



# Monitoring Subrecipients Briefing



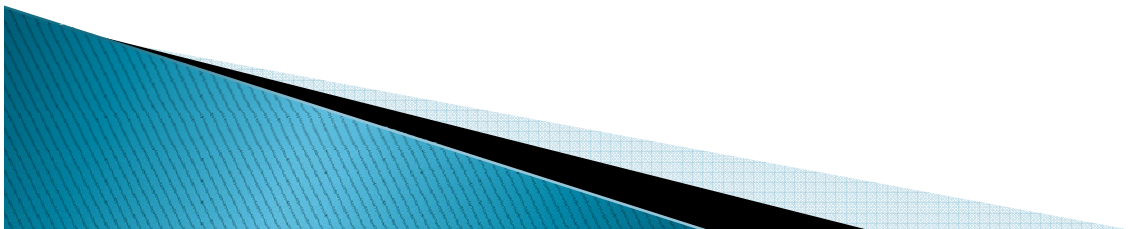
U.S. Department of Commerce  
Office of Inspector General  
February 3, 2011

# What's the Big Deal?

- ▶ **American Recovery and Reinvestment Act**
  - \$862 Billion for job creation and economic recovery
  - Largest Commerce grant program managed by NTIA
- ▶ **Federal Requirement**
  - OMB Circular A-133 applies to non-profits, governmental and tribal entities
  - Department of Commerce Standard Terms and Conditions applies to all entities including for-profits
- ▶ **Administration Commitment to Transparency**
  - [UsaSpending.gov](http://UsaSpending.gov)
  - [Recovery.gov](http://Recovery.gov)

# OMB Circular A-133

- ▶ Section 400(d) requires recipients:
  - Advise subrecipients of requirements
  - Monitor subrecipients to ensure activities are for authorized purposes
  - Ensure that audit requirements are met
  - Issue a management decision on audit findings
  - Provide access to records



# Commerce Standard Terms and Conditions

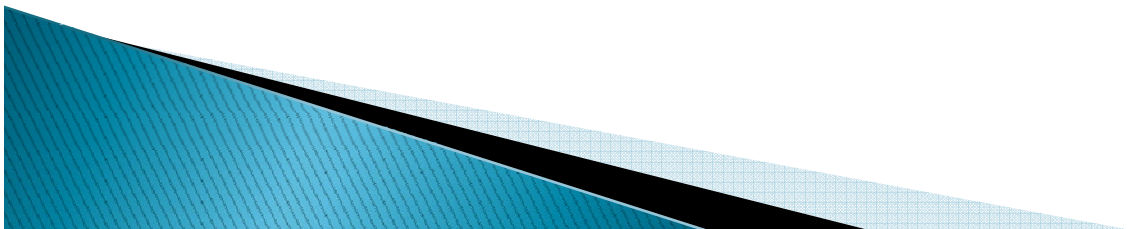
- ▶ Applies to all recipients of BTOP awards
- ▶ For-profit subrecipients are not required to follow OMB Circular A-133 but, subrecipient monitoring is still required by Commerce's Standard Terms and Conditions.

*The recipient shall require all subrecipients, including lower tier subrecipients, under the award to comply with the provisions of the award, including applicable cost principles, administrative, and audit requirements.*

- Free and open competition for subawards
- Written codes of conduct for those involved in subawards

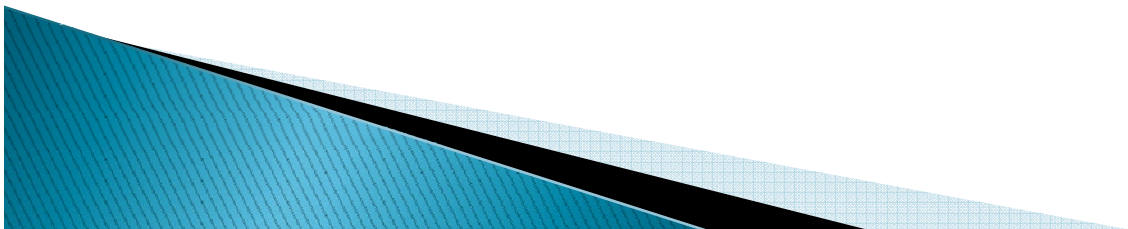
# Recovery Act of 2009

- ▶ Pass-through entities monitor all subrecipients, regardless of the amount of federal funds passed through to subrecipients
- ▶ Be aware of Section 1512 recipient reporting responsibilities (recipients may delegate some of these reporting requirements to subrecipients)



# Where Does This Story Begin?

- ▶ One of the most important factors in effective oversight of subrecipients is understanding who are these entities that are defined as subrecipients.
- ▶ Confusion sometimes exists when defining a party as a vendor or a subrecipient.



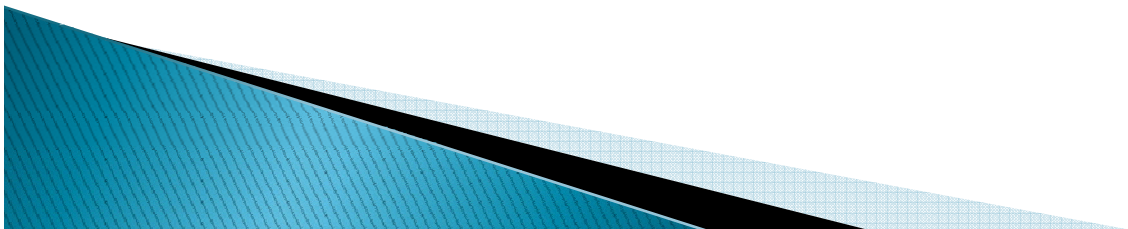
# Subrecipients vs. Vendors

## ▶ Subrecipients

- Use funds to meet program objectives
- Responsibility for programmatic decision-making
- Must follow federal compliance requirements

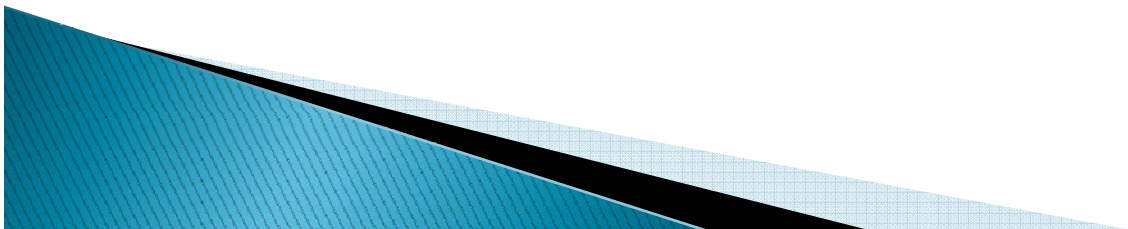
## ▶ Vendors

- Provide goods and services
- Provide similar goods or services to others
- Not subject to comply with grant terms and conditions



# Establishing the Relationship

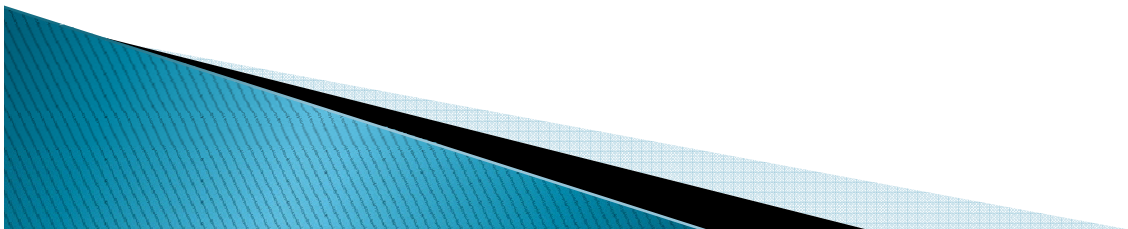
- ▶ Subaward agreements should clearly define the relationship between the recipient and subrecipient and their responsibilities.
  - Scope of work and budget
  - Program authorizing legislation
  - Administrative requirements
  - Recipient imposed conditions
- ▶ **The relationship of the parties matters, not the nature of the parties.**





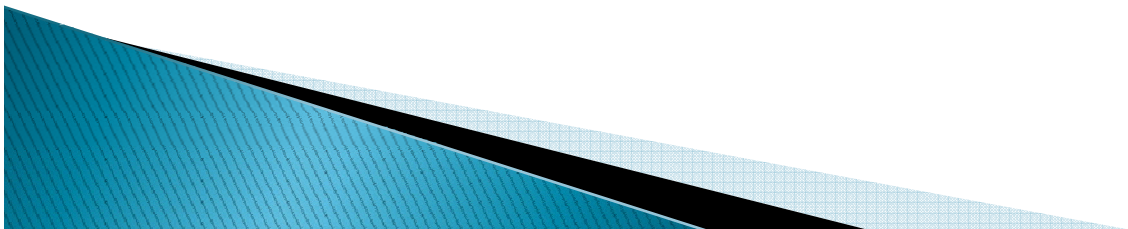
# Name that Relationship

- ▶ The town of Pleasantville is providing consulting services to the city of Despair on a cost-reimbursement basis.
- ▶ Acme Corporation is providing the use of its earthmoving equipment to the county in a joint effort to develop a road to a new business park. Acme is contributing the equipment without reimbursement because it will benefit from the road.



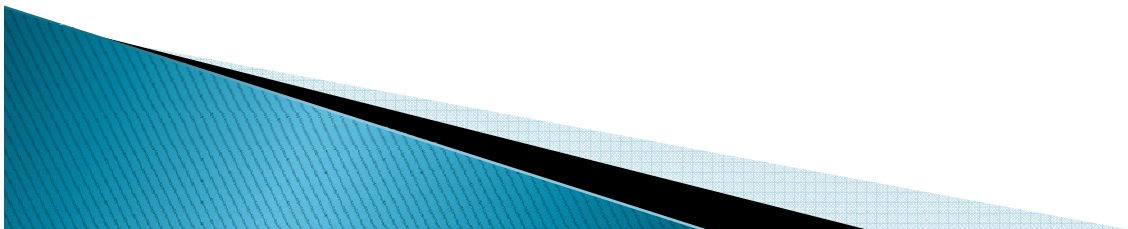
# Recipient Responsibilities

- ▶ Recipients will need to identify areas to monitor, documentation to maintain, and staff to oversee the monitoring effort.
- ▶ Recipients should:
  - Communicate compliance requirements
  - Provide technical advice
  - Monitor subrecipient activities
  - Ensure single audits are performed
  - Require subrecipients to provide auditors with access to records



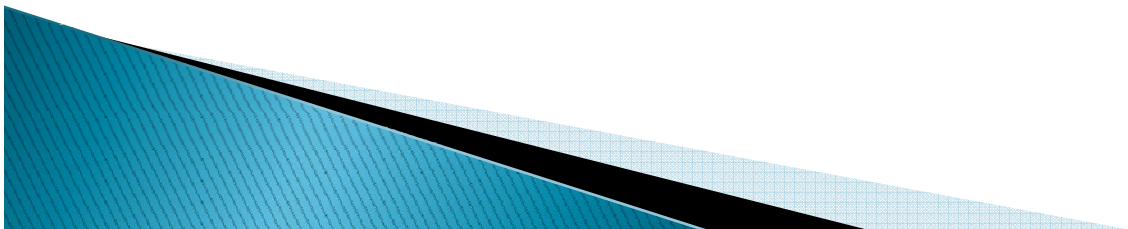
# Subrecipient Responsibilities

- ▶ Financial management standards
- ▶ Cost principles
- ▶ Matching
- ▶ Procurement
- ▶ Real property and equipment
- ▶ Reporting and record keeping
- ▶ Monitoring
- ▶ Audits
- ▶ Access to records



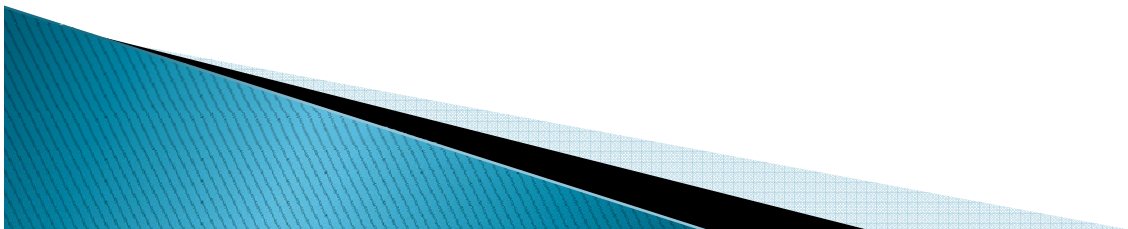
# What is Monitoring?

- ▶ Monitoring is action taken by grant recipient during the life of the grant to ensure program performance and legal compliance.
- ▶ Monitoring system should be in place prior to subagreements.
- ▶ Effectiveness of subrecipient monitoring will depend on how well controls over monitoring are designed and operated.



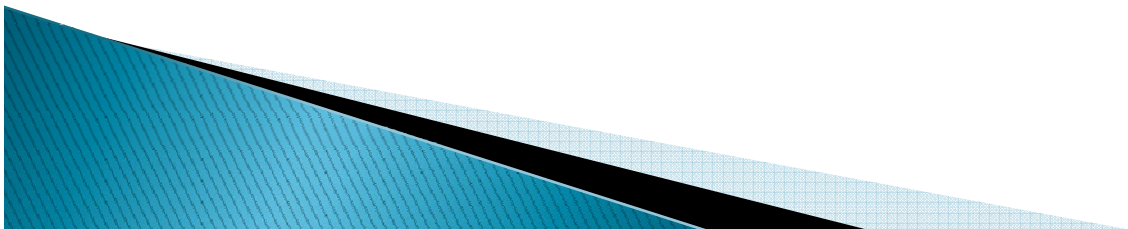
# What Does This Really Mean To the Recipient?

- ▶ The recipient and subrecipient collaborate to achieve mutual objectives.
- ▶ The recipient, not the federal awarding agency, has the relationship with the subrecipient.
- ▶ The federal government holds the recipient responsible for not meeting the terms of the award.
- ▶ Effective monitoring of subrecipients begins with strong recipient internal controls.



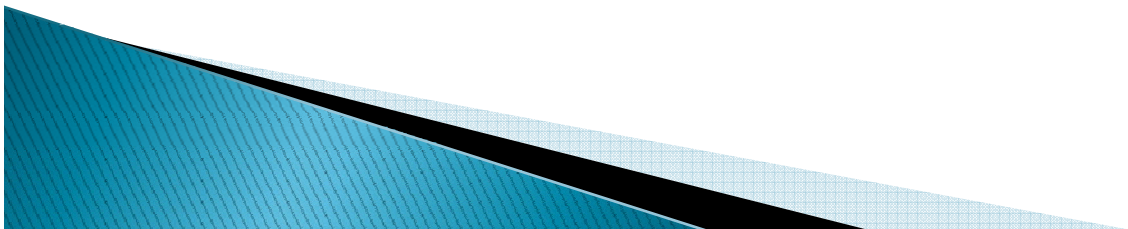
# Recipient Internal Controls

- ▶ Recipient internal controls should provide reasonable assurance that
  - Award information and compliance requirements are clearly communicated to subrecipients,
  - Subrecipient activities are monitored, and
  - Impacts of noncompliance on recipient are evaluated.
- ▶ The recipient must ensure subrecipients have required audits and adequate corrective action is taken.



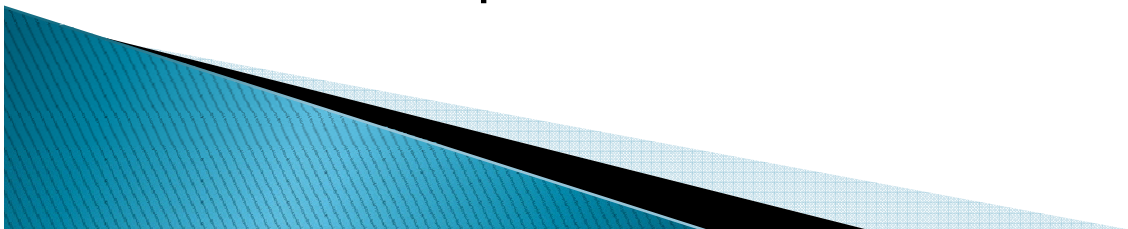
# Keys to Effective Monitoring

- ▶ Identify the purpose of monitoring and risk of subrecipient noncompliance (Remember: monitoring should be cost-effective)
- ▶ Effective Communications
- ▶ Follow-up on audit recommendations



# Subrecipient Risk Factors

- ▶ Risk Factors
  - Size of subawards
  - Percentage of recipient's total funds
  - Subrecipient experience
- ▶ Identifiers of high-risk
  - History of unsatisfactory performance and noncompliance
  - Financial uncertainties
  - Inadequate management system
  - New recipients
  - Non-responsiveness

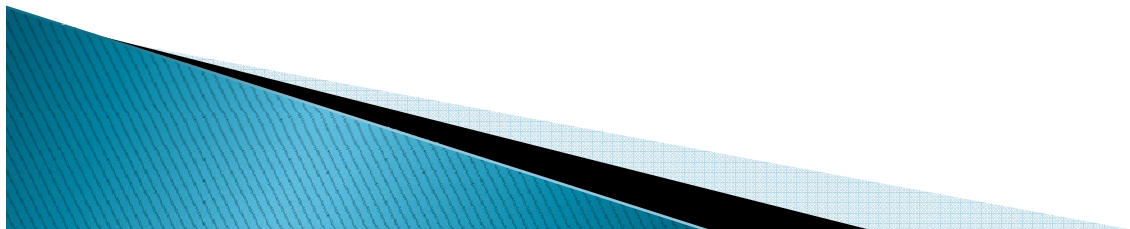




# Red Flags

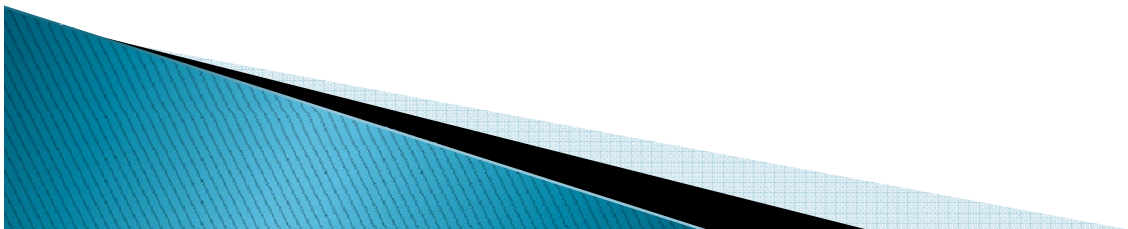


- ▶ One person performs too many duties
- ▶ Lack of employee qualifications
- ▶ Difficulties getting access to records
- ▶ Inadequate records
- ▶ Lack of audit
- ▶ Nonexistent/exceedingly brief/repetitive reporting



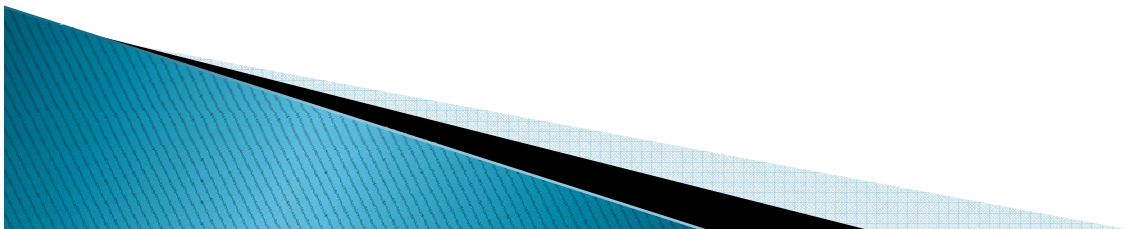
# Monitoring Methods

- ▶ Communications
- ▶ Provide training
- ▶ Review of single audits
- ▶ Third party evaluations
- ▶ Review of subrecipient reports
- ▶ Perform desk reviews
- ▶ Perform site visits
- ▶ Pre-approval of certain activities



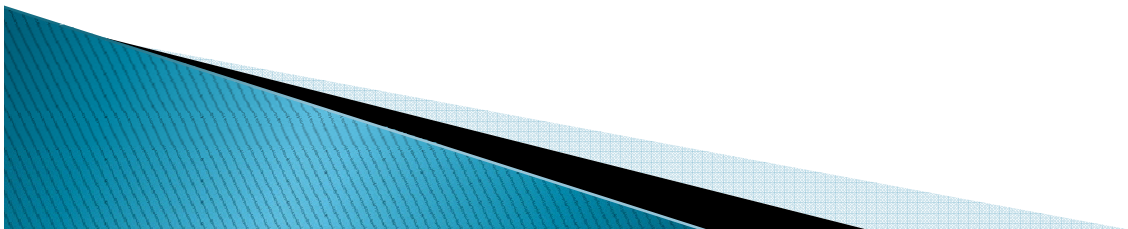
# What Can Be Done Without Site Visits

- ▶ Audit reports
- ▶ Limited scope reviews
- ▶ Progress reports
- ▶ Technical assistance
- ▶ Special requests for information



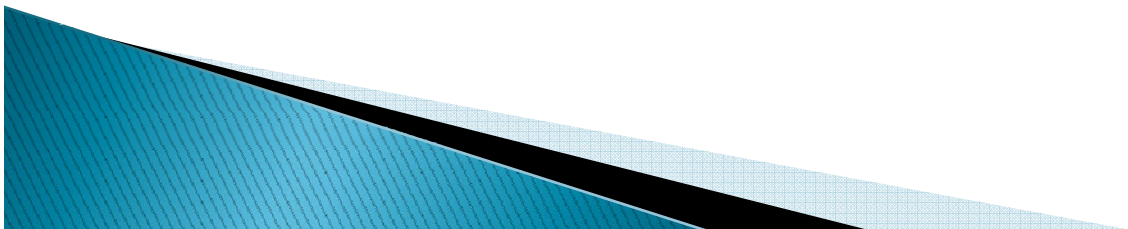
# Would You Make This Trip?

- ▶ Subrecipient A receives a significant percentage of award money (50%), has a prior track record with previous federal awards, and has been responsive.
- ▶ Subrecipient B receives a small portion of funds (10%), has no experience with federal funds, has not submitted timely reports, and has not been responsive to requests.
- ▶ Subrecipient C is working on a new program and has an inexperienced project team



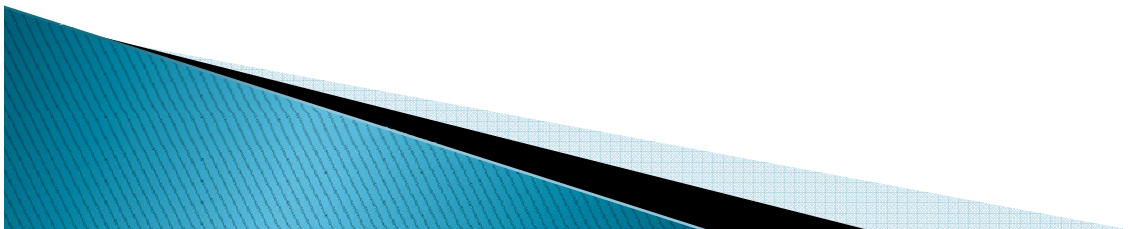
# When To Do a Site Visit

- ▶ High dollars
- ▶ New program
- ▶ Complex compliance requirements
- ▶ Prior findings
- ▶ Inexperienced subrecipient
- ▶ No previous site visits



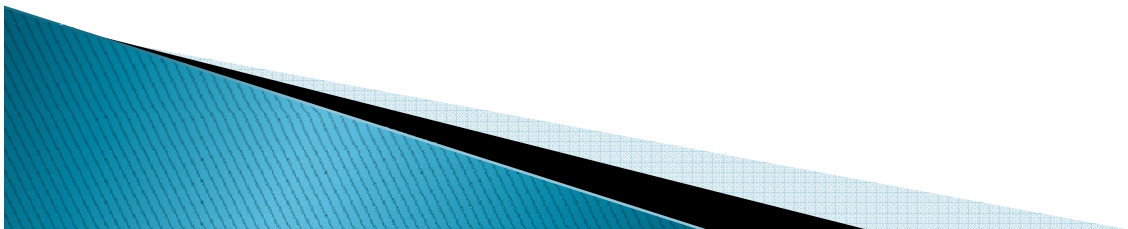
# Making Site Visits Meaningful

- ▶ Conducting meaningful site visits is essential to an effective monitoring program.
- ▶ Monitoring is costly.
- ▶ Grantees should focus on issues that cannot be obtained by other than face-to-face communication.
- ▶ Tailor site visits to the specific subrecipient.
- ▶ Provide immediate feedback and technical advice.
- ▶ Follow-up on identified concerns.



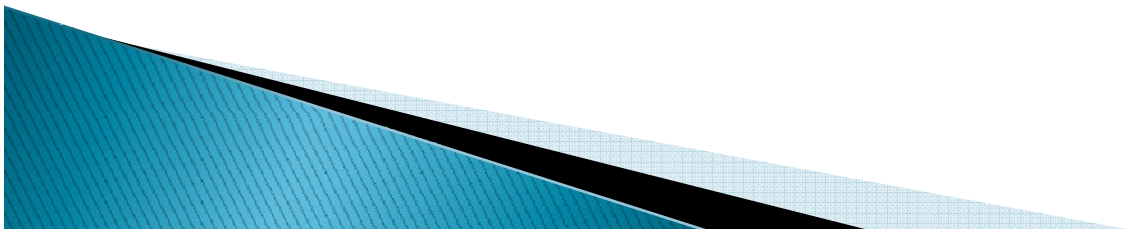
# Following-Up & Fixing the Problem

- ▶ Follow-up is essential.
- ▶ Consequences can result if follow-up is not performed (e.g., additional instances of noncompliance).
- ▶ Problems can be compounded if corrective action is not taken on identified findings (i.e., additional unallowable costs).
- ▶ Document steps taken.



# Document! Document! Document!

- ▶ A common recipient problem is a lack of documentation of monitoring activities.
- ▶ The recipient can maintain files for each subrecipient that contain any subrecipient submitted reports, single audits, and other provided documents.
- ▶ Completed checklists show monitoring tools that were used.
- ▶ Keep a record of all monitoring activities performed.







# Hotline Complaints

There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government.

-Ben Franklin

- ▶ Credible Complaints
- ▶ Significant or Material Issues
- ▶ Often Referred to Grants Officer
- ▶ OIG Hotline Number  
1-800-424-5197



# Questions?