

Administrative Policy No: 19.50.30

Subject: Subrecipient Monitoring

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Authorizing Source: [2 CFR Chapter II Part 200](#) - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
State Administrative and Accounting Manual (SAAM)
Chapter [50.30](#)

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Approved By: Original signed by Judy Fitzgerald
Assistant Secretary / Chief Financial Officer

Purpose

This policy establishes the Department of Social and Health Services (DSHS) responsibility to monitor programmatic and fiscal activities of subrecipient contracts and agreements.

Scope

This policy applies to all DSHS staff and activities pertaining to the fiscal and performance monitoring of all DSHS subrecipient contracts.

This policy does not apply to contract monitoring of non-subrecipient contracts and agreements as defined in Administrative Policy [13.11](#).

Additional Guidance

Revised Code of Washington (RCW)

[Title 39](#), Public contracts and indebtedness

[43.09.185](#), Loss of public funds, Illegal activity, report to State auditor's office

DSHS Administrative Policies

[5.04](#), Records Retention

[13.11](#), Monitoring Contractor Performance

[16.01](#) Internal Audit

[16.05](#), Internal Control Risk Assessment and Self Evaluation

DSHS Tools (optional templates)

Attachment A - [Sample Fiscal Risk Assessment Worksheet](#)

Attachment B - [Subrecipient Federal Financial Assistance Summary Sheet](#)

Attachment C - [Sample DSHS Subrecipient Fiscal Monitoring Site Visit Tool](#)

[DSHS SAO Subrecipient Audits SharePoint](#)

[DSHS Forms Picker](#)

Form 02-568, Certificate of Indirect Costs

Form 17-169, Loss of Public Funds, Assets, or Illegal Activity Report

Definitions

Agency contract database (ACD) is the DSHS electronic enterprise information system used for the creation, tracking and monitoring of all DSHS client service, professional services, data sharing and Interlocal agreements; and may include memorandums of understanding (MOUs).

Award means federal financial assistance that a non-federal entity receives directly from a federal awarding agency or indirectly from a pass-through entity.

Cognizant agency (federal) means the federal agency responsible for reviewing, negotiating, and approving DSHS' public assistance cost allocation plan (PACAP) or indirect cost proposals developed under 2 CFR Part 200 on behalf of all federal agencies. The cognizant agency for DSHS is the Department of Health and Human Services (DHHS).

Cognizant agency (state) means the state agency that reviews, negotiates, and approves subrecipient public assistance cost allocation plans (PACAP), if appropriate.

Cost allocation means a methodology by which administrative costs are identified in a logical and systematic manner for reimbursement under federal grants and agreements.

Cost allocation plan means a document describing the methodology by which administrative costs are identified in a logical and systematic manner for reimbursement under federal grants and agreements.

Cost objective means the five-digit code assigned to identify the federal grant, a portion of the federal grant, or a state funded program to which costs are assigned.

Department refers to the Department of Social and Health Services (DSHS).

Desk review means a low to medium risk assessment that requires a review of the following items if they are available:

- a. Entity's invoices and documentation (A-19s);
- b. Entity's program or service and financial reports;
- c. Surveys or feedback cards from clients;
- d. Client complaints;
- e. Entity's audit or financial report follow up ~~and~~ ensuring all appropriate action has been taken on all items detected through audits, on-site reviews, and any other means; and
- f. Entity's indirect rate certification (Certificate of Indirect Costs, form 02-568 or plan), if applicable.

Direct costs are costs related to the performance of a specific service. For DSHS federal awards, direct costs are those costs identified specifically with a particular cost objective. Direct costs must be ordinary, necessary, reasonable, and allowable under the terms of the contract. Typical direct costs chargeable to federal awards are:

1. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
2. Cost of equipment, materials, and services acquired, consumed, or spent specifically for the purpose of those awards.
3. Approved capital expenditures.
4. Travel expenses incurred specifically to carry out the award.

Note: Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives. (See 2 CFR, Part 200 Subpart E, §200.413(d)).

For-profit refers to a business or organization whose primary goal is making money.

Indian tribal government means any governing body or governmental agency of any Indian tribe, band, nation, or other organized group or community certified by the federal Secretary of the Interior as eligible for the special programs and services provided by the Bureau of Indian Affairs.

Indirect costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of cost pools. Cost pools must be distributed to benefitted cost objectives on bases that will

produce an equitable result in consideration of relative benefits derived. (See 2 CFR, Part 200 Subpart A §200.56).

Indirect cost rate means a method for determining, in a reasonable manner, the proportion of indirect costs each program should incur. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base, calculated by a governmental unit and approved by the cognizant agency.

Indirect cost rate proposal means the documentation prepared by a non-federal entity to substantiate its request for the establishment of an indirect cost rate as described in 2 CFR, Part 200 Subpart A §200.413(d).

Interlocal agreement means a contract or agreement between DSHS and any public agency, political subdivision, or unit of local government including, but not limited to: municipal corporations, quasi-municipal corporations, counties, special purpose districts, and local service districts; any agency of state government; any agency of the United States; any local or federally recognized Indian tribal government; and any political subdivision of another state. A contract may acquire goods or services, or both. An agreement does not necessarily require either goods or services Chapter 39.34 RCW, Interlocal Cooperation Act, governs Interlocal Agreements.

Local government means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under state law), local or federally recognized Indian tribal government, including any component thereof and other regional or interstate government entity, or any agency or instrumentality of a local government.

Monitoring means a continuous process used to evaluate contractors to determine whether they are delivering goods and services in accordance with their contractual obligations.

On-site review means a high-risk assessment that requires a review of both the items required for a desk review as well as the following if they are available:

- a. A review of the delivery of program services;
- b. Discussions about the contractor's problems and challenges;
- c. Follow-up on identified problems from previous visits;
- d. Review of facility or personnel licensing;
- e. Review of surveys and inspections performed by outside parties;
- f. Interview of staff to determine whether they are familiar with the program;
- g. Inspection of the entity's facilities and operations;
- h. Review of and compliance with the entity's policies and procedures governing service delivery and financial processes;

- i. Review of the entity's monitoring or production reports;
- j. Review of any independent limited scope program audits;
- k. Verification of performance from outside sources (e.g. sub-contractors);
- l. Review of the entity's self-risk assessment survey;
- m. Review of internal controls;
- n. Review of billing practices;
- o. Review allocation of costs; and
- p. Review timesheets or activity reports.

Public assistance cost allocation plan (PACAP) means the narrative description of procedures used to identify, measure, and allocate all administrative costs to the programs administered or supervised by the state's public assistance agency.

Program means the affected DSHS programs, including the division, office, or staff designated by the Assistant Secretary or Division Director as being responsible for compliance with this policy.

Risk assessment means the process of evaluating the program's and/or client's exposure to harm or loss that could happen from some activity associated with a contract for services. This process is active throughout the entire life of the contract.

Note: The annual Enterprise Risk Assessment and Self-Evaluation does not replace the risk assessment as defined in this policy.

Risk factors means circumstances that may increase the likelihood that the contractor will not:

1. Meet the goals of the contract.
2. Provide contracted services safely, timely, effectively, and efficiently.
3. Protect DSHS and its clients from loss or injury.
4. Provide reliable financial data regarding how contracted dollars are spent.
5. Comply with applicable laws, regulations, and defined policies and procedures.

Single audit is an organization-wide financial statement and federal awards' audit of a non-federal entity that expends \$750,000 or more in federal funds in one year. It is intended to provide assurance to the Federal Government that a non-federal entity has adequate internal controls in place, and is generally in compliance with program requirements.

Subrecipient means a non-federal entity that spends federal awards received from a pass-through entity (DSHS) to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards from another pass-through entity or directly from a federal awarding agency.

2 CFR, Part 200, Subpart D, §200.330 identifies characteristics that must be considered in making the determination of subrecipient versus non-subrecipient (vendor) status.

The table below identifies some characteristics used to determine subrecipient status but is not considered an inclusive list.

Subrecipient	Vendor
Determines who is eligible to receive federal financial assistance	Does not determine eligibility
Performance measured against program objectives	Provides the goods and services within normal business operations
Has responsibility for making programmatic decisions	Provides goods or services that are ancillary to the operation of the federal program
Responsible for adhering to federal program compliance requirements	Is generally not subject to compliance requirements of the federal program
Uses federal funds to carry out a program of the organization	Provides goods or services for a program of the pass-through entity
	Provides similar goods or services to many different purchasers Operates in a competitive environment

Unique entity identifier (UEI) is the official identifier for doing business with the U.S. government and is required under the Federal Funding Accountability and Transparency Act (FFATA). The Data Universal Numbering System (DUNS) number is currently used as the UEI and will be used through December 2020. After that date, the UEI will be generated in the System for Award Management (SAM) located at SAM.gov.

Vendor (referenced as a contractor in 2 CFR, Part 200, Subpart D, §200.330) means any person, business, non-profit, or government entity that provides services to DSHS or its clients. A vendor may or may not have a contractual agreement.

Policy

A. Programs must identify subrecipient contracts

1. Programs must identify subrecipient contracts by:
 - a. Determining if a contract meets the criteria of a subrecipient or non-subrecipient using § 200.330 subrecipient and contractor determination criteria. Programs may consult with the Office of Accounting Services (OAS) to make a determination of subrecipient status (see definition of subrecipient for more guidance).
 - b. Ensuring contracts include requirements outlined in 2 CFR, Part 200, Subpart D, §200.331; such as - the CFDA title and number, award information, name of the federal awarding agency, relevant federal

- regulations, and provisions of the grant awards (see 2 CFR, Part 200, Subpart D, §200.331 for comprehensive list).
- c. Ensuring subrecipients have a unique entity identifier (UEI).
 - d. Recording the determination of subrecipient status for each of their contracts in the Agency Contracts Database (ACD).
2. Programs must also verify the indirect rate the subrecipient will use by:
- a. Obtaining a copy of the indirect rate certification (Certificate of Indirect Costs, form 02-568) or cost allocation plan from the subrecipient contractor, if applicable.
 - b. Verifying the indirect cost rate or cost allocation plan conforms to the requirements of 2 CFR, Part 200, subpart E - cost principles.
 - c. Obtaining copies of updated subrecipient indirect cost rate certifications, or cost allocation plan, three months prior to the start of a subrecipient's fiscal year, during the contract period for each contract for new and reoccurring contracts, if applicable.
 - d. Accepting the subrecipient's federally approved indirect cost rate, if applicable.
 - i. Subrecipients may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC).
 - ii. The de minimis rate is not available to local governments receiving more than \$35 million in direct federal funding or to entities who have previously received a negotiated indirect cost rate. This methodology once elected must be used consistently for all federal awards (see 2 CFR Part 200 Subpart D, §200.414(f)).
3. Programs must verify the total federal expenditures the subrecipient receives during a fiscal year.
- a. Non-governmental subrecipients must complete attachment B, Subrecipient Federal Financial Assistance, at the beginning of the subrecipient's fiscal year. The information will allow DSHS to determine whether combined federal expenditures equal or exceed the OMB single audit threshold.
 - b. A single audit is required when expenditures of \$750,000 or more are expended during the subrecipient's fiscal year. Copies of the completed form must be provided to program and fiscal staff with assigned monitoring responsibility.
4. Programs must track federal dollars awarded to another state agency. If federal dollars are awarded to another state agency who in turn awards those funds to a subrecipient, the program is responsible to:
- a. Obtain the subrecipient's name and the amount awarded.
 - b. Report the subrecipient information to be used for the completion of the

Schedule of Expenditures and Federal Awards (SEFA).

- c. Report the contract information on the federal government website as part of the Federal Funding Accountability and Transparency Act (FFATA). This requirement applies to ALL contracts regardless if the contractor is a vendor or subrecipient.

B. Established contract formats must be used.

1. Central contracts and legal services (CCLS) must develop and maintain formats that include subrecipient requirements in general terms and conditions of affected contracts. Subrecipient contracts must include appropriate language to ensure that requirements imposed by federal law, regulations, provisions of grant agreements, and any additional department requirements are clearly defined and kept current. The contract must specify that the subrecipient must permit the pass-through entity and auditors to have access to all relevant records and financial statements.
2. Program staff must develop special terms and conditions that include all appropriate program compliance requirements and additional unique requirements, such as:
 - a. Activities allowed or disallowed.
 - b. Allowable costs/cost principles.
 - c. Eligibility.
 - d. Matching, level of effort, earmarking.
 - e. Reporting.
 - f. Subrecipient monitoring.
 - g. Billing requirements.
 - h. Award closeout.
 - i. Remedies for noncompliance according to 2 CFR Subpart D, §200.338.

C. For a complete listing of program compliance requirements, see 2 CFR, Part 200, Appendix XI to Part 200 – Compliance Supplement Programs must report federal funds paid to subrecipients

1. As part of the fiscal year close, programs must complete the Subrecipient Reporting form included in the FYC instructions, so the data can be included in the federal disclosure forms.
2. If federal dollars are awarded to another state agency who in turn awards those funds to a subrecipient, the program is responsible to:
 - a. Obtain the subrecipient's name and the amount awarded.
 - b. Report the subrecipient information to be used for the completion of the

Schedule of Expenditures and Federal Awards (SEFA).

- c. Report the contract information on the federal government website as part of the Federal Funding Accountability and Transparency Act (FFATA). This requirement applies to ALL contracts regardless if the contractor is a vendor or subrecipient.

D. Contract risk assessments must be developed and completed. (See Attachment A, Sample Risk Assessment Tool)

1. Programs must complete annual risk assessments and determine the level of monitoring required for all subrecipient contracts.
2. The risk assessment worksheet models a way to develop risk assessments and assess high, medium, or low levels of risk.

E. Fiscal and programmatic monitoring must be completed. (See Attachment C - [Sample DSHS Subrecipient Fiscal Monitoring Site Visit Tool](#))

Based on the result of the risk assessment, a desk or on-site review must be completed. Each Program has control over the form and content of its risk assessment tools.

1. If the risk assessment shows the entity is of **low to medium risk**, the entity may not require an on-site review. Instead, a desk review may be adequate for the current year. The program or division will assign the appropriate staff to conduct the desk review. The following items, if available, must be documented in a desk review:
 - a. Entity's invoices and documentation (A-19s).
 - b. Entity's program or service and financial reports.
 - c. Surveys or feedback cards from clients.
 - d. Client complaints.
 - e. Entity's audit or financial report follow up and ensuring all appropriate action has been taken on all items detected through audits, on-site reviews and any other means.
 - f. Entity's indirect rate certification (Certificate of Indirect Costs, form 02-568 or plan), if applicable.
2. If the risk assessment shows the entity is a **high risk**, an on-site visit is required. The program/division will assign the appropriate staff to conduct the on-site review. On-site reviews must include all items in a desk review. In addition, on-site reviews may include, as appropriate, the following items:
 - a. A review of the delivery of program services.
 - b. Discussions about the subrecipient's problems and challenges.

- c. Follow-up on identified problems from previous visits.
- d. Review of facility/personnel licensing.
- e. Review of surveys and inspections performed by outside parties.
- f. Interview of staff to determine whether they are familiar with the program.
- g. Inspection of the entity's facilities and operations.
- h. Review of and compliance with the entity's policies and procedures governing service delivery and financial processes.
- i. Review of the entity's monitoring/production reports.
- j. Review of any independent limited scope program audits.
- k. Verification of performance from outside sources (e.g. sub-contractors).
- l. Review of the entity's self-risk assessment survey.
- m. Review of internal controls.
- n. Review of billing practices.
- o. Review of allocation of costs.
- p. Review of timesheets or activity reports.
- q. Review of financial records.

F. Monitoring must be documented.

1. The ACD must be used to document all subrecipient-related monitoring activities.
2. Assigned staff must document all desk or on-site reviews performed. The program manager overseeing the contract is responsible for making sure that items included in the review are documented in the ACD by the end of the contract period.
3. Each program must maintain contract monitoring documentation per General Administration's retention schedule (Administrative Policy 5.04, Records Retention)

G. Programs must follow-up on all unallowable costs identified during fiscal and programmatic monitoring.

1. Programs must review and evaluate the unallowable costs identified in the review and facilitate determination of amount owing to DSHS.
2. If any known or suspected loss of public funds, public assets, or other activities suspected to be illegal that are identified through the desk or on-site review, the program must use the Loss of Public Funds, Assets, or Illegal Activity Report (DSHS 17-169) to report known or suspected losses. The form can be sent to DSHS Internal Audit and Consultation via:
 - Fax (360) 664-6007
 - E-mail at DSHS internal audit and consultation

- Campus mail at mailstop 45804
3. Any identified overpayments must be referred to the office of financial recovery (OFR) to perform collections.

H. Single Audits must be performed on subrecipients that receive \$750,000 or more in federal funds.

1. Programs must ensure a single audit was completed for any year when a subrecipient receives \$750,000 or more annually in federal funds from all sources. To aid in determining the total level of federal assistance, subrecipients must use the Sample Federal Assistance Reporting Form (See Attachment B).

When contracting with for-profit subrecipients, the pass through entity is responsible for establishing requirements, as necessary, to ensure compliance with the federal awards granted.

2. Single and programmatic audit reports must be tracked and reviewed.
 - a. Programs must:
 - i. Forward copies of single audit reports that contain questioned costs to the external audit compliance manager (EACM) for entities that have single or programmatic audits performed by a source other than the State Auditor's Office (SAO).
 - ii. Pursue collection of overdue audit reporting packages for all subrecipients that the SAO does not audit.
 - iii. Review single and programmatic audits, issue a management decision on audit findings within six months after receipt of the subrecipient's audit, and record, and ensure that the subrecipient takes appropriate and timely corrective action.
 - (A) Clearly state whether or not audit findings are sustained.
 - (B) The reason for the decision.
 - (C) The expected subrecipient's action to repay disallowed costs (if applicable), make financial adjustments, or take other action.
 - (D) If the subrecipient has not completed corrective action, Programs must include a timetable for follow-up.
 - iv. Monitor subrecipient activities to ensure the subrecipient takes appropriate and timely corrective action to resolve single and programmatic audit findings.
 - v. Provide the EACM a copy of the subrecipient's corrective action that address questioned costs and report actions completed on corrective action plans on a monthly basis, until complete.
 - vi. Promptly notify Internal Audit and Consultation (IAC) of any known or suspected loss of public funds, public assets, or other

activities suspected to be illegal that are identified through subrecipient monitoring. See [AP 16.10](#) for further guidance on reporting known or suspected loss of public funds or assets.

- vii. Retain documentation to support monitoring audit compliance that is consistent with state records retention requirements.
- b. EACM must:
 - i. Maintain a list of all single audit reports it receives from the programs and link to audit reports posted by the SAO.
 - ii. Make this list available to Programs for monitoring subrecipient audits. The list is available on the DSHS SAO Subrecipient Audit SharePoint IAC website.

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