

Administrative Policy No: 19.50.30

Subject: Subrecipient Monitoring

Information Contact: Office of Accounting Services
Chief, (360) 664-5716

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](#)

Effective Date: February 26, 2007

Revised: February 1, 2016

Approved By: original signed by Kathy Marshall
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 Risk Assessment Worksheet](#)

Attachment B - [Federal Financial Assistance](#)

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

[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 sub-recipient 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 DSHS Office of Accounting Services (OAS) staff assigns 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).

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 [RCW Chapter 39.34](#), 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.

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/or 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 a financial, internal control, and compliance audit of a nonfederal entity administering federal assistance awards including the financial statements of the entity.

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

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. 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. Contracts must clearly state 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. 2 CFR, Part 200, Subpart D, §200.331 requires a subrecipient's unique entity identifier. In most cases, this will be the Data Universal Numbering System (DUNS) number as the DUNS is a requirement of FFATA and must be included in the contract.
 - d. Recording the determination of subrecipient status for each of their contracts in the Agency Contracts Database (ACD)
2. Programs must also:
 - a. Obtain 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. Verify the indirect cost rate or cost allocation plan conforms to the requirements of [2 CFR, Part 200](#), Subpart E - Cost Principles.
 - c. Obtain 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. Accept the subrecipient's federally approved indirect cost rate, if applicable.
 - e. Sub-recipients, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC). This option 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 track federal dollars awarded to another state agency.
- a. If federal dollars are awarded to another state agency who in turn awards those funds to a subrecipient, the program is responsible to obtain the subrecipient's name and the amount awarded.
 - b. The program must also report the subrecipient information to be used for the completion of the Schedule of Expenditures and Federal Awards
 - c. The program must also 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. Include remedies for noncompliance according to 2 CFR Subpart D, §200.338

For a complete listing of program compliance requirements, see [2 CFR, Part 200](#), Appendix XI to Part 200 – Compliance Supplement

C. Contract Risk Assessments and Monitoring Tools 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.

D. Fiscal and Programmatic Monitoring must be completed.

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/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/service and financial reports.
 - c. Surveys or feedback cards from clients.
 - d. Client complaints.
 - e. Entity's audit or financial report follow up and ensure all appropriate action has been taken on all items detected through audits, on-site reviews and any other means
 - g. 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 document all items reviewed 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 contractor'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 allocation of costs.
- p. Review timesheets or activity reports.
- q. Review of financial records.

E. Contract monitoring must be completed. (See Attachment C - Sample Monitoring Tool)

1. After the execution of the contract, appropriate Program staff must monitor the activities of the subrecipient to ensure that contract deliverables and performance goals are achieved. Reviews include confirmation that:
 - a. The contract is signed before authorizing any payment.
 - b. The services meet contract requirements, including contract time frame.
 - c. The federal awards were used for authorized purposes in compliance with grant terms.
 - d. The billing rate is correct.
 - e. The service and billing is ordinary, reasonable and necessary.
 - f. The cumulative billing total does not exceed the maximum contract consideration.
 - g. Supporting documentation is reviewed and is enough to confirm services were provided.
 - h. Upon completion of these review elements, reviewing program staff will sign and date the payment document; e.g., A-19 "Agency Approval" fields.
2. After the execution of the contract, appropriate Program staff must ensure that billing reviews include, at a minimum:
 - a. Review of arithmetic accuracy.
 - b. Signature by the contractor, if applicable.
 - c. Consistent and correct account coding.
 - d. Billings are correct and complete and the rate is correct, if applicable.
 - e. Program staff approved the billing for payment.
 - f. The cumulative billing total does not exceed the maximum contract consideration.
 - g. Fiscal staff will sign and date the payment document; i.e. the Accounting Approval section of the A-19.

F. Contract Monitoring must be documented.

1. The Agency Contract Database (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. Single Audits

1. Programs must ensure a single audit was completed 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 may 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 all single audit reports to Operations Review and Consultations (ORC) 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 and 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 ORC a copy of the subrecipient's corrective action and report all actions completed on corrective action plans to ORC on a monthly basis, until complete.
 - vi. Promptly notify OAS of questioned costs requiring adjustment to Department financial records.
 - vii. Promptly notify ORC of any known or suspected loss of public

- funds, public assets, or other activities suspected to be illegal that are identified through subrecipient monitoring.
- viii. Retain documentation to support monitoring audit compliance that is consistent with state records retention requirements.
- b. ORC must:
- i. Maintain a list of all single audit reports it receives from Department 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 ORC website at <http://one.dshs.wa.lcl/FS/Loss/Audits/Pages/SubrecipientAudits.aspx>
 - iii. Notify the SAO and other state agencies using DSHS form 17-169 of any known or suspected loss of public funds or assets, or other illegal activities identified through subrecipient monitoring, as required by RCW [43.09.185](#).
 - iv. Maintain a list of corrective action plans on the ORC website. (<http://one.dshs.wa.lcl/FS/Loss/Audits/Pages/SubrecipientCorrectiveAction.aspx>).

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