

SUBRECIPIENT MONITORING



Office of Special Education

Office of Special Education (OSE)

OSE Fiscal Monitors

Michael Wynn, CFE

Grants Management Certified

Nancy Jo Serna, CPA

Grants Management Certified

Objectives

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- Program Finance Overview
- Subrecipient Monitoring
- Rules and Regulations
- Monitoring Activities
- IDEA Programmatic Fiscal Requirements
- Program Fiscal Review Process
- Documentation & Common Findings

OSE-Program Finance

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Program Finance provides oversight for the federal and state funding structures, assuring that approximately \$390 million in federal grants is effectively administered. The unit also provides oversight for approximately \$996 million distributed under Article 5 of the State School Aid Act.

Program Finance Objectives

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- Coordinate the administrative budget and spending plans
- Distribute and maintain fiscal control over all special education fund sources
- Determine IDEA Flowthrough allocations and assist recipients with federal grant applications and final expenditure reports
- Coordinate state discretionary IDEA Grant Funded Initiatives
- Conduct Maintenance of Effort testing
- Ensure compliance with State Aid reimbursements
- Conduct federal and state program fiscal reviews
- Provide technical assistance relative to special education federal and state allowable costs
- Follow up on federal and state audits

Program Finance Grants

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Federal grants that OSE administers under Individuals with Disabilities Education Act (IDEA), Part B, Section 611 grants include:

- Flowthrough
- Transition Coordination
- Enhancing Opportunities for Students with Disabilities (EOSD)
- IDEA Grant Funded Initiatives

Program Finance State Aid

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State Aid Information:

In order to qualify for state aid, districts in Michigan must submit to the Department of Education, on an annual basis, the Special Education Actual Cost Report. The report for each local district and public school academy is listed under their intermediate school district. We currently monitor the SE-4096 reimbursements.

Subrecipient Monitoring Focus

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The primary focus of the OSE subrecipient monitoring activities are:

- To ensure that public agencies meet the program and financial compliance requirements under Part B of IDEA
- To improve educational results and functional outcomes for all children with disabilities

Subrecipient Monitoring

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Financial Monitoring

Ensure that expenditures are necessary, reasonable, allocable, allowable and adequately documented

Evaluate risk of non-compliance

Ensure that programmatic fiscal requirements are met

Ensure Federal compliance

Ensure corrective action is taken when deficiencies are identified

Provide technical assistance

Performance Monitoring

Coordinate the Continuous Improvement and Monitoring System (CIMS)

Ensure compliance

Coordinate the development and implementation of revisions to the program monitoring model

Focused monitoring activities and approval of the LEA's and ISD's district corrective action plans in response to findings of noncompliance

Provide statewide leadership to monitoring staff at the intermediate district level

Rules and Regulations

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- Individuals with Disabilities Education Act (IDEA) is the law, codified in 34 CFR 300
- Michigan Administrative Rules for Special Education
- State School Aid Act, Section 51a
- Office of Special Education Allowable Costs, State Aid and IDEA Part B, Section 611 document
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Also known as the Uniform Guidance (UG), codified in 2 CFR 200

UG 2 CFR 200

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While there are important changes, many of the core grants management principles remain the same.

Highlighted areas of change/clarification:

- ❑ Internal control requirements
- ❑ Written financial management procedures to
- ❑ Procurement
- ❑ Cost principles-Compensation
- ❑ Role of “pass-through” entity (MDE) oversight
- ❑ Audit thresholds

UG Subparts A-F

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- **Subpart A**— Acronyms and Definitions (§§200.0 - 200.99)
- **Subpart B**— General Provisions (§§200.100 -200.113)
- **Subpart C**—Pre-Federal Award Requirements and Contents of Federal Awards (§§200.200 – 200.211)
- **Subpart D**—Post Federal Award Requirements (§§200.300 – 200.345)
- **Subpart E**—Cost Principles (§§200.400 – 200.475)
- **Subpart F**— Audit Requirements (§§200.500 – 200.521)

UG Risk Assessment Requirement

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UG requires a risk assessment to determine appropriate monitoring activities as noted in *2 CFR 200, Section 200.331(b)* Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraph (e) of this section, which **may** include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

UG Monitoring Requirement

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Monitoring activities per UG is defined in *2 CFR 200, Section 200.331(6)(d)* Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient **must** include:

- ❑ (1) Reviewing financial and programmatic reports required by the pass-through entity
- ❑ (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means
- ❑ (3) Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by § 200.521 Management decision

UG Monitoring Activities Requirement

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Monitoring activities per UG is defined in *2 CFR 200, Section 200.331(6)(e)* Depending upon the pass-through entity's assessment of risk posed by the subrecipient (as described in paragraph (b) of this section), the following monitoring tools may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals:

- (1) Providing subrecipients with training and technical assistance on program-related matters; and
- (2) Performing on-site reviews of the subrecipient's program operations;
- (3) Arranging for agreed-upon procedures engagements as described in §200.425 Audit services

Program Finance Monitoring Activities

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- Application Review-Federal Grants
- State Aid SE-4096 Approval Process
- Technical Assistance (TA) Targeted Training
- Program Fiscal Reviews (PFR)

Application Review

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Federal Grant budgets are submitted for review and approval

- Application requirements
 - Pre Award Requirements
 - MEGS +
 - Budget
 - Program Design
 - Other submission requirements
- OSE Allowable Cost document distribution
- Eligibility requirements

Application Review Important Dates

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- Flowthrough Grant Cycle:
 - **May 1** Updated allowable cost guide distributed
 - **May 1** Estimated allocations and Flowthrough applications become available
 - **July 1** Flowthrough application due (Except for 3 state departments)
 - **August 29** Interim Federal Expenditure Report (IFER) grant year 1
 - **August 29** IFER grant year 2
 - **October 1** State department's Flowthrough application due
 - **November 29** IFER grant year 3, for last 3 months of the grant
 - **November 29** Federal Expenditure Report (FER) due to finalize

TA Targeted Training

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TA Targeted Training begins with a review of financial reports required by OSE.

- IDEA Budgets
- Interim Federal Expenditure Reports (IFER)
- Single Audit findings related to IDEA grants
- State Aid Special Education Cost Report (SE-4096)

In addition, a review of ISD, LEA or PSA information.

- General ledger summaries
- Processes questionnaire

TA Targeted Training is then developed to address needs and discuss concerns on-site.

Program Fiscal Review

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A PFR is the review of expenditures for IDEA Federal grants and special education State Aid reimbursements to ensure compliance with Federal and State rules and regulations as they relate to fiscal management and specific programmatic aspects. PFRs include transaction testing to ensure the allowability of expenditures.

Single Audit versus PFR

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- Single Audit (organization wide audit)
 - Financial Statements
 - Internal Controls and Federal Compliance Overall
 - Interview of potential opportunities of Fraud, Waste and Abuse
- PFR Monitoring (detailed review of IDEA grants)
 - Review financial and program reports
 - Use Single Audit as a tool
 - Program specific allowable costs
 - May Result in SIGNIFICANT Non-compliance

Scope of PFR 1

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Expenditures must be:

- **Allowable:** To determine if a cost is allowable on the grant and consistent with all applicable Federal and State rules and regulations.
- **Reasonable:** A cost is reasonable if it
 - is ordinary and necessary for operations
 - does not exceed that which would be incurred by a prudent person
 - follows sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award or State Aid Act
 - reflects market prices for comparable goods or services

Scope of PFR 2

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Expenditures must be:

- **Necessary:** A cost is necessary if it is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award (or State Aid Act)
- **Allocable:** A cost is allocable if
 - The goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - All activities which benefit from the governmental unit's indirect cost, will receive an appropriate allocation of indirect costs
- **Adequately documented:** A cost must be supported by documentation. If it's not documented, it didn't happen.

Scope of PFR 3

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- Expenditures must also be:
 - Recorded properly
 - **Per Accounting Manual B1022 & OSE Allowable Cost document**
 - Reported properly
 - **MEGS +, GL Accounts, SEFA, SE4096**
- Employees must be approved SE personnel
 - **Per Michigan Administrative Rules for Special Education**

IDEA Programmatic Fiscal Requirements 1

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LEA Maintenance of Effort 34 CFR §300.203

- *Eligibility standard.* LEA budgets, for the education of children with disabilities, at least the same amount, from Local and State or Local only funding sources as the LEA spent for that purpose from the same source for the most recent fiscal year for which information is available.
- *Compliance standard.* Except as provided in §§300.204 and 300.205, funds provided to an LEA under Part B of the Act must not be used to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds below the level of those expenditures for the preceding fiscal year.

This includes Part B Preschool Funds. While receiving Preschool funds are a qualifier for MOE testing, they are not used in the "50% Flexibility" calculation

IDEA Programmatic Fiscal Requirements 2

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Proportionate Share 34 CFR §300.133

- Proportionate Share is the amount of IDEA Part B, Sections 611 & 619 funds a district must spend on parentally-placed private school children with disabilities ages three (3) to five (5) and three (3) to twenty-one (21), respectively, who have been evaluated and determined eligible for special education and related services by the district.
- Each LEA must spend a proportionate share of Part B subgrant funds on providing special education and related services amount that is equal to
 - A proportionate share of the LEA's subgrant under section 611(f) of the Act for children with disabilities aged **3 through 21**
 - A proportionate share of the LEA's subgrant under section 619(g) of the Act for children with disabilities aged **3 through 5**

IDEA Programmatic Fiscal Requirements 3

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Early Intervening Services 34 CFR §300.226

Referred to as Coordinated Early Intervening Services (CEIS)

- ❑ CEIS are services provided to students in kindergarten through 12th grade with a particular emphasis on students in kindergarten through 3rd grade not currently enrolled in special education programs or services but who may need additional academic and behavioral supports to succeed in a general education environment
- ❑ Any district that receives IDEA funds may choose to do a CEIS option to set-aside up to 15% of IDEA, Part B grant funds to provide services to students struggling to succeed in the general education environment
- ❑ However, a set-aside may be mandatory in certain circumstances

Charter Schools 34 CFR §300.209

- ❑ Timely access to Federal Formula Funds for New and Significantly Expanding Public School Academies

IDEA Programmatic Fiscal Requirements 4

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Excess Cost 34 CFR §300.16

- *Excess costs* means those costs that are in excess of the average annual per-student expenditure in an LEA during the preceding school year for an elementary school or secondary school student, as may be appropriate, and that must be computed after deducting—
 - (a) Amounts received—
 - (1) Under Part B of the Act;
 - (2) Under Part A of title I of the ESEA; and
 - (3) Under Parts A and B of title III of the ESEA and;
 - (b) Any State or local funds expended for programs that would qualify for assistance under any of the parts described in paragraph (a) of this section, but excluding any amounts for capital outlay or debt service.
- See appendix A to part 300 for an example of how excess costs must be calculated**

PFR Process

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Preliminary Analytical

- Limited Review
 - Performed on grants less than or equal to 5% of the total dollar amount to be reviewed
- Full Review
 - Performed on grants more than or equal to 5% of the total dollar amount to be reviewed
 - Performed on State Aid reimbursement

Communications prior to PFR

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- Announcement Letter to ISD
- OSE Monitor contacts ISD
- OSE Monitor selects LEAs/PSAs
- OSE Monitor contacts LEAs/PSAs

Documentation requested

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- General Ledger (GL) summaries for all grants and SE-4096 that will be reviewed
- GL detail of transactions for selected accounts of grants and State Aid determined to be full reviews
- Completed questionnaire of processes
- OSE Monitor selects samples from GL detail and sends via email

Note: It may be determined that a site visit is not necessary to complete full review.

During Site Visit Process

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- Meet with or (call) Business Official and Special Education Director, other key people
- Discuss your processes
- Review sample items
- Ask questions
- Ask more questions
(until we are done)

End of Site Visits Process

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At end of site visits

- Discuss tentative findings
- LEA/PSA/ISD may need to provide information to complete review
- Corrective action
 - May provide corrective action prior to report writing, and it will be noted in the findings OR will have 30 days after report is mailed to provide corrective action

End of Review Process

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After all LEAs/PSAs and ISD are completed

- ISD is informed of all tentative findings noted, including possible repayment of federal funds
- ISD will be responsible for repayments to MDE for federal grants
- OSE may adjust future State Aid payments for LEAs/PSAs and ISD

Report Process

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- Report is written, processed and reviewed by OSE management
- Report is sent to ISD, each LEA/PSA will have a separate report within the whole report
- ISD disseminates individual LEA/PSA reports
 - Corrective actions and repayments are due 30 days after report is mailed

Follow up Process

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Follow up to ensure that issues noted have been corrected is required.

- May be done when corrective action plan is submitted
- May require follow up phone call and submission of documentation at a later date
- May require a follow up visit
- May require additional training

What We Need & What We Find

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- Documentation for transaction types
- Common Findings for transactions
 - IDEA Requirements-Federal grants only
 - Proportionate Share
 - Coordinated Early Intervening Services (CEIS)
 - State Aid reimbursements or Federal grants

Documentation for Proportionate Share

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- Separate calculations for Preschool 619 and Flowthrough 611 (ISD Aggregate)
- Evidence that the proportionate share was spent out of the Federal grants, based on actual time
 - Names of employees that provide services to non-public schools
 - GL detail showing total charged to the Federal grants for non-public services
 - Supporting documentation that ties charges to activities

Note: Use function code 371 for non-public expenditures

Common Findings for Proportionate Share

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- Proportionate Share Costs
 - Not charged to the federal grant
 - Did not meet the required amount (ISD aggregate)
 - Lack of documentation to support charges
 - Calculation does not include all allocation amount

Documentation for CEIS

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- Calculation includes Preschool 619 and Flowthrough 611 allocations
- Evidence that the CEIS activities were spent out of the Federal grant, based on actual time
 - Names of employees that provide CEIS services
 - GL detail showing total charged to the Federal grants for CEIS activities
 - Supporting documentation that ties charges to activities

Common Findings for CEIS

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- CEIS Activities
 - Not charged to the federal grant
 - Did not meet the required amount
 - Lack of documentation to support charges
 - Calculation does not include all allocation amount

Documentation for Payroll

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- Names of employees
- For selected employees
 - Teacher certifications
 - Professional licenses
 - Special Education approvals
 - Step and level of employee and bargaining unit salary rates
 - Employee contract or timesheets

Common Findings for Payroll

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- Unallowable Costs
 - Teachers are not special education endorsed
 - Teacher consultants, transition coordinators, social workers, supervisors, directors do not have required special education approval
 - Other professionals (OT, PT, SW, Psyches, Speech, etc.) do not have licenses
 - Costs not related to federal grant or State Aid

Documentation for Contracted Services

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- For professional services
 - Signed contract
 - Invoice
 - Support for services
 - Professional Licenses or Certifications, if applicable
 - Evidence that excluded party list was checked (Sam.gov)

NOTE: a purchase order alone, is not adequate documentation

Common Findings for Contracted Services

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- ❑ Contracts not on file
- ❑ Contracts do not have necessary elements:
 - ❑ Scope of services, defined compensation, signed by all parties, defined period, termination clause.
- ❑ Lack of Documentation
 - ❑ No support for services

Common Findings for Contracted Services- Professional Development (PD)

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- ❑ Cost Allocation-PD activities not allowable or not allocated (prorated) in relation to the benefits of students with disabilities.
- ❑ Unallowable Costs-PD of general education teachers not related to meeting the needs of students with disabilities.
- ❑ Lack of Documentation-Agenda, Sign In Sheets not on file.

Generally, IDEA and State Aid reimbursements must be used to provide special education to students with disabilities.

Documentation for Supplies/Materials

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- For selected transactions not considered items of interest (books, classroom supplies, etc.)
 - Invoice and purchase order
- Items of interest are items that cost less than \$5,000 but have longer than 1 year life or are easily pilfered (computers, computing devices, iPads, iPods, etc.)
 - Invoice and purchase order
 - Evidence of tracking or tagging of items

Common Findings for Supplies/Materials

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- Lack of Documentation
 - Support for purchases not sufficient enough to determine that it was received, is allowable, reasonable, necessary and allocable
- Unallowable Costs
 - Purchases not for the benefit of students with disabilities

Documentation for Equipment

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- State Aid = \$1,000 or greater, and Federal = \$5,000 or greater
- For selected transactions
 - Invoice
 - Inventory list and/or evidence of tracking
 - Evidence of OSE prior approval

Note: Equipment must be reported as capital outlay on SE-4096 and in MEGS +. Indirect costs do not apply.

Common Findings for Equipment

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- Accounting Procedures/Improper Coding
 - Equipment is coded as supplies
 - Equipment is reported in MEGS or SE-4096 as supplies
- Prior Approval
 - Did not obtain prior approval from OSE

Common Findings for Equipment or Items of Interest

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- Property Management
 - Equipment (\$5,000 or greater)
 - are not tagged
 - are not inventoried
 - can not be located
 - are not used for students with disabilities
 - Items of Interest (less than \$5,000)
 - are not tracked
 - can not be located
 - are not used for students with disabilities

Documentation for Other Transactions

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- Other transactions include, but not limited to, conferences, inservice workshops, travel, field trips, etc.
 - Registration information
 - Travel logs
 - Actual receipts for meals, airlines, rental cars
 - Sign in sheets
 - Agendas

Note: Budgets, lesson plans, requests for reimbursement are not adequate documentation

Common Findings for Other Transactions

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- Lack of Documentation
 - Support is insufficient to determine if costs are allowable, reasonable, necessary and allocable
 - Support should speak for itself

Quote: If there is no documentation, it didn't happen!

Documentation for Journal Entries

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- For selected journal entries:
 - Actual transactions in the original accounts of general ledger detail, to select a sample
 - Supporting documentation for selected transactions, including payroll records, invoices, agendas, logs, contracts, etc.

Common Findings for Journal Entries

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- Lack of Documentation
 - The journal entry of debits/credits is not adequate documentation
- Unallowable Costs
 - The items moved are not allowable

Contact Information

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- For questions related to OSE Program Fiscal Reviews for IDEA grants and Special Education State Aid Reimbursements
 - ▣ Nancy Jo Serna, CPA
sernan@michigan.gov
 - ▣ Michael Wynn, CFE
wynnm@michigan.gov
 - ▣ For further instructions and other power points visit [OSE Program Finance website](#)