



Cal OES
GOVERNOR'S OFFICE
OF EMERGENCY SERVICES

GRANTS MONITORING

POLICIES & PROCEDURES MANUAL

Grants Management

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I. MONITORING PROGRAM OVERVIEW

Federal grants are subject to federal, state, and local government administrative requirements, cost principles, and audit requirements. The California Governor's Office of Emergency Services (Cal OES) ensures that federal grants are managed appropriately using a risk-based compliance assessment model and by performing analytical and financial compliance reviews.

Grants Monitoring is comprised of monitors that assist Subrecipients to ensure compliance with applicable regulations, laws, and Grant Subaward provisions.

Items that monitors examine include:

- Organization operations
- Internal and management controls
- Policies and procedures
- Financial reports
- Grant Subaward-related activities and expenditures

High-risk Subrecipients are identified through the annual risk assessment further discussed in section IV. Monitoring reviews are used to provide technical assistance and trainings for Subrecipients to enable the Subrecipients to maintain funding and follow the applicable rules and regulations.

There are four key components the Cal OES monitoring program model ensures:

1. Subrecipients are monitored during the term of the Grant Subaward;
2. Monitoring efforts focus on the areas of most significant risk;
3. All monitoring findings are addressed through appropriate corrective actions; and
4. Ongoing financial and administrative training and technical assistance is provided to Subrecipients to enable them to comply with Grant Subaward requirements and maintain their funding.

Cal OES uses the following methods to monitor Subrecipient risk:

- **Day-to-Day communication:** Program Specialists maintain ongoing communication with Subrecipients to provide programmatic guidance and review reimbursement requests.
- **Site Visits:** Program Specialists conduct periodic site visits to review a Subrecipient's overall implementation of the program, adherence to program guidelines, and achievement of Grant Subaward goals and objectives and to identify issues and provide technical assistance as needed.

- **Extended Field and Desk Compliance Reviews:** Compliance reviews test a Subrecipient's fiscal and administrative compliance with laws, regulations, and program guidelines via field or desk reviews, either limited or extended in scope. The objective of an extended review is: (1) to test the organization's internal controls to ensure proper management of the Grant Subaward, including its accounting, procurement, contracting, and equipment management practices and procedures; and (2) to verify federal and state grant expenditures are allowable and allocable to the Grant Subaward and have been allocated properly to the appropriate cost category during the performance period; and (3) expenditures are supported with the appropriate documentation.
- **Limited Scope Desk and Field Compliance Reviews:** Limited scope reviews allow the Subrecipients to make certain assertions regarding various aspects of their operations, or provide monitors an opportunity to verify the allowability of expenditures charged to the Grant Subaward/s. These reviews consist of, but are not limited to, the following:
 - Targeted compliance questionnaire reviews (Schedules) and follow-up corrective action, if required;
 - Payment reviews of invoices and other documents supporting a reimbursement claimed by and made to the Subrecipient;
 - Limited field reviews to verify equipment purchases and test equipment management practices; and
 - Follow-up site visits to verify implementation of required corrective action.

The scope of the review can be expanded if needed.

- **Review of External Independent Audit Reports:** Cal OES actively tracks and reviews external audit reports as required by the Single Audit Act (OMB Circular A-133) for all Subrecipient organizations. Through a coordinated effort with the State Controller's Office and an independent proactive solicitation, Cal OES receives, reviews, and initiates follow-up corrective action (as needed) on the A-133 audits received.
- **Technical Assistance Services:** To ensure Subrecipients are educated regarding Grant Subaward requirements, high-risk problem areas are identified and tracked through the monitoring process and serve as the basis to plan and formulate technical assistance and training for Subrecipients. Monitors provide technical assistance through training (either group or one-on-one), web publications and resources, and through the provision of the Subrecipient self-assessment tools.

II. ANNUAL COMPLIANCE MONITORING PLAN

The Annual Compliance Monitoring Plan identifies the proposed Subrecipients eligible for a compliance review for the year. The Annual Compliance Monitoring Plan is developed based on

the annual risk assessment, which identifies the high-risk Subrecipients. The Plan is developed on a fiscal year basis beginning in July and ending in June of the following year. Subrecipients are selected for review based on risk analysis scores. Although the goal is to review Subrecipients identified as high-risk, Cal OES also conducts reviews of Subrecipients with low-risk scores based on anonymous tips, requests from Subrecipients, and management directive, among others.

The Annual Compliance Monitoring Plan is prepared by the Grants Management Monitoring Unit and approved by the Assistant Director.

III. COMPLIANCE REVIEW PROCESS

The objective of a compliance review is to ensure the Subrecipient complies with the Code of Federal Regulations, applicable state laws, and other governing regulations, internal policies, and general good business practices. The compliance review process is outlined below:

- **Notification Letter:** The compliance review begins with the issuance of a notification letter. The purpose of this letter is to notify the head of the organization or Subrecipient in writing that a compliance review will be conducted. The letter identifies the date of fieldwork, grant(s) selected for review, and scope of the review.
 - **Request for Documentation:** A request for documentation is included with the notification letter. The purpose of the request for documentation is to request the Subrecipient's general ledger and specific documents that should be made available for review prior to the start of fieldwork. The monitors review the general ledger and identify specific records the Subrecipient should have available at the start of the review. These records might include, but are not limited to, contracts, invoices, procurement records, indirect costs methodology, property ledger, and personnel ledger, including timesheets and supporting documentation to support match.
 - **Internal Controls Questionnaire:** An internal controls questionnaire is included with the notification letter. The questionnaire asks specific questions regarding internal controls, procurement process, personnel, and amount of state and federal grant funding received.
- **Entrance Conference (Meeting):** An entrance conference is scheduled with the Subrecipient's executive management and key personnel to discuss the purpose, objectives and scope of the compliance review, as well as expected start and completion dates of the fieldwork. The monitor will explain the compliance review process, inquire if there are any specific areas where the Subrecipient would like focused technical assistance, and identify the best time to meet with key staff to minimize interruption.

- **Fieldwork:** During the fieldwork, monitors are present at the Subrecipient's physical location gathering, analyzing, and evaluating evidence to assess and verify they are complying with federal and state regulations. The monitoring team may be comprised of a lead monitor and monitoring staff. During the fieldwork, the monitors can provide technical assistance, if needed, while addressing areas of non-compliance. In addition, Program Specialists also provide technical assistance based on their subject matter knowledge and reference to best practices during the site visits.
- **Exit Conference:** An exit conference is held on the last day of the fieldwork to discuss the results of the compliance review and any concerns that may have arisen. The exit conference is conducted by the monitor. The Grants Monitoring Supervisor may attend the exit conference in person or via conference call. The Executive Director, Chief Financial Officer, Grant Manager, and other key staff are encouraged to participate in the exit conference on behalf of the Subrecipient. The exit conference provides an opportunity to resolve any questions the Subrecipient may have about the concerns raised and address any other issues before the compliance report is finalized. Should the findings change during the quality review, the Subrecipient will be contacted for a final exit conference.
- **Program Exit Conference:** Within a week of the last fieldwork day, the monitors will schedule a meeting with the appropriate Grants Management Unit Chief and Program Specialist to share and discuss the outcome of the review.
- **Working Papers:** Monitors should prepare and organize their working papers in a manner that helps the reviewer carry out an appropriate quality review. The monitors should avoid preparing or accumulating unnecessary working papers or making extensive copies of the Subrecipient records. It is neither necessary nor practical for the monitors to document every matter considered during the review. Documentation supporting all findings must be retained in the working file.

Based on the discussion above, good working papers should meet the monitoring requirements by displaying the following characteristics:

- State the year/period end date (ex. October 31, 2006), so that the working paper is not confused with documentation belonging to a different year/period;
- State the full extent of the test (i.e. how many items were tested and how this number was determined). This will enable the monitor, and any subsequent reviewers, to determine the sufficiency of the review evidence provided by the working paper;
- If a reference to another working paper is necessary, a full reference to the other working paper must be given. A statement, 'testing can be found on another working paper' is insufficient;

- Working papers should clearly and objectively state the results of the test based on the facts documented;
- Conclusions should be consistent with the results of the test and should be able to withstand independent scrutiny;
- Working papers should be clearly referenced in order to be filed appropriately and found easily when required at a later date;
- Working papers should be signed by the person who prepares them; and
- Working papers should be signed and dated by any person who reviews them.

Working papers provide evidence that an effective, efficient, and accurate review has been carried out. They should be completed in a manner so that a monitor with no previous experience of the review can understand the work completed and how the conclusion was reached.

- **Quality Review:** Two weeks (14 days) from the last day of the Subrecipient's monitoring visit, the monitors are required to submit the completed working papers for quality review. The Grants Monitoring Supervisor will review the working papers to ensure that they are complete and the conclusions reached are consistent with the results of the tests. Any deviation from this standard will result in a coaching note. Once the coaching notes have been addressed, the monitor will prepare the compliance review report for review.
- **Report Timeliness:** It is the procedure of Grants Monitoring to issue all compliance review reports within 60 days of the last day of fieldwork. The monitors are responsible for completing the preliminary draft report and submitting it to the Grants Monitoring Supervisor for review along with the working papers. The reports are reviewed to ensure all findings are substantiated with the appropriate supporting documentation and criteria. Additional coaching notes are written when the compliance report needs revision or corrections. Once the coaching notes have been addressed, the report is prepared for the Grants Management Assistant Director or designee for final review and signature.

Once approved by the Grants Management Assistant Director, the report is released to the Subrecipient. The Grants Management Program Specialist will be copied on the report for situational awareness. The compliance review report remains open until the Subrecipient submits their Corrective Action Plan (CAP) if applicable.

- **Compliance Review Report:** The next step is to issue the compliance review report to the Subrecipient including senior management and key administrative staff. The report outlines all non-compliance issues and findings, provides recommendations for improvement and may request the Subrecipient generate a CAP.

- **Findings:** A finding is an operational deficiency in internal controls, noncompliance with provisions of laws, regulations, contracts, Grant Subawards, or fraud, waste and abuse.
 - **Recommendations:** A recommendation must provide a course of action that will correct a finding or issue that has been identified and provide improvements. Recommendations should be action-oriented, convincing, well-supported, and effective.
 - **Questioned Costs:** A questioned cost can result from a violation, or possible violation, of a statute, regulation, or the terms and conditions of a federal Grant Subaward. In addition, it could be a cost not supported by adequate documents, or appears unreasonable and does not reflect the actions a prudent Subrecipient would take in the circumstances.
 - **Disallowed Costs:** A disallowed cost is a charge that the pass-through entity determines to be unallowable according to the Code of Federal Regulations and the State Administrative Manual. Some examples of disallowed costs can be the purchase of alcohol, lobbying, or costs pertaining to waste, fraud, and abuse.
- **CAP:** Once the Subrecipient receives the compliance review report, they will have 30 days to either dispute the findings or provide a CAP to correct and address any finding(s), or send payment of a disallowed cost. After a CAP is received, the Subrecipient has six months from the date of the report to implement the CAP. If necessary, follow-up reviews will be conducted by the department to ensure that corrective actions are implemented timely.

If a Subrecipient fails to comply with the required necessary corrections identified, funding may be suspended until corrections are completed. Failure to comply with grant requirements may subject the Subrecipient to Special Conditions of future funding opportunities or the Subrecipient may be required to pay back a reimbursement.

- **Closing Letter:** Once the CAP is received and the Subrecipient has satisfactorily addressed and/or corrected all findings, Grants Management will issue a closing letter informing the Subrecipient that the compliance review is closed.
- **Appeals Process:** If the Subrecipient does not agree with the finding, they have 30 days from the date the compliance review report is issued to dispute the finding in writing and provide additional supporting documentation. If the finding is not cleared with the additional information provided, a notification letter will be issued. The Subrecipient may appeal the decision to the department within 30 days of the notification letter. The final decision on any appeal rests with the Cal OES Director.

IV. RISK ASSESSMENT OVERVIEW

An accurate risk assessment is critical to the success of the Agency's compliance review efforts. The Agency uses a variety of risk factors to help identify and select Subrecipients considered "high risk" for compliance reviews. The risk factors listed below may be expanded.

Risk Factors Considered

- Required to have a single audit
- Prior single audit findings
- Last time a compliance review was conducted
- Prior compliance review findings
- Number of grants awarded to Subrecipient
- Total dollar amount awarded to Subrecipient
- New Subrecipient
- New grant

Risk Factor Analysis and Monitoring Selection

Cal OES Subrecipients are weighted using the risk factors and scores to identify potential problems before they occur so that risk-handling activities may be planned to mitigate adverse impact on the results. Although Subrecipients identified as high risk are the main objective of the monitors, medium and low-risk Subrecipients can be selected for a monitoring visit. Medium and low-risk Subrecipients may be monitored based on anonymous tips, requests from Subrecipients, and management directive, among others.

Risk Assessment Process

1. Obtain a download of all Subrecipients and grants from the Automated Ledger System.
2. Filter by Subrecipient to show all grants the Subrecipient received from Cal OES.
3. Identify Subrecipients receiving two or more grants from Cal OES.
4. Summed total grants awarded to identify Subrecipients receiving more than \$100,000 in the fiscal year.
5. Review Grants Monitoring database to determine if Subrecipient received a single audit and if any findings were identified.
6. Review Grants Monitoring database to determine the date of the last Cal OES compliance review.

V. SINGLE AUDIT PROCESS

Subrecipients of federal grants are required to comply with the Title 2 CFR § 200.501(a). This

section requires that a non-federal entity that expends \$750,000 or more during the non-federal entity's fiscal year in federal awards must have a single or program-specific audit conducted for that year and submitted within the earlier of 30 calendar days after receipt of auditor's report or nine months after the end of the audit period. A non-federal entity that expends less than the \$750,000 during the non-federal entity's fiscal year in federal awards is exempt from federal audit requirements for that year. Guidance on determining federal awards expended is provided in accordance with Title 2 CFR § 200.502.

Monitors review Subrecipients to ensure they comply with the audit requirement. On an annual basis, Grants Monitoring requests Subrecipients complete an Audit Form certifying whether they meet or are exempt from the audit requirement. If they meet the requirement, they must submit a copy of their single or program-specific audit report. The audit reports are entered into the Grants Monitoring database and used to conduct the annual risk assessment, complete Management Decision Letters, and coordinate with the California State Controller's Office (SCO). SCO is the state organization with primary responsibility for ensuring the receipt of, and any necessary follow-up actions on, audits of local government entities.

All audits received are tracked and reviewed within 30 days of receipt, and if required, follow-up is initiated to ensure corrective action is implemented on all Cal OES findings. Audits with Cal OES findings are issued a Management Decision Letter upon resolution of the finding. Subrecipients that do not comply with the audit requirement may not be eligible for future grant funding.

VI. COMPLIANCE REVIEW OBJECTIVES

The Monitors judgmentally select samples for review from each of the Subrecipient grant/s activity report/s. All funding sources and cost categories included in the reimbursement and supporting documentation pertaining to the reimbursement are reviewed, including but not limited to, a review of the organization's internal controls, procurement and contracting procedures and practices, compliance with specific grant requirements and guidelines, current and past audit reports, site visit reports conducted by Program staff, and previous monitoring reports and other correspondence.

- **Monitoring Objectives:** The purpose of fiscal and administrative monitoring is to:
 - Verify Grant Subaward funds are being spent to further the grant objectives;
 - Verify the Subrecipient has internal controls in place to mitigate waste, fraud and abuse of Grant Subawards; and
 - Verify that expenditures submitted for reimbursement are fully supported by appropriate source documentation and ensure that items charged to the grant are allowable, allocable to (or benefit) the grant, reasonable and necessary in

accordance with the grant intent, and appropriately documented and charged to the correct cost category.

- **Activities Allowed/Allocable Costs/Costs Principles:** The primary compliance test to be performed on each program or project reviewed is whether the activities of the program are allowable under particular program regulations, laws and provisions of the Grant Subaward.

The following will be verified:

- Activities are consistent with the program objectives, current grant guidelines and are allowable;
 - Expenditures are adequately documented, reasonable, and necessary to the performance of the Grant Subaward;
 - Expenditures are necessary and reasonable for the performance of the Grant Subaward intent;
 - Expenditures conform to any limitations or exclusions set forth in the Grant Subaward;
 - Expenditures are adequately documented and occurred during the "Performance Period";
 - Expenditures were paid prior to requesting reimbursement;
 - Expenditures are allocated according to cost allocation plan or an approved indirect cost rate plan; and
 - Rent is allocated appropriately to grants.
- **Payroll:** Payroll refers to the control procedures utilized to ensure that grants are allocated the correct expense amount based on the benefits received.

The following will be verified:

- Employee was paid according to the approved pay rate;
 - Timesheet hours match the payroll check stub hours;
 - Timesheets are signed by employee and supervisor;
 - Payroll taxes are paid;
 - Payroll allocations are accurate; and
 - Functional timesheets are utilized where appropriate.
- **Cash Management:** Cash management refers to the internal control procedures that track and manage the receipt and disbursement of Grant Subawards.

The following will be verified:

- General ledger detail matches total reported on reimbursement reports;

- Draw-downs represent a reimbursement of expenditures, or that advances are disbursed or returned timely;
 - Appropriate time elapsing between receipt of Cal OES reimbursements to the transfer of Grant Subawards to Subrecipients and contractors;
 - Chart of accounts separately identifies Grant Subawards and expenditures;
 - Interest earned on cash advances is appropriately tracked and returned;
 - Proof of payment can be documented on a sampling of transactions comprising the reimbursement under review; and
 - Reimbursement requests are submitted timely.
- **Equipment:** Equipment refers to tangible, non-expendable property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

The following will be verified:

- Program Grant Subawards were used to purchase any equipment;
 - Equipment was procured properly;
 - Assets purchased with Grant Subawards are used solely for authorized purposes;
 - Subrecipient's policies and procedures for equipment management are adequate and consistent with state and/or federal requirements;
 - Equipment records include the minimum information;
 - Equipment acquired and determination made it was consistent with what was approved/planned;
 - New equipment was added to the equipment list;
 - Physical inventory was conducted within the last two (2) years;
 - Equipment removed from the inventory list was disposed of properly;
 - Equipment records contain all required elements; and
 - Selected equipment items were physically inspected.
- **Match:** Match test refers to the review of the internal control process or procedures utilized that track and manage the stipulated percentage of local money they require to augment the grant provided.

The following will be verified:

- Required match contributions were met;
- Match contributions and expenditures are recorded in the general ledger;
- Matching contributions are from allowable sources;
- Values placed on in-kind contributions are reasonable and appropriately documented;
- State and/or federal grants were not used to supplant;

- Grant Subawards are not being used to meet match requirements for other federal grants (or vice versa);
 - Sources of match are allowable; and
 - Match funds were used on allowable expenditures.
- **Procurement, Suspension, and Debarment:** In our review, we verify Subrecipients use the more stringent policies and procedures for procurement and ensure that non-federal entities are prohibited from contracting with, or making subawards to, parties suspended or disbarred from state and/or federal grant programs.

The following will be verified:

- Procurement policies and determination that they are at least as stringent as the federal regulations;
 - Procurement transactions to determine compliance with applicable policies;
 - Procurements were made through full and open competition;
 - Cost or price analysis has been conducted;
 - Written justification and that prior approval was obtained on sole-source procurements as required;
 - Sample of procurement subawards/contracts to ascertain if the contracts had the proper federal suspension and debarment verification performed or if self-certification was obtained;
 - Piggyback contracts were allowable; and
 - Documentation was retained.
- **Contracting Practices:** This refers to the testing of contracts and contracting practices to ensure they are consistent and in compliance with federal contracting procedures.

The following will be verified:

- Rationale for the method of procurement, the basis for contractor selection, and price are documented;
- A cost or price analysis to ensure best price has been obtained;
- Non-competitive contracts are properly justified and have received the appropriate approvals;
- Procurement and contracting policies of the Subrecipient have been followed;
- Costs of contractors are reasonable and are for eligible activities;
- Contract monitoring system is in place to validate work performed;
- Work performed is within the scope of the program/project;
- Billed amounts are verified to ensure they are as stipulated in the contract, and were incurred within the performance period of the contract;

- Type of contract is appropriate and all required language is contained in the contract;
 - Costs to administer the contract are claimed appropriately; and
 - Records retention practices are in compliance.
- **Program Income:** Program income refers to gross income received by the Subrecipient and acquired with Grant Subawards. The income is directly generated by the state and/or federally-funded programs during the duration of the grant. Program income examples are, fees collected for services, income from the sale of publications, and income from asset forfeitures.

The following will be verified:

- Program income was received, identified and recorded properly; and
 - Program income was used and reported in accordance with all applicable requirements.
- **Contracts:** This refers to the testing of contracts to ensure they contain all the required provisions.

The following will be tested:

- Contracts are prepared and signed; and
 - Contain all the required provisions;
 - Designation of the parties to the contract
 - Terms of the contract/agreement
 - Maximum payment amount
 - Type of work or services to be provided
 - Payment schedule
 - Penalty clause
 - Termination clause and basis for settlement
 - Compliance requirement with Equal Employment Opportunities (for contracts greater than \$10,000)
 - Provisions for access to books and documentation (for contracts greater than \$100,000)
- **Supplanting:** This refers to testing the expenditures to ensure federal funds were used to replace state, local or agency funds.

The following will be verified:

- Supplanting has not occurred