



Administrative Policy No: 19.50.30

Subject: Subrecipient Monitoring

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Authorizing Source: [2 CFR Chapter II Part 200](#) - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
State Administrative and Accounting Manual (SAAM)
Chapter [50.30](#)

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Approved By: Original approved by Richard Pannkuk
Assistant Secretary / Chief Financial Officer

Purpose

This policy establishes the Department of Social and Health Services (DSHS) responsibility to monitor program and fiscal activities of subrecipient contracts and agreements.

Scope

This policy applies to all DSHS staff and activities pertaining to the fiscal and performance monitoring of all DSHS subrecipient contracts.

This policy does not apply to contract monitoring of non-subrecipient contracts and agreements as defined in administrative policy [13.11](#).

Additional guidance

Revised Code of Washington (RCW)

[Title 39](#), Public contracts and indebtedness

[43.09.185](#), Loss of public funds, illegal activity, report to state auditor's office

DSHS [administrative policies](#):

5.04, Records retention

13.11, Monitoring contractor performance

16.01, Internal audit

16.05, Internal control risk assessment and self-evaluation

DSHS Tools (optional templates)

Attachment A - [sample fiscal risk assessment worksheet](#)

Attachment B - [subrecipient federal financial assistance summary sheet](#)

Attachment C - [sample DSHS subrecipient fiscal monitoring site visit tool](#)

[DSHS SAO subrecipient audits SharePoint](#)

[DSHS forms picker](#)

Form [02-568](#), certificate of indirect costs

Form [17-169](#), loss of public funds, assets, or illegal activity report

[Contractor or subrecipient determination checklist](#)

Definitions

Administration means the affected DSHS programs, including the division, office, or staff designated by the assistant secretary or division director as being responsible for compliance with this policy.

Agency contract database (ACD) is the DSHS electronic enterprise information system used for the creation, tracking and monitoring of all DSHS client service, professional services, data sharing and Interlocal agreements; and may include memorandums of understanding (MOUs).

Award means federal financial assistance that a non-federal entity receives directly from a federal awarding agency or indirectly from a pass-through entity.

Cognizant agency (federal) means the federal agency responsible for reviewing, negotiating, and approving DSHS' public assistance cost allocation plan (PACAP) or indirect cost proposals developed under 2 CFR Part 200 on behalf of all federal agencies. The cognizant agency for DSHS is the Department of Health and Human Services (DHHS).

Cognizant agency (state) means the state agency that reviews, negotiates, and approves subrecipient public assistance cost allocation plans (PACAP), if appropriate.

Cost allocation means a methodology by which administrative costs are identified in a logical and systematic manner for reimbursement under federal grants and agreements.

Cost allocation plan means a document describing the methodology by which administrative costs are identified in a logical and systematic manner for reimbursement under federal grants and agreements.

Cost objective means the five-digit code assigned to identify the federal grant, a portion of the federal grant, or a state funded program to which costs are assigned.

Desk review means a low to medium risk assessment that requires a review of the following items if they are available:

- a. Entity's invoices and documentation (A-19s);
- b. Entity's program or service and financial reports;
- c. Surveys or feedback cards from clients;
- d. Client complaints;
- e. Entity's audit or financial report follow up ensuring all appropriate action has been taken on all items detected through audits, on-site reviews, and any other means; and
- f. Entity's indirect rate certification (certificate of indirect costs, form 02-568 or plan), if applicable.

** These reviews can be done virtually or onsite.

Direct costs are costs related to the performance of a specific service. For DSHS federal awards, direct costs are those costs identified specifically with a particular cost objective. Direct costs must be ordinary, necessary, reasonable, and allowable under the terms of the contract. Typical direct costs chargeable to federal awards are:

1. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
2. Cost of equipment, materials, and services acquired, consumed, or spent specifically for the purpose of those awards.
3. Approved capital expenditures.
4. Travel expenses incurred specifically to carry out the award.

Note: Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives. (See 2 CFR, Part 200 Subpart E, §200.413(d)).

Federally recognized tribes are self-governing American Indian (AI) and Alaska Native (AN) governments recognized under applicable federal and common law. Because of their unique sovereign status, federally recognized tribes have the inherent power to make and enforce laws on their lands, and to create governmental entities. A federally recognized tribe is an AI/AN tribal entity that is recognized as having a government-to-government relationship with the United States, with the responsibilities, powers, limitations, and obligations attached to that designation, and is eligible for funding and services from the bureau of Indian affairs.

Urban Indian Organizations (UIOs), formerly known as Recognized American Indian Organizations: Organizations, as recognized in accordance with Indian Policy Advisory Committee (IPAC) by-laws, including the American Indian Community Center (AICC), Chief Seattle Club, the NATIVE Project, Seattle Indian Health Board (SIHB), Small Tribes of Western Washington (STOWW), South Puget Intertribal Planning Agency (SPIPA), a tribal consortium, and United Indians of All Tribes Foundation (UIATF). These organizations exercise their rights as AI/ANs, citizens of the United States, and residents of the state of Washington.

For-profit refers to a business or organization whose primary goal is making money.

Indirect 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 cost pools. Cost pools must be allocated to benefiting cost objectives using criteria that ensure an equitable distribution, taking into account the relative benefits received. (See 2 CFR, Part 200 Subpart A §200.1).

Indirect cost rate means a method for determining, in a reasonable manner, the proportion of indirect costs each program should incur. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base, calculated by a governmental unit and approved by the cognizant agency.

Indirect cost rate proposal means the documentation prepared by a non-federal entity to substantiate its request for the establishment of an indirect cost rate as described in 2 CFR, Part 200 Appendix VII to Part 200).

Interlocal agreement means a contract or agreement between DSHS and any public agency, political subdivision, or unit of local government including, but not limited to municipal corporations, quasi-municipal corporations, counties, special purpose districts, and local service districts; any agency of state government; any agency of the United States; any local or federally recognized Indian tribal government; and any political subdivision of another state. A contract may acquire goods or services, or both. An agreement does not necessarily require either goods or services chapter 39.34 RCW, Interlocal Cooperation Act, governs interlocal agreements.

Local government means a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under state law), local or federally recognized Indian tribal government, including any component thereof, other regional or interstate government entity, or any agency or instrumentality of a local government.

Monitoring means a continuous process used to evaluate contractors to determine whether they are delivering goods and services in accordance with their contractual obligations.

Non-federal entity means a state, local government, Indian tribe, Institution of Higher Education (IHE), for-profit, or nonprofit organization that carries out a federal award as a recipient or subrecipient.

On-site review means a high-risk assessment that requires a review of both the items required for a desk review as well as many of the following that are available:

- a. A review of the delivery of program services;
- b. Discussions about the contractor's problems and challenges;
- c. Follow-up on identified problems from previous visits;
- d. Review of facility or personnel licensing;
- e. Review of surveys and inspections performed by outside parties;
- f. Interview of staff to determine whether they are familiar with the program;
- g. Inspection of the entity's facilities and operations;
- h. Review of and compliance with the entity's policies and procedures governing service delivery and financial processes;
- i. Review of the entity's monitoring or production reports;
- j. Review of any independent limited scope program audits;
- k. Verification of performance from outside sources (e.g. sub-contractors);
- l. Review of the entity's self-risk assessment survey;
- m. Review of internal controls;
- n. Review of billing practices;
- o. Review allocation of costs; and
- p. Review time sheets or activity reports.

****The preferred method for these reviews is to be done on-site but they can be done virtually if necessary.**

Public assistance cost allocation plan (PACAP) means the narrative description of procedures used to identify, measure, and allocate all administrative costs to the programs administered or supervised by the state's public assistance agency.

Risk assessment means the process of evaluating the administration's and/or client's exposure to harm or loss that could happen from some activity associated with a contract for services. This process is active throughout the entire life of the contract.

Note: The annual enterprise risk assessment and self-evaluation does not replace the risk assessment as defined in this policy.

Risk factors means circumstances that may increase the likelihood that the contractor will not:

- 1. Meet the goals of the contract.
- 2. Provide contracted services safely, timely, effectively, and efficiently.
- 3. Protect DSHS and its clients from loss or injury.
- 4. Provide reliable financial data regarding how contracted dollars are spent.
- 5. Comply with applicable laws, regulations, and defined policies and procedures.

Single audit is an organization-wide financial statement and federal awards' audit of a non-federal entity that prior to 10/1/24 the value expends \$750,000 and after 10/1/24 the value is \$1,000,000 or more in federal funds in one year. It is intended to provide assurance to the federal government that a non-federal entity has adequate internal controls in place and is generally in compliance with the administration requirements.

Subrecipient means a non-federal entity that spends federal awards received from a pass-through entity (DSHS) to carry out a federal program but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards from another pass-through entity or directly from a federal awarding agency. 2 CFR, Part 200, Subpart D, §200.331 identifies characteristics that must be considered in making the determination of subrecipient versus non-subrecipient (vendor) status.

The table below identifies some characteristics used to determine subrecipient status but is not considered an all-inclusive list.

Subrecipient	Vendor
Determines who is eligible to receive federal financial assistance	Does not determine eligibility
Performance measured against program objectives	Provides the goods and services within normal business operations
Has responsibility for making programmatic decisions	Provides goods or services that are ancillary to the operation of the federal program
Responsible for adhering to federal program compliance requirements	Is generally not subject to compliance requirements of the federal program
Uses federal funds to carry out a program of the organization	Provides goods or services for a program of the pass-through entity
	Provides similar goods or services to many different purchasers
	Operates in a competitive environment

Unique entity identifier (UEI) is the official identifier for doing business with the U.S. government and is required under the Federal Funding Accountability and Transparency Act (FFATA). The Data Universal Numbering System (DUNS) number is currently used as the UEI and will be used through December 2020. After that date, the UEI will be generated in the System for Award Management (SAM) located at SAM.gov.

Vendor (referenced as a contractor in 2 CFR, Part 200, Subpart D, §200.331) means any person, business, non-profit, or government entity that provides services to DSHS or its clients. A vendor may or may not have a contractual agreement.

Policy

A. Administrations must identify subrecipient contracts

1. Administrations must identify subrecipient contracts by:
 - a. Determining if a contract meets the criteria of a subrecipient or non-subrecipient using 2 CFR, Part 200, Subpart*, §200.331 subrecipient and contractor determination criteria. The administrations may consult with their office of accounting services (OAS) senior financial coordinator to make a determination of subrecipient status (see definition of subrecipient for more guidance);
 - b. Ensuring contracts include requirements outlined in 2 CFR, Part 200, Subpart D, [§200.332](#); including but not limited to - the assistance listing number, award information, name of the federal awarding agency, relevant federal regulations, and provisions of the grant awards;
 - c. Determining the appropriate type of contract agreement per 2 CFR, Part 200, Subpart D, §200.333. Fixed amount subawards have specific requirements including prior written approval;
 - d. Ensuring subrecipients have an accurate unique entity identifier (UEI); and
 - e. Recording the determination of subrecipient status for each of their contracts in the agency contracts database (ACD).
2. Administrations must also verify the indirect rate the subrecipient will use by:
 - a. Obtaining a copy of the indirect rate certification (certificate of indirect costs, form 02-568) or cost allocation plan from the subrecipient contractor, if applicable.
 - b. Verifying the indirect cost rate or cost allocation plan conforms to the requirements of 2 CFR, Part 200, subpart E - cost principles.
 - c. Obtaining copies of updated subrecipient indirect cost rate certifications, or cost allocation plan, three months prior to the start of a subrecipient's fiscal year, during the contract period for each contract for new and reoccurring contracts, if applicable.
 - d. Accepting the subrecipient's federally approved indirect cost rate, if applicable.
 - i. Subrecipients may elect to charge a de minimis rate, which prior to 10/1/24 the value is 10% and after 10/1/24 the value, is 15% of modified total direct costs (MTDC).
 - ii. The de minimis rate is not available to local governments receiving more than \$35 million in direct federal funding or to entities who have previously received a negotiated indirect cost rate. This methodology once elected must be used consistently for all federal awards (see 2 CFR

Part 200 Subpart E, §200.414(f)).

3. Administrations must verify the total federal expenditure the subrecipient receives during a fiscal year.
 - a. Non-governmental subrecipients must complete attachment B, subrecipient federal financial assistance, at the end of their previous fiscal year and no later than June of the following year. The information will allow DSHS to determine whether combined federal expenditures equal or exceed the OMB single audit threshold.
 - b. A single audit is required when expenditure reaches \$750,000 before 10/1/24 or \$1,000,000 on or after 10/1/24 during the subrecipient's fiscal year. Copies of the completed form must be provided to program and fiscal staff with assigned monitoring responsibility.
4. Administrations must track federal dollars awarded to another state agency. If federal dollars are awarded to another state agency who in turn awards those funds to a subrecipient, the administration is responsible to:
 - a. Obtain the subrecipient's name and the amount awarded;
 - b. Report the subrecipient information to be used for the completion of the schedule of expenditures and federal awards (SEFA);
 - c. Report the contract information on the federal government website as part of the [Federal Funding Accountability and Transparency Act](#) (FFATA). This requirement applies to ALL contracts regardless if the contractor is a vendor or subrecipient; and
 - d. Administrations are responsible for ensuring the other state agency is completing the monitoring of the subrecipient.

B. Established contract formats must be used.

1. Central contracts and legal services (CCLS) must develop and maintain formats that include subrecipient requirements in general terms and conditions of affected contracts. Subrecipient contracts must include appropriate language to ensure that requirements imposed by federal law, regulations, provisions of grant agreements, and any additional department requirements are clearly defined and kept current. The contract must specify that the subrecipient must permit the pass-through entity and auditors to have access to all relevant records and financial statements.
2. In addition to other provisions required by the federal agency or non-federal entity, all contracts made by the non-federal entity under the federal award must contain provisions listed in 2 CFR, Part 200, Appendix II to Part 200.
 - a. The provision for debarment and suspension can be met by one of these methods, per 2 CFR 180.300;

- i. Checking SAM.gov exclusions;
 - ii. Collecting a certification from that person; or
 - iii. Adding a clause or condition to the covered transaction with that person.
 - 3. Administration staff must develop, working with their administrative contract staff, special terms and conditions that include all appropriate program compliance requirements and additional unique requirements, such as:
 - a. Activities allowed or disallowed.
 - b. Allowable costs/cost principles.
 - c. Eligibility.
 - d. Matching, level of effort, earmarking.
 - e. Reporting.
 - f. Subrecipient monitoring.
 - g. Billing requirements.
 - h. Award closeout.
 - i. Remedies for noncompliance according to 2 CFR Subpart D, §200.339.
- C. **For a complete listing of program compliance requirements, see 2 CFR, Part 200, Appendix XI to Part 200 – Compliance supplement.**
 - 1. As part of the fiscal year close, administrations must complete the subrecipient reporting form included in the FYC instructions, so the data can be included in the federal disclosure forms.
 - 2. If federal dollars are awarded to another state agency who in turn awards those funds to a subrecipient, the program is responsible to:
 - a. Obtain the subrecipient's name and the amount awarded.
 - b. Report the subrecipient information to be used for the completion of the schedule of expenditures and federal awards (SEFA).
 - c. Report the contract information on the federal government website as part of the Federal Funding Accountability and Transparency Act (FFATA). This requirement applies to ALL contracts regardless if the contractor is a vendor or subrecipient.
- D. **Contract risk assessments must be developed and completed. (See attachment A, sample risk assessment tool)**
 - 1. Administration staff must complete annual risk assessments and determine the level of monitoring required for all subrecipient contracts.
 - 2. The risk assessment worksheet models a way to develop risk assessments and assess high, medium, or low levels of risk.

E. Fiscal and program monitoring must be completed. (See attachment C - [Sample DSHS subrecipient fiscal monitoring site visit tool](#))

Based on the result of the risk assessment, a desk or on-site review must be completed. Each program has control over the form and content of its risk assessment tools. This process is used to meet §200.303, to evaluate and monitor subrecipient's compliance with statutes, regulations, and the terms and conditions of federal awards.

1. If the risk assessment shows the entity is of **low to medium risk**, the entity may not require an on-site review. Instead, a desk review may be adequate for the current year. The program or division will assign the appropriate staff to conduct the desk review. The following items, if available, must be documented in a desk review:
 - a. Entity's invoices and documentation (A-19s);
 - b. Entity's program or service and financial reports;
 - c. Surveys or feedback cards from clients;
 - d. Client complaints;
 - e. Entity's audit or financial report follow up, ensuring all appropriate action has been taken on all items detected through audits, on-site reviews, and any other means;
 - f. Entity's indirect rate certification (certificate of indirect costs, form 02-568 or plan), if applicable; and/or
 - g. If any of the above are not reviewed within the desk review, supervisor approval and an explanation for the reason the items were unable or immaterial to be reviewed must be included within the desk review assessment tool.
2. If the risk assessment shows the entity is a **high risk**, an on-site visit is required. The administration will assign the appropriate staff to conduct the on-site review. On-site reviews must include all items in a desk review. In addition, on-site reviews may include, as appropriate, the following items:
 - a. A review of the delivery of program services;
 - b. Discussions about the subrecipient's problems and challenges;
 - c. Follow-up on identified problems from previous visits;
 - d. Review of facility/personnel licensing;
 - e. Review of surveys and inspections performed by outside parties;
 - f. Interview of staff to determine whether they are familiar with the program;
 - g. Inspection of the entity's facilities and operations;
 - h. Review of and compliance with the entity's policies and procedures governing service delivery and financial processes;
 - i. Review of the entity's monitoring/production reports;
 - j. Review of any independent limited scope program audits;
 - k. Verification of performance from outside sources (e.g. sub-contractors);

- l. Review of the entity's self-risk assessment survey;
- m. Review of internal controls;
- n. Review of billing practices;
- o. Review of allocation of costs;
- p. Review of timesheets or activity reports; and/or
- q. Review of financial records.

F. Monitoring must be documented.

1. Each administration must develop monitoring plans for both fiscal and program subrecipient-related monitoring activities for each contract or group of contracts.
2. Staff responsible for monitoring contracts must perform and document monitoring in accordance with their monitoring plan and in accordance with administrative policy 13.11.
3. Each administration must maintain contract monitoring documentation per general administration's retention schedule (administrative policy 5.04, records retention).

G. Administrations must follow up on all unallowable costs identified during fiscal and program monitoring.

1. Administrations must review and evaluate the unallowable costs identified in the review and facilitate determination of amount owing to DSHS.
2. If any known or suspected loss of public funds, public assets, or other activities suspected of being illegal that are identified through the desk or on-site review, the administrations must use the loss of public funds, assets, or illegal activity report (DSHS form 17-169) to report known or suspected losses. The form can be sent to DSHS internal audit and consultation via:
 - Fax (360) 664-6007
 - E-mail at DSHS internal audit and consultation
 - Campus mail at mailstop 45804
3. Any identified overpayments must be referred to the office of financial recovery (OFR) to perform collections.

H. Single audits must be performed on subrecipients that receive \$1,000,000 or more in federal funds (as of 10/1/2024).

1. Administrations must ensure that a single audit is completed for any year in which a subrecipient receives \$750,000 or more in federal funds from all sources prior to 10/1/2024, or \$1,000,000 or more on or after 10/1/2024. To aid in determining the total level of federal assistance, subrecipients must use the sample federal assistance reporting form (See attachment B).

When contracting with for-profit subrecipients, the pass-through entity is responsible for establishing audit requirements, as necessary, to ensure compliance with the federal awards granted since for-profit subrecipients are not required to have a single audit.

2. Single and program audit reports must be tracked and reviewed.
 - a. Administrations must:
 - i. Forward copies of single audit reports that contain questioned costs to the external audit compliance manager (EACM) for entities that have single or program audits performed by a source other than the state auditor's office (SAO);
 - ii. Pursue collection of overdue audit reporting packages for all subrecipients that the SAO does not audit;
 - iii. Review single and program audits, issue a management decision on audit findings that affect subawards the administration issues to subrecipients within six months after receipt of the subrecipient's audit, and record, and ensure that the subrecipient takes appropriate and timely corrective action. This includes administrations:
 - (A) Clearly state whether or not audit findings are sustained;
 - (B) The reason for the decision;
 - (C) The expected subrecipient's action to repay disallowed costs (if applicable), make financial adjustments, or take other action;
 - (D) If the subrecipient has not completed corrective action, administrations must include a timetable for follow-up; and
 - (E) For audit findings across multiple programs issued to subrecipients, the cognizant agency for audit is responsible for coordinating a management decision for audit findings that affect the programs of more than one federal agency.
 - iv. Monitor subrecipient activities to ensure the subrecipient takes appropriate and timely corrective action to resolve single and program audit findings;
 - v. Provide the EACM a copy of the subrecipient's corrective action that addresses questioned costs and report actions completed on corrective action plans on a monthly basis, until complete;
 - vi. Promptly notify internal audit and consultation (IAC) of any known or suspected loss of public funds, public assets, or other activities suspected to be illegal that are identified through subrecipient monitoring. See [AP 16.10](#) for further guidance on reporting known or suspected loss of public funds or assets; and
 - vii. Retain documentation to support monitoring audit compliance

- that is consistent with state records retention requirements.
- b. EACM must:
 - i. Maintain a list of all single audit reports it receives from the administrations and link to audit reports posted by the SAO; and
 - ii. Make this list available to the administrations for monitoring subrecipient audits. The list is available on the DSHS SAO subrecipient audit SharePoint IAC website.

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