

**UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**UC Davis
Subrecipient Monitoring
Audit & Management Advisory Services Project #21-08**

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**Subrecipient Monitoring
AMAS Project #21-08**

MANAGEMENT SUMMARY

Background

As part of the fiscal year (FY) 2021 audit plan, AMAS reviewed the subrecipient monitoring process.

As the prime recipient of a grant, UC Davis may collaborate with other institutions, known as subrecipients, who carry out a portion of the project. Subrecipients can receive funding in the form of a sub-award from the prime award. Federal guidance¹ requires prime recipients of federal funds to monitor sub-awards to ensure subrecipients use funds in accordance with applicable laws, regulations, and terms and conditions of the award. UC Davis is therefore responsible for monitoring the programmatic and financial activities of its subrecipients in order to ensure proper stewardship of sponsor funds.

Consistent with UC Davis PPM 330-31– Administration of Contract and Grant Projects, the subrecipient monitoring process is a shared responsibility between the Office of Research (OR), Contracts & Grants Accounting (CGA), and the Principal Investigator (PI). OR is responsible for negotiating and executing outgoing sub-awards, and performing a risk assessment of subrecipients. CGA verifies subrecipient payment requests for proper authorization by the PI². The PI, in collaboration with the department, is responsible for monitoring performance of the subrecipients to ensure compliance with award terms and conditions, verifying that UC Davis is invoiced for allowable expenses in accordance with the agreement, and ensuring performance goals are achieved. Should a subrecipient be assessed a high level of risk, additional requirements may be established based on the OR's evaluation of that subrecipient.

As of June 30, 2020, total federal and federal flow-through active sub-awards by School/Unit is shown below:

School/Unit	Total
School of Medicine	\$34,311,499
School of Veterinary Medicine	\$28,681,551
College of Agricultural and Environmental Sciences	\$24,491,236
College of Engineering	\$24,370,062
Office of Research	\$12,178,039
College of Letters and Sciences	\$8,489,645
College of Biological Sciences	\$5,748,716
School of Education	\$1,557,208
University Extension	\$451,210
Office of the Chancellor	\$100,000
Grand Total	\$140,379,166

¹ OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (a.k.a. Uniform Grand Guidance) - Code of Federal Regulations (CFR) 200.331.

² Project Director/other equivalent responsible official may also approve the payment request.

Purpose and Scope

The purpose of this audit was to assess policies, procedures and internal controls over subrecipient monitoring designed to ensure compliance with Uniform Grant Guidance requirements.

In order to accomplish these objectives, the following procedures were performed:

- Relevant UC and UC Davis policy and procedures were reviewed, and OR, CGA, and department personnel were interviewed, to gain an understanding of subrecipient monitoring.
- A sample of 14 federally funded sub-awards were selected for detailed review.
- Risk assessments were reviewed to determine whether appropriate risk rating was assigned.
- Award agreements were reviewed to ensure applicable approvals were obtained and appropriate monitoring procedures were included (consistent with the risk assessment performed).
- Departmental verification and monitoring procedures for subrecipients' invoices and technical and progress reporting were evaluated.
 - A sample of subrecipient invoices were reviewed to determine if expenditures were within the approved budget; invoices were properly approved prior to payment; detailed expenditure information was provided (if required or requested); and appropriate indirect cost rates³ were applied.
 - A sample of submitted progress/technical reports were reviewed to determine if they were collected and retained as per the sub-award agreement.

The scope of the review covered transactions and activities of active federally funded sub-awards as of June 30, 2020.

Conclusion

While OR and CGA do have internal controls in place to help ensure subrecipient monitoring complies with applicable policies and regulatory requirements, there are opportunities for improvement in the following areas:

- Subrecipient risk assessment process;
- Reporting requirements in subaward agreements;
- Monitoring of high risk subrecipients; and
- Content of subrecipient invoices.

Detailed observations, recommendations and management corrective actions are contained within the body of the report.

³ Also referred to as "F&A Rate." Facilities & Administrative (F&A) rates are used to recover costs spent on sponsored projects that cannot be directly attributed to a particular project.

Observations, Recommendations, and Management Corrective Actions

I. Subrecipient Risk Assessment

Ref.	Observations	Risk/ Effect	Recommendation	Management Corrective Actions
A	<p><i>The risk assessment and pertinent documentation were not retained.</i></p> <p>Out of 14 sub-awards selected, we noted the following:</p> <ul style="list-style-type: none"> - Four risk assessments⁴ were not available. Under Code of Federal Regulations 200.331 (b), “Requirements for Pass-Through Entities,” UC Davis, a pass-through entity, is required to evaluate each subrecipient’s risk for non-compliance with Federal statutes, regulations, and the terms and conditions of the sub-award to determine the appropriate subrecipient monitoring. AMAS was not able to determine whether the appropriate risk rating was assigned to these subrecipients⁵. - One continuing assessment tool (CAT) was not available. CAT was developed by the Federal Demonstration Partnership (FDP) and adopted by OR. CAT helps a pass-through entity (PTE) uncover issues related to the sub-award. If any issues have arisen or major changes have transpired, then the PTE may need to consider why and if any action should be taken as a result. <p>Research Administration records such as the risk assessment and CAT are subject to a retention period of six years per the UC Retention Policy.</p>	<p>Lack of risk assessment results in non-compliance with Federal regulation.</p> <p>Not having effective risk assessment procedures to ensure that monitoring plans were properly assigned can result in risks not being adequately addressed and mitigated.</p>	<p>We recommend that OR implements a process to retain all risk assessments and pertinent documentation as required per UC Retention Policy.</p>	<p>1) By November 15, 2021, OR will implement a process to retain risk assessments and pertinent documentation.</p> <p>2) By February 15, 2022, OR will include the retention process for the risk assessment and pertinent documentation in its training and education guide on risk assessment.</p>

⁴ The risk assessment adopted by OR was developed by the Federal Demonstration Partnership (FDP). The risk assessment provides a good starting place for institutions to craft a risk assessment process and to document assessment of risk.

⁵ In some instances, the Mini Audit Questionnaire (MAQ) noted a qualified opinion but AMAS was unable to determine how this was considered by OR in its risk assessment process. An MAQ is required if the subrecipient is not subject to a Single Audit, to determine the subrecipient’s fiscal responsibility. A qualified opinion may indicate that there was a scope limitation, an issue discovered in the audit of the financials that was not pervasive, or an inadequate footnote disclosure.

Ref.	Observations	Risk/ Effect	Recommendation	Management Corrective Actions
B	<p><i>Effective procedures are not in place to assess the subrecipient's risk.</i></p> <p>The risk assessment as adopted by OR is designed to support responsible stewardship of awarded funds as well as compliance with the Federal Guidance and other sponsor requirements. However, for the awards selected and the associated risk assessments provided by OR to AMAS, we were unable to validate the assessment of the following components:</p> <ol style="list-style-type: none"> 1. The subrecipient's accounting and procurement systems; 2. Adequate experience with receiving federal awards; 3. The subrecipient's determination of conflict of interest; 4. Mini Audit Questionnaire (MAQ) results (i.e., some responses on the MAQ are inconsistent with the risk assessment, and/or some questions were left unanswered); 5. Characteristics of the subrecipient (maturity, type); 6. Type of prime sponsor and prime award; 7. Whether a Single Audit report was required for review vs. a Mini Audit Questionnaire; and 8. A proper input of outgoing funds (i.e. inconsistent use of single year vs. incremental funds). 	<p>Without sufficient details of the risk analysis performed, fully assessing the risk and assigning the appropriate risk level is limited.</p>	<p>We recommend that OR improves its risk assessment process and guidance to ensure all components are performed properly.</p>	<ol style="list-style-type: none"> 1) By February 15, 2022, OR, in collaboration with CGA, will update its risk assessment guide to include the components listed in the observation. 2) By March 15, 2022, OR will implement a review process of the risk assessments performed to ensure these are complete and accurate.

Ref.	Observations	Risk/ Effect	Recommendation	Management Corrective Actions
<p>C</p>	<p><i>Not all federal considerations are included in the OR risk assessment process.</i></p> <p>The risk assessment as adopted by OR addresses only three of the four considerations listed in Federal Guidance. The risk level criteria in the risk assessment does not address whether the subrecipient has new personnel, or new or substantially changed systems noted under CFR 200.331(b) (3). Per OR, suitable resources to conduct this work have not been available.</p>	<p>Not using the appropriate risk level criteria can result in ineffective monitoring plans and can increase the risk of non-compliance with Federal statutes, regulations, and terms and conditions of the sub-award.</p>	<p>We recommend that OR determines a means to include all federal considerations using existing resources.</p>	<p>1) By October 15, 2021, OR will include the inquiry regarding whether the subrecipient has new personnel, or new or substantially changed systems, on the Mini Audit Questionnaire.</p> <p>2) By March 15, 2022, OR will update its risk assessment guide to include the risk level criteria listed in the observation.</p>

II. Sub-award Agreements

Ref.	Observations	Risk/ Effect	Recommendations	Management Corrective Actions
D	<p>Reporting requirements in the sub-award agreements were inaccurate or incomplete.</p> <p>OR determines reporting requirements for sub-award agreements based on the risk assessment performed; however, explicit guidance for applicable reporting requirements of low vs. high risk subrecipients is not available. Out of 14 sub-award agreements reviewed, we noted the following:</p> <ul style="list-style-type: none"> - Three sub-award agreements excluded "Technical/ Progress reports" from the reporting requirements. - Three sub-award agreements for low-risk subrecipients have invoice requirements⁶ applicable to high-risk subrecipients that were not enforced. As such, the subrecipients appear non-compliant with monitoring procedures established. - One sub-award agreement required that invoices include current and cumulative costs, subrecipient certification, and use of the standard PTE template. However, the template was not included in the agreement resulting in the requirements not being enforced for the subrecipient. <p>Under Code of Federal Regulations 200.331, (d) (1) "Requirements for pass-through Entities," monitoring activities of the sub-recipient must include: Reviewing financial and performance reports required by the pass-through entity.</p>	<p>Not collecting subrecipients' progress or technical reports increases the risk that performance goals may not be achieved and may be non-compliant with Federal regulations.</p> <p>Not having accurate or complete monitoring procedures in the sub-award agreement increases the risk that agreement terms and conditions are not adequately addressed and may result in non-compliance with Federal regulations.</p>	<p>For the cases identified, we recommend that OR corrects the reporting requirements of the sub-awards.</p> <p>We recommend that OR improves its training and education guide on reporting requirements of subrecipients.</p>	<p>1) Effective immediately, for sub-awards identified, OR will correct the reporting requirements if an amendment is issued.</p> <p>2) By February 15, 2022, OR will explicitly outline reporting requirements needed for low and high risk subrecipients to ensure the departments have sufficient sub-award monitoring procedures in place to ensure that the sub-recipient's progress or technical and financial reports are collected, reviewed, and retained.</p> <p>3) By February 15, 2022, OR will include the sub-recipient reporting requirements in its training and education guide on contracting practices.</p> <p>4) By March 15, 2022, OR will implement a review process of non-expiring sub-award agreements to ensure these are complete and accurate.</p>

⁶ "Each invoice must be accompanied by a brief technical report, and: (i) be sequentially numbered; (ii) indicate the date of performance by the Subrecipient; (iii) state the Purchase Order number, the title of the project and the name of the PTE Principal Investigator; (iv) itemized costs in detail, in accordance with the Sub-award budget; (v) included both current cost and cumulative costs; (vi) include Subrecipient certification, with authorized official's signature, that costs are appropriate and accurate and that payment has not yet been received; and (vii) be supported by general ledger reports originating directly from the Subrecipient's financial record keeping system."

III. Subrecipient Monitoring

Ref.	Observations	Risk/ Effect	Recommendation	Management Corrective Actions
E	<p><i>Effective procedures are not in place to follow up on monitoring plans for high-risk subrecipients.</i></p> <p>OR does not have a tracking mechanism to identify high-risk subrecipients, or a follow-up process to ensure that monitoring plan activities are performed by the PI/department. Due to this, AMAS was not able to judgmentally select high-risk subrecipients for review.</p> <p>Under CFR 200.328, “<i>Monitoring and Reporting Program Performance</i>,” UC Davis, a non-Federal entity, is responsible for oversight of the operations of the Federal award supported activities. UC Davis must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved.</p>	<p>Non-performance of monitoring activities increases the risk that program requirements and goals may not be achieved and may result in non-compliance with Federal regulations.</p> <p>Not having effective procedures to ensure that monitoring plans are implemented can result in risks not being adequately identified, addressed and mitigated.</p>	<p>We recommend that OR implements an identification/ tracking mechanism and develop a follow-up monitoring process for high-risk subrecipients.</p>	<p>1) By October 15, 2021, OR will implement a method to identify and track high-risk subrecipients.</p> <p>2) By March 15, 2022, OR will develop a follow-up monitoring process for high risk subrecipients to ensure that monitoring plan activities are performed by the PI/Department.</p>

Ref.	Observations	Risk/ Effect	Recommendations	Management Corrective Actions
F	<p>Approved subrecipient invoices were not compliant with reporting requirements established.</p> <p>Subrecipient invoices require review and approval by the PI to verify that the invoice was prepared in accordance with the sub-award agreement. Out of 10 subrecipient invoices reviewed, we noted the following:</p> <ul style="list-style-type: none"> - Four invoices did not include the cumulative cost or budget information required. - Two subrecipients did not provide invoices with the frequency mandated (i.e. annually rather than monthly). - Two invoices did not use the PTE standard template required. - One invoice used the wrong F&A rate for indirect costs. <p>Discussion with the department administrators and PIs indicated that they were unaware of all reporting requirements.</p> <p>CFR 200.331 (d) <i>“Requirements for Pass-through Entities”</i> requires UC Davis, a pass through entity, to monitor the activities of the subrecipient as necessary to ensure that the sub-award is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the sub-award including: ensuring that indirect costs are calculated at the agreed upon rate of the sub-award.</p>	<p>Lack of an effective review of subrecipient invoices can increase the risk that grant funds may not be spent in accordance with sub-award agreement terms and research objectives may not be met.</p>	<p>For cases identified, we recommend that OR communicates, both non-compliant results and their resolution.</p> <p>We also recommend that OR reinforces guidance over the subrecipient monitoring process through training and education.</p>	<p>1) Effective immediately, OR will communicate the non-compliant results identified to the Departments/ PIs and develop a plan to be in compliance with reporting requirements.</p> <p>2) By March 15, 2022, OR will update the Department/PI subrecipient monitoring guidelines to include that all invoice elements needed prior approval.</p>

Ref.	Observations	Risk/ Effect	Recommendation	Management Corrective Actions
G	<p><i>Required Certification was missing from invoices.</i></p> <p>Four out of 10 subrecipient invoices reviewed did not include the required certification to conform to the Code of Federal Regulation 200.415 <i>“Required certification”</i>.</p> <p>CFR 200.415 specifically requires subrecipients to include a certification on voucher requests to assure that expenditures are proper and in accordance with the terms and conditions of the Federal award and approved project budgets. To comply with CFR 200.415, Federal subrecipient invoices must include the following certification statement:</p> <p>“By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812).”</p>	<p>Not including the required certification statement results in non-compliance with Federal regulation.</p>	<p>We recommend CGA verifies that subrecipient invoices include the required certification prior to payment.</p>	<p>1) Effective immediately, CGA will verify that the certification required per CFR 200.415 is included in subrecipient invoices prior to payment.</p>