

**RI Department of Education
Federal Subrecipient Monitoring:
Policies and Procedures**

Revised: June 19, 2015

Introduction

The Office of Management and Budget (OMB) 2 CFR Chapter I, Chapter II, Part 200, et al – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance) supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110 and A-122; Circulars A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow up.

In Subpart D: 200.328 “Monitoring and reporting program performance”, the non-federal entity (RIDE) is responsible for oversight of the operations of the Federal award supported activities and must monitor its activities under Federal awards to assure compliance and performance expectations are being achieved. Monitoring must cover each program function or activity.

Subpart D: 200.331 “Requirements for pass-through entities” includes a requirement that the subrecipient permit the pass through entity and auditors to have access to the subrecipient’s records and financial statements as necessary for the pass-through entity to meet federal requirements. The pass through entity must evaluate each subrecipients risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

In Subpart F: 200.501 Audit Requirements states “A non-Federal entity that expends \$750,000 or more during the entity’s fiscal year in Federal awards must have a single or program-specific audit conducted for that year”. This is an increase over the previous threshold of \$500,000 or more. A Single Audit must be performed in accordance with §200.514 Scope of audit except when it elects to have a program-specific audit. Effective for fiscal years beginning after December 26, 2014, a non-Federal entity that expends less than \$750,000 in Federal awards during the fiscal year is exempt from Federal audit requirements for that year, but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity (RIDE), and Government Accountability Office (GAO).

Based on the administrative requirements presented in the new OMB Uniform Grant Guidance, the following will detail RIDE’s policy for subrecipient monitoring.

Please note – the following policies and procedures relate to the new Uniform Grant Guidance which is effective for all entities with fiscal years starting after December 26, 2014. For example, if the fiscal year is July 1 – June 30th, FY16 will be the first year affected by the changes.

I. OMB Uniform Grant Guidance Part D Requirements

OMB Uniform Grant Guidance 2 CFR, 200 Part D, establishes standards for audits of state, local governments, and nonprofit organizations expending federal awards, whether they are direct recipients of federal funds or subrecipients expending federal funds received from a pass-through entity. Entities that expend \$750,000 or more per year in federal funds must have an audit pursuant to this guidance.

In accordance with Section 200.331 “Pass-through entity responsibilities”, RIDE, as a pass-through entity, must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification:

1. Subrecipient name (which must match registered name in DUNS)
2. Subrecipient’s DUNS number
3. Identify Federal awards made by informing each subrecipient of the Federal Award Identification Number (FAIN); Federal award date; Subaward period of performance start and end date; Amount of Federal funds obligated to this action; Total amount of Federal funds obligated to the subrecipient; Total amount of Federal award; Federal award project description as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA); name of Federal award agency, pass-through entity, and contact information for awarding official; CFDA number and name; indirect cost rate for Federal award. When some of the information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
4. 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.
5. An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal government or if not such rate exists, either a rate negotiated between the pass-through entity and the subrecipient or a de minimis indirect cost rate.
6. Subrecipients must permit the pass-through entity and auditors to have access to the subrecipient’s records and financial statements as necessary for the pass-through entity to meet Federal requirements.
7. 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.
8. Evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposed of determining the appropriate subrecipient monitoring.
9. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.
10. For audit findings which do not list a corrective action plan response from the organization’s management, issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.
11. Consider whether subrecipient audits necessitate adjustment of the pass-through entity’s own records.

II. RIDE's Monitoring Process

TIER 1 – SINGLE AUDIT REVIEW

- A. Subaward** – To satisfy the responsibilities for pass-through entities imposed by OMB Uniform Grant Guidance Part D 200.331, RIDE will continue to include the Catalog of Federal Domestic Assistance (CFDA) number on each subgrant award. Additional information will be included in an addendum attached to the traditional grant award agreement.
- B. Notice of Audit Responsibility** – An additional requirement imposed on pass-through entities by OMB Uniform Grant Guidance Part D 200.331 requires that subrecipients are advised of all Federal regulations. RIDE's Finance office sends each grantee a packet in June detailing its financial closeout requirements. Within this packet, RIDE's emphasizes the necessity of having a "Single Audit" that conforms to the laws and regulations of OMB Uniform Grant Guidance Part F 200.501 if the organization expends more than \$750,000 in Federal funds. The RIDE Audit Oversight Office requires that organizations that meet the above criteria submit their "Single Audit" reports to RIDE within 9 months after the end of the organization's fiscal year. Failure to submit "Single Audit" reports on a timely basis could jeopardize the organization's risk status as well as future grant funding.
- C. Monitoring Grant Activities** – The third requirement imposed on pass-through entities by OMB Uniform Grant Guidance Part D 200.328, requires that subrecipients are monitored as necessary to ensure that Federal awards are used for authorized purposes in compliance with the regulations of the grant agreement. Per part D 200.331, RIDE must evaluate each subrecipients' risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposed of determining the appropriate subrecipient monitoring. RIDE's Program office and Finance office reviews each subgrantee's budget to ensure the expenditures fit within the Federal Regulations and the provisions of the grant. Each office has to authorize the grant via signature prior to the subgrantee expending any of the funds.
- D. Audit Review Process** – The fourth requirement imposed on pass-through entities by OMB Uniform Grant Guidance Part F 200.501 requires that RIDE ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements for the fiscal year.
- 1) OMB Uniform Grant Guidance does not detail which pass-through entity is responsible when a subrecipient receives funds from multiple pass-through sources, implying that they are all equally responsible. Because it may be difficult to determine whether the subrecipient meets the audit threshold, RIDE will submit a survey to every agency to which it has given out funds during RIDE's fiscal year. The survey will either be a short form or a comprehensive form.
 - The short form will go out to all subrecipients receiving less than \$50,000 (unless they are a new subrecipient or an LEA). This survey asks the Business Manager or Finance Director to certify whether its

agency requires a “Single Audit.” RIDE will collect Single Audit reports based on the responses to its survey. RIDE will accept the organization’s financial audit in lieu of the survey if the financial audit clearly documents that the organization does not meet Single Audit requirements.

- The comprehensive form will be sent to all subrecipients receiving \$50,000 or more (or to all new subrecipients and LEAs receiving more than \$25,000).

The comprehensive survey encompasses the following:

- Budgeting
- internal controls
- accounting systems
- time and effort
- procurement
- inventory
- A-133 audit
- records retention
- debarment and suspension
- indirect cost rates
- maintenance of effort
- refunds or lapsed funds
- Prior auditor opinions
- Grants Management

2) Survey Dates

Request #	Send Date	Return Date
1 st request	March 31st	April 30
2 nd request	May 15 th	June 30 th
Final request	June 30 th	July 31 th

- 3) Collect Independent Audit Reports: As noted above, RIDE requests that all agencies receiving more than \$750,000 in Federal funds submit their audit report to the Finance department within **9** months of fiscal year-end. The reports will be sent and received electronically. Those sent as hard copies will be date stamped by the Finance secretary and given to the Grants Officer in charge of audit oversight. This Grants Officer will log the reports on a spreadsheet and perform the initial review. See below for discussion of the initial review.
- 4) Delinquent reports: Occasionally, “Single Audit” reports may be extremely late due to unforeseen circumstances. In cases where the reports have not been received, the subrecipients’ risk level will be increased and RIDE may consider performing a site visit at the agency. See below for further discussion on site visits.
- 5) Failure to have a “Single Audit”: If the subrecipient is unwilling to meet the obligations of the grant award, pass-through entities must take appropriate action using sanctions, including:
- withholding a percentage of federal awards until a satisfactory audit is completed;

- withholding or disallowing overhead costs;
 - suspending federal awards until the audit is conducted; or
 - terminating the award
- 6) Initial Review: Once the reports are received the Grants Officer in charge of Audit Oversight logs the reports in on a spreadsheet. This spreadsheet notes the following items:
- date audit requests mailed
 - date audit received
 - entity's fiscal year
 - federal dollars expended
 - whether a single audit is required (i.e. federal expenditures exceed \$750,000)
 - date the management response is due, if required
 - date of initial review
 - whether there are any findings
 - whether the findings relate to education
 - whether follow-up is necessary
 - date the findings were logged out to the grant officer for follow-up
 - date findings responses were returned
 - date management response completed
 - date audit review completed

The Grants Officer performs the initial review as the reports are submitted to RIDE. If the report has no findings or the findings do not relate to Education, no further follow up is required by the Single Audit Act.

- 7) Follow-up on Findings: If the report has findings that relate to Education, but the agency has developed an appropriate corrective action plan, then RIDE will submit a management response letter that the review is complete and RIDE concurs with the agency's corrective action plan. If the report has findings that relate to Education, but are left unresolved, the Grants Officer in charge of Audit Oversight will log a copy of the finding out to the appropriate party. This person will follow-up with the agency to determine how they are resolving the issue. Ultimately, the Grants Officer will submit the finding back to the Audit Oversight person with an appropriate corrective action plan. Then, a management response will be prepared and sent to the agency. In accordance with Part D 200.331, RIDE must consider if the findings in the subrecipient's audit necessitates adjustment to its own records.
- 8) Management Response: Management decisions on audit findings must be submitted to the agencies within 6 months of the receipt of the subrecipient's audit report. If the letter states that RIDE concurs with the agencies corrective action plan, the pass-through must ensure the subrecipient takes appropriate and timely corrective action. This procedure is in accordance Part F 200.521

The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay

disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Management decisions shall include the reference numbers the auditor assigned to each finding.

- 9) Audit Reports: After review, the audit reports will be filed by year and agency in the Finance department. The Audit Oversight person will maintain a binder with the audit log, correspondence with the agencies, and supporting backup in determining what agencies require an audit.

TIER 2 – FISCAL MONITORING

A. Monitoring Universe and Selection Process

Universe #1 – Periodic Monitoring

1. All schools/organizations (sub-recipients) that receive more than \$50,000 of federal funds from the RIDE will be monitored once during a five-year cycle.
2. Each year RIDE will conduct on-site monitoring visits. Monitoring will focus on those programs in these organizations not covered by a Single Audit. Sub-recipients will be selected for monitoring in any given year through the following steps.
 - i. Step 1 – Each year, all sub-recipients will be put in the monitoring pool
 - ii. Step 2 – Sub-recipients will be selected from this pool for monitoring that year. Selection will be made by ranking sub-recipients in the pool by risk factors as determined by the risk assessment team (Director of Finance, Coordinator of Federal Programs and the Sr. Compliance Officer). The responses from the annual sub-recipient survey will be used to assess the sub-recipients for the following risk factors:
 1. New sub-recipient with little or no experience in managing grants (sub-recipients where persons in key leadership positions have changed will be viewed as new sub-recipients);
 2. Sub-recipients whose audits have indicated problems with costs, lack of controls or a system to identify costs charged to the grants;
 3. Sub-recipients that receive large amounts of federal funds;
 4. Sub-recipients that have not gone through a single audit recently;
 5. Sub-recipients that have not been monitored recently

*Those assessed the highest risk in the pool will be monitored that year.

Universe #2 – Special Monitoring

1. In addition to those sub-recipients undergoing periodic monitoring will be those chosen for special monitoring. Special monitoring will focus on

organizations at which the department has reason to believe that federal funds are not being expended appropriately or who themselves are concerned about their compliance status and request a monitoring visit. An annual risk assessment survey will be completed by all federal grant officers to aid in this process. Sub-recipients and programs can be selected for special monitoring at the discretion of RIDE.

B. Sub-Recipient Notification

A sub-recipient selected for periodic or special monitoring will be notified of its selection at least one month in advance of the on-site monitoring visit. The department will communicate directly with the sub-recipient's Business Manager to establish an agreeable date for an on-site monitoring visit. At the same time, the sub-recipient will be given a monitoring liaison in the department with whom to work to prepare for the visit and will be given a list of the types of documents required to be available for the review.

C. On-site Monitoring Procedures

Site Visits: A site visit is a trip to a subrecipient to:

- keep informed on a subrecipient's progress and problems;
- better understand the subrecipient's business management systems;
- provide an opportunity to counsel the subrecipient in ways to remedy deficiencies;
- inform the subrecipient of other services available (such as technical assistance from the pass-through);
- verify information received in the reports; and
- determine compliance or noncompliance with the terms and conditions of the grant award.

Site visits are particularly appropriate for complex or troublesome projects with special significance or as noted above in instances where the audit report has not been received. Some characteristics to consider when selecting projects for onsite monitoring include: location of the agency, cost, complexity, age of program, prior indications of problems, experience of staff, and resources at the pass-through to perform these visits.

Monitoring Team:

The on-site monitoring team will be composed of two or three people and will be led by the member assigned to serve as the liaison to the sub-recipient. Team members will begin the on-site visit with an interview with the sub-recipient's business manager (and any other person deemed necessary) to insure that he/she understands the nature and scope of the on-site monitoring visit and to collect information. Team members will make it clear that the monitoring will focus on both past and current year expenditures. The goal is not to seek recovery of misused funds, but to identify and resolve problems during the grant year in order to avoid future audit findings and penalties.

The team members will then meet with the fiscal and program managers for selected federal grants to review the procedures and documentation necessary to monitor the federal fiscal requirements identified in the Monitoring Checklist. Program and fiscal managers should arrange their schedules so that they can be available throughout the monitoring visit.

The monitoring checklist focuses on three areas of compliance:

- Internal controls are in place to ensure that costs are assigned and tracked against federal grants using a method to ensure compliance with federal requirements, that assets are safeguarded, and that they are used solely for authorized purposes.
- Expenditures of federal funds are in compliance with federal cost principles (principles identifying what can be funded and how it can be funded)
- Expenditures are in compliance with the sub-recipient's approved local plans

Testing Method:

In order to monitor fiscal practices for compliance in these three areas, the team will use the following testing methods:

- Internal Controls – the team will examine written policies and procedures for grant management, procure accounting records for each federal grant and check property/equipment inventories.
- Compliance with cost principles and local plans will be tested by examining outlays for the previous fiscal year and the current fiscal year to date. Source documentation (purchase orders, invoices, cancelled checks, payrolls, time and attendance records) for randomly selected transactions under each grant will be reviewed to determine the nature of the expenditure and to establish its Allowability. Specific outlays will also be reviewed to establish their consistency with the approved local plan. Team members will look at each grant and examine outlays under each of the following budget categories: personnel, contracts, property/equipment, operating and, if applicable, sub-grants.

In examining the outlays, team members will look at such issues as:

- Is the expenditure a normal expenditure that should have been covered by non-grant funds?
- Does the contract indicate its purpose or the person hired is within the purpose of the grant?
- Does the work schedule for the individual indicate the time spent working on the cost objectives of the grant and on other cost objectives? Is it reported after-the-fact and signed by the individual?
- Are the cost allowable based on cost principles per OMB Uniform Grant Guidance Part E – Cost Principles?
- Are the expenditures applicable to the period covered by the grant?

Team members will record compliance issues in the Monitoring checklist and will enter each of the outlays monitored in the Expenditure Worksheet and its compliance status.

Exit Interview

The team's goal will be to complete on-site monitoring visits in two days. However, the number of grants, the number of sites, or the complexity of issues uncovered may extend the length of the visit. When the on-site monitoring has been completed, team members will conduct an oral exit interview with the Business Manager and anyone else he/she deems appropriate. Team members will identify areas of possible non-compliance and provide the opportunity for the submittal of further information or explanation to correct misperceptions or misinterpretations on their part.

D. Final Report and Corrective Actions

Final Report

RIDE will issue a written final report of the findings of an on-site monitoring visit within 30 days after the completion of the visit. Program staff may be consulted during that period to clarify an issue or verify the accuracy of information collected during the review. When all issues are clarified, RIDE will send its findings to the sub-recipient in which findings of non-compliance will be identified. Findings of non-compliance could be in one of three categories:

- Adequate internal controls not in place
- Sufficient source documentation is not in place to justify outlay
- Specific outlays are not allowable under cost principles or do not meet the purpose of the grant.

Corrective Action Plan

Once the sub-recipient has received the Final Report of the on-site monitoring visit, it has thirty (30) days to respond to findings of non-compliance. In its response, it can challenge the findings by submitting material that demonstrates the inaccuracy of the finding. When it concurs that a finding of non-compliance is correct, it needs to file a corrective action plan.

A corrective action must be created for each finding and result in bringing the sub-recipient to full compliance. The nature of the corrective action will relate back to the category of the finding.

- When there are weaknesses in internal controls, policies and procedures will be developed and implemented and accounting records will be brought into compliance with approved budgets.
- When sufficient source documentation is not in place, such documentation will be put into place or the outlay will be determined to be disallowable.

- When specific outlays are determined to be disallowable under cost principles or the purposes of the grant, the sub-recipient must reduce the cost of the program and submit documents indicating those cost have been transferred and paid using non-grant funds.

Corrective actions will identify:

- The action to be taken to bring each cited item into compliance and to keep the problem from reoccurring.
- Who will be responsible for the action
- When it will be completed

When the department is satisfied that the proposed corrective actions will be successful in resolving all problems, the liaison will notify the sub-recipient that it has an approved corrective action pan.

Corrective actions must be completed before the current fiscal year is closed out. After the date on which corrective actions were to be completed, the liaison will either schedule a follow-up visit to verify that the actions have been carried out and that they were successful in resolving problems or will arrange for an alternate way for the sub-recipient to demonstrate that effective corrective actions have been completed.

Possible Penalties

The imposition of penalties for non-compliance with federal requirements will be a last resort. The main objective of the monitoring system is to assist sub-recipients in creating sound grant management systems. However, federal law requires that the department take action if its sub-recipients do not comply with federal requirements.

1. Failure to resolve issues, refund disallowed costs or supply adequate documentation to support costs charged to grants will result in a warning that funds may be suspended until the requirement is met.
2. Continued failure to resolve issues, refund disallowed costs or supply adequate documentation **will** result in fund suspension until the requirement is met.

III. Conclusion

As stated initially, the purposes of Federal grants monitoring are:

- To monitor sub-recipients' programs, especially those not covered by the Single Audit, to ensure compliance
- To identify and help resolve compliance problems surrounding sub-recipient's current uses of funds in order to avoid findings and possible penalties after the end of the fiscal year.

These policies and procedures are effective immediately. Any questions or concerns can be directed to Crystal Martin at 222-8482 or crystal.martin@ride.ri.gov.