

Chapter 6: Subrecipient Monitoring

Topic: Overview of the Monitoring Process

Summary

Contract monitoring is an important responsibility of the Contract Manager. Monitoring helps to ensure that public funds are being managed and spent on the activities and services for which they are intended. It also assists in ensuring subrecipients (and by extension PHB) are maintaining compliance with Federal requirements. The programs funded by PHB are expected to meet certain standards in providing services to benefit specific individuals, groups and/or communities. Contract monitoring is a useful method of determining the extent to which this is actually happening.

In addition to ensuring compliance, monitoring also helps Contract Managers to:

- Become familiar with the agency, its programs and staff;
- Understand the intent of the services in relationship to the population(s) being served;
- Identify areas of strengths and challenges in the contracted program(s), and offer technical assistance when needed; and
- Foster open, on-going communication with subrecipients to support effective programming and financial management.

PHB has a variety of funding sources, many of which have unique monitoring requirements. In developing a monitoring plan, the requirements of the appropriate funding source(s) guide many of the specific items will be reviewed. Monitoring guidelines for federal funding sources (e.g., CDBG, ESG, HOME) are found in the “Community Planning and Development Monitoring Handbook” at the following location -- www.hud.gov/offices/cpd/library/monitoring/handbook.cfm. These resources were developed by HUD for its own staff’s monitoring processes, and as such, serve as excellent guides for PHB monitoring activities.

The time required to monitor a contract varies greatly and depends on several factors, including: the source(s) of funding, dollar amount of contract, types of programs and activities funded, and past performance history with PHB. The following table summarizes the three main components performed by the Contract Manager in the contract monitoring process.

Monitoring Component	Description	Frequency
Desk Monitoring/ Risk Assessment	A compilation of monitoring forms that assess the contractor’s overall capacity to successfully carry out contracted services. Contractors are given a numeric “risk” value, which determines if an on-site monitoring visit is warranted.	Annually, preferably within the first 6 months of contract start date
Performance Review	A review of the contractor’s program reports, financial invoices and correspondences (phone, email, in-person meetings), to determine whether the program is on track with meeting its goals and expenditures.	Conducted quarterly (program reports), monthly (financial invoices) or more frequently based on need
On-Site Monitoring	A scheduled visit at the subrecipient’s agency site, involving an in-depth review of program documents and processes, staff interviews, financial document review and follow-up to any concerns or findings. The goal of the on-site monitoring is to ensure that subrecipients are performing program activities and spending funds in compliance with the contract. The on-site monitoring also provides the opportunity to address more serious issues that have been previously identified, and engage contractors more fully in discussing and resolving problem areas.	Minimum of once every four years; more frequently if necessitated by risk assessment

A description of each of these components is provided in the following pages, which includes links to useful document forms and templates.

Chapter 6: Subrecipient Monitoring

Topic: Subrecipient Administrative Compliance Requirements

Summary

PHB's federal funding sources require the bureau and the bureau's subrecipients to comply with numerous requirements in the administration of federally-funded programs. Failure to comply can result in repayment of funds, audit findings and loss of future federal funding. This section is not a comprehensive detailing of compliance requirements; rather, it focuses on some of the key administrative compliance requirements that pertain to subrecipients.

Procedures & Key Information

CDBG Administrative Systems

The *Playing By The Rules* training manual provides detailed descriptions of the administrative requirements subrecipients must meet in administering CDBG activities. That manual is on the PHB employee website at tinyurl.com/9p6shww. The following briefly describes some chief requirements that apply to PHB's subrecipients.

- **Internal Controls** – Maintain procedures, specified job responsibilities, qualified personnel, and records that together create accountability in an organization's financial system and safeguard its cash, property, and other assets.
- **Accounting Records** – Have accounting records that adequately identify the sources and application funds.
- **Allowable Costs** – Ensure all costs incurred as a part of financed activities are necessary, reasonable, and directly related to the grant; authorized by the grantee (i.e., PHB) via the contract budget; and compliant with OMB circulars A-87 and A-122 (as applicable to you're the subrecipient)
- **Financial Reporting** – Generate reporting that is accurate, timely, current, and represents complete disclosure of the financial activity and status of funds.
- **Source Documentation** – Retain source documentation backing financial transactions as per Federal requirements.
- **Procurement** – Meet federal requirements ensuring that supplies, equipment, construction and other services acquired with Federal funds are obtained as efficiently and economically as possible and procured in a manner that provides open and free competition.
- **File Maintenance** – Maintain administrative, financial and project files that comply with requirements, such as beneficiary demographic documentation and file retention schedule.
- **Program Income** – Follow requirements for using, reporting and returning program income generated by activities funded by CDBG.
- **Audits** – Fulfill requirements for audit processes that ensure that agencies administer federal funds “efficiently, economically and effectively to achieve the purposes for which the resources were furnished.”

Cost Principles

The subrecipients with which PHB works are typically non-profit organizations or local governmental agencies. The Office of Management and budget (OMB) has established principles for determining allowable costs of programs administered by agencies under grants or contracts from the federal government. The principles are designed to provide the basis for a uniform

approach to determining costs and to promote efficiency. These principles vary depending upon the nature of the organization. They are detailed in the following documents

- **For Non-Profits** – OMB Circular A-122, "Costs Principles for Non-Profit Organizations"
- **For Local Governments** – OMB Circular A-87, "Cost Principles for State and Local Governments"

In addition, the following document summarizes whether particular varieties of costs are allowable or not under Federal guidelines – tinyurl.com/99svv45.

Chapter 6: Subrecipient Monitoring

Topic: Desk Reviews

Summary

The Contract Manager will conduct various “desk review” activities to assess the overall “health” of the contractor and determine agency/program capacity to successfully perform contracted goals. This process assigns a numeric “risk” value that determines if an on-site monitoring visit is warranted. The required deadlines for these various desk reviews are detailed below.

Procedures & Key Information

The Contract Manager uses the following forms in the course of desk reviews of subrecipient contracts over the course of the fiscal year. They are included in this manual as Appendix I.

Job Tool	Description of Purpose	When To Complete
Contract File Checklist	Provides a summary confirming that all of the required compliance documentation associated with the contract is complete and contained in the contractor file.	Over course of contract period to track key info & events
Cost Reasonableness Checklist	Provides questions about the costs associated with the contract, whether the contractor has a balanced budget and confirms that contracted costs are eligible under the guidelines of the funding source.	Prior to execution of contract
Risk Assessment Checklist	Assesses the contractor with a “risk score” based on a series of questions to determine level of adherence to program and financial requirements. A score of 5 or higher constitutes a “high risk” and results in the scheduling of an on-site monitoring visit.	Within 4 months of contract effective date
Desk Monitoring Checklist	Assesses the contractor’s timeliness in submitting program reports and financial invoices, progress with meeting contracted goals, compliance with financial requirements and identification of past or current issues or concerns.	Within 6 months of contract effective date
Fiscal Monitoring Checklist	Assesses the contractor’s compliance in several financial areas, including budget, personnel and program expenditures, invoices and accounting records.	By end of fiscal year

As the Contract Manager completes these documents, it provides a sense of the risk associated with the subrecipient contract, which then guides the Contract Manager in conducting any further necessary monitoring actions.

Chapter 6: Subrecipient Monitoring

Topic: Performance Management

Summary

The Contract Manager is responsible for reviewing the program reports, financial invoices and on-going email communication submitted by contractors. Program reports are typically submitted and reviewed on a quarterly basis and financial invoices are typically submitted and reviewed on a monthly basis. These reports show the extent to which the subrecipient is meeting its contractual goals and objectives and may be used to identify issues related to performance that require further consideration or action by the Contract Manager.

Contract Managers also maintain regular communication with contractors via email or phone regarding the program. This ongoing correspondence helps to ensure the Contractor Manager understands the scope of the program and its highlights, challenges and opportunities for improvement/growth. Refer to the “The Contract / Amendments” section of this manual concerning when an amendment is required and what approvals are necessary. The Contract Manager should keep written documentation of any program or financial changes made to the contract that deviate from the original contract.

Procedures & Key Information

The Contract Manager is responsible for the following:

- **Review program reports:** PHB requires contractors to submit reports on the progress and use of contracted funds. Typically these reports are submitted quarterly and show the outputs and outcomes achieved in the given time period, the program’s progress towards annual goals, highlights of the program, and challenges/problems encountered. The Contract Manager reviews the report to determine whether the contractor’s performance is meeting expected targets. Additionally, the report will flag any issues that need to be addressed, which may result in changes to the contracted scope of work or funded amounts. A sample program report can be found in Appendix K.
- **Review financial invoices:** PHB requires contractors to submit financial invoices to receive reimbursement for performed activities. Typically these invoices are submitted monthly and show the expended funds broken out by budget line items (e.g. personnel, operating costs.) Contractors will also include back-up documentation, such as a copy of a financial report, to support the expended amounts. The Contract Manager reviews the invoice to determine whether the contractor’s expenditures are in compliance with the contracted activities and amounts, and will flag any financial issues that need to be addressed. For additional detail, see the “Invoices (Requests for Payment)” chapter.
- **Monitor on-going correspondences:** The Contract Manager monitors correspondences received and sent to contractors regarding program performance and budget expenditures, including questions or requests that may be submitted by contractors throughout the fiscal year. Contract Managers should foster and maintain positive and open relationships with contractors to facilitate effective communication about issues and mutual problem-solving.
- **Document changes to contract:** The Contract Manager will maintain careful written documentation of contract changes, whether programmatic or financial. This includes saving copies of amendments, budget adjustments, and email correspondences that describe

the agreed upon change, any required approvals and any associated background information supporting the change. Paper files are maintained for contractors executed prior to June 30, 2012.

Chapter 6: Subrecipient Monitoring

Topic: On-Site Monitoring

Summary

PHB's policy is to monitor 25% of the bureau's subrecipient contractors each fiscal year. By and large, this results in a subrecipient monitoring of each contractor a minimum of once every four years. An on-site visit may also be required when a contractor is identified as being "high risk" based on one of the following factors:

- Had *findings* or *concerns* in the past
- Submitted incomplete or late reports, or missing reports
- Did not meet performance goals
- Experienced staffing changes
- Mismanaged funds or demonstrated other attributes of financial concern
- Other items that may indicate a need for monitoring

PHB prioritizes a consolidated approach to monitoring and encourages staff from program, financial and technical departments to work together to plan a single monitoring visit. This approach maximizes the time and staffing efficiencies for both contractor agencies and PHB.

Monitoring visits serve several important purposes that benefit both PHB and the subrecipient. The site visit allows for better recognition of a program's effectiveness and impact by giving the Contract Manager and PHB staff a deeper understanding of contracted activities. Monitoring visits also help identify any practices not allowed under the contract provisions and/or any procedures that need to be implemented that are not being performed. On-site monitoring includes program, financial and technical reviews performed by the Contract Manager and PHB fiscal and data staff. During the visit, the Contract Manager reviews the progress, policies and procedures related to the program and performance of the funded activities. PHB fiscal staff look at the organization's financial records related to the contracted activities and the general financial health of the organization, including timesheets, expenditures and other records.

At the conclusion of the visit, the Contract Manager prepares a written summary, usually in the form of a letter. The summary will: describe the areas monitored, indicate if any "concerns" or "findings" where found, and provide recommend and/or required actions for contractor follow-up.

Procedures & Key Information

Once a contractor has been identified for an on-site monitoring visit, the Contract Manager follows these steps to plan and conduct the visit. (Note: the PHB fiscal team has a separate procedure documented for the fiscal portion of subrecipient monitoring. It is located in the PHB Policy folder on the Network Drive at [K:\Operations\Portland Housing Bureau\PHB Forms and Policies\PHB Policies\Finance & Accounting\](#)).

- **Schedule a date/Send out confirmation letter** – The Contract Manager contacts the contractor to schedule a date that works for both parties. The Contract Manager then sends a written notice one month in advance of the visit date, which allows the contractor time to prepare for the visit and assemble the required staff members who need to attend. The average length of time for a visit is three to six hours, depending on the size of the

contracted programs and funded activities. A sample copy of an Introductory Letter can be found at Appendix G.

- **Compile list of requested program and financial documents to review** – The Contract Manager coordinates with PHB fiscal and data staff to assemble a list of requested documents for the monitoring visit. The number and type of documents to be reviewed depends on the funding source(s) of the program(s). It is advantageous for some items to be received and reviewed prior to the monitoring visit. Other items can be reviewed on-site at the time of the monitoring visit. The Contract Manager determines what materials and documents to request. The lists below provide examples:

Items to request and receive prior to visit:

- Copies of any policy and procedure documents that guide overall operations of agency's City-funded programs, including:
 - Admission criteria/program eligibility guidelines
 - Referral procedures
 - Policies and procedures regarding documentation of client services
 - How client feedback is incorporated into program development and operations
 - Any program-specific rules or policies communicated to clients, including: client rights and responsibilities, client termination or exclusion policies and procedures and/or client grievance policies and procedures
 - Any other program-specific policies and procedures
- Any written policies and procedures guiding general staff conduct and conditions of employment (e.g. employee handbook, code of conduct, etc.)
- Copies of current job descriptions for PHB-funded employees for the Senior Housing program

Items to request to be available on the day of the visit:

A sample of client files from the fiscal year

Oral description and/or written documentation for any procedures used by the organization to verify data quality and completeness of program data entry into Service Point.

Visual inspection of any non-disposable equipment purchased with City-funds (if applicable)

In addition to the above items, the PHB fiscal staff will include a set of documents to review at the time of the visit, including invoices, financial statements, financial policies and procedures, indirect cost allocation plan and chart of accounts documentation.

The Contract Manager will notify the subrecipient of the request about one to two weeks in advance of the actual visit in the form of an email and/or letter. A sample of an email requesting documents for a monitoring visit is included as Appendix H.

- **Conduct On-Site Visit** – The Contract Manager conducts the on-site monitoring visit with support from PHB fiscal and data staff as appropriate. At a minimum, the visit should include the following:
 - Welcome and introductions
 - Brief review of the plan for the monitoring visit
 - Review of client files
 - Review of progress reports
 - Review of program information and requested documents
 - Interview of key program staff
 - Visual inspection of program office(s)
 - Asking questions about the program and/or reporting
 - Closing of the monitoring visit

During the visit, the Contract Manager and PHB staff will talk with key program and financial staff to determine whether PHB funds are being used to carry out the contracted activities and outcomes. Additionally, PHB staff will review program and financial documents and processes to identify potential findings and concerns.

- *Findings* are defined as direct violations to applicable regulations or contract conditions, and require immediate action to correct.
 - *Concerns* are defined as issues that may pose challenges to performance and/or items that could be added to enhance performance of a particular program(s), in which recommended actions are provided.
- **Follow-up Letter** – Results of a monitoring visit are summarized and communicated to the Subrecipient in a letter. The Contract Manager drafts the letter with help from the other staff members who participated in the monitoring. The monitoring letter typically includes: acknowledgement of positive aspects of the program and/or agency, and description of findings or concerns, along with recommended or required action(s) and a timeline for completing the action(s). Following up on concerns and findings, including communication with appropriate management or fiscal staff, is the responsibility of the Contract Manager. A sample follow-up letter that includes both concerns and findings can be found in Appendix L.

If there were no findings or concerns identified, the Contract Manager can skip this step and the next step and proceed to the Closing Letter.

- **Work with contractor on response to monitoring visit** – The Contract Manager works with the Subrecipient to address any concerns or findings identified in the monitoring visit. The amount of time required to resolve the issue(s) will be based on several factors, including but not limited to: type of concern/finding, source of funding and severity of concern/finding.

- **Send closing letter** – Once all concerns and findings have been addressed or resolved, the Contract Manager prepares a final closing letter to summarize the completed Subrecipient monitoring. The letter will include a description of items covered at the monitoring visit, highlights and positive aspects of the monitoring, concerns and findings, actions taken and timeline for implementing changes (if action will occur in the future). A sample follow-up letter that includes both concerns and findings can be found in Appendix F.