

Subrecipient Monitoring



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Presented by Rehmann

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Presentation Outline

- Overview of an A-133 single audit
 - Elements
 - Sources of guidance
 - Direct vs. pass-through funds
 - Subrecipient vs. vendor determinations

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Presentation Outline

- Requirements for pass-through entities:
 - Up front communication
 - During-the-award monitoring
 - Following up on findings
- Requirements for subrecipients:
 - Reporting
 - Applicable compliance areas

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Overview of an OMB Circular A-133 Single Audit

- Elements:
 - Financial statement audit (GAAS)
 - Yellow Book audit (GAGAS)
 - Federal compliance audit (A-133)
- Required for “non-federal entities that expend \$500,000 or more in a year in Federal awards”

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Overview of an OMB Circular A-133 Single Audit

- Basis for determining Federal awards expended
 - When activity related to the award occurs
 - Pertains to events that require compliance with law, regulations, and contracts/grants
 - Pass-through entity: disbursement of funds to subrecipients
 - Subrecipient: expenditure of the pass-through award

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Overview of an OMB Circular
A-133 Single Audit

- Sources of guidance:
 - OMB Circular A-133
 - A-133 Compliance Supplement (2012)
 - AICPA Audit Guide: *Government Auditing Standards* and A-133 Audits

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Direct vs. Pass-through Funds

- Federal award
 - Federal financial assistance that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities
- Pass-through entity
 - A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program

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Subrecipients vs. Vendors

- An auditee may be a recipient, a subrecipient, and/or a vendor
 - Federal awards expended as a recipient or a subrecipient are subject to audit
 - Payments received for goods or services provided as a vendor are not considered Federal awards
 - No clear line between the two

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Subrecipients vs. Vendors

- Characteristics indicative of a Federal award received by a subrecipient:
 1. Determines who is eligible to receive what Federal financial assistance
 2. Has its performance measured against whether the objective of the Federal program are met
 3. Has responsibility for programmatic decision making

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Subrecipients vs. Vendors

- Characteristics indicative of a Federal award received by a subrecipient:
 4. Has responsibility for adherence to applicable Federal program compliance requirements
 5. Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity

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Subrecipients vs. Vendors

- Characteristics indicative of payment for goods and services to a vendor:
 1. Provides the goods and services within normal business operations
 2. Provides similar goods or services to many different purchasers
 3. Operates in a competitive environment

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Subrecipients vs. Vendors

- Characteristics indicative of payment for goods and services to a vendor:
 4. Provides goods or services that are ancillary to the operation of the Federal program
 5. Is not subject to compliance requirements of the Federal program

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Subrecipients vs. Vendors

- Use of judgment:
 - Substance of the relationship is more important than the form of the agreement
 - Not all characteristics will be present
 - Judgment should be used in determining whether an entity is a subrecipient or vendor

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Subrecipients vs. Vendors

- Pass-through entity/subrecipient:
 - A state department of education (pass-through entity) receives a federal award and is responsible for administering and disbursing the federal award to local school districts (subrecipients) according to a formula or on some other basis

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Subrecipients vs. Vendors

- Pass-through entity/subrecipient:
 - A regional planning commission (pass-through entity) receives a federal award for the feeding of elderly and low-income individuals, and the award is disbursed to NFPs (subrecipients) to support their feeding programs

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Subrecipients vs. Vendors

- Pass-through entity/subrecipient:
 - A university (pass-through entity) receives a federal award, and the award is disbursed to a governmental hospital (subrecipient) to conduct research

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Subrecipients vs. Vendors

- Pass-through entity/subrecipient:
 - A state arts commission (pass-through entity) receives a federal award, and the award is disbursed to an NFP theater group (subrecipient) to support a summer arts series

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Subrecipients vs. Vendors

- Recipient and Vendor:
 - A local government (recipient) receives a federal award to provide mental health services in a designated area. Some of the funds are paid to a contractor (vendor) to repair a leaking roof.

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Subrecipients vs. Vendors

- Recipient and Vendor:
 - A county (recipient) receives a federal award to operate a Head Start program and pays an NFP (vendor) to provide temporary clerical services.

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Subrecipients vs. Vendors

- Recipient and Vendor:
 - An NFP (recipient) receives a federal award to run a preschool and pays a medical doctor (vendor) to perform health screening on a per-student basis.

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Subrecipients vs. Vendors

- Recipient and Vendor:
 - An NFP (recipient) receives a federal award to operate a child care center and pays a not-for-profit clinic (vendor) to perform physical exams.

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Subrecipients vs. Vendors

- Both a Subrecipient and a Pass-Through Entity:
 - A local government receives a pass-through federal award from a state government agency (the local government is a subrecipient) and further passes through a portion of the federal award to an NFP (the local government also is a pass-through entity) to administer a federal program.

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Subrecipients vs. Vendors

- Both a Subrecipient and a Pass-Through Entity:
 - An NFP area agency receives a pass-through federal award from a state (the NFP area agency is a subrecipient) and further passes through a portion of the federal award to a for-profit health care provider (the NFP area agency also is a pass-through entity)

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Vendor Compliance

- In most cases, the auditee's compliance responsibility for a vendor is to ensure only that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. A program's compliance requirements normally do not pass through to vendors.

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Requirements for Pass-Through Entities

- Pass-through entities should:
 - Ensure that subrecipients expend awards in accordance with applicable laws, regulations, and provisions of contracts or grants.
 - Inform each subrecipient of the CFDA title and number, award name and number, award year, whether the award is for R&D, and name of the federal agency.

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Requirements for Pass-Through Entities

- Pass-through entities should:
 - Advise subrecipients of the requirements imposed on them by the feds, as well as any supplemental requirements imposed by the pass-through entity.
 - Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes and that performance goals are achieved.

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Requirements for
Pass-Through Entities

- Pass-through entities should:
 - Ensure that subrecipients expending \$500,000 or more in federal awards have a single audit.
 - Issue management decisions on audit findings within six months after receipt of subrecipients' audit reports, and ensure that subrecipients take appropriate and timely corrective action.

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Requirements for
Pass-Through Entities

- Pass-through entities should:
 - Consider whether subrecipient audits necessitate the adjustment of the pass-through entity's own records.
 - Require subrecipients 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.

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Requirements for
Pass-Through Entities

- Pass-through entities should:
 - Keep subrecipients' report submissions (or other written notification when the subrecipient is not required to submit a reporting package) on file for three years from the date of receipt.
 - Comply with FFATA Subaward Reporting System (<https://www.frs.gov>) requirements for awards over \$25,000

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Requirements for
Pass-Through Entities

- Subrecipient monitoring:
 - Pass-through entities are held accountable for federal awards administered by their subrecipients
 - Pass-through entities need to establish an appropriate subrecipient monitoring process



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Requirements for
Pass-Through Entities

- Subrecipient monitoring:
 - Normally occurs throughout the year:
 - *Reporting* - Reviewing financial and performance reports submitted
 - *Site Visits* - To review financial and programmatic records and observe operations
 - *Regular Contact* - General correspondence and making appropriate inquiries concerning program activities



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Requirements for
Pass-Through Entities

- During-the-Award Monitoring:
 - Factors that may affect the nature, timing, and extent of monitoring:
 - Program complexity
 - Percentage passed through
 - Amount of awards
 - Subrecipient risk



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Requirements for
Pass-Through Entities

- **During-the-Award Monitoring:**
 - Subrecipient risk:
 - Higher risk requires closer monitoring
 - New subrecipients are higher risk
 - Existing subrecipients with a history of noncompliance, new personnel, or new systems are higher risk
 - May consider extent of Federal monitoring of subrecipients that are also direct recipients



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Requirements for
Pass-Through Entities

- **Agreed-upon procedures engagements:**
 - A pass-through entity may arrange for AUP engagements for certain aspects of subrecipient activities, such as eligibility determinations
 - Can target the coverage to areas of greatest risk
 - Cost is allowable if no single audit is required



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Subrecipient Monitoring
Potential Monitoring Activities

- **Reviewing grant applications submitted by subrecipients to determine that:**
 - applications are filed and approved in a timely manner; and
 - each application contains the condition that the subrecipient comply with the federal requirements set by the federal agency



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Subrecipient Monitoring
Potential Monitoring Activities

- Establishing that internal control over compliance provides reasonable assurance that:
 - funds are disbursed to subrecipients only on an as-needed basis;
 - funds are disbursed to subrecipients only on the basis of approved, properly completed reports submitted on a timely basis;

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Subrecipient Monitoring
Potential Monitoring Activities

- Establishing that internal control over compliance provides reasonable assurance that:
 - refunds that are due from subrecipients are billed and collected in a timely manner; and
 - subrecipients and other entities and individuals receiving federal funds meet eligibility requirements

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Subrecipient Monitoring
Potential Monitoring Activities

- Reviewing financial and technical reports received from subrecipients on a timely basis and investigating unusual items
- Reviewing subrecipient audit reports to evaluate them for completeness and for compliance with applicable laws and regulations

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Subrecipient Monitoring
Potential Monitoring Activities

- Evaluating audit findings; issuing appropriate management decisions, if necessary; and determining if an acceptable plan for corrective action has been prepared and implemented
- Reviewing previously detected deficiencies and determining that corrective action was taken

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Subrecipient Monitoring
Subrecipient Single Audits

- Subrecipients are required to share their single audits with pass-through entities when findings are present
 - Pass-through entities may still request even when no findings are present
- This is only one step in a comprehensive subrecipient monitoring process

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Subrecipient Monitoring
Subrecipient Single Audits

- Not every award is tested as a "major program" each year
- Differences in fiscal years:
 - Not required to coincide as long as the subrecipient's audit is "current"
 - Consider reconciling amounts reported on the SEFA to monthly/quarterly requests

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Subrecipient Monitoring
Subrecipient Single Audits

- Instances of noncompliance reported in subrecipients' audit reports are not required to be included in the pass-through entity's audit report
 - However, auditors of pass-through entities will consider the effects of reported instances of subrecipient noncompliance and/or weaknesses in the pass-through entity's subrecipient monitoring system

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Subrecipient Monitoring
Subrecipient Single Audits

- Questioned costs at the subrecipient level that are found to be unallowable by the pass-through entity may require the pass-through entity to adjust its financial records and its federal expenditure reports

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Requirements for
Subrecipients

- Applicable compliance requirements:
 - In general, compliance requirements follow the flow of funds
 - Certain requirements may remain at the pass-through entity level, and not be passed down to a subrecipient
 - A pass-through entity may establish additional compliance requirements as part of its agreement

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Requirements for Subrecipients

- Reporting awards on the SEFA:
 - In addition to the name of the federal agency and CFDA number, subrecipients must report name of the pass-through entity and identifying number assigned
 - Additional information may be requested by the pass-through entity

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Recommendations

- Ensure that award documents between pass-through entities and subrecipients are complete
 - Amend as necessary
 - Communicate changes throughout the grant cycle
 - Be as specific as possible

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Recommendations

- Pass-through entities:
 - Develop and document your subrecipient monitoring risk assessment and plan
 - Keep a log of completed monitoring activities
 - Leave a paper trail showing how you reviewed/reconciled subrecipient single audits
 - Follow-up on audit findings

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Recommendations

- Subrecipients:
 - Ask for clarification on anything that is not clearly spelled out in your agreement
 - Keep a copy of all relevant correspondence in your grant files
 - Be prepared to support accounting practices with approved policies/procedures

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Recommendations

- Remember that cost principles for governments, nonprofits, and colleges may differ slightly

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Questions and Answers...



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