SUBRECIPIENT MONITORING EVALUATION

PROGRAM EVALUATION AND AUDIT

METROPOLITAN COUNCIL

May 18, 2012

EXECUTIVE SUMMARY

Two key pieces of organizational learning have emerged as a result of the evaluation process—subrecipient monitoring is best understood as an essential component of overall grants management, and monitoring must be systematic and coordinated to be effective. Grants are managed in many different departments across the Council. Federal grants pass through Community Development, Environmental Services, Metro Transit and Metropolitan Transportation Services (MTS)—State grants are managed in these departments as well. The coordination of both grant management and monitoring processes are required to ensure consistency in each department. As a result, management can greatly improve subrecipient monitoring by first taking a Council-wide view of grants management. Controls should then be put in place to coordinate both grant management and subrecipient monitoring processes in all departments.

Key Observations

When viewed on a department-by-department basis, grant management and subrecipient monitoring programs are inconsistent across the Council

Lack of Council-wide internal controls—such as policies and procedures, training for staff and grant management information systems—has contributed to inconsistent grant management and subrecipient monitoring programs

Recommendations

The following recommendations represent the steps that should be taken to ensure subrecipients are uniformly monitored throughout the Council, and will help position the Metropolitan Council as a "best practice" organization for subrecipient monitoring.

1. **Develop standardized, Council-wide policies and procedures for the management of federal and state grants.**

Guidance should be developed to help everyone involved in the grant administration process understand their roles and how they fit into the larger workflow. Guidance is especially important for the general management of federal grants that applies to all federal programs. The process for creating subrecipient agreements and reviewing solicitation documents are two specific areas where more clarity is needed.

2. **Use guidance from the Federal Funding Accountability and Transparency Act (FFATA) and A-133 circular to help determine which entities to treat as subrecipients Council-wide.**

FFATA and the A-133 circular apply to all federal programs and will provide the best basis for making a consistent subrecipient determination in all departments of the Council. The determination of subrecipient status must be built into the grant management process early enough so that monitoring requirements can be communicated to necessary staff. A person, or team of people, should be assigned to make the determination of subrecipient status.

3. **Develop specific guidance for subrecipient monitoring which defines the responsibilities of each department.**

General guidance for the monitoring of all federal programs should be developed. It is likely that more specific guidance will be necessary for individual programs or clusters of related grants. Furthermore, monitoring must be explicitly coordinated between departments.

4. **Consider the feasibly of developing a Council-wide grant management information system to aid in the administration of all grant programs.**

A Council-wide grants management system will help with consistent record keeping and coordination of monitoring and between departments. A grant management system will also help management and audit staff members ensure proper monitoring is taking place.

5. **Develop grant management training for staff.**

Training for staff is essential for ensuring consistent grant management. Training topics could include internal grant administration processes as well as specific subrecipient monitoring requirements. Consider separate training for staff and subrecipients, so one training does not have the dual purpose of informing both parties of their responsibilities.

6. **Require a uniform pre-agreement review of subrecipient capacity throughout the Council.**

Pre-agreement review of subrecipient capacity is an essential part of monitoring. Specific items should be identified to include in a uniform pre-agreement review of subrecipient capacity. The pre-agreement assessment should be used to determine if conditions should be met in order for the subrecipient to receive funds and determine the level of monitoring required from Council project managers. A more comprehensive assessment should be considered for subrecipients deemed to be "high-risk"—such as new subrecipients, non-profits or subrecipients that have been flagged as having problems in the past.

7. **Consider establishing a "project initiation briefing" as a way to inform subrecipients of their roles and responsibilities.**

A project initiation briefing would be a time where project managers and subrecipients meet to go over the subrecipient agreement. This would ensure all parties understand the terms and conditions of the agreement and are clear about their respective roles in delivering the project. This may be useful to supplement existing training sessions for subrecipients, or be used for non-transit federal programs where subrecipient guidance has not been developed.

8. **Develop the structure and methods to ensure consistent grant management and subrecipient monitoring across the Council.**

The cluster of federal transit grants is managed by the Metro Transit grants department, but other federal programs do not have the same administrative support to aid in the management of grants. Consideration should be given to the structure and methods needed for ensuring consistent reporting and monitoring of subrecipients. The establishment of periodic reviews of grant management practices to ensure policies and procedures are consistently implemented would play an important role.

INTRODUCTION

Background

The *Guide to Opportunities for Grant Accountability* defines grants as the "legal instruments through which funds are transferred for a public purpose." Grants are often given to the Metropolitan Council by a federal agency, such as the Federal Transit Administration, to support projects ranging from the construction of a light rail line to the delivery of bus service in the metro area. Grants from the State of Minnesota are also given to the Council to support activities such as the development of regional parks. However, the Council does not always receive a grant for its own purposes. Often a grant is received that is passed on to another entity (or entities) to complete a project—these entities are known as "subrecipients." Oversight responsibilities to ensure all federal requirements are met accompany funds that pass through the Council to subrecipients.

The Council's monitoring of subrecipients has recently received increased scrutiny. The FTA cited the Council as lacking adequate oversight of transit subrecipients in the 2009 Triennial Review. A program to audit contracted bus operations managed by Metropolitan Transit Services was developed as a result of this finding. The Minnesota State Auditor made a similar finding in the 2010 annual audit which recommended that "the Council establish and implement documented procedures to meet the subrecipient monitoring requirements." The State Auditor's report led to the establishment of a task force to evaluate and develop subrecipient monitoring procedures Council-wide. An audit of the Central Corridor Light Rail Transit (CCLRT) project's subrecipient monitoring has recently been completed, and additional subrecipient monitoring audits planned for 2012.

Purpose

- To identify best practices for subrecipient monitoring
- To identify current policies and procedures for monitoring subrecipients across the Council
- To identify the areas of improvement from Council staff
- To suggest areas of improvement for the monitoring of subrecipients Council-wide, if necessary

Scope

The evaluation will be limited to federal and non-federal grants during the 2011 calendar year. An in-depth audit of the monitoring of each subrecipient will not be performed; rather this evaluation will focus on the adequacy of general monitoring procedures that are in place across the Council. The recent subrecipient audits of Central Corridor Light Rail Transit and Cedar Avenue Bus Rapid Transit should be considered as supplementing this evaluation with more detailed information about the requirements of particular grant types.

Methodology

Internal documents related to grant management and subrecipient monitoring were reviewed. An internet search was performed to identify best practices for subrecipient monitoring. Staff members from several departments were then interviewed to identify potential areas of improvement. 21 interviews were conducted with a total of 29 people. 6 people were interviewed from Metro Transit, 3

from Regional Administration Finance, 5 from Community Development, 7 from Metropolitan Transportation Services (MTS), 2 from Office of Diversity and Equal Opportunity (ODEO), 1 from Procurement, 3 from General Council, and 2 representatives from Council subrecipients. No one from Environmental service was interviewed, as they had been recently audited for the management of a state grant program—the audit report was used to inform the evaluation.

Little information was found when "subrecipient monitoring" was the search term, but several helpful resources were uncovered related to grant management. The principles outlined in the grants management resources turn out to be very helpful in understanding subrecipient monitoring. The *Guide to Opportunities for Improving Grant Accountability* outlines best practices which are organized around the "Grant Lifecycle."

"The Grant Lifecycle," from the <u>Guide to Opportunities for Improving Grant Accountability</u>

Listed in the center of the cycle are three important areas of "internal control" for grant management; 1) preparing policies and procedures before issuing grants, 2) consolidating information systems to assist in managing grants, 3) and providing grants management training to staff and grantees. Each of these areas must be in place *before* grants are issued to be effective. Once the grant process begins, the importance of developing both goals and measures and assessing results are emphasized to ensure the grant program is meeting its purpose. Continuing around the cycle, a pre-award review should be in place to limit risk to the entity giving grant funds. The only place subrecipients are explicitly listed within this framework is within the managing performance stage.

There are several important things that can be learned through this framework. First, internal controls must be in place before grants are even given to ensure they are managed properly. Secondly, pre-award review is an essential step in the management of outgoing grants, and by extension, the subrecipient monitoring process. Each of the previous points suggest that proper management of outgoing grants requires an organizational infrastructure to be in place before the project begins. A third point is simply that monitoring cannot be easily separated from the overall grant management process. Every process involved in the management of outgoing federal grants is also related to subrecipient

monitoring. For example, preparing the subrecipient agreement and reviewing solicitation documents have implications for monitoring subrecipients. If something goes wrong with the process, such as important clauses being mistakenly left out of the documents, there will be misunderstanding about what needs to be monitored. Each process turns out to be as important as reviewing progress reports and requests for payment—activities more easily categorized as monitoring. Proper subrecipient monitoring depends in part upon coordinated grant management processes. When subrecipient monitoring is understood as in this way, best practice recommendations for grant management can be easily applied to the monitoring of subrecipients.

Not only should subrecipient monitoring be seen as linked with the general management of outgoing grants, but monitoring activities must also be explicitly coordinated if they are to be effective. In fact, one of the only recommended practices in the *Guide to Opportunities for Improving Grant Accountability* specific to subrecipients is to "coordinate agency efforts to monitor performance." The expertise of many departments is required to ensure subrecipients fulfill grant requirements, and each must know their role in monitoring. The following example from the *Guide* of what this looks like in practice proves to be informative:

> The State of Maryland Governor's Office of Crime Control and Prevention has a comprehensive, three-pronged approach to managing subrecipients. The Office's three units coordinate and exchange information through an automated grants management system to ensure that subrecipients appropriately perform grant functions to meet goals and deadlines. The Programming Unit receives quarterly progress reports, performs ongoing desk monitoring of subrecipients, and conducts a field visit at least once a year during the lifetime of each grant. The Fiscal Unit receives quarterly financial reports, checks the grants management system to ensure that the subrecipient is up to date in its program reporting, and determines whether payments will be issued. The Fiscal Audit Unit identifies potentially high-risk subrecipients for field and desk audits, performs these audits, and records the findings in the grants management system and sends a letter to the affected subrecipient.

In the example, each department has a defined role for monitoring subrecipients and is aware of how they fit into the larger process of monitoring. This example provides the template to begin understanding what is meant by coordinated monitoring.

Policies and Procedures

The *Guide to Opportunities for Improving Grant Accountability* discusses the importance of preparing policies and procedures before issuing a grant. [Appendix 1] The *Guide* acknowledges that different programs may require different procedures, but suggests that general policies should still be established. Policies and procedures not only help ensure consistent grant management in all departments, but can also define the respective roles of the Council and subrecipients.

Council-wide policies and procedures are lacking for the management of federal and state grants.

There is evidence that the lack of Council-wide procedures has contributed to inconsistent management of grants. This is most clearly illustrated by considering federal grant programs. Federal grants are managed in three departments—Metro Transit, MTS and Community Development. Even though the type of program managed in each department is quite different, several requirements apply to each program because they are all federally funded. It was discovered that knowledge of certain federal grant requirements existed in Metro Transit that Corridors of Opportunity project managers were not aware of, leading to the late filing of necessary reports. A-133 audits have also not been reviewed consistently in all departments. Consistent subrecipient monitoring cannot be guaranteed if general procedures for the management of federal grants are not present.

Interviews often turned to issues around lack of general grant management procedures. New grant programs and new staff in existing programs are especially affected by the lack of procedures. Staff responsible for managing the Corridors of Opportunity grant have had to learn how to navigate internal processes on their own with little guidance. This has consumed staff time to some degree, but it has also left staff wondering if they are doing things correctly.

Confusion over roles and responsibilities of Council departments was also frequently expressed. Central Council functions, such as legal and procurement, reported receiving frequent questions from project managers about their responsibilities. Concerns were expressed about processes not being clear and roles not being defined for project managers. Questions were persistent enough that staff in the legal department have considered developing training to bring clarity to the grant management process. A lack of defined procedures was felt by central Council functions as they need to work with several departments responsible for managing grants. Staff time is used when processes are not clear, and there is greater risk of inconsistency when roles are not clearly defined.

The Council could also benefit by creating policies and procedures for the management of state grants. Federal and state grants each flow through MTS. Staff members (especially staff who are new to grant management) expressed difficulty navigating the grant management process of two different funding streams without additional guidance.

The subrecipient solicitation process is not well defined.

The process for reviewing subrecipient solicitation documents is not well defined. Confusion exists over the roles of project managers and central Council departments, and between the Council and subrecipients. Project managers expect the procurement office to "approve" the solicitation. Procurement and legal have each expressed that the Council cannot approve subrecipient solicitations. At most, "approval" would mean at that point in time the proper clauses were in place, since there is no way to guarantee the clauses would remain in the documents until they are signed. The procurement office frequently mentioned that project managers have the responsibility for checking that proper federal clauses are included in solicitation documents, while it is the responsibility of the subrecipient's own legal counsel to ensure the entire solicitation process is managed correctly. The expectation that the Council will approve a solicitation is itself a risk factor according to legal and procurement.

Additionally, there is concern that subrecipient solicitation documents are created before the appropriate instrument between the Council and the subrecipient is signed. When the appropriate instrument is not signed prior to the creation of the solicitation documents, there is risk that necessary clauses will be left out of the solicitation document. Risk is compounded when the process for reviewing solicitation documents is not well defined.

No Council-wide definition of subrecipient.

The necessity of providing a definition for the term "subrecipient" has been a persistent theme of this evaluation. As subrecipient monitoring has received increased scrutiny, lack of clarity over the definition has led to anxiety that subrecipients have not been treated equitably throughout the Council. Additionally, there is no defined point in the grant administration process where the subrecipient determination is made and no one is assigned responsibility for making the determination. The fact that each department separately determined who subrecipients are likely added to the anxiety that consistent treatment may be an issue. A definition must be accompanied by the processes to communicate the definition to those involved with grant administration and monitoring.

As stated in the recent audit of central corridor subrecipients, several working definitions of "subrecipient" have been encountered during the course of this evaluation. The FTA Circular 5010.1D, which applies only to the cluster of federal transit grants, defines a subrecipient as "a State or local government authority, non-profit organization, or operator of public transportation services that receives a grant indirectly through a recipient." Metro Transit finance has used an asset-based definition. By this definition, an entity is a subrecipient if they own the asset related to the grant after the grant has expired. Lastly, the A-133 circular from the federal Office of Management and Budget (OMB) gives specific criteria for distinguishing between subrecipients and vendors—subrecipients being required to receive yearly audits if they meet certain funding thresholds.

Ambiguity in the A-133 definition was noted in the central corridor audit report when applied to subrecipients for that project. Central Corridor has become the test case for subrecipient determination as a result. The report states, "The last point of the OMB definition—that subrecipients use the funds that are passed through them to operate their own programs—suggests that the Council's partners on the CCLRT project may not be subrecipients, as the OMB defines them…On the other hand, CCLRT subrecipients will have their "performance" on CCLRT measured against the federal program's, not their own, which suggests that they may be subrecipients after all."

The determination becomes clearer with guidance from an additional source. According to the Federal Funding Accountability and Transparency Act (FFATA), prime awardees, the Council in this case, are required to report funds over $25,000 given to subrecipients. A subrecipient is defined in this act as receiving grant funds to support any portion of the substantive project for which the Council received the funds. Furthermore, the subrecipient would also be accountable to the Council for the use of those funds. [Appendix 2] FFATA goes on to reference the A-133 circular to differentiate between and subrecipient and a vendor. Central Corridor subrecipients appear to meet the criteria described in FFATA to be reported as subrecipients, as they receive funds to support a portion of the Council's project and are accountable to the Council for the use of federal funds.

To summarize, federal guidance may not be sufficiently clear to provide a single concrete "definition" of a subrecipient that applies in all cases. In fact, the A-133 circular includes a section titled *Use of judgment in making determination*—it says, "There may be unusual circumstances or exceptions to the listed characteristics…It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor." However, FFATA and the A-133 circular apply to all federal programs and provide the best basis for making a consistent subrecipient determination in all departments of the Council.

The Managing Federal Funded Projects guide does not apply to all federal grant programs.

The managing federally funded projects guide is the primary written source of guidance for project management at the Council. The primary limitation of the guide is that it does not have Council-wide applicability. The guide was written primarily for the management of federal transit grants, and has not been used as a resource for other federal programs. The guide also tends to focus on the "what," but is less clear about the "how,"—meaning requirements are often described but the specific process for completing those requirements largely lacking. In the absence of other written procedures, project managers were directed to the guide which does not clearly define their roles or the process of completing monitoring tasks.

The most common feedback received about the guide was that it is not "user friendly." One mentioned that the guide is "used for too many things," which likely added to the feeling that it was hard to use. The guide is used for trainings given to subrecipients to explain the requirements of federal transit grant projects and is also thought of as a reference for staff and subrecipients alike. As such, there is a lot of

information contained in the guide which makes finding specific information to answer questions more difficult.

Instead of using the guide to describe the responsibilities of project managers and subrecipients alike, consideration should be given to breaking up the guide into more focused parts—that way each part would be easier to use for reference. For example, standardized grant management policies and procedures can be kept in an accessible place on the intranet. Guidance for project managers about monitoring requirements could potentially be in another document. The guide can then be focused to inform subrecipients of their responsibilities.

It has already been discovered that one set of guidance will not apply to all subrecipient projects. The Central Corridor Subrecipient Monitoring audit concluded that the manual should be updated to better apply to projects such as Central Corridor. Instead of trying to create a manual that applies to all federal programs, one solution would be to require a "project initiation briefing" prior to the project start date. The project initiation briefing would be a time where project managers and subrecipient staff meet to ensure everyone understands the terms and conditions of the agreements and all are clear about their roles in the process. The Managing Federally Funded Project trainings appear to have met this purpose in the past, but non-transit grants may need to be supplemented by project initiation briefings to ensure any unique requirements specific to that project are met.

Grant Management Information Systems

The *Guide to Opportunities for Improving Grant Accountability* suggests using information systems to track grant status, monitor grant funds and track deliverables. [Appendix 1] An information system would allow for more consistency in the administration of grants in each department, better communication between departments and would also enable management and audit staff to better ensure proper monitoring of subrecipients.

There is currently no Council-wide grant management information system, contributing to difficulties tracking the administrative requirements of a grant.

Project managers in MTS and Community Development identified the need for a grant management information system to help track administrative and monitoring requirements of a project. Specific areas where a system would be helpful include tracking budgets, payments, documents and grant expiration dates. Lack of a good system to track grant related documents has led to difficulty accessing documents due to staff turnover. Seven grants have been allowed to expire since 2011 and have needed to be revived with grant amendments by legal—a practice that has been discouraged by previous regional administrators. The expiration of grants can be at least partially attributed to the lack of a good system to track expiration dates.

ODEO expressed difficulty monitoring subrecipients because they lack the necessary accounting systems. ODEO is responsible for monitoring the Disadvantages Business Enterprise (DBE) requirement of federal grants. For projects that receive federal money, a hiring goal for DBE's must be included—DBE's being small business where socially or economically disadvantaged individuals (as defined by law) own at least 51% of the business. ODEO is not only responsible for monitoring DBE compliance for the Council's projects, but also the projects of subrecipients. The challenge for ODEO is confirming the money given from the subrecipients to DBE contractors. The money subrecipients give to contractors is logged in the subrecipient's financial system, not the Council's. The inability to access subrecipient financial systems makes it difficult for the Council to confirm payments independent of

what subrecipients themselves report to the Council. A financial system which allows ODEO to access the information about payments to DBE's would help them to monitor subrecipients.

An independent initiative to develop a Council-wide grant management system began during the course of the evaluation. The initiative aims to provide an "enterprise-wide solution" and to "identify all business needs for managing and tracking grants." It is clear from this that grants tracking has been identified as an important issue even before this evaluation.

Training for Staff and Grantees

The *Guide to Opportunities for Improving Grant Accountability* suggests providing grant management training to staff and grantees as an important component of internal control. [Appendix 1] Training is an essential way to ensure all staff members are aware of policies, procedures, roles, and expectations related to grant management. Staff must also be aware of grant-related regulations in order to know what must be monitored and to provide necessary guidance to subrecipients.

Training designed to inform staff of grant management procedures and monitoring requirements is lacking.

Staff from several departments expressed the need for training. Training would play an important role in clarifying the confusion present over internal procedures, roles and responsibilities for monitoring. New staff members are especially affected by the lack of grant management training.

There are two training programs at the Council that are primarily designed for subrecipients; one informs transit-provider subrecipients of operational compliance requirements, and another uses the Managing Federally Funded Projects guide to inform transit capital subrecipients of compliance requirements. This meets the best practice of providing training and information to grantees. Many staff attended the managing federally funded projects training, but this training does not give sufficient detail to project managers about how they are to monitoring subrecipients. The training is also not applicable to non-transit or state programs—staff members who manage these programs have not attended the Managing Federally Funded Projects training. Just as the Managing Federally Funded Projects guide may be better served by focusing on staff or subrecipients, separate training events should be considered, so a single training event does not serve the dual-purpose of informing both parties of their responsibilities.

Pre-agreement Process

A pre-agreement review of subrecipient capacity is an essential part of subrecipient monitoring. The *Guide to Opportunities for Improving Grant Accountability* suggests a uniform pre-agreement assessment of applicant capabilities as a best practice for government agencies. [Appendix 1]A pre-agreement assessment of subrecipients would allow the Council to confirm proper policies, procedures and controls are in place and to plan the level of monitoring that may be required as a result of the assessment.

Pre-agreement reviews of subrecipient capacity can be improved.

Discussions with staff revealed that pre-agreement assessments would help identify areas where subrecipients need more guidance or monitoring prior to the project start date. One mentioned that pre-agreement assessments would help staff "know what to expect and what resources would be needed"

when working with subrecipients. Staff also recognized the limitations of pre-agreement assessments. The Council often has no choice about who receives grants—it is simply required by law that grants funds first be given to the Council and then passed-through to a subrecipient. Pre-agreement assessment would still be beneficial; it just may not be feasible to add certain conditions to the award in such as case.

Several non-profits have been identified as receiving federal grants through the Metropolitan Council. The federal Corridors of Opportunity grant and the Job Access Reverse Commute (JARC) grants each have small, non-profit subrecipients. It would be good practice to assess the capability of small non-profit subrecipients prior to awarding grant funds, as they are more likely to be unfamiliar with the requirements of federal projects.

Pre-agreement assessment is a good way to determine whether a subrecipient is high-risk or low-risk. High-risk subrecipients may need additional monitoring compared to low-risk subrecipients. New subrecipients, small non-profits, or subrecipients that have been flagged as having problems in the past are good places to begin defining what constitutes high-risk subrecipients.

The improvement of pre-agreement assessment of subrecipient capacity was a recommendation of the recent audit of Central Corridor Subrecipient Monitoring. Specific suggestions for pre-agreement assessment from the report include reviewing A-133 audits, reviewing subrecipient management plans, reviewing policies and procedures and checking financial controls during an on-site visit.

Reporting

Community Development staff were not aware of reporting requirements under the Federal Funding Accountability and Transparency Act (FFATA), leading to the late filing necessary reports. FFATA requires that prime awardees (the Council) to report all funds given to subrecipients over $25,000. The report must be completed within one month of the subrecipient agreement being signed. Funds are reported through a central database known as the FFATA Sub-award Reporting System (FSRS) online. The Grants Department ensures all transit subrecipients are reported online through FSRS. Community Development manages a new program outside of the more established transit grant process, so they were not aware of practices that would have ensured timely reporting of subrecipients.

Subrecipients are not currently tracked in a single place. This led to initial difficulty in identifying who subrecipients are across the Council. Federal transit grants are tracked and reported by the Grants Department at Metro Transit. Outgoing grants that are managed by departments at Regional Administration are tracked on a spreadsheet by the Finance Department. Greater coordination in tracking and reporting subrecipient projects should be considered to ensure uniformity and easy of identification.

CONCLUSIONS

1. *When viewed on a department-by-department basis, grant management and subrecipient monitoring programs are inconsistent across the Council*

Grant management is largely contained within the individual departments responsible for a particular grant program. The three departments reviewed that manage federal grants—Metro Transit, MTS and Community Development—do not operate under shared processes or expectations for grant management and subrecipient monitoring.

2. *Lack of key internal controls—such as policies and procedures, training for staff and grant management information systems—has contributed to inconsistent grant management and subrecipient monitoring*

While the initial scope of this evaluation was limited to subrecipient monitoring, monitoring cannot be entirely separated from the overall management of grants. As the number of grant programs has increased at the Council, grants are no longer only contained in the departments where grant processes have become more developed (such as Metro Transit.) New staff members who are not familiar with the requirements of grant management must proceed with little guidance. This has sparked the need for internal controls such as written policies, training and grant management information systems to bring consistency and coordination to grant management and subrecipient monitoring in all departments.

3. *The determination of subrecipient status has not been coordinated throughout the Council.*

Many staff members expressed the need for a concrete definition of "subrecipient." Each individual department that manages federal grants has been independently making the determination of who to treat as a subrecipient without Council-wide guidance. Consistency in the determination of subrecipient status cannot be assured without assigning responsibility for making the determination and creating Council-wide guidance for the determination.

4. *Pre-agreement review of subrecipient capacity is a proactive way to improve subrecipient monitoring*

A uniform review of subrecipient capacity would help determine the level of monitoring required by staff and if conditions should be met before the awarding of funds. Uniform pre-agreement review would institutionalize proactive monitoring and better manage the risk posed to the Council by unprepared subrecipients.

5. *The Managing Federally Funded Projects guide and training for subrecipients were written for federal transit grants, not for the full variety of federal programs*

The Managing Federally Funded Projects guide and training meet the best practice of providing guidance to subrecipients about their responsibilities. The guide, however, was written primarily to inform federal transit subrecipients. Other federal programs, such as Corridors of Opportunity, do not have written guidance or training that applies to their subrecipients.

6. *A "project initiation briefing" could supplement training and written materials to inform subrecipients of their responsibilities.*

While general guidance for the management of federal grants is necessary, it may not be realistic to create additional materials for every grant program at the Council. Some grant programs, such as the cluster of federal transit grants, are so established that the development of written guidance makes sense. Other grant programs for one-time projects may not necessitate the development of formal written materials. A project initiation briefing would help ensure project managers and subrecipients are both aware of the terms of the agreement, and monitoring requirements can be modified to fit the requirements specific to the grant.

RECOMMENDATIONS

The following recommendations represent the steps that should be taken to ensure subrecipients are uniformly monitored throughout the Council, and will help position the Metropolitan Council as a "best practice" organization for subrecipient monitoring. Though the scope of this report excluded certain grant programs (federal and state grants in Environmental Services, as well as the Council's own regional grant programs,) the recommendations should be applied across the Council—the necessity of a Council-wide solution is the thread that ties each of the recommendations together.

1. **Develop standardized, Council-wide policies and procedures for the management of federal and state grants.**

    Council-wide procedures for grant management are not currently in place. Lack of procedures has led to uneven monitoring of subrecipients and confusion over the roles of Council departments. Guidance should be developed to help everyone involved in the grant administration process understand their roles and how they fit into the larger workflow. Guidance is especially important for the general management of federal grants that applies to all federal programs. The process for creating subrecipient agreements and reviewing solicitation documents are two specific areas where more clarity is needed.

2. **Use the Federal Funding Accountability and Transparency Act (FFATA) and A 133 circular to help guide the determination of which entities to treat as subrecipients Council-wide.**

    The determination of which entities are subrecipients takes place in multiple departments with no Council-wide guidance to ensure consistent application. For this reason, the definition of "subrecipient" was a persistent source of anxiety for staff members throughout this evaluation. It was discovered that creating a single definition of subrecipient which encompasses all possible relationships is very difficult, and therefore, judgment must be used in the determination of subrecipient status. However, guidance from FFATA and the A-133 circular apply to all federal programs and will provide the best basis for making a consistent subrecipient determination in all departments of the Council. The determination of subrecipient status must be built into the grant management process early enough so that monitoring requirements can be communicated to necessary staff. A person, or team of people, should be assigned to make the determination of subrecipient status.

3. **Develop guidance for subrecipient monitoring.**

    Though particular federal programs may be very different, several requirements apply to all programs by virtue of being federally funded. Examples include requirements to report funds given to subrecipients through the FSRS database and reviewing A-133 audit reports. General guidance for the monitoring of all federal programs should be developed. It is likely that more specific guidance will be necessary for individual programs or clusters of related grants. The series of planned subrecipient monitoring audits will give concrete examples for places where specific guidance is necessary as well as where requirements apply to multiple programs. Furthermore, monitoring must be explicitly coordinated between departments, as in the case of A-133 audits.

4. **Consider the feasibly of developing a Council-wide grant management information system to aid in the administration of all grant programs.**

A standard grant management information system is not currently in use at the Council. Uneven documentation and the expiration of multiple grants can be at least partially attributed to the lack of a grants management system. A Council-wide system would contribute to the coordination of monitoring between departments, consistent documentation, streamlining the administration of grants, and will also help management and audit staff ensure proper monitoring is taking place.

5. **Develop grant management training for staff.**

Training is an essential component for ensuring consistency in grant management. Training sessions are currently given to subrecipients of transit capital and operating grants to inform them of compliance requirements, but grant management training for staff can be improved. Training should cover internal grant administration processes as well as subrecipient monitoring requirements. Consider separate training for staff and subrecipients, so one training does not have the dual purpose of informing both parties of their responsibilities.

6. **Require a uniform pre-agreement review of subrecipient capacity throughout the Council.**

Pre-agreement review of subrecipient capacity is an essential part of monitoring. The proactive nature of a pre-agreement review would reduce risk for the Council and help direct resources where they are most needed. Specific items should be identified to include in a uniform pre-agreement review of subrecipient capacity. The pre-agreement assessment should be used to determine if conditions should be met in order for the subrecipient to receive funds and determine the level of monitoring required from Council project managers. A more comprehensive assessment should be considered for subrecipients deemed to be "high-risk"—such as new subrecipients, small non-profits or subrecipients that have been flagged as having problems in the past.

7. **Consider establishing a "project initiation briefing" as a way to inform subrecipients of their roles and responsibilities.**

The creation of a subrecipient training applicable to all federal programs may not be feasible. Instead, consider establishing a "project initiation briefing." The briefing would be a time where project managers and subrecipients meet to go over the subrecipient agreement. The briefing would ensure all parties understand the terms and conditions of the agreement and are clear about their respective roles in delivering the project before it begins. This may be used to supplement existing training sessions for subrecipients or for federal programs where existing guidance has not been developed.

8. **Develop the structure and methods to ensure consistent grant management and subrecipient monitoring across the Council.**

The cluster of federal transit grants is managed by the Metro Transit grants department, but other federal programs do not have the administrative support to aid in the management of grants. Consideration should be given to the structure and methods needed for ensuring consistent reporting and monitoring of subrecipients. The establishment of periodic reviews of grant management practices to ensure policies and procedures are consistently implemented would play an important role.

Selected Best Practices from the Guide to Opportunities for Improving Grant Accountability

Monitoring subrecipients as a critical element of grant success

It is important that recipients identify, prioritize, and manage potential at-risk subrecipients to ensure that grant goals are reached and resources properly used. Agencies have addressed this issue by providing detailed guidance on how to manage funds and standards for monitoring subrecipients.

Best Practices:

1. *Coordinate agency efforts to monitor performance.* The State of Maryland Governor's Office of Crime Control and Prevention has a comprehensive, three-pronged approach to managing subrecipients. The Office's three units coordinate and exchange information through an automated grants management system to ensure that subrecipients appropriately perform grant functions to meet goals and deadlines. The Programming Unit receives quarterly progress reports, performs ongoing desk monitoring of subrecipients, and conducts a field visit at least once a year during the lifetime of each grant. The Fiscal Unit receives quarterly financial reports, checks the grants management system to ensure that the subrecipient is up to date in its program reporting, and determines whether payments will be issued. The Fiscal Audit Unit identifies potentially high-risk subrecipients for field and desk audits, performs these audits, and records the findings in the grants management system and sends a letter to the affected subrecipient. (Chapter 4)

2. *Develop guidance to assist subrecipients.* The State of Tennessee developed a manual, *Accounting and Financial Reporting for Not-For-Profit Recipients for Grant Funds in Tennessee*, that assists non-profits in establishing reporting systems that will comply with Federal and State regulations as well as accounting and auditing standards. The National Grants Partnership is using the manual as a starting point in the development of the Uniform Data Elements and Definitions for Grant Budgeting and Financial Reporting. (Chapter 4)

Preparing policies and procedures before issuing grants

Having regulations and internal operating procedures in place prior to awarding grants enables agencies to set clear expectations. Policies serve as guidelines for ensuring that new grant programs include provisions for holding awarding organizations and grantees accountable for properly using funds and achieving agreed-upon results. Although different programs may need different procedures, general policies should be established that all programs must follow.

Best Practices:

1. *Prepare department-wide policies and make available on the intranet.* Both large and small U.S. Federal departments have found that establishing department-wide policies and procedures on an Internet site is beneficial. To assist in managing grants, both the Department Health and Human Services, which awards about $239 billion in grants a year, and the Department of Commerce, which awards about $1 billion in grants a year, maintain Internet sites containing department-wide grant policies and procedures. Each Internet site provides a single location for *staff* to find required grants administration procedures. Both Departments also provide *applicants* with one location for finding detailed information about funding opportunities, applications, forms, submission dates, awarded grants, and grant policies." (Chapter 1)

Providing grant management training to staff and grantees

Agency staff and grantees need sufficient training so that they can understand the numerous regulations, policies, and procedures governing grant funds. Audit reports have found that deficiencies in grant oversight are not due to a lack of policies, but rather that existing policies are not being followed. Federal, State, and local government offices are responsible for ensuring that staff is properly trained to fulfill grant requirements. It is essential that grantees also receive training, particularly small entities not familiar with all of the regulations and policies.

Best Practices:

1. *Develop a long-term, strategic approach to training.* Improving skills of staff can be a long-term process that needs a strategic approach. When the Environmental Protection Agency issued its Five-Year Grants Management Plan in 2003, its first goal was to enhance the skills of Agency personnel involved in grants management. To reach this goal, the Agency developed the Long Term Grants Management Training Plan. This plan provides a framework for ensuring employees and grantees have the skills to manage grants. In addition to providing training for grant specialists and project officers, the plan includes training for managers and supervisors. The plan includes goals, objectives, activities, and measures for evaluating training effectiveness. (Chapter 1)

2. *Use a team approach to training.* State of Maryland officials believe the most successful grant applications are generated using a team approach and that all employees (i.e., budget specialists, grants procurement officers, grant project officers) should receive training on the entire grant process. Training classes include topics such as "Grants and Procurement: How They Work Together" and "Grant Budgets, Appropriations, and Budget Amendments Made Easy." Local governments and community groups can use the training materials after notifying the State. (Chapter 1)

3. *Provide specific training courses to grantees.* Providing training to grantees helps to ensure that eligible recipients understand how to apply for grants and properly use grant funds. The Department of Housing and Urban Development provides training coursework for grantees on its Internet site covering such topics as "Grant Application Preparation" and "eGrants Update for Grantees." The Environmental Protection Agency also offers training to new non-profit grantees through a videotape or DVD that gives an overview of the grant process and provides several skits that describe a grantee's responsibilities in different situations. (Chapter 1)

Consolidating Information Systems to Assist in Managing Grants

Consolidating information systems can enable agencies to better manage grants by providing information on all grants. This is beneficial because agencies often have numerous grant programs addressing similar needs…Each grant produces a large volume of information. By consolidating information and making it more accessible, agencies can better manage grant programs directed toward a common goal.

Best Practices:

1. *Use information system to track grant status.* The Department of Education's Office of Postsecondary Education has a centralized system, known as "Ed e-Monitoring," to electronically monitor the $2.3 billion in discretionary grants it awards annually. The system contains copies of e-mails, correspondence, performance reports, and evaluations, and can be programmed to alert monitoring staff when reports are due. The system allows the staff to color

code each grant based on its status, input information about how well a grantee is performing, and keep track of problems. Management can also use the system to monitor staff performance. (Chapter 1)

2. *Use electronic system to monitor grant funds.* The Department of Education uses an electronic system to manage its grants that includes information on the financial status of the grant. Financial information, such as amounts authorized and payments, is transferred daily from the Department's financial management system to the grants system. As a result, grants staff members are more readily able to monitor the financial status of a grant and take action should it indicate any potential problems. (Chapter 4)

3. *Use electronic systems to track deliverables.* The National Science Foundation uses an Internet-based system called FastLane to ensure that grant deliverables are received. FastLane processes grant awards, calculates due dates and receipt dates of grant deliverables, and assists grants management staff in tracking delinquent annual and final reports. If a deliverable is not received, the system does not allow new awards to the recipient. The grantee can also access this system. (Chapter 4)

Assessing applicant capabilities to account for funds

A capability assessment ensures that an applicant has adequate financial systems and enables awarding agencies to decide whether to award the grant, and whether conditions should be added. Assessments of grant applicant capability provide management with confidence that grantees have, or will have, the required financial systems and allow management to plan the level of grantee oversight.

Best Practices:

1. *Require a uniform pre-award evaluation of applicant capabilities.* Environmental Protection Agency policy requires a pre-award evaluation of the administrative and programmatic capabilities of non-profit applicants. Applicants are required to answer questions regarding financial management systems, property and procurement standards, assigned personnel, and travel policies. If the examination indicates any weaknesses, the award official must impose conditions that are to be completed before the grant is awarded, such as requiring an applicant to successfully complete a training course. The applicant must address weaknesses within a specified time and inform the Agency of corrective actions taken.

Subrecipient Determination Guidance

Federal Funding Accountability and Transparency Act (FFATA)
2 CFR 170—Reporting Subaward and Executive Compensation Information

Appendix A, Section e:

3. *Subaward:*

i. This term means a legal instrument to provide support for the performance of any portion of the substantive project or program for which you received this award and that you as the recipient award to an eligible subrecipient.

ii. The term does not include your procurement of property and services needed to carry out the project or program (for further explanation, see Sec. __ .210 of the attachment to OMB Circular A–133, "Audits of States, Local Governments, and Non-Profit Organizations").

iii. A subaward may be provided through any legal agreement, including an agreement that you or a subrecipient considers a contract.

4. *Subrecipient* means an entity that:

i. Receives a subaward from you (the recipient) under this award; and

ii. Is accountable to you for the use of the Federal funds provided by the subaward.

Audits of States, Local Governments, and Non-Profit Organizations
OMB Circular A-133

Subpart B, Section .210 Subrecipient and vendor determinations

Subrecipient and Vendor Determinations. An auditee may be a recipient, subrecipient, and a vendor. Federal awards expended as a recipient or subrecipient would be subject to audit under A-133. The payments received for goods or services provided as a vendor would not be considered Federal awards. See the following when determining whether payments may constitute a federal award or a payment for goods and services.

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 against whether the objectives of the federal program are 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 of the organization, as compared to providing goods or services for a program of the pass-through entity.

Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

1. Provides the goods and services within normal business operations;
2. Provides similar goods or services to many different purchasers;
3. 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.

Use of judgment in making determination. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or a vendor.

For-profit subrecipient. Since this part does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.

Compliance responsibility for vendors. In most cases, the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements.

Additional Resources

Subrecipient Monitoring

Tools for Developing a Subrecipient Monitoring Program. The two tools listed below, developed by the Association of Government Accountants in partnership with the US Office of Management and Budget, are a good place to start for creating a subrecipient monitoring program.

- Financial and Administrative Monitoring Tool
- Risk Assessment Monitoring Tool

Management Framework: Award Monitoring. Prepared by the National Science Foundation in 2003, this resource outlines fifteen practices which, taken as a whole, provide a general framework for the monitoring of grant awards similar to the *Guide to Opportunities for Improving Grant Accountability.* A highly recommended resource.

Subrecipient Monitoring Handbook An example of written monitoring guidance developed by the State of Maryland.

Grant Management

Improving the Grant Management Process. Developed by the U.S. Department of Justice in 2009, this resource provides a list of grant related ideas and practices to help agencies oversee the American Recovery and Reinvestment Act. Recommendations fall into eight categories; 1) Grant Program Development, 2) Grant Applications, 3) Award Process, 4) Monitoring, 5) Performance, 6) Training, 7) Communications and 8) Additional Considerations.

MN State Policies

Policies and Statues for MN State Grants A link to the MN Office of Grants Management website, where a complete listing of grant related policies and statutes can be found.

Training

Grant Management Training Library. The State of Maryland has developed a very large library of grant related training and written guidance.

Grants Management Training and Development Resources. The MN Office of Grants Management website provides a list of training materials and resources for grant management. Trainings include; Risk Assessment for Grants and Understanding Grant Agreements.