

RURAL DEVELOPMENT PROJECT POLICIES AND PROCEDURES	Issued by: RDP Statewide Program Officer- Maile Lu'uwai	Policy No.: SUB 001
	Revised by: Judy Moon Administrative Operations Supervisor	Effective Date: 4/1/2008
Subject: <i>Subrecipient Monitoring Guidelines</i>	Approved by: Lori Govaars RDP Statewide Coordinator	Revision No.: 1
		Supersedes Policy: N/A

I. **PURPOSE.** To guide RDP staff in ensuring that subrecipients conduct their programs in compliance with federal rules and regulations; the terms and conditions of subcontracts or agreements; and that costs incurred by subrecipients are reasonable and allowable.

II. DEFINITIONS

- A. **Recipient:** A non-federal entity receiving an award directly from a Federal awarding agency to carry out a project or program. RDP is a recipient.
- B. **Subrecipient:** A non-federal entity that expends federal awards from a pass-through entity (RDP) to carry out a federal program. A subrecipient:
- Determines who is eligible to receive RDP assistance;
 - Has its performance measured against whether the objectives of the RDP program are met;
 - Has responsibility for programmatic decision making;
 - Has responsibility for adherence to applicable federal program compliance requirements; and
 - Uses RDP funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

III. SUBRECIPIENT COMPLIANCE

The following are RDP's core elements of compliance for subrecipients:

1. Providing the subrecipient the federal award information: CFDA title and number, award number and name of federal agency.
2. Advising subrecipients of all federal laws and regulations applicable to the RDP award.
3. Monitoring subrecipient activities to provide reasonable assurance that the subrecipient administers federal funds in compliance with federal regulations and with RDP subcontracts or agreements.
4. Ensuring required A-133 audits are performed for applicable subrecipients.
5. Issuance of a management decision on subrecipient audit or monitoring findings that relate to the subgrant award.

IV. MONITORING REVIEWS

RDP will evaluate whether a subrecipient is a higher risk or lower risk in determining the level of monitoring and scrutiny. The frequency, scope, and type of monitoring will be determined by the following criteria:

- The size of the subrecipient award
- Subrecipients with prior audit or monitoring findings or history of poor performance
- High profile programs or activities
- Programs administered by inexperienced subrecipients
- Subrecipients that have inexperienced staff or have experienced a change in key staff
- Programs where the subrecipient has requested an on-site visit
- Subrecipients that have not been visited recently
- Type of sub-award (multi-year vs. single year)
- Subrecipients that are not financially stable
- Subrecipients that have not conformed to terms and conditions of previous awards
- Issues identified by the desk reviews that require on-site follow-up

V. MONITORING PROCESS

Throughout the year, RDP will initiate different forms of monitoring activities, such as:

- A. Desk Reviews** allow for collecting and analyzing information and to support on-site reviews/monitoring. Desk reviews analyze data such as quarterly performance reports, financial reports, contracts, budgets, and audits. RDP may obtain available, up-to-date, written policy, procedures or other guidance governing the systems, programs and subcontracts or agreements under review.

Clarification of invoiced charges will be requested for explanations of questionable or other charges. RDP may request that the subrecipient provide source documents for selected invoiced charges to verify their appropriateness and reasonableness. Source documents such as invoices, receipts, vouchers, cancelled checks and timesheets may be requested.

Examples of detailed justifications that may be requested from subrecipients include:

- Payroll records/data
- Copies of paid invoices showing the cost of items purchased and Vendor Justification (if required).
- Descriptions of services rendered by consultants including consultant contracts, hourly rates and time reports.
- Details of incurred travel charges, stating the purpose, airfare, meals, and ground transportation.

The desk reviews may include telephone and/or e-mail contacts with the subrecipient under review.

- B. On-Site Reviews** allow for the verification of items contained in the subcontract or agreement or which were identified in the desk review. Additional on-site reviews may also be conducted on an as-needed basis, should issues arise that require immediate attention. The scheduling of the monitoring reviews will be coordinated to minimize disruption of the operations of the subrecipient.
- C. Regular Contact** with subrecipients regarding financial or program activities.
- D. Discretionary Audits** of subrecipients will be performed if questionable costs are unresolved. An audit of all or a portion of questionable costs may be required.

VI. SUBRECIPIENT MONITORING REQUIREMENT

A. MONITORING REPORT

When the on-site monitoring review and/or desk review has been completed, a Subrecipient Monitoring Report will be completed if deficiencies are found. The Monitoring Report will include the purpose and scope of the review. The Monitoring Report will identify all findings and required corrective action including any necessary adjustments to the related financial reports. The Monitoring Report will be structured to assist the subrecipient by providing feedback regarding program, financial, compliance and performance issues.

The findings to be identified in the Monitoring Report will include the following information:

- Background information
- Problem analysis
- Outline of what was reviewed
- Size of the sample taken (if appropriate)
- Conclusions reached
- Recommendations for corrective action including timeframes

An example of a Monitoring Report is attached as Exhibit 1: Sample Subrecipient Monitoring Report.

B. Monitoring Resolution Procedures

Follow section **VII . parts A & B**

VII. A-133 AUDIT REQUIREMENT

RDP will ensure that an audit in conformance with OMB Circular A-133 is conducted for each subrecipient that expends \$500,000 or more in Federal financial assistance funds (received from all Federal sources combined) during a fiscal year to operate one or more programs.

If the subrecipient expends \$500,000 or more under only one Federal program, the subrecipient is not subject to a requirement for a financial statement audit and may elect to have a program-specific audit.

The subrecipient is required to obtain the services of independent auditors to conduct the audit.

A. Audit & Monitoring Resolution Procedures

Within six months of receipt of an audit, RDP will issue a **Management Decision** on all audit or monitoring findings that relate to the subgrant award.

The subrecipient is required to prepare and submit a Corrective Action Plan to RDP and to report on the status of corrective actions derived from audit or monitoring reviews.

The following three-part process may be used by RDP to resolve a subrecipient audit or monitoring finding: Initial Determination; Informal Resolution Period; and Management Decision. All stages of the process will be completed within **six months** of RDP's receipt of the audit or monitoring.

1. Initial Determination: The Initial Determination is a preliminary decision on whether to allow or disallow questioned costs and resolve any nonmonetary (administrative) findings. It offers the subrecipient an opportunity for informal resolution.
 - a. **Disallowed Costs Finding**: A cost is disallowed if the basis is a clear violation of law and regulations and a violation of grant terms and conditions. If the subrecipient contract is more restrictive than Federal or, if applicable, State rules and regulations and the cost is not allowable under the contract but allowable under Federal and State rules and regulations, the cost cannot be disallowed.
 - b. **Administrative (Non-monetary) Findings**. Resolution of an administrative finding is correction action of the deficiency.
 - c. For each administrative finding, the following should be identified:
 - The deficiency and corrective action required of the subrecipient. If the administrative finding was corrected during the comment period, or resulted from an informal resolution, specify how it was resolved.
 - If further corrective action is required, identify the specific action required in the Initial Determination and Management Decision.
 - The dates for completion of the corrective action.
 - Sanctions and remedial actions taken against the subrecipient if the deficiency is not corrected. It is imperative that this part of the initial

determination be specific and clear. In serious cases, RDP may be required to institute strong measures such as termination or partial funding if the deficiency is not corrected. Follow-up with the subrecipients is needed to verify and document corrective action.

2. Informal Resolution Period. During this period, the subrecipient has an opportunity to present new evidence, documentation, and an explanation to justify modification of a decision by RDP. The subrecipient can agree to corrective action prior to being sanctioned or subject to remedial actions. If a subrecipient admits to a disallowed cost and makes repayment, the amount is disallowed in the Management Decision but is not subject to debt collection.
3. Management Decision. The Management Decision will be sent to the subrecipient by U.S. certified mail, return receipt requested. The Final Determination must be sent within six months of RDP's receipt of the final audit or monitoring report.

The Management Decision will:

- State the final decision to disallow costs, listing each disallowed cost specifically and noting the reasons for each disallowance.
- Reference the Initial Determination
- Identify the questioned costs in the audit or monitoring report allowed and the basis for the allowance of costs.
- Demand repayment of disallowed costs.
- Describe debt collection actions and other sanctions that RDP may impose if repayment is not made.
- Inform the subrecipient of the right to appeal.
- Restate the status of each administrative finding.
- Identify areas of disagreement between the parties (29 CFR 96.53 (c)(2)).

B. Post-Management Decision Follow-up on Uncorrected Findings

If corrective action on administrative findings is not completed within the six month audit or monitoring resolution period, RDP will implement controls to track resolution during the post-Management Decision period. Follow-up will include:

1. Subrecipient quarterly reports on the status of uncorrected audit or monitoring findings and corrective action.
2. A tracking system including the contact information of the person responsible for ensuring correction of the reported deficiencies.

VIII. SANCTIONS

RDP may impose sanctions against a subrecipient should the subrecipient fail to take timely and responsive corrective action in response to significant issues identified in the Monitoring Report, Audit, or Management Decision.

The specific sanctions imposed should relate to the specific violations and/or to the scope of violations. Sanctions may include:

1. Suspension of the affected program until corrective action is implemented.
2. Increased documentation requirements and/or increased monitoring frequency and/or scope.
3. Disallowance of costs associated with the particular violation or deficiency and seek repayment.
4. Denial or adjustment of requests for funds until the violation or deficiency has been corrected.
5. Cancellation of subcontract or agreement.
6. Termination of program funding.

RURAL DEVELOPMENT PROJECT

**SUBRECIPIENT MONITORING REPORT
OF SELECTED PROCUREMENT, HUMAN RESOURCE, AND
FISCAL ISSUES OF XXXX**

Grantee: XXXXX

**Report No. 001-XXX
JANUARY 2005**

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SUBRECIPIENT MONITORING OF SELECTED PROCUREMENT, HUMAN RESOURCE, AND FISCAL ISSUES OF XXXX

This is a report of subrecipient monitoring of selected procurement, human resources, and fiscal issues of XXXX.

This report provides reasonable, but not absolute, assurances that XXXX complied with DOL federal rules and regulations between January 1, 2004 and December 31, 2004, the period covered by our review. However, the following recommendations are being made pertaining to specific findings in this report.

I. RECOMMENDATIONS

To address the findings identified, RDP recommends that XXXX management:

1. Require written agreements or contracts with vendors providing services to XXXX and XXXX staff.
2. Require that the procurement process is used to secure travel accommodations.
3. Establish and implement a system to verify that staff time charged to RDP is related to RDP programs.

II. PROGRAM OVERVIEW

In January 2003, the Rural Development Project (RDP) entered an Agreement for Services with XXXX (XXXX Agreement). Under the XXXX Agreement, XXXX would institute an YYYYY Program to include an Upward Mobility Training Program, New Nurse Trainee Program, and a Recruitment, Retention, and Nursing Specialty program.

XXXX is a non-profit entity and its purpose is to raise funds and obtain grants in behalf of XXXX. XXXX does not have any employees or infrastructure. Thus, XXXX provides all human resources and fiscal infrastructure for XXXX. As a result, this monitoring review focused on the fiscal, human resources, and procurement processes of XXXX.

III. MONITORING OBJECTIVES

Monitoring objectives were:

1. To review XXXX's fiscal, human resources and fiscal infrastructure to ensure that that XXXX administers RDP funds in compliance with applicable federal and state laws, regulations, procurement policies, and the provisions of the Agreement for Services.
2. To provide recommendations for improvement.

IV. SCOPE & METHODOLOGY

The monitoring review focused on XXXX's program and fiscal operations from January 1 through December 31, 2004. Suzie Scopeout, RDP Statewide Program Officer, conducted the monitoring review.

Monitoring consisted of a site visit, regular contact, and a desk review of 30 financial transactions selected from XXXX's Custom Transaction Report. Reports, records, and other relevant documents were examined to assess XXXX's internal controls over procurement, personnel, and financial management.

IV. FINDINGS & RECOMMENDATIONS

The summary of findings is as follows:

1. Vendors provided services to XXXX without written agreements or contracts for services performed.
2. There is no documentation to verify that Coordinator time charged to RDP is related to services identified in the RDP/XXXX agreement.
3. The XXXX procurement process was not used to secure travel accommodations.

A. FINDING NUMBER ONE: Written Agreements and Contracts

Finding: Vendors provided services to XXXX without written agreements or contracts for services performed.

Two of the selected transactions were for trainings conducted by subcontractors. There were no written agreements or contracts for the trainings. The first transaction was for a two day course on Cancer Chemotherapy. The instructor was paid a presenter's fee of \$3938.82. There is no written agreement for the training.

The second transaction was for series of management workshops. Corporation Y was identified as the vendor for the training. Corporation Y was paid \$10,000 for the training. There is no written agreement for the training.

Transactions:

- ▶ 1475 Presenter Y / Presenter's Fee / Training & Materials / \$3,938.82
- ▶ 1609 Corporation Y / MGT Workshops / Training & Materials / \$10,000

Recommendation for Improvement: RDP recommends that XXXX require contracts for services provided by vendors, including contracts for the services of lecturers.

B. FINDING NUMBER TWO: Documentation to Verify Time Charged to RDP

Finding: There is no documentation to verify that Coordinator time charged to RDP is related to services identified in the RDP/XXXX agreement.

The RDP/XXXX agreement provided funding for Coordinators to administer region-wide education/training. The only form that tracks a RPC's time charged to RDP is Form D-55: State of Hawaii Individual Timesheet. The form tracks hours worked and does not provide data to support whether time charged was related to RDP and allowable.

One of the selected transactions, a timesheet for Coordinator Z revealed a disallowed cost for a Grantsmanship Training. Notes on the training was hand written into the remarks column of the RPC's D-55.

Another selected transaction was an invoice for \$33,203.96 for the salary of a Coordinator W. Other than the D-55 documentation for the time period, no other documentation is provided to verify that time charged was RDP related.

Transactions:

- ▶ 1630 MMMC / Employee Z / Coordinator / \$5,000
- ▶ 1559 HMC / Employee W / Coordinator / \$33,203.96

Recommendation for Improvement: RDP recommends that XXXX establish and implement a system to verify that RPC time charged to RDP is related to programs identified in the RDP/XXXX agreement.

C. FINDING NUMBER THREE: Use of Procurement Process

Finding: The XXXX procurement process was not used to secure travel accommodations.

The selected transactions that support this finding are related to the same training at Hawaii Medical Center. According to XXXX, the procurement process was not used because of the short notice provided by the Medical Center regarding this training.

Transactions:

- ▶ 1660 Employee Z / Condo Rentals / Travel / \$1600
- ▶ 1673 Employee W / Rent Ilikai Hotel 5/28-6/19/04 / Travel / \$1227

Recommendation for Improvement: RDP recommends that XXXX require that the procurement process is used to secure travel and travel accommodations.

Corrective Action Plan

Action Required: The corrective action plan should be submitted to RDP 30 days after receipt of the monitoring report. This is a suggested format. You may develop and use your own format as long as it contains all the same information called for below.

<u>Finding</u>	Corrective Action Planned	Expected Outcome	Staff Responsible	<u>Target Date for Completion</u>	<u>Update/Current Status</u>
2005 F1— Agreements & Contracts					
2005 F2— Documentation to Verify Time Charged to RDP					
2005 F3—Use of Procurement Process					