**INTERNAL CONTROLS OVER GRANT CONTRACT PAYMENTS**

The audit program may be used to support the agency’s assessment of internal controls in this area. Please describe the controls in place, the testing done to determine whether the controls are working as intended and testing results. Also, if the agency identifies a lack of controls or any weaknesses in established controls, include a plan for corrective action or identify any compensating controls.

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| **EXPENSE REIMBURSEMENT GRANT CONTRACTS** | | |
| **Control Objective and Activities** | **Testing** | **Results of Testing:**  **Corrective Action Plan or Compensating Controls for Weaknesses Identified** |
| 1. **Agency determined whether expenses claimed are in accordance with the terms and conditions of the grant contract and had a process that included verifying the following:**    1. Expenditures are in accordance with the approved budget.    2. Sufficient, appropriate documentation supports each expense claimed.    3. Grant-funded positions and associated costs are appropriate and comply with grant contract requirements.    4. Use of subcontractors or consultants complies with grant contract requirements.    5. The grantee complies with lease/rental agreements, if any.    6. Indirect costs are correct.    7. All expenses claimed for reimbursement are the actual cost, net of applicable credits.    8. If the grantee has multiple programs, determine whether expenses were accurately charged to the correct program that is under review.    9. Travel costs are appropriate. | 1. Review the agency’s written policies and procedures related to grant payments to determine whether they include guidance on Control Objectives and Activities A (a - i) or, in the absence of such guidance, determine whether the agency’s practice addresses these items. 2. For a representative sample of grant payments, perform the following procedures: 3. Determine whether the aggregate approved budget amount (including any amendments), the vouchers, and expenditure summary report(s) (as available) reconcile to each other.    1. Determine whether any category variances are within contractually allowable percentages or have an approved budget modification. 4. Verify that sufficient, appropriate documentation supports each expense claimed.    1. When requesting documentation to support program expenses, consider in your request the items noted in [Attachment A](#AttachmentA).    2. Request copies of cancelled checks and bank statements for expenses that cannot be independently verified (i.e., third party vendor provides contrary information or refuses to confirm the expense). 5. Determine whether staff meet the grant’s title qualifications and staffing levels do not exceed the number of approved positions in the contract. 6. If subcontractors or consultants are included in the contract, obtain copies of agreements between the grantee and the subcontractor/consultant and determine whether the subcontract is compliant with contract specifications. For example, an agency may require prior approval for a transaction over a certain limit or require the grantee to obtain three or more bids for the procurement record. 7. If a lease/rental agreement exists, obtain copies to determine whether the grantee is compliant with contract specifications.    1. Identify the owner of the property to determine whether there is a conflict of interest between the landlord and tenant. If a conflict of interest or the potential for one is found, determine whether the contract terms are reasonable and represents an arm’s length transaction in accordance with step (ii) below.    2. Determine whether the rental rate and lease agreement specifications (e.g., escalation clauses, lease term) are reasonable for the property location and the square footage rented is appropriate for the business need. If needed, consult with the Office of General Services’ Real Estate Planning and Development Group, who has expertise in real property and rental agreements. 8. If Indirect Costs are budgeted, determine whether the correct amount of expense and the indirect cost rate were used in the calculation.   [See GFO Section XI.4.D - *Indirect Cost Allocation*](https://www.osc.state.ny.us/state-agencies/gfo/chapter-xi/xi4d-indirect-cost-allocations)   1. Review the vendor invoices by recalculating unit cost and quantities. Check quotes to determine whether the quoted prices match what was billed. Look for credit memos that may not have been credited to the agency. If this vendor is selected for testing in [step B (2) (e)](#VerifyVendorInvoice) below, ask the vendor if there are any credit memos which apply to the invoice under review. 2. If the grantee has multiple programs, obtain and review the grantee’s allocation methodology to determine whether expenses for the program under review are accurately charged to the correct program.    1. Ask the grantee how multiple programs are distinguished from one another in the accounting records. Often there is a unique code associated with each program.    2. In reviewing documents, determine whether the proper program code is used consistently throughout the claim’s supporting documents. Agencies should question all exceptions. 3. Review the grant contract to determine which costs are allowable for travel reimbursement. Some grants may require grantees to abide by OSC’s allowable rates, while others may use different guidelines.    1. For grant contracts that require travel reimbursement consistent with NYS policy, review documentation to determine whether claimed travel costs are within the maximum allowable rates for mileage, lodging, meals, etc., and specifically relate to the purpose and objectives of the grant program. Also, determine whether the costs claimed were actually incurred and paid.    2. For transportation costs related to event participants or clients, obtain corroborating evidence (e.g., transportation invoices, attendance sign-in sheets) to determine whether actual costs are reimbursed and the target population was served.   Document material exceptions and review with management. |  |
| 1. **Agency determined whether grantees received the goods/services claimed for reimbursement and have a process that includes verifying the following:** 2. Goods were received and services were rendered within the stated grant period. 3. Supplies and materials purchased were received and used for the grant program. 4. Food expenses claimed are reasonable and necessary to accomplish the objectives of the program. 5. Grant reimbursement expenses for recreational activities or participant training represent:    1. allowable costs for those in attendance and    2. benefits the targeted population identified in the contract. 6. Vendor invoices/receipts used to support claims are legitimate. 7. Expenditures made pursuant to a lease/rental agreement are reasonable. 8. Funds for lease/purchase agreements of equipment were expended in accordance with contract requirements (i.e., agency prior approval limits for that category) and the equipment is used for the intended purpose. | 1. Review the agency’s written policies and procedures related to receiving good/services to determine whether they include guidance on Control Objectives and Activities B (a – g) or, in the absence of such guidance, determine whether the agency’s practice addresses these items. 2. For a representative sample of payments, perform the following tests for goods/services claimed: 3. Review the dates noted on the supporting purchase orders, invoices and receiving documents as well as cancelled checks to determine whether they are within the contract period. 4. Depending on the contract requirements, if the goods/services were received within the contract period, it may be appropriate if the expense was paid after the end of the contract. In these instances, verify proof of payment. 5. Review purchase orders, invoices and receiving documents to verify supplies and materials purchased were received and used for the intended program. 6. Small not-for-profits may only have invoices and may indicate receipt of goods/services with notations on the invoice, as opposed to separate receiving documentation. 7. The auditor may select a sample of vendors to call and make sure items claimed for reimbursement were not returned by the grantee after receipt of the invoice. 8. Determine whether food costs are reasonable by comparing food invoices to the number of individuals served within the target audience to determine whether excessive food quantities were unnecessarily purchased. Determine whether the number served includes only those that fit the targeted population. 9. Determine whether the food costs, associated with the grant in question, were previously reimbursed by another funding source (e.g., Child and Adult Care Food Program, the Summer Food Service Program). 10. Review sign-in/attendance sheets for those in attendance to determine whether grant expenses for recreational activities or participant training were reimbursed in accordance with the contractual costs allowed. Request additional documentation from the grantee to determine whether those served fit the targeted population. 11. Count the number of people on the sign-in/attendance sheets and compare that to the number of attendees billed. 12. Where participants are required to attain approval for services, obtain documentation (e.g., eligibility applications and related supporting documentation) to support that participants were eligible for the services provided. 13. Select a sample of vendor invoices/receipts and verify the legitimacy of these documents. 14. At a minimum, an invoice or receipt should have the vendor's name, address, date, and amount billed. Look for the vendor on the Internet to verify the address. If the phone number is not on the bill, check the vendor’s website or reverse search the address on [www.whitepages.com](http://www.whitepages.com) (or a similar website). Consider calling the vendor to confirm information on the invoice (Also see step [A (2) (g)](#CreditMemo) regarding Credit Memos). 15. For lease/rental agreements, determine whether the space is suitably sized for the program participants and the cost is reasonable by identifying the cost and square footage noted in the agreement. If it does not appear reasonable, consider a site-visit to observe and measure the space. If needed, consult with the Office of General Services’ Real Estate Planning and Development Group, who have employees with expertise in real property and rental agreements. 16. Determine whether funds for lease/purchase agreements for equipment were expended in accordance with the agency’s prior approval limits for that category. If this is a contract requirement, determine whether the equipment was used for the intended purpose. 17. Determine the location of the equipment. If it is shared with other programs, determine whether the correct allocation is charged to the appropriate grant. Grantees should also label the equipment and maintain property records. Consider reviewing these items if an on-site visit is conducted.   Document material exceptions and review with management. |  |
| 1. **Agency determined whether employees and consultants claimed as working for the program actually worked for that program and has a process that includes verifying the following:** 2. Salaries/rates charged to the grant are accurate. 3. Staff (i.e., employee and consultant) time charged to the grant is appropriate. 4. Fringe Benefit claims, where allowable, are correct. | 1. Review the agency’s written policies and procedures related to staffing (i.e., employee and consultant) expenses charged to the grant to determine whether they include guidance on the Control Objectives and Activities C (a – c) or, in the absence of such guidance, determine whether the agency’s practice addresses these items. 2. For a representative sample of payments, perform the following tests for employee and consultant expenses claimed: 3. Determine whether salaries/rates charged to the contract are accurate by comparing amounts claimed to the supporting time and effort documentation. 4. The payroll register should provide the hourly rates or salary amounts. For staff paid on an hourly basis, recalculate the gross amount by multiplying the hours worked by the hourly rate and document any variances. For staff paid on a salary basis, obtain sufficient, appropriate evidence to support the personnel’s work effort is consistent with the portion of salary charged to the contract. 5. Review timesheets to determine whether the hours worked match the payroll register hours. 6. Determine whether the program code noted on the timesheet documents is consistent with those used throughout the claims supporting documents. 7. Consider interviewing staff to corroborate the program(s) noted on timesheet documents. 8. Determine whether staff time charged to the grant is appropriate, as follows: 9. Using the list of staff assigned to the grant, determine whether the titles paid for and the number of staff working on the program is in line with the titles and number of positions approved in the contract. 10. Using the list of staff assigned to the grant, determine whether:     * + 1. any staff also work on more than one grant program to verify that time distribution records are accurately maintained.         2. a sample of staff have the qualifications, where required, to be billed at the contract rate. Adjust the sample size accordingly based on the results of the sample. 11. For staff working on multiple programs, determine whether the programs are clearly distinguished in the payroll records. Review a sample of time sheets to determine whether the staff person is claimed 100% of the time in any single program or more than 100% of the time for all programs. If this condition exists, check all staff working on multiple programs for the same issue. 12. If the grant budget allows costs for fringe benefits, determine whether this calculation is correct. The contract should provide details for the calculation. An example of how it may be stated: "fringe is figured as a lump sum 23% of salaries being claimed." 13. Contracts using funds appropriated outside the general fund for budgeted fringe benefits should use a rate that does not exceed the NYS Rate. Please refer to [GFO VII.9 Fringe Benefits and Indirect Costs](https://www.osc.state.ny.us/state-agencies/gfo/chapter-vii/vii9-overview) for more information.   Document material exceptions and review with management. |  |

Complete the audit program below to support the agency’s assessment of internal controls in this area. Please describe the controls in place, the testing done to determine whether the controls are working as intended and the results of this testing. Also, if the agency identifies a lack of controls or any weaknesses in established controls, include a plan for corrective action or identify any compensating controls.

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| **NET DEFICIT FUNDED GRANT CONTRACTS** | | |
| **Control Objective and Activities** | **Testing** | **Results of Testing; Corrective Action Plan or Compensating Controls for Weaknesses Identified** |
| 1. **Agency determined whether** **funds paid through net deficit funded contracts were appropriately reconciled and supported and has a process that includes verifying the following:** 2. Reconciliation of the Consolidated Fiscal Reports (CFR) to determine whether the grantee owes excess funds to the State. 3. Timely reconciliation of the CFR so that, where applicable, excess funds are returned to the State promptly. 4. Revenue and expenses are accurately reported since the under-reporting of revenue and over-reporting of expenses can result in an increased net deficit. This includes ensuring that expenses are claimed for only those costs allowed by the grant contract and that the grantee accurately records all revenues. 5. Where applicable, excess funds have actually been returned to the State. | 1. Review the agency’s written policies and procedures related to determining net deficit funded contracts were appropriately reconciled and supported to determine whether they include guidance on Control Objectives and Activities A (a – d) or, in the absence of such guidance, determine whether the agency’s practice addresses these items. 2. Perform the following tests to verify funds paid through net deficit funded contracts were appropriately reconciled and supported: 3. On a sample basis, determine whether the agency appropriately reconciled the year-end CFR and any required schedules (SED, OASAS, OMH and OPWDD should reference the [NYS Consolidated Fiscal Reporting and Claiming Manual](http://www.oms.nysed.gov/rsu/Manuals_Forms/Manuals/CFRManual/)). In addition, determine whether the reconciliation process determined whether the costs reported by the grantee support the net deficit funding paid or whether the grantee owes excess funds to the State. 4. On a sample basis, determine whether the CFR reconciliation was done in accordance with the agency’s timeframes.    1. For any untimely reconciliations, analyze the date the grantee was required to submit the CFR, the date the grantee actually submitted the CFR and the date the agency completed its reconciliation to determine the reason for the untimely reconciliation.    2. If the grantee is noncompliant or untimely in its CFR submission, consider withholding future advance payments. 5. On a sample basis, verify the accuracy of revenues and expenses reported on the CFR and supporting schedules.    1. Obtain a list of revenue sources and itemized expenses that support what the grantee reported on its CFR.       * 1. This information may be available on Form 990, which is an annual reporting return that certain federally tax-exempt organizations must file with the IRS. It provides information on the filing organization's mission, programs and finances. The filed forms can be found through various on-line resources including [Guidestar](http://www.guidestar.org/Home.aspx).         2. In addition, the Attorney General’s Office requires all charitable organizations operating in NYS to register and file annual financial reports (CHAR500). These reports and accompanying financial statements may be available via the [Charities Bureau Registry search](http://www.charitiesnys.com/RegistrySearch/search_charities.jsp).    2. On a sample basis, review bank statements and cancelled checks to confirm revenue and expenses are accurately reported. Note: the bank statements and cancelled checks may include revenue and expenses that are not program-related and therefore, are not considered when calculating the net deficit.    3. For a sample of expenses claimed, refer to the [Expense Reimbursement Contracts](#ExpenseReimbursementContracts) section of this audit program to aid in verifying the legitimacy of expenses claimed.    4. On a sample basis, verify claimed grant contract expenses are allowed by the contract.    5. Evaluate the results of any testing completed on a sample basis and determine whether to expand your review. If the results of the sample do not support the accuracy of the CFR, consider performing additional testing.    6. You may be able to review the grantee’s audited financial statements to determine whether revenue and expenses reported on the CFR reasonably agree to those on the financial statements. Note: The grantee’s certified financial statements may include revenue and expenses that do not support the net deficit funded programs and therefore, are not considered when calculating the net deficit.       * 1. If you rely on the grantee’s annual financial statements, determine whether these were audited by a Certified Public Accountant who’s independent of the grantee. 6. Identify net deficit funded contracts where the grantee received excess funds. On a sample basis, confirm the grantee returned excess funds through re-payment or offset of future payments.   Document material findings and discuss with management. |  |

Complete the audit program below to support the agency’s assessment of internal controls in this area. Please describe the controls in place, the testing done to determine whether the controls are working as intended and the results of this testing. Also, if the agency identifies a lack of controls or any weaknesses in established controls, include a plan for corrective action or identify any compensating controls.

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| **PERFORMANCE BASED GRANT CONTRACTS** | | |
| **Control Objective and Activities** | **Testing** | **Results of Testing; Corrective Action Plan or Compensating Controls for Weaknesses Identified** |
| 1. **Agency determined if grantees used funds paid through performance-based contracts to meet the required grant objectives and has a process that includes verifying the following:** 2. Grantees meet required performance goals, indicators, milestones and/or expected outcomes within specified timelines, if any. 3. Where applicable, grantees provide benefits to eligible recipients. 4. Grantee non-performance is periodically evaluated. | 1. Review the agency’s written policies and procedures related to performance-based grant payments to determine whether they include guidance on Control Objectives and Activities A (a –c) or, in the absence of such guidance, determine whether the agency’s practice addresses these items. 2. For a representative sample, determine whether the grantee met performance goals, indicators, milestones and/or expected outcomes within specified timelines, if any. This should include the following: 3. Review the grant contract and identify the required goals and specified timelines. 4. Determine whether the grantee measured goal performance appropriately. 5. Verify whether the grantee met the goals within specified timelines. Obtain performance reports and supporting documentation from the grantee along with sufficient evidence to verify the accuracy of the information reported. For example, the grantee is required to provide educational services to 100 individuals throughout the year. The educational services are provided by a third party, who is reimbursed by the grantee. Obtain the grantee’s records showing what clients were served. Confirm these claims with the client, third party or both. Depending on the goal, possible tests to verify the accuracy of the information reported by the grantee could include the following:    * 1. Observe the provision of benefits/services. Sit in and observe the services provided to determine whether they support the goals of the grant. This could also be particularly useful if services are required to be provided during specific days/times. While this may not serve as conclusive evidence that services were provided in the past, it could serve as an indicator that services were provided. For example, if a goal is to provide services during specified office hours, you could make an unannounced visit to see if the office is open on the required day/time. If it is not, you should do more work to verify whether the grantee met the goals of the grant.      2. Interview individuals completing the actual tasks to determine the tasks they performed and the approximate percentage of time spent on those tasks. Review timesheets and/or work logs, where available, to substantiate time worked. Determine whether those tasks support the required goals.      3. If the grantee provided benefits/services via a third-party/subcontractor, verify the provision of those services with the third-party. For example, if the grantee provides horse therapy services using local stables, obtain records from the stables to validate that services were actually provided.      4. If services/benefits were provided to recipients, confirm receipt with recipients. Possible tests include:         1. Interview or survey recipients to confirm receipt of benefits/services.         2. If recipients attended an event/training, obtain evidence supporting the event (e.g., attendance sheets or rosters). Contact recipients, if possible, to validate the reliability of the documentation.      5. If recipients are required to meet eligibility criteria to receive benefits/services, review case files (i.e., client files) and related supporting documentation to verify eligibility of recipients.         1. Where possible, obtain independent third-party verification of eligibility documentation. For example, if eligibility is contingent on the recipient receiving public assistance, verify the documentation the grantee/recipient provides (e.g., Letter of Eligibility or Interagency Referral form) with the local department of Social Services.      6. If the grantee is required to hold meetings and those meetings take place at a public place, contact the venue to verify whether these meetings took place. You could also attend a meeting to observe what’s discussed and whether it meets program goals.      7. If the grantee is required to do outreach or hold events for the public, find out how they advertise for these. Look on the grantee’s website to find evidence of outreach, a schedule of events/services provided, or photos of previously held events, etc. Use the internet (Google, local media outlets, etc.) to search for evidence of outreach or events. You can use the Wayback Machine (<https://archive.org/web/>) to visit archived versions of Web sites. 6. In addition, determine whether adequate procedures are in place to address grantees who have not met the performance targets in a material way (i.e., offering technical assistance, increased monitoring, discontinuing grant).    1. Using the sample selected in #2 above, assess whether the agency complied with its procedures for addressing grantees that did not meet the performance targets in a material way.   Document material findings and discuss with management. |  |

**Attachment A**

**Supporting Documentation:**

Below is a list of the typical documentation you might request depending on the grant expense you are reviewing. It is not an exhaustive list and additional documentation may be requested during your review.

Personal Services and Fringe Benefits:

* Payroll registers and timecards/sheets
* Overtime authorization forms
* Overtime worked forms
* Proof of attendance at trainings - sign-in sheets or any other authorized method of documenting individuals participating in the training
* Contractual agreements for salary rates
* Contractual agreements with benefit providers (i.e., health insurance company)
* Grantee’s disbursement records for personal services and fringe benefits (e.g., bank statements, cancelled checks), particularly if the grantee processes its own payroll instead of using a payroll services company (e.g., ADP)
* Personal Activity reports or Certifications *(per* [§200.430 (8)](https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E/subject-group-ECFRed1f39f9b3d4e72/section-200.430) of the Super Circular)
* Breakdown of fringe benefits components (e.g., vacation time, health insurance, social security, etc.)
* Rates for fringe benefit calculations and allocation methodology

Consultants:

* Procurement procedures and records - Competitive bid documentation (e.g., notice of invitation to bid; advertisement; bidders list; methodology to score bids [selection process]; notice of selection of winning bid; proposals from bidders, record of phone quotes or written vendor quotes, etc.)
* Consultant Agreement or Purchase Order
* Proof of services received including time sheets certified by the grantee’s employee responsible for managing that consultant and reasonably detailed narrative descriptions of all work done each day tied to a specific, trackable grant activity or deliverable
* Billing information and payments (e.g., invoices & check register or cancelled check)

Equipment:

* Procurement procedures and records – Competitive bid documentation (e.g., notice of invitation to bid; advertisement; bidders list; methodology to score bids [selection process]; notice of selection of winning bid; proposals from bidders, record of phone quotes or written vendor quotes, etc.)
* Contract or Purchase Order
* Receiving or packing slips and invoices
* Billing information and payments (e.g., invoices and check register or cancelled check)
* Equipment property records

Supplies:

* Procurement procedures and records - Competitive bid documentation (e.g., notice of invitation to bid; advertisement; bidders list; methodology to score bids [selection process]; notice of selection of winning bid; proposals from bidders, record of phone quotes or written vendor quotes, etc.)
* Purchase Order
* Receiving or packing slips and invoices
* Billing information and payments (e.g., invoices and check register or cancelled check)

Travel:

* Travel policies and procedures
* Travel authorizations
* Reimbursement request documentation
* Check register and/or cancelled check

Alterations & Renovations:

* Procurement procedures and records – Competitive bid documentation (e.g., notice of invitation to bid; advertisement; bidders list; methodology to score bids [selection process]; notice of selection of winning bid; proposals from bidders, record of phone quotes or written vendor quotes, etc.
* Contract or Purchase Order
* Schematics/blueprints, if applicable
* Invoices and check register or cancelled check

All Other Expenses:

* Procurement procedures and records – Competitive bid documentation (e.g., notice of invitation to bid; advertisement; bidders list; methodology to score bids [selection process]; notice of selection of winning bid; proposals from bidders, record of phone quotes or written vendor quotes, etc.)
* Purchase Orders
* Receiving or packing slips
* Invoices and check register or cancelled check