

# OREGON ACCOUNTING MANUAL

 <p style="font-size: 1.2em; font-weight: bold;">STATEWIDE POLICY</p>	<p><b>NUMBER</b></p> <p>30.40.00</p>	<p><b>SUPERSEDES</b></p> <p>30.40.00 dated 08/15/2019</p>
	<p><b>EFFECTIVE DATE</b></p> <p>XX/XX/XX</p>	<p><b>PAGE NUMBER</b></p> <p>Pages 1 of 8</p>
<p><b>Division</b> <b>Chief Financial Office</b></p>	<p><b>REFERENCE/AUTHORITY</b></p> <p>ORS 291.015 ORS 291.026 ORS 291.040 ORS 293.590 Single Audit Act of 1984 as amended in 1996 (Single Audit Act) 2 CFR Part 200 <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance)</p>	
<p><b>Policy Owner</b> Statewide Accounting and Reporting Services</p>		
<p><b>SUBJECT</b> Accounting and Financial Reporting- Federal Compliance: Subrecipient Monitoring and Audit Reviews</p>	<p><b>APPROVED SIGNATURE</b></p>	

**PURPOSE**

This policy provides guidance for agencies performing subrecipient monitoring and agency reviews.

**APPLICABILITY**

This policy applies to all state agencies included in the State’s annual financial statements, except for those agencies specifically exempted by [OAM 01.05.00](#).

**FORMS/EXHIBITS/INSTRUCTIONS**

None.

**DEFINITIONS**

**Audit Agency:** A state agency that has been assigned to review the Single Audit Report of a **subrecipient** organization, which may be a local government or non-profit organization.

**Contractor:** An entity that receives a contract (or legal instrument) by which a non-federal entity purchases property or services needed to carry out the project or program under a **federal award**. Although a non-federal entity may consider an agreement to be a contract, if the substance of the contract meets the definition of a federal award or **subaward**, the non-federal entity is not a contractor as defined here.

**Contributing Agency:** A state agency distributing federal funds to one or more local governments or non-profit organizations.

**Cross cutting Issues:** Issues that affect multiple federal programs such as inadequate internal controls or programs omitted from the **Schedule of Expenditure of Federal Awards (SEFA)**.

**Federal Award:** Federal financial assistance or federal cost-reimbursement contracts that non-federal entity receives directly from federal awarding agencies or indirectly from pass-through entities.

**Schedule of Expenditures of Federal Awards (SEFA):** A schedule of federally funded programs under which a government or non-profit organization expended federal aid, listed by Catalog of Federal Domestic Assistance (CFDA) number and amount expended. Additional information may be required in the SEFA depending upon the nature and form of the federal award or subaward. Required by the Single Audit Act.

**Subaward:** An award provided by pass-through entity to a **subrecipient** for the subrecipient to carry out part of a **federal award** received by the pass-through entity. It does not include payments to a **contractor** or payments to an individual who is a beneficiary of a federal program. A subaward may be provided through any form of legal agreement, including an agreement that a pass-through entity considers a contract.

**Subrecipient:** a non-federal entity that receives a **subaward** from a pass-through entity to carry out part of a federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other **federal awards** directly from a federal awarding agency.

**Uniform Guidance:** Issued by the federal Office of Management and Budget (OMB). Establishes uniform administrative requirements, cost principles, and audit requirements for **federal awards** to non-federal entities. Supersedes federal award guidance found in OMB circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133.

Click here for other [definitions](#).

#### **EXCLUSIONS AND SPECIAL SITUATIONS**

None.

#### **POLICY:**

##### **Subrecipient Monitoring**

101. The State will monitor **subrecipients** of **federal awards** in accordance with **Uniform Guidance**. **Contractors** are not subject to certain provisions of Uniform Guidance related to subrecipient monitoring, but remain subject to all applicable federal, state, and local laws, rules, and regulations in accordance with grant and award agreements, and any compliance or audit requirements that are part of those agreements.
102. **Subrecipients** that expend less than \$750,000 per fiscal year in **federal awards** are not subject to the Single Audit Act and do not prepare a **Schedule of Expenditure of Federal Awards (SEFA)**. For purposes of determining and assigning **audit agencies**, Statewide Accounting and Reporting Services (SARS) has utilized a threshold of \$500,000 in federal funds passed through from all **contributing agencies** to a subrecipient during the fiscal year. The \$500,000 threshold ensures that subrecipients that expend federal awards and subawards from sources other than the State, and have a Single Audit conducted over their federal expenditures, are more likely to be reviewed. Even if a SEFA is not required to be prepared, subrecipients remain subject to other requirements specified in **Uniform Guidance** and all applicable federal, state, and local laws, rules, and regulations as well as grant or contract agreements.
103. SARS is responsible for collecting data on **federal awards** passed through from state agencies to **subrecipients** as **subawards**. This data collection is part of the annual preparation of the **SEFA**. Agencies will refer to the accompanying procedures for guidance related to complying with **Uniform Guidance**.

## Contributing Agency Responsibilities

104. The **contributing agency** will make a determination whether the local government or non-profit organization is a **contractor** or a **subrecipient** in accordance with §200.330 of **Uniform Guidance** and include that determination in the contract. The contract shall also include the responsibility of the subrecipient to monitor any local government or non-profit organization subrecipient to whom it may pass funds.
- a. An entity may receive federal funds as a subrecipient and a contractor at the same time. Therefore, the contributing agency must make case-by-case determinations whether each agreement it makes for the disbursement of federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor.
105. For all **subawards**, the **contributing agency** must clearly identify to the **subrecipient** that the federal financial assistance is a subaward and include the following required information at the time of the subaward (or if any changes occur, include the changes in subsequent award modification):
- a. **Federal Award Information:**
- Subrecipient's name, which must match registered name in Data Universal Numbering System (DUNS), and DUNS number.
  - Federal Award Identification Number (FAIN).
  - Federal award date.
  - Subaward period of performance start and end date.
  - Amount of federal funds obligated by this action.
  - Total amount of federal funds obligated to the subrecipient.
  - Total amount of the federal award.
  - Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA).
  - Name of federal awarding agency, contributing agency, and contact information for awarding official.
  - CFDA Number and Name; the contributing agency must identify the dollar amount made available under each federal award and the CFDA Number at time of disbursement.
  - Identification of whether the award is research and development (R&D).
  - Indirect cost rate for the federal award (including if the de minimis rate is charged per §200.414 of **Uniform Guidance**).
- b. All requirements imposed by the contributing agency on the subrecipient so that the federal award is used in accordance with federal statutes, regulation and the terms and conditions of the federal award.

- c. Any additional requirements that the contributing agency imposes on the subrecipient in order for the contributing agency to meet its own responsibility to the federal awarding agency including identification of any required financial and performance reports.
  - d. An approved federally recognized indirect cost rate negotiated between the subrecipient and the federal government or, if no such rate exists, either a rate negotiated between the contributing agency and the subrecipient (in compliance with Uniform Guidance), or a de minimis indirect cost rate as defined in §200.414(b) of Uniform Guidance.
  - e. A requirement that the subrecipient permit the contributing agency and auditors to have access to the subrecipient's records and financial statements as necessary for the contributing agency and/or **audit agency** to meet the requirements of Uniform Guidance.
  - f. Appropriate terms and conditions concerning closeout of the subaward.
106. If any of the information in paragraph .105 is not available, the **contributing agency** must provide the best information available to the **subrecipient** to describe the **federal award** and **subaward**.
107. Additional requirements of **contributing agencies** providing **subawards** include:
- a. Evaluate each **subrecipient's** risk of noncompliance with federal statutes, regulations, and the terms and conditions of a subaward for purposes of determining the appropriate subrecipient monitoring.
    - Factors a contributing agency may consider in its risk assessment of a subrecipient are outlined in in §200.332(b)(1) – (4) of **Uniform Guidance**.
    - Depending upon the results of a contributing agency's risk assessment posed by a subrecipient, tools a contributing agency may find useful to ensure proper accountability and compliance with program requirements and achievement of performance goals are contained in §200.332(e)(1) – (3) of Uniform Guidance.
  - b. Consider imposing specific subaward conditions upon subrecipient if appropriate as described in §200.207 of Uniform Guidance.
  - c. Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Contributing agency monitoring must include:
    - Reviewing financial (unless the responsibility of the audit agency, as described below) and programmatic reports required by the contributing agency.
    - Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the **federal award** provided to the subrecipient from the contributing agency through audits, on-site reviews, and other means.
    - Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the contributing agency within six months of acceptance of the audit report by the Federal Audit Clearinghouse.
  - d. Consider whether the results of the subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the contributing agency's own records.

- e. Consider taking enforcement action against noncompliant subrecipients as described in §200.338 of Uniform Guidance and in program regulations.
108. Payments for goods and services to **contractors** using **federal award** money generally are not subject to audit or other monitoring activities under **Uniform Guidance**. The **contributing agency's** compliance responsibility for contractors is only to ensure that the procurement, receipt and payment for goods and services comply with laws, regulations, and the provisions of contacts or grant agreements.

### **Audit Agency Responsibilities**

109. Based on listings prepared by SARS, the state agency that distributes the largest amount of funds to any **subrecipient** shall be the responsible **audit agency**. An audit agency shall:
- a. Review the auditor's reports on the subrecipient's financial statements, internal control, and compliance with **federal awards**;
  - b. Verify the subrecipient obtained a Single Audit, if required;
  - c. Compare the subrecipient's **SEFA** to information provided to the audit agency from SARS and investigate differences;
  - d. Follow-up and resolve identified compliance deficiencies;
  - e. Request a revised SEFA if any material differences are identified;
  - f. Communicate any findings identified in the subrecipient's audit report to the applicable **contributing agency** (the communication must include the date the subrecipient's audit report was accepted by the Federal Audit Clearinghouse), so that the contributing agency may issue a management decision on the finding; and
  - g. Submit to SARS the Completion Letter for Review of Subrecipient Single Audit (sample located at [75.30.02.FO](#)) no later than September 30<sup>th</sup> of the year the assignment was made.
110. An **audit agency** may have monitoring responsibility for more than one **subrecipient**, but a subrecipient will report to only one audit agency.
111. Any agency already active as the **audit agency** for a special group of **subrecipients** may assume permanent responsibility for that group by notifying all affected parties, including other **contributing agencies**.
112. As part of the annual statewide Single Audit, the Secretary of State Audits Division is responsible for examining the **subrecipient** monitoring conducted by **audit agencies**.
113. The **audit agency** is responsible for monitoring state compliance with requirements for second level **subrecipient** review. The State's direct subrecipients must monitor **subawards** passed through to their own subrecipients. The audit agency must assure that assigned direct subrecipients monitor audits and expenditures relating to any second level subrecipients. Second level subrecipients are those local governments and non-profit organizations that receive subawards from a local government or non-profit organization that is itself receiving the subaward directly from a **contributing agency**.
114. **Audit agencies** will retain all **subrecipient** audit reports and associated checklists and workpapers for three years from the date of the audit report unless an exception to this

requirement outlined in §200.333(a)-(f) applies. The exceptions may extend or reduce the amount of time the records need to be retained.

## **PROCEDURES:**

115. SARS will use information gathered in preparing the **SEFA** to identify the state agency that distributed the largest amount of **federal awards** to each **subrecipient** who received over \$500,000 in federal financial assistance. This agency will be designated as the **audit agency**. As noted in paragraph .102, SARS uses an audit agency threshold that is lower than the Single Audit threshold.
116. 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.
117. The **audit agency** shall notify **subrecipients** of their assignment as audit agency and the purpose of the assignment under the provisions of **Uniform Guidance**.
118. The **audit agency** must review the appropriate reports and documents, which will likely be available via the Federal Audit Clearinghouse website. These documents include the subrecipient's audited financial statements, **SEFA**, 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. If the audit agency cannot locate the reports on the Federal Audit Clearinghouse website, the **subrecipient** must make them available. The subrecipient must submit these documents to the Federal Audit Clearinghouse within the earlier of: (1) thirty calendar 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.
119. The **audit agency** will review the submissions listed in paragraph .118 for each assigned **subrecipient**. The review must demonstrate compliance with **Uniform Guidance**. The Uniform Guidance 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' submissions in accordance with the following:
  - a. The audit agency shall assume all audit review responsibility under Uniform Guidance 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 Uniform Guidance, all **contributing agencies** should be notified so that appropriate sanctions may be taken. Possible sanctions mentioned in the §200.338 of Uniform Guidance are (a) temporarily withhold cash payments pending correction of the deficiency by the subrecipient or more severe enforcement action by the federal awarding agency or contributing agency; (b) disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance; (c) wholly or partly suspend or terminate the **subaward**; (d) recommend to the federal awarding agency that it initiate suspension or debarment proceedings; (e) withhold further subawards for the project or program, or (f) take other remedies that may be legally available. 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 subrecipient is responsible for preparing a response to the audit findings and a corrective action plan per §200.511 of Uniform Guidance. 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.
- d. 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.
- e. 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.
- f. 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 .116 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.
- g. 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 Subpart F of Uniform Guidance
- h. If the subrecipient has a finding pertaining to a subaward passed through from a contributing agency, the audit agency shall notify the contributing agency of the finding, so that the contributing agency may issue a management decision. The notification must include the date the subrecipient's audit report was accepted by the Federal Audit Clearinghouse, as the contributing agency has six months from that date to issue the management decision.

- 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. The audit agency must issue a report to the subrecipient upon completion of its review. 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.
  - j. When the review of the subrecipient is completed, the audit agency shall notify SARS. All assigned Uniform Guidance audit reviews should be completed by September 30<sup>th</sup> 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 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.
120. 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 acceptance of the report by the Federal Audit Clearinghouse. In the management decision, the contributing agency should clearly state whether or not it sustains 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 follow-up. Prior to issuing the management decision, the contributing agency may request additional information or documentation from the subrecipient, including auditor assurance related to the documentation, as a way of mitigating disallowed costs. 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.