

# Sub-Recipient Monitoring Best Practice

The following information is being provided to agencies to be used in the areas of compliance and oversight of federal funds for sub recipient monitoring.

**Purpose:**

Departments with new sub-recipient monitoring responsibilities should use this as a guide to insure their sub-recipient monitor efforts meet or exceed this standard.

**These tools may also be used by sub-recipients to assess their compliance with grant requirements.**

**Definitions:**

**Sub-recipient** - A sub-recipient is the result of a contractual agreement between a state department and a third party organization to perform all or a portion of a grant-funded project. Similar terms that are commonly used are: sub-award, sub-grant, sub-agreement, and pass through.

**Vendor** – Vendors are individuals or entities operating in a competitive environment, from which prime and sub-recipients procure goods and services to carry out the federal project or program. They are not subject to the terms and conditions of the federal award.

In some cases, it may be difficult to tell the difference between a sub-recipient and a vendor agreement, but the budget and statement of work will usually provide enough information to make the determination. The following grid outlines the key components of subcontracts and vendor relationships. Use it as a guide to proper classification of a contractual relationship. Sub-recipient monitoring can take on various forms and is not limited by the practices described below.

Sub-Recipient	Vendor Agreement
Typically a not-for-profit or government entity that provides services to a government entity or the public such as a city, town, hospital, or university.	Vendor provides goods or services commercially to both government and non-government entities.
Determines who is eligible to receive what federal financial assistance and how the federal funds will be used to fulfill the federal program purposes.	Vendor operates in a competitive environment.
Is subject to federal sub-recipient monitoring requirements; has responsibility for adherence to applicable federal program compliance requirements.	Provides similar goods or services to many different purchasers.
Uses the federal funds to carry out a program of the entity as compared to providing goods or services for a program of the pass-through entity.	Vendor provides the goods or services ancillary to the operation of the federal program.
Has responsibility for programmatic decision making delegated from the initial grant recipient.	Is not subject to the compliance requirements of the federal program

### Sub-Recipient vs. Vendor Agreement – Examples

Sub-Recipient	Vendor Agreement

A state department of education (pass-through entity) receives a federal award and is responsible for administering and disbursing the federal award to local school districts (sub-recipients) according to a formula or on some other basis.	A state department (prime recipient) receives a federal award to provide mental health services in a designated area. Some of the funds are paid to a contractor (vendor) to repair a leaking roof.
A state planning commission (pass-through entity) receives a federal award for the feeding of elderly and low-income individuals, and the award is disbursed to not for profit (NPO) organizations (sub-recipient) to support their feeding programs.	A prime recipient receives a federal award to operate specialized preschool programs and pays a vendor to provide temporary clerical services.
A state arts commission (pass-through entity) awards funds from a federal grant to a theater group (sub recipient) to support a summer arts series.	A prime recipient receives a federal award to run a preschool and pays a doctor (vendor) to perform health screening on a per-student basis.
A University (pass-through entity) receives a federal grant to study a disease and awards funds to a hospital (sub-recipient) for part of the research.	A prime recipient receives a federal award to operate a child care center and pays a not-for-profit clinic (vendor) to perform physical exams.

### **General Guidelines for Sub-Recipient Monitoring:**

The [2009 OMB Compliance Supplement](#) outlines the following forms of monitoring activity:

- Reporting – Reviewing financial and performance reports submitted by the sub-recipient.
- Site Visits – Performing site visits at the sub-recipient to review financial and programmatic records and observe operations.
- Regular Contact – Regular contacts with the sub-recipients and appropriate inquiries concerning program activities.

**Each prime recipient must develop a plan for how it will monitor the funds it awards and the activities of the entities to which it awards those funds.**

**Monitoring plans should be based on a risk assessment, as certain sub-recipients may require closer scrutiny in light of considerations such as:**

- Size of the sub-recipient award. Other factors being equal, large awards (for example, with annual budgets >\$500K) may receive more substantial and/or more frequent review and monitoring; mid-sized awards (annual budget \$100K-\$500K) may receive proportionately less substantial and less frequent monitoring; smaller awards (<\$100K) may receive general review with the least frequent oversight.
- Award size relative to the sub-recipient's total budget.
- Percentage passed through: the larger the percentage of program award passed through, the greater the need for sub-recipient monitoring.
- Award complexity, sensitivity of the work and/or extensiveness of the governing regulations.
- Prior experience with the sub-recipient, e.g. a new sub-recipient, an inexperienced sub-recipient, a history of non-compliance, having new personnel, or having new or substantially changed systems.
- Degree of external oversight by auditors or sponsoring agencies. Departments are obligated to monitor sub-recipients of its federal awards, regardless of the sub-recipients being subject to A-133 audits.
- Sophistication of the sub-recipient's systems and administrative operations.

- Upon identification of sub-recipients that mandate closer scrutiny, based on the above review criteria, departments must take appropriate monitoring actions to ensure compliance with sub-agreement performance, financial terms and conditions, and all applicable federal rules and regulations.

Governing Requirements: The requirements for sub-recipient monitoring are contained in 31 USC 7502 (f) (2) (B) (Single Audit Act Amendments of 1996 (Pub. L. 104-156)), OMB Circular A-133 (§\_\_\_\_.225 and (§\_\_\_\_.400 (d))), OMB Circular A-110 (§\_\_\_\_.51 (a)), Federal awarding agency program regulations, and the terms and conditions of an award.

### **ARRA Guidelines for Sub-Recipient Monitoring:**

Addendum 1 to the 2009 OMB Compliance Supplement (issued in June, 2009) highlights the changes/additions made in order to comply with ARRA requirements. All changes related to ARRA are highlighted in **bold type**.

#### **Roles and Responsibilities**

It is the responsibility of the department to ensure compliance for Sub-Recipient Monitoring.

This includes the following:

- Determine the frequency and scope for monitoring programmatic activities of each sub-recipient, to include regular contact with the sub-recipient.
- Ensure sub-recipients comply with the technical provisions of the sub-award.
- Ensure that department personnel involved in financial administration of sponsored projects are familiar with the policy for ***Sub-Recipient Monitoring***.
- Monitor awards to ensure that costs are appropriate, approved, and entered into the accounting system.
- Ensure all required sub-recipient programmatic reporting is current.
- Approve all sub-recipient invoices in consultation with the individual(s) who aware of the costs incurred in relation to the work performed on the subcontract.
- Keep detailed records of communications regarding performance by the sub-recipient.
- If primary provider, review A-133 reports for sub-recipients expending \$500,000 or more in total Federal awards (from all sources) during a fiscal year.
- Determine when to amend a sub-recipient's award and initiate the amendment. Common reasons for amending a sub-award include providing additional funding, extending the period of performance, or modifying the reporting schedule:

#### **When Amending a Sub-Award**

- Establish a process to accommodate changes from the federal awarding agency, or your department
- Process to include prior approval (internal and federal level if applicable)
- Document any changes
- Modify sub-agreements
- Update sub-recipient monitoring plan

#### **What Auditors look for in Sub-Recipient Monitoring (a sample)**

- An established monitoring program that ensures compliance by sub-recipients
- Proper identification of federal pass-through information on award documents
- Follow-through on sub-recipient audit findings
- Appropriate action in non-compliance situations

A key oversight area for all ARRA activity that will carry a heavy emphasis is the **prevention of fraud, waste and abuse**.

Departments should incorporate this element into their sub-recipient monitoring plans. Page 175 of the ARRA explains the role of the **Recovery Accountability and Transparency Board**: [ARRA - the Act](#). Refer to Addendum 1 to the 2009 OMB Compliance Supplement, as well as the specific federal award documents, for additional ARRA monitoring requirements.