Responsibilities of Pass-through (Contributing) Agencies

.101 All state agencies that distribute federal funds to local governments or non-profit organizations that qualify as subrecipients under OMB Circular A-133 are responsible for certain compliance activities. For all federal awards made to subrecipients, the contributing agency must:

- Identify the federal funds as such by informing the subrecipient of the CFDA title and number, award name and number, award year, and if the award is Research and Development (R & D), the name of the federal agency. If this information is not available, the contributing agency must provide the best information available to describe the award.
- Advise the subrecipients of the requirements imposed on them by federal laws, regulations, and the provisions of contracts and grant agreements as well as any supplemental requirements imposed by the contributing agency.
- Monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and to ensure that performance goals are achieved.
- Ensure that subrecipients that expend $500,000 or more in federal awards during the subrecipient’s fiscal year have a single audit for that fiscal year.
- Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- Consider whether subrecipient audits necessitate adjustment of the contributing agency’s own records.
- Require each subrecipient to permit the contributing agency and auditors to have access to the records and financial statements as necessary to comply with OMB Circular A-133.

.102 Payments for goods and services to vendors using federal program money generally are not subject to audit or other monitoring activities under OMB Circular A-133. The contributing agency’s compliance responsibility for vendors is only to ensure that the procurement, receipt and payment for goods and services comply with laws, regulations and the provisions of contracts or grant agreements.
Subrecipient Monitoring Responsibilities and Requirements of Audit Agencies

.103 SARS will use information gathered in preparing the Schedule of Expenditures of Federal Awards (SEFA) to identify the state agency that distributed the largest amount of federal financial assistance to each subrecipient who received over $500,000 in federal financial assistance. This agency will be designated as the audit agency. The audit agency is responsible for reviewing the subrecipient audit report and ensuring that the subrecipient complies with the audit requirements of OMB Circular A-133. The audit agency is responsible for follow-up and resolution of identified program compliance deficiencies. An audit agency may have monitoring responsibility for more than one subrecipient, but a subrecipient will report to only one audit agency.

.104 SARS will provide each audit agency a list of all federal financial assistance distributed during the year to subrecipients for whom they have been designated as the audit agency. The list will be compiled from the SEFA. This list will specify the CFDA number, the contributing agency, and the total distributions for each federal program.

.105 Any agency already active as audit agency for a special group of subrecipients may assume permanent responsibility for that group by notifying all affected parties, including other contributing agencies.

.106 The audit agency shall notify subrecipients of their assignment as audit agency and the purpose of the assignment under the provisions of OMB Circular A-133.

.107 The subrecipient must submit the appropriate reports and documents to the audit agency. These documents include the subrecipient’s audited financial statements, schedule of expenditure of federal awards, summary schedule of prior audit findings, auditor’s reports including the schedule of findings and questioned costs, corrective action plan, and other pertinent schedules and documentation. The subrecipient must submit these documents within the earlier of: (1) thirty days after receipt of the auditor’s report, or (2) nine months after the end of the audit period, unless a longer period is agreed to with the audit agency.

.108 The audit agency will review the audit report and other reports of each assigned subrecipient. The review must demonstrate compliance with OMB Circular A-133. The A-133 Desk Review checklist will be used in the review (see OAM form 75.30.01 FO). At a minimum, each audit agency will perform the reviews of the subrecipients' audit reports in accordance with the following:

   a. The audit agency shall assume all audit review responsibility under OMB Circular A-133 for their assigned subrecipients. The subrecipient period under review should be the subrecipient’s fiscal year that ended within or at the same time as the state’s fiscal year for which the monitoring assignments have been made. All correspondence to the subrecipient should be addressed to the governing body with a copy to the auditor, when appropriate.

   b. If the audit report of the subrecipient is not received by the audit agency timely, the subrecipient must be contacted. In cases where the subrecipient demonstrates continued inability or unwillingness to have an audit conducted in accordance with OMB Circular A-133, all contributing agencies should be notified so that appropriate sanctions may be taken. Possible sanctions mentioned in A-133 are (a) withholding a percentage of federal awards until the audit is completed satisfactorily; (b) withholding or disallowing overhead costs; (c) suspending federal awards until the audit is conducted; or (d) terminating the federal award. If an agency fails to impose such sanctions on subrecipients that fail to submit audit reports, the matter may be cited as both a material weakness in internal controls and a compliance issue in the State’s single audit.

   c. The audit agency must issue a report to the subrecipient upon completion of its review. The subrecipient’s audit report must be reviewed within 90 days of either: (1) the receipt of the audit report, or (2) notification of assignment as audit agency for the subrecipient. Copies of the completed report and related documents should be provided to all...
contributing agencies at the end of the review. Deficiencies must be reported to the contributing agency. Specified federal agencies will receive copies upon request.

d. The subrecipient is required to prepare a response to the audit findings and a corrective action plan as part of the A-133 report. The audit agency shall review the corrective action plan to see that it:

- Responds to all deficiencies cited in the audit report
- Provides a reasonable corrective action plan for each deficiency
- Provides for correction of the deficiencies within a reasonable period of time, usually less than six months

e. If the corrective action plan is inadequate in any way, the audit agency must contact the subrecipient regarding the problems and agree upon the proper corrective action.

f. The audit agency will be responsible for corrective action relative to its own programs and all cross cutting issues. A cross cutting issue is one that impacts more than one federal program. The other contributing agencies are to be notified of audit findings relative to their programs and will be responsible for follow-up action. The audit agency shall implement follow-up procedures to assure the corrective actions have been taken.

g. The audit agency is responsible for identifying differences in amount or omission of grants on the subrecipient's SEFA by comparing the federal funds listed on the subrecipient's SEFA and the list received from SARS (see paragraph .104 above). The audit agency shall determine the cause for material differences, errors, omissions, or misstatements. This may entail obtaining additional information from the subrecipient, other contributing agencies or both, and doing a reconciliation. Materiality should be set by the audit agency and at the CFDA program level rather than for the SEFA as a whole. Professional judgment should be used in setting the dollar or percentage level of materiality. Contributing agencies must work with audit agencies and subrecipients as needed to resolve identified differences promptly. The audit agency may need to obtain a revised SEFA from the subrecipient once the differences have been resolved. A letter from the auditor of the financial statements and SEFA shall acknowledge and provide assurances on any revisions.

h. The audit agency must follow-up and resolve deficiencies identified in the audit report review of a subrecipient including, but not limited to, the following:

- Any issues involving general compliance requirements (e.g., cash monitoring, civil rights, and internal controls)
- Program specific compliance requirements when the audit agency is also a contributing agency with regard to a specific federal program (e.g., restrictions on use of funds, cost allocation, and financial reports)
- Any actions necessary when questioned costs are reported
- Any corrective actions necessary when the audit does not meet the requirements of OMB Circular A-133

i. The audit agency shall notify the subrecipient when all of the audit review procedures have been performed for a fiscal year and implementation of all corrective actions has been deemed acceptable.

j. When the review of the subrecipient is completed, the audit agency shall notify SARS. All assigned A-133 audit reviews should be completed by June 30th of the year the assignment was made. A sample notification letter is available to accomplish this (see OAM form 75.30.02 FO).
k. These steps summarize the primary A-133 audit review responsibilities for each audit agency. All steps in this review shall be documented in writing and copies retained at the audit agency. At any point in this process where the responsibilities of the subrecipient are not accomplished in a timely fashion, the audit or audit review discloses material problems, or corrective action is not taken properly or on a timely basis, the other contributing agencies must be notified by the audit agency.

.109 When an audit finding in the subrecipient’s single audit report pertains to a federal award, the contributing agency is required to issue a management decision within six months of receiving the report. In the management decision, the contributing agency should clearly state whether or not it supports the audit finding, the reasons for the decision and the expected subrecipient action to repay disallowed costs, make financial adjustments or take other action. If the corrective action has not been completed, the contributing agency should include a timetable for completion. The contributing agency may request additional information or documentation from the subrecipient, including auditor assurance related to the documentation. The management decision should describe any appeal process available to the subrecipient. If an audit finding affects programs of more than one agency, the audit agency is responsible for coordinating the management decision for all affected agencies.