

FEDERAL DEMONSTRATION PARTNERSHIP – PHASE IV

Memorandum to the Executive Committee

From: IRAB Task Force, Sub-Recipient Monitoring Working Group
Co-Chairs: Ms. Elizabeth Mora (Harvard University) and Ms. Debbie Rafi (ONR)

Date: **September 2003 (Revised)**

Subject: Subrecipient Monitoring Demonstration Project Proposal

References: (a) FDP May 1-2, 2003 Meetings, Tab 5, Administrative Initiatives
(b) OMB Circular A-133 and the 2003 Compliance Supplement

Background:

The May 2003 FDP meetings presented the goals and initiatives of Phase IV (2003-2007). A focus on the area of subrecipient monitoring requirements was identified as one of the Administrative Activities that Phase IV would address because of the increasingly challenging environment that FDP members must monitor their sub-recipients under. Reference (a) states that Phase IV “will look for more effective and efficient ways to monitor sub-recipients”. The Subrecipient Monitoring Work Group was established under the Initiative to Reduce Administrative Burden (IRAB) Task Force.

Issue:

The Subrecipient WG has conducted three focus meetings with FDP members to identify specific concerns/issues relative to subrecipient monitoring. Based on these discussions, the WG has summarized some of the key issues as follows:

- FDP Institutions may have up to 300 sub-recipients that they are responsible to monitor.
- Subrecipients can be generally classified into the following categories:
 - Nonprofit sub-recipients subject to A-133 Single Audits
 - Nonprofit sub-recipients not subject to the A-133 Single Audit
 - For-profit entity sub-recipients
 - Foreign entity sub-recipients

The type of subrecipient will have an affect on how a pass-through entity monitors it because of the different regulatory requirements that apply. This presents a challenging environment for the research institution.

- A-133 Single Audit Requirements are some of the most administratively burdensome requirements to research institutions. Specifically, the requirement for the subrecipient to provide written notification to each pass-through entity that their A-133 audit has been conducted in accordance with OMB Circular A-133 and there were no findings relative to the Federal awards that the pass-through entity provided in as state in OMB Circular A-133, paragraph .320(e)(2):

“(2) Instead of submitting the reporting package to a pass-through entity, when a subrecipient is not required to submit a reporting package to a pass-through entity pursuant to paragraph (e)(1) of this section, the subrecipient shall provide written notification to the pass-through entity that: an audit of the subrecipient was conducted in accordance with this part (including the period covered by the audit and the name, amount, and CFDA number of the Federal award(s) provided by the pass-through entity); the schedule of findings and questioned costs disclosed no audit findings relating to the Federal award(s) that the pass-through entity provided; and, the summary schedule of prior audit findings did not report on the status of any audit findings relating to the Federal award(s) that the pass-through entity provided. A subrecipient may submit a copy of the reporting package described in paragraph (c) of this section to a pass-through entity to comply with this notification requirement.” (underline added)

Demonstration Proposal:

1. Objective – To demonstrate that the requirements of OMB Circular A-133, paragraph .320(e)(2) can be achieved by using the Single Audit Clearinghouse (SAC) website to determine (1) if a subrecipient has completed an audit in accordance with the reporting requirements of A-133 and (2) the schedule of findings and questioned costs disclosed no audit findings relating to the Federal awards the pass-through entity provided.
2. Impact
 - A successful demonstration of the proposed method will significantly reduce the administrative time and costs related to a subrecipient having to provide written notification to each pass-through entity when (1) their audit has been conducted in accordance with the reporting requirements of A-133 and (2) the schedule of findings and questioned costs disclosed no audit findings relating to the Federal awards the pass-through entity provided.
 - Institutions will be able to more effectively monitor the higher risk subrecipients, by reducing the administrative time and costs related to providing written notification to each pass-through entity when (1) their audit has been conducted in accordance with the reporting requirements of A-133 and (2) the schedule of findings and questioned costs disclosed no

audit findings relating to the Federal awards the pass-through entity provided.

- Increased reliance by Federal awarding agencies on the A-133 audit. Awarding agencies will have increased assurance that recipients' subrecipient monitoring processes are more efficient and focused on the higher risk subrecipient population, because less time will be spent on monitoring subrecipient costs that had no reportable audit findings (the lower risk subrecipient population). This in turn, should result in improved oversight of Federal funded programs by pass-through entities – a win/win scenario for the Federal awarding agencies and recipients.
 - Facilitates the SAC Website to improve the A-133 reporting requirement process, which is consistent with the overall goals of the Federal Government's grant streamlining initiatives under PL 106/107.
3. Goal – To submit a proposed change to OMB asking for clarification in the Compliance Supplement relative to paragraph .320, Reporting Submissions. Specifically, propose that the Compliance Supplement include a statement that will accept use of the Single Audit Clearinghouse (SAC) website as a means of satisfying the requirement of paragraph .320(e)(2).

Implementation:

1. Duration – One Single Audit cycle, as determined by the institutions' fiscal year
2. Identify Participating Institutions
3. Obtain OMB endorsement of demonstration pilot and exemption for participating institutions from paragraph .320(e)(2) of OMB Circular A-133 for the duration of demonstration.
4. Data Requirements – Participating institutions will be required to provide the following data for the demonstration period:
 - Total number of subrecipients by category:
 - Nonprofit sub-recipients subject to A-133 Single Audits
 - Nonprofit sub-recipients not subject to the A-133 Single Audit
 - For-profit entity sub-recipients
 - Foreign entity sub-recipients
 - Total number of nonprofit subrecipients subject to A-133 that completed their A-133 audit requirement and had no findings or questioned costs relative to Federal award dollars issued by the pass-through entity to the subrecipient.

- If the institution's most current A-133 audit was in accordance with OMB Circular A-133 reporting requirements and had no findings or questioned costs relative to Federal award dollars issued by the pass-through entity, identify the total number of pass-through entities, which the institution did not have to issue written notifications. Estimate cost savings to the institution in terms of time and materials.
 - Comparison of A-133 Audits conducted before and during the demonstration period:
 - Identify the number and type of findings presented in A-133 audit reports related to subrecipient monitoring in the institutions' A-133 audits.
 - Identify the institutions' risk classification (high or low risk) and reason for a change, if appropriate.
 - Identify the audit opinion issued on Major Program Compliance and reasons for a change, if appropriate.
5. Single Audit Clearinghouse (SAC) Website Documentation – Participants are required to document their reliance on the SAC website. The documentation must be available to A-133 auditors, upon request, as part of their audit for compliance with Subrecipient Monitoring requirements in OMB Circular A-133. Each institution will be responsible for determining how they will document their reliance, however the WG will provide examples of how an institution can achieve this requirement.