

FDCM Letter



2022 Fraud Deterrence and Compliance Monitoring (FDCM) Letter

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TO: Fraud Deterrence and Compliance Monitoring Directors
Finance Directors
Workforce Development Division Directors
Local Workforce Development Board Executive Directors
Office of General Counsel

FROM: Chuck Ross, Division Director of Fraud Deterrence and Compliance Monitoring

DATE: March 4, 2022

SUBJECT: Subrecipient Monitoring Staff Responsibilities

This letter rescinds and replaces Regulatory Integrity Division Letter 05-2019.

PURPOSE

To provide information to interested parties regarding the role of auditors in the Subrecipient Monitoring (SRM) department within the Division of Fraud Deterrence and Compliance Monitoring (FDCM).

BACKGROUND

The Generally Accepted Government Auditing Standards (GAGAS) 1.03 states, “As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know whether:

1. Management and officials manage government resources and use their authority properly and in compliance with laws and regulations;
2. Government programs are achieving their objectives and desired outcomes; and
3. Government services are provided effectively, efficiently, economically, and ethically.”

Part of the Texas Workforce Commission’s (TWC) effort to achieve these goals, is to maintain the Subrecipient Monitoring Department (SRM) within the Division of Fraud Deterrence and Compliance Monitoring (FDCM).

The SRM department's mission is to provide an effective system of oversight and monitoring for members of the Texas Workforce Network and other subrecipients or grantees. The Department's primary responsibility is to provide on-site or remote monitoring reviews of local workforce development boards (Boards) and other subrecipients. SRM also performs a variety of other functions related to and in support of the monitoring function.

This system exists to ensure accountability and appropriate subrecipient use of over \$1 billion in federal and state funds administered by TWC for workforce development activities and subsidized childcare services.

While annual goals and strategies to fulfill the Department's mission change and evolve over time, the Department endeavors to:

- optimize use of technological resources in all monitoring activities;
- promote and capitalize on more effective monitoring and oversight practices at the local Board level to reduce duplication of efforts; and
- select monitoring activities based upon an enterprise risk assessment model and analysis of current operational data.

In general terms, an auditor is an independent professional who evaluates a subject matter against agreed-upon criteria by gathering evidence through performing custom-designed audit methodologies. An auditor's primary responsibility is to serve the public interest. By serving the public interest, the auditor ensures their opinions, findings, conclusions, judgements, and recommendations are impartial.

An auditor concludes whether a subject matter meets certain criteria.

Auditor vs. Consultants

- A consultant helps their client implement systems or spends time helping the client with a technical issue. Consultants get involved with the day-to-day operations of a department. The Government Accountability Office (GAO) believes you cannot both consult regarding an audit subject matter and later conduct an objective, independent evaluation of the same subject matter.
- Auditors maintain independence so that their findings, conclusions, and recommendations are impartial. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and are not capable of exercising objective and impartial judgment on all issues associated with the audit.

Financial vs. Performance Audits

- Financial audits provide independent assessments of whether entities' reported financial information is presented fairly, in all material respects, in accordance with recognized criteria. Financial audits conducted in accordance with GAGAS

include financial statement audits¹ and other related financial audits. (GAGAS 1.17).

- Performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operation, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability (GAGAS 1.21).

Financial audits are performed by contracted auditors engaged to review an entity's financial statements and are required to follow GAGAS, commonly known as Yellow Book. Their report is sent to SRM's Single Audit Department for review. These are not the types of financial auditing activities envisioned by [Commission Rule §802.62, Program and Fiscal Monitoring](#).

For GAGAS purposes, SRM reviews are considered performance audits which encompass, by necessity, the fiscal monitoring requirements of §802.62(b) in order to achieve the Commission's stated goal that SRM monitoring activities (1) ensure programs achieve intended results; (2) ensure resources are efficiently and effectively used for authorized purposes and are protected from waste, fraud, and abuse; and (3) ensure reliable and timely information is captured and reported to serve as the basis to improve decision making.² To maintain the integrity and reliability of the Department's monitoring activities, SRM voluntarily follows most government audit standards.

Objectives and Scope

As part of the SRM audit, the auditor³ must develop the objectives and scope for the audit. GAGAS 8.08 through 8.10 provide the following regarding objective and scope.

The audit objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included and may also include the potential

¹ The primary purpose of a financial statement audit is to provide financial statement users with an opinion by an auditor on whether an entity's financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework. Reporting on financial statement audits conducted in accordance with GAGAS also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.

² Commission Rule §802.62(a).

³ Per Chapter 802, Subchapter D of the Commission's rules, the Agency's oversight activities are expressed in terms of program and fiscal *monitoring*. For GAGAS purposes, and as a practical matter, the terms "monitoring review," "audit," "monitor," and "auditor" are interchangeable.

findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. Audit objectives may also pertain to the current status or condition of a program. The term “program” is used in GAGAS to include government entities, organizations, programs, activities, and functions.

Key categories of performance audit objectives include the following:

- Program effectiveness and results
- Internal Controls
- Compliance
- Prospective analysis

Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

The objective and scope define what the project is, as well as what it is not. Objectives are assessed against agreed upon criteria, which are benchmarks established by law, governing organizations, or policies and procedures.

Methodology

Auditors use a variety of methodologies to gather and document evidence. Some auditors call audit methodologies audit tests or audit program steps. The methodology describes the procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors’ findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level. (GAGAS 8.11 through 8.13)

Internal Controls

When conducting performance audits, auditors should obtain an understanding of internal control, including the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) and the integration of the components.

Obtaining an understanding of internal controls assists auditors in identifying an audited entity’s key controls relevant to the audit objectives. Internal control deficiencies are evaluated for significance within the context of the audit objectives. Deficiencies are evaluated both on an individual basis and in the aggregate. (GAGAS 8.39 through 8.58)

Questions Auditors Answer

Because of time constraints, auditors focus on risks, negative events, and the issues that need addressing instead of proving the good that occurs in an organization.

- What is the current state of affairs? (condition)
- What should be the current state of affairs? (criteria)
- What has caused the current state of affairs? (cause)
- Why is the current state of affairs undesirable? (effect)
- What should be done to correct the current state of affairs? (recommendation)

Evidence

In order to answer the above questions, auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions. (GAGAS 8.90)

Deliverables

Auditors create three deliverables from an audit project:

- The answer to the audit objective – called either an audit conclusion or an audit opinion
- Findings – issues that the auditor would like to see addressed or corrected by the client
- Working papers –documentation of the evidence the auditor gathered to support the conclusions and the findings.

Auditors prepare documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. (GAGAS 8.132). Auditors should prepare audit documentation that contains evidence that supports the findings, conclusions, and recommendations before issuing their report. (GAGAS 8.133)

ACTION REQUIRED

All Regulatory Integrity staff, supervisors, and managers should be aware of the information in this letter.

This letter is provided strictly as informational to Board Executive Directors and may be shared with their staff as they deem appropriate.

REFERENCES

[Generally Accepted Government Auditing Standards \(GAGAS\), 2018 Revisions](#)

[FDCM Letter 02-2022: SFY22 Subrecipient Monitoring Policies and Procedures Related to Local Workforce Development Boards](#)

INQUIRIES

Direct questions to:

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