

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**Subrecipient Monitoring
Project #13-51**

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**Subrecipient Monitoring
Internal Audit Services Project #13-51**

MANAGEMENT SUMMARY

As part of the Internal Audit Services (IAS) audit plan for fiscal year 2013, IAS conducted a supplemental audit of subrecipient monitoring at UC Davis (UCD) main campus. A concurrent audit of subrecipient monitoring practices at the School of Medicine was also performed and is addressed in a separate report (IAS Project #13-17).

Researchers at UCD often partner with other institutions to collaborate on research and other extramurally funded projects. When the partnering institution provides a significant portion of the programmatic effort and exercises independent responsibility for programmatic decisions, this partnership usually takes the form of a subaward. The following chart summarizes active subawards at UCD during FY 2012:

Chart	Total # subawards	Total \$ authorized	Total \$ paid to date
Main Campus	471	\$119,700,000	\$ 86,200,000
DANR	33	2,100,000	1,400,000
School of Medicine	174	44,700,000	32,700,000
Totals	678	\$166,500,000	\$120,300,000

UCD is responsible for ensuring that subrecipients comply with all terms and conditions of the prime award. Per *Office of Management and Budget (OMB) Circular A-133, "Audits of State, Local Governments, and Non-Profit Organizations"*¹, the University is required to have a system for monitoring their subrecipients' eligibility, use of Federal award funding, and compliance with audit requirements. Additionally OMB Circular A-133 states that a transfer of Federal awards to another component of the same auditee does not constitute a subrecipient or vendor relationship. As a result, multi campus agreements within the UC system are not subject to the A-133 subrecipient monitoring requirements and are excluded from this review. The University of California Office of the President (UCOP) issued Memo Operating Guidance No. 06-05, December 8, 2006, providing expanded guidance on the classification and monitoring of transactions with third parties under Federal grants and cooperative agreements in accordance with OMB Circular A-133. UCD has developed subrecipient monitoring procedures based on this guidance.

The campus units with primary responsibility for fulfilling the subrecipient monitoring requirements are Office of Research, Sponsored Programs (SPO); Accounting and Financial Services (A&FS),

¹Compliance Supplement 2012, Part 3-Compliance Requirements, Section M, Subrecipient Monitoring

Extramural Funds Accounting (EFA); and, the individual Principal Investigators (PI) supported by their administrative staff. SPO is responsible for determining subrecipient eligibility when the initial subaward is executed and again prior to any amendment. SPO is also responsible for ensuring specific prime award identification and contract provisions flow down into the subaward. EFA performs annual monitoring of subrecipient A-133 compliance. The PI, supported by their administrative staff, is responsible for monitoring the subrecipient for compliance with award terms and conditions and for satisfactory performance of their portion of the project, including the completeness and acceptability of work performed, reasonableness of expenditures, and fulfillment of cost-sharing commitments.

To conduct our review we obtained an understanding of applicable laws, regulations, policies and procedures governing subrecipient monitoring. We also interviewed SPO and EFA personnel, and observed and tested subrecipient monitoring procedures performed in those offices. Finally, we utilized a survey approach to gather information from a variety of PIs and administrators to identify the subrecipient monitoring procedures employed throughout the main campus. Follow-up interviews were conducted with the PIs and their administrators as considered necessary. Our audit was performed from November 2012 through April 2013, and encompassed subawards that were active during FY 2012.

We observed PIs and administrators with strong subrecipient monitoring practices. These PIs and administrators appeared to have very good awareness of the requirements of their subawards, and maintained strong budgetary control along with performance monitoring. Our review also found opportunities for strengthening campus subrecipient monitoring policies and practices.

Our review found the campus does not have a policy that defines the roles and responsibilities for subrecipient monitoring to ensure compliance with OMB Circular A-133. Additionally there are insufficient guidelines for PIs regarding how to effectively carry out subrecipient monitoring. We are recommending enhancements to both campus policies and procedures, and guidelines available on the EFA website.

Our review also disclosed that practices for approving invoices from subrecipients vary, as does the level of involvement by the PI. We are recommending changes to existing practices that would require PIs to review and approve subrecipient invoices prior to payment, or to review payments after the fact via the PI Ledger Report.

Finally, procedures for verifying the A-133 audits of subrecipients, as well as documenting the vetting of subrecipients within SPO could be enhanced.

Further details are contained within the body of this report.

I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Campus Policies and Guidance

Local campus policy and guidance does not sufficiently address subrecipient monitoring requirements.

UCD does not have a subrecipient monitoring policy. Additionally, *UCD Policy and Procedure Manual (PPM) 330-31 Administration of Contract and Grant Projects* does not include subrecipient monitoring among the responsibilities of the PI or project director.

OMB Circular A-133 requires institutions to have a system for monitoring subrecipients. UCOP issued *Memo Operating Guidance No. 06-05 (Memo 06-05)* to provide expanded guidance on the classification and monitoring of transactions with third parties under federal grants and cooperative agreements. However, the Memo does not identify roles and responsibilities to accomplish subrecipient monitoring for our campus.

Guidance available via SPO and EFA websites is limited. SPO provides information regarding its role in the subrecipient monitoring process. EFA recently published a *Guide to Research Compliance for Principal Investigators and Department Administrators* (the Guide) which provides very broad guidance on subrecipient monitoring.

The lack of policies and guidance regarding subrecipient monitoring has contributed to inconsistent and sometimes insufficient practices for review and approval of subrecipient invoices.

Recommendations

1. A&FS should enhance PPM 330-31, Section IV, to include subrecipient monitoring roles and responsibilities.
2. See recommendation B.1 below regarding guidance for review and approval of subrecipient invoices.

Management Corrective Action

A&FS will enhance PPM 330-31 by January 15, 2014 to clarify the roles and responsibilities for subrecipient monitoring as follows:

- PI or Project Director will monitor subaward performance.
- PI will authorize or review payment of subrecipient invoices.
- SPO will process subawards and perform A-133 monitoring for new award applications and amendments.
- EFA will perform annual subrecipient A-133 monitoring.

B. Subrecipient Invoices

PIs do not consistently review subrecipient invoices to ensure amounts invoiced are consistent with subaward agreement and project progress to date.

During the course of our review, we observed a wide variety of subrecipient monitoring practices across UCD via our survey and subsequent follow-up interviews. Our survey included the PIs and grant administrators in order to assess whether there were any gaps in subrecipient monitoring practices. While it is clear that there is no “one size fits all” method to properly carry out subrecipient monitoring, practices related to invoice review and approval and the corresponding documentation must be enhanced.

Ten (28%) of the grant administrators responding to the survey indicated they authorized payment of subrecipient invoices without receiving approval from the PI in some form. An additional 6 (17%) of the administrators responded that the PI communicates their approval to pay invoices via email or verbally. Finally, 20 (55%) of the administrators surveyed indicated the PIs signed the subrecipient invoices to document their review and approval. However, when we attempted to examine a sample of subrecipient invoices for the 32 subawards included within the scope of our review for evidence of the PI review and approval, we found that invoices consistently contained PI signatures for only 6 (19%) of the subawards. The invoices for another 5 (16%) contained PI signatures only a portion of the time. Invoices for the majority of the remaining subawards contained no PI signatures.

Review of the Principal Investigator Ledger Report by the PI would serve as a compensating control over payment of subrecipient invoices if such reviews were performed consistently and timely. However, our testwork disclosed that Principal Investigator Ledger Reports were reviewed and acknowledged for only 9 (28%) of the awards which include the 32 subawards.

There are no policies, procedures or guidelines governing the steps necessary to properly review and approve subrecipient invoices.

Recommendations

A&FS should develop and publish on the EFA website clear expectations and guidelines for review and approval of subrecipient invoices.

Management Corrective Action

A&FS will provide clear expectations and guidance for review and approval of subrecipient invoices on the EFA website by January 15, 2014. These guidelines will include several options for PIs to assess whether payments to subrecipients are appropriate.

- PI reviews and approves invoice, documenting with signature on the invoice. The invoice is scanned into DaFIS as support for the payment or
- PI reviews and approves the invoice, and communicates the approval via email. The invoice and email approval are scanned into DaFIS as support for the payment or
- PI delegates review and approval of invoices to administrative staff. PI reviews the PI Ledger Report (FIS325) each month, and documents the review by completing the certification.

Additionally, the EFA website will emphasize that PIs and Administrative Units should be prepared to demonstrate their compliance with the subrecipient monitoring policies in PPM 330-31.

C. Office of Research - Sponsored Programs

1. SPO does not verify A-133 audit status reported by subrecipients during the pre-award process.

A-133 requires verification that a subrecipient expending \$500,000 or more in Federal awards during its fiscal year has met the applicable A-133 audit requirements for that year. If the subrecipient has no A-133 audit findings, the subrecipient is not required by A-133 to submit a copy of its A-133 audit to UCD, and UCD can verify there were no audit findings via the Federal Audit Clearinghouse. Memo 06-05 also speaks to this requirement, but the wording contained in Memo 06-05 could lead one to incorrectly conclude that verification of A-133 audit results is optional. SPO currently obtains a certification from the subrecipient that they have met the A-133 audit requirements during the pre-award phase and if the subaward is amended, but generally does not require a copy of the audit report and does not verify the audit and its results at the Federal Audit Clearinghouse. EFA verifies the A-133 audit status on an annual basis during the post award phase of the subaward.

Recommendations

- a. SPO should perform an independent verification of each subrecipient's A-133 compliance.
- b. SPO should work with EFA to coordinate the review of subrecipient A-133 audits in order to eliminate the duplication of effort that could occur when different subawards to the same institution are in both the pre-award and post-award stage.

Management Corrective Actions

- a. SPO will continue to have subrecipients provide their A-133 status information on the information/commitment forms. SPO will independently validate the subrecipient's A-133 information via the Federal Audit Clearinghouse at least annually for new subawards and when processing amendments to existing subawards. If the subrecipient is subject to A-133 requirements we will document when the check was performed and if there were significant A-133 findings. If the subrecipient has significant A-133 findings, SPO will contact the subrecipient for additional information to assess whether the subrecipient can effectively carry out and administer the subaward. These actions and the results will be documented in the file. Training will be provided to SPO analysts to ensure they properly validate, assess, and document a subrecipient's compliance with A-133 reporting requirements. SPO anticipates this process will be fully implemented by January 15, 2014.
- b. SPO and EFA have been analyzing their current processes and are modifying practices to better coordinate the review of subrecipient A-133 audits between both offices and reduce duplication of effort. It is anticipated these modifications will be fully implemented by January 15, 2014.

2. SPO does not consistently document the vetting of subrecipients in the award files.

In addition to the A-133 audit requirements discussed in Observation C.1, A-133 and Memo 06-05 require UCD to assess the ability of a proposed subrecipient to handle the subaward in a responsible manner. To assist in the assessment, UCD requires the subrecipients to complete a financial questionnaire. Additionally, UCD is required to gather and review certain information about the subrecipient, such as conflict of interest disclosures and whether they are on the Federal List of Excluded Parties. Our review of 17 subaward files disclosed that it was often difficult to determine if all of the necessary information for a specific subrecipient/subaward had been obtained, reviewed and concluded upon by

SPO. A few of the subaward files reviewed included a checklist of documents contained in the file, though the checklists did not always indicate whether the documents had been reviewed and concluded upon.

Recommendation

SPO should utilize a standardized checklist in its subaward files that lists required documents, and prompts the preparer(s) to indicate whether the document is present in the file, and has been reviewed and concluded upon as necessary. In instances where a verification is performed (e.g. an A-133 audit with no findings is verified at the Federal Audit Clearinghouse), that should also be recorded on the checklist.

Management Corrective Action

SPO will develop a subaward file checklist to ensure all the necessary and required subrecipient information is obtained, reviewed, assessed, and documented. A final overall assessment of a subrecipient's ability to appropriately manage the funding as well as supervisor review will be clearly documented. An existing checklist will be modified for this purpose. Training will be provided to all SPO personnel to educate them on the expectations for and proper use of the checklist.

SPO anticipates use of the checklist will be fully incorporated into the subaward process by January 15, 2014.

D. Department of Plant Sciences

Some Department of Plant Sciences PIs are not actively involved in the oversight of their subawards.

Five PIs in the Department of Plant Sciences were asked to participate in our survey regarding monitoring of the financial and programmatic aspects of their subawards. Three of the five PIs along with two project coordinators ultimately responded to the survey. One PI indicated that he delegates both programmatic and fiscal oversight of their subawards to their project coordinator and department administrative staff. Based upon our interviews with department administrative staff, the two non-responding PIs also appear to rely on their coordinators and administrative staff to monitor their subawards. While the administrative staff we interviewed appear very competent, lack of oversight by the responsible PIs for their subawards puts the PI and the University at risk in the event there is a problem with the subaward.

Recommendation

Department of Plant Sciences administration should work with the PIs to uniquely identify the most appropriate and consistent way for each of them to review and approve subrecipient payment requests assessing whether they accurately reflect performance. Plant Sciences should be prepared to demonstrate their compliance with the subrecipient monitoring policies and how PIs are achieving this.

Management Corrective Actions

Department of Plant Sciences will strengthen its oversight of subrecipient monitoring by developing clear expectations for review and approval of subrecipient invoices. For non-major programs as defined by OMB Circular A-21, it will be expected that PIs shall review subrecipient invoices prior to payment, considering whether the request is consistent with actual performance. The PIs will then document their approval by signing the invoice and/or approving the invoice for payment via email. Account Managers will submit the signed invoice or the invoice plus email approval to Accounts Payable where the invoice and approval will be captured in the Electronic Document Management System (EDMS).

For major programs defined by OMB Circular A-21, there may be circumstances where other methods for review and approval of subrecipient invoices are necessary. These cases will be evaluated and an alternative process put in place sufficient to document compliance with subrecipient monitoring policies and guidelines.

Department of Plant Sciences will ensure all relevant personnel are educated on these expectations and processes are in place by November 15, 2014.
