

## **What Are My Monitoring Responsibilities?**

### **OMB Circular A-133, Section 400(d):**

A pass-through entity must perform the following for the Federal awards it makes to subrecipients:

- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of Circular A-133 for that fiscal year.
- (5) Issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with Circular A-133.

## Suggested Monitoring Procedures

Below are items to consider when monitoring subrecipients. If allowed by the grant agreement, a pass-through entity can charge the cost of monitoring to its federal awards.



### Inform your subrecipient of pertinent information:

- Inform subrecipients of the federal award information they need for their records (e.g., CFDA title and number, award name, name of federal agency, amount of award, the time period that costs can be charged, etc.).
- Include in your written agreements with subrecipients the federal compliance information they need to know, such as:
  - (a) Audit requirements of OMB Circular A-133.
  - (b) Charging costs in accordance with the approved scope of work and Circular A-87. Developing an indirect cost rate when applicable.
  - (c) Seeking prior approval for certain costs and extensions to the grant closing date.
  - (d) Method in which they will be paid (reimbursement basis, periodic cash advances, etc.) and the documentation that should accompany the reimbursement claim.
  - (e) Informing contractors of requirements of Davis-Bacon prevailing wages.
  - (f) Documenting the allowable sources of matching funds.
  - (g) Prohibition of using the federal award to supplant existing resources.
  - (h) Spending limits in certain areas (e.g., admin and planning, supplies, etc.)
  - (i) Maintaining property records for equipment and performing a physical inventory of equipment.
  - (j) Accounting for and using program income.
  - (k) Applicable laws for procurement of goods and services, public works, real property, etc.
  - (l) Requirement to ensure lower-tier transactions meet suspension and debarment rules.
  - (m) Documenting eligibility of program participants being served.
  - (n) Reporting requirements (financial or programmatic).
  - (o) Notification that the grantor agency and auditor must have access to records for monitoring and audit purposes.
- Inform your subrecipients of who to contact if they have questions or need technical assistance.

## Suggested Monitoring Procedures



### **Ensure your subrecipients are receiving audits when necessary:**

Communicate on an annual basis with the subrecipient to determine whether it has exceeded the threshold requiring an audit under OMB Circular A-133 (currently \$500,000 in total federal expenditures in a year).

- If an audit is required, check to see that the subrecipient submits the reporting package and any documents required by OMB circulars.
- If the subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, follow up with the subrecipient until the audit is completed. Taking appropriate actions such as withholding further funding until the subrecipient meets the audit requirements.
- Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable.
- Maintain a system to track and follow-up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken.
- Review subrecipient reports and following-up on areas of concern.

## Suggested Monitoring Procedures



### Monitor the activities of your subrecipients:

Monitor the activities of the subrecipient to ensure it is using the grant funds for approved purposes.

- Reconcile the subrecipient's budgeted expenditures to actual expenditures.
- Perform an on-site visit to the subrecipient to review financial and programmatic records and observe operations.
- Desk review - review financial and program reports submitted by subrecipients for allowable use of the grant funds.



#### Best Practice Tip:

**Try to avoid duplication of work among your agency's programs. If two or more programs in your agency are reviewing the same information of the subrecipient at different times during the year, you are duplicating your work load and causing an avoidable cost to the subrecipient – the loss of their staff's time.**

- Arrange for limited-scope audits (a.k.a., "agreed-upon procedures") to be conducted by public accountant or auditor. NOTE: "Agreed-upon procedures" engagements must be conducted in accordance with either the AICPA's generally accepted auditing standards or attestation standards. Agreed-upon procedures must be paid for and arranged by the pass-through entity and address only one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and, reporting.
- Offer subrecipients technical assistance where needed.
- Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, onsite monitoring reviews of subrecipients, and timely resolution of audit findings.
- Have a second party within your organization periodically review the adequacy of subrecipient monitoring for all programs within the organization.

## **Factors that may affect nature and extent of monitoring**

- Dollar amount of awards provided to subrecipients.
- Number of subrecipients can effect how often you monitor them.
- Complexity of program requirements -- programs with significant changes to the grant program requirements can impact risk.
- Subrecipient's experience with program.
- Subrecipient's control environment – new personnel, insufficient staffing levels, lack of communication between office locations, new or recently modified or complex computer systems, lack of corrective action on prior findings can increase risk.
- Results of audits conducted by SAO or other agency.
- Subrecipients with frequent requests for more budget, requests for extensions to grant closing dates, requests for exceptions to the rule.

## **Document Your Monitoring**

- Maintain a file or record of the desk reviews that you perform and the results.
- Develop a schedule of dates to perform on-site visits; document the work performed and the results of on-site visits.
- Document follow-up work you perform on corrective action to be taken by subrecipient.
- Document corrective action taken by subrecipient and any adjustments to their financial records or your records.
- Retain CPA's report and results of agreed-upon procedures.
- Retain a copy of the management decisions you issued in response to subrecipient audit findings.

## Audit Results

### Audit Findings Reported for Subrecipient Monitoring

FY07 – 3 findings  
FY06 – 0 findings  
FY05 – 4 findings  
FY04 – 4 findings

### Auditor Comments

#### *On the topic of “Risk Assessments”*

- “The entity did not conduct risk assessments of subrecipients prior to funding to determine the appropriate level of monitoring.”
- “Risk assessments were not adequately and consistently performed and did not always include a review of:
  1. Subrecipient single audit reports to identify weaknesses that could affect the program.
  2. Subrecipient cost allocation plans and indirect cost classifications to determine if these areas required review during on-site visits.
  3. Staff correspondence to evaluate observations of potential weaknesses with subrecipient operations.”
- “Monitoring plans were not always adjusted to include the effect of issues such as those above.”

#### *On the topic of “On-site Reviews”*

- “The entity stated it had conducted on-site reviews of all 22 subrecipients; however we found no documentation of such a review for 13 of 22 subrecipients. Without a review of supporting documentation at the time of payment or a review of such documentation on-site, the entity cannot be certain its subrecipients have spent grant funds in the proper amounts for allowable purposes.”
- “Documentation was not always sufficiently complete to establish that on-site visits were adequately performed.”
- “The active workload spreadsheet, which is used to track projects, did not include time frames identified as appropriate for oversight.”
- “For the subrecipients with documented on-site reviews, several reviewers cited significant fiscal issues, such as insufficient support for costs or unavailable verification of deliverables. In these cases, there was no determination made as to whether costs should be reimbursed to the entity, and there was no corrective action plan to provide

assurance that only allowable charges would be claimed in the future. Without proper follow-up, on-site reviews will not be effective.”

***On the topic of “A-133 Audits”***

- “The entity did not sufficiently monitor or communicate with subrecipients who have not complied with the audit requirements of OMB A-133.”
- “The entity did not have controls in place to ensure the subrecipient obtained a federal compliance audit as required.”
- “The entity is not receiving and reviewing all of the independent audits of subrecipient federal funds to help in planning for monitoring visits and to help ensure that any corrective action noted in the reports has been taken. When the entity does not receive and review these audit reports, it may not have complete information about weaknesses identified by the independent auditors.”

***On the topic of “Fiscal Oversight”***

- “Pass-through entities are to provide reasonable assurance that the costs of goods and services charged to federal awards are allowable and charged in accordance with the applicable regulations. While the entity did review subrecipients’ costs for allowability prior to reimbursement, the entity did not require supporting documentation such as receipts, invoices or timesheets. Inspections of subrecipient project sites were not regularly documented and the entity did not review subrecipient financial records.”
- “Up to one percent of grant funds may be used for administrative costs related to the grant. Pass-through entities are to provide reasonable assurance that only allowable costs which are properly calculated and valued are included in these administrative costs. We could not determine whether these requirements were met due to the inadequacy of supporting documentation.”
- “We found insufficient evidence that the entity performed adequate monitoring to determine whether the sub-recipients were doing the work required by the grant, meeting the program goals, and complying with the terms and provisions of the grant agreement and regulations.”
- “The program and fiscal office subsidiary records that track advance payments to subrecipients did not always reconcile with each other or with the state’s accounting records.”
- “Staff members could not clearly identify why projects were placed on increased oversight or when and why they were removed from the active workload spreadsheet.”
- “Documentation in the file of the extent and frequency of monitoring was not sufficient to determine if the increased oversight requirement was met.”

## Subrecipient or Vendor?

Federal awards expended by subrecipients are subject to audit under Circular A-133. The payments received for goods or services provided as a vendor would not be considered Federal awards.

### Definitions

**Subrecipient** means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program.

**Vendor** means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program.

## Subrecipient / Vendor Checklist

Listed below are common characteristics of subrecipients and vendors. In determining whether an entity is a subrecipient or vendor, you should consider the substance of the agreement over its form. This list does not include all possible attributes nor does an entity have to meet every attribute.

Questions	Subrecipient?	Vendor?
<p><b>Solicitation and Competition</b></p> <p>Is the transaction with the lower tier party subject to state or federal procurement regulations (e.g., a RCW that requires advertising for bids or seeking quotes, OFM client services, OFM personal services, GA Public Works, Circular A-102 Common Rule, etc.) that mandate maximum free and open competition (or justification as to why sole source or declaring an emergency is appropriate)? If “yes”, this is an indicator of a vendor relationship.</p> <p>Instead of procuring the goods or services as described above, did your entity announce the “availability of funding” or announce that you were “seeking applications” for funding? If “yes”, this is an indicator of a subrecipient relationship.</p>		
<p><b>Purchasing Relationship</b></p> <p>Does the lower tier party provide similar goods or services to many different purchasers?</p> <p>If “yes”, this is an indicator of a vendor relationship.</p>		
<p><b>Criteria for Selection</b></p> <p>Which criteria was the most important in selecting the lower tier party:</p> <ol style="list-style-type: none"> <li>1. Ability to demonstrate a financial or public need for funding in order to carry out a project or provide a service; or</li> <li>2. Capability to deliver the goods or services to meet your entity’s needs?</li> </ol> <p>Answer 1 is an indicator of a subrecipient and answer 2 is an indicator of a vendor.</p>		
<p><b>Statement of Work / Scope of Services</b></p> <p>Which statement is the most appropriate for the scope of your agreement:</p> <ol style="list-style-type: none"> <li>1. The lower tier party identified the details (scope) of the project/service for which it is seeking financial support; or</li> <li>2. You define the scope of work for which you will pay the lower tier party (i.e., you identify what you are buying).</li> </ol> <p>Answer 1 is an indicator of a subrecipient and answer 2 is an indicator of a vendor.</p>		

<p><b>Nature of the Award</b></p> <p>Which statement is most appropriate for the intended use of the federal funds:</p> <ol style="list-style-type: none"> <li>1. The lower tier party will use the federal funds to carry out its own public program/project and/or provide a public service; or</li> <li>2. The lower tier party is providing goods or services to assist you in meeting your program objectives and these goods/services are ancillary to the overall program scope.</li> </ol> <p>Answer 1 is an indicator of a subrecipient and answer 2 is an indicator of a vendor.</p>		
<p><b>Decision-making Authority</b></p> <p>Does the lower tier party have a substantial amount of authority for making decisions about program delivery and/or does it determine who is eligible to receive assistance or participate in program?</p> <p>If "yes", this is an indicator of a subrecipient relationship.</p>		
<p><b>Pricing of the Agreement</b></p> <p>Which statement is best fits the terms of payment:</p> <ol style="list-style-type: none"> <li>1. The lower tier party is reimbursed only for its actual costs incurred for allowable activities as outlined in the contract and the lower tier party should not earn a profit from the terms of payment; or</li> <li>2. The lower tier party is paid a set fee-for-service or fixed price at increments above its costs (profit) usually in exchange for the risk it assumes in competing with others to offer the needed goods or services.</li> </ol> <p>Answer 1 is an indicator of a subrecipient and answer 2 is an indicator of a vendor.</p>		
<p><b>Cost Sharing / Matching</b></p> <p>As a condition of receiving the federal funds, is the lower tier party required to contribute its own non-federal resources (or seek third party in-kind contributions) to help pay for the project/service?</p> <p>If "yes", this is an indicator of a subrecipient relationship.</p>		

<p><b>Award Risk</b></p> <p>Which statement is most appropriate concerning award risk:</p> <ol style="list-style-type: none"> <li>1. The funding is contingent on the lower tier party making its "best effort" to meet the objectives of the award. Although its performance is measured against whether the objectives of the Federal program are met, the grantee assumes little financial risk if performance does not meet goals. This recognizes that federal assistance is often awarded to try to solve intractable problems that may not respond.</li> <li>2. The lower tier party accepts the risk of financial consequences for not achieving the award objectives or failing to provide the agreed-upon goods or services.</li> </ol> <p>Answer 1 is an indicator of a subrecipient and answer 2 is an indicator of a vendor.</p>		
<p><b>Applicable Rules</b></p> <p>Is the lower tier party required to follow the provisions of OMB Circular A-87 (cost principles for states, local and Indian tribal governments), A-21 (cost principles for colleges and universities), A-122 (cost principles for non-organizations), A-133 (single audit act), and/or A-102 (uniform grant administrative rules)?</p> <p>If "yes", this is an indicator of a subrecipient relationship.</p>		
<p><b>Treatment of Property Purchased with Award Monies</b></p> <p>Under the terms of the award, can the lower tier party use the funding to purchase real property, equipment and/or supplies? And, if disposed of or sold, is the lower tier party required to obtain disposition guidance from you and/or return your percentage of the proceeds if the per-unit fair market value exceeds \$5,000?</p> <p>If "yes", this is an indicator of a subrecipient relationship.</p>		
<p><b>Other factors not listed above:</b></p>		