

August 16, 2016

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0934

**Subject: *Subrecipient Monitoring
Report 2016-04***

The final report for Subrecipient Monitoring, Report 2016-04, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Subrecipient Monitoring
Report No. 2016-04
August 2016

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ATTACHMENT A – Pre-award and Subaward Process Flow Overview

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of subrecipient monitoring as part of the approved audit plan for Fiscal Year 2015-16. The objective of our review was to gain an understanding of subaward processes and to evaluate the effectiveness of campus oversight for monitoring the conduct of subrecipients, in compliance with policy. The scope of our review included subawards executed between July 2014 and May 2016.

University of California, San Diego (UCSD) is responsible for monitoring the programmatic and financial activities of its subrecipients¹ to ensure proper stewardship of sponsored funds. The monitoring activities include reviewing subrecipient expenditures for allowability, allocability, reasonableness, and compliance.

We concluded that UCSD's subrecipient monitoring and management processes were generally effective and in compliance with policy. We noted that the OCGA Subaward Team performed risk assessments and compliance checks to evaluate the risk of the subrecipient prior to executing subaward agreements and modifications. Additionally, fund managers and Principal Investigators reviewed and approved invoices prior to submission for payment.

While UCSD's risk assessment and subrecipient monitoring processes appeared to be effective and were similar to other UC campuses, we noted opportunities for improvement in the invoice approval process and in department training for subaward requests. The Management Action Plan to address this finding is summarized below:

Management Action Plan

OCGA and Disbursements will coordinate in the development and distribution of campus guidelines for requesting supporting documentation for invoices on a periodic basis. In addition, guidance will be given to departments regarding advanced payments.

Observations and the related management action plan are described in greater detail in section V of this report.

¹A subrecipient is "a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a [project]," 2 CFR §200.93.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of subrecipient monitoring as part of the approved audit plan for Fiscal Year 2015-16. This report summarizes the results of our review.

University of California, San Diego (UCSD) is responsible for monitoring the programmatic and financial activities of its subrecipients² to ensure proper stewardship of sponsored funds. The monitoring activities should include reviewing subrecipient expenditures for allowability, allocability, reasonableness, and compliance.

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200) (“Uniform Guidance”), specifically §200.331, requires pass-through entities to evaluate each subrecipient's risk of noncompliance in order to determine the appropriate monitoring level; monitor the activities of subrecipient organizations to ensure that the subaward is in compliance with applicable Federal statutes and regulations and terms of the subaward; and verify that subrecipients are audited as required by Subpart F of the Uniform Guidance.

There are three campus groups that have a role in managing parts of the subaward process. The Office of Contract and Grant Administration (OCGA) is responsible for the stewardship of sponsored research activities for the campus and is involved in negotiating and executing outgoing subawards for campus departments. OCGA ensures that each proposal meets institutional compliance with federal and state regulations, sponsor policy, and University policy. The Scripps Institution of Oceanography Office of Contracts and Grants Administration (SIO OCGA) serves as an administrative liaison for activities related to Scripps research awards and works with OCGA on behalf of SIO departments for proposal submission. In Health Sciences, proposals that are funded by the National Institutes of Health (NIH) or Agency for Healthcare Research and Quality (AHRQ) are submitted to the Health Sciences Sponsored Project Pre-Award Office (HS SPPO). HS SPPO analysts review and submit proposals to NIH, coordinate post-submission actions prior to the issuance of an award, and act as the official intermediary between the PI and NIH.

During the proposal stage of an award, the Principal Investigator (PI) may determine that a subrecipient will complete a portion of the project activities. The Department/Organized Research Unit (ORU) fund manager will work with the PI to submit the proposal, and depending on the funding agency and department's Vice Chancellor area, the proposal will be routed for submission to one of three contract offices.

For proposals submitted to OCGA, OCGA contract officers ensure that agency guidelines have been addressed in the proposal and verify that appropriate costs have been budgeted and justified. They also work with the PI and Department/ORU staff to review and process post-submission proposal actions, such as budget modifications and other sponsor requests.

²A subrecipient is “a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a [project],” 2 CFR §200.93.

Departments submit a Subaward iRequest in Marketplace³ requesting the use of a subrecipient. The iRequest is routed to OCGA's Subaward Team where they perform risk assessments and compliance checks to evaluate the risk of the subrecipient prior to executing the subaward agreement and annual modifications. Once executed, the department and PI are responsible for monitoring the subrecipient's progress and approving invoices. Approved invoices are faxed to Disbursements for processing and payment.

UCSD Policy on the Administration of Subawards under Extramurally Sponsored Projects states that the PI is responsible for monitoring the programmatic performance of the subrecipient. This is normally accomplished by the PI's review of all deliverables submitted by the subrecipient, and working in conjunction with the fund manager to review the subrecipient invoices and/or financial reports for allowability and appropriate expenditures. If any issues arise with the subrecipient, the PI and fund manager should work with the OCGA Subaward Team for assistance.

An overview of the pre-award and subaward process flow can be found in **Attachment A**.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to gain an understanding of the subaward process and to evaluate the effectiveness of campus oversight for monitoring the conduct of subrecipients, in compliance with policy. The scope of our review included subawards executed between July 2014 and May 2016. In order to achieve our objective, we performed the following:

- Reviewed Uniform Guidance Subrecipient Monitoring and Management policy;
- Reviewed A-133 Compliance Requirements for Subrecipient Monitoring;
- Reviewed UCSD Subaward Policy;
- Reviewed OCGA Subaward Team's standard operating procedures and process maps for processing subawards and multi-campus awards;
- Reviewed completed surveys from the OCGA Subaward Team Assistant Director, the Health Sciences Research Service Core/HS SPPO Director, and several SIO departments;
- Reviewed University of California, San Francisco (UCSF) Subrecipient Monitoring Benchmarking survey results;
- Interviewed the following:
 - OCGA Subaward Team Assistant Director,
 - Disbursements Assistant Director,
 - Disbursements - Marketplace Project Manager, and
 - Several department Fund Managers and Business Officers;
- Sampled five subawards to review the subaward process, including the iRequest submission in Marketplace, the risk assessment process, the execution of the subaward agreement, and the approval and payment process of invoices.

³ UCSD has some legacy subawards that were processed through the Integrated Financial Information System (IFIS). Any modifications for the legacy subawards are e-mailed directly to the OCGA Subaward Team and the related invoices are processed through IFIS, rather than Marketplace.

IV. CONCLUSION AND SUPPORTING COMMENTS

Based on our review, we concluded that UCSD's subrecipient monitoring and management processes were generally effective and in compliance with policy. Prior to executing subaward agreements, the OCGA Subaward Team performed thorough reviews of the subrecipients' risks. The OCGA contract officers reviewed the subrecipients' System for Award Management (SAM) registrations, Federal Audit Clearinghouse (FAC, also known as Harvester) reports, Financial Conflict of Interest (FCOI) policies, Visual Compliance reports, audit reports and completed other risk assessment activities as applicable. They evaluated relevant factors and flagged subrecipients for management review as deemed necessary. These checks were performed for the initial execution of each subaward agreement, as well as during annual modifications.

We noted that invoices were approved prior to submission for payment. Most fund managers indicated that they reviewed and compared the invoice to the budgeted categories to determine if there were any discrepancies or purchases outside of the budget. If funds were rebudgeted by a certain amount (typically 25 percent), the fund manager would take necessary steps to determine if the PI was aware of the change and if the rebudget required approval from the awarding agency.

During our review, UCSF conducted an advisory services project to benchmark subrecipient monitoring best practices. They requested information from six University of California (UC) campuses to determine how each campus handled subrecipient monitoring in terms of subaward requests, risk assessments, subaward agreements, and programmatic monitoring. Results indicated a consensus across the campuses that the department/PI are responsible for reviewing the subrecipient's technical and financial activity and are key to the appropriate approval of invoices based on the programmatic progress.

While UCSD's risk assessment and subrecipient monitoring processes appeared to be effective and were similar to other UC campuses, we noted opportunities for improvement in the invoice approval process and in department training for subaward requests. These items are addressed in the remainder of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Invoice Approval and Department Training
Supporting documentation for invoices were generally not requested from the subrecipient unless required by the funding agency. Additionally, information provided to departments on subaward agreements and advanced payments was not complete.	
Risk Statement/Effect	
The absence of supporting information for invoice approval may place the University at risk for subrecipient monitoring compliance. In addition, advanced payments made to subrecipients may not be in compliance with negotiated contract agreements.	

Management Action Plan	
A.1	OCGA and Disbursements will coordinate in the development and distribution of campus guidelines for requesting supporting documentation for invoices on a periodic basis. In addition, guidance will be given to departments regarding advanced payments.

A. Invoice Approval and Department Training – Detailed Discussion
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Invoice Approval Process

Fund managers routinely obtained invoice approval from the PIs prior to payment, however, the form of approval and the information collected from the PI varied. Most fund managers e-mailed the invoice to the PI, but one fund manager only obtained verbal approval. Some fund managers relied on the PI's approval as verification that the subrecipient performed the work and the charges were appropriate, rather than requesting detailed information regarding project performance and activities. Although there was a general consensus that the PIs would not be approving invoices from subrecipients if the work was not performed as prescribed, the campus would benefit from a more standardized approval process. Maintaining the PI's written approval and gathering information used to determine the invoice was appropriate to pay would provide greater assurance of sufficient monitoring activities. During our review, we noted that SIO's Marine Biology Research Division invoice approval requests are e-mailed to the PI with a request for information on how the PI determined the invoice was appropriate to pay (e.g. regular communication via e-mail or phone, site visit, etc.).

Fund managers also indicated that detailed documentation to support invoices was only requested from the subrecipient if required by the funding agency, and due to staffing restrictions, it would not be feasible to do this for all subawards. One department indicated an instance where the subrecipient did not provide timely invoices. When the subrecipient eventually submitted the invoice, the expenses did not appear to match the PI's or department's expectation. As a result, the fund manager requested ledger reports, timesheets, and other supporting documentation to determine the allowability of the expenses. Periodic requests for back-up documentation would provide the University with additional support for the allowability and reasonableness of the charges on the invoice. Current staffing would not be adequate to do this for all invoices.

In addition, we noted comments regarding the invoice approval process. Information gathered from the departments indicated the need to update communication protocols away from legacy systems (i.e. fax transmittals). Departments were also required to provide secondary approval through Marketplace. Disbursements typically receives invoices from the subrecipients and forwards them with a fax transmittal form to the department for approval. Once approved by the PI and fund manager, the fund manager would fax the completed transmittal form and invoice to Disbursements for processing. Disbursements requires the pages to contain certain information and to be faxed in a particular way prior to processing the invoice for payment. Once Disbursements processes the invoices, which could take an additional week or more, the department is then prompted to provide secondary approval in Marketplace for invoices \$10,000 and above.

Department Training

Subawards are typically written as a cost reimbursement agreement where the subrecipient is reimbursed for allowable costs as they are incurred. During our detailed review, we noted one sampled subaward where the subrecipient provided an invoice for budgeted expenses for a future period of performance, which the PI approved. This was to ensure the subrecipient received funds timely and project activities were not affected. Although it is rare, cost reimbursement subaward agreements may include language to allow for advanced payments. While it is the PI's responsibility to review invoices for allowable and reasonable costs, they may not be aware that subaward agreements can be executed to account for advanced payments. Additional training by the OCGA Subaward Team on advanced payments would help the University maintain compliance with executed agreements.

**Subrecipient Monitoring
Audit & Management Advisory Services Project #2016-04
Pre-award and Subaward Process Flow Overview**

