Risk Assessments, Fiscal & Program Monitoring

Fiscal Track
Workshop Session
June 11, 2015
8:30 AM – 10:00 AM
Learning Objectives

- Who What Where and When of the New Uniform Guidance (Super Circular)
- Definitions Including Subrecipient vs Contractor
- Requirements for Pass-through Entities
- Elements of Risk and Risk Assessment
- Monitoring Requirements and Methods
- Cost Benefit Analysis
- Audit Requirements
- Enforcement Action for Noncompliance
- Questions
Who is impacted by the New Uniform Grant Guidance?

All nonfederal entities expending federal awards.

*Includes non-profit entities*

*Subparts A-E apply to for-profit entities, however Subpart F (Audit Requirements) do not*
Title 2 CFR Part 200 integrates and streamlines overlapping circulars into one set of guidance.

Pertaining to this topic the New Guidance:
• Provides a set of uniform definitions
• Streamlines and clarifies guidance on sub-recipient monitoring
• Targets audit resources based on risk by raising the single audit threshold from $500K to $750K
• Strengthens audit follow-up by requiring greater accountability and monitoring the results more closely.
What is Covered?

Everything!

- A-21 Cost Principals – Educational Institutions
- A-102 Grants/Agreements with State & Local Govts.
- A-110 Admin Req IHEs, Hospitals & Nonprofits
- A-122 Cost Principals – Nonprofit Organizations
- A-133 Audits of State & Local Govts & Nonprofits

Combines & Supersedes these OMB Circulars
Where is the New Uniform Grant Guidance found?

2 CFR Part 200

www.ecfr.gov
Title 2 Grants and Agreement
Part 200 Office of Management and Budget Guidance

www.cfo.gov/cofar
Resources for Understanding the New Guidance
Important to Note:

If federal program statues or regulations differ from the New Uniform Grant Guidance, the statue and regulations govern.
When does the New Uniform Grant Guidance go into effect?

- Audit requirement will apply to audits of fiscal years beginning on or after December 26, 2014.
- Administrative requirements and cost principles will apply to new awards, and to additional funding to existing awards made after December 26, 2014.
Pass Through Entity – The State and the AAA

Award – Federal funds granted to states

Sub-Award – An award provided by a pass-through entity to a subrecipient in order to carry out activities of the federal award.
Clarifications have been made in the New Uniform Grant Guidance; note the change of term Vendor to Contractor.

**A133.210 Subrecipient and Vendor determination**

A Subrecipient-

(5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

**2 CFR 200.330 Subrecipient and Contractor determinations**

Subrecipients-

(5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.
There have been changes in the contractor (vendor) definitions in section 500 *Audit Requirements* as well.

**A133.210 Subrecipient and Vendor determination**

(a) General. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.

**2 CFR 200.501 Audit Requirements**

(f) An auditee may simultaneously be a recipient, a subrecipient, and a contractor. Federal awards expended as a recipient or a subrecipient are subject to audit under this Part. The payments received for goods or services provided as a contractor are not Federal awards. Section 200.330 Subrecipient and Contractor Determinations should be considered in determining whether payments constitute a Federal award or a payment for goods or services provided as a contractor.
Subrecipient Defined

Subrecipients 200.330(a)

- Determines who is eligible to participate in a federal program.
- Has its performance measured against whether the objectives of the federal program have been met.
- Is responsible for programmatic decision making.
- Is responsible for complying with federal program requirements.
- Uses the Federal funds to carry out a program, opposed to providing goods or services for the benefit of the pass-through entity.
Contractors (Vendors)

Contractors 200.330(b)

- Provides goods and services within normal business operations.
- Provides similar goods or services to many different purchasers.
- Normally operates in a competitive environment.
- Provides goods or services that are ancillary to the operation of the federal program.
- Is not subject to compliance requirements of the federal program.
200.331 Requirements for pass-through entities: They must

a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and include list of data elements, e.g. Federal Award ID

b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (e)

c) Consider imposing specific subaward conditions based upon identified risk

d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes and is in compliance with applicable regulations

e) Based upon the pass-through entity’s assessment of risk the following monitoring tools may be useful to ensure proper accountability and compliance (tools are listed later)

f) Verify that every subrecipient is audited as required by 200.501 Audit Requirements

g) Consider whether the results of audits, or monitoring indicate conditions that necessitate adjustment to the pass-through entity’s own records

h) Consider taking enforcement action against noncompliance, options listed in 200.338 Remedies for noncompliance.
Requirement 200.331 (b)

EVALUATE RISK
200.331(b) Evaluate subrecipient’s risk of noncompliance

Risk Factors, may include consideration of:

- Subrecipient’s prior experience with the grant program
- Results of previous audits
- New personnel or substantially changed systems
- Results of Federal monitoring (findings)
Section XII. Audits and Fiscal Monitoring

Subrecipient Fiscal Monitoring:

A. A risk assessment must be completed annually for all subrecipients.
Chapter 6 is silent regarding requirements of a risk assessment, however it does evaluate the level of risk between contract types.
Other Elements of Risk to Consider:

The Subrecipients:
- History of performance
  - Non-compliance
  - Marginal performance
- Experience providing the service
- Length of time as a subrecipient
- Ability to effectively implement statutory and regulatory requirements
- Type and number of contracts the subrecipient holds
- New or substantially changed systems
- Response time and accuracy of budgets and other contract items
- Response time and accuracy of billings
- Internal control structure of the subrecipient
- Recent turnover of key staff
- New personnel or abnormal frequency of staff turnover

Contract or Award
- Type of contract – cost reimbursement is the highest risk
- The size of the subawards administered by subrecipients
- The % of the total federal program funds awarded to the subrecipient
- The complexity of the compliance requirements of the subaward
- Complexity of the program
- Dollar amount of contract or award

Single Audit required and the results:
- Number of current audit findings and the severity
- Reports, findings, and corrective actions from previous audits or monitoring that are outstanding and have not been addressed
- Length of time that has elapsed since last on-site monitoring occurred
- Performance history compliance issues resulting in audit finding litigations or corrective actions
Complete a risk assessment for each contract and evaluate individually.

OR

Create a matrix and scoring all contracts at one time. Use the scoring results to determine the level of risk and in turn the type and frequency of monitoring required.
Example of an Individual Risk Assessment

Contractor: Mama’s Meals
Prior Experience: Providing services for 3 yrs.
Audit Findings: 3 findings on last report
Key Staff Turnover: No
Billings and Reports: Accurate and Timely
Contract Type: Cost Reimbursement
Last On-site Monitoring: 2012

Assessment Type: **On-Site** - Due to the high level of risk outlined above an on-site monitoring visit will be scheduled for 2015.
# Example of a Risk Scoring Matrix

<table>
<thead>
<tr>
<th>Risk Elements</th>
<th>Contract A</th>
<th>Contract B</th>
<th>Contract C</th>
<th>Contract D</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Yrs. Providing Service</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td># of Audit Findings</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Key Staff Turnover</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Billing Accuracy</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Reporting Accuracy</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Contract Type</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Last On-site Monitoring Visit</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Total Score</td>
<td>27</td>
<td>25</td>
<td>21</td>
<td>11</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Scoring</th>
<th>High</th>
<th>Med</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Monitoring</th>
<th>On-site</th>
<th>Focused</th>
<th>Desk</th>
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</thead>
<tbody>
<tr>
<td>Score</td>
<td>35-25</td>
<td>24-15</td>
<td>14-7</td>
</tr>
</tbody>
</table>
200.331 (d)

MONITORING REQUIREMENTS
200.331 (d) Monitor as necessary to ensure the subaward is used for authorized purposes in compliance with regulations and statues. Monitoring must include:

1. Review of the financial and program reports
2. Ensure corrective action. Following up to ensure that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award detected through audits, on-site review, and other means.
3. Issue a management decision for audit findings as described in 200.521 Management Decisions.
Section XII. Audits and Fiscal Monitoring

Subrecipient Fiscal Monitoring:

B. All subrecipients require some form of monitoring. One of the criteria in determining the type of monitoring required is the determined level of risk resulting from a risk assessment.
Section XII. Audits and Fiscal Monitoring
AAA requirements as a Pass-through entity

J. Establishing a tracking system to ensure timely submission of required reporting, such as: financial reports, performance reports, audit reports, monitoring of subrecipients and vendors, and timely resolution of audit findings (and corrective actions).
Section III Monitoring Interlocal Agreements and AAA Non-Medicaid Subcontracts

Policy 1-3 Who is responsible for monitoring, AAAs ensure licensure & certification, and AAA must monitor to ensure compliance.

Section VI Monitoring Medicaid Services Contracts

Policy 1, 8,9 Who is responsible for monitoring, documented follow up and resolution when problems are identified, and outlines joint monitoring responsibilities with other AAAs.
Section III Monitoring Interlocal Agreements and AAA non-Medicaid Subcontracts

Policy 8: AAAs must establish a schedule of formal monitoring visits for all programs.

Section VI Monitoring Medicaid Services Contracts.

Policy 1: Outlines monitoring intervals.
Section III Monitoring Interlocal Agreements and AAA non-Medicaid Subcontracts

Policies 10-15 outline monitoring, exit interviews, report and corrective action timelines.

Section VI Monitoring Medicaid Services Contracts

Policies 10-20 outlines the same but is more prescriptive and includes specific sanctions and processes.
MONITORING METHODS
200.331 (e) Based upon the pass-through entity’s assessment of risk the following monitoring tools may be used to ensure proper accountability and compliance.

1. Providing training and technical assistance
2. Perform on-site reviews of the subrecipient’s program operations
3. Arrange for agreed-upon-procedures engagements per 200.425
Section XII. Audits and Fiscal Monitoring

Subrecipient Fiscal Monitoring:

C. After the risk assessment is completed, subrecipients may be monitored in several ways:

- On-site review.
- A desk review
- Regular contact with subrecipients and appropriate inquiries concerning program activities.
- An agreed-upon procedure engagement (a.k.a., limited-scope audits) for certain aspects of subrecipient activities.
D. On-site Review – If risk level is determined to be high an on-site review is required. Review items:

- Invoices and documentation
- Program and service reports
- Audit report
- Prior corrective action plan(s)
- Review delivery of program services
- Discussions about the contractor’s problems or challenges.
- Follow-up on identified problems
- Review of facility/personnel licensing inspection reports
- Review of survey and inspections

- Interview staff to determine their familiarity with programs
- Inspection of facilities/operations
- Review policies/procedures
- Review monitoring/production reports
- Review limited scope program audits
- Verification of performance from outside sources.
- Review of contract compliance
Section III Monitoring Interlocal Agreements and AAA non-Medicaid Subcontracts **Policy 4**

Section VI Monitoring Medicaid Services Contracts **Policy 2-6**

**Comprehensive Monitoring** of entire program operations:
- At least once during the 4 year contract cycle (Medicaid every other year)
- Each of the first 2 years for a new contractor
- When a focused monitoring indicated a more in depth monitoring is needed
- When requested by the contractor

**Focused Monitoring** of the entire program operations:
- The years a comprehensive monitoring does not occur

**Desk monitoring** of program and fiscal information:
- Non- Medicaid (Quarterly) Medicaid (Semi-annually)
Section III Monitoring Interlocal Agreements and AAA non-Medicaid Subcontracts **Policy 5**

Section VI Monitoring Medicaid Services Contracts **Policy 3**

**Comprehensive On-site Monitoring** consists of:

1. Subcontract review
2. Review of any problems that occurred during the preceding year
3. Comparison of projected service level with units of service provided
4. Comparison of projected budget with actual expenditures
5. Review of items of concern noted in prior assessments
6. Other items determined by the AAA
7. Review of mechanisms for handling client complaints and determining client satisfaction
8. Checking the reliability of reports
9. Ensuring record accuracy through a 5% spot check of client records
10. Verification of client eligibility through 5% spot check of client records
11. Ensuring compliance with program standards/guidelines and RCW/WAC which includes observing actual program operations when services are delivered in a group setting (congregate meals, day health).
Focused Monitoring consists of:

1. Subcontract review
2. Review of any problems that occurred during the preceding year
3. Comparison of projected service level with units of service provided, if not included in desk monitoring
4. Comparison of projected budget with actual expenditures, if not included in desk monitoring
5. Review of items of concern noted in prior assessments
6. Other items determined by the AAA
7. Ensuring compliance with program standards/guidelines and RCW/WAC which includes observing actual program operations when services are delivered in a group setting (congregate meals, day health).
Monitoring Methods Chapter 6 (cont)

Section III Monitoring Interlocal Agreements and AAA non-Medicaid Subcontracts **Policy 7**

Section VI Monitoring Medicaid Services Contracts **Policy 6**

**Desk Monitoring** consists of:

1. A review of program and financial reports for accuracy.
2. A comparison of financial reports against projected spending rates
3. A comparison of the cumulative count of clients and units delivered against those projected
4. Unit cost comparisons when applicable
5. Comparison of projected service levels with units of service provided
6. Comparison of project budget with actual expenditures
Section III Monitoring Interlocal Agreements and AAA non-Medicaid Subcontracts Policy 9

In addition to comprehensive and focused monitoring, AAAs may make informal monitoring visits to subcontractors as deemed appropriate and necessary.
COST BENEFIT ANALYSIS
Ideally it would be best if all subrecipients could be monitored on-site annually. This is not realistic or cost effective.

Cost of monitoring on-site is the most expensive method because of staff time and travel costs.

Yet, on-site monitoring is the most effective because it allows for: staff interviews, review of source documents, review of payrolls records, viewing staff interactions and viewing service delivery.
A pass-through entity has many factors to consider when determining the type of monitoring it should perform:

- the number of subrecipients and subawards;
- the level of assurance desired concerning its subrecipients’ compliance;
- the risk assessment result;
- the extent that the pass-through entity’s subawards are audited as major programs in subrecipients’ single audit and the results of those audits;
- the resources available to conduct onsite reviews, and
- monitoring frequency outlined in Chapter 6 of the P&P.
If the pass-through entity has relatively few subrecipients, has sufficient resources and desires a high level of assurance regarding subrecipient compliance, it may decide to implement a program of onsite reviews of all subrecipients every year.

If staff or other resource limitations make it unsustainable or inefficient for a pass-through entity to visit every subrecipient each year, but the pass-through entity desires a high level of assurance regarding subrecipient compliance, it may consider establishing a monitoring cycle. For example, a pass-through entity with 100 subrecipients to visit could set up a three-year monitoring cycle where it visits one-third of the subrecipients each year.

On the other hand, a pass-through entity may determine that it obtains sufficient assurance regarding subrecipient compliance through other monitoring tools, such as report reviews, and single audit coverage. Therefore, it may decide to perform onsite reviews only on high-risk subrecipients.
AUDIT REQUIREMENTS
200.331 (f) Verify that every subrecipient is audited as required by 200.501 Audit Requirements

As part of their monitoring responsibilities, pass-through entities must ensure that any subrecipient spending $750,000 or more in federal awards during the subrecipient’s fiscal year have an audit performed in accordance with Subpart F Audit Requirements - of the uniform guidance. Pass-through entities must issue a management decision on audit findings and ensure that the subrecipient takes appropriate corrective action. 200.331(d)(3)
Since Section F (Audit Requirements) do not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements, as necessary, to ensure the for-profit subrecipients compliance. The agreement with the for-profit subrecipient should describe applicable compliance requirements and responsibilities. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the agreement, and post award audits.
Section XII. Audits and Fiscal Monitoring
AAA requirements as a Pass-through entity

E. Ensuring that subrecipients expending $500,000 (increased to $750,000) or more in federal awards during the subrecipient’s fiscal year have met the OMB Circular A-133 Single Audit requirements for that fiscal year.

F. Issuing a management decision on audit findings within six months after receipt of the subrecipient’s or vendor’s audit report.

G. Requiring the subrecipient or vendor to develop a corrective action plan ensuring that the subrecipient or vendor takes appropriate and timely corrective action.

H. Considering whether subrecipient’s or vendor’s audit necessitate an adjustment of the AAA’s own records and notifying ALTSA if this is the case.

I. If questioned costs are included, ensuring those costs are returned to ALTSA in a timely manner. The process for returning these funds will be determined on a case by case basis.
200.331(h)

ENFORCEMENT

ACTIONS

"WE DON'T WANT YOU TO VIEW THIS AUDIT COMMITTEE AS BEING IN ANY WAY CONFRONTATIONAL."
Pass-through entities may impose:

- Temporarily withhold cash payments pending correction
- Disallow all or part of the cost
- Wholly or partly suspend the award
- Initiate suspension or debarment proceedings
- Withhold further Federal awards
- Take other remedies that may be legally available

These are in addition to conditions set prior to contracting.

(h) Consider taking enforcement action against noncompliance, options listed in 200.338 Remedies for noncompliance.
F. All monitoring processes must be well documented and if applicable, must include corrective action procedures that will be used to follow-up on deficiencies. AAAs must notify ALTSA if it determines that corrective action necessitates an adjustment of the AAA’s own records or if funds must be returned.

AAA Requirements as a Pass-through Entity

J. Establishing a tracking system to ensure timely submission of required reporting, such as: financial reports, performance reports, audit reports, monitoring of subrecipients and vendors, and timely resolution of audit findings.
Section III Monitoring Interlocal Agreements and AAA Non-Medicaid Subcontracts Policy 16-18

Section VI Monitoring Medicaid Services Contracts Policy 16-18

16 Listed sanctions that may be imposed for non-compliance
17 Communication requirements when imposing sanctions
18 Contract termination
Establish written Monitoring Policies & Procedures
Retain copies of the annual risk assessments.
Maintain a monitoring schedule.
Document all steps of the monitoring process especially corrective actions.
Document receipt and review of all audits and the necessary follow-up
Overview

Assessment of risk is required
Monitoring schedules are required
Management decisions are required on all audit findings

This document can be used as a resource to crosswalk monitoring requirements in the New Guidance, Chapter 9, Chapter 6 Section III non-Medicaid contracts and Chapter 6 Section VI Medicaid contracts but is not all inclusive.
QUESTIONS?