

Subrecipient Monitoring

Uniform Grant Guidance – NCDA June 2017

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Internal Controls - Subrecipients

- Ensure effective, efficient operations
- Ensure timely and relevant financial and performance reporting
- Compliance with laws and regulations

Internal Controls - Subrecipients

Well-established internal controls ensure:

- Proper recording and accounting of transactions
- Compliant execution of all transactions
- Safeguarding of assets against unauthorized use or disposition



Subrecipient
or
Contractor

Distinguish Subrecipients from Contractors

Subrecipient

Determines eligibility for assistance

Performance is measured in relation to federal program objectives

Programmatic decision-making responsibility

Adhere to federal program requirements

Contractor

Provide goods & services within normal business operations to many purchasers

Normally operates in competitive environment

Services ancillary to program operation in nature

Not subject to requirements of federal program as a result of agreement.

Pre-Award Risk Assessments

PJs must evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and terms and conditions of the subaward in order to appropriately monitor subrecipients.

Risk Factors to be evaluated include:

- Subrecipient's prior experience
- Results of subrecipient's prior audits, if applicable, or monitoring
- Turnover rates, new personnel experience, operational systems
- Suspension/Debarment status (SAM)

Written agreements

- Be sure to include required elements in your “subaward document”
 - Regulatory Reference: 2 CFR 200.331(a)
 - Former parlance: contracts
 - Your prior “contracts” or “written agreements” probably had some, most, or all of these elements. Review the regulation and the elements listed to ensure you have all of them in order to avoid a finding.

Written agreements

Essential Elements

- Subrecipient name
- Subrecipient Unique Entity Number (EIN)
- Federal Award Date to Subrecipient
- Period of Performance
- Total federal award commitment
- Total approved cost sharing
- Indirect cost rate for award (or de minimis rate)

Written Agreements

Essential Elements

- Federal Award Project Description (Scope)
- Federal awarding agency and official contact information
- CFDA number and name
- Identify whether the award is for research and development

Written Policies and Procedures

Regulatory References for those required by Uniform Guidance

- Financial Management: 2CFR 200.302
- Payments: 2 CFR 200.305
- General Procurement Standards: 2 CFR 200.318
 - Competition: 2 CFR 200.319
 - Methods of Procurement to be Followed: 2 CFR 200.320

Written Policies and Procedures

Regulatory References for those required by Uniform Guidance

- Compensation – Personal Services: 2 CFR 200.430
- Compensation – Fringe Benefits: 2 CFR 200.431
- Relocation Costs of Employees: 2 CFR 200.464
- Travel Cost: 2 CFR 200.474

Monitoring subrecipients Annually

- Boston's example:
 - For subrecipients subject to Audit:
 - Automated monthly e-mails to ensure the City receives the audit in a timely fashion
 - Within 30 days of auditee's receipt of audit
 - By March 31st
 - WHICHEVER OCCURS FIRST IN TIME
 - For subrecipients not subject to Audit:
 - Completed Good Governance Checklist by a CPA
 - Deficiencies identified in a letter to subrecipient
 - Subrecipient has 30 days to respond in writing with a corrective action plan

A monitoring example from Boston

Our Good Governance Checklist was developed as a result of a HUD monitoring review of our Main Streets Program a few years ago. We implemented it as part of our monitoring for all non-audited subrecipients.

An independent CPA firm completes the Good Governance Checklist, then submits it to the City.

The City reviews it, then requests a remediation plan to be completed by the subrecipient within 30 days, with an implementation plan.

The City then conducts an on-site monitoring visit to ensure implementation has occurred, and services are being provided in accordance with the agreement.

Good Governance

General

- The organization has a mission statement which is in writing and is approved by the board.
- There is an accounting manual in place.
 - If yes, it includes: an organizational chart, job descriptions, outlining duties and responsibilities, descriptions of methods, procedures, and accounting principles to be followed, a chart of accounts and any other documents or forms for which uniformity of use is desired.
- Employee responsibilities are well-defined and communicated to employees in an employee manual.
- There is a policy in place and functioning to identify and monitor related party transactions as well as the board.

Good Governance

General

- There is an Information Technology policy in place.
- Access to the accounting software is appropriately limited based upon the employee's role and responsibilities.
- There are written disaster recovery procedures in place in case of emergency.
- The Organization has a donated services/items policy.
- Depending on size of organization and/or requirements set in the organizations by-laws, they receive the required annual audit, review or compilation of their financial statements.
- The Organization is operating within a budget.

Good Governance

Organizational Governance

- The Organization has an active Board which meets regularly or as required in their by-laws.
- The required number of Board members as set in the by-laws is maintained.
- Minutes of the Board and Committee meetings are maintained.
- The Organization has a finance or audit committee to oversee financial reporting and tax reporting.
- The Board receives financial statements (balance sheet and activities) for review at each meeting.

Good Governance

Organizational Governance

- The Organization has a conflict of interest policy.
- All officers/directors are required to annually disclose potential conflicts of interest.
- The Organization has a whistleblower policy.
- The Organization has a related party policy.
- The Organization has a record retention policy.

Good Governance

Cash Management

- Bank statements are opened by the Executive Director, or an individual not responsible for bookkeeping.
- Bank statements include copies of cancelled checks for review.
- Executive Director documents their review of the bank statement.
- Monthly bank reconciliations are performed.
- The reconciliation is reviewed by an individual not responsible for other cash functions and the review is properly documented.
- Outstanding checks are periodically reviewed for stale items.

Good Governance

Cash Management

- If stale checks are identified the proper procedures are performed to clear the transaction.
- Special cash accounts are maintained as required by contracts, all other cash is maintained in the general operating or savings accounts.
- Checks are endorsed immediately when received.
- A list of all receipts is documented as they are opened.
- Receipts are processed timely as defined by each organization depending on level of activity.

Good Governance

Cash Management

- Deposit slips are matched against the list of receipts for completeness.
- There is adequate segregation of duties over cash receipts.
- Blank checks do not get signed in advance due to check signor absence.
- The use of a signature stamp is not used.
- All checks are written in sequential order.

Good Governance

Cash Management

- If a check needs to be voided the proper defacement of the check and removal of the signature portion is performed.
- The practice of writing checks payable to 'cash' is rarely used, preferably not at all.
- Original supporting documentation for all cash disbursements is maintained.

Good Governance

Cash Management

- Check signors review all supporting documentation prior to signing the check.
- Once invoices are paid there is proper documentation on the physical invoice such as a “paid” stamp or initials of the individual signing the check to prevent duplicate disbursements.
- The Organization has a policy which requires dual signatures for all checks over a threshold amount determined by the Board.

Good Governance

Cash Management

- The dual signature policy is consistently followed.
- The number of check signors within the Organization is reasonable. Typically two or three depending on the size of the organization.
- Former employees with signatory authority are promptly removed from the bank accounts upon departure.
- Debit cards are not used by the Organization.
- There is a policy in place which requires management's approval of payment to higher interest vendors or those who charge late fees.
- On-line banking access is restricted to those requiring access. When possible authorization should be restricted to only those functions within their roles.

Good Governance

Investments

- The Organization has a formal written investment policy which includes the Board's philosophies, policies and goals.
- Investments are reconciled to the monthly statements in addition to a quarterly report on the return on investment for use by the Board.

Good Governance

Accounts Receivable/Revenue

- There are monthly reconciliations of the accounts receivable aging report to the general ledger.
- The accounts receivable aging report is periodically reviewed for old balances by management.
- There is a policy in place which evaluates older balances for collectability and an allowance for doubtful accounts is maintained.
- Once accounts are identified as uncollectible they are properly written off and removed from the books.

Good Governance

Accounts Receivable/Revenue

- The Organization has a revenue recognition policy in place.
- Controls are in place which ensures revenue is recorded in the proper period.
- Pledges and contribution receivables are properly recorded and restricted, if applicable.

Good Governance Grants

- If grants or contracts are received, there are procedures in place to ensure compliance requirements are met.
- Supporting documentation is maintained for all grant expenses under grant agreement.
- Procedures are in place to ensure timely invoicing of grant expenditures.
- Required report submissions are made to grantor agencies.

Good Governance

Fixed Assets

- The Organization has an approved capitalization policy. The threshold is set based on the level of activity and nature of the program.
- The capitalization policy includes the useful lives of assets which are to be used for depreciation purposes.
- Fixed asset records are maintained which lists the description of the asset, cost, date placed in service, estimated useful life, depreciation method, depreciation expense and accumulated depreciation for the year.
- If applicable, a physical inventory of fixed assets is performed.
- The fixed asset listing is periodically reviewed for out of service or retired assets to be written off.
- All major fixed asset purchases receive prior written approval by a responsible key employee.

Good Governance

Accounts Payable/Expenses

- A policy is in place which requires supporting documentation for all charges to a corporate credit card and also prohibits the personal use of the corporate card.
- Former employees with a corporate credit card are promptly removed from the account upon departure.
- There are monthly reconciliations of the accounts payable aging report to the general ledger.
- All invoices received are entered into the accounting system as an accounts payable upon receipt.

Good Governance

Accounts Payable/Expenses

- The Organization has a policy in place which ensures proper cutoff of expenses.
- A policy is in place which requires supporting documentation for all charges to a corporate credit card and also prohibits the personal use of the corporate card.
- Former employees with a corporate credit card are promptly removed from the account upon departure.

Good Governance

Accounts Payable/Expenses

- There are monthly reconciliations of the accounts payable aging report to the general ledger.
- All invoices received are entered into the accounting system as an accounts payable upon receipt.
- The Organization has a policy in place which ensures proper cutoff of expenses.
- If applicable, all debt covenants are monitored and met.

Good Governance

Payroll

- Management reviews the payroll report prepared and processed for each payroll period. This review is documented each pay period and copies of the reports are maintained.
- The addition of a new employee to the payroll is approved by management.
- Personnel files are maintained and updated periodically including annual reviews and authorized pay rate changes.
- The Organization has an employee manual which is distributed and reviewed with each employee upon hire.

Good Governance

Payroll

- The Organization has an approved vacation policy in place which is consistently followed.
- The vacation policy includes a limit on the amount of vacation time that an employee can accumulate.
- A consistent method of employee expense reimbursement is used; ideally, there is a standard form in place to document the request.
- Bonuses awarded to employees are issued through the payroll system and include all the proper taxes.

Good Governance

Payroll

- Executive compensation is approved in writing by the Board.
- If timesheets are maintained they include the proper approvals by the employee's immediate supervisor.
- All required payroll tax filings are been completed and submitted in a timely fashion.
- W-2's and 1099's are issued as needed.

Good Governance

Taxes

- If the Organization has received tax exemption, invoices are reviewed to ensure sales tax is not being charged.
- If charitable contributions are received from individuals, a letter indicating their contribution is tax-exempt is sent to the donor if it exceeds \$250.
- All required tax filings have been filed timely, specifically the Form 990 and MA PC.
- The Organization has reviewed all activities for potential unrelated business income.
- If unrelated business income is identified, related income and expenses are documented separately from program transactions. The required tax filings are processed timely.

Good Governance Insurance

The Organization has a policy in place to analyze potential risk and coverage for:

- Workers Compensation
- Property Insurance
- Casualty Insurance
- Director Liability Insurance
- Errors and Omissions Insurance
- Organization Liability Insurance

Good Governance

Financial statements

The Organization must provide copies of annual financial statements to the City.

Findings you can avoid

- Failure to monitor subrecipients
 - Or, failure to document monitoring
 - Or, failure to follow-up on deficiencies identified during monitoring
- Subaward documents did not include information required by the regulation
- Inadequate or untimely reporting (Section 3, Davis-Bacon, MWBE)
- National Objective/Activity & Beneficiary Eligibility Documentation
- Required tests: HQS Inspections (and other housing inspections)
- OIG review of HUD's programs!