



Commonwealth of Massachusetts

Executive Office for Administration & Finance

Federal Funds Office (FFO)

Coronavirus State and Local Fiscal Recovery Fund: Subrecipient Determinations & Monitoring

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Background



- A large percentage of the federal funds received by the Commonwealth are expended by **subrecipients** rather than by Commonwealth departments themselves.
- Per guidance from the Office of the Comptroller, department management must continue to **monitor the entities** to which they grant their federal funds.
- As part of the federal government's expanded monitoring of expenditures, federal agencies have begun to increase their audit presence at state and local government agencies. A primary focus of these audits is **reviewing grantees' monitoring of subrecipients.**



Determining Subrecipient Status



Determining Subrecipient Status

- The non-Federal entity may concurrently receive Federal awards as a recipient, a subrecipient, and a contractor, depending on the substance of its agreements with Federal awarding agencies and pass-through entities.
- Therefore, a pass-through entity must make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a **subrecipient or a contractor**.
- In determining whether an agreement between a pass-through entity and another non-Federal entity casts the latter as a subrecipient or a contractor, the substance of the relationship is more important than the form of the agreement.
- All of the characteristics listed in the following slides may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.



Definitions: Subrecipient

- **Subrecipients.** A subaward is for the purpose of carrying out a portion of a Federal award and creates a Federal assistance relationship with the subrecipient.
- Characteristics which support the classification of the **non-Federal entity as a subrecipient include** when the non-Federal entity:
 - › (1) Determines who is eligible to receive what Federal assistance;
 - › (2) Has its performance measured in relation to whether objectives of a Federal program were met;
 - › (3) Has responsibility for programmatic decision-making;
 - › (4) Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and
 - › (5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.



Definitions: 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 the contractor** are when the contractor:
 - › (1) Provides the goods and services within normal business operations;
 - › (2) Provides similar goods or services to many different purchasers;
 - › (3) Normally operates in a competitive environment;
 - › (4) Provides goods or services that are ancillary to the operation of the Federal program; and
 - › (5) Is not subject to compliance requirements of the Federal program as a result of the agreement, though similar requirements may apply for other reasons



Information to Provide to Subrecipients



Information to be Provided

- There is a series of information that, when available, should be provided upfront **to the subrecipient** at the time of sub-award:

1. Federal award identification;

- Subrecipient name (must match the name associated with its unique entity identifier);
- Subrecipient's unique entity identifier;
- Federal Award Identification Number (FAIN);
- Federal Award Date of award to the recipient by the Federal agency;
- Subaward Period of Performance Start and End Date;
- Subaward Budget Period Start and End Date;
- Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current financial obligation;
- Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- Assistance Listings number and Title; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at time of disbursement;
- Identification of whether the award is R&D; and
- Indirect cost rate for the Federal award (including if the de minimis rate is charged) per §200.414.



Information to be Provided

2. 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;
3. 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;
4. (i) An approved federally recognized **indirect cost rate** negotiated between the subrecipient and the Federal Government. If no approved rate exists, the pass-through entity must determine the appropriate rate in collaboration with the subrecipient, which is either:
 - (A) Negotiated indirect cost rate between pass-through entity and the subrecipient; which can be based on a prior negotiated rate between a different PTE and the same subrecipient. If basing the rate on a previously negotiated rate, the pass-through entity is not required to collect information justifying this rate, but may elect to do so;
 - (B) De minimis indirect cost rate.
- (ii) The pass-through must not require use of a de minimis indirect cost rate if the subrecipient has a Federally approved rate. Subrecipients can elect to use the cost allocation method to account for indirect costs;



Information to be Provided

5. 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
6. Appropriate **terms and conditions concerning closeout** of the subaward



Risk Evaluation and Monitoring



Evaluating Risk

- **Evaluate 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**, which may include consideration of such factors as:
 - › (1) The subrecipient's prior experience with the same or similar subawards;
 - › (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F of this part, and the extent to which the same or similar subaward has been audited as a major program;
 - › (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
 - › (4) The extent and results of Federal awarding agency monitoring (*e.g.*, if the subrecipient also receives Federal awards directly from a Federal awarding agency).
- Consider imposing **specific subaward conditions** upon a subrecipient if appropriate as described in §200.208.



Monitoring

- 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:
 - › (1) Reviewing **financial and performance reports** required by the pass-through entity.
 - › (2) 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 written confirmation from the subrecipient**
 - › (3) Issuing a **management decision for applicable audit findings** pertaining only to the Federal award provided to the subrecipient from the pass-through entity
 - › (4) The pass-through entity is responsible **for resolving audit findings specifically related to the subaward** and not responsible for resolving cross-cutting findings.



Monitoring

- 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:
 - › (1) Providing subrecipients with **training and technical assistance** on program-related matters; and
 - › (2) Performing **on-site reviews** of the subrecipient's program operations;
 - › (3) Arranging for **agreed-upon-procedures engagements** as described in §200.425.
- Verify that every subrecipient is audited as required by Subpart F of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in §200.501.
- Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records.
- Consider taking enforcement action against noncompliant subrecipients as described in §200.339 of this part and in program regulations.



Risk Assessment & Monitoring Example



Assessing Risk

In considering preparations for potential audits down the line, compliance risk and fraud risk can be defined into three categories to help prioritize focus area and effort

Highest Risk



Lowest Risk

Highest Risk: Entities receiving funds for the first time

Medium Risk: Entities using funds for complex uses (e.g., grant programs) and/or transferring large amount of funds to subrecipients

Lowest Risk: Entities with experience in federal funds and/or using funds for clearly defined eligible uses



Designing a Desk Review Process

- In order to design an effective sampling process that provides informative and reliable desk audits, an auditing agency should follow the below steps to design their process. The following slides provide detail on each step.
 1. Define the objectives of the test
 2. Determine the type of test to be performed
 3. Define the deviation conditions
 4. Define the population
 5. Determine the method of selecting the sample
 6. Determine the sample size
 7. Perform the sample
 8. Evaluate the sample results
 9. Document the sampling procedure



Define the Objectives of the Test

- The auditor must have a definite question to be answered by the test.
- Auditors should record the objective of the test within the audit narrative and/ or other workpapers.
 - Not only does this help the reviewer, but it also clarifies the objective for the auditor so that the proper audit procedure and sampling application can be defined.
- Creating a one sentence question to be answered reduces the likelihood of performing an inappropriate procedure or using the wrong sampling application.
- Example questions:
 - Does the application file contain all required documentation?
 - Are funds being applied to eligible uses?
 - Do reported expenditures match what funds were applied for?



Determine the Type of Test

- The type of sampling application, whether statistical or non-statistical, is usually defined by the conclusion which the auditor is attempting to reach.
 - **Variables sampling** is used to reach a conclusion about a population in terms of an amount.
 - Variables sampling is commonly used to determine the dollar size of a population or to determine if the stated dollar size is correct.
 - **Attribute sampling** is used when the auditor is only concerned with acceptance or rejection of a hypothesis. It is used to reach a yes or no answer about a question.
- Sampling applications can also be classified by the type of audit procedure in which they are used.
 - Compliance tests determine whether controls are being complied with.
 - The answer to a compliance test is yes or no.
 - A compliance test can often be used to determine if a substantive test is necessary.
 - If auditee is compliant with grant and program terms, it is unlikely a substantive test is required.
 - Attribute sampling is most often used in compliance tests.
 - Substantive tests are tests which determine the amount of some class of items.



Define Deviation Conditions

- If you are performing a direct test of controls, such as checking for supervisor approval of a purchase, a deviation will be any noted lapse in the control.
 - In this case if the control is documented in some way, such as with initials of the supervisor on the invoice, a deviation would be the lack of initials.
 - If the control is not documented, you will have to rely on direct observation of the control being performed, or on indirect evidence.
- Auditors should be careful not to include factors in the deviation, which do not affect the objective of the test.
 - For instance, in the test described above, invoices where the name was misspelled would not affect the objective of the test and should not be treated as deviations.
- On the other hand, auditors should also be careful to include all factors, which may affect the objective of the test.
 - For instance, if an invoice contains the initials of a supervisor from another Department who is not authorized for the type of approval in question, that would constitute a deviation.



Define the Population

- The auditor should determine if the population from which the sample is selected is appropriate for the specific audit objective, because sample results can be projected to only the population from which the sample was selected.
 - Risk assessments, application context, and prior experience should inform the segmentation of recipients into high, medium, and low risk populations.
- The auditor should also define the sampling unit in light of what is being tested and the type of records kept by the recipient.
 - A sampling unit may be, for example, a document, an entry in a journal, a line item, or a single transaction.
 - In cases where samples are being audited against an application, the unit should include enough documentation to verify the information contained in the application upon which the initial award was made.



Determine the Method of Selecting the Sample

- Sample items should be selected in such a way that the sample can be expected to be representative of the population. Therefore, all items in the population should have an equal opportunity to be selected.
- Random Number Selection
 - The auditor may select a random sample by corresponding random numbers generated by a computer or selected from a random number table with application numbers.
 - Random number generating software programs can provide seed numbers which can be used to duplicate a specific list of random numbers.
 - The seed number should be documented within the audit workpapers.
- Systematic Selection
 - For this method, the auditor determines a uniform interval by dividing the number of physical units in the population by the sample size then rounding up.
 - Starting point is randomly selected and each item after that is selected at uniform interval.
 - If population is arranged randomly, systematic selection is essentially the same as random number selection.
 - However, if population is not randomly arranged, there may be problems with this method.



Determine the Sample Size

- For attribute sampling, the following procedure is recommended:
 - If the sample is drawn from the entire audit period, use an initial sample of 50 items.
 - If the sample is drawn from a block, or if the population is limited in some other way, the initial sample should be 100 items.
 - If one or more deviations are found in the sample, the auditor must either reject the item being tested, or may expand the sample.
 - If the auditor chooses to expand the sample, an additional number of items equal to the initial sample should be tested.
 - If one or more additional deviations are found, the auditor must either reject the item being tested, or may expand the sample to the appropriate variables sample size and use the results to estimate the amount of error in the item being tested.



Perform the Sample

- After the sampling plan has been designed, the auditor selects the sample and examines the selected items to determine if they contain deviations.
- Common problems that arise:
 - Voided documents: If an auditor randomly or otherwise selects a voided item to be included in the sample, and has reasonable assurance that the item was properly voided, it should be replaced with another item selected in accordance with the sampling procedure.
 - Inapplicable documents: The auditor's consideration of unused or inapplicable documents is the same. If the auditor selects such a document, they should obtain reasonable assurance that the document is inapplicable and does not represent a deviation. The unused document may then be replaced with an additional document.
 - Credits: Most populations will contain credits. It may be possible in certain situations to remove the credits prior to sampling, but care should be taken to avoid inflating the population's total value. If the credits offset debits it is important to remove both.
 - Errors: In a situation where the auditor generates a random number that is not part of the population, that number should be replaced with another random number which is part of the population.
 - Inability to examine selected items: If an item selected is missing and it cannot be determined what happened to the item, it should normally be considered a deviation.



Evaluate Results

- After completing the examination of the sampling units and summarizing the deviations from prescribed control procedures, the auditor evaluates the results.
- Interpreting Results:
 - The auditor must determine how the outcome of the sample affects the test conclusions and the overall audit approach.
 - If the auditor is testing the reliability of a certain record, the outcome of the attribute sample will either show deviations or no deviations.
 - If there are deviations, the auditor must expand the sample as described under Step 6 for attribute sampling or reject the record as unreliable.
 - This in turn may affect the audit approach.
- Qualitative Interpretation
 - In addition to evaluating the frequency of deviations, the auditor should consider the qualitative aspects of the deviations.
 - Qualitative characteristics of the nature and cause of the deviations are:
 - Whether the deviations are errors or irregularities
 - Whether the deviations are due to misunderstanding instructions or carelessness, and
 - The relationship of the deviations to other phases of the audit.



Document the Sample Procedures

- Examples of items the auditor should include in the documentation of the sampling test are:
 - A description of the purpose of the test
 - The definition of the population, the sampling unit, and the item of interest (if different)
 - The definition of a deviation
 - How was the sample size determined?
 - How were the sampling procedures performed?
 - How were deviations evaluated?
 - What were the results of the sample?
 - How were the sample results used in the audit (how were they extrapolated)?



Resources



Subrecipient Monitoring Resources

- [Part 3 of the 2020 Compliance Supplement](#)
- [AGA's Subrecipient Monitoring Guide](#)
- [Office of the Comptroller Subrecipient Monitoring Policy](#)