

## Statewide Operating Policy

Owner: Minnesota Management and Budget, Financial Reporting Unit

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### Single Audit: Responsibilities Concerning Subrecipients of Federal Financial Assistance

#### Objective

To outline the responsibilities of a state agency that provides Federal funds to a subrecipient to carry out a Federal program. The state agency is called a pass-through entity. The [2 CFR Part 200](#) provide the pass-through entity responsibilities. In addition, the Minnesota Department of Administration, Office of Grants Management, issued policies outlining pass-through entity responsibilities.

#### Policy

A pass-through entity must perform the following for the Federal awards it makes:

1. Determine subrecipient eligibility.
2. Clearly identify every Federal subaward by informing each subrecipient of the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, if the award is research and development (R & D), name of Federal agency, etc.
3. Evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and terms and conditions of the subawards.
4. Advise subrecipients of requirements imposed on them by Federal laws, regulations, state grants management policies, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
5. Monitor the activities of subrecipients as necessary to ensure that the Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
6. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements for that fiscal year.
7. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
8. Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
9. Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.
10. Ensure accountability of for-profit subrecipients.
11. Evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
12. Comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.

Refer to the complete above-mentioned document for more information on these requirements.

As noted in 6 and 7, one part of subrecipient monitoring involves the review of audit reports and the issuance of management decisions on audit findings. See MMB Statewide Operating Procedure 0402-03.1 for procedures related to this responsibility.

## **Definitions**

### **Crosscutting Audit Findings**

Findings related to instances of noncompliance with Federal laws and regulations (including internal control findings affecting Federal assistance) in a subrecipient audit report which relate to Federal programs of more than one state agency. One example of a crosscutting audit finding is a finding related to cash management that impacts Federal programs administered by more than one state agency. In this example, the state agency uses one process to determine the amount and timing of Federal draws for all of its Federal programs. The process results in excess cash for all Federal programs.

### **Management Decision**

The evaluation by the pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the audited entity as to what corrective action is necessary. A management decision should clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected audit action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. The management decision should describe any appeal process available to the auditee.

### **Pass-through entity**

A non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

### **State Cognizant Agency**

The state agency designated by Minnesota Management & Budget to ensure, for assigned subrecipients, that appropriate and timely corrective action is taken for crosscutting audit findings.

### **Subrecipient**

A non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program. This does not include an individual who is a beneficiary of such a program.

### **Subrecipient Monitoring**

The processes and procedures undertaken by a pass-through entity to ensure that subrecipients are complying with applicable laws, regulations, state grants management policies, contract or grant agreement provisions, and that performance goals are being achieved.

Factors such as the size of awards, the percentage of total program funds awarded to subrecipients, the complexity of compliance requirements, and state grants management policies influence the nature and extent of necessary monitoring procedures. Monitoring activities must be documented and may include, but are not limited to, the following:

1. Pre-award assessments of subrecipient financial and program capabilities;
2. Reviews of subrecipient financial and programmatic reports;

3. Site visits to subrecipients to review financial and programmatic records as well as the observance of operations and the performance of financial reconciliations as required by the Minnesota Department of Administration, Office of Grants Management policies;
4. Reviews of specific subrecipient activity based on risk assessment or significant compliance requirements. One example is the review of client eligibility determinations;
5. Review and follow-up on audit subrecipient audit findings noted in audits performed under the Single Audit Act; and
6. The use of various checklists and evaluation tools to document activities such as reviews, site visits, follow-up completed on subrecipient audit findings, and the receipt of required reports and documents prior to closure of contracts or grant agreements.

### **Subrecipient and Contractor Determinations**

An auditee may be a recipient, subrecipient, or a contractor. Federal awards expended as a recipient or a subrecipient would be subject to audit under the [2 CFR Part 200](#) . The payments received for goods or services provided as a contractor are not considered Federal awards. The guidance in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards shown below should be considered in determining whether payments constitute a Federal award or a payment for goods and services. Note that in making the determination of whether a subrecipient or contractor relationship exists, the substance of the relationship is more important than the form of the agreement.

Characteristics indicative of a Federal award received by a subrecipient are when the organization:

1. Determines who is eligible to receive what Federal financial assistance;
2. Has performance measured in relation to whether objectives of a Federal program were met;
3. Has responsibility for programmatic decision making;
4. Has responsibility for adherence to applicable Federal program compliance requirements;
5. Uses the Federal funds to carry out a program as opposed to providing goods or services for a program of the pass-through entity.

Characteristics indicative of a procurement relationship between non-Federal entity and a contractor are when the non-Federal entity receiving the federal funds:

1. Provides the goods and services within normal business operations;
2. Provides similar goods or services to many different purchasers;
3. Normally operates in a competitive environment;
4. Provides goods or services that are ancillary to the operation of the Federal Program;
5. Is not subject to compliance requirements of the Federal program.

The Association of Government Accountants (AGA) created [Contractors / Subrecipient Checklist](#) to help with this decision-making.

### **Contractor**

An entity that receives a contract, which is a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used here does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward.

## Related Policies and Procedures

[MMB Statewide Operating Procedure 0402-03.1, Single Audit](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-4/0402-03-01-single-audit-subrecipient-procedure.docx): Responsibilities Concerning Subrecipients of Federal Financial Assistance (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-4/0402-03-01-single-audit-subrecipient-procedure.docx>)

[MMB Statewide Operating Policy 0402-01, Federal Cash Management Policy](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-4/0402-01-federal-cash-management-policy.docx): Accounting for and Reporting on the Transfer of Funds between the Federal Government and the State (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-4/0402-01-federal-cash-management-policy.docx>)

[MMB Statewide Operating Policy 0402-02, Single Audit](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-4/0402-02-single-audit-policy.docx): Accounting for and Reporting of Federal Financial Assistance (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-4/0402-02-single-audit-policy.docx>)

## See Also

[Minnesota Department of Administration Grants Management](https://mn.gov/admin/government/grants/index.jsp)  
(<https://mn.gov/admin/government/grants/index.jsp>)

[Minnesota Office of the State Auditor Federally Assisted Programs of Subrecipients reports](http://www.osa.state.mn.us/list.aspx?type=rpt&div=aud)  
(<http://www.osa.state.mn.us/list.aspx?type=rpt&div=aud>)

[Association of Government Accountants' \(AGA\) Contractor / Subrecipient Checklist](https://www.agacgfm.org/AGA/Intergovernmental/documents/subcontractor_checklist.pdf)  
([https://www.agacgfm.org/AGA/Intergovernmental/documents/subcontractor\\_checklist.pdf](https://www.agacgfm.org/AGA/Intergovernmental/documents/subcontractor_checklist.pdf))