



**Maryland Governor's
Grants Office presents:**

**SUBRECIPIENT
MONITORING &
MANAGEMENT**

Instructor: Chris Lipsey, USDA

**Host: MD Fire and Rescue Institute
College Park, Maryland**

Friday, November 21, 2008

INTRODUCTION

TOPICS TO BE COVERED

- What is subrecipient monitoring?
- Why do we care about it?

Module 1: The Grants Management Context

Module 2: Our Arsenal of Monitoring Tools

Module 3: Focus on Audits

WHAT IS SUBRECIPIENT MONITORING?

- **Grant**

- Transfer of money or something else of value from a Federal agency to a non-federal entity (the grantee) for a public purpose.

- **Sub grant**

- Transfer of part of a grant to another non-federal entity (the sub grantee or sub recipient) to carry out grant purpose.
- Grantee that awards sub grants is called a pass-through entity.



WHAT IS SUBRECIPIENT MONITORING?



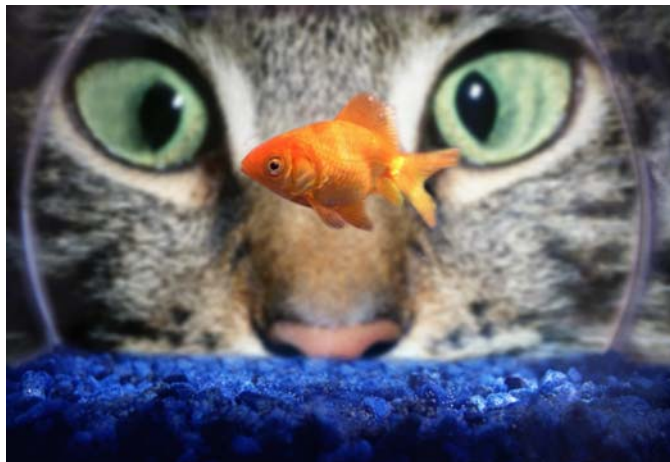
THE VERB “TO MONITOR”

- “To watch, observe, or check, esp. for a special purpose; to keep track of, regulate, or control the operation of.”

WHAT IS SUBRECIPIENT MONITORING?



- Our “special purpose:” successful operation of Federal programs according to regulations.



- Our methods: “watching” & “observing” sub grantees; “keeping track of” & “regulating” their work under sub grants.

WHY DO WE CARE ABOUT SUBRECIPIENT MONITORING?

- **It's required!**
 - Government-wide Rules
 - Program-Specific Rules
- **We'll be held accountable for it!**
 - It's covered in audits.



WHY DO WE CARE ABOUT SUBRECIPIENT MONITORING?



- **WE ARE MORALLY OBLIGATED TO DO IT BECAUSE:**
 - Many program benefits are delivered at the subrecipient level.
 - Results in obligation of Federal funds (ex: \$12 billion in USDA's CNP FFY 2006.)
 - States and other PTEs disburse Federal funds to numerous entities.

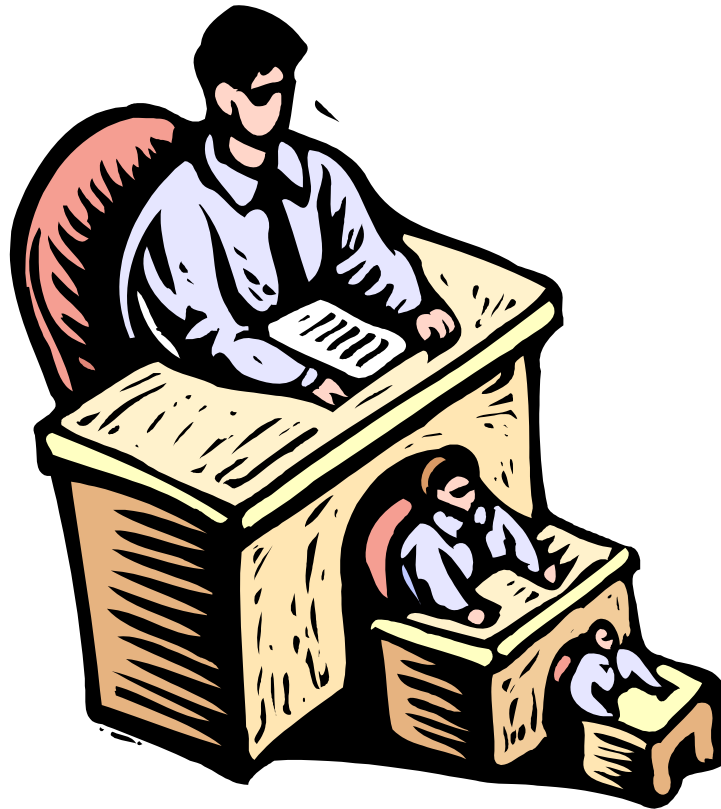
WHY DO WE CARE ABOUT SUBRECIPIENT MONITORING?

**Federal NSLP
funds pass
through many
hands:**

101,000 schools
under 21,000 school
districts and other
governing bodies



WHY DO WE CARE ABOUT SUBRECIPIENT MONITORING?



- Many opportunities for error and irregularities
- Need to keep all those subgrantees out of trouble
- Subgrantee monitoring by awarding agency our first line of defense
- Arsenal of awarding agency monitoring tools

*WHY DO WE CARE ABOUT
SUBRECIPIENT MONITORING?*

**“You can delegate
authority but not
responsibility.”**

Subrecipient Monitoring & Management

MODULE 1: THE GRANTS MANAGEMENT CONTEXT



Module 1: The Grants Management Context

STRINGS ATTACHED

- **Federal funds always come with strings attached. Called “Terms & Conditions.”**
- **Grantee doesn’t own Federal funds until they’re used for intended purpose (terms & conditions met).**
- **Federal funds forfeit if not used for intended purpose.**



Module 1: The Grants Management Context

TERMS & CONDITIONS



Government-Wide Rules:

- General Management
- Allowable Costs
- Audits
- Suspension/Debarment

Program-Specific Rules:

Program Regulations
Grant Agreement

Module 1: The Grants Management Context

TERMS & CONDITIONS

- Application: Read collectively.
- Location:
 - OMB's Grants Management Web Site
www.whitehouse.gov/omb/grants
 - Code of Federal Regulations Web Site
www.gpo.gov

Module 1: The Grants Management Context

THE APPROPRIATE INSTRUMENT

- **KIND OF INSTRUMENT:**
 - GRANT OR SUBGRANT
 - COOPERATIVE AGREEMENT
 - CONTRACT
- **KIND OF RELATIONSHIP:**
 - PROCUREMENT
 - ASSISTANCE



MODULE 2: OUR ARSENAL OF MONITORING TOOLS

- Screening
- Training & Technical Assistance
- Data Analysis
- A-133 Audits
- Administrative Reviews
- Agreed-Upon Procedures (AUP) Engagements



MODULE 2: OUR ARSENAL OF MONITORING TOOLS



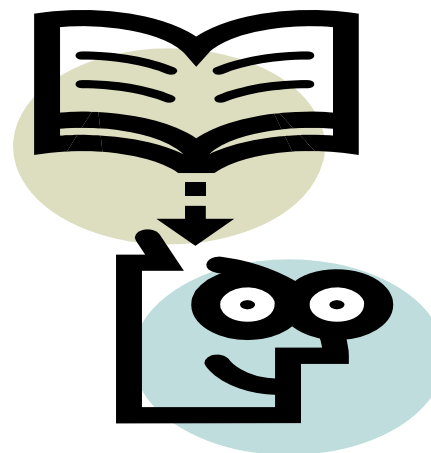
SCREENING: Gathering information to determine:

- Eligibility for Sub grant
Example: to determine that NSLP/SBP applicant is a “school”
- Not suspended or debarred
- Need for Special Award Conditions
- Future Monitoring Needs
Example: other sources of Federal funding that affect need for A-133 audit

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

- TRAINING & TECHNICAL ASSISTANCE

- Required by regulation
- Instruct sub grantees on program requirements



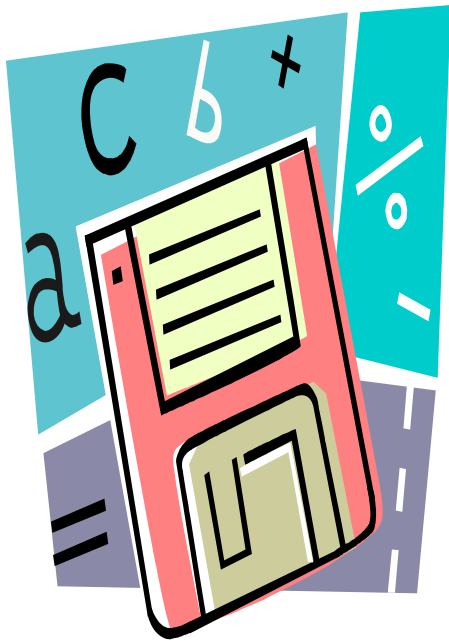
MODULE 2: OUR ARSENAL OF MONITORING TOOLS

TRAINING & TECHNICAL ASSISTANCE



- **Training & tech. asst. techniques include:**
 - Formal training sessions
 - Issuance of guidance material
 - Telephone & e-mail contacts
 - Etc.
- **A never-ending job because:**
 - Changes in regulations
 - Staff turnover
 - Sub grantee staff not “management oriented”

MODULE 2: OUR ARSENAL OF MONITORING TOOLS



DATA ANALYSIS:

Analyzing sub grantee data may detect anomalies indicative of problems.

Program regulations may require specific analyses of specific sub grantee data.

- Example: NSLP Regulations require one specific edit check: **Free & reduced price meals claimed vs. number of children determined income eligible in October times days of operation times an attendance factor.**

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

AUDITS



- **OMB Circular A-133 requires audits if non-federal entity had Federal expenditures of \$500,000 or more in a fiscal year.**
- **Applies to State, local, & tribal governments, universities, and not-for-profit organizations (NFPOs).**

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

“WHAT’S AN AUDIT?”



- Examination of Financial Statements, etc.
- Auditor Independence & Objectivity
- Expression of Opinion on Financial Stmts.
- Reasonable Assurance

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

AUDITORS' OPINIONS:

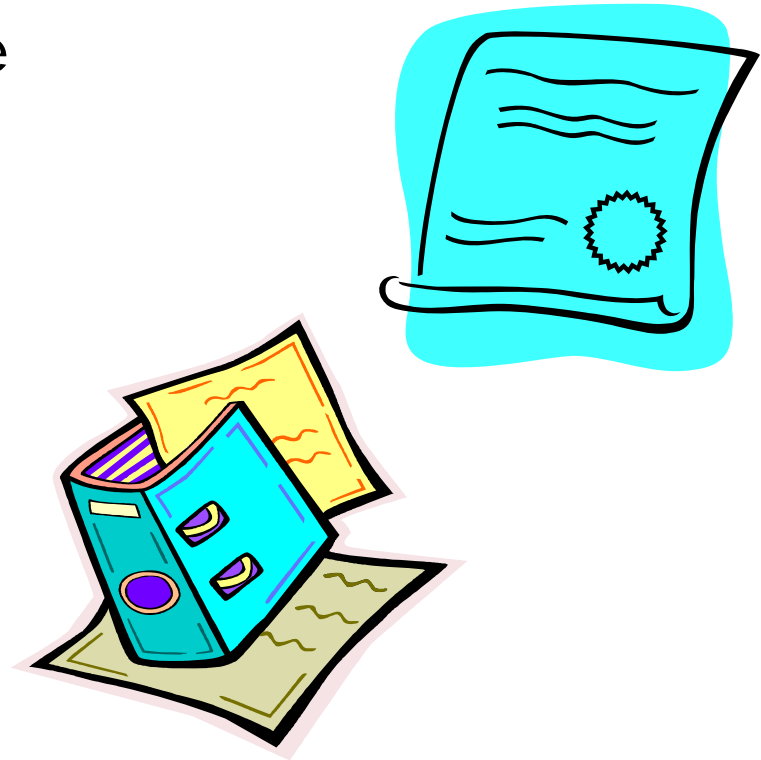


- Unqualified
- Qualified
- Adverse
- Disclaimer

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

CONDITIONS FOR MAKING AUDITS:

- **Professional Qualifications**
 - Certification & licensure
 - Continuing professional education
- **Standards of Practice**
 - GAAS
 - GAGAS
- **Independence**
- **Professional Judgment**
- **Public Record**



MODULE 2: OUR ARSENAL OF MONITORING TOOLS

WHO TELLS THE AUDITORS WHAT TO AUDIT?



- **A-133**
 - Financial Statements
 - Internal Controls
 - Compliance With Terms & Conditions of Major Federal Programs
- **Compliance Supplement**
 - Types of Compliance Requirements
 - Generic Guidance
 - Program Descriptions

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

IMPLEMENTING A-133



- State agency or other PTE must:
 - Identify sub grantees subject to A-133 audits
 - Train them on A-133 requirements
 - Make sure they get required audit coverage
 - Follow-up on audit results

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

A-133 AUDIT ISSUES



- **Identifying sub grantees subject to A-133**
- **Training**
 - **Training on Auditor Procurement**
- **Outreach to Other Stakeholders**
 - **State Auditor**
 - **State Board of Accountancy**
 - **State CPA Society**

MODULE 2: OUR ARSENAL OF MONITORING TOOLS

ADMINISTRATIVE REVIEWS

- Site visits by staff OF State agency or other PTE
- May be required by program regulation
- Differ from audits
- Complement to audits:
 - “Real time”
 - Cover compliance requirements not tested by auditors



MODULE 2: OUR ARSENAL OF MONITORING TOOLS

AGREED-UPON PROCEDURES:

- Authorized by A-133
- Only for sub grantees not subject to A-133
- Scope set by A-133
- State agency or other PTE must arrange and pay for



MODULE 2: OUR ARSENAL OF MONITORING TOOLS

SUMMARY OF MONITORING ISSUES

- Identify sub grants to sub grantees by program & CFDA
- Screen applicants for sub grants
- Provide training & technical assistance
- Analyze claims before paying
- Make required administrative reviews
- Make other on-site visits as needed
- Identify sub grantees subject to A-133
- Make sure sub grantees get required audits
- Use agreed-upon procedures correctly
- Follow-up on results of audits, reviews, etc.
- Establish and collect claims

MODULE 3: FOCUS ON AUDITS

- **Components of A-133**
Single Audit: A Closer Look
 - Opinion on Financial Statements
 - Opinion on Compliance
 - Report on Internal Control
 - Schedule of Findings & Questioned Costs
 - Summary Schedule of Prior Audit Findings
 - Management Letter



Module 3: Focus on Audits

FINANCIAL STATEMENTS

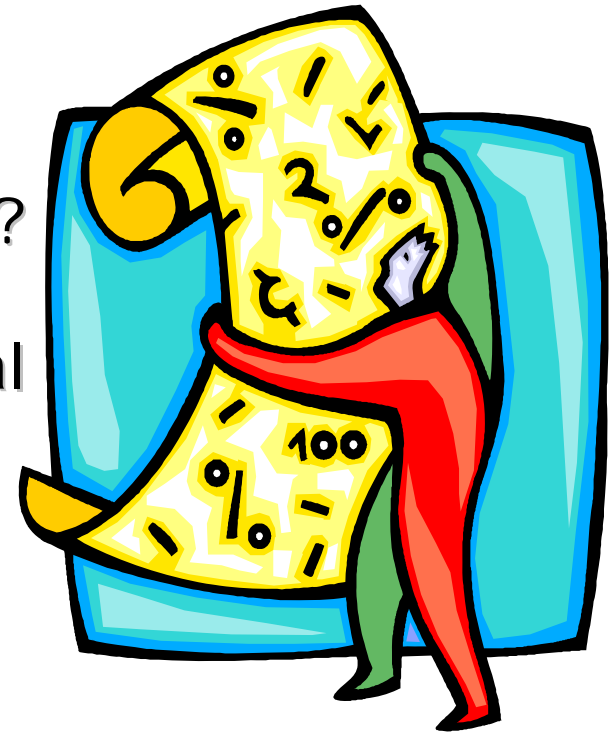
WHAT WE WILL COVER:

What are Financial Statements?

Why do we care about Financial Statements?

What Financial Statements are required?

How do Financial Statements aid us in monitoring?



Module 3: Focus on Audits

WHAT ARE FINANCIAL STATEMENTS?



Module 3: Focus on Audits



Financial Statements

are documents that collectively comprise a report that a business entity publishes, in order to report its financial condition and the financial results of its operations to interested parties.

Module 3: Focus on Audits



- A business entity that publishes financial statements is called an ISSUER.
- Issuers can be for-profit organizations, NFPOs, and State & local governments.

Module 3: Focus on Audits

WHY IN THE
WORLD DO WE
CARE ABOUT
FINANCIAL
STATEMENTS?



Module 3: Focus on Audits

WHO NEEDS FINANCIAL INFORMATION ABOUT A FINANCIAL STATEMENT ISSUER?

- Investors
- Lenders
- Underwriters
- Donors
- Regulators
- Issuer's Board of Directors
- Watchdogs



Module 3: Focus on Audits

NEED FOR RELIABLE FINANCIAL INFORMATION



- **Issuers must disclose sufficient information so users can make informed decisions.**
- **Financial statements conform to prescribed form & content requirements.**
- **Form & content set by Generally Accepted Accounting Principles (GAAP)**
- **Financial statements validated by audit.**

Module 3: Focus on Audits

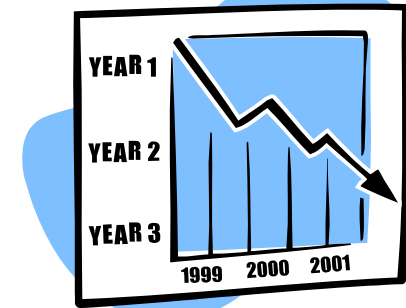
HOW DOES THIS APPLY TO MONITORING SUBRICIPIENTS?

- State agency or other PTE needs financial information about subgrantees for monitoring purposes.**
- A-133 audit requirement generates audited financial statements on many subrecipients.**

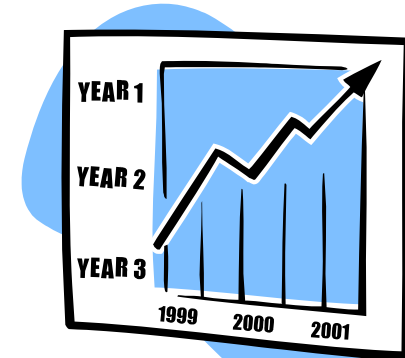
Module 3: Focus on Audits

TWO FUNDAMENTAL QUESTIONS:

1. WHAT FINANCIAL STATEMENTS ARE REQUIRED?



2. HOW DO THEY HELP US MONITOR?



Module 3: Focus on Audits

REQUIRED FINANCIAL STATEMENTS:



- **Balance Sheet**
- **Operating Statement**
- **Cash Flow Statement**
- **Statement of Functional Expenses**
- **Notes**
- **Schedule of Expenditures of Federal Awards (SEFA)**
- **Fund Statements**

Module 3: Focus on Audits

THE BALANCE SHEET

Reports Issuer's Financial Position:

Issuer's Assets:

Things of economic value (Cash, Investments, Accounts Receivable, Inventories, Equipment, etc.)

Claims Against the Assets:

- Liabilities (Creditors' Claims)
- Net Assets (Issuer's Claims)



Module 3: Focus on Audits

THE BALANCE SHEET

Do-Gooders, Inc.

Statement of Financial Position

As Of December 31, 2007

<u>Assets:</u>		<u>Liabilities & Net Assets:</u>	
Current Assets:		Current Liabilities:	
Cash	\$100,000	Accounts Payable	\$125,000
Short-Term Investments	200,000	Payroll Taxes Payable	250,000
Accounts Receivable	300,000	Current Portion of	
Supplies Inventories	150,000	Long-Term Debt	300,000
	-----		-----
Total Current Assets	\$750,000	Total Current Liabilities	\$675,000
Plant & Equipment		Long-Term Debt (Net of	
(Net of Accumulated		Current Portion)	2,200,000
Depreciation)	2,250,000		-----
	-----	Total Liabilities	\$2,875,000
Total Assets	\$3,000,000		-----
	=====	Net Assets	\$125,000
			=====

Module 3: Focus on Audits

THE BALANCE SHEET

- We can use it to appraise subgrantee's solvency/liquidity.
- **Specific Analyses:**
 - Current Ratio
 - Acid Test



Module 3: Focus on Audits

THE BALANCE SHEET

- **CURRENT RATIO** measures subgrantee's solvency (ability to pay bills as they fall due over a fiscal year):

Calculation:

Current Assets/Current Liabilities = Current Ratio

In our hypothetical Balance Sheet...

$$\$750,000/\$675,000 = 1.11111$$

=====

Module 3: Focus on Audits

THE BALANCE SHEET

- **ACID TEST or QUICK RATIO** measures subgrantee's liquidity (ability to quickly raise cash to pay bills as they fall due):

Calculation:

Quick Assets/Current Liabilities = Quick Ratio

Quick Assets is a subset of Current Assets.

Includes cash, S/T investments, accounts receivable.

In our hypothetical Balance Sheet...

$$(\$750,000 - 150,000) / \$675,000 = 0.88889$$

=====

Module 3: Focus on Audits

THE OPERATING STATEMENT



- Reports Issuer's Financial Results of Operations
- Revenues Less Expenses = Net Income or (Net Loss)

Module 3: Focus on Audits

THE OPERATING STATEMENT

Do-Gooders, Inc.
 Statement of Activities
 For the Year Ended December 31, 2007

Public Support & Revenue:

Public Support:

Donations	\$200,000
Grants	250,000
Total Public Support	\$450,000

Revenue:

Program Service Fees	\$200,000
Interest	50,000
Total Revenue	250,000

Total Public Support & Revenue	\$700,000
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Expenses:

Program Services	\$550,000
Management & General	100,000
Fundraising	25,000

Total Expenses	(675,000)
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Change in Net Assets	\$25,000
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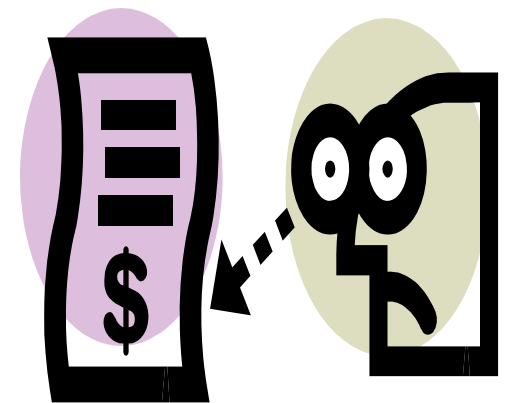
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THE OPERATING STATEMENT

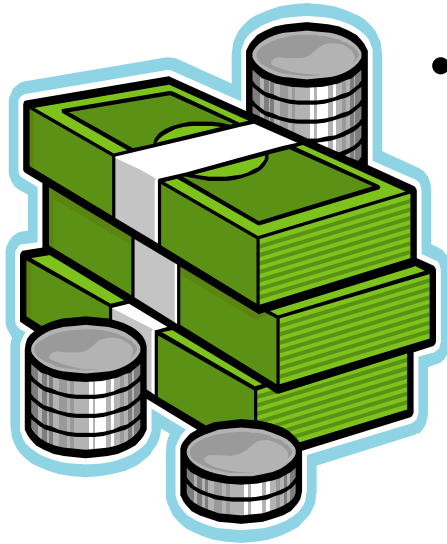
- **Value in Monitoring:**
 - **The Bottom Line**
 - Did the sub grantee make money, lose money, or break even?
 - Caution:
 - Governments and NFPOs not in business to make profits.
 - Deficit may have been planned.
 - **Patterns & Trends**
 - Studying bottom line over several consecutive fiscal years may reveal problems.



Module 3: Focus on Audits

THE CASH FLOW STATEMENT

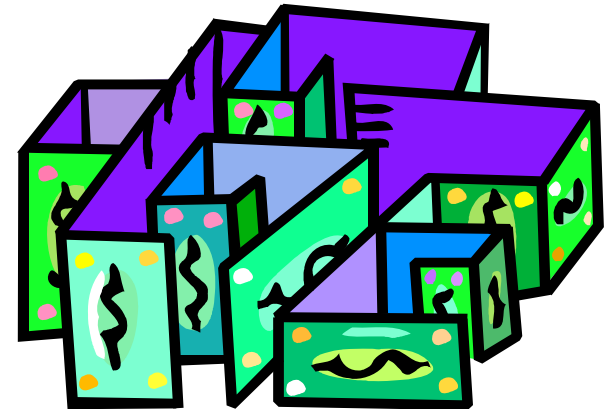
- Reports sub grantee's sources & uses of cash.
- Value in monitoring:
 - Some expenses reported in operating statement are non-cash (such as depreciation).
 - Cash generated and used in:
 - Operations
 - Investing Activities (Buying Equipment)
 - Financing Activities (Borrowing money to buy equipment)



Module 3: Focus on Audits

STATEMENT OF FUNCTIONAL EXPENSES (NFPO's Only)

- **NFPO uses to report distribution of expenses among functions:**
 - **Program Services**
 - **Management & General Administration**
 - **Fundraising**
- **Matrix that cross references expenses by object class with expenses by function.**



Module 3: Focus on Audits
**STATEMENT OF FUNCTIONAL
 EXPENSES (NFPO's Only)**

Do-Gooders, Inc.

**Statement of Functional Expenses
 For the Year Ended June 30, 2008**

<u>Expenses</u>	<u>CACFP</u>	<u>Head Start</u>	<u>Total Prog. Services</u>	<u>Mgt. & Gen. Admin.</u>	<u>Fund- raising</u>	<u>Total Expenses</u>
Salaries	\$165,000	\$150,000	\$315,000	\$35,000	\$10,000	\$360,000
Benefits	35,000	35,000	70,000	10,000	5,000	85,000
-----	-----	-----	-----	-----	-----	-----
Subtotal	\$200,000	\$185,000	\$385,000	\$45,000	\$15,000	\$445,000
Supplies	20,000	15,000	35,000	3,000	1,000	39,000
Maintenance	20,000	10,000	30,000	7,000	1,000	38,000
Prof. Svcs.	40,000	30,000	70,000	35,000	3,000	108,000
Travel	20,000	10,000	30,000	10,000	5,000	45,000
-----	-----	-----	-----	-----	-----	-----
Total	\$300,000	\$250,000	\$550,000	\$100,000	\$25,000	\$675,000
=====	=====	=====	=====	=====	=====	=====

Module 3: Focus on Audits

STATEMENT OF FUNCTIONAL EXPENSES (NFPO's Only)



- **Monitoring Value:**
What proportion of sponsor's total expenses went for:

Program Services?

- High % - Support sponsor's mission.

Fundraising?

- Low % - May be efficient fundraiser



Module 3: Focus on Audits
**STATEMENT OF FUNCTIONAL
EXPENSES (NFPO's Only)**

In our hypothetical financial statement:

- **Program Services:** \$550,000/\$675,000
= 81.5 % of total expenses
- **Fundraising:** \$25,000/\$675,000
= 3.7 % of total expenses

Module 3: Focus on Audits

NOTES TO THE FINANCIAL STATEMENTS

- Information that lends itself to narrative presentation
- Examples:
 - Sponsor's significant accounting policies
 - Related party Transactions
 - Contingencies



Module 3: Focus on Audits

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)



- *Reports sponsor's Federal expenditures by:*
 - **Program Title**
 - **CFDA Number**
 - **Federal Awarding Agency**
- *SEFA must reconcile with basic financial statements*

Module 3: Focus on Audits
**SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS (SEFA)**

Do-Gooders, Inc.

**Schedule of Expenditures of Federal Awards
 For the year ended December 31, 2007**

Federal Awarding Agency	Federal Program Title	CFDA Number	Federal Expenditures	Agency Total	Total Federal Expenditures
U.S. Department of Agriculture	Summer Food Service Program 1/	10.559	\$300,000	\$300,000	
U.S. Dept. of Health & Human Services	Head Start 2/	93.600	\$250,000	\$250,000	
				-----	\$550,000
Note 1: Pass-Through from State Dept. of Education					=====

Note 2: Direct Federal Award

Module 3: Focus on Audits

OTHER A-133 AUDIT COMPONENTS



- **Auditor's Opinion on Compliance**
- **Report on Internal Control**
- **Schedule of Findings & Questioned Costs**
- **Summary Schedule of Prior Audit Findings**
- **The Management Letter**

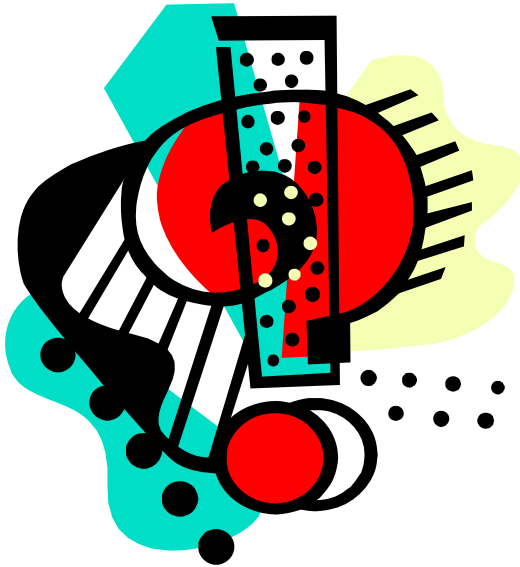
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AUDITOR'S OPINION ON COMPLIANCE

- “In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the New School District’s compliance with the requirements of the National School Lunch and School Breakfast Programs regarding beneficiary eligibility, the New School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.”
- What kind of opinion is this?

Module 3: Focus on Audits

CONCLUSION



**YOU NEED A STRONG
SUBRECIPIENT
MONITORING PROGRAM!**