

NCSI's quick reference guides are intended to assist states and stakeholders in better understanding the basics of fiscal requirements stipulated in the Individuals with Disabilities Education Act (IDEA), the Education Department General Administrative Regulations (EDGAR), and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (commonly known as the Uniform Grant Guidance or Uniform Guidance). This informal guidance does not represent an interpretation of IDEA by the Office of Special Education Programs (OSEP) or the U.S. Department of Education. Other IDEA fiscal resources are available at cifr.wested.org.

I What is subrecipient monitoring?

Subrecipient monitoring is a requirement under the Uniform Grant Guidance for pass-through entities to monitor subrecipient compliance with relevant requirements, terms, and conditions of an award and monitor progress toward performance goals. For the purpose of IDEA Part B, the state educational agency (SEA) assumes the responsibility of the pass-through entity, and local educational agencies (LEAs) serve as the subrecipients.

I How does subrecipient monitoring fit within the SEA's general supervision responsibilities under IDEA?

SEAs are required to develop and implement a system of general supervision to monitor the implementation and enforce the requirements of IDEA with an increased emphasis on monitoring performance. Fiscal management is one of eight components considered necessary for a reasonably designed general supervision system, and it involves subrecipient monitoring to ensure fiscal compliance.

2 CFR § 200.332(D):

All pass-through entities must:

(d) Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

34 CFR § 300.600 (A):

The State must:

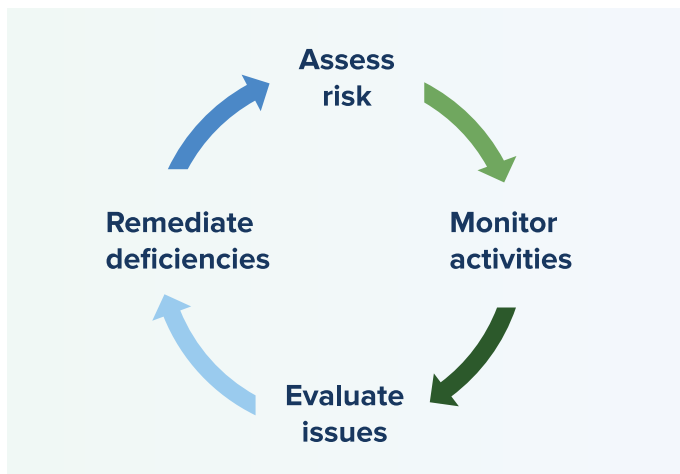
- (1)** Monitor the implementation of this part;
- (2)** Make determinations annually about the performance of each LEA using the categories in § 300.603(b)(1);
- (3)** Enforce this part, consistent with § 300.604, using appropriate enforcement mechanisms, which must include, if applicable, the enforcement mechanisms identified in § 300.604(a)(1) (technical assistance), (a)(3) (conditions on funding of a LEA), (b)(2)(i) (a corrective action plan or improvement plan), (b)(2)(v) (withholding funds, in whole or in part, by the SEA), and (c)(2) (withholding funds, in whole or in part, by the SEA); and
- (4)** Report annually on the performance of the state and of each LEA under this part, as provided in § 300.602(b)(1)(i)(A) and (b)(2).

I What are the main components of an effective subrecipient monitoring system?

A subrecipient monitoring system must consist of

- **assessing** risk through an established risk assessment to determine the appropriate subrecipient monitoring activities,
- **conducting monitoring** activities, including monitoring of subrecipients' compliance with single audit requirements, to identify noncompliance and recommendations for improved practices,
- **evaluating** the results of audits and monitoring activities to determine levels of noncompliance and technical assistance needs, and
- **remediating** deficiencies through corrective action and enforcement measures, as necessary.

FIGURE 1:



I How should SEAs assess subrecipient risk of noncompliance?

In determining appropriate subrecipient monitoring activities, each SEA is required to assess each subrecipient's risk of noncompliance with federal statutes, regulations, and subaward terms and conditions through a risk assessment. The risk assessment may be conducted before or after a subaward is made. While the Uniform Grant Guidance provides a list of factors that SEAs may consider when designing a risk assessment, it does not prescribe a specific risk assessment model. Therefore, each SEA is afforded flexibility in the structure of its risk assessment to evaluate the level of risk for each subrecipient and should incorporate additional factors unique to the state that may be useful in determining the risk of noncompliance.

I How does an SEA conduct subrecipient monitoring?

To ensure compliance with relevant requirements, terms, and conditions of the IDEA award and to monitor progress toward performance goals, each SEA must develop a subrecipient monitoring system. The SEA must

- provide training and technical assistance on program-related matters,
- review financial and performance reports,
- identify areas of noncompliance, and
- ensure that the LEA demonstrates a timely correction of noncompliance identified through monitoring, audit, or other activities. This includes issuing management decisions for audit findings related to IDEA or enforcement actions such as temporarily withholding cash payments, disallowing all or part of an activity, suspending or terminating the federal award, initiating suspension or debarment proceedings, withholding further federal awards, or other legally available remedies that correct instances of noncompliance (2 CFR § 200.339).

While SEAs have the discretion to determine monitoring priorities, SEAs have the responsibility to monitor all aspects of the federal program. The Office of Management and Budget (OMB) Compliance Supplement was developed to identify and streamline federal requirements for receiving and using federal awards. This document identifies 12 important compliance requirements. These include

- Activities Allowed and Unallowed;
- Allowable Costs/Cost Principles;
- Equipment/Real Property Management;
- Matching, Level of Effort, Earmarking;
- Period of Performance;
- Procurement, Suspension, Debarment;
- Subrecipient Monitoring;
- Cash Management;
- Eligibility;
- Program Income;
- Reporting; and
- Special Tests and Provisions.¹

¹ Each SEA should include IDEA-specific fiscal tests as part of its subrecipient monitoring system, including, but not limited to, Local Educational Agency Maintenance of Effort, Excess Costs, Coordinated Early Intervening Services, and Proportionate Share.

I What tools are available to the SEA for subrecipient monitoring?

Based on results from risk assessments, monitoring, audit, and other activities, the SEA may deploy multiple tools to ensure accountability and compliance. These may include, but are not limited to, desk or onsite monitoring activities and program-specific audit engagements in addition to technical assistance.

The purpose of subrecipient monitoring is to ensure accountability and compliance with program requirements and achievement of performance goals. Developing strong training and technical assistance on program-related matters is a key activity in subrecipient monitoring, as it builds the capacity of LEA staff to prevent future noncompliance. The SEA may elect to conduct monitoring activities through various monitoring mechanisms (i.e., desk audits, onsite monitoring, or a combination of both) or levels or areas of focus (i.e., universal, targeted, differentiated, or intensive). Data should be a driving force in determining the focus and types of activities for subrecipient monitoring. Lastly, the SEA may consider arranging for audit services. Following monitoring activities, the SEA is required to issue a monitoring report outlining findings of noncompliance, which may also contain recommendations for improved practice and internal controls.

I What steps must a state take to verify an LEA's correction of a fiscal finding of noncompliance with the Uniform Grant Guidance or IDEA's fiscal requirements?

Findings of noncompliance related to fiscal requirements may be a result of a single audit, fiscal monitoring, subrecipient self-identification, or other reporting mechanisms. The steps required to verify correction of noncompliance depend on the nature of the fiscal finding of noncompliance but is typically related to lack of appropriate policies or procedures and/or inappropriate implementation of practices. If the noncompliance is due to inappropriate policies or procedures, the state must ensure that appropriate fiscal policies, procedures, and practices are developed and implemented as soon as possible, and in no case later than one year after the state's written notification of noncompliance (34 CFR § 300.600 (e)). Note that the correction includes evidence of implementation, not simply the creation or correction of a policy or procedure, but the implementation of the practices in an appropriate manner (OSEP QA 23-01: State General Supervision Responsibilities Under Parts

B and C of the IDEA, Monitoring, Technical Assistance, and Enforcement, U.S. Department of Education, Office of Special Education and Rehabilitative Services, July 24, 2023).

I What options are available to an SEA when an LEA does not correct findings of noncompliance within agreed-upon timelines?

In specific instances, the SEA may be required to use enforcement mechanisms to ensure compliance with federal award conditions and proper stewardship of funds. This may be a result of a history of compliance, inability to meet reporting requirements, performance goals, or monitoring activities. In these instances, the SEA is given the authority (under 2 CFR § 200.339 & 34 CFR § 300.600 (a)(3)) to use the following remedies of noncompliance against subrecipients:

- imposing specific conditions which may include directing the use of funds or increasing reporting requirements and oversight of the LEA
- temporarily withholding cash payments pending correction of the deficiency or more severe enforcement action
- disallowing all or part of the cost of the activity/action not in compliance, which may result in a payback of funds
- suspending or terminating the federal award
- withholding further federal awards for the program or project
- taking other remedies that may be legally available through a state-defined list of enforcement actions

2 CFR 200.332(D)

...Pass-through entity monitoring of the subrecipient must include:

- (1) Reviewing financial and performance reports required by the pass-through entity.***
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular subaward.***

I Questions for States to Consider

HOW DOES THE SEA BUILD LEA CAPACITY TO PARTICIPATE IN SUBRECIPIENT MONITORING AND INFORM LEAS OF EXPECTATIONS?

Consider the supports and resources available to LEAs to build their capacity to actively engage in subrecipient monitoring activities and address areas of noncompliance prior to identification through the use of trainings, coaching opportunities, distributing monitoring procedures and protocols with LEAs, developing a list of common areas of noncompliance, and monitoring self-assessments and sample timelines.

WHAT FACTORS DOES THE SEA INCORPORATE IN ITS RISK ASSESSMENT?

Each SEA should consider the criteria that best meet the needs of its state that will be included as part of its risk assessment. It is important to note that risk assessment criteria can change based on SEA fiscal policies, reporting requirements, priorities, or findings of noncompliance through monitoring or other activities. In addition, the SEA may consider assigning different weights to indicators based on the importance of risk factors and their impact on potential noncompliance. Under 2 CFR § 200.332(b), an SEA may consider the LEA's prior experience with IDEA subawards, audit results (if any), new personnel or new and substantially changed systems, and the results of other monitoring activities. Examples of other risk factors may also include, but are not limited to, the timely correction of findings of noncompliance and submission of required reports.

HOW DOES THE SEA ENSURE THAT NONCOMPLIANCE FINDINGS ARE RESOLVED IN A TIMELY MANNER?

To ensure findings of noncompliance are closed out in a timely manner, an SEA should implement the following best practices:

- Develop a schedule of corrections for LEAs to clearly communicate expectations and a timeline for closing out findings.
- Provide technical assistance and coaching to ensure that LEAs understand identified noncompliance and how to correct.
- Schedule regular meetings with the LEA to ensure that progress is being made to close out findings of noncompliance.

HOW DOES SUBRECIPIENT MONITORING INTERACT WITH OR OTHERWISE REINFORCE SINGLE AUDIT ACTIVITIES?

Under 2 CFR § 200.332(d), SEAs are required to include as part of their subrecipient monitoring system

- issuing a management decision for applicable audit findings pertaining only to the federal award provided to the subrecipient from the pass-through entity as required by § 200.521 and
- resolving audit findings specifically related to the subaward.

In addition, the OMB Compliance Supplement identifies 7 of the 12 requirements designated as priority areas for auditors under IDEA: Activities Allowed and Unallowed; Allowable Costs/Cost Principles; Equipment/Real Property Management; Matching, Level of Effort, Earmarking; Period of Performance; Procurement, Suspension, Debarment; and Subrecipient Monitoring. SEAs may consider putting more emphasis on subrecipient monitoring activities for the remaining compliance areas: Cash Management, Eligibility, Program Income, Reporting, and Special Tests and Provisions. This may inform priority areas identified by the SEA (i.e., increased focus on areas where most findings originate, increased focus on areas that are not a focus as part of single audit activities).

HOW DOES THE SEA ENSURE THAT FINDINGS OF NONCOMPLIANCE DO NOT REOCCUR?

To ensure that LEA findings of noncompliance are not recurring, an SEA may consider developing procedures to periodically follow up with LEAs in intervals after LEAs have successfully completed a corrective action plan (CAP) imposed by the SEA or after the LEA has established fiscal compliance.

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WestEd is the lead organization for NCSI. For more information about the work of WestEd, NCSI, and their partners, please visit www.ncsi.wested.org and www.wested.org.

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