

ADMINISTRATIVE PRACTICE LETTER

SUBJECT: SUBRECIPIENT MONITORING

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Purpose of Guidelines

Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," assigns certain responsibilities to primary recipients of federal awards that, in turn, grant subawards to other organizations. Such Primary recipients, such as the Universities, are termed "pass-through entities." OMB Circular A-133 requires pass-through entities to monitor the activities of subrecipients to ensure that federal awards are used appropriately and that performance goals are achieved. Pass-through entities must also ensure that subrecipients meet any audit responsibilities.

This document provides information to assist the Universities in understanding the federal requirements imposed on them as pass-through entities, and to assist in complying with such requirements. In summary, each University is responsible for:

- informing subrecipients regarding the related federal awards and applicable requirements,
- monitoring the subrecipients' activity,
- ensuring subrecipients meet the audit requirements of OMB Circular A-133, and
- issuing management decisions about relevant subrecipient audit findings.

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To assist with meeting these requirements, three exhibits are provided:

- Exhibit 1 - Subrecipient Monitoring Checklist (*to be completed throughout the life of the contract by University personnel*),
- Exhibit 2 - Sample Subrecipient A-133 Audit Certification Request (*to be completed annually by subrecipient*), and
- Exhibit 3 - Sample Management Decision Letter (*to be issued when a response to the certification request in Exhibit 2 indicates finding(s) relevant to the University, and when the corrective action plan is acceptable. When the plan is unacceptable, a management decision should be drafted on a case by case basis.*)

Policy

Subrecipient agreements financed in whole or in part with Federal funds shall be monitored in accordance with standards set forth in OMB Circular A-133 and OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non Profit Organizations."

OMB Circular A-110, Section .5 Subawards, states, "Unless sections of this Circular specifically exclude subrecipients from coverage, the provisions of this Circular shall be applied to subrecipients performing work under awards if such subrecipients are institutions of higher education, hospitals or other non-profit organizations. State and local government subrecipients are subject to the provisions of regulations implementing the grants management common rule, "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments," published at 53 FR 8034 (3/11/88)."

Who is Responsible

Responsibility for following these guidelines lies primarily with Principal Investigators or Project Directors, their Department Chairs or other direct supervisors, and unit-level fiscal personnel with the general guidance and oversight of the colleges, schools and divisions.

Applicable University Sponsored Programs Office or other designated personnel are responsible for providing general guidance and technical assistance.

The University of Maine System administration is responsible for providing guidance through administrative practice letters and coordinating compliance monitoring through periodic internal and external audits.

Failure to follow these guidelines may have serious consequences, including disallowed costs, which would require reimbursement to the sponsor from unrestricted departmental funds; increased Federal oversight, monitoring, and audits; and loss of future Federal funding.

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Definitions and Terms

As stated in OMB Circular A-133 or OMB A-110:

Federal Award

"Federal award means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. "

Limited Scope Audit

"For purposes of [the subrecipient monitoring requirements of OMB Circular A-133], limited scope audits only include agreed-upon procedures engagements conducted in accordance with either the AICPA's [American Institute of Certified Public Accountants] generally accepted auditing standards or attestation standards, that are paid for and arranged by a pass-through entity and address only one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/ cost principles; eligibility; matching, level of effort, earmarking; and reporting."

Pass-through Entity

"Pass-through entity means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program."

Program-specific Audit

"Program-specific audit means an audit of one Federal program . . ."

"When an auditee expends Federal awards under only one Federal program (excluding [R&D](#)) and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted. . ."

Reporting Package

"The reporting package shall include:

1. Financial statements and schedule of expenditures of Federal awards . . .
2. Summary schedule of prior audit findings . . .
3. Auditor's report(s) . . . and
4. Corrective action plan . . ."

For further detail refer to OMB Circular A-133 Subpart C §_320 (c) Reporting package.

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Recipient

"Recipient means a non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program." Public and private institutions of higher education are included among the types of organizations defined as recipients in OMB Circular A-110 Section .2 Definitions.

Research and Development

"Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-Federal entity."

Single Audit

"Single audit means an audit which includes both the entity's financial statements and the Federal awards . . ."

Subaward

"Subaward means an award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible subrecipient or by a subrecipient to a lower tier subrecipient," per OMB Circular A-110 Section .2 Definitions.

Distinctions between Subrecipients and Vendors:

With respect to a federal award, an entity may be a recipient, a subrecipient, and/or a vendor. Federal awards expended as a recipient or a subrecipient are subject to audit or other requirements of OMB Circular A-133. Payments made to or received as a vendor are not considered Federal awards and are therefore not subject to such requirements. The following information is presented to assist with identifying subrecipient versus vendor relationships:

Subrecipient: Subrecipient means a non-Federal entity that receives Federal awards from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. The OMB Circular A-133 definition of a "subrecipient" indicates a subrecipient "...is accountable to the recipient for the use of the funds provided." A subrecipient may also be a recipient of other Federal awards received directly from a Federal awarding agency.

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As stated in OMB Circular A-133:

Characteristics indicative of a Federal award received by a subrecipient are when the organization:

1. Determines who is eligible to receive what Federal financial assistance;
2. Has its performance measured against whether the objectives of the Federal program are met;
3. Has responsibility for programmatic decision making;
4. Has responsibility for adherence to applicable Federal program compliance requirements; and
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.

When determining whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor. For example, a provider of professional services could be a subrecipient or vendor depending on the facts and circumstances.

Vendor: As stated in OMB Circular A-133:

Vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

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.

The University's compliance responsibilities for vendors typically are to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements.

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Responsibilities and Procedures

Audit Requirements:

OMB Circular A-133 requires that non-federal entities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit (see page 6 for definitions) conducted for that year. When federal awards expended are less than the audit threshold stated above, the entity is exempt from such audit requirements for that year but records must be available should Federal agencies, the General Accounting Office (GAO) or pass-through entities choose to conduct a review or audit.

For-profit Subrecipients and Audit Requirements:

OMB Circular A-133 does not apply the audit requirements to for-profit subrecipients. However, some federal agencies (e.g., Department of Defense and Department of Commerce) do apply the audit requirements to for-profits. Circular A-110 states, "commercial organizations shall be subject to the audit requirements of the Federal awarding agency or the prime recipient as incorporated into the award document." Therefore, when making subawards, the University should ensure that audit requirements specified by the applicable federal agency or primary grant agreement are included in the contract with the subrecipient.

In addition to any audit requirements a federal agency may place on for-profit entities, the Circular makes the pass-through entity responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients with applicable federal requirements. The contract with the subrecipient should describe:

- Applicable compliance requirements and,
- The subrecipient 's compliance responsibilities.

Methods used by pass-through entities to monitor compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

Roles and Responsibilities of Pass-through Entities:

Each University, as a pass-through entity, is required by OMB Circular A-133 Subpart D, Section .400 (d) Pass-through entity responsibilities, to:

1. **Identify** Federal awards by informing each subrecipient of the award's CFDA (Catalog of Federal Domestic Assistance) 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.

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2. **Advise** subrecipients of requirements imposed by federal laws and regulations, by grant and contract agreements, and by the University.
3. **Monitor** the subrecipients' activities to provide reasonable assurance 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. (See [Exhibit 1](#) and Exhibit 2)
4. **Ensure** that those subrecipients who expend \$500,000 or more in Federal awards during their fiscal year have met the OMB Circular A-133 audit requirements for that fiscal year. (See [Exhibit 2](#))
5. **Issue** a management decision on relevant audit findings within six months of receiving the subrecipient's audit report and **ensure** that the subrecipient takes appropriate and timely corrective action. (See [Exhibit 3](#))
6. **Consider** whether the audit findings of the subrecipient result in a need to adjust the University's own records.
7. **Require** the subrecipient to allow the University and auditors to have access to their records and financial statements as necessary.

Management Decision:

As stated above, each University must make a management decision regarding subrecipient audit findings that relate to any Federal awards such University passes through. The management decision must be issued within 6 months of receipt of the audit report.

OMB Circular A-133 requires the management decision to clearly state:

- whether or not the audit finding is sustained,
- the reasons for the decision, and
- the expected auditee action – repay disallowed costs, make financial adjustments, or take other action.

If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the University may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

Management decisions must include the reference numbers the subrecipient's auditor assigned to each audit finding.

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Monitoring Subrecipients:

Each University is responsible for organizing their procedures to assure they are monitoring subrecipients as required by Federal regulations. However, the level of scrutiny and oversight may vary by subrecipient. Universities should consider the relative risk of noncompliance and nonperformance that each subrecipient presents. Many factors may influence the extent of monitoring procedures such as: the size of the subaward made to the subrecipient, the total number and dollar of federal direct and pass-through awards being expended by the subrecipient, the newness of the relationship with the subrecipient, past experience with the subrecipient, and the complexity of the compliance requirements.

OMB Circular A-133 does not specify techniques to be used to accomplish subrecipient monitoring. A variety of techniques may be used to accomplish the required objectives including:

- Reviewing routine financial and performance reports and coordinating such information,
- Documenting routine contacts such as telephone conversations, letters, meetings, etc,
- Obtaining written certification from subrecipients, expending \$500,000 or more per year in federal awards, that they have met the requirements of OMB Circular A-133. Such subrecipients are required to send:
 - A copy of their reporting package (see page 6 for definition) if there are audit findings related to the pass-through entity, or
 - A written statement specifying that an audit has taken place and there were no findings relevant to the awarding agency involved.
- Conducting site visits,
- Performing Limited Scope Audits,
- Using third-party information obtained from other awarding agencies which may have monitored or overseen a particular subrecipient,
- Requiring additional documentation to support claims for reimbursement, particularly from subrecipients receiving less than \$500,000.

Regardless of the technique used, all relevant information including the process and result should be **documented**. The University must demonstrate monitoring efforts for each subaward made. Universities should know that when subrecipient monitoring policies are adopted, such policies become part of the internal control structure. As such, the policies must be followed, otherwise the University could be cited in its OMB Circular A-133 audit with an internal control finding.

Again, a checklist, which may be used by appropriate personnel to document monitoring of a subrecipient, can be found at [Exhibit 1](#).

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Sanctions:

When a subrecipient who is required to have an audit conducted under OMB Circular A-133 is unable or unwilling to have such an audit, the University, as a pass-through entity, is required to take appropriate action. OMB Circular A-133 identifies appropriate sanctions such as:

- Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- Withholding or disallowing overhead costs;
- Suspending Federal awards until the audit is conducted; or
- Terminating the Federal award.

Audit Costs:

Unless otherwise prohibited, the costs of audits made in accordance with OMB Circular A-133 are allowable charges to Federal awards. The costs may be considered a direct cost or an allocated indirect cost, as appropriate. However, such costs would be unallowable for:

- Any audit not conducted in accordance with OMB Circular A-133, or
- Any audit conducted when the non-Federal entity expended less than \$500,000 in Federal awards and was, therefore, exempted from having such an audit.

History of Policy

Issue 1: Effective 01/09/2004

Issue 2: Effective 04/02/2007 (adds "Policy" and "History of Policy" sections; replaces headings with standard format headings), eliminates reference to the \$300,000 expenditure threshold for A-133 audits.)

APPROVED:

Chief Financial Officer and Treasurer

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Exhibit 1

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Subrecipient Monitoring Checklist

The University is required to monitor its subrecipients to provide reasonable assurance 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.

Checklist sections in Exhibit 1 guide University personnel in performing monitoring responsibilities. The criteria represent the minimum requirements. Refer to the award document, or other reference material, to determine the requirements imposed by the particular sponsor, which may be more stringent than the ones presented here. Any modifications to the minimum requirements should be noted directly on this form.

Complete this form for all subrecipients and forwarded to _____ with additional pages attached as needed.

Additional information about subrecipient monitoring responsibilities can be found in Administrative Practice Letter VIII-D Subrecipient Monitoring of which this exhibit is a part. Click [APLs](#).

Checklist: Subaward General Information

Principal Investigator: _____

Subaward number and name: _____

Name of the subrecipient Principal Investigator: _____

Subaward amounts by funding period: _____

Project Number: _____

Federal Funding Agency: _____

Catalog of Federal Domestic Assistance (CFDA #): _____

Click [CFDA](#) web site for links to alphabetic and numeric listings of programs that provide additional requirements imposed by sponsors.

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Exhibit 1

Satisfaction with Subrecipient

Summarize your overall satisfaction with the subrecipient's use of funds and performance of goals. If goals were not met, document why.

Completed By: _____
Name Date

Other Pertinent Information

Document other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Completed By: _____
Name Date

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Exhibit 1

Checklist: Section to be completed by Sponsored Programs Office or other appropriate personnel

Subrecipient Contacts

To assist with meeting monitoring responsibilities, document routine contacts with the subrecipient including telephone conversations, letters, e-mails, meetings, site visits, etc. Maintain such documents for audit reference as required. Summarize your correspondence efforts here and where actual documentation can be found if needed: _____

Equipment

The subrecipient is required to supply a list to the University of all equipment or other property purchased under the subcontract costing \$5,000 or more and having a useful life of more than one year.

Document that this list has been received and where it can be found: _____.

Travel Costs

What method was used for subrecipient travel costs: Actual ____ or per diem ____

If per diem was used, ensure that amounts submitted for reimbursement were in accordance with federal travel regulations (there are separate rates for within and outside of the continental United States.) If the subrecipient used rates in excess of those allowable, they are required to reimburse the University for the unallowable amount. Click to link to [Per Diem Rates](#) at the U.S. General Services Administration website.

A-133 Audit Requirement

Non-profit entities that expend \$500,000 or more in a year in federal awards are required to have an audit conducted for that year. This audit requirement also applies to for-profit entities that receive funds from certain federal agencies. Agencies such as the Department of Defense and the Department of Commerce have adopted audit requirements for for-profit entities.

(For entities that receive less than \$500,000 or for-profit entities that are not required to have an audit, consider requiring additional documentation to support claims for reimbursement to strengthen your subrecipient monitoring procedures.)

The subrecipient is a: not-for-profit entity ____ for-profit entity ____

The subrecipient is subject to the A-133 audit requirement: Yes ____ No ____

The subrecipient is subject to the audit requirement and the University has received the subrecipient's A-133 audit certification, along with any required information:

UMS Fiscal Year ____ Yes ____ No ____
UMS Fiscal Year ____ Yes ____ No ____
UMS Fiscal Year ____ Yes ____ No ____
UMS Fiscal Year ____ Yes ____ No ____

For those years when the subrecipient had audit findings related the University, the University issued a management decision to the subrecipient:

UMS Fiscal Year ____ Yes ____ No ____
UMS Fiscal Year ____ Yes ____ No ____
UMS Fiscal Year ____ Yes ____ No ____
UMS Fiscal Year ____ Yes ____ No ____

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Exhibit 2

Sample Subrecipient A-133 Audit Certification Request

(Sample letter to be issued to all Subrecipients for the purpose of determining they have met applicable A-133 audit requirements.)

Name of Subrecipient
Address of Subrecipient

Date

OMB Circular A-133 "Audits of Institutions of Higher Education and Other Nonprofit Institutions," requires our institution to ensure that subrecipients expending \$500,000 or more in federal funds comply with the audit requirements of OMB Circular A-133. Our records indicate that your institution was a subrecipient of federal funds "passed through" the University of Maine for the fiscal year ending _____. As a result, we request that you complete the following certification/information request and provide any requested documents.

1. Our A-133 audit, for the fiscal year ended _____, has been completed. The schedule of findings and questioned costs disclosed no audit findings **relating to** the Federal award(s) that the University of Maine provided to our institution, **and** the summary schedule of prior audit findings did not report on the status of any audit findings **relating to** any Federal award(s) that the University of Maine provided to our institution. *(Please sign and return this certification to the University of Maine. A copy of your A-133 reporting package need not be included.)*

2. Our A-133 audit, for fiscal year ended _____ has been completed and

The schedule of findings and questioned costs disclosed an audit finding(s) relating to a Federal award(s) that the University of Maine provided to our institution, **and/or**

The summary schedule of prior audit findings reported on the status of an audit finding(s) **relating to** a Federal award(s) that the University of Maine provided to our institution.

Please reference below the specific audit finding(s) noted in the audit report or summary schedule of prior audit findings that relate to a University of Maine sponsored agreement.

Finding **reference number(s)** _____

(Please sign and return this certification to the University of Maine and enclose a copy of your reporting package (i.e., Financial Statements and Schedule of Expenditures of Federal Awards, auditor's report(s), a corrective action plan for audit findings, and a summary schedule of prior audit findings.))

3. Our A-133 audit for the fiscal year ended _____, has not been completed. We expect the audit report to be available by _____ at which time we will forward to the University of Maine another copy of this certification, with the appropriate sections completed, and any required information.

4. We are not subject to the audit requirement of A-133.
(Explain) _____

I certify that the boxes checked above are appropriate for the institution I represent and, if applicable, all audit findings relating to the University of Maine have been disclosed.

Signature: _____ Date of Certification: _____

Name and Title: _____

Please address your response to my attention.

Sincerely,

Employee's, Name, Address, and Phone number, e-mail

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Exhibit 3

Sample Management Decision Letter

Sample letter to be issued when a Subrecipient has an audit finding (or findings) related to the University and when their corrective action plan is acceptable. When applicable, the letter should further address situations where costs are disallowed and require repayment, financial adjustments are necessary, or other action is needed. In those cases, the management decision should describe any appeal process available to the auditee.

Those corrective action plans that may not be acceptable to the University should be handled on a case-by-case basis.

Name of Subrecipient
Address of Subrecipient

Date

Re: contract number

We have completed our review of the reporting package for name of organization for the period ending fiscal year end. Based on our review of your corrective action plan for the finding number(s) [list reference number(s) per report] related to the University of Maine, it appears your plan will reasonably address the related finding(s). If, however, you do not implement your plan as intended or your plan does not adequately address the finding(s) noted, you are required to notify the University of Maine of further corrective action plans.

If you have any questions, please contact our office at phone number.

Sincerely,

Applicable Personnel