

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Subrecipient vs. Vendor Classification
Project # 23-007**

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University of California
San Francisco

Audit & Advisory Services

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SUBJECT: Subrecipient vs. Vendor Classification Review

Audit & Advisory Services (“A&AS”) completed a review to assess the University’s processes and controls for reviewing agreements and evaluating vendor classification to ensure compliance with Uniform Guidance requirements related to subrecipient and contractor classification.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed, and the preliminary draft report was provided to department management in June 2023. Management provided their final comments and responses to our observations in July 2023. The observations have been discussed and agreed upon with department management.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance, and Audit Board and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

As a planned review for Fiscal Year 2023, UCSF Audit & Advisory Services (A&AS) completed a review to assess the University’s process and controls for the determination of service contractors to ensure compliance with Uniform Guidance related to subrecipient and contractor determination.

Uniform Guidance CFR § 200.331 sets out subrecipient and contractor determinations requirements. UCSF, as a prime awardee, is responsible for making case-by-case determinations of whether an agreement is a subrecipient or contractor. The determination is made at the time of proposal. Correct classification is important to ensure correct indirect cost recovery is levied¹, federal program compliance requirements are met, and procurement bidding process is followed.

The Office of Sponsored Research (OSR) outlines the following key characteristics distinguishing a subrecipient and contractor.

Subrecipient/ Subaward	Contractor Services
<ul style="list-style-type: none"> • Under the agreement, the recipient must perform a substantive role in the conduct of the planned research. • There must be a Principal Investigator that is involved in the design, conduct or reporting for the UCSF program or project. • The recipient must be eligible to receive funding as a subrecipient and able to meet the required flow-down requirements of the award to UCSF. • UCSF is required to monitor and ensure ongoing compliance with the flow-down requirements by the third-party entity. • Has its performance measured against the objectives of the federal program. 	<ul style="list-style-type: none"> • A purchase of services from a vendor who offers those goods or services to the public at large. • There is no Principal Investigator. • There is no expectation from the University or the vendor of any collaboration or co-publication. • Federal and State law requires competitive bidding over \$100,000. • Fed funded: Price reasonableness and source selection must be documented for purchases greater than or equal to \$10,000. • Is not subject to the compliance requirements of the Federal program.

At the time of proposal, the Office of Sponsored Research (OSR) Proposal and Grants team reviews the agreement determination to ensure appropriate classification. After execution of the award, the OSR Subcontracts team, as part of its compliance review process, also reviews the agreement determination, which is completed prior to issuing the subcontract to the subrecipient institution.

¹ For federally funded subawards, indirect costs are levied on the first \$25,000 of cost whereas for contractor 100% of the cost is subject to indirect cost recovery thereby having a budgetary impact.

Vendor (contract) agreements are handled as procurements through Supply Chain Management (SCM). Purchase requisitions are submitted via the BearBuy Professional/Personal/Consulting Services form. The SCM Department-Assigned Buyer reviews the requisition to ensure the purchase of services is categorized appropriately as a Contractor.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the University’s process and controls for the determination of service contractors to ensure compliance with Uniform Guidance related to subrecipient and contractor determination.

The scope of the review covered federal awards with subrecipient and vendor contractors for FY 2022 through FY 2023 YTD (as of April 2023). Procedures performed as part of the review included identifying criteria to determine whether the third-party involvement constitutes a subrecipient or a contractor and reviewing subawards and vendor agreements to validate the appropriate classification. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in June 2023.

III. SUMMARY

Based on work performed, processes and controls for subrecipient and contractor determination are functioning effectively. Personnel within OSR and SCM had a sound understanding of the criteria for the classification of subrecipient and contractor. Roles and responsibilities are clearly defined within SCM and OSR to allow for proper classifications. Validation of a sample of 10 subawards and 10 vendor agreements confirmed that these were categorized appropriately.

APPENDIX A

To conduct our review, the following procedures were performed for the areas in scope:

- Reviewed University and local UCSF campus policies and procedures around subrecipient vs. contractor determination.
- Interviewed personnel and performed walkthroughs to get an understanding of activities for scope areas.
- Identified criteria to determine whether the third-party involvement constitutes a subrecipient or a contractor (vendor).
- Determined that roles and responsibilities for the classifications were clearly defined by Supply Chain Management (SCM) and Office of Sponsored Research (OSR).
- Selected a sample of 10 subaward agreements and 10 vendor agreements. Determined the appropriate categorization of the agreement.
- Verified the following for subaward agreements: the sub performed a substantive role in the conduct of the planned research; the Principal Investigator (PI) or Co-PI collaborated on the UCSF program or project; and the recipient was eligible to receive funding as a subrecipient and met the required flow-down requirements of the award to UCSF
- Verified the following for vendor agreements: the University was purchasing services from a vendor; the vendor was engaged in work-for-hire; there was no expectation from the University or the vendor of collaboration or co-publication; and price reasonableness & source selection was documented for federally funded purchases greater than or equal to \$10,000.