

V. CONTRACTING

Effective Date: April 21, 2008

A. SUBRECIPIENT RELATIONSHIPS

When a not-for-profit organization is awarded state funds directly from a Department of Health and Human Services agency or division, that organization is considered to be a primary recipient of state financial assistance. Upon accepting the funds, the recipient assumes responsibility for complying with certain state requirements and conditions such as:

- 1. Operation of the program in accordance with applicable rules and regulations. The funding agency retains authority to evaluate, review, and monitor the recipient and to review the recipient's audit report to ensure compliance.**
- 2. Maintenance of property and financial records in sufficient detail to clearly reflect the manner in which the recipient has utilized the state funds.**
- 3. Selection of a qualified firm to audit the state funds in accordance with applicable audit requirements.**
- 4. Resolution of any audit findings and questioned costs and the preparation of a corrective action plan.**
- 5. G.S. 143C-6.23 Reporting requirements**

The primary recipient's governing board may determine that another organization can be of assistance in developing the program or providing certain services. In this case, a portion of the state funds are awarded to the other entity resulting in a subrecipient relationship. Several factors and characteristics are normally present.

- 1. Subrecipient has responsibility to comply with applicable program compliance requirements.**
- 2. Performance is measured by how well the subrecipient accomplishes the stated program goals and objectives.**
- 3. Subrecipient is delegated responsibility for making relevant administrative and, programmatic decisions.**
- 4. Subrecipient is actively involved in the process for determining who is eligible to receive services.**
- 5. Subrecipient is perceived to be an agent or extension of the primary recipient with regards to the specific state award.**

6. G.S. 143C-6.23 reports

When a recipient provides a subrecipient with pass-through state funds, the recipient has responsibility for setting forth in writing terms and conditions which are applicable to the state funds as well as any special audit requirements. Subrecipients should be subject to the same requirements as the primary recipient.

Since the primary recipient is ultimately responsible for the manner in which the subrecipient expends the state funds, a system of control policies and procedures for monitoring subrecipients must be established by the primary recipient organization. The monitoring system may consist of procedures such as the following:

- 1. Review grant applications submitted by subrecipients to determine that applications are approved by subgrantor management before any funds are awarded, are filed in a timely manner, and that each application contains a stipulation that the subrecipient must comply with applicable state requirements.**
- 2. Establish control policies and procedures to provide reasonable assurance that funds are only disbursed to subrecipients on an "as needed" basis.**
- 3. Disburse funds to subrecipients only on the basis of approved, properly completed reports which have been submitted on a timely basis.**
- 4. Bill and collect refunds due from subrecipients in a timely manner.**
- 5. Establish control policies and procedures to provide reasonable assurance that subrecipients and those individuals or groups receiving services meet eligibility requirements.**
- 6. Review financial and technical reports received from subrecipients; on a timely basis and investigate all unusual items.**
- 7. Review audit reports for completeness and compliance with applicable laws and regulations and to determine whether the appropriate reporting standards were followed.**
- 8. Evaluate audit findings, issue appropriate management decisions, if necessary, and determine if an acceptable plan for corrective action has been prepared and implemented by the subrecipient organization.**
- 9. Review certification, schedule of expenditures and receipts, State Grant Reporting and activities and accomplishments report(s) or comparable reports from subrecipients in accordance with GS 143C-6.23.**
- 10. Review evidence of previously detected deficiencies and determine that corrective action has been taken.**

Subrecipients assume certain roles and responsibilities as a result of accepting state financial assistance from the primary recipient. They agree to establish and maintain accountability for the funds with an accounting and reporting system which identifies the funds by program or grant,

reflects how the assistance was utilized, and provides the primary recipient with timely and accurately prepared reports.

In addition, subrecipients are required to establish effective internal control structure policies and procedures which help to ensure compliance with applicable requirements. Desirable controls would include:

1. Communicating compliance requirements to employees and assigning responsibility to specific employees;

2. Monitoring operations on a regular basis for adherence with compliance requirements;

3. Maintaining open and effective communication with primary recipient and cooperating with oversight efforts;

4. Arranging for proper and timely audit coverage;

5. Completing a corrective action plan; and

6. Distributing the audit report to appropriate parties.

7. Reviewing and taking action on GS 143C-6.23 or comparable reports for subrecipients

The importance of a proper relationship between the primary recipient of state funds and subrecipients cannot be over-emphasized. In the event a subrecipient expends state funds in a manner that is not consistent with applicable rules and regulations which results in noncompliance and related questioned costs, the primary recipient is responsible for any related repayment of state funds to the Department of Health and Human Services.