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Subrecipient Monitoring Under the Uniform Guidance for Single Audits

Making Sense of the New Monitoring Compliance Requirements

By Carol Shepherd, Manager



The new OMB Uniform Guidance for Audits includes significant changes to monitoring requirements of pass-through entities. If you work with a non-federal entity that expends more than \$750,000 and provides subawards to other non-federal entities, these changes apply to your organization. Effective for years beginning on or after December 26, 2014, this guidance will affect single audits with December 31, 2015, year ends.

The new guidance expands the definition of *subrecipient* and replaces the term *vendor* with *contractor*. Proper determination of the appropriate subaward relationship as either a subrecipient or contractor is the first step in complying with the new guidance.

Subrecipient or Contractor?

The nature of the relationship between the pass-through entity and the other non-federal entity, as defined by CFR sec. 200.330, will deter-

mine whether you have a subrecipient or a contractor.

Definitions per the CFR sec. 200.330

- **Subrecipient Agreement:** A subaward for the purpose of carrying out a portion of a federal award and creates a federal assistance relationship with the subrecipient.
- **Contractor Agreement:** A contract for the purpose of obtaining goods and services for the non-federal entity's own use and creates a procurement relationship with the contractor.

Substance over form! The substance of the relationship takes precedence over the form of the agreement. Although an agreement between a pass-through entity and another non-federal entity may be called a "contract," the nature of the agreement may not be that of a contractor relationship. The relationship should be assessed in order to apply the correct monitoring requirements. Professional judgment may be necessary when determining the nature of the relationship between the pass-through entity and another non-federal entity.

Communication Requirements for Pass-Through Entities with Subrecipients

A pass-through entity must clearly identify the subaward to the subrecipient as a subaward and provide certain information at the time of the subaward. If any of these elements change, the pass-through entity must include those changes in subaward modifications. While a complete listing of the requirements can be found in the CFR sec. 200.331, some notable requirements are outlined here.

For example, the pass-through entity must provide the following federal award information:

- Subrecipient's name and unique entity identifier;
- Federal Award Identification Number (FAIN);
- Federal award date and period of performance;
- Total amount of federal funds obligated to the subrecipient by the pass-through entity including the current obligation;

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- Total amount of the federal award committed to the subrecipient by the pass-through entity;
- Name of federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity;
- CFDA number and name (the pass-through entity must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement); and
- Indirect cost rate of the federal award, including if the *de minimis* rate is charged.

The pass-through entity must provide to the subrecipient an approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government, or if no such rate exists, a rate negotiated between the pass-through entity and the subrecipient or a *de minimis* indirect cost rate (10 percent) as defined in the CFR sec. 200.414.

Also, the pass-through entity must include a requirement that the subrecipient permit the pass-through entity and auditors to have access to their records and financial statements, as necessary, for the pass-through entity to meet its monitoring requirements. And any additional requirements that the pass-through entity imposes on the subrecipient in order for it to meet its own responsibility to the federal awarding agency must be communicated to the subrecipient.

Risk Assessment Requirements

Per the CFR sec. 200.331, the pass-through entity must evaluate each subrecipient's risk of noncompliance

with federal statutes, regulations and the terms and conditions of the subaward. The results of this evaluation will determine the appropriate monitoring necessary given the assessed level of risk. These procedures and results should be documented. The following criteria may be considered when assessing risk:

- The subrecipient's experience with similar subawards;
- Results of previous audits and whether the subrecipient receives a single audit and the extent to which the subaward has been audited as a major program;
- If there are changes to the subrecipient's personnel or systems; and
- Extent and results of federal cognizant agency monitoring.

Monitoring Requirements

The extent of monitoring performed by the pass-through entity may be influenced by the results of the risk assessment. Under the OMB Uniform Guidance for Audits, there are certain monitoring requirements that must be done regardless of the outcome of this assessment.

The pass-through entity must monitor the activities of the subrecipient by doing the following:

- Reviewing financial and performance reports required by the pass-through entity;
- Following-up and ensuring that the subrecipient takes action on all deficiencies pertaining to the federal award detected through audits, on-site reviews or other means; and
- Issuing management decisions for audit findings which pertain to the federal award provided to the subrecipient from the pass-through entity.

If the results of the risk assessment indicate a higher risk of noncompliance, additional monitoring procedures may be necessary and may include 1) providing training and technical assistance; 2) performing on-site reviews; and 3) arranging agreed-upon procedures (AUP) engagements. These engagements are arranged and paid for by the pass-through entity. The cost may be charged to the federal award if the engagement is conducted in accordance with Government Auditing Standards and limited in scope to compliance of allowable/unallowable activities, allowable cost/cost principles, eligibility and reporting.

Monitoring Best Practices

The pass-through entity should perform monitoring activities as deemed necessary based on the results of an annual risk assessment. As a best practice, a monitoring plan that outlines the procedures should be implemented to perform the monitoring. The results of the monitoring should be documented.

At the conclusion of monitoring procedures, findings should be given to the subrecipient identifying any deficiencies. A corrective action plan should be developed, and the subrecipient should be given a specified period of time to address the deficiencies or noncompliance issues. Consider remedies for noncompliance such as withholding of cash payments, if necessary.

Resources

For a complete listing of all of the monitoring requirements, check the *Code of Federal Regulations* published in the *Federal Register* by the OMB. Also the Council of Financial Assistance Reform website is a great resource.

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