recording and auditing**
- ❖ **Separation of duties reduces concealment of errors and/or irregularities**
- ❖ **Policy requiring all personnel to report problems and noncompliance**
- ❖ **Internal controls allow audited financial statements in conformity with generally accepted accounting principles (GAAP) that have attained an unqualified opinion**



Internal Controls

- ❖ **Documents to be reviewed:**
 - ✓ ***Written internal control procedures (detailing separation of duties)***
 - ✓ ***Audit management letter***



Accuracy of report information

Checking for:

- ❖ **Systems and procedures ensure accuracy of reports & comply with federal reporting policies & regulations**
- ❖ **Financial info in HUD systems (LOCCS – line of credit control system & IDIS – integrated disbursement & information system) matches official accounting records for last reporting period**
- ❖ **Program income (revenue) in accounting records matches most recent performance report**



Accuracy of Report Information

Reports to be reviewed:

- ❖ ***Line of credit control system (LOCCS)***
- ❖ ***Integrated disbursement & information system (IDIS)***

Documents to be compared :

- ❖ ***Accounting records***



Program Income (Revenue)

Checking for:

- ❖ **Income generated by funded program / income-producing activities directly related to funded program**
- ❖ **Accounting records for income**
- ❖ **If program partially federally funded, procedure for prorating income**
- ❖ **Program spends income before making additional cash draws**
- ❖ **System for tracking program income generated by sub-grantees**
- ❖ **If program income retained, system for reporting it timely and accurately**



Program Income (Revenue)

Checking for:

- ❖ **System for return of funds at end of agreement with sub-grantee and/or transfer of outstanding loans or accounts receivable**
- ❖ **Compliance with reporting requirements governing receipt & use of program income in IDIS**
- ❖ **System for servicing program-assisted loans including:**
 - ✓ *Loan agreements with clear terms*
 - ✓ *Collection & bad debt procedures*



Program Income (Revenue)

Documents to be reviewed:

- ❖ *Income tracking accounts*
- ❖ *Verification of program income spending before additional grant drawing down*



Salaries & Wages

Checking for:

- ❖ **Payroll charges to program were eligible**
- ❖ **Payroll charges to program in accordance with documented generally accepted payroll practice**
- ❖ **Certifications that employees worked only on program for that period, or that program is charged with only that amount of payroll worked by employees as documented (timesheets)**
- ❖ **Certifications semi-annual, signed by employee and supervisor with first-hand knowledge of employee's work (based on quality GAAP determination).**



Salaries & Wages

Documents to be reviewed:

- ❖ *Payroll records*
- ❖ *Written job descriptions*
- ❖ *Wage & salary verification*
- ❖ *Timesheets / record of hours*
 - ✓ *Program v. Other duties*
 - ✓ *Employees involved*



Indirect Costs

Checking for:

- ❖ **Indirect costs charged to program**
- ❖ **Cost allocation plan and indirect cost proposal per OMB circular**
 - ✓ *A-87, attachments a, c & e (for State, Local & Indian tribal governments, or hospitals)*
 - ✓ *A-122 (for non-profit organizations)*
 - ✓ *A-21 (for educational institutions)*
- ❖ **Indirect costs billed per approved cost allocation plan & indirect cost proposal**



Indirect Costs

Documents to be reviewed:

- ❖ *Cost allocation plan*
- ❖ *Indirect cost proposal per appropriate OMB circular*



Minority Owned Financial Institutions

Checking for:

- ❖ **Use of minority owned financial institutions by program**
- ❖ **Documents to be reviewed:**
 - ✓ ***Information about financial institution***



Lump-Sum Drawdown

Checking for:

- ❖ **Lump sum drawdown only implemented if authorized by Grant Agreement**
- ❖ **Funds drawn down in lump sum for authorized purpose only (for rehab under CDBG program)**
- ❖ **Lump sum agreement with all required elements**
 - ✓ *Written agreement with financial institution*
 - ✓ *Obligations & responsibilities*
 - ✓ *Terms & conditions of deposits, fund use & return*
 - ✓ *Anticipated level of activity*
 - ✓ *Disposition of Interest*



Lump-Sum Drawdown

Checking for:

- ❖ **Funds being used for eligible activities per written agreement**
- ❖ **Fund use started with 45 days**
- ❖ **Funds substantially spent within 180 days**



Lump-Sum Drawdown

Reports to be reviewed:

- ❖ *Line of credit control system (LOCCS)*
- ❖ *Integrated disbursement & information system (IDIS)*
- ❖ *Grantee/recipient financial system reports*

Documents to be compared:

- ❖ *Accounting records*



OMB Circular A-133

Checking for:

- ❖ **Program participant or sub-grantee meets spending threshold for audit (\$500,000)**
- ❖ **Program procedure for ensuring audit is**
 - ✓ *Timely*
 - ✓ *By independent, qualified person*
 - ✓ *Meets comptroller general's audit standards*
- ❖ **Audit report includes opinion on**
 - ✓ *Fair presentation*
 - ✓ *GAAP conformity*
 - ✓ *Schedule of expenditures*
 - ✓ *Current & prior year findings & results*



OMB Circular A-133

Checking for:

- ❖ **Financial statements accurately reflect**
 - ✓ *Financial position*
 - ✓ *Results of operations*
 - ✓ *Cash flows*
- ❖ **Procedure for informing sub-grantees of OMB circular A-133 requirements**



Monitoring Steps

- ❖ **Financial monitoring happens at same time as program monitoring**
- ❖ **Strategy for review, determining what needs to be reviewed is decided by HUD monitor**
- ❖ **Written notification to participant**
- ❖ **Entrance conference**
- ❖ **Assessment: records & supporting documents**
- ❖ **Exit conference**
- ❖ **Monitoring letter**
- ❖ **Grantee's/recipient's response if applicable**
- ❖ **HUD final response if applicable**



What to Expect After Monitoring

- ❖ **As with Program Monitoring, Financial Monitoring will result in written:**
 - ❖ **Commendation for good (financial) management practices**
 - ❖ **Concerns with recommendations for action**
 - ❖ **Findings with requirements for action**
 - ❖ **Specific time period for implementing required actions**
 - ❖ **Grantee's assurance of right to due process to contest Findings**