MONITORING INSTRUMENT:
FINANCIAL ACCOUNTING AND INTERNAL CONTROLS

PURPOSE

This instrument is used to collect information for determining whether a state subrecipient (contractor) follows sound accounting principles, regulatory requirements and its own established procedures in recording and documenting financial transactions.

Note: The module is intended for reviewing contracts/agreements for which it is appropriate to examine the internal accounting operations of the contractor.

PRIMARY CONCERNS

- Existence and adequacy of procedural guidance
- Adequacy of internal controls
- Prompt and accurate posting and reconciliation of bank statements
- Accuracy of allocation of costs
- Accuracy of classification of costs
- Control over allowable costs
- Adequacy of documentation supporting expenditures and allocations
- Security of petty cash
- Accrual basis for reports
- Adequacy of insurance coverage
- Effectiveness of cash management
- Limits for maximum and minimum expenditures
SUBRECIPIENT/CONTRACTOR IDENTIFYING DATA

Name: 

Address: 

Monitored by: 

Date of Monitoring: 
**DESK REVIEW QUESTIONNAIRE**

Type of Subrecipient: ( ) private-for-profit  
( ) private non-profit  
( ) public

Identify Financial Reporting Requirements for:

- **WtW** ______________________________________________
- **TANF** ______________________________________________
- **WIA** ______________________________________________
- Contract Specific ______________________________________

Have financial reports been submitted in a timely manner?

- **WtW** ( ) yes ( ) no  
- **TANF** ( ) yes ( ) no  
- **WIA** ( ) yes ( ) no  
- **Other** ( ) yes ( ) no

Funds are obtained by:

- **WtW** ( ) check advance ( ) ETF advance ( ) Reimbursement
- **TANF** ( ) check advance ( ) ETF advance ( ) Reimbursement
- **WIA** ( ) check advance ( ) ETF advance ( ) Reimbursement
- Contract Specific ( ) check advance ( ) ETF advance ( ) Reimbursement

Cost category limitations:

**WIA**  
Admin.____%  
**WtW:**  
Admin.____%  
**TANF:**  
Admin.____%  
**OTHER:**  
Admin.____%
List any Federal, or State guidance to which the contractor must adhere which is specifically required or cited in the contract(s):

If required to use Federal Uniform Administrative Requirements complete Section

______________________________________________________________

______________________________________________________________

Date Previously Monitored: _____________

After reviewing the reports and documents on corrective action, note the areas most likely to require attention:

______________________________________________________________

______________________________________________________________

______________________________________________________________

What is the status of the planned corrective action from prior year findings?

______________________________________________________________

______________________________________________________________

______________________________________________________________

Other problems or issues likely to need special attention:

______________________________________________________________

______________________________________________________________

______________________________________________________________
Before departure, if appropriate, secure the following from the contractor or DOL files so that they can be reviewed prior to going on-site or inform the contractor to have them available when you arrive.

_____ last audit* _____ financial manuals
_____ organization chart _____ cost classification plan
_____ cost allocation plan _____ contract with DOL
_____ last expenditure report (or equivalent) _____ current chart of accounts
_____ current inventory listing

*Findings from last audit pertaining to CTDOL grants that will need to be reviewed:
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________.

Resource Staff:

INTERVIEWEES: NAME TITLE
INSTITUTION INTERVIEW

INSTRUCTIONS

The following questions are probably best asked of the chief accountant or, in larger organizations, it may be necessary or desirable to address some questions to persons responsible only for specific programs. Upon introducing yourself to the contractor representative, review the financial areas to be covered so that appropriate respondents can be identified and made available. If not previously secured, ask for an organization chart and/or flow charts that might aid you in understanding the explanations you are given.

PROGRAM OVERVIEW

1. Approximately what percentage of the organization’s income comes from CT DOL funds? ________ %

   This question is concerned with the percentage of total budget of the organizational entity that shares staff members or otherwise forms an autonomous unit. Note how these funds are divided among titles.

   __________________________
   __________________________
   __________________________

   If it would be helpful, ask assistance in completing Worksheet No. 6.1 which indicates the level or percentage of funds received from each source. Rough estimates should be adequate.

2. Which of the following financial records do you maintain?

   ____ General ledger
   ____ Cash receipts journal
   ____ Cash disbursements journal
   ____ Obligation control register
   ____ Payroll register
   ____ Accounts receivable ledger
   ____ Accounts payable ledger
   ____ Purchasing journal
   ____ Other: ____________________
3. **Does the manual(s) covering financial procedures adequately cover the following areas and is coverage up-to-date?**

    Make note of the areas for which the respondent believes there is insufficient procedural guidance. If manual is inappropriate for contract, mark "NR" (not relevant).

    ___ bonding  ___ audit
    ___ payroll-staff  ___ cash management
    ___ payroll-participants  ___ drawdown or reimbursement procedures
    ___ personnel (benefits) policy  ___ purchasing procedures
    ___ petty cash  ___ bank reconciliation
    ___ cost classification/chart of accounts  ___ reconciliations between subsidiary and official records
    ___ cost allocation
    ___ travel  ___ posting to books of account

4. **Is accounting done ( ) manually or is it ( ) automated? Is it done on a ( ) cash, ( ) accrual basis, or ( ) modified accrual?**

5. **(If multi-funded) How are funds and expenditures recorded to separate them.**

   (  ) separate checking account
   (  ) code used to classify expenses
   (  ) other

   The code(s) used to designate CT DOL costs: __________________________________________

6. **Does the organization receive any income from CT DOL funds? How are these funds handled and what controls ensure the proper use of income?**

   (  ) interest from bank account?
( ) sales of products?
( ) "profit"?
( ) other?

Does it seem that the contractor is recording income and retaining/using funds according to state/organizational requirements? Note likely problems for follow-up.

7. How many bank accounts are there with CT DOL funds? ______. How many are:
   zero balance ______, clearing accounts ______, payroll accounts ______, other ______. Are they interest bearing? ______.
Clarify the function of each account. Also, if the accounts are not interest bearing, why and who negotiated the bank agreement?

8. Are bank deposits covered by the Federal Deposits Insurance Corporation (FDIC)?
   ( ) yes ( ) no

9. (If you don't have copy) Are you audited?
   ( ) yes ( ) no
If audited, ask for a copy. Indicate date of last audit and dates covered by the audit:

10. (If audited) What were the major findings of the last audit? What corrective action was taken?
    Probe to determine if there are issues that may require special attention during the review.
11. How long are financial records retained? __________ years from __________

CONCLUSIONS:

Are transactions adequately segregated between funding sources? Are the records and accounting system in sufficient order to be monitored? Does the subrecipient have adequate written manuals/procedures which incorporate Federal and State requirements for financial systems? Have past audits shown the contractor to be in compliance with these requirements? Note any issues that need further exploration or follow-up.

DISBURSING AND RECORDING

12. Request assistance in completing Worksheet No. 6.2 (Separation of Duties).

This will provide information about the adequacy of internal controls and help you follow respondent answers. Some of the following questions may be answered by completion of Worksheet 6.2; be prepared to modify those questions.

13. How is access to accounting records controlled?

Who has access and what is necessary to gain access?

manual records: ________________________________

automated records: ________________________________

14. Explain the steps from the authorization of an expenditure to the posting to the general ledger.
Make sufficient queries to be sure you have a good grasp of the process. Note who approves actions and assess how effective internal controls are.

15. What is the policy on mandatory vacations or rotation of duties among accounting personnel?

16. Who has access to accounting records to make adjustments or prepare disbursements? Do they have check signing authority?

 (  ) yes    (  ) no

17. Are there any automatic teller cards issued?

 (  ) yes    (  ) no

Where are they kept and how are they controlled?

18. Can authorized signers sign their own expense checks or payroll checks?

 (  ) yes    (  ) no

19. How many signatures are required on a check? __________

20. When a person is no longer authorized to sign checks, what action is taken?

21. How are long-term outstanding checks handled?
22. How are undelivered checks handled?

23. How are voided checks handled?

24. How do you handle situations when there is an immediate need to disburse a check but the authorized signers are not available?

25. Are checks ever signed in advance?

(  ) yes       (  ) no

If yes, when?

26. When can checks be made out to "cash" or "bearer"?

(  ) only petty cash   (  ) never   If allowed, what is the dollar limit? ____________

27. When can disbursements be made other than by check?

(  ) never   (  ) from petty cash   If allowed, what is the dollar limit? ____________

28. Are funds sometimes transferred (other than by writing checks) from one bank account to another?

(  ) yes   (  ) no
When?  What documentation is required to support the transfer?  Why aren't checks used?


29.  (If multi-funded) Do you ever run short of funds for a project?  
(     ) yes  (     ) no

If so, do you make internal short-term loans to it?

Probe for explanations for circumstances when this may occur and how funds so transferred are repaid.  Are these transfers considered to be loans?  Are there written procedures guiding these transactions?


30.  What are your policies with respect to salary advances or loans to staff members?  
How are advanced or loaned funds protected?  Can salary advances exceed earnings-to-date?


31.  How do you ensure that an invoice is not paid twice?


32.  How do you ensure that payments are made on time?


33. **How often is the bank statement(s) reconciled?**

Get copy of last reconciliation to verify. Response was correct? ( ) yes ( ) no

34. **Where are the following items kept and how are they organized?**

- Bank statements
- Canceled checks
- Documents supporting disbursement
- Vendor file
- Payroll records
- Time and attendance records
- Various ledgers and journals
- Staff travel records
CONCLUSIONS:

Are duties sufficiently divided among staff to maximize internal control? Are disbursements organized and recorded with regard to State reporting requirements? Are financial records in order and do they provide audit trails for expenditures? Are funds sufficiently protected and safeguarded as required by law?

COST ALLOCATION

INSTRUCTIONS:

This section is completed only if the contractor received funds from multiple funding sources. Ask for a copy of the cost allocation plan (the methodology used to establish allocations). There should be a written cost allocation plan if there are costs shared among funding sources.

Cost allocation plan available: ( ) yes ( ) no

35. Which costs are sometimes shared by different projects/funding sources?

Circle "I" if the following costs are included in the indirect cost pool, "D" if they are direct costs, or "E" if they can sometimes be either.

I   D   E   space 
I   D   E   administrative staff
I   D   E   utilities 
I   D   E   program staff
I D E  office supplies  I D E  postage
I D E  office equipment  I D E  other: __________________________

36. Were there any major CT DOL purchases in the past three years that are also used by other projects?


37. How often is the cost allocation plan reviewed by the governing board?


38. How do you ensure that expenditures, especially non-routine ones, are charged to the correct project/contract?

Who actually makes this decision and/or how is this information communicated to the bookkeeper?


39. Is there an indirect cost rate for shared administrative costs?

( )none ( ) provisional ( ) fixed. Rate allowed: __________% Who established it?

When was it established? __________________________


40. Name three staff members, other than those charged exclusively to indirect cost, who work for more than one project? (Also, enter these three on Worksheet No. 6.3)
41. **What is the basis of allocating their salaries and benefits?** How do you know if this proration is reasonably accurate?

*Is it guess work? Fixed by the budget? Or does there seem to be an effort to have reported hours reflect actual time spent on projects. Does the procedure differ for salaries of administrative staff?*

42. **What is the basis for allocating use of space? Utilities?**

43. **What is the basis for allocating travel, supplies, and other routine expenses?**

**CONCLUSIONS:**

*Do the procedures for allocating costs as described above match the procedures in the cost allocation plan? If there is no written cost allocation plan, why? If it has never been approved by the State, why? Does the basis for allocating costs among the various program activities comply with state requirements? Do the resulting charges to CT DOL projects appear fair and reasonable?*
COST CLASSIFICATION

44. Is your chart of accounts compatible with the categories by which you report?
(  ) yes  (  ) no

Ask for a copy of the chart of accounts. Ask about how classifications on the chart of accounts are categorized for reporting purpose if any item seems ambiguous to you. Does a coded item in the chart of account fall into more than one reporting category?

CONCLUSIONS:

Does the contractor have appropriate procedures for classifying costs?
PETTY CASH

INSTRUCTIONS:
If the contractor uses a petty cash system, review Worksheet No. 6.2 (Separation of Duties) to determine who has responsibilities for managing petty cash. The custodian for petty cash is likely to be the most appropriate person to interview.

45. What is the typical total of petty cash disbursements for a month? $_________

46. What is the maximum withdrawal permitted? $_________

47. Regarding petty cash, describe the following:
   approval required? ____________________________________________
   documentation required? _______________________________________
   restrictions when it can be used? _________________________________
   who reconciles it and when? _____________________________________
   how is it replenished? __________________________________________
   are there periodic surprise counts? ( ) yes ( ) no
   are there rules and procedures in writing? ( ) yes ( ) no

48. Can the approving officials for petty cash authorize disbursements to him/herself as payee?
   ( ) yes ( ) no

CONCLUSIONS:
Is petty cash adequately safeguarded from abuse and theft? Is it used unnecessarily? Do petty cash disbursements follow the same rules and procedures governing allowable costs in general? Are there adequate documentation and audit trails for petty cash disbursements?

________________________

________________________

________________________

TRAVEL

49. What are the policies regarding travel advances and their reconciliation?
Clarify procedures used to follow up on advances and how and where they are recorded. How soon after completion of travel must employees submit vouchers and reimbursement? __________ days.

________________________

________________________

________________________

50. How is local mileage determined for reimbursement purposes?

________________________

Do the procedures require an original signature of the person seeking reimbursement, verification of accuracy by fiscal staff or other, and proper approvals/authorization?
( ) yes ( ) no Ask for sample of completed reimbursement form to verify.

allowance: __________ □ per mile for owner's use

________________________

________________________

CONCLUSIONS:
Do the policies/procedures provide adequate controls (approvals, voucher review, reconciliation of advances)? Are the per diem and mileage rates reasonable and consistent with overall organization rates?

____________________________________________________

____________________________________________________

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____________________________________________________

____________________________________________________

____________________________________________________

____________________________________________________

____________________________________________________


INSURANCE

51. Request that the organization complete Worksheet 6.4 (Insurance Coverage).

This will provide information about the adequacy of their insurance coverage.)

CONCLUSIONS: Is the coverage adequate?

____________________________________________________


CASH MANAGEMENT

INSTRUCTIONS:

If draw downs are based on immediate need and if draw downs are made frequently (more often than each pay period).

51. (If multi-funded) Do you maintain a cash control ledger which provides the daily balance in all CT DOL accounts?

( ) yes ( ) no

Is this done separately for different programs (projects)?
( ) yes ( ) no

52. Have you established a cash forecasting system which reflects cash needs?
( ) yes ( ) no

On what basis? ( ) monthly ( ) weekly ( ) daily ( ) other

53. Who is responsible for monitoring and testing cash position? and how is it done?
If no one, how can management be sure that cash balances are not excessive?

CONCLUSIONS:

Does it appear there are any problems with cash flow, either in terms of the methods of managing or the level of cash-on-hand? Ask for checkbook to ascertain if exorbitant balances exist. Determine if a full cash analysis needs to be conducted.

DOCUMENT AND RECORD REVIEW

REVIEW FOR ADEQUACY OF WRITTEN PROCEDURES
RECORDS REVIEW OF DISBURSEMENTS

INSTRUCTIONS:
This section contains a number of tasks. Answer subsequent questions by circling Y (yes), N (no) or ? (doubt because information lacking or because the findings are borderline). The "desirable" answer is first, permitting a quick scan for problem areas. Any "?" response should be explained. "Undesirable" responses should be explained or indicated by highlighting appropriate examples on the worksheets.

55. Using Worksheet No. 6.5, for all CT DOL funded programs, trace a sample of at least 5 transactions selected from the record of expenditures (or the disbursement journal if more appropriate) in order to determine if proper approvals were obtained; the recorded amounts are accurate; adequate support documentation exists; the cost was allowable and the cost was correctly allocated and classified.

A separate worksheet should be used for each funding source and, at a minimum, 5 transactions for each program should be tested. The sample size should be determined by how comfortable the monitor is with the accuracy of the documents being reviewed.

Since this analysis is not intended to be representative, select entries that seem more likely to be questionable, include at least one travel and one credit card transaction. For example, routine payments to vendors such as the landlord, utilities, etc., might be omitted.

Answer the following based on Worksheets 6.5; provide explanation where appropriate.

Y N ? Were all transactions traceable to canceled checks?
N Y ? Were there any discrepancies between the check amount or date and the journal entry?
N Y ? Were any transactions unnecessary, unreasonable or not allowable?
Y N ? Did adequate documentation support transactions?
Y N ? Were payments made within the discount period?
Y N ? Were the check numbers entered on all invoices or statements (to indicate that payment was made)?
Y N ? Was there proper prior authorization?
YN? Was the cost classification entered on invoice (or equivalent)?

CONCLUSIONS:

Are there audit trails for all disbursements? Are disbursements documented properly to support costs as allowable, reasonable and necessary? Are disbursements made by check only, except for petty cash? Are disbursements recorded accurately? Were internal controls followed? Are there any discrepancies between this record review and other information obtained either during the interviews or the desk review? Clarify any discrepancies at this time before continuing the record review.

PROPERTY MANAGEMENT:

56. Y N? Are adequate property acquisition, utilization and disposition controls in effect?

YN? Are procedures and controls in writing?

YN? Are there procedures and controls to insure that periodic physical inventory is made of all property by someone independent of the property custodian?

57. Is property controlled through:

YN? General Ledger Asset Account?

YN? Other method? Explain.

58. Are detailed equipment records maintained which include:

YN? Description of property?
Y N ? Manufacturer’s serial number or other identification number?

Y N ? Source of property (e.g. JTPA, WtW, Other)

Y N ? Acquisition date?

Y N ? Unit acquisition cost?

Y N ? Location of property?

Y N ? Condition of property?

Y N ? Disposition of property, if applicable?

Conclusion:

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

____________________________________________________________________________

____________________________________________________________________________