

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**PROTOCOL FOR ASSESSING  
STATES' MONITORING OF  
SUBGRANTEES**



Inspector General

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# *Office of Inspector General*

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.



## A B S T R A C T

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Many Federal programs are administered through Federal grants to States and other entities. Increasingly, States are passing through these Federal funds to subgrantees to carry out core program services. According to Federal requirements, States must monitor their subgrantees. However, these requirements are general, lacking the specificity needed to evaluate States' monitoring practices.

Federal stakeholders, including the Office of Management and Budget (OMB) and Congress, have expressed concern that States are not adequately monitoring their subgrantees, and that this may reflect a lack of Federal agency oversight. Based on this concern, OMB created an interdepartmental Task Force on Subrecipient Monitoring in 2002. The Office of Inspector General has focused a number of its inspections and audits on subgrantee monitoring as part of a broader effort to review the management of grant programs under the Department of Health and Human Services.

To assess States' monitoring of subgrantees in a recent inspection, "Oversight of States' Subgrantee Monitoring in the Foster Care Program" (OEI-05-03-00060), we developed measurable criteria based on Federal grants management requirements. We anticipate that our criteria will be useful to other oversight entities attempting to assess States' subgrantee monitoring. Toward that aim, this document outlines the content of our criteria, the process we undertook to develop these criteria, and the methodology we used to apply our criteria to States' monitoring of subgrantees in the foster care program.

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## OBJECTIVE

To present a set of measurable criteria based on Federal grants management requirements that can be used to assess States' monitoring of subgrantees.

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## BACKGROUND

To assess States' monitoring of subgrantees in a recent inspection, "Oversight of States' Subgrantee Monitoring in the Foster Care Program" (OEI-05-03-00060), we developed measurable criteria based on Federal grants management requirements. We anticipate that our criteria will be useful to other oversight entities attempting to assess States' subgrantee monitoring. Toward that aim, this document outlines the content of our criteria, the process we undertook to develop these criteria, and the methodology we used to apply our criteria to States' monitoring of subgrantees in the foster care program.

### **Recent Federal Interest in Subgrantee Monitoring**

In 2001, the Secretary of the Department of Health and Human Services (HHS) created an initiative to improve the management of HHS grant programs. The Assistant Secretary for Administration and Management (ASAM) is taking a lead role in this effort. The Office of Inspector General (OIG) has also undertaken a broad effort to study the control, effectiveness, and value of HHS grant programs.

Federal stakeholders, including the Office of Management and Budget (OMB) and Congress, have expressed concern that States are not adequately monitoring their subgrantees, and that this may reflect a lack of Federal agency oversight. Based on this concern, OMB created an interdepartmental Task Force on Subrecipient Monitoring in 2002. This task force is reviewing regulations and policies to identify whether Federal guidance and oversight of subgrantee monitoring is adequate.<sup>1</sup> Congress has also shown its concern by requesting reviews of subgrantee monitoring in specific HHS programs.<sup>2</sup>

### **Recent Work by the Office of Inspector General**

The OIG has reviewed subgrantee monitoring in several HHS programs. The OIG recently examined monitoring of subgrantees in the Public Health Preparedness and Response to Bioterrorism program and in the Ryan White CARE Act program.<sup>3</sup> In 2004, OIG examined States' monitoring of subgrantees in the foster care program. This inspection found that three of the six States reviewed lacked an adequate fiscal or

program monitoring mechanism, and that the Administration for Children and Families pays minimal attention to States' systems for monitoring subgrantees. To assess States' monitoring, we developed the criteria that are presented in this technical report.

### **Grants Management Requirements**

In HHS, responsibilities for State administration of Federal funds are delineated by two sets of Federal requirements:

- the Uniform Administrative Requirements (45 CFR Part 74 or 45 CFR Part 92),<sup>4</sup> and
- the Single Audit Act (implemented by OMB Circular A-133).

Specifically, the Uniform Administrative Requirements contain HHS grants management regulations and incorporate OMB Circular A-133 by reference. Together, the regulations and circular set forth major HHS grants management requirements, including a subset of requirements that are specifically related to the administration of subawards.

In accordance with these requirements, States have several different responsibilities that are part of managing Federal grants passed through to subgrantees. First, States must communicate basic grants information to subgrantees.<sup>5</sup>

Second, States must monitor their subgrantees' performance. According to Federal grants management requirements<sup>6</sup>, States must:

- Ensure that subgrantees are complying with program requirements and achieving performance goals.
- Ensure subgrantees are complying with fiscal requirements, such as having appropriate fiscal controls in place, and are using awards for authorized purposes.

States can ensure that subgrantees are meeting these requirements through a variety of monitoring mechanisms, including progress reports, site visits, financial reports, independent (third party) financial audits, and/or internal (State-conducted) financial audits.

Finally, States must ensure that all subgrantees designated as "subrecipients," according to OMB Circular A-133, that meet the audit threshold specified in the circular, receive a Single Audit.<sup>7</sup> Single Audits include a traditional financial audit of subgrantees' basic financial statements, as well as an auditor's report on subgrantees'

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internal controls, and an opinion on subgrantees' compliance with requirements of major Federal programs.

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## CRITERIA DEVELOPMENT

Grants management requirements for States monitoring of subgrantees are general. States are required to “monitor the activities of subrecipients as necessary to ensure that 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.”<sup>8</sup> HHS has issued no further guidance or delineation on what kind or level of monitoring is considered “necessary.” Thus, to assess whether States are monitoring their subgrantees “as necessary,” it is essential to define measurable criteria.

To develop criteria based on the general grants management requirements, we consulted various grants management sources. Specifically, we reviewed:

- Federal requirements, including 45 CFR Part 74, 45 CFR Part 92, and OMB Circular A-133;
- OMB Circular A-133 compliance supplements;
- applicable HHS grants management guidance;
- subgrantee monitoring guidance produced for other HHS programs;
- guidance for other Federal departments;
- industry guidance from Management Concepts and Thompson Publishing Group;
- grants management reports from the Government Accountability Office (GAO), OIG, ASAM, and Assistant Secretary for Planning and Evaluation; and
- Single Audit reports containing subrecipient monitoring findings for States’ foster care programs.

We presented our criteria to staff from ASAM in its draft form.<sup>9</sup> The ASAM staff found our criteria to be reasonable and consistent with Federal requirements.

**CRITERIA**

We developed these criteria as a set of minimum standards based on Federal grants management requirements. Our goal was to develop criteria specific enough to be measurable, yet general enough to allow for variation in how States execute their monitoring of subgrantees.

Our criteria set forth the following framework for assessing whether or not States were monitoring “as necessary:” States must have at least one fiscal monitoring mechanism and one program monitoring mechanism in place. In addition to assessing States’ program and fiscal monitoring systems, we also examined their adherence to requirements related to communicating required grants management information.

FEDERAL REQUIREMENTS	CRITERIA
<b>Program and Fiscal Monitoring</b>	
<p>States must:</p> <p>--“monitor the activities of subrecipients as necessary to ensure that 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.” [OMB Circular A-133, §__.400(d)(3)]</p> <p>--“manage and monitor each project, program, subaward, function or activity supported by the award.” [45 CFR § 74.51(a)]</p> <p>--“monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved.” [45 CFR § 92.40(a)]</p>	<p>States must have at least:</p> <p><b>--one fiscal monitoring mechanism, and</b></p> <p><b>--one program monitoring mechanism</b></p>
<b>Communication of Required Information</b>	
<p>States must provide subgrantees with the “best information available to describe the Federal award.” [OMB Circular A-133, §__.400(d)(1)]</p>	<p>States must at least inform subgrantees that the grant includes Federal funds.</p>
<p>States must advise subgrantees of requirements imposed on them by Federal laws and regulations. [OMB Circular A-133, §__.400(d)(2)]</p>	<p>States must inform subgrantees of Federal grants management requirements.</p>

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## USING CRITERIA TO ASSESS STATES' MONITORING OF SUBGRANTEES: DATA COLLECTION AND ANALYSIS

This section demonstrates how we applied our criteria to assess States' monitoring of subgrantees in the foster care program. First, we present our methodology for collecting data from States, including three key data collection instruments from our inspection. Each instrument is presented in a half-page format and is followed by brief definitions and instructions for use. Then, we turn to our analysis, which consisted of comparing the data we collected with our criteria.

### Data Collection

We examined States' subgrantee monitoring through interviews with staff and a review of States' subgrantee files.

*Interviews with monitoring staff.* To understand the complexities of State monitoring systems, we began by interviewing staff members responsible for monitoring subgrantees. Typically, this included interviews with fiscal, program, and licensing staff. We also reviewed policies, protocols, and guidance related to subgrantee monitoring.

We used structured interviews aimed at gaining a full understanding of the complex design of States' systems for monitoring subgrantees. We asked staff to describe each of their monitoring mechanisms, including how frequently mechanisms were used to collect information, how the information was reviewed, and how the State followed up on problems that were identified during this process.

The following Monitoring System Summary table summarizes the design of a State's monitoring system, based on information gathered in interviews and by reviewing monitoring protocols. After completing the Monitoring System Summary, we used it as a guide when conducting subgrantee file reviews. The summary provides information about which monitoring mechanisms each subgrantee should have received and indicates what documentation to expect in the file. The summary is also useful at the analysis stage, when assessing whether the design of a States' monitoring system meets our criteria.

C R I T E R I A

Monitoring System Summary			
			State:
Monitoring Mechanism	Frequency	Review	Follow-up
<b>FISCAL MONITORING</b>			
<b>PROGRAM MONITORING</b>			

**Monitoring Mechanism:**

List the name of the monitoring mechanism. This could include progress reports, site visits, financial reports, independent audits, State-performed audits, or other such approaches. Single Audits should be included under fiscal monitoring. If the mechanism does not apply to all subgrantees, indicate the subset for which the mechanism applies. Example: Monthly Progress Reports for group homes.

**Frequency:**

The number of times the mechanism should be used in your sample timeframe (we used 1 year). Example: for Monthly Progress Reports, Frequency = 12.

**Review:**

Enter **Y** if State staff indicate that they review submitted information, or enter **N** if they indicate that they do not review. For monitoring that the State conducts directly, such as site visits, review should be coded **N/A**. *Check the shaded box* within the column if staff indicate that their review is documented.

**Follow up:**

Enter **Y** if State staff indicate that they follow up with subgrantees, or enter **N** if they indicate that they do not follow up. *Check the shaded box* within the column if staff indicate that their follow up is documented.

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*Review of States' subgrantee monitoring files:* After gaining an understanding of how States intended to monitor their subgrantees, we used structured data collection instruments in our review of subgrantee files. To verify whether States' monitoring systems were functioning as the State described, we reviewed documentation of monitoring in a sample of subgrantee case files. For example, if a State requires monthly fiscal reports, we reviewed each file for evidence of 12 fiscal reports. Next, we reviewed the file for evidence that the 12 reports had the type of review and follow up described by the State.

We also assessed whether States met Single Audit requirements in those States that required their subgrantees to have a Single Audit. Namely, we assessed whether States followed up on all subrecipient audit findings within the 6-month time period.

In cases where States were unable to provide us with documentation of their monitoring activities onsite, we allowed them additional time to locate and send us the documentation. In cases where documents were unavailable, States were not given credit for carrying out monitoring for these particular subgrantees.

We used the following Subgrantee Monitoring File Review worksheet to record information from an individual subgrantee file. First, the analyst enters the monitoring mechanisms and documentation expected, using information in the Monitoring System Summary table and from interviews. Then the analyst reviews the subgrantee monitoring file and records what documentation is actually found in the file. After completing a file review for each selected subgrantee, these worksheets can be aggregated and used when analyzing whether States' monitoring mechanisms are functioning as States described.

C R I T E R I A

Subgrantee Monitoring File Review						
Subgrantee ID# _____			State _____			
Monitoring Mechanism	Frequency		Review		Follow up	
	Expect	Actual	Expect	Actual	Expect	Actual
<b>FISCAL MONITORING</b>						
<b>PROGRAM MONITORING</b>						

- Monitoring Mechanism:** List the name of the monitoring mechanism. Example: Monthly Progress Reports.
- Frequency (expect):** The number of times the mechanism should be used annually. Example: for Monthly Progress Reports, Frequency (expect) = 12.
- Frequency (actual):** The number of times the mechanism was actually used for the sample year according to documentation in the monitoring file. Example: for a file that reflects 10 Monthly Progress Reports for the year, Frequency (actual) = 10.
- Review (expect):** The number of times evidence of review is expected annually. If State staff indicate that they do not document their review, this number should be zero.
- Review (actual):** The number of times review was documented (e.g., check marks or other notations indicating review) for the sample year.
- Follow up (expect):** The number of times evidence of follow up is expected annually, or 'U' for unknown (e.g., if the State only follows up in cases where a problem is identified).
- Follow up (actual):** The number of times evidence of follow up was found. Example: for a file that includes documented follow up for 8 of 12 Monthly Progress Reports, Follow up (actual) = 8, even if the file contains evidence of multiple follow up actions for individual reports.

## C R I T E R I A

*Review of States' subgrantee contracts and other communication:* To assess whether States had communicated required grants management information to subgrantees, we reviewed State contracts, and other forms of up-front communication to subgrantees. Specifically, we reviewed documents for language informing subgrantees that they were receiving Federal foster care funds and language informing subgrantees of Federal grants management requirements.

The Contract, Policy Manual, Other Communication checklist is used to review contracts and other forms of up-front communication between the State and its subgrantees. The analyst can use the checklist to record which requirements the State has communicated to its subgrantees. After completing a checklist for each selected subgrantee, these checklists can be aggregated and used when analyzing whether States communicated information as required.

<b>Contract, Policy Manual, Other Communication Checklist</b>	
<b>Subgrantee ID#</b> _____	<b>State</b> _____
<p><b>I. Identify Federal awards UPFRONT</b> by informing each subgrantee of the best information available to describe the Federal award. [OMB Circular A-133, §__.400(d)(1)]</p> <p>1. Identify that the subgrantee’s award includes Federal funds, at least implying that funds are Title IV-E foster care funds.  <input type="checkbox"/> Yes      <input type="checkbox"/> No</p> <p><b>II. Advise subgrantees of requirements</b> imposed on them by Federal laws or regulations. [OMB Circular A-133, §__.400(d)(2)]</p> <p>1. 45 CFR Part 74 or OMB Circular A-110, grants management requirements are:  <input type="checkbox"/> Explained      <input type="checkbox"/> Cited      <input type="checkbox"/> Implied      <input type="checkbox"/> Not included</p> <p>2. OMB Circular A-133 Single Audit requirement (if applicable) are:  <input type="checkbox"/> Explained      <input type="checkbox"/> Cited      <input type="checkbox"/> Implied      <input type="checkbox"/> Not included</p> <p>3. Subgrantees are required to pass through these requirements to any subcontractors.  <input type="checkbox"/> Yes      <input type="checkbox"/> No</p> <p>4. Subgrantees are required to permit appropriate officials of the Federal agency and pass-through entity to have access to records and financial statements.                      [OMB Circular A-133, §__.400(d)(7) and §__.200(d)]  <input type="checkbox"/> Yes      <input type="checkbox"/> No</p>	

**I. Identify Federal Awards:**

Check Yes if funds are identified to subgrantee as Federal.

**II. Advise subgrantees of:**

**45 CFR Part 74 and OMB Circular A-133 requirements:**

Check: Explained if Federal requirements are delineated in any way, (e.g., in a Single Audit manual).  
Cited if Federal requirements are cited but not explained, (e.g., “45 CFR Part 74”).  
Implied if Federal requirements are implied, but not cited or explained, (e.g., ”Subgrantee is responsible for all applicable State and Federal requirements”). This is the minimum States had to communicate to meet our criteria.

**Pass through requirements:**

Check Yes if the subgrantee is specifically informed that it must pass through requirements to any subcontractors that the subgrantee hires.

**Access to records and financial statements:**

Check Yes if subgrantee is specifically informed that it must allow oversight entities this access.

**Analysis of States' Monitoring of Subgrantees**

In analyzing the data we collected from States, we found it straightforward to assess States' communication of required information to subgrantees using our criteria. However, to assess States' program and fiscal monitoring mechanisms, we needed to further define our criteria.

We broke down fiscal and program monitoring into three basic components: collecting information, reviewing the information collected, and following up on identified problems. We defined follow up to include communication back to the subgrantee regarding the results of the State's monitoring. Here are two acceptable examples: (1) the State sends a letter of approval or corrective action to each subgrantee after the annual site visit; (2) the State follows up by letter or phone call only when a subgrantee's progress report indicates a problem.

In States where subgrantees are required to have a Single Audit, we defined follow up to include the specific Single Audit requirement that States follow up on all audit findings within 6 months.

We operationalized our criteria to include standards for mechanisms' design and functioning. Specifically, program and fiscal monitoring mechanisms must meet the following standards:

- Mechanism design is appropriate: The mechanism must be designed to include all three basic components: collecting information, reviewing the information collected, and following up on identified problems. Further, the mechanism must be designed to monitor all subgrantees.
- Mechanism is functioning: The mechanism must be functioning for all three basic components: collecting information, reviewing the information collected, and following up on identified problems. Use of the mechanism must be documented for 75 percent of the subgrantee monitoring files reviewed. While we would expect the monitoring to be documented in all files, we wanted to allow for a small amount of error in States' documentation of their monitoring.



## A C K N O W L E D G M E N T S

This report was prepared under the direction of William C. Moran, Regional Inspector General for Evaluation and Inspections in the Chicago regional office. Other principal Office of Evaluation and Inspections staff who contributed include:

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<sup>1</sup> Task Force members include staff from: the Office of Management and Budget (OMB); the Departments of Health and Human Services (HHS), Transportation, Agriculture, Education, Justice, Labor, and Navy; the Federal Emergency Management Agency; the National Science Foundation; and the States of Louisiana and Texas.

<sup>2</sup> A 2002 Government Accountability Office (GAO) study, “Welfare Reform: Federal Oversight of State and Local Contracting can be Strengthened,” GAO-02-661, 2002, examined State and local agency monitoring of subgrantees receiving Temporary Assistance for Needy Families funds, and found that ACF staff were not aware of monitoring problems identified in States’ Single Audit reports. These audit reports cited weaknesses in States’ monitoring, including inadequate fiscal and program monitoring of local contracting entities.

Congress has also expressed concern that the Health Resources and Services Administration (HRSA) does not adequately monitor grantees’ oversight of their subgrantees. Consequently, in 2001, the Senate Finance Committee requested that the Office of Inspector General (OIG) review HRSA’s oversight of Ryan White CARE Act Title I and Title II grantees and grantees’ oversight of their subgrantees.

<sup>3</sup> The OIG issued 15 audit reports in 2003 on State and city monitoring of subgrantees receiving Public Health Preparedness and Response to Bioterrorism funds, citing that some States and major cities lacked appropriate monitoring mechanisms. In addition, OIG responded to a request by the Senate Finance Committee (see previous endnote), and examined HRSA’s oversight of Ryan White CARE Act Title I and Title II grantees and grantees’ oversight of their subgrantees.

<sup>4</sup> There are two sets of HHS regulations that provide Uniform Administrative Requirements: 45 CFR Part 74, which typically applies to awards to non-governmental entities and is based on OMB Circular A-110, and 45 CFR Part 92, which typically applies to awards to governmental entities and is based on OMB Circular A-102.

<sup>5</sup> OMB Circular A-133, §\_\_.400(d)(1) and §\_\_.400(d)(2).

<sup>6</sup> OMB Circular A-133, §\_\_.400(d) states that “. . . a pass-through entity shall perform the following for the Federal awards it makes:  
. . . (3) Monitor the activities of subrecipients as necessary to ensure that 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.”

<sup>7</sup> Under OMB Circular A-133, certain subgrantees must have a specific type of independent audit, called a Single Audit. Subgrantees exempt from the Single Audit include all for-profit subgrantees, and those non-profit subgrantees receiving less than \$500,000 in total Federal awards. Subgrantees considered to be “vendors” are also not subject to the Single Audit. States use Federal guidelines delineated in OMB Circular A-133, §\_\_.210 to determine whether subgrantees are “subrecipients” and thus subject to Single Audit requirements, or “vendors” and not subject to a Single Audit. These guidelines characterize “subrecipients” as subgrantees who carry out the program: they may determine eligibility, make programmatic decisions, have their performance judged against the program objectives, and they must comply with program requirements. “Vendors” are characterized as subgrantees who provide goods and services that are ancillary to the operation of the program: they provide goods and services within normal business hours to many different purchasers, operate in a competitive environment, and are not subject to program requirements. The guidelines direct States to use their judgment in making this determination. We found that some States considered foster care subgrantees to be “subrecipients,” and other States considered subgrantees providing the same core services to be “vendors.”

<sup>8</sup> OMB Circular A-133, §\_\_.400(d)(3).

<sup>9</sup> Staff from the Office of the Assistant Secretary for Administration and Management were presented with and approved our draft criteria. We did not present them with the methodology we used to operationalize the criteria.