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CERTIFIED PUBLIC ACCOUNTANTS

SUB-RECIPIENT MONITORING: External Audit Perspective

Dionysios Karamalakis
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A pass-through entity is responsible for:

- ▶ Award Identification—At the time of the award, identifying to the sub-recipient the federal award information and applicable compliance requirements.
 - Federal award information includes:
 - CFDA title and number;
 - Award name and number;
 - Whether the award is research and development;
 - Name of federal awarding agency.



A pass-through entity is responsible for:

- ▶ During-the-Award Monitoring—Monitoring the sub-recipient's use of federal awards to provide reasonable assurance that the sub-recipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
 - Monitoring through:
 - Reporting;
 - Site visits;
 - Regular contact;
 - Or other means.



A pass-through entity is responsible for:

▶ Sub-Recipient Audits—

- (1) Ensuring that sub-recipients expending \$500,000 or more in federal awards during the sub-recipient's fiscal year, for fiscal years ending after December 31, 2003, as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (Gov. Doc. No. 8) and that the required audits are completed within nine months of the end of the sub-recipient's audit period;
- (2) Issuing a management decision on audit findings within six months after receipt of the sub-recipient's audit report; and
- (3) Ensuring that the sub-recipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.



A pass-through entity is responsible for:

- ▶ Ensuring Accountability of For-Profit Sub-Recipients—Awards also may be passed through to for-profit entities. For-profit sub-recipients are accountable to the pass-through entity for the use of federal funds provided.
 - Because for-profit sub-recipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit sub-recipient accountability for the use of funds.
- ▶ Pass-Through Entity Impact—Evaluating the impact of sub-recipient activities on the pass-through entity's ability to comply with applicable federal regulations.



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A pass-through entity is responsible for:

- ▶ Central Contractor Registration—Identifying to first-tier sub-recipients the requirement to register in the Central Contractor Registration (CCR), including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintaining the currency of that information [Section 1512(h) of the Recovery Act and 2 CFR section 176.50(c)].



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Factors that affect during-the-award monitoring

(Internal and external examples that affect the nature, timing, and extent)

- ▶ Program Complexity—Programs with complex compliance requirements have a higher risk of non-compliance.
- ▶ Percentage Passed Through—The larger the percentage of program awards passed through, the greater the need for sub-recipient monitoring.



Factors that affect during-the-award monitoring

- ▶ Amount of Awards—Larger dollar awards are of greater risk.
- ▶ Sub-Recipient Risk—Sub-recipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new sub-recipients would require closer monitoring. For existing sub-recipients, based on results of during-the-award monitoring and sub-recipient audits, a sub-recipient may warrant closer monitoring, if
 - (1) the sub-recipient has a history of non-compliance as either a recipient or sub-recipient,
 - (2) the sub-recipient has new personnel, or
 - (3) the sub-recipient has new or substantially changed systems.



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What are your external auditors looking for?

- ▶ Existence of sub-recipient monitoring policies and procedures. If no policies and procedures, then a deficiency.
- ▶ Existence of documentation to support compliance with internal policies and procedures.
- ▶ Effectiveness of internal policies and procedures.



Audit objectives

- ▶ Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 § .500(c).
- ▶ Determine whether the pass-through entity properly identified federal award information and compliance requirements to the sub-recipient, and approved only allowable activities in the award documents.



Audit objectives

- ▶ Determine whether the pass-through entity monitored sub-recipient activities to provide reasonable assurance that the sub-recipient administers federal awards in compliance with federal requirements.
- ▶ Determine whether the pass-through entity ensured required audits are performed, issued a management decision on audit findings within six months after receipt of the sub-recipient's audit report, and ensures that the sub-recipient takes timely and appropriate corrective action on all audit findings.



Audit objectives

- ▶ Determine whether in cases of continued inability or unwillingness of a sub-recipient to have the required audits, the pass-through entity took appropriate action using sanctions.
- ▶ Determine whether the pass-through entity evaluates the impact of sub-recipient activities on the pass-through entity.
- ▶ Determine whether the pass-through entity reviewed whether sub-recipients receiving Recovery Act funding have current CCR registrations and performed periodic checks to ensure that sub-recipients are updating information as necessary.



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Audit objectives

- ▶ Determine whether the pass-through entity identified in the Schedule of Expenditures of Federal Awards (SEFA) the total amount provided to sub-recipients from each federal program.
- ▶ If for-profit sub-awards are material, determine the adequacy of the pass-through entity's monitoring procedures for those sub-awards.



Types of deficiencies

- ▶ A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.
- ▶ A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement in the financial statements will not be prevented or detected and corrected on a timely basis.
- ▶ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Significant deficiency finding: sub-recipient

- ▶ ABC Inc. does not consistently maintain an appropriate level of documentation supporting its sub-contract activities. We noted certain instances of sub-grants that were issued; however, we were unable to inspect evidence of a signed agreement during the course of our audit.
- ▶ We also noted that ABC Inc. does not properly document its monitoring activities with respect to the sub-grantee's financial reporting process.
- ▶ In order to ensure compliance with its internal policies as well as external donor requirements, we recommend ABC Inc. ensure all sub-grants are properly supported with an appropriate level of documentation; we also recommend all monitoring activities be clearly identified and documented within each sub-contract file.



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Significant deficiency/could be material finding: sub-recipient monitoring

- ▶ Based upon our limited testwork over the South Sudan field office, we noted that there was one significant sub-recipient during 2007. While we reviewed the documents supporting the payments to the sub-recipient, we were unable to verify that ABC Inc. was properly monitoring the sub-recipient.
- ▶ Our audit testwork also revealed that ABC Inc. does not have a formal policy with respect to the monitoring of sub-recipients at either the headquarters office or at the field office level.
- ▶ Accordingly, we recommend that management of ABC inc. implement a formal sub-recipient monitoring policy, which requires written documentation supporting the actual monitoring of sub-recipients.



Significant deficiency finding: monitoring of partner awardees

- ▶ A significant portion of ABC Inc.'s award budget includes payments to partners/sub-recipients (these entities were pre-determined by the U.S. Government at the time of the original award).
- ▶ ABC Inc. is required to monitor the programmatic and financial activities of each sub-recipient entity. Our audit indicated that ABC Inc. did not properly exercise one financial monitoring requirement of collecting (and analyzing) the sub-recipient OMB Circular A-133 reports during the period of performance.
- ▶ Although the program has ended as of the date of this letter, it is imperative that (in the future) ABC Inc. be cognizant of (and comply with) any federal monitoring requirements.



Significant deficiency finding: monitoring of sub-recipients

- ▶ While ABC Inc. has begun to implement a risk assessment for all sub-recipients, it is our understanding that the monitoring processes for those sub-recipients that are deemed to be high, medium or low-risk have not been finalized.
- ▶ Accordingly, we strongly recommend that formal policies and procedures be adopted with respect to the monitoring of all sub-recipients regardless of the risk they are initially assigned. Such policies and procedures should be formally documented in a Sub-Recipient Monitoring Policy and Procedure Manual.



Significant deficiency finding: monitoring of sub-recipients

(continued)

- ▶ Our testwork also revealed extensive documentation of the monitoring of the programmatic work being performed by the sub-recipients. However, the financial monitoring was limited to a review of the financial reports (invoices) submitted by the sub-recipients.
- ▶ Additionally, we noted certain sub-recipients did not submit financial reports in a timely manner, resulting in the sub-recipients having significant advances outstanding at certain times during the fiscal year.
- ▶ Accordingly, we strongly recommend that the financial monitoring be well documented and conducted on either a monthly or quarterly basis. (Please also refer to our comment on sub-recipient advances.)



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Conclusion

- ▶ Conclusion: It is all about the documentation!





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Contact info

Dionysios Karamalikis

4550 Montgomery Avenue, Suite 650 North
Bethesda, MD 20814

E-mail: dkaramalikis@grfcpa.com

Phone: (301) 951 – 9090