

Subrecipient Monitoring

May 30, 2019



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CLA Presenters: Introduction

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– Engagement Director



Learning Objectives

At the end of this session, you will be able to:

- Define the grantor's responsibility for sub recipient monitoring.
- Identify and assess internal controls over compliance requirements.
- Review single audit reports and recognize the components of the report.



Learning Objectives

At the end of this session, you will be able to:

- Identify the types of program findings and how they relate to the program
- Obtain an understanding of sub recipient monitoring procedures including follow-up of program findings.



Quick questions

- **Pain Point:** Why was the training deemed necessary?
- Besides the learning objectives, is there anything else you want us to discuss during the training?



RECAP: Effective Dates

- Federal agencies implement the requirements to be effective December 26, 2014
- Audit requirements will apply to audits of fiscal years beginning on or after December 26, 2014, so fiscal year ends:
 - December 31, 2015
 - June 30, 2016
 - September 30, 2016
- Administrative requirements and cost principles will apply to new awards and to additional funding (funding increments) to existing awards made after December 26, 2014



MAJOR CHANGES: UNIFORM GUIDANCE

- Audit Requirements - Subpart F
- Internal Control – Section 200.303
- Procurement – Section 200.317 – 200.326
- Personnel Costs (cost principles) – Section 200.430
- **Subrecipient Monitoring – Section 200.330 – 200.332**



Definitions

- **Primary Recipient:** A non-federal entity that receives federal funds from a sponsor to carry out a Federal Program.
- **Pass-Through Entity:** A non-federal entity that provides a federal award to a Subrecipient to carry out a Federal Program.
- **Subaward:** An award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible Subrecipient or by a Subrecipient to a lower tier Subrecipient. The term includes financial assistance when provided by any legal agree ent, even if the agreement is called a contract, but does not include procurement of goods and services.
- **Vendor:** A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal Program. A Vendor contract for acquisition of goods and services does not qualify as a Subaward.

What is a subrecipient??

§200.93 **Subrecipient** means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A **subrecipient** may also be a recipient of other Federal awards directly from a Federal awarding

Subrecipient versus a vendor- Do you know the difference?



Subrecipient VS Contractor

Contractors. A contract is for the purpose of obtaining goods and services for the non-Federal entity's own use and creates a procurement relationship with the contractor. Characteristics indicative of a procurement relationship between the non-Federal entity and a contractor are when the non-Federal entity receiving the Federal funds:

- Provides the goods and services within **normal business operations**;
- Provides **similar goods or services to many different purchasers**;
- Normally operates in a **competitive environment**;
- Provides **goods or services that are ancillary** to the operation of the Federal program; and
- Is **not subject to compliance requirements of the Federal program** as a result of the agreement, though similar requirements may apply for other reasons.

Subrecipient	Contractor (vendor)
Creates a Federal assistance relationship	Purpose is to obtain goods and services for the non-Federal entity's own use and creates a procurement relationship
Determines who is eligible to receive what Federal assistance	Provides the goods and services within normal business operations
Has its performance measured in relation to whether objectives of a Federal program were met	Provides similar goods or services to many different purchasers
Has responsibility for programmatic decision making	Normally operates in a competitive environment
Is responsible for adherence to applicable Federal program requirements specified in the Federal award, and	Provides goods or services that are ancillary to the operation of the Federal program, and
In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing stature, as opposed to providing goods or services for the benefit of the PTE	Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons

Audit Requirements- Subrecipeint

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Single Audit Requirements: What Changed?

- Audit threshold increases from \$500k to **\$750k**. This change will affect recipients and subrecipients.
- Type A programs are still determined using sliding scale however minimum increases from \$300k to **\$750k**.

Subrecipient Monitoring and Management:



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Grantor's Responsibility – Subrecipient Risk Assessment

Evaluate/document each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures. Consider such factors as:

- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program.
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).



Grantor's Responsibility - Subrecipient's Program Activities

- Consider imposing specific subaward conditions upon a subrecipient if appropriate.
- Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
 - Reviewing financial and performance reports required by the pass-through entity.
 - Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
 - Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.



Federal Performance Measurement: The basics

- Federal awarding agencies/Grantors are required to provide in the Federal award:
 - Clear performance goals, indicators, and milestones
 - Timing and scope of performance metrics
- Recipient must use OMB-approved government-wide standard information collections when providing financial & performance information.
- Financial data must relate to performance accomplishments of the Federal award.
- Recipient must provide cost information to demonstrate cost effective practices when applicable. (Example: Providing unit cost data).
- Performance reporting frequency should allow the Federal agency to understand the recipient's progress.
- Recipient must submit performance reports at the interval required by the Federal awarding agency or pass-through entity to best inform improvements in program outcomes and productivity. Intervals must be no less frequent than annually nor more frequent than quarterly except in unusual circumstances.



Federal Performance Measurement: The basics

- The reasons why established goals were not met, if appropriate.
- *Significant developments.* Events may occur between the scheduled performance reporting dates that have significant impact upon the supported activity. In such cases, the non-Federal entity must inform the Federal awarding agency or pass-through entity as soon as the following types of conditions become known:
 - Problems, delays, or adverse conditions which will materially impair the ability to meet the objective of the Federal award. This disclosure must include a statement of the action taken, or contemplated, and any assistance needed to resolve the situation.
 - Favorable developments which enable meeting time schedules and objectives sooner or at less cost than anticipated or producing more or different beneficial results than originally planned.



Grantor's- Pass-through Entity's Responsibility

- Depending upon the pass-through entity's assessment of risk posed by the subrecipient the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:
 - Providing subrecipients with training and technical assistance on program-related matters; and
 - Performing on-site reviews of the subrecipient's program operations; arranging for agreed-upon-procedures engagements as described in §200.425 Audit services.
- Consider taking enforcement action against noncompliant subrecipients as described in §200.338 Remedies for noncompliance of this part and in program regulations.



Grantor's Responsibilities: Finding Follow-up Management's Response

- ***Sub recipient's Corrective action plan.*** At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan must include an explanation and specific reasons. Section 200.511.
- **Grantor** is required to assess the adequacy of the response and follow-up to ensure implementation was performed.



Grantor's Responsibilities: Remedies for Noncompliance § 200.338

- Further noncompliance: **Severe**
 - Disallow all or part of the cost of the activity or action not in compliance;
 - Wholly or partly suspend or terminate the Federal award;
 - **Initiate suspension or debarment proceedings – New;**
 - Withhold further Federal awards for the project or program;
 - Any other remedies legally available.



Discussion

- Review/discuss/assess current monitoring procedures?
 - How often do you interact with the subrecipients?
 - ◇ On-site review
 - ◇ Desk review
 - Does the subrecipient receive notification of:
 - ◇ Upcoming on-site review
 - ◇ Results of the on-site or desk review
 - ◇ Programmatic and financial findings
 - Time frame for implementation of corrective action
 - Potential sanctions/remedies for non compliance



The Subaward, Grant Agreement, Contract

“Required” Information at time of Subaward:

- All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award.
- Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports.
- 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 the requirements of this part; and
- Appropriate terms and conditions concerning closeout of the subaward.

Subrecipient Monitoring: Subaward – What the sub awardee **MUST** know:

“Required” Information at time of Subaward:

1. **Subrecipient Name**
2. **Subrecipient’s DUNS Number**
3. Federal Award Identification Number (FAIN)
4. **Federal Award Date**
5. **Subaward Period of Performance Start and End Date**
6. **Amount of Federal Funds Obligated by this action**
7. **Total Amount of Federal Funds Obligated to the subrecipient**
8. **Total Amount of the Federal Award**

NOTE: **Bold** items are new requirements

Subrecipient Monitoring: Subaward – What the sub awardee **MUST** know:

“Required” Information at time of Subaward:

9. **Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act**
10. Name of Federal awarding agency, pass-through entity, and contact information for awarding official
11. CFDA Number and Name
12. Identification of whether the award is R&D; and
13. **Indirect cost rate for the Federal Award**

NOTE: **Bold** items are new requirements

Monitoring Procedures: General

- Perform and document an annual risk assessment of noncompliance.
- Ensure subcontracts contain all required information.
- Compliance with Federal awards needs to be thoroughly understood, communicated and continuously monitored.
- Obtain and review the single audit report (if applicable) for each subrecipient.
- Establish what enforcement actions will be needed in the event of subrecipient noncompliance. Failure to comply can result in a penalty as severe as not being able to receive funding government-wide.



Discussion

- Does the current subaward notice contain all of the required information? Lets See!!!



Subrecipient Internal Controls

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Grantor and Subrecipient's Responsibility

In General: The entity is **responsible for oversight** of the operations of the Federal award supported activities. The entity **must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved**. Monitoring by the entity must cover each program, function or activity.

Internal control is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.



Internal Controls

- Section 200.303 continues to require non-Federal entities to do the following: Entity “MUST” not should or may
 - Establish and maintain effective internal controls over federal awards to provide reasonable assurance that awards are being managed in compliance with laws and regulations.
 - Exercise judgment in determining the most appropriate and cost effective internal control in a given circumstance.
 - Comply with Federal Statutes, regulations, and the terms and conditions of the Federal award
 - Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- Additional requirement added
 - Take reasonable measures to safeguard protected personally identifiable information, as well as any information deemed sensitive by the awarding agency.



Internal Controls

- Best practices can be found at the following:
 - “Standards for Internal Control in the Federal Government” issued by the Comptroller General (Green Book)
 - “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Failure to establish and maintain a effective internal control environment will result in an audit finding.



Framework - GAO



The Green Book

Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. *Standards for Internal Control in the Federal Government*, known as the "Green Book," sets the standards for an effective internal control system for federal agencies.

[View the 2014 Green Book](#)

The Green Book may also be adopted by state, local, and quasi-governmental entities, as well as not-for-profit organizations, as a framework for an internal control system.



Discussion

- Do your agency's current procedures assess and document the subrecipient's internal control environment?

Subrecipient Single Audit Report

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Components of the Single Audit Report

- Independent Auditors’ Report **on Internal Control Over Financial Reporting** and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (GAS or GASAS report)
- Independent Auditors’ Report on Compliance With Requirements That Could Have A Direct and Material Effect on Each Major Program, on **Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards** in Accordance with Uniform Guidance (opinion on federal programs)
- **Schedule of Expenditures of Federal Awards (SEFA)**
 - ◇ List all federal programs and related federal expenditures for the entity.
 - ◇ **New: List all funds pass-through to a subrecipient**
- **Notes to the Schedule of Expenditures of Federal Awards**
 - ◇ Describes the basis of accounting for the SEFA
 - ◇ Provides detail for loan programs
 - ◇ Identifies any special program funding





Components of the Single Audit Report

- **Schedule of Findings and Questioned Costs**
 - ◇ Opinion on the Financial Statements (summary of the GAS letter)
 - ◇ Opinion on Major Programs (summary of the single audit letter)
 - ◇ List of Major Programs Tested
 - ◇ Financial Statement Findings (detail of the findings)
 - ◇ Federal Award Findings (detail of the findings)
- **Schedule of Prior Year Findings**
 - ◇ Resolution of prior year findings





GAS Report: Internal Control Over Financial Reporting: What Does it Report?

- Internal Control Over Financial Reporting
 - ◇ No opinion on effectiveness of IC over financial reporting
 - ◇ Report financial reporting significant deficiencies and material weaknesses
- Compliance and Other Matters
 - ◇ Report any material non-compliance



Report on Major Program Compliance and Internal Control (single audit report): What does it report?

- Compliance
 - ◇ Non- Compliance Each Major Program
- Internal Control Over Financial Reporting
 - ◇ No opinion on effectiveness of IC over compliance
 - ◇ Report compliance significant deficiencies and material weaknesses

Single Audit Report: Schedule of Findings and Questioned Costs

Summary of the Independent Auditor's Results

- Financial Statements
 - ◇ Type of auditor's report issued
 - ◇ Internal control over financial reporting
 - ◇ Noncompliance material to financial statements noted
- Federal Awards
 - ◇ Type of auditor's report issued on compliance for major programs
 - ◇ Internal control over major programs
- Identification of Major Programs
 - ◇ Name of the program
 - ◇ CFDA number





Single Audit Report: Schedule of Findings and Questioned Cost

- Dollar threshold used to distinguish between Type A and Type B.
- **Any audit findings disclosed that are required to be reported**
- **Auditee qualified as low-risk auditee**





Opinions

- **Unmodified opinion** — The unmodified opinion has no reservations concerning the financial statements. This is also known as a clean opinion meaning that the financial statements appear to be presented fairly or the major program was in compliance with federal requirements.
- **Qualified opinion** — This means that the auditor has taken exception to certain accounting/programmatic applications or is unable to establish the potential outcome of a material uncertainty.
- **Disclaimer opinion** — This is a special type of audit report issued when the auditor is unable to perform the required audit procedures due to the lack of auditee documentation.
- **Adverse opinion** — This is a type of audit opinion which states that the financial statements do not fairly present the financial position, results of operations, and changes in financial position, in conformity with generally accepted accounting principles. The worst type of opinion.



Audit Findings



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Audit Finding: What is it?

An audit finding is defined as an area of **potential control weakness, policy violation, non-compliance with the terms and conditions** of the award or other issue identified during the audit.

A finding is reported as either a significant deficiency or **material weakness** over **internal control and/or compliance**.



Types of Audit Finding: Significant Deficiency vs Material Weakness

- **Significant Deficiency:** is a deficiency, or a **combination of deficiencies, in internal control over financial reporting or major programs**, that is **less severe than a material weakness** yet important enough to merit attention by those responsible for oversight of the entity.
- **Material Weakness:** is a **deficiency, or a combination of deficiencies, in internal control over financial reporting or major programs**, such that there is a reasonable possibility that a **material misstatement** of the financial statements or material non-compliance with a program requirement **will not be prevented or detected** on a timely basis.



Audit Findings: Components

- Information on Federal Program
 - ◇ Also states the severity of the finding: Significant Deficiency or Material Weakness
- Criteria
 - ◇ The requirement to be met
- Condition
 - ◇ Identify the finding. What was not in accordance with the program requirement. May be non compliance or lack of an internal control.
- Questioned Costs
 - ◇ Did the finding result in unallowable program costs
- Cause
 - ◇ Why the finding occurred.



Audit Findings: Components

- Effect
 - ◇ How does the finding effect the program.
- Recommendation
 - ◇ The auditor's suggestion for correcting the finding.
- Management Response
 - ◇ What management proposes to do to remedy the finding.

Grantor Audit Finding Follow-up: Best practices

- Establish a process for identifying and monitoring subrecipient's audit findings.
- Notify the subrecipient of the issue and establish a time frame for implementing corrective action.
 - Document rationale for time frame. May be 30 days to 12 months depending on the required corrective action.
- Was the corrective action fully implemented to prevent the recurrence of the finding?
 - Document if the finding was resolved, partially resolved or not resolved.
 - Follow-up letter on the status of the findings should be provided to the sub recipient. State if the finding was closed or remains open. If not closed, what are the next steps?



Grantor Audit Finding Follow-up: Best practices

- What is the next course of action if corrective action has not occurred?
 - Have standardized non compliance remedies.
 - Know the subrecipient and their capacity to remedy the finding.
- Were questioned costs repaid?
 - Were funds withheld to repay the federal government?
 - Do you need to invoice the subrecipient for the funds?



Grantor's Responsibilities: Remedies for Noncompliance § 200.338

- If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions, as described in §200.207 Specific conditions.
- If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions, the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:
 - **Less Severe:**
 - Establishing additional prior approvals.
 - Requiring the non-Federal entity to obtain technical or management assistance; or
 - Requiring additional project monitoring;
 - Requiring additional, more detailed financial reports;
 - Requiring payments as reimbursements rather than advance payments
 - Temporarily withhold cash payments pending correction of deficiency;



Resources

US Government Printing Office
Electronic Code of Federal Regulations
2 CFR Chapter II, Part 200
www.ecfr.gov

AICPA – Government Audit Quality Center (GAQC)
www.aicpa.org

Obtain access using link on MyCLA – Services/Assurance

The Chief Financial Officers Council (COFAR) Website
<https://cfo.gov/cofar/>



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