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Sub-Recipient Monitoring Policy

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Executive Summary

A large percentage of the federal funds received by the Commonwealth are expended by sub-recipients rather than by Commonwealth departments themselves. Department management must continue to monitor the entities to which they grant their federal funds. Departments are reminded that, at all times, department heads and their staff must be responsible stewards of the funds entrusted to us as public servants.

Considerations

As part of the federal government's expanded monitoring of expenditures, federal agencies have begun to increase their audit presence at state and local government agencies. A primary focus of these audits is reviewing grantees' monitoring of sub-recipients.

Each year the Office of Management and Budget (OMB) publishes a Compliance Supplement (found at the OMB Circulars Page) to its OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations to identify the compliance requirements that the federal government expects auditors to review as part of a single audit. This includes guidance on what the federal government considers adequate sub-recipient monitoring. Agencies should pay particular attention to Part 3 of the supplement, which outlines compliance requirements and the relevant sections of Part 4, which outlines the details of each federal grantor's program requirements.

The U.S. Office of Management and Budget (OMB) released new uniform administrative requirements, cost principles, and audit requirements for federal awards (also referred to as the "super circular"). Effective December 26, 2014, agencies must comply with these new rules. The new uniform guidance supersedes and streamlines requirements from OMB Circular A-133 Audits of States, Local Governments and NonProfit Organizations and other Circulars. The new guidance can be found at Title 2 CFR Subtitle A, Chapter II, Part 200. Refer to Subpart D §200.330 for sub-recipient monitoring and management.

Given the increased focus on sub-recipient monitoring by the federal government, continued access to federal funds will be at risk unless agencies maintain careful management and monitoring of subrecipients.

Policy

State departments that accept federal funds are responsible for monitoring the use of those funds, even when the grants are sub-awarded to one or more non-profit providers or other government

entities (subrecipients). Even though a department does not directly expend the funds for program/grant use, the department is responsible for sufficient oversight of the award to ensure funds are spent in accordance with the federal grant requirements. A transfer of federal funds within state government does not trigger sub-recipient designation; each department is considered a prime recipient.

Sub-recipients are distinct from contractors/vendors. Departments are responsible for making the proper determination between contractor/vendor and sub-recipients and should use **Appendix A** (Determining a Sub-recipient vs. Contractor/Vendor relationship) for guidance. Sub-recipient spending must be coded correctly as it is reported annually to the federal government in the Commonwealth's Schedule of Expenditures of Federal Awards (SEFA). Certain Statewide Enterprise Accounting and Financial Reporting System ("the system"; "Mosaic") object codes must be used when making sub-recipient payments **Appendix B** (Recording and Reporting Sub-recipient and Contractor/Vendor Relationships) and are identified accordingly in the Expenditure Classification Handbook.

Grants generally allow, or even provide for, a portion of the funding to be used for management/administrative activities. When programs are being cut, the impulse to retain fewer dollars for management/administration in order to provide more funds to the program can be great. Departments must, however, responsibly monitor the use of these funds. Carefully monitored funds have a much higher probability of being continued, benefiting the citizens of the Commonwealth.

Internal Controls

Sub-recipient monitoring is a crucial internal control function, required by federal granting agencies. Reporting requirements for sub-grantees become part of the grant agreement and are monitored on a regular basis.

Information Sources

Legal Authority

- M.G.L. c. 7A (Office of the Comptroller)
- M.G.L. c. 29 § 6B (Federal grant funds)

Attachments

- 815 CMR 2.00 (Grants and Subsidies)
- OMB Circulars Page; Title 2 CFR Subtitle A, Chapter II, Part 200 (Uniform Guidance)

Links

- Appendix A: Determining a Sub-Recipient vs. Contractor/Vendor Relationship
- Appendix B: Recording and Reporting Sub-recipient and Contractor/Vendor Relationships
- MAComptroller.org

Contacts

- CTR Solution Desk

APPENDIX A: Determining a Sub-recipient vs. Contractor/Vendor Relationship

The responsibilities for compliance with federal program requirements are significantly different for prime recipients (including pass-through entities) sub-recipients and contractors/vendors. The uniform guidance, Title 2 CFR Subtitle A, Chapter II, Part 200, Subpart D §200.330 provides guidance on distinguishing a sub-recipient from a contractor/vendor – the following summarizes that guidance.

Title 2 CFR, Part 200 Characteristics indicative of a federal award received by a sub-recipient:

- A sub-recipient entity "type" is typically a non-profit, government entity, city, town, hospital, or university in the business of providing services primarily to government or public entities.
- A sub-recipient typically is able to determine who is eligible to receive what federal financial assistance and how the federal funds will be used to fulfill the federal program purposes because of its relationship to a prime recipient.
- A sub-recipient has its performance measured against whether the objectives of the federal program are in compliance by the prime recipient.
- A sub-recipient may have responsibility for programmatic decision making delegated from the prime recipient.
- A sub-recipient has responsibility for adherence to applicable federal program compliance requirements because of this delegation.
- A sub-recipient uses the federal funds to carry out a program of the prime recipient as compared to providing goods or services for a program of the pass-through entity.
- A sub-recipient award, in some instances, may result from a competitive application process.
- A sub-recipient award usually benefits clients/customers of a Department rather than providing a direct service to the Department itself.

Typical relationships between a prime recipient that is functioning as a pass-through entity (e.g. the Commonwealth) and a sub-recipient include:

- A state department of education (pass-through entity) receives a federal award and is responsible for administering and disbursing the federal award to local school districts (sub-recipients) according to a formula or on some other basis.
- A regional planning commission (pass-through entity) receives a federal award for the feeding of elderly and low-income individuals, and the award is disbursed to not for profit (NPOs) subrecipients to support their feeding programs.
- A hospital (sub-recipient) of a University (pass-through entity) receives a federal award to conduct research.
- A state arts commission (pass-through entity) awards funds from a federal grant to a theater group (sub-recipient) to support a summer arts series.

Title 2 CFR, Part 200 Characteristics indicative of a payment for goods or services received by a contractor/vendor:

- A contractor/vendor entity "type" is typically a commercial vendor or non-profit in the business of providing services to both government and non-government entities and the general public in the private or commercial market.
- A contractor/vendor provides the goods or services within normal business operations.
- A contractor/vendor provides similar goods or services to many different purchasers.
- A contractor/vendor operates in a competitive environment.
- A contractor/vendor provides goods or services that are ancillary to the operation of the federal program.
- A contractor/vendor is not subject to the compliance requirements of the federal program but must comply with the performance criteria under a contract for goods or services.

Typical relationships between a recipient (pass-through) and a **contractor/vendor** include (here a recipient receives a federal grant directly from the federal government not as a sub-recipient):

- A local government (recipient) receives a federal award to provide mental health services in a designated area. Some of the funds are paid to a contractor (vendor) to repair a leaking roof.
- A county (recipient) receives a federal award to operate a Head Start program and pays an NPO (vendor) to provide temporary services.
- An NPO (recipient) receives a federal award to run a preschool and pays a doctor (vendor) to perform health screening on a per-student basis.
- An NPO (recipient) receives a federal award to operate a child care center and pays a not-for-profit clinic (vendor) to perform physical exams.

An entity can be BOTH a pass-through entity and a sub-recipient as follows:

- A state government agency gives federal funds through a grant to a local government (the local government is a sub-recipient) and the local government entity (becomes a pass-through entity) by further granting a portion of the federal award to an NPO to administer a federal program.
- A state government agency gives federal funds through a grant to an NPO area agency (subrecipient) and the NPO (becomes a pass through entity) by further passing through a portion of the federal award to a for-profit health provider

There may be unusual circumstances or exceptions to the previous paragraphs.

Substance over Form or Labels

In making the determination of whether a sub-recipient or vendor relationship exists, the "substance" of the relationship is most important. It is not expected that all of the characteristics of a contractor/vendor or a sub-recipient will be present and careful judgment should be used in determining whether an entity is a sub-recipient or contractor/vendor. Contractor/Vendor service delivery relationships are usually fairly clear therefore, if there is a question between a subrecipient vs. a contractor/vendor relationship, departments should default to a sub-recipient relationship.

The substance of a relationship is more important than the form or labels used. "Substance" refers to the characteristics of the arrangement and whether those characteristics are more indicative of a sub-recipient or contractor/vendor relationship. "Form" refers to the type of agreement used. Department agreements with sub-recipients and contractors/vendors will use the Standard Contract Form, but the

underlying procurement, object code, and attachments will document whether the relationship is a contractor/vendor or sub-recipient.

The substance of the details in the contract attachments that outline the scope of the contract, the goals and services or performance being funded, compliance and reporting requirements and the ultimate recipients of the grants must be examined and will determine whether the arrangement is indicative of a sub-recipient or contractor/vendor. Therefore labeling an organization as a sub-recipient or contractor/vendor in an agreement does not automatically create one type of relationship or the other. The characteristics of the relationship, as well as the type of entity receiving the funding, must always be examined to determine whether the arrangement as a whole has qualities that are more indicative of a subrecipient or contractor/vendor relationship.

Examples:

1. Commonwealth Department A receives a federal grant and awards a grant (which may be through an application or formula driven award process) to Town B. Town B administers the grant and has jurisdiction over how the grant funds are spent.

   Department A is the Prime Recipient (Pass-through)

   Town B is the Sub-recipient

2. Commonwealth Department A receives a federal grant and awards a grant (which may be through an application or formula driven award process) to Town B. Town B uses the grant funds to pay a non-profit organization to run an after school program. The NPO is in the business of running similar programs in that town as well as other towns and for private entities. The NPO won the right to run the program through a competitive process bid out to commercial and other private entities.

   Department A is the Prime Recipient (Pass-through)

   Town B is a Sub-recipient

   The NPO is a Contractor/Vendor

3. Commonwealth Department B (Buyer) receives a grant for energy efficiency. Department B enters into an ISA with Department S (seller) to work with other jurisdictions to provide energy efficiency to homeowners. Department S sub-grants the money to a Local Housing Authority, which contracts with a local solar energy company to provide solar energy good/services.

   Department B is the Prime Recipient/Pass-through

   Department S is a Prime Recipient/Pass-through

   Local Housing Authority is a Sub-Recipient

   Solar Energy Company is a Contractor/Vendor

NOTE: Recipient requirements will also be “passed down” through any ISA to another state department. Departments will need to ensure that they verify the federal grant requirements under the federal grant they are receiving. Pass through Departments will pass down all A-133 and other

federal grant requirements to any sub-recipient and will remain responsible for compliance and reporting. CTR will continue to provide information as we receive clarification from the various federal oversight entities.

APPENDIX B: Recording and Reporting Sub-recipient and Contractor/Vendor Relationships

Departments are responsible for carefully reviewing the A-133 requirements and examples to determine whether or not a sub-recipient or contractor/vendor relationship exists. In some cases, the relationship may not immediately be clear. CTR has provided this guidance to assist departments with the process of making sub-recipient vs. contractor/vendor determinations. However, CTR will not approve or make determinations for a department and acceptance of a transaction in the accounting system coded by a department does not mean that CTR has approved the department's coding as appropriate under A-133. Departments should document the process used to reach each determination. Departments may not code encumbrances and payments as contractor/vendor activity to avoid the sub-recipient pass through or other reporting requirements.

In accordance with federal requirements, as outlined in OMB A-133 (the Single Audit Act) a primary grant recipient is the one to whom the original grant award was made. The prime recipient is referred to as a "pass-through entity" when the prime provides the federal award to a sub-recipient to carry out the federal program. In passing through a portion of or the entire grant award, the responsibilities inherent in that grant award also "pass down" to the sub-recipient. However, the prime recipient (or pass through entity) remains ultimately responsible for the following, in accordance with OMB A-133:

A prime recipient that serves as a pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each sub-recipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
(2) Advise sub-recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
(3) Monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
(4) Ensure that sub-recipients expending $500,000 or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of this part for that fiscal year, meaning they are subject to the Single Audit.
(5) Issue a management decision on audit findings within six (6) months after receipt of the sub-recipient's audit report and ensure that the sub-recipient takes appropriate and timely corrective action.
(6) Consider whether sub-recipient audits necessitate adjustment of the pass-through entity's own records.
(7) Require each sub-recipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

The characteristics of a contractor/vendor that make it distinct from a sub-recipient are summarized below.

A contractor/vendor:

(1) Provides the goods and services within normal business operations;
(2) Provides similar goods or services to many different purchasers;
(3) Operates in a competitive environment;
(4) Provides goods or services that are ancillary to the operation of the Federal program and
(5) Is not subject to compliance requirements of the Federal program.

Identifying Sub-Recipients in Mosaic by Object Code

Encumbrance and payment activity involving sub-recipients is identified by the object code entered by the department on the accounting line of the transactions. Certain object codes are designated for use as sub-recipient only.

Federal reporting on sub-recipients is based on the following object codes:

H78
M03 MM3 M78
N78
P01 PP1
R03 R09 R11 R14 R15 R21
U78

All encumbrance and payment activity with the above listed object codes will then be selected UNLESS vendor Type on VCUST is equal to "I" (Individual). Departments should review existing encumbrances for both sub-recipient activity and contractor/vendor activity and immediately update the object code on any encumbrances federally funded to ensure they reflect the appropriate object code, as defined in this document. If a department has sub-recipient activity in an object code not listed above then the department should prepare and submit Expenditure Correction (EX) transactions to the Office of the Comptroller's Statewide General Accounting Team with the following in the document comment "sub-recipient activity" and an explanation of the work being performed that qualifies as a sub-recipient relationship.

To the extent that departments have used any of the object codes above for sub-recipient related activity where the payee is a **contractor/vendor** and NOT a sub-recipient, the department should prepare and submit Expenditure Correction (EX) transactions to the Office of the Comptroller's Statewide General Accounting Team with the following in the transaction comment: "non-subrecipient activity" and an explanation of the work being performed that qualifies as a contractor/vendor relationship. The attachments provide high level guidance to assist with determining whether an expenditure will trigger the sub-recipient or contractor/vendor relationship.

OMB Transparency and Reporting Requirements

FFATA requirements for transparency and reporting are also passed down to sub-recipients at a level that far exceeds the prior A-133 requirements. In reporting activity involving sub-recipients, in addition

to the activity detail from the prime recipient, the Commonwealth as prime must assure that the following is provided:

1. The UEI# of the sub-recipient, their legal name, address and type (From VCUST)
2. The sub-award number (The encumbrance Transaction ID)
3. The total value of the sub-award/contract (The line amount from the contract transaction in Mosaic)
4. The sub-award date (The date on the encumbrance)
5. The sub-award grant period (The service begin and end dates on the encumbrance)
6. The primary performance location/area of benefit (From the Location Code entered on the Mosaic transactions)

NOTE: All of these data elements should be available in Mosaic and will be extracted from the system for the transparency and OMB required reporting in accordance with CTR published guidance. Departments should ensure that staff is properly coding any encumbrances and payments in accordance with this guidance at the time of the expenditure to reduce any corrective actions that will be needed to properly account for and report expenditures.

Reporting of sub-awards and contracts

OMB requires that the Commonwealth report the aggregate number and dollars of sub-awards/contracts. For Commonwealth prime recipients, this will be available through Mosaic. This reporting requirement is also passed down to sub-recipients.

Sub-recipient Reporting Requirements

• Departments should advise their sub-recipients and amend their existing contracts to ensure that the following data will be available for reporting:

Sub-recipients will be required to report all contractor/vendor payments they make with federal funds. Detail for these payments must include either the payee vendor UEI number OR the contractor/vendor name and the zip code of the contractor/vendor headquarters.

Sub-recipients may be also required to report the names and total compensation for the five most highly compensated officers in their organization if:

(1) the recipient in its preceding fiscal year received— (a) 80 percent or more of its annual gross revenues in Federal awards; and (b) $25,000,000 or more in annual gross revenues from Federal awards; and
(2) the public does not have access to information about the compensation of the senior executives of the entity through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986 [26 USC § 6104]. ‘‘Total compensation’’ means the cash and noncash dollar value earned by the executives during the sub-recipient’s past fiscal year of the following (for more information see 17 CFR 229.402(c)(2)):
    i. Salary and bonus.

ii. Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R.
iii. Earnings for services under non-equity incentive plans. Does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.
iv. Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.
v. Above-market earnings on deferred compensation which are not tax qualified.
vi. Other compensation. For example, severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property if the value for the executive exceeds $10,000.