

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

**University of California, Davis Health System
School of Medicine
Subrecipient Monitoring
Project #13-17**

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MANAGEMENT SUMMARY

BACKGROUND

Clinical research is essential to the mission of the UC Davis Health System (UCDHS). High-impact research is a goal of the UCDHS Strategic Plan for 2011-2016. Two strategies of UCDHS to accomplish this goal are outstanding research administration and strengthening collaboration and partnerships with other researchers.

The School of Medicine (SOM) had 1,300 research studies in progress in FY2012, with external research funding of over \$204 million. These studies often include the work of an investigator at another institution including other UC Campuses. When the partnering institution provides a significant portion of the programmatic effort and exercises independent responsibility for programmatic decisions, this partnership takes the form of a subaward from UC Davis (UCD) to the other institution.

There were 174 active subaward agreements totaling over \$44 million for SOM grants in FY2012. Subaward agreements are classified into one of three following types:

- Type I agreements are transfers of federal financial assistance to an entity that will perform part of the research program.
- Type II agreements are to for-profits and nonprofit vendors that involve research or related services.
- Type III agreements are purchase contracts for commercial goods and services from commercial vendors.

Type I agreements require monitoring in compliance with Circular A-133 promulgated by the Office of Management and Budget. Principal Investigators (PIs) are ultimately responsible for both the subrecipient's research and financial activities.

PURPOSE

As part of our FY2013 audit plan, we reviewed the processes and procedures for monitoring subawards on SOM grants. The purpose of the audit was to evaluate compliance with the terms of awards and federal regulations regarding subaward monitoring, and assess whether subrecipient expenses are appropriate and subrecipients are meeting the terms of the subawards. We also looked for opportunities to improve the economy and efficiency of subrecipient monitoring practices at the SOM. A supplemental audit of subrecipient monitoring at the UCD Main Campus was also performed and is addressed in a separate report (IAS Project #13-51).

SCOPE

We selected a sample of recently closed SOM grants with subawards. We reviewed the grants and subawards initial submissions, including the subaward scope of work, to assess whether the agreement had been properly classified. We also interviewed staff from the SOM Sponsored Programs Office (SOM/SPO) and the Office of Research Sponsored Programs Office (OR/SPO) to understand review and approval procedures for SOM grant and subaward proposals. We interviewed the PIs and grant administrators for all of the subawards in our sample and documented their monitoring practices. Finally, we tested the payments to the sampled subrecipients for compliance with the terms of the subaward and federal regulations.

CONCLUSION

We concluded that SOM faculty members appropriately monitor the research progress of their subrecipients to ensure compliance with the scope of work reflected in the subaward agreement and related regulations. Additionally, our examination of transactions found no inappropriate payments to subrecipients. We also concluded that opportunities exist for improvement in monitoring subawards and for processing grant proposals.

Our observations and recommendations are presented in the body of this report along with corresponding management corrective actions.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

1. SUBRECIPIENT MONITORING

Subrecipient monitoring practices could be improved.

There are no standardized procedures established to facilitate PI oversight responsibility for monitoring compliance with subaward agreements. As a result, each PI and grant administrator has created their own system to track and document subrecipient transactions and performance. Some have designed complex oversight systems that include a careful review of each invoice and comparison to the budget and scope of work in the subaward agreement. Others do only minimal review and documentation, which increases the risk of payment for unallowable expenses and non-compliance with grant requirements.

We tested a sample of subawards to determine how subrecipient financial transactions were monitored and determined the following:

- Staff asserted that the PI reviews and approves each subrecipient invoice for 73% of subawards in the sample. However, 55% of invoices tested had no evidence of approval by the PI. The approval was reportedly verbal or via an email, which was not retained for the invoices lacking evidence of PI approval.
- Invoice review and approval was delegated to an administrative staff member according to 27% of the PIs interviewed.
- A periodic review of the subrecipient transactions was not performed for 18% of our subaward sample.

OMB Circular A-133 requires federal award recipients to monitor subrecipients to ensure that all funds are used appropriately for authorized purposes in compliance with regulations and the award. The UC Davis Guide to Research Compliance requires the PI to monitor the subrecipient for compliance of 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. UCD Policy 330-31 requires that the PI, project director or other UCD official in charge of the award review the transaction listing (FIS 2) monthly and make adjustments as necessary to the general ledger.

Minimum standards for financial reporting to SOM PIs were rolled out to SOM managers and financial analysts in December 2012 and January 2013 in an effort to improve grant monitoring. However, 30% of the grant administrators we contacted were not familiar with these requirements. Furthermore, grant administrators may not have sufficient knowledge regarding subrecipient progress. Failure to properly review

invoices and/or grant transactions increases the risk that an improper use of federal funds will not be detected.

Recommendations

The SOM should implement standardized practices to facilitate PI oversight responsibility for subrecipient monitoring and ensure a clear understanding of that responsibility.

Management Corrective Action

The SOM Dean's Office has collaborated with the Council of Chairs and SOM Sponsored Programs in the development and implementation of the following standard operating procedures for processing subrecipient invoices by December 1, 2013:

1. Initiating payment only upon receipt of an invoice from the subrecipient contractor confirming completion of the work being invoiced;
2. Providing the PI the invoice along with the contract and scope of work (if needed), and requesting the PI's signature on the invoice or an email confirmation that the work has occurred that will be stapled to the invoice;
3. Securing documentation of the PIs invoice approval, and
4. Authorizing payment of the invoice.

2. GRANT PROPOSAL PROCESSING

Submission process for grant proposals from School of Medicine (SOM) faculty could be streamlined.

Agreements determined to be Type I subawards are included in a grant proposal and approved by the awarding agency. Proposals from SOM faculty first go to the SOM/SPO, which reviews the main and subaward budgets and budget justifications, scope of work and conflict of interest statements. Once SOM/SPO approves those documents, they forward them to the OR/SPO. The PI then sends the complete proposal to OR/SPO for review and approval, including the sections previously reviewed by the SOM/SPO.

SOM PIs are required to complete a grant/contract transmittal form to initiate a grant proposal. This form instructs the faculty to submit the original and two copies of the proposal to the SOM/SPO for review and approval at least three days before submission to the OR/SPO for review and approval. The SOM/SPO reviews SOM grant proposals to ensure that the indirect costs and other budget calculations are correct before the proposals are submitted to the OR/SPO for processing. The SOM/SPO retains a copy of each proposal to verify the amounts in the final approved proposal and to have the proposal readily available upon request. The SOM/SPO

also maintains a database of SOM proposal and award data for specialized data analysis.

UC Contract and Grant Manual, Section 2-120, *Applicability*, states that all proposals for either extramural or intramural support must be reviewed and approved by the campus (or Laboratory) Contract and Grant or Sponsored Projects Office or other formally designated office for consistency with campus (or Laboratory) and university-wide policies and procedures prior to submission or acceptance.

The SOM/SPO process was established to compensate for inconsistent strengths in research administration across SOM departments and to meet the needs of the SOM for detailed information regarding research activities on a timely basis. However, the SOM/SPO process duplicates the OR/SPO process and lengthens the timeframe for processing proposals from SOM faculty. As part of the UCDHS Strategic Plan, the SOM is collaborating with the Office of Research to improve the research administration infrastructure. The effort has produced improved proposal submission process guidelines. In addition, the SOM asserts that the implementation of the Quali Coeus Research Administration System will allow the PI, the SOM and the OR to access the same version of a proposal or award in real time and track proposal and award statistics, which will ultimately eliminate the necessity for SOM/SPO processing and for maintaining information for specialized data analysis. Quali Coeus is scheduled for implementation at a future date to be determined.

SOM will continue to work with OR/SPO to streamline the proposal submission process and eliminate the duplicative efforts of the SOM/SPO and to satisfy the information requirements of the SOM via the implementation of Quali Coeus. Therefore, we will offer no further recommendations at this time.
