

## DHHS POLICIES AND PROCEDURES

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<b>Section IV:</b>	<b>General Administration</b>
<b>Title:</b>	<b>Grant Monitoring</b>
<b>Current Effective Date:</b>	<b>5/1/23</b>
<b>Revision History:</b>	<b>5/1/23, 1/10/22, 8/1/02</b>
<b>Original Effective Date:</b>	<b>7/1/00</b>

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### **Purpose**

The purpose of this policy is to outline the monitoring functions for the North Carolina Department of Health and Human Services (DHHS). Effective monitoring provides programmatic and fiscal oversight to the management of services and programs offered by DHHS. This policy applies to all divisions of DHHS and their programs.

### **Policy**

DHHS is mandated by Federal and State requirements to perform monitoring of recipients/subrecipients.

Federal requirements are included in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2CFR 200). The following sections specifically relate to this policy:

- 2 CFR 200.332: Pass-through entities are required to evaluate subrecipient's risk of noncompliance to determine the appropriate monitoring level, then monitor the activities of the subrecipient as necessary to ensure the subaward is used for the authorized purposes; is in compliance with Federal/State statutes, regulations, and the terms and conditions of the subaward; and performance goals are achieved.
- 2 CFR 200.521: Pass-through entities are required to issue a management decision for audit findings that relate to Federal awards made to subrecipients.

State requirements include:

- [G.S. 159-34](#), which requires each unit of local government and public authority to have their accounts audited.
- [G.S. 143C-6-23](#) G.S. establishes requirements for non-State entities, including reporting requirements. Reporting requirements, including threshold amounts, are included in [09 NCAC 03M .0205](#).

Each division shall develop a risk-based monitoring plan to routinely evaluate and monitor recipients/subrecipients to whom funds are provided to carry out the programs of the department. Effective monitoring of the funds granted to recipients/subrecipients is the responsibility of the director of the division/office that administers the program from which the funds are granted. For purposes of this policy, any entity, public or private, that meets the recipient/subrecipient criteria and expends funds received either directly or indirectly from the department shall be subject to monitoring. See Attachment A for definitions of terms

associated with the monitoring function of DHHS, and Attachment B for the DHHS responsibility matrix.

This policy is not meant to be all inclusive. Additional guidance shall be provided by the division's director or lead monitoring coordinator.

## **Implementation**

Either the division director or the designated lead monitoring coordinator shall:

1. Develop/update an annual risk-based monitoring plan(s). The Risk Management, Compliance and Consulting (RMCC) team will provide guidance on what should be included in a plan, but the divisions are responsible for development and customization of their plan according to their respective programs and requirements.
2. Coordinate the division's monitoring function with other divisions, where feasible and applicable, including working in conjunction with RMCC to build/maintain monitoring tools in Open Window that allow consistency and transparency across divisions.
3. Ensure that all internal staff conducting any monitoring activity are trained on the monitoring plan and that efforts are coordinated internally.
4. Ensure procedures are in place to avoid Conflict of Interest in accordance with DHHS Conflict of Interest policy. While divisions should develop their own processes, an example of a Conflict-of-Interest Disclosure Form is provided in Attachment C. Program Staff/Individuals involved in selection, consultation, review, monitor, award, or administration of an award should disclose conflict(s) of interest, real or apparent.
5. Maintain a record of division's recipients/subrecipients assessment of risk for recipients/subrecipients, monitoring results, a summary of corrective actions required, etc.
6. Work in conjunction with program monitoring functions and RMCC to ensure that all current recipients/subrecipients are included in Open Window Monitoring, respond to audit report findings as assigned, and provide other documentation as required.
7. Work in conjunction with the RMCC analysts on corrective action plans for audits and recipients/subrecipients issues that merit further investigation through internal audits.

**Risk Management, Compliance and Consulting**

RMCC reports to the Office of the Internal Auditor and serves as the departmental coordinator for program monitoring. RMCC staff:

1. Provide technical assistance to division monitoring coordinators in the development of and revisions to the divisions’ monitoring plans.
2. Develop/update Department-wide grant monitoring guidance.
3. Maintain list of audits required and in conjunction with divisions’ lead monitoring coordinators, will ensure that recipient/subrecipient’s audit reports are received, reviewed, and that any recipient/subrecipient documentation/responses are received as needed.
4. Issue Management Decision Letters on behalf of DHHS.
5. Develop and manage an inter-divisional monitoring tool to manage risks and audit monitoring. The tool shall eventually include contact information on division monitoring coordinators and designated division staff responsible for required monitoring activities, a list of recipients/subrecipients, contact information for recipients/subrecipients, results and findings of audit reports, results/findings of previous monitoring visits (including corrective action plans), status of follow-up activities, and links to resources. As noted above, the division is responsible for maintaining this information regardless of the implementation of the tool.
6. Meet with divisions’ lead monitoring coordinators on a periodic basis and provide resources, information, and training programs.
7. Work with divisions to determine if a recipient/subrecipient should be added to or removed from the Suspension of Funding List and coordinate this with the Office of State Budget and Management.

**Description of Program Monitoring Functions**

Monitoring is an ongoing review process used to determine a recipient/subrecipient’s compliance with the requirements of a state, federal or other funding entity program, applicable laws and regulations, and stated results and outcomes. Monitoring also includes the review of internal controls to determine if the financial management and the accounting system are adequate to account for program funds in accordance with state, federal or other funding entity program requirements.

Division program monitoring functions shall include, but are not limited to the following types of activities:

1. Assess internal control over compliance requirements to provide reasonable assurance that:
  - Funds are disbursed to recipients/subrecipients only on an as needed basis
  - Funds are disbursed to recipients/subrecipients based on approved, properly completed expenditure reports submitted on a timely basis.
  - Cash advance payments are only provided and closed out according to NC DHHS and program requirements.
  - Funds owed by the recipients/subrecipients are billed and collected in a timely manner through the DHHS Controller's Office Accounts Receivable Section
  - Recipients/subrecipients and other entities and individuals receiving funds meet eligibility requirements and understand documentation standards including appropriate record retention (See <https://www.ncdhhs.gov/about/administrative-offices/office-controller/records-retention> for grant record retention guidelines).
2. Review financial and programmatic reports received from recipients/subrecipients according to contractual/award and state/federal requirements.
3. Provide feedback/training and technical assistance to recipients/subrecipients and resolve identified issues/deficiencies within a timely manner.
4. Review audit findings/management decision letters to evaluate a recipients/subrecipients compliance with applicable laws and regulations.
5. Evaluate program audit findings and provide recommendation on appropriate management decisions in conjunction with RMCC and determine whether an acceptable corrective action plan was prepared.
6. Perform monitoring activities to review financial and programmatic records and observe operations as appropriate.
7. Work with RMCC to identify any recipient/subrecipient who is not providing required documentation or have other major deficiencies to determine if recipient/subrecipient should be placed on the Suspension of Funding List.
8. If a division suspects or receives information related to fraud, management deficiencies and/or criminal activity, the division shall investigate and consult with RMCC/Internal Audit and the Division of Budget and Analysis (B&A). If the information related to fraud is determined well founded and credible in consultation with RMCC/Internal Audit and the Division of Budget and Analysis (B&A), RMCC/Internal Audit may coordinate further audit/investigation. Other parties may be involved as appropriate, including Legal, other internal staff, the Office of State

Auditor, federal authority, local law enforcement authorities, and/or SBI. Actions should be in accordance with [09 NCAC 03M.0801](#).

In cases where more than one (1) division awards funding to a recipient/subrecipient, divisions should work with RMCC to identify opportunities to collaborate with other divisions on monitoring efforts to minimize duplicative work by each division and to minimize work disruption on the recipients/subrecipients.

Each Division will ensure that changes to points of contact and lead monitors are reported in a timely fashion. RMCC/Internal Audit will maintain a master list of the points of contacts for each Division.

Whenever possible, divisions should appoint personnel that are full-time monitors to ensure independence and objectivity, which may be impaired if the monitor also performs management and administrative functions.

### **Division Monitoring Plan**

Each division with recipients/subrecipients shall develop and maintain a monitoring plan in accordance with this policy. This plan shall be the basis for monitoring programmatic and fiscal compliance with state and federal requirements. The primary objective of the monitoring plan(s) is to ensure that recipients/subrecipients are complying with applicable rules and regulations, program goals and objectives are met, and that the program(s) are accomplishing their intended purpose(s). At a minimum each plan shall include:

1. The name and position title of the person designated as the division's lead monitoring coordinator.
2. The programs covered by the monitoring plan and a list or reference to all recipients/subrecipients to be monitored (this includes programs funded with state or federal dollars).
3. Identification of the type of recipients/subrecipients (not-for-profit, governmental organization, public authority, for-profit) and the type of funding (segregated between federal, state and other funding wherever possible).
4. The criteria to be used to complete an assessment of the risk of the recipient/subrecipient's ability to meet the objectives of the program and to comply with the program rules and regulations and meet the financial management requirements. These criteria may include but is not limited to:
  - the size of the award, the complexity of the program
  - prior experience with the recipients/subrecipients
  - the cost-effectiveness of monitoring evaluations
  - prior audit or monitoring results.
  - past experience with paybacks

- multiple funding sources
  - commingling of funds
  - changes in management
  - financial stability
  - how the progress will be measured
  - if written policies and procedures show good internal controls and management practices
5. Identification of specific monitoring activities to be performed, including but not limited to review of financial and programmatic reports, desk reviews, site visits, prior approvals, etc.
  6. The frequency of monitoring activities shall be based on the results of risk assessment for each recipient/subrecipient. For example, for high-risk recipients/subrecipients, the frequency of desk reviews or site visit can be increased, high-risk recipients/subrecipients can also be required to submit more frequent progress or financial reports with additional information, provide technical assistance on deficiencies, can conduct site visits early in the period of award, etc. Procedures should include informing recipients/subrecipients of the results of the risk assessment and monitoring activities based on the risk status of the recipients/subrecipients.
  7. Procedures for non-compliant recipients/subrecipients should be developed in accordance with the North Carolina Administrative Code (09 NCAC 03M .0801) and DHHS policies. These procedures should include:
    - Formal communication to recipient regarding noncompliance issues
    - Timeframe for issuing the communication once noncompliance is identified (e.g., within XX days of identify noncompliance, the recipient will be notified)
    - Allowing 60 days (09 NCAC 03M .0801(d)) for the recipient or subrecipient to take corrective action to address the noncompliance.
    - Providing technical assistance during the 60-day period
    - Actions and timing on notifying RMCC for placement on the suspension list, suspending recipient/subrecipient’s payments, and/or notifying the State Bureau of Investigation for possible criminal misuse of State property.
    - How to retrieve unexpended funds
  8. Procedures for closeout of award/subaward according to federal and state requirements as applicable. Procedures should include information on when final reports are due and the process for settling accounts and closing awards/subawards.

For questions or clarification on information contained in this policy, division monitoring staff should contact their Lead Monitoring Coordinator. You may also contact [Risk Management, Compliance and Consulting](#) as needed. For general questions about department-wide policies and procedures, contact the [DHHS Policy Coordinator](#).

**ATTACHMENT A**  
**DHHS DEFINITIONS OF MONITORING TERMINOLOGY**  
**(All definitions are from 2 CFR 200, November 2020 updates unless otherwise noted with a “1”)**

**Assistance Listings:** refers to the publicly available listing of Federal assistance programs managed and administered by the General services Administration, formerly known as the Catalog of Federal Domestic Assistance (CFDA).

**Assistance Listings Number:** a unique number to identify a Federal Assistance Listing, formerly known as the CFDA Number.

**Compliance Supplement:** an annually updated authoritative source for auditors that serves to identify existing important compliance requirements that the Federal Government expects to be considered as part of an audit. Auditors use it to understand the Federal program's objectives, procedures, and compliance requirements, as well as audit objectives and suggested audit procedures for determining compliance with the relevant Federal program.

**Conflict of interest:** <sup>1</sup>A significant financial interest that could directly compromise, or bias professional judgment and objectivity related to the management of federal financial assistance. Individuals involved in selection, consultation, review, monitor, award, or administration of an award to a subrecipient should disclose conflict(s) of interest, real or apparent.

**Contract:** for the purpose of federal financial assistance, a legal instrument by which a recipient or subrecipient purchases property or services needed to carry out the project or program under a federal award. For additional information on subrecipient and contractor determinations, see [§200.331](#).

**Cost Sharing or Matching:** the portion of project costs not paid by Federal funds or contributions (unless otherwise authorized by Federal statute). See also [§200.306](#).

**Disallowed Cost:** those charges to a federal award that the Federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the Federal award.

**Division Monitoring Coordinator/Lead Monitor:** <sup>1</sup>the division employee designated or otherwise assigned the division's lead monitoring coordinator functions detailed in this policy.

**Financial Assistance (FA)**<sup>1</sup> – Federal or state assistance that the state provides to recipients in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations,

and other assistance, but generally does not include amounts received as reimbursement for services rendered to individuals such as Medicare and Medicaid (*NOTE: All state contracts must be reviewed to determine whether they are “financial assistance” or “purchase of service” type contracts. This determination is necessary to establish whether the contracting agency is a subrecipient or a vendor and must be made by each entity to which the funds are further subgranted (or awarded under contract). Those deemed to be the FA type are subject to the financial reporting requirements of the federal Office of Management and Budget’s 2CFR200. For specific guidance about FA/POS contract determination (i.e., distinguishing between a subrecipient and a vendor), please refer to [10A NCAC 01A.1003](#), Purchase of Service vs Financial Assistance.*

**Indirect Cost:** *Indirect (facilities & administrative (F&A)) costs* means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

**Internal Controls:** Internal controls for non-Federal entities mean processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of reporting for internal and external use; and
- Compliance with applicable laws and regulations.

**Lead Monitor**<sup>1</sup>– see Division Monitoring Coordinator

**Management Decision:** The Federal awarding agency’s or pass-through entity’s written determination, provided to the auditee, of the adequacy of the auditee’s proposed corrective actions to address the findings, based on its evaluation of the audit findings and proposed corrective actions.

**Pass-through Entity** – a non-federal entity that provides a federal award to a subrecipient to carry out a federal program.

**Recipient:** an entity, usually but not limited to non-Federal entities that receives a federal award directly from a federal awarding agency. The term recipient does not include subrecipients or individuals that are beneficiaries of the award.

**Subaward:** an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a federal



program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

**Subrecipient:** an entity, usually but not limited to non-Federal entities, that receives a subaward from a pass-through entity to carry out part of a federal award; but does not include an individual that is a beneficiary of such award. A subrecipient may also be a recipient of other Federal awards directly from a federal awarding agency.

<sup>1</sup> Definition not from 2 CFR 200

**ATTACHMENT B**

**DHHS MONITORING RESPONSIBILITY MATRIX**

<b>RISK MANAGEMENT, COMPLIANCE AND CONSULTING</b>	<b>DIVISION DIRECTOR/LEAD MONITORING COORDINATOR</b>	<b>DIVISION PROGRAM FUNCTION</b>
Develop /update monitoring guidance	Communicate with division monitoring staff on monitoring guidelines.	Follow monitoring guidelines and submit input regarding guidelines needed
Provide technical assistance to division lead monitoring coordinators in the development of and revisions to the division’s monitoring plans. Meet with lead monitoring coordinators on a periodic basis to provide resources, information and training programs.	Develop division monitoring plan. Guide program monitors in development of monitoring plan(s). Ensure risks assessments are completed.	Develop program specific monitoring plans for division’s programs based on risk assessments and guidance from Lead Monitor.
Coordinate changes to DHHS monitoring tools based on information provided by divisions	Provide input on monitoring tools and coordinate changes with division monitoring staff	Develop program specific assessment tools based on deliverables, scope of work, past monitoring efforts, compliance supplements, and specific attention to areas of risk. per Divisional Monitoring Plan
Work with division lead monitoring coordinator to develop training programs to ensure successful monitoring	Work with RMCC to identify target training areas where there have been compliance problems, rules and regulations changes and high risk of non-compliance/paybacks.	Participate in training as appropriate.
Develop and make tools available that will allow divisions to share information	Work with RMCC to coordinate the Division’s monitoring function with other DHHS Divisions where possible	Utilize the DHHS monitoring site to coordinate monitoring visits/reviews with other Divisions.

<b>RISK MANAGEMENT, COMPLIANCE AND CONSULTING</b>	<b>DIVISION DIRECTOR/LEAD MONITORING COORDINATOR</b>	<b>DIVISION PROGRAM FUNCTION</b>
Develop and manage a DHHS monitoring tool	Provide input into the monitoring tool and ensure the monitoring tool is up to date with all subrecipients and monitoring activities as determined appropriate	Update the monitoring tool with subrecipient monitoring information according to guidance from Division Lead Monitoring Coordinator.
Review and coordinate investigations with Director of DHHS Office of Internal Audit, NC Office of State Auditor, and State Bureau of Investigations (SBI) as appropriate	Coordinate serious non-compliance findings that merit further investigation with RMCC/Internal Audit	Communicate serious non-compliance findings with Division Monitoring Coordinator.
Maintain list of audits required, review audit reports, issue Management Decision Letters.	Coordinate program findings assigned to division to ensure they are addressed.	Work with monitoring coordinator as assigned to address program findings
Maintain Suspension of Funding List	Investigate issues received and work with RMCC to determine when subrecipients should be added to or removed from Suspension of Funding List	Identify issues that may result in placing a subrecipient on the Suspension of Funding List and communicate to Monitoring Coordinator

ATTACHMENT C

MONITORING CONFLICT OF INTEREST DISCLOSURE STATEMENT

- A Conflict of Interest is any private interest, affiliation or relationship which could potentially compromise your ability to impartially carry out your official responsibilities.
- Upon hiring and annually thereafter, in your role related to selection, consultation, review, monitor, or administration of an award to a subrecipient, you must provide written notification to your Division Lead Monitoring Coordinator (or designee) about any possible Conflicts of Interest or even the appearance of a Conflict of Interest (complete, sign and return this form).
- The Division Director, Lead Monitoring Coordinator or designee will review the Conflict-of-Interest Disclosure Statement form and will make the final determination with regards to all potential and actual conflicts of interest.
- The duty to disclose potential Conflicts of Interest is an ongoing duty. If a Conflict of Interest or the appearance of a Conflict of Interest arises now or during your official role, you must provide written notification to your Lead Monitoring Coordinator or designee.

I certify that I have read, understand, and agree to comply with the above Conflict of Interest Statement. Currently, I have the following Conflict(s) of Interest to Report (please write "None" if you have no conflicts):

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Employee Name (Printed)

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Signature

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Date