



COLORADO

Office of the State Controller

Department of Personnel
& Administration

OFFICE OF THE STATE CONTROLLER GUIDE FOR MONITORING SUBRECIPIENTS

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TABLE OF CONTENTS

	Page
INTRODUCTION	3
MONITORING ACTIVITIES	4
Subrecipient Determination	4
Notification of Compliance to Federal Regulations	5
Risk Assessment	6
Monitoring Planning, Methods, and Techniques	6
Management Decisions	8

NOTE: *Although this guidance provides monitoring guidance for federally funded grant programs, the information provided may also be utilized to monitor grants provided by other funding sources (i.e. private/foundation, state, etc.).*

INTRODUCTION

Background

2 C.F.R. Part 200 and the “Colorado Office of the State Controller Guide for State Agency Compliance with the OMB Uniform Guidance” (OSC Guide) regarding Federal Grants Management assign certain responsibilities to the primary recipients of federal grant monies, i.e., State Agencies (SA). SAs often administer federal awards received as subawarded funds to other non-federal entities termed “Subrecipients” to carry out various federally-funded programs. Subrecipients are typically units of local government (i.e. city and county agencies) but also include other entities such as Native American tribes, institutions of higher education, special districts and non-profits. As a primary recipient, SAs are typically known as a pass-through entity (PTE) that subawards federal grant funds to Subrecipients. Requirements for Subrecipient monitoring and management is covered in Sections 200.331 through 200.345 in 2 C.F.R. Part 200. Further, audit requirements contained in 2 C.F.R. Part 200, Subpart F, require that PTEs monitor the activities of their Subrecipients, as necessary, to ensure that federal awards are used appropriately and that performance goals are achieved. PTEs must also ensure that Subrecipients meet all audit responsibilities.

This guide provides information to assist SAs in understanding the federal requirements imposed on PTEs and to provide guidance to assist in meeting the requirements. In summary, PTEs will be responsible for:

- Informing Subrecipients about information related to their federal subaward(s), as well as the applicable compliance requirements related to the subaward;
- Monitoring Subrecipient activity;
- Verifying that all Subrecipients meet the audit requirements; and
- Issuing management decisions about relevant Subrecipient audit findings.

Monitoring Process

There are a variety of methods PTEs can use to oversee Subrecipient compliance and performance. An entity meeting the Subrecipient criteria will be subject to Subrecipient monitoring activities, including State and local governments, Native American tribes, special districts, institutions of higher education, or non-profit organizations.

Purpose and Applicability

The purpose of the information presented in this Guide is to serve as basic guidance in monitoring federally-funded programs awarded to Subrecipients. It is intended to identify important requirements that SAs, serving in the role of a PTE, are responsible for meeting when administering federal grant funds. It is critical that PTEs sufficiently monitor and provide assurance that Subrecipients are in compliance with applicable requirements as described in 2 C.F.R. Part 200.

The OSC Guide provides a basic framework for consistency in monitoring activities across the State to ensure that core activities are performed by PTEs. The core activities are defined as Subrecipient designation; notification of federal funds (pre and post work); performing a risk assessment; developing a monitoring plan; conducting Subrecipient monitoring and Single Audit monitoring; issuing management decisions; and following up in a timely manner.

Monitoring Activities

Monitoring is an integral part of ensuring that a Subrecipient is in compliance with the requirements of the federal government, SAs, and SA Program Divisions, adhering to applicable laws and regulations, and progress is being measured on stated results and outcomes. Monitoring can include an assessment of documentation and data maintained by the Subrecipient, information obtained in interviews, and obtained through observation. Monitoring efforts should determine the Subrecipient's level of compliance with federal and SA requirements and identify operational changes that may impact programs funded through the PTE. Monitoring also helps to determine if the Subrecipient financial management and accounting systems are adequate to account for funds in accordance with federal and SA requirements.

One of the most important facets of the award/subaward process is to stay informed through maintaining effective communications with Subrecipients. PTEs and their Subrecipients can use communication tools such as customer satisfaction surveys, face-to-face and telephone interviews, and emails to stay abreast of activities and changes to programs and policies relevant to Subrecipient programs funded through PTEs. Critical to a good PTE/Subrecipient relationships and grant performance is effective communication. Open communication helps ensure that the subaward runs smoothly. Examples of methods that may be used for monitoring Subrecipient activities are as follows:

- Review financial and Single Audit reports;
- Perform desk reviews and closeout audits;
- Arrange for internal audits;
- Schedule site visits and onsite monitoring;
- Perform post-award reviews;
- Review Subrecipient reports (including programmatic, performance, and financial);
- Require prior approval for certain activities;
- Provide technical assistance and training;
- Make telephone calls and use other means of communications;
- Follow Subrecipient news coverage;
- Measure customer satisfaction;
- Collaborate between SA Divisions and with other SAs;
- Monitor proposed and adopted legislation; and
- Participate on different boards and associations related to Subrecipient programs monitored

Subrecipient Determination: 2 C.F.R. § 200.330

SAs must identify whether a subawardee is a Subrecipient or a contractor. A Subrecipient is an entity that expends federal awards received from recipient, i.e., a PTE. A Subrecipient is not a contractor, because program compliance requirements usually do not pass through to contractors. There may be unusual circumstances or exceptions to the characteristics of Subrecipients and contractors. In making the determination of whether a Subrecipient or contractor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present for every Subrecipient. Judgment may need to be used in determining whether an entity is a Subrecipient or contractor. Further, an entity may concurrently receive federal

awards as a direct recipient, Subrecipient, and contractor, depending on the substance of the agreements.

Units of Local Government

Counties and other local government entities act as an arm of the State by virtue of the services work they do on behalf of a PTE. Due to this, although some exceptions may occur, in most cases units of local government departments would be considered to be a Subrecipient.

Non-County/Other Non-Local Government Entities

To distinguish a Subrecipient from a contractor for non-county/non-local government Subrecipients, PTEs may use the Sample Subrecipient v. Contractor Determination Tool (referenced in the OSC Guide), or a similar tool that has been developed by your SA. When an entity is designated as a Subrecipient, PTEs must appropriately code expenditures to a Subrecipient object code in the Colorado Operations Resource Engine (CORE) system.

Notification of Compliance to Federal Regulations: 2 C.F.R. § 200.331(a)

Those entities that are determined to be a Subrecipient must be notified, in writing, of the obligation to comply with federal regulations. This would include Counties, other units of local government entities, and non-local government entities considered as being Subrecipients.

PTEs are required to notify Subrecipients of their subaward and associated information related to the award. If circumstances arise where any of the following information is not available or not known, they must provide the best information available at the time to describe the award and subaward, as allowed by 2 C.F.R. § 200.331(a).

SAs serving as a PTE must notify Subrecipients in writing or through grant agreements and purchase orders, as applicable, of the following information:

- Subrecipient name (matches DUNS number);
- Subrecipient's DUNS number;
- Federal award identification number;
- Federal award date;
- Subaward period of performance start and end date;
- Amount of federal funds obligated;
- Total amount of federal funds obligated to the Subrecipient;
- Total amount of the federal award;
- Federal award project description;
- Name of the federal awarding agency, pass-through entity, and contact information of the awarding official;
- CFDA number and name;
- Identification of whether the award is R&D; and
- Indirect cost rate for the federal award (including if the de minimis rate is charged).

Risk Assessment: 2 C.F.R. § 200.331(b)

The Uniform Guidance requires PTEs to perform a risk assessment of each Subrecipient. As a PTE, SAs are responsible for assessing a Subrecipient's risk of non-compliance with federal statutes, regulations, and the terms and conditions of the award and subaward. This should be accomplished using the sample "Risk Assessment Calculation Tool" (referenced in the OSC Guide) or a similar method designed to measure associated risks. The sample Risk Assessment Calculation Tool incorporates risk factors identified in 2 C.F.R. § 200.331(b). In circumstances where the federal awarding agency mandates a specific risk assessment tool, the OSC risk assessment, or another similar SA-developed tool may also be used in conjunction with the federally-mandated tool, as an additional method for determining risk.

Monitoring Planning: 2 C.F.R. § 200.331(d), (e), (f), (g), (h)

SA's should develop a Subrecipient monitoring plan that is based on the level of risk determined through performing a risk assessment. Uniform Guidance, 2 C.F.R. § 200.331(e), recommends that the following monitoring tools may be used depending on the level of risk:

- Providing Subrecipients with training and technical assistance on program-related matters;
- Performing on-site reviews of the Subrecipient's program operations; and
- Arranging for agreed-upon procedures engagements as described in 2 C.F.R. § 200.425, "Audit Services."

PTEs must verify that every Subrecipient that expends more than \$750,000 in federal awards is audited in accordance with 2 C.F.R. § 200, Subpart F. Further, PTEs must consider whether the results of any audits of Subrecipients, onsite reviews, or other monitoring indicate that adjustments need to be made to the PTE's own records. When issues related to noncompliance with the Uniform Guidance are identified PTEs must consider taking enforcement actions as described in 2 C.F.R. § 200.338, "Remedies for Noncompliance." Enforcement actions should be taken if determined to be appropriate.

Listed below are some Subrecipient monitoring methods and techniques used by PTEs to help ensure that federal awards are used appropriately, performance goals are achieved, and Subrecipients are in compliance with applicable federal and State requirements.

Data Mining and Sampling

PTEs may perform data mining and/or sampling of Subrecipient selected data to identify any potential errors, data anomalies, or other program-related issues. This may involve analysis of a variety of data elements, including financial and programmatic information. Results may identify issues with compliance, indications that performance goals may not be met, or that the funds provided are not being appropriately used.

Independent and Quality Assurance Reviews

SA Program administrators may perform various independent and quality assurance reviews of Subrecipient management of programs funded through PTE subawards. Generally, such reviews are accomplished by SA resources that possess specialized expertise in the program areas and objectives that are being monitored.

Internal Audits

SAs with assigned audit resources may engage such resources to perform audits as a part of its Subrecipient monitoring plan. For example, SA internal auditors may review the controls associated with a Subrecipient's process or program and identify root cause for any issues found. This framework may allow PTEs to assess risk on a more proactive basis through meetings between the auditors and PTE personnel involved in Subrecipient monitoring as an audit progresses. Audit schedules may be reprioritized accordingly to address the areas of most concern throughout the year. The resultant audit topics may be wide ranging and encompass various types of risks, including areas internal to the SA and its Subrecipients. In addition, internal auditors may participate in various fiscal and policy meetings to stay apprised of upcoming initiatives and potential risks, and may use this information to identify additional areas of risk that could be applied to determine audit scope and incorporate into the audit schedule.

Fraud Investigations

If there is an allegation of fraud against an internal employee, Subrecipient, and/or community partner that is determined to be credible, a SA fraud investigator, in cases where such resources are assigned, may conduct a formal investigation. They can decide whether or not there is non-compliance related to any potential fraud that is governed through federal and State regulations, rules, and/or policies. Based on an objective examination of all facts, any misconduct or criminal non-compliance should be identified and reported to the appropriate internal or external (e.g., State law enforcement and the federal award agency) authorities for resolution. Furthermore, for those Subrecipients who have internal fraud investigators (e.g., county or local government departments), SAs may rely, if appropriate, on those personnel to conduct and follow up on consumer allegations of fraud, waste, and abuse, in accordance with federal and State regulations, rules, and policies.

Technical Assistance

SAs may provide specialized technical assistance to their Subrecipients. The amount and method of technical assistance provided should be determined on a case-by-case basis. The technical assistance comes in a variety of forms, such as formal and informal trainings, webinars, briefings, telephone and email communications, and through other forms of communication that assist in ensuring Subrecipients follow applicable federal and State guidance, meet objectives, and achieve program goals.

Cross Program Collaboration

Subrecipient monitoring, depending on the relative size of a SA and number of federal grants received, is an on-going process. In an effort to efficiently address any higher-risk attributes that are identified in the Subrecipient risk assessments, SAs should encourage Program Divisions to collaborate with each other to provide the necessary monitoring activities to address the identified risks. For example, if a county government had a higher-risk attribute in properly documenting expenditures that was noted by one Program Division, other Program Divisions should be able to rely on the results of the work for their monitoring purposes. SAs should also collaborate, to the greatest extent possible, with other SAs that serve in PTE roles to gain insight into best practices.

Single Audit Monitoring

The requirement for performance of Single Audits is covered in 2 C.F.R. Part 200, Subpart F, "Audit Requirements." All Subrecipients that receive federal awards either directly or through a PTE that exceed \$750,000 in total awards must have a single or program-specific audit performed. The audit assesses the Subrecipient's compliance with the grant award terms. Generally, it is more common for Subrecipients to receive a Single Audit since Program-Specific Audits are allowed only if the auditee expends federal awards under a single program and the federal program's statutes, regulations, or the terms and conditions of the federal award do not require a financial statement audit of the auditee.

A follow up of prior year Single Audit findings is a required activity by the independent single auditor during the performance of the Single Audit of the subsequent year. This follow-up process may be used as a method to monitor a Subrecipient's timeliness in implementing their corrective action plan. PTEs are encouraged to follow up on the Subrecipient's Single Audit findings before the subsequent year's Single Audit. The extent of follow up may vary depending on a variety of factors, including, but not limited to, the severity of the findings, timing of implementation of related recommendations, how well the corrective action process is managed by the Subrecipient, and available resources.

At the conclusion of a Single Audit the auditor prepares related audit findings and recommendations and includes them in the Single Audit report. PTEs are responsible for following up and ensuring that Subrecipients take timely and appropriate actions to remediate all deficiencies found during the Single Audit.

Management Decisions: 2 C.F.R. § 200.521

PTEs must review and opine (sustain or disagree) on Subrecipient findings appearing in the Single Audit report. This action is taken through the issuance of a management decision letter, which is required to be sent to the Subrecipient no later than six months after the audit report is received and accepted by the Federal Audit Clearinghouse (FAC).

PTEs are responsible for receiving Subrecipients' Single Audit reports from the FAC, coordinating the findings with appropriate PTE personnel to formulate an opinion, and sending out the resultant management decision letter. Depending on the nature of the finding and the professional judgment of the responsible PTE personnel, audit firms may be asked to provide their supporting audit work papers related to the Single Audit. In those circumstances, the work papers may be reviewed by the SA audit staff or other appropriate PTE personnel for quality of work, accuracy, and conformance to auditing standards.

To assist PTEs in reviewing and concluding on Subrecipient audit findings, Subrecipients are responsible for preparing and submitting a corrective action plan that addresses each Single Audit finding. The corrective action plan should sufficiently address how each finding will be corrected, the date in which corresponding recommendations will be implemented, and the name of the Subrecipient contact person(s) responsible for taking corrective action. If the Subrecipient does not agree with any of the audit findings or believes that corrective action is not required, the corrective action plan must include an explanation and specific reasoning.