



# *Risk Assessment Monitoring Tool*

AGA Partnership for Intergovernmental  
Management and Accountability

February 2009

# Risk Assessment Monitoring Tool

## Table of Contents

INTRODUCTION .....	2
GENERAL ASSESSMENT .....	2
LEGAL ASSESSMENT .....	5
MONITORING/AUDIT ASSESSMENT .....	6
FINANCIAL SYSTEM ASSESSMENT .....	7
OVERALL FISCAL ASSESSMENT .....	9
FINANCIAL STABILITY ASSESSMENT .....	11
FINANCIAL STABILITY ASSESSMENT: PUBLIC ENTITIES .....	11
FINANCIAL STABILITY ASSESSMENT: NON-PUBLIC/NOT-FOR- PROFIT/COMMUNITY BASE ORGANIZATIONS .....	13
PROGRAMMATIC ASSESSMENT .....	16
PUBLICATION ACKNOWLEDGEMENTS .....	17

# RISK ASSESSMENT MONITORING TOOL

## INTRODUCTION

This risk assessment monitoring tool is the result of an intergovernmental partnership established by AGA in cooperation with the US Office of Management and Budget. It is intended to provide states with a method for assessing subrecipient risk and to be applicable across federal granting authorities, as well as across monitoring authorities. While it may be useful in supplementing existing tools, it is not intended to replace any risk assessment tools that may already be in use by monitoring agencies.

In using this tool, monitoring agencies are encouraged to develop applicable risk factors to evaluate programmatic compliance risk and should use professional judgment in developing a weighted scoring system for each component of the assessment.

This tool is designed to be used in conjunction with the Financial and Administrative Monitoring Tool to evaluate which subrecipients may require further, more intensive monitoring. The Financial and Administrative Monitoring Tool is available on AGA's website at <http://agacgfm.org/intergovernmental/resources.aspx>.

This assessment was developed to be as comprehensive as possible. Some items may not be applicable to certain monitoring agencies, programs or subrecipients. If items are not applicable, "N/A" should be used. Monitoring agencies should document the rationale for not applying a particular risk item.

The Programmatic Assessment questions are for illustrative purposes only. Offices using this assessment should develop specific, program risk assessment questions based upon the governing compliance statutes, rules and supplements for the program.

## GENERAL ASSESSMENT

(Yes responses indicate risk)

1. Is the entity new to operating or managing state and/or federal funds (has not done so within the past five years)?  
Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Is this program new for the entity (*managed for less three years*)?  
Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Has there been high staff turnover or agency reorganization that affects this program?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

4. Are the staff assigned to the program inexperienced with the program (*worked with the program for less than two funding cycles*)?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

5. Has the entity been untimely in the submission of:

a. applications Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

b. amendments Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

c. fiscal reporting Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

d. draw downs Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

e. budgets/revisions Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

6. Has the entity been timely in responding to program/fiscal questions?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

7. Is the program unusually complex (*e.g., program, funding, matching requirements*)?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

8. Have any other entities (program offices, auditors, staff employed by the entity, etc.) alerted us of potential risk areas?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

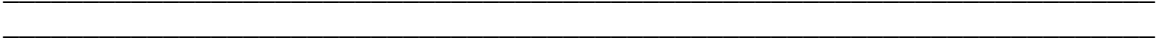
9. Does the entity have effective procedures and controls?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

10. Other areas of general assessment risk (entity-specific)

\_\_\_\_\_



## LEGAL ASSESSMENT

(Yes responses indicate risk)

1. Does the agency/entity have or previously had a lawsuit(s) filed against them?  
*If yes, list all pending and/or previous lawsuits with detailed information regarding who filed the lawsuit, the reason for filing and the final judgment rendered.*  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Is agency/entity currently or previously been suspended or debarred?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_  
*If yes, explain.* \_\_\_\_\_  
(Attach additional sheet if needed).

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Have any organization staff been jailed, convicted of a felony or are currently under criminal investigation?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

4. Other areas of legal assessment risk (entity-specific)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## MONITORING/AUDIT ASSESSMENT

(Yes responses indicate risk)

1. Have more than last three funding cycles passed since the entity had an on-site monitoring visit?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Were there findings/violations in the prior visit?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

- o *What were the number and extent of findings/violations in prior visit (more violations/more severe=higher risk)?*

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Has it been more than one year since the recipient received a single audit? (no single audit=higher risk)

Yes\_\_\_ No\_\_\_ N/A\_\_\_

IF NOT, WHY NOT? \_\_\_\_\_  
\_\_\_\_\_

4. Has it been more than one year since the program audited was as a major program?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

If no, then were there findings?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

*What were the number and extent of findings/violations in prior visit (more violations/more severe=higher risk), and does the entity have a corrective action plan for correcting the finding?*

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

5. Other factors of monitoring/risk assessment (entity-specific)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## FINANCIAL SYSTEM ASSESSMENT

(No responses indicate risk)

1. Does the state require the use of a uniform financial management/accounting system?

Yes\_\_\_ No\_\_\_ N/A\_\_\_ (If "Yes" proceed to Question 3)

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Does the entity have a financial management system in place to track and record the program expenditures? (Example: QuickBooks, Visual Bookkeeper, Socrates Media, Peachtree or a Custom Proprietary System)

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Does the accounting system identify the receipts and expenditures of program funds separately for each award?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

4. Will the accounting system provide for the recording of expenditures for each award by the budget cost categories shown in the approved budget?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

5. Does the entity have a time and accounting system to track effort by cost objective?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

6. Are time distribution records (time studies) maintained for all employees when his/her effort cannot be specifically identified to a particular program cost objective?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

*If "No," does the entity have an approved alternative system to account for time distribution, and when was it approved?*



COMMENTS \_\_\_\_\_  
\_\_\_\_\_

7. Does the entity have an indirect cost rate that is approved and current?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

(If "Yes," who approved the rate?) \_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

8. Are the Federal base dollars of this indirect cost rate calculation comparable to other organizations of similar size, purpose and budget?

Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

9. Other items of financial system assessment (entity-specific)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## OVERALL FISCAL ASSESSMENT

(Yes responses indicate risk)

1. Is this grant large in terms of percentage of overall funding for the entity?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Is there an unusual level discretion in monetary decisions?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Has the entity frequently been untimely in the drawn down of funds?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

4. Are there variations between expenditures and the budget?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_ (*large variations=higher risk*)

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

5. Has the entity returned (lapsed) significant unspent funds?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

6. Does the entity have a large amount of budget carryover?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

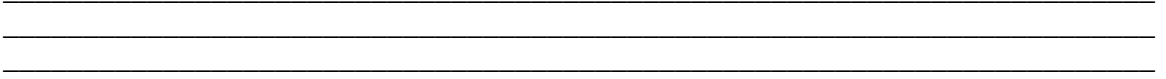
COMMENTS \_\_\_\_\_  
\_\_\_\_\_

7. Are the entity's fiscal statistics outside of tolerance or trends (*e.g., much more expenditures on supplies than average*)?

Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

8. Other items of overall fiscal assessment (entity-specific)



## FINANCIAL STABILITY ASSESSMENT

The assessment of financial stability of an entity will vary depending upon the type of entity being assessed. If the entity is a public entity (e.g., school district, public university, municipality, local air authority, etc.) the Public Entity criteria below may be used to assess financial stability. Non-public entities should be assessed using the Non-Public/Not-For-Profit/Community Base Organizations criteria.

### FINANCIAL STABILITY ASSESSMENT: PUBLIC ENTITIES

*(Yes responses indicate risk)*

1. Has the State or other authority placed the entity in a special financial status (e.g., financial watch, fiscal emergency, high risk, etc.)?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Has the entity ever used special loan or funding programs to meet its cash needs?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Has the entity had difficulties raising local revenue (e.g., taxes, levies, etc.)?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

4. Has the State or other authority placed special financial conditions on the entity's award?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

5. Do the financial reports show a insufficient fund balance after meeting its obligations?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

6. Has the entity had difficulty meeting matching/maintenance of effort requirements?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

7. Do the entities financial reports indicate cash flow problems?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

8. Do the financial reports indicate possible supplanting issues?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

9. Do the entity's financial reports indicate a large number of corrections or journals?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

10. Has the entity provided adequate supporting documentation for draws and reporting requirements?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

11. Other items of financial stability assessment (public entity-specific)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**FINANCIAL STABILITY ASSESSMENT: NON-PUBLIC/NOT-FOR-PROFIT/COMMUNITY BASE ORGANIZATIONS**

1. Purpose:

The purpose of this section is to use the Financial Statements of the entity/organization to determine its financial health. If independently audited financial statements are not available, the organization’s Chief Financial Officer should be asked to prepare and certify a financial statement. Generally Accepted Accounting Principles require organizations to maintain the following information:

(a) Financial Statements:

- Balance sheet or statement of financial position
- Income statement or statement of operations
- Statement of cash flows
- Other statements, such as
  - Retained earnings statement
  - Industry-specific statements

(b) Notes to the Financial Statements, such as:

- Accounting policies
- Related party transactions
- Subsequent events
- Contingent liabilities
- Details about debt and equity investments, inventories, fixed assets and depreciation, long-term debt and capital stock
- Disclosures as needed in other areas (e.g., leases, pensions or income taxes)

2. The Balance Sheet Statement can answer these questions:

- Can the organization pay its bills?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

- Is there cash left over after the organization pays its bills?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

- What is the organization’s debt trend?

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

Specifically:

Answer

(a) What is the “current ratio”?

Current Assets ÷ Current liabilities

\_\_\_\_\_

Note: A 1 ÷ 1 ratio means that the organization can just pay its bills.

Answer

(b) What is the "Acid Test Ratio"?

The formula is:

$$\frac{\text{Current Assets} - \text{Inventories}}{\text{Liabilities}}$$

\_\_\_\_\_

Note: The current asset – current liabilities ratio provides you with a working capital index. This ratio measures the immediate debt paying ability of an organization. A 1.0 to 1.01 acid-test ratio is usually considered adequate because it indicates that for every dollar of debt there is one dollar of assets that can be converted into cash on short notice to meet current obligations.

(c) What is the organization's Debt to Equity Ratio?

The formula is:

$$\text{Total Liabilities} \div \text{Total Equity}$$

\_\_\_\_\_

Note: The "debt to equity ratio" provides information on what the organization owns.

### 3. Statement of Cash Flows

The Statement of cash flows shows cash "coming in and going out" and can help answer important questions, like:

- What generated the entity's increase (or decrease) in cash balance?
- How did the entity utilize the cash provided by operations?
- How did the entity finance any fixed asset purchases or long-term investments?
- What uses did the entity make of cash generated by borrowing or by issuing stock?
- If an entity operated at a loss, how was it able to pay its bills?
- If an entity operated at a profit, why didn't the cash balance increase?
- Can cash flow support future needs such as debt requirements?

(a) Has the organization operated at a loss for the current or past periods?

Yes\_\_\_\_ No\_\_\_\_ N/A\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

(b) Is debt growing or declining?

Growing\_\_\_\_ Declining\_\_\_\_

### 4. Notes to the Financial Statement and Report of the Independent Auditor

The notes and “management letters” contain information and disclosures important to the understanding of the financial statements. The notes may seem lengthy and detailed, but some of the real story may be gleaned from a careful reading of these notes.

- (a) Do the notes to the financial statements or management letters disclose potential financial problems at the organization (e.g., pending lawsuits, outstanding judgments, major loans to or from officers, etc.)?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

- (b) Do the loan notes reflect (including loans from officer) indicating poor financial health (e.g., unusually high interest rates, unusual repayment provisions, etc.)?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

- (c) Does the independent audit report for the most recent fiscal year contain an unqualified audit opinion?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

If not, what kind of opinion did the auditor express? Why did the entity not receive an unqualified opinion? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Other non-public entity financial stability assessment (entity-specific)

\_\_\_\_\_  
\_\_\_\_\_



## PROGRAMMATIC ASSESSMENT

Similar to the sections above, the programmatic risk assessment should include items that assess risks in meeting program requirements and objectives. The examples below are geared toward Department of Education assessments. However, agencies using this tool should review their applicable programmatic requirements found in statute, rule and supplements to develop specific risk criteria.

1. Did the entity meet Annual Measurable Achievement Objectives?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

2. Does the entity have a system in place for parent notification?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

3. Did the entity meet notification requirements?  
Yes\_\_\_ No\_\_\_ N/A\_\_\_\_\_

COMMENTS \_\_\_\_\_  
\_\_\_\_\_

4. Other criteria which are required by applicable statute/rule.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## **Publication Acknowledgements**

This document was developed by the Subrecipient Monitoring Sub-Work Group of the A-87 Work Group of AGA's Partnership for Intergovernmental Management and Accountability.

### **Members, Subrecipient Monitoring Sub-Work Group**

*Chair:* Petrea Stoddard, Program Supervisor, Washington Office of the Superintendent of Public Instruction

Vickie Brown, Program Specialist, Florida Department of Education

John Childs, Chief Financial Officer, Ohio Department of Education

David Keele, Deputy Comptroller, Florida Department of Education

Sheara Krvaric, Attorney-Advisor, District of Columbia Office of the State Superintendent of Education

Chris Lipsey, Staff Accountant, Grants Management Division, Food and Nutrition Service, USDA

Richard (Ted) Mueller, Director, Indirect cost Group, Office of the Chief Financial Officer, US Department of Education (Retired)

Kathy Weller, Director, Office of Audits, Michigan Department of Education

### **Members, A-87 Work Group**

*Co-Chairs:* Richard (Ted) Mueller, Director, Indirect cost Group, Office of the Chief Financial Officer, US Department of Education (Retired)

Merril Oliver, Deputy Director, Maryland Governor's Grants Office

Janet Atchison, State Accounting Division, Montana Department of Administration

Fred Deminico, Office of the Comptroller, Massachusetts

Terry Hurst, Deputy Assistant Secretary, Office of Grants, US Department of Health and Human Services

Chris Lipsey, CGFM, Staff Accountant, Food and Nutrition Service, US Department of Agriculture

Dick Thompson, Chief Information Officer, Maine

Terry Storms, Auditor, Office of the Inspector General, US Department of Commerce

Darryl Mayes, National Director, Division of Cost Allocation, US Department of Health and Human Services

Scott Pattison, Executive Director, National Association of State Budget Officers

Bhavna Punatar, Cost Allocation Specialist, Colorado Comptroller's Office

Kathleen Weller, Director Office of Audits, Michigan Department of Education

AGA Staff: Helena Sims, Director of Intergovernmental Relations

#####

The Partnership for Intergovernmental Management and Accountability (Partnership) was established by the Association of Government Accountants (AGA) in September 2007 to open the lines of communication among governments. The mission of the A-87

Work Group is to identify and prioritize issues or concerns, and provide recommendations for alternative approaches, which could enhance implementation of 2 CFR Part 225 and provide benefits to all levels of government. AGA is the premier Association in advancing government accountability. AGA supports the careers and professional development of government financial professionals working in federal, state and local governments, as well as the private sector and academia. Founded in 1950, AGA has a long history as a thought leader for the government accountability profession. Through education, research, publications, certification and conferences, AGA promotes transparency and accountability in government.