United States Department of Agriculture
Food and Nutrition Service
Mountain Plains Region
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Reply to Attn. of: SP 95-11
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Subject: State Agency Responsibilities for Monitoring Federal Audit Compliance (Under Office of Management and Budget (OMB) Circulars A-128 and A-133) of Subrecipients

To: STATE AGENCY DIRECTORS (Child Nutrition Programs) - Colorado ED, Colorado DH, Colorado SS, Iowa, Kansas, Missouri ED, Missouri DH, Montana OPI, Montana DHES, Nebraska ED, Nebraska SS, North Dakota, South Dakota, Utah, Wyoming ED, Wyoming DHSS

This guidance addresses the State Agency's (SA) responsibilities, as a Federal grant recipient, to monitor its subrecipient organizations' (i.e., school food authorities, institutions, centers and sponsors) compliance with Federal audit requirements under OMB Circulars A-128 and A-133, specifically those of its subrecipients that receive Federal funding--from the SA--totaling less than $25,000 in a fiscal year. We also offer a summary of the information the SA should provide to subrecipient organizations about their audit and related financial management responsibilities, as well as several means by which SA audit monitoring may be accomplished.

As a general principle, the SA, as a Federal grant recipient, is ultimately responsible for all the Federal awards it passes through to subrecipient organizations, even after the Federal awards are in the organizations' hands. This principle is reflected in the fact that, as part of SA-level A-128 audits, an evaluation is made of how the SA has incorporated relevant audit findings for local organizations/subrecipients into its own financial accounting system. Federal agencies hold the recipient (SA), not the subrecipient, responsible for compliance at the subrecipient level.

In order to properly monitor its subrecipients for compliance with Federal audit requirements, the SA should inform all subrecipients of the Federal requirements (A-128 and A-133), and establish a system for monitoring that identifies all subrecipients that meet or exceed the minimum audit requirements of $25,000 in Federal funding from all sources. The minimum SA requirements for monitoring subrecipients' audits are derived from 7 CFR 3015.73 (c)(4) Other testing, where it indicates that an audit of the SA should expect to find that: (1) the SA has a system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and, (2) the SA system operates in accordance with prescribed procedures. This monitoring system must be effective in gathering pertinent audit information from subrecipients and acting on this information, because 3015.73 (c)(4) further states that the SA-level auditor's review should: (1) comment on the monitoring system, if necessary, and, (2) consider whether subrecipient audits require adjustment of the SA's financial statements, etc.

Please note that these requirements are separate and distinct from the A-128 paragraph 9 Subrecipients requirement, and are not based on the amount of the Federal grant the SA issues to a subrecipient organization in any fiscal year. Therefore the specific audit provisions of 3015.73 (c)(4) cover SA audit monitoring responsibilities for subrecipient organizations that receive less than $25,000 in Federal grant money from the SA in a fiscal year. The Financial Management Division of the National Office of the Food and Consumer Service has affirmed that these are requirements under 3015, and there have been instances in which A-128 audits of SAs have disclosed problems with SA compliance with monitoring subrecipient audit requirements.

The following is a summary of SA audit monitoring responsibilities:

1. Fully inform subrecipient organizations of their responsibilities under the financial management system they are required to use in operating the Program(s). They will need to know what management standards to follow, including the various accounting records they should retain.

2. Inform subrecipient organizations of the Federal financial assistance that the SA is awarding them. Have each subrecipient keep a record of Federal financial assistance received from all sources on a schedule of Federal financial assistance.

3. Provide subrecipients with full information about Federal audit requirements, A-128 and A-133, as applicable, and provide guidance and technical assistance as necessary.

4. Monitor to determine if the subrecipient is required to have an audit, according to A-128 or A-133. Any of the following represents a minimally adequate system:

   - Solicit each subrecipient annually on the amount of Federal assistance received from all sources, received in the most recent fiscal year. If the subrecipient has maintained a schedule of Federal financial assistance, this task should not be difficult. The SA can gather the information as part of the annual agreement renewal process, or through a separate process.

   - Obtain the information annually from the agency of State government, such as a State Budget Office, that maintains a record of the amount of Federal assistance granted to all entities within the state.

- Obtain the information through on-site reviews or technical assistance visits to the subrecipient. For example, the information may be gathered as part of regularly scheduled reviews of subrecipient Program compliance.

5. Upon receipt of audit reports from subrecipients, perform a desk review of the audit to determine if the audit conforms to Federal audit requirements.

6. Identify pertinent audit findings and take appropriate steps to resolve the findings.

7. If the SA itself has granted $25,000 or more to any subrecipient, the SA has additional responsibilities that are outlined in A-128, paragraph 9, Subrecipients.

If you have any questions on these matters, please call our office.

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