

## **DHHS POLICIES AND PROCEDURES**

---

<b>Section IV:</b>	<b>General Administration</b>
<b>Title:</b>	<b>Subrecipient Monitoring Manual</b>
<b>Chapter:</b>	<b>Monitoring</b>
<b>Current Effective Date:</b>	<b>December 1, 2002</b>
<b>Revision History:</b>	<b>12/01/02</b>
<b>Original Effective Date:</b>	<b>12/01/02</b>

---

### **Monitoring**

Monitoring is the review process used to determine a subrecipient's compliance with the requirements of a state or federal program, applicable laws and regulations, and expected results and outcomes. Monitoring also includes the review of internal controls to determine if the financial management and the accounting system are adequate to account for program funds in accordance with state or federal requirements

Subrecipients must be monitored to ensure compliance with all of the requirements outlined in their contract or other agreement with the Division. A well thought-out and clear agreement is essential in avoiding problems. Most agreements are project/program specific, with many of the general requirements only referenced. Monitoring is, in effect, a method of determining if the subrecipient is either in default of the agreement or will be in default, if the current situation is allowed to continue. Monitoring should not be a one-time event. To be an effective tool for avoiding problems and improving performance, monitoring must be an on-going process. The frequency and coverage of monitoring is highly dependent on the risk assessment of the subrecipient.

Monitoring is a process that assesses the quality of internal control performance over time and includes:

- Ongoing monitoring built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management of reports.
- Periodic site visits performed at subrecipient locations and checks performed to determine whether procedures are being followed as intended.
- Follow-up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews.
- Review by subrecipient and Division management to evaluate the subrecipient's performance and make any adjustments necessary in the relationship.

### **Compliance Monitoring (Program and Fiscal)**

“Program Monitoring” means monitoring activities performed by the Division to ensure that compliance requirements are being met with respect to the intent of the Federal and State award. “Fiscal Monitoring” means activities performed by Division to ensure that funds are being expended as intended to carry out the objectives of the program (s) and to ensure federal and state cash management requirements are met. Both components are vital to effective subrecipient monitoring. Monitoring activities may take various forms, such as desk audits, reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observing operations, arranging for agreed-upon procedures for certain aspects of

subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

### **Monitoring Staff**

Ideally, there should be a separation of duties for all monitoring staff to allow for independence and objectivity. For example, monitoring personnel should have duties that are segregated from program and fiscal management, program development, technical assistance, or any other function related directly to program administration. One goal of monitoring is to identify problems before they result in audit findings or turn into bigger problems and this aspect can be considered to be a type of technical assistance to the subrecipient. However, it is important that monitors perform their duties in an objective manner. The monitor should simply factually note any problems that are identified; other Division staff should render any technical assistance needed by the subrecipient to correct cited deficiencies.

### **Required Monitoring Core Areas**

OMB Circular A-133 outlines fourteen (14) required areas of compliance monitoring. North Carolina law adds another requirement related to conflict of interest policies for non-profit subrecipients. The subrecipient's risk level determines the type of monitoring performed in each of these areas. For each risk level, monitoring objectives and core areas have been identified. The Required Core Monitoring Areas are as follows:

- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Davis-Bacon Act
- Eligibility
- Equipment and Real Property Management
- Matching, Level of Effort, Earmarking
- Period of Availability of Funds
- Procurement and Suspension and Debarment
- Program Income
- Real Property Acquisition and Relocation Assistance
- Reporting
- Subrecipient Monitoring
- Special Test and Provisions
- Conflict of Interest (Non-profit agencies only)

The monitoring of a subrecipient classified as high or medium risk should include testing of the financial/program data and reporting. For High risk subrecipients, the sample size should be larger than that of a medium risk and the level of testing should be more intense.

## **Basic Objectives of High and Medium Risk Monitoring**

- To obtain reasonable assurance that the agency is a “going concern.”
- To test the reliability of internal controls.
- To verify that program objectives are being met.
- To test the reliability of the subrecipient’s financial and programmatic reports.
- To test if costs and services are allowable and eligible.

## **Basic Objective of Low Risk Monitoring**

- To assess internal and operational controls to determine if further monitoring is necessary.

## **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:

1. 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.
2. 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.
3. 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.
4. 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.

5. 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.
6. 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.”
7. 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.
8. 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.
9. 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.

For questions or clarification on any of the information contained in this policy, please contact [Office of the Controller](#). For general questions about department-wide policies and procedures, contact the [Office of Policy & Planning](#).