NC DEPARTMENT OF
HEALTH AND HUMAN SERVICES

DIVISION OF PUBLIC HEALTH

SUBRECIPIENT MONITORING PLAN

(Revised 10/5/2016)

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I.   Introduction

The provisions of this document are applicable to all sections of the North Carolina Division of Public Health. The requirements outlined in this document are minimum requirements and were designed to provide sufficient flexibility for adoption by all affected programs. **Where enhanced processes are introduced, they are often optional.** Programs may impose more stringent requirements and may more specifically tailor the procedures associated with their implementation to the degree that compliance with this document is maintained. Exceptions may be requested from the Division Director in those instances where program size or complexity precludes strict compliance.

Monitoring is the subject of ongoing discussions and this plan will be modified as needed. This is especially true of any new processes, once information is available about their efficacy.

Please refer to the trainings and resources that are available in the DPH Toolkit related to this plan and the monitoring process (Select "Policies and Procedures," then, "Monitoring and Compliance"). Additional information is available in the DHHS Monitoring Policy and Manual linked to in the DPH Toolkit (see "Resources/Links").

II.   Background

Monitoring regulations have now been updated and consolidated with other circulars in the "Omni-Circular" Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR, Part 200 Subpart F. The Omni-Circular took effect for Federal awards (grants & contracts) made after 12/26/2014 but the new regulations may be used for all awards at this time. Awardees and DPH monitors should familiarize themselves with the new regulations. There have been changes in the area of cost principles, indirect costs, staff timekeeping, procurement, financial management, internal controls, and equipment costs, among others. These requirements and the requirements of this plan apply to recipients of "financial assistance" awards from DPH.

Implementation of these requirements is informed by the Compliance Supplement. The federal government made changes in the OMB Circular A-133 Compliance Supplement 2015 that removed the compliance requirements for the Davis-Bacon Act and Real Property Acquisition and Relocation Assistance. These requirements have been removed from this document.

Programs should be familiar with the current Compliance Supplement regulations for their programs. These guidelines are used by auditors and should be included in the monitoring process. Both the state and federal requirements are posted on the NC Treasurer's website: https://www.nctreasurer.com/slg/lfm/audit_acct/single_audit/compliance_supplements/Pages/default.aspx

North Carolina General Statue 143-6.1 (replaced effective July 1, 2005 by G.S.143-6.2) further requires state agencies to report on use of State funds by non-State entities, including federal funds that flow through the State. DHHS Policies and Procedures Manual, Section IV, Monitoring of Programs, revised August 1, 2002, directs subordinate divisions to develop risk-based subrecipient monitoring plans.

III.   Coordination with other Offices and Agencies

A. In cases where more than one (1) division awards funding to a subrecipient, monitoring efforts should be, to the maximum extent feasible, a collaborative effort to minimize duplicative work by each division and to minimize work disruption on the subrecipient.

B. If DPH identifies an area of non-compliance that falls within the purview of another division, the funding division affected must be notified immediately. Identification of subrecipients that operate across divisions that have paybacks or corrective action plans will be facilitated by reporting these issues to OIA on a regular basis.

C. The division funding the program in which deficiencies were noted is responsible for writing any required corrective action plan, for subsequent follow-up and posting to the website. In situations of general deficiencies (as opposed to programmatic deficiencies) such as inadequate internal control over financial management and accounting systems, the DHHS funding division with the greatest amount of funding to the subrecipient will oversee the corrective actions unless there is justification and agreement for another funding division to be the primary monitor.

D. If DPH staff suspects fraud, DPH shall consult with the DHHS Office of the Internal Auditor (OIA) and the DHHS Division of Budget and Analysis (B&A). In the event that the OIA agrees that the division's suspicions are well founded, the OIA will coordinate an audit/investigation as deemed appropriate with the office of state auditor, internal staff, federal authority, local law enforcement authorities, and/or the SBI.

IV.   Definitions

A. Corrective Action Plan: Audit and monitoring processes often result in feedback to the subrecipient. Any findings that indicate a clear violation of regulatory, programmatic or contractual requirements which must be remedied in a specific manner within a set period of time is considered a finding with a corrective action plan. When possible, initial corrective action plans should be submitted by the subrecipient within 15 days of formal notification of the problems by the monitor. Complete correction of the issues involved may take substantially longer.

B. Cost Disallowance: A charge to a grant that the Division determines to be unallowable, according to the applicable cost principles (see OMB Omni-Circular) or other award terms and conditions. The general rule of thumb for any costs to be considered proper is that they must be allowable, allocable, necessary, reasonable, and treated consistently. When a disallowed cost is identified, DPH will recoup the funding and document this action in the Monitoring Tracking Spreadsheet.

C. Debarment and suspension: Government-wide actions based on Executive Order 12549 which exclude a person or organization from participating in grants or other assistance awards. Suspensions are temporary actions, not to exceed 18 months, generally leading to debarment, implemented only when immediate action is needed to protect the government's interest. Debarment generally lasts three years.

D. Federal or State Awards: Financial assistance and cost-reimbursement contracts that non-federal and non-state entities receive directly from federal or state awarding agencies or indirectly from pass-through entities. (The payments received for goods or services provided as a vendor are not considered federal or state awards.)

E. Financial Assistance (FA): Federal or state assistance that the state provides to recipients in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but generally does not include amounts received as reimbursement for services rendered to individuals such as Medicare and Medicaid (NOTE: All state contracts must be reviewed to determine whether they are "financial assistance" or "purchase of service" contracts. This determination is necessary to establish whether the contracting agency is a subrecipient or a vendor and must be made by each entity to which the funds are further subgranted (or awarded under contract). Those deemed to be the FA type are subject to the financial reporting requirements of the federal Office of Management and Budget's Omni-Circular and/or the Office of the State Auditor's Audit Advisory #2. Those deemed to be the POS type generally have no reporting requirements and usually require only the satisfactory delivery of the goods or services being purchased.

F. Monitoring Tracking Spreadsheet: This is an Excel document that is stored on a DPH shared server that all DPH monitors have access to. Monitors enter information about all corrective action plans and paybacks for subrecipients in this spreadsheet. Additional issues may be recorded there at the monitors' discretion. Monitors also review this

information to ensure they are aware of problems with their subrecipients. The DPH lead monitoring coordinator reviews this information regularly and performs any necessary coordination such as informing DHHS of serious issues, or following up on entries to ensure that resolution has been achieved. (See Section X for the name of the current lead monitoring coordinator.)

G. Monitoring: Activities that are part of a continuous improvement strategy designed to assure that public funds are allocated and spent in a manner that maximizes the level of program benefits to the public and to other stakeholders (e.g. granting agency, DPH, and the subrecipient). Monitoring is incorporated into all aspects of the post-award process.

H. Pass-through Entities: State agencies in receipt of federal or state funds that are sub-awarded to private or other state agencies for provision of services in support of a specific program or project. Pass-through entities are responsible for monitoring grants to provide reasonable assurance that:

1. Federal and state grant funds are expended in ways that meet provisions of pertinent statutes, regulations, agency administrative requirements, relevant OMB circulars, and the terms of the award notice.

2. Adequate progress is being made toward achieving the sub-award project's goals and objectives (as defined in award application packets).

I. Payback: Reimbursement of disallowed costs by the subrecipient. This may include adjustments to future disbursements by DPH to recovered funds. When a disallowed cost is identified, the provider will reimburse DPH and document this action in the Monitoring Tracking Spreadsheet. See Recoupment.

J. Recoupment: Recovery of disallowed costs from the subrecipient. When a disallowed cost is identified, DPH will recoup the funding and document this action in the Monitoring Tracking Spreadsheet. See Payback.

K. Subrecipient Agency: An agency or organization that receives federal or state awards from the Division of Public Health in the form of financial assistance. These agencies are usually non-profit or governmental agencies or organizations, but in some instances may be for-profit entities. (State agencies routinely monitored by the Office of the State Auditor are not necessarily included in this definition, but consideration should be based on prior experience with the state agency in question.)

L. Suspension: Action by the Division that temporarily suspends financial assistance under the award, pending corrective action by the subrecipient or a pass-through entity's decision to terminate the award.

M. Temporarily Withholding Funds: Action taken by the Division, after appropriate administrative procedures have been followed, which delays a subrecipient's ability to access its grant funds until it takes corrective action required by the pass-through entity.

N. Termination: Permanent cancellation of the subrecipient's authority to obligate all or part of the funds awarded to it. Awards may be terminated under the following conditions as outlined in OMB Omni-Circular:

　　1. By the Division, if the subrecipient materially fails to comply with the terms and conditions of the award;

　　2. By the Division, with the consent of the subrecipient; or

　　3. By the Divison; for cause

　　4. By the subrecipient, upon sending written notification to the agency stating the reasons for the termination.

O. Voiding of a Grant: Determining that the award was obtained fraudulently, or was otherwise illegal or invalid from inception. Voiding, in effect, is a decision that the grant never legally existed. Such determinations are rare, but possible.

V.   Programs

A listing of Divison of Public Health programs that are subject to subrecipient monitoring may be found in the matrix posted here, along with copies of the compliance supplements or short form supplements: https://www.nctreasurer.com/slg/lfm/audit_acct/single_audit/compliance_supplements/Pages/2016-Compliance-Supplements.aspx. Click on the following links:

Section B - Agency Matrix for Federal Programs (with links to individual supplements)

Section C - Agency Matrix for State Programs (with links to individual supplements)

Section E - Short-Form Supplements

In each case the "Detailed Matrix" identifies the programs that are managed by DPH.

This information is based upon compliance supplement information that is provided by DPH programs to the DHHS Office of the Internal Auditor, which is then relayed to the NC Department of State Treasurer.

VI.   Subrecipients

The requirements of this plan apply to DPH subrecipients, that is, organizations who receive "financial assistance" awards from DPH. Refer to Appendix G for a listing of subrecipients that includes a description of all subrecipients to be monitored (this includes programs funded with state, federal, and/or private dollars). It also includes the type of subrecipients (not-for-profit, governmental organization, public authority, for-profit) and the type and amount of funding (segregated between federal, state and other funding). This list changes frequently; updates will be posted to the DPH website periodically.

VII.   Risk Assessment

Each subrecipient must receive a risk assessment annually from each program that provides funding. A risk assessment may also be conducted at the discretion of the monitor whenever necessary. Each subrecipient will be categorized as low, medium, or high risk depending upon the criteria set forth below. The frequency and intensity of monitoring techniques applied to a given subrecipient will be directly proportional to the level of risk assigned. Note: Some DPH programs use only low and high risk categories. This is permissible provided that all subrecipients with significant issues are categorized as high-risk. In other words, if subrecipients that would normally be categorized as medium-risk are categorized as high-risk, then a two category system may be used, as this only increases the level of scrutiny applied to subrecipients.

Two subrecipients may therefore be assigned the same risk category but for very different reasons; likewise, the monitoring effort for the same two agencies may also vary.

Refer to Appendix B for the tool for determining risk assessment. This tool contains objective rating criteria that document the validity of risk-level determinations. The Financial Checklist (Appendix H) is a tool for the monitoring of financial issues in subrecipients. Program monitors are recommended to complete both of these forms annually, but only the risk assessment is required. Additional tools may be used in addition to these forms. The Financial Checklist may be used as the Internal Controls Assessment item in the Risk Assessment, though programs may choose to use other assessments of internal controls to complete this item in the risk assessment. If the Internal Control Questionnaire (Appendix A) is used then it is recommended that it be completed or recertified as accurate by the subrecipient annually (see Assessment Use Chart in section VIII, F) but this is not required. Programs may use either version of the Internal Control Questionnaire. The Internal Control Questionnaire is more detailed than the Financial Checklist but is completed by the subrecipient, which may affect its accuracy. Programs may find different risk levels for the same subrecipient but when they become aware of this they should gather information and take into account the findings of other groups. The only time the Internal Control Questionnaire is required is when there is a new award for an entity that is not a Local Health Department.

Monitoring of Local Health Departments (LHDs) is a joint function of the Local Technical Assistance Team (LTAT) and program-based monitoring staff. LTAT staff perform site visits of LHDs at least once every two years. LTAT staff will use the Financial Checklist (see appendix H) when monitoring takes place. It is recommended that LTAT staff instruct the LHDs to complete the Financial Checklist as self-assessment on years that they do not perform monitoring of a LHD. LTAT staff may then post the current Financial Checklist on the shared server so it can be accessed by program staff and used as a part of the risk assessment. Program Monitors may complete their own Financial Checklist if they wish. Program-based monitors are recommended to perform an annual risk assessment using the Risk Assessment Form (appendix B). In any case, each LHD must receive a risk assessment each year for each program as with any other subrecipient.

The results of all monitoring activities and risk assessments should be recorded by monitoring staff and be available to support coordination efforts if needed. All corrective action plans and paybacks of disallowed costs will be recorded on the Monitoring Tracking Spreadsheet. Additional issues may be recorded there at the monitors' discretion. This spreadsheet is electronically available to all DPH staff. A representative from each program should review this information routinely, at least annually, in order to inform their own monitoring efforts.

Risk level categories will be determined prior to any sub-award to a new subrecipient agency and reassessed at least annually. The following criteria will be used to assess the risk category of subrecipient agencies and to assign the monitoring techniques that will be used, as a minimum, for each category. All factors listed for consideration may not apply to every subrecipient agency. In such cases, some judgement may be necessary to determine the applicability.

The subrecipient will be notified by letter of a high risk assessment and a specific date for corrective action will be defined on the letter. When possible, the subrecipient should submit an initial corrective action plan within 15 days of formal monitoring report of findings.

A subrecipient's risk category can change at any time and should be reassessed whenever irregularities are noted. Such irregularities include, but are not limited to:

A. Consistently late or flawed financial or programmatic reporting.

B. Failure to comply with other requirements of the sub-award contract.

C. Complaints from vendors, beneficiaries or the general public alleging poor service, fraud, waste or abuse.

D. Frequent or unusual requests for technical assistance from the subrecipient agency.

E. Categorical expenditures that vary significantly from budgeted amounts.

F. Unfavorable media coverage of a subrecipient.

G. Indications that the subrecipient agency is experiencing difficulties with another sub-award.

H. Change in key personnel (e.g., executive director).

Each instance must be individually assessed to determine its reliability as an indicator that an agency may be experiencing difficulties meeting the sub-award requirements.

VIII.   Monitoring Procedures

Monitoring is an ongoing activity that begins at the application process and continues throughout the award and the life of the contract. The monitoring process should include the elements listed below and programs may add additional processes as needed.

The results of all monitoring activities and risk assessments shall be recorded by monitoring staff and be available when requested to support coordination efforts if needed. *All corrective action plans and paybacks of disallowed costs and their outcomes shall be recorded on the Monitoring Tracking Spreadsheet*. Additional issues may be recorded there at the monitors' discretion. This spreadsheet is electronically available to all DPH staff. It is recommended that a representative from each program review this information routinely, at least annually, in order to inform their own monitoring efforts. The DPH lead monitoring coordinator will review this information regularly and perform any necessary coordination such as informing DHHS of serious issues, or following up on entries to ensure that resolution has been achieved. This may involve communication with DHHS OIA staff and DPH program managers and monitors.

A. In the Request for Proposal (RFP) or Request for Application (RFA) phase, the Division must clearly convey its commitment to the goals of the respective program or project; legal and programmatic requirements for compliance with applicable administrative rules and cost principles; and agency application procedures, formats and deadlines.

B. Formulation of specifications for selecting subrecipients: The program managers should develop guidelines for selection of subrecipients that include consideration of past performance in the administration of sub-awards; appraisal of the potential subrecipient's program goals, objectives and evaluation procedures; analysis of the proposed budget and its narrative explanation; and appraisal of the applicant's facilities, manpower (to include expertise), and management capabilities.

C. Application review: The outreach to potential subrecipients: application review process should be structured to ensure consideration of the applicant's compliance with RFP requirements. The review must also measure and record each applicant's relative attainment of pre-established selection criteria that are defined in the formal RFP process.

D. Pre-decisional site visit: Site visits are required prior to a final award to any non-governmental agency:

1. That has not received previous grant awards, or that has not been awarded grant funds for a particular program before.

2. Whose previous performance raises questions about its ability to comply with programmatic or fiscal requirements.

The program monitor should conduct pre-decisional site visits. The applying or bidding agency should complete an Internal Control Questionnaire (Appendix A) unless the subrecipient is a LHD. LHDs have additional checks and balances already in place. The ICQ will be used as an aide in assessing the subrecipient agency's risk category. Monitoring staff should also complete the Risk Assessment Form for all subrecipients. For LHDs they should use the Financial Checklist completed by LTAT staff (Appendix B).

E. Pre-award negotiation: Any areas of concern or need for additional information or clarification noted during the application review should be addressed to the applicant prior to award. At this stage in the sub-award process, the Division should firmly and clearly delineate its expectations and ensure that the potential subrecipient understands and will support the agency's programmatic goals and values.

F. **Monitoring: The amount of financial and programmatic monitoring, and the techniques used, will vary based upon the DPH risk-based system.** DPH programs are expected to conduct monitoring activities in a manner that will foster on-going communication between agencies and their subrecipients.

   1. Monitoring functions must include the required functions noted in the OMB Omni-Circular, 2 CFR, Part 200.327-332, Performance and Financial Monitoring and Reporting & Subrecipient Monitoring and Management:

      a. Financial reporting

      b. Monitoring and reporting program performance

      c. Reporting on real property

      d. Subrecipient and contractor determinations

      e. Requirements for pass-through entities

      f. Fixed amount subawards

   2. Suggested Monitoring Techniques

      Listed below are the suggested monitoring techniques to be used by the monitor to achieve monitoring objectives for high, medium, and low risk subrecipients. These techniques are suggested for testing the core monitoring areas for compliance. The suggested monitoring techniques are as follows:

      a. Physical examination – Physical examination refers to gathering physical evidence if required when testing high risk subrecipients.

This can be done by inspecting new equipment, observing inventory, and determining staff/client ratio. Reviewing invoices or other supporting documentation may satisfy the same objective when testing medium or low risk subrecipients.

b. Confirmation – Confirmation refers to written requests made to a third party to confirm assertions made by the subrecipient. This may include confirming the accounts receivable balance or confirming that an individual received service from a particular program, confirming civil rights compliance with appropriate federal/state agencies. This also includes confirming any policy waivers given by the state agency.

c. Tracing – Tracing is the examination of documents that support a recorded transaction and a verification of the recording of a document in the accounting records. Tracing helps to obtain evidence about recorded transaction. A monitor may use tracing to verify a transaction, such as an invoice, through the accounting system to its ultimate recording in the accounting records, journal, and ledgers and to the appropriate grant program. A monitor may also use tracing to verify any unusual incidents and to verify the expenditures reported to the Division or the reliability of program results and achievements to supporting documentation.

d. One very effective way to check fiscal performance is called a "source documentation" review. Monitors on site visits pull two Cost Expense Reports (CERs) at random and ask the subrecipient to provide all of the source documentation that was used to compile the figures on the CER. This is an example of tracing.

e. Inquiry – Inquiry is the test used to obtain management's and employees' responses to questions about the operations of the subrecipient. Monitors may use inquires to get a better understanding of staffing patterns, levels of supervision, how services are delivered, management controls, and how a program is intended to operate. Inquiries usually provide the basis for further testing to substantiate the responses to inquiries.

f. Observation – Observation is the witnessing of physical activities by the monitor such as taking physical inventory, touring facilities, and attending client staffings. Monitors may also use this test to observe how a program is operated. Observation and inquiry should be used in testing monitoring areas when the monitor cannot review a document in any other manner. When the circumstance does not allow the monitor to review or test documentation, the monitor can make inquiry and observe the process to ensure that the intended controls are

adequate or being implemented as intended. Inquiry of the process to gain an understanding of how it operates may be sufficient for a low risk subrecipient; however, the process may need to be observed in a high or medium risk subrecipient.

g. Reperformance – Reperformance refers to computations made by the monitor to independently verify the integrity of transactions or balances. An example of this might be in determining eligibility and benefits for a program. The monitor uses the data in the case record to compute eligibility and benefits and compares the result to the determination made by the subrecipient. This procedure of attempting to replicate the calculations made by the subrecipient is referred to as "reperformance."

h. Reconciliation – Reconciliation is the process of matching two independent sets of records. Reconciliation serves to provide assurance of completeness and existence. Reconciliation may be necessary to confirm grant revenues and receivables in a high or medium risk subrecipient before closing out a program year.

i. Inspection – Inspection is the critical reading of a document to compare the information contained in the document with other information known to the monitor. This includes review of contracts, leases, insurance policies, program guidelines, minutes of board meetings and other pertinent records. Inspection may be used in all monitoring activities regardless of the risk level.

j. Analytical Procedures – Analytical procedures encompass a number of specific tests that a monitor may use to test the reasonableness of data. A monitor may use analytical procedures, such as certain ratios and trends to determine any unusual conditions that indicate that further testing is warranted. Analytical procedures may be used to provide some level of assurance of low risk subrecipients and may be used to confirm and substantiate the reasonableness of data from high risk subrecipients.

k. Program review, evaluation, and renewal: The Division can use the lessons learned through monitoring to provide feedback to all of their subrecipients and to anticipate technical assistance needs in the next cycle of awards. Such an ongoing dialogue between the Division and its subrecipients will help develop an appreciation for each other's perspective, will facilitate continuous improvement, and will maximize attainment of program goals.

3. Documentation: The following information should be contained in a file for each subrecipient:

   a. Subrecipient Risk Assessment Form (Appendix B)

   b. Subrecipient Monitoring Log (Appendix C)

   c. Financial and Programmatic Checklists (for Financial Checklist see Appendix H)

   d. Internal Control Questionnaire (Appendix A) (not applicable for LHDs, and other grantees may only have original ICQ secured for initial award)

   e. Monitoring Documentation Form (Appendix E, optional)

Monitoring Assessment Use Chart

Internal Control Questionnaire (ICQ)—more detailed than Financial Checklist, but is a self-assessment	Must use prior to initial program award for subrecipients that are not Local Health Departments	Optional on an ongoing basis. If used for the risk assessment internal controls question, recommended to have the subrecipient redo or re-certify accuracy
Risk Assessment	Required pre-award and annually. Recommended that LTAT and program staff each complete annually for LHDs. In any case LHDs must be assessed annually for each program.	May use the ICQ or FC to answer item about internal controls
Financial Checklist (FC)—less detailed than ICQ but actively completed by monitors (not a self-assessment)	Required prior to initial contracting and recommended to be used annually, but may be used when the need for updated information is suggested. Recommended that this be completed by LTAT staff	May use for risk assessment internal controls question

	for LHDs and that on monitoring "off years" LTAT staff send it to the LHD to be completed as a self-assessment	

G. Record Retention

1. Records related to program monitoring should be maintained according to the retention requirements indicated in the applicable retention schedules. This may include the following:

    a. The DHHS Records Retention and Disposition Schedule for Grants is published twice a year by the DHHS Controller's Office. The memorandum, spreadsheet, and background provide details on records pertaining to grants.

    b. General Schedule for State Agency (inventory of records common to all offices) General Schedule for State Agency

    c. Division of Public Health Program Records Retention and Disposition Schedule

2. In addition to these requirements, the Omni-Circular requires that documents related to monitoring federal grants be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. (See 200.333 for exceptions and more information.)

H. The monitor should prepare for the monitoring activity by reviewing:

1. The RFP, RFI, work plan or other available documents to gain an understanding of the program, services, and deliverables.

2. State and federal laws applicable to the program.

3. The contract and funding authorization documents.

4. The prior year audit, if available.

5. Financial Checklist (Appendix H)

6. The Internal Control Questionnaire. (Appendix A)

7. The Compliance Supplement for the program to determine which compliance requirements are applicable.

I. Monitoring Process

1. At least annually, the project monitor re-assesses the subrecipient agency's risk category, records the basis for his/her decision on the Subrecipient Risk Assessment Form (Appendix B), provides a copy to the subrecipient agency, and, if high risk, provides a copy to the DPH lead monitoring coordinator. The assigned risk category is then recorded on the Subrecipient Monitoring Log (Appendix C).

2. Based upon the risk category assigned and the required frequency of site visits for that category, the project monitor schedules a site visit and records the date on the Subrecipient Monitoring Log. After the monitor completes the site visit, the Monitoring Tool/Instrument (Appendix D) or similar documentation is filed in the subrecipient's file. All monitoring activities should be recorded in the Monitoring Log. Copies of the records are maintained in the subrecipient agency's file.

3. The minimum levels of scrutiny and the required techniques to be used in the monitoring activity are defined beginning in Section J, below; however, a more inclusive list of suggested approaches that may be employed follows:

    a. Reviewing subrecipient reports;

    b. Conducting site visits to review financial and programmatic records and observing operations;

    c. Conducting focused monitoring reviews for certain aspects of subrecipient activities;

    d. Reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan;

    e. Encouraging frequent and open communications through telephone calls, e-mail, or letters;

f. Ensuring that prior approval requirements are included in sub-awards and that they are reviewed against the approved sub-award budget and scope; An example of a prior approval requirement is the requirement that certain expenditures be approved beforehand.

g. Establishing a comments and complaints hotline for use by program beneficiaries, vendors, and members of the general public;

h. Reviewing media coverage of subrecipient agencies;

i. Hosting an annual conference for subrecipients;

j. Promulgating centralized training sessions for subrecipients.

J. Monitoring Low Risk Subrecipients

1. The following monitoring activities are required:

a. Review routine program and fiscal reports.

b. Site visit at least every three years.

c. Review procedures/documentation listed on the Monitoring Tool/Instrument (Appendix D) and maintain the checklists on file.

2. Perform the following activities to ensure that Compliance Requirements are addressed:

a. Activities Allowed/Unallowed

(1) Review expenditure reports/requests for funds for Activities Allowed/Unallowed.

(2) Review progress reports.

(3) Review agency contracts with others.

b. Allowable Cost/Cost Principles

(1) Determine if agency knows which cost principles it must follow.

       (2) Determine if agency charges indirect cost and determine if it is approved by a federal agency or audited by CPA.

       (3) If agency provides more than one service and has more than one funding source, review cost allocation plan.

       (4) Review charges for indirect cost.

c.   Cash Management: Review all documentation if agency has requested more than 60-day advance.

d.   Eligibility

       (1) Determine if agency is aware of eligibility requirements.

       (2) Review copy of eligibility determination tool/document/application.

       (3) Review verification documentation.

       (4) Review benefit/payment calculation.

e.   Equipment and Real Property Management

       (1) Review expenditure accounts to determine if expenditures for equipment are within budget allowances.

       (2) Review agency's internal policies for equipment acquisition, inventory and disposition.

       (3) Review most recent physical equipment inventory results.

f.   Matching/Level of Effort/Earmarking

       (1) Review budget to determine if sufficient match budgeted.

       (2) Review progress reports to determine if activity-based level of effort/earmarking requirements met.

       (3) Review expenditure reports for sufficient match.

g. Period of Performance

    (1) Review budget and expenditure reports to determine likelihood of funding availability at end of period.

    (2) Review agency's internal procedures for encumbering funds.

h. Procurement/Suspension/Debarment

    (1) Determine if agency has certification statements from all non-profit subrecipients.

    (2) Review internal control information to verify that the information indicates that all purchasing and procurement policies are in compliance with State and federal laws and regulations.

    (3) Review copy of agency's internal purchasing procedures.

i. Program Income

    (1) Review activity reports to see if any activities appear to generate program income.

    (2) Review request for funds to see if program income deducted or reflected.

j. Reporting

    (1) Determine if agency's reports are filed timely and in the proper format.

    (2) Determine which basis of accounting the agency follows.

    (3) Determine the methodology for generating program/activity reports.

    (4) Review financial and programmatic reports.

k. Subrecipient Monitoring

    (1) Review agency's subrecipient monitoring plan.

(2) Review documentation of subrecipient monitoring activities.

l. Special Tests and Provisions: Review the laws, regulations, and the provisions of the contract or grant agreements and determine if the subrecipient is adhering to any Special Tests and Provisions.

m. Conflict of Interest: Verify that the agency has a notarized copy of a Conflict of Interest statement.

K. Monitoring Medium Risk Subrecipients

1. The following monitoring activities are required for Medium Risk Subrecipients:

   a. Review routine program and fiscal reports.

   b. Site visit at least annually.

   c. Review procedures/documentation listed on the Monitoring Tool/Instrument (Appendix D) and maintain the checklists on file.

2. Perform the following activities to ensure that Compliance Requirements are addressed:

   a. Activities Allowed/Unallowed:

      (1) Request and review a copy of expenditure reports/requests for funds.

      (2) Review progress reports.

      (3) Request and review a copy of the agency contracts with others.

   b. Allowable Cost/Cost Principles

      (1) Determine if agency knows which cost principles it must follow.

      (2) Determine if agency charges indirect cost and determine if it is approved by a federal agency or audited by CPA.

(3) Request and review copy of cash disbursements journal/general ledger. Ask the agency's fiscal officer to walk you through the process if you need assistance.

(4) If agency provides more than one service and has more than one funding source, request and review copy of cost allocation plan.

(5) Request and review copy of charges for indirect cost.

c. Cash Management: Review all documentation if agency has requested more than 60-day advance.

d. Eligibility

(1) Determine if agency is aware of eligibility requirements.

(2) Request and review copy of eligibility determination tool/document/application.

(3) Request and review copies of verification documentation.

(4) Request and review copies of benefit/payment calculation.

e. Equipment and Real Property Management

(1) Request and review copy of expenditure accounts to determine if expenditures for equipment are within budget allowances.

(2) Request and review copy of agency's internal policies for equipment acquisition, inventory and disposition.

(3) Request and review most recent physical equipment inventory results.

f. Matching/Level of Effort/Earmarking

(1) Request and review copy of budget to determine if sufficient match/MOE budgeted.

(2) Request and review copy of progress reports to determine if activity-based level of effort/earmarking requirements met.

(3) Request and review copy of expenditure reports for sufficient match/MOE.

(4) Request and review copy of cash disbursements journal/general ledger for match/MOE, fiscal earmarking.

(5) Request and review copy of audit activity records for appropriate levels of services.

g. Period of Performance

(1) Review budget and expenditure reports to determine likelihood of funding availability at end of period.

(2) Review agency's internal procedures for encumbering funds.

h. Procurement/Suspension/Debarment

(1) Determine if agency has certification statements from all non-profit subrecipients.

(2) Review internal control information to verify that the information indicates that all purchasing and procurement policies are in compliance with State and federal laws and regulations.

(3) Review copy of agency's internal purchasing procedures.

i. Program Income

(1) Review activity reports to see if any activities appear to generate program income.

(2) Review request for funds to see if program income deducted or reflected.

j. Reporting

(1) Determine if agency's reports are filed timely and in the proper format.

(2) Determine which basis of accounting the agency follows.

(3) Determine the methodology for generating program/activity reports.

(4) Review financial and programmatic reports.

k. Subrecipient Monitoring

(1) Request and review a copy of agency's subrecipient monitoring plan.

(2) Request and review a copy of documentation of subrecipient monitoring activities.

l. Special Tests and Provisions: Review the laws, regulations, and the provisions of the contract or grant agreements and determine if the subrecipient is adhering to any Special Tests and Provisions.

m. Conflict of Interest

(1) Verify that the agency has a notarized copy of a Conflict of Interest statement.

(2) Discuss with the agency director that they understand the intent of the policy.

L. **Monitoring High Risk Subrecipients**
1. The following monitoring activities are required for high risk subrecipients.

a. Review routine program and fiscal reports.

b. Schedule site visits at least semiannually.

c. Review procedures/documentation listed on the Monitoring Tool/Instrument (Appendix D) and maintain the checklists on file.

d. Conduct on-site review of applicable sections of the Internal Control Questionnaire (Appendix A) There should be a copy on file, if only from the initial award. If the award took place before this form was being required, then ask the subrecipient to complete the ICQ and use that for this review.

      e. Follow-up reviews of routine program and fiscal reports with telephone discussions and on-site verification as appropriate.

2. Perform the following activities to ensure that Compliance Requirements are addressed:

    a. Activities Allowed/Unallowed:

        (1) Request and review a copy of expenditure reports/requests for funds.

        (2) Review progress reports.

        (3) Review cash disbursements journal/general ledger.

        (4) Request and review a copy of the agency contracts with others.

        (5) Observe program activities.

    b. Allowable Cost/Cost Principles

        (1) Determine if agency knows which cost principles it must follow.

        (2) Determine if agency charges indirect cost and determine if it is approved by a federal agency or audited by a CPA.

        (3) Request and review copy of cash disbursements journal/general ledger.

        (4) If agency provides more than one service and has more than one funding source, request and review copy of cost allocation plan.

        (5) Request and review copy of charges for indirect cost.

        (6) Pull a random sample of expenditures and review extensively.

    c. Cash Management: Review all documentation if agency has requested more than 60-day advance.

    d. Eligibility

        (1) Determine if agency is aware of eligibility requirements.

        (2) Request and review copy of eligibility determination tool/document/application.

        (3) Request and review copies of verification documentation.

        (4) Request and review copies of benefit/payment calculation.

        (5) Pull a random sample of individuals/families both receiving and denied benefits and review extensively.

e.   Equipment and Real Property Management

        (1) Request and review copy of expenditure accounts to determine if expenditures for equipment are within budget allowances.

        (2) Request and review copy of agency's internal policies for equipment acquisition, inventory and disposition.

        (3) Request and review most recent physical equipment inventory results.

        (4) Review the agencies fixed assets records to assure that the records contain basic information.

        (5) Physically inspect equipment acquired with the State or federal funds to determine consistency with planned acquisitions.

f.   Matching/Level of Effort/Earmarking

        (1) Request and review copy of budget to determine if sufficient match/MOE budgeted.

        (2) Request and review copy of progress reports to determine if activity-based level of effort/earmarking requirements met.

        (3) Request and review copy of expenditure reports for sufficient match/MOE.

        (4) Request and review copy of cash disbursements journal/general ledger for match/MOE, fiscal earmarking.

(5) Request and review copy of audit activity records for appropriate levels of services.

(6) Select a random sample of expenditures and trace back to the general ledger to determine if expenditures are appropriately matched.

g. Period of Performance

(1) Review budget and expenditure reports to determine likelihood of funding availability at end of period.

(2) Review agency's internal procedures for encumbering funds.

(3) Test a random sample of expenditures and encumbrances to ensure they fall into the period of availability.

h. Procurement/Suspension/Debarment

(1) Determine if agency has certification statements from all non-profit subrecipients.

(2) Review internal control information to verify that the information indicates that all purchasing and procurement policies are in compliance with State and federal laws and regulations.

(3) Review copy of agency's internal purchasing procedures.

(4) Select a random sample of procurement documents to determine compliance with State laws and procedures and other applicable policies.

i. Program Income

(1) Review activity reports to see if any activities appear to generate program income.

(2) Review request for funds to see if program income deducted or reflected.

(3) Review the receipts journal or general ledger to determine if receipts have been recorded that should be counted as program income and if they are coded correctly.

j. Reporting

(1) Determine if agency's reports are filed timely and in the proper format.

(2) Determine which basis of accounting the agency follows.

(3) Determine the methodology for generating program/activity reports.

(4) Review financial and programmatic reports.

(5) Select a sample of reports received. Analyze the procedures and ascertain the reason for any unexpected differences.

k. Subrecipient Monitoring

(1) Request and review a copy of agency's subrecipient monitoring plan.

(2) Request and review a copy of documentation of subrecipient monitoring activities.

(3) Review a sample of contracts and subrecipient files.

l. Special Tests and Provisions: Review the laws, regulations, and the provisions of the contract or grant agreements and determine if the subrecipient is adhering to any Special Tests and Provisions.

m. Conflict of Interest

(1) Verify that the agency has a notarized copy of a Conflict of Interest statement.

(2) Discuss with the agency director that they understand the intent of the policy.

> (3) Ask to see the Board Meeting minutes documenting that the policy was adopted.

n. Monitors are required to compile and maintain a notebook or electronic document on each subrecipient that includes the following information, when applicable. These notebooks are kept in an accessible location in each section.

> (1) Project Monitor Information
>
> (2) Map and/or Directions
>
> (3) Copy of Contract and Amendments
>
> (4) Copy of Application/Proposal
>
> (5) Revised Budget Pages w/Justification
>
> (6) Completed Site Visit Checklists
>
> (7) Risk Assessment Form(s)
>
> (8) High-Risk Notification Letter
>
> (9) Monitoring Documentation
>
> (10) Latest Quarterly Narrative Report
>
> (11) Correspondence From, To or Pertaining to the Agency

IX.   Follow-up and Sanctions for Non-compliance

If the Division suspects or determines that the subrecipient has failed to adhere to required guidelines the following actions should be completed and documented as necessary.

A. Section/program staff should first make every effort to work with the subrecipient agency to identify and document problems, plan steps to resolve them, and monitor the results of corrective actions taken. Initial corrective action plans should be submitted by the subrecipient within 15 days of formal notification of the problems by the monitor. Complete correction of the issues involved may take substantially longer.

B. Corrective action plans and paybacks of disallowed costs must be centrally aggregated and tracked to ensure completion as well as adequate communication with DHHS. This includes plans and paybacks that arise from both audits and monitoring processes.

1. DPH monitoring staff must report all corrective action plans and required paybacks of disallowed costs to the lead monitoring coordinator (Curt Martin) by entering this information in the centralized Monitoring Tracking Spreadsheet.

2. If a program believes that fraud may have occurred, or for some other reason a situation warrants immediate attention at the Division or Department level, they should immediately contact the DPH lead monitoring coordinator, who may contact the DHHS monitoring coordinator. When warranted, DHHS auditors may assist with the follow-up and response.

3. Monitoring staff will coordinate paybacks when appropriate and document the outcome in the Monitoring Tracking Spreadsheet.

4. When a payback must be recouped through the DHHS Controller's Office, monitoring staff should note this information on the Monitoring Tracking Spreadsheet and send this information to the Business Operations Office and the lead monitoring coordinator.

5. The lead monitoring coordinator will receive audit reports from DHHS OIA and distribute these to the DPH Business Operations Office and program monitoring staff. Corrective action plans and paybacks from these audits will be entered into the Monitoring Tracking Spreadsheet. The lead monitoring coordinator and Business Office staff will be responsible for coordinating paybacks related to audits. Corrective action plans needed will be coordinated by program staff.

6. When necessary, the Business Operations Office will coordinate recoupments through the DHHS Office of the Controller and report the outcome to the lead monitoring coordinator.

7. The lead monitoring coordinator will enter the outcome of recoupments by the DHHS Controller's Office into the Monitoring Tracking Spreadsheet.

8. DPH monitoring staff will document the outcome of all corrective action plans in the Monitoring Tracking Spreadsheet.

9. The lead monitoring coordinator will share the Monitoring Tracking Spreadsheet on a quarterly basis with the Monitoring and Compliance Officer of the DHHS Internal Auditor's (OIA) Risk Mitigation and Audit Monitoring group (RMAM).

10. The lead monitoring coordinator will coordinate any recommendations from RMAM with DPH staff.

C. If the subrecipient agency is slow to comply with contractual requirements, sanctions may have to be temporarily imposed. Available sanctions are listed below and are also defined in Section III.

1. Cost disallowance and Recoupment (recoupment is required when disallowed costs are identified)

2. Temporarily withholding funds

3. Suspension

4. Termination

5. Voiding of a grant

6. Debarment

7. Suspension

D. DPH is authorized to implement cost disallowance and temporary withholding of funds as necessary without prior approval. When more stringent sanctions are required, the program should:

1. Develop a proposed plan of action.

2. Notify the director or her designee of the problem, actions to date and proposed response.

3. Request approval of requested sanctions.

E. The Division will ensure that all of its program areas are notified of sanctions that the Division approves to be implemented against a subrecipient. These sanctions can then be considered when assessing that subrecipient for assignment of a risk category if they apply for, or already receive, a sub-award from another program area.

F. If necessary, DPH will request assistance from the DHHS Auditors Office or the State Auditor. As noted in section III, If DPH staff suspects fraud, DPH shall consult with the DHHS Office of the Internal Auditor (OIA) and the DHHS Division of Budget and Analysis (B&A). In the event that the OIA agrees that the division's suspicions are well founded, the OIA will coordinate an audit/investigation as deemed appropriate with the office of state auditor, internal staff, federal authority, local law enforcement authorities, and/or the SBI.

X.   Responsible Parties

The Division of Public Health's lead monitoring coordinator is Curt Martin, Division Policy and Strategic Operations Manager. The lead monitoring coordinator facilitates access to training, shares information, coordinates changes to the subrecipient monitoring plan, and liaisons with the DHHS monitoring officer.

Program staff members execute required monitoring activities for subrecipients in their programs. They maintain monitoring documentation, perform necessary follow-up procedures, and update compliance supplement information. This includes reporting all corrective action plans and paybacks by completing the Monitoring Tracking Spreadsheet.

Program staff members also are aware of and take into account audit findings and audit-based corrective action plans for their subrecipients. Program staff also determine and complete recoupments that come to light during the monitoring process, when the recoupments are being executed within the framework of the program's funding process.

If paybacks are to be recouped through the DHHS Controller's Office, then program staff report these to the lead monitoring coordinator and the recoupment is coordinated by the lead monitoring coordinator and DPH Budget Office staff.