

Subrecipient Monitoring Procedures

Overview

This procedure outlines the business activities to be executed in monitoring subrecipient activity associated with Sponsored Programs. All University departments, offices, faculty, administrative personnel, and staff personnel who are involved in the conduct of sponsored research wherein a subrecipient is conducting a portion of the research activity should follow these procedures.

Reason for the Procedure

This procedure delineates specific business activities that should be performed in managing subrecipients of sponsored awards. The procedure documentation further articulates the general roles and responsibilities for subrecipient monitoring across the University.

This procedure is intended to establish effective stewardship of sponsor funds related to sponsored project activity subcontracted to other entities.

Definitions

Subrecipient

Subrecipient means the legal entity to which a subaward is made and which is accountable to the University for the use of the funds provided in carrying out a portion of the University's programmatic effort under a sponsored project. The term may include institutions of higher education, for-profit corporations, and foreign or international organizations (such as agencies of the United Nations) at the discretion of the Federal awarding agency.

Annual Subrecipient Monitoring

Annual subrecipient monitoring includes those activities undertaken to review the financial status and management controls of a subrecipient to mitigate the risk of contracting with a subrecipient organization.

Pre-award Subrecipient Review

Pre-award subrecipient review includes those activities undertaken prior to officially subcontracting with a third-party organization. Such activities may include reviewing organizational, financial or other information to identify potential risks.

Post-award Subrecipient Monitoring

Post-award subrecipient monitoring refers to those day-to-day activities undertaken to monitor billings and scientific progress of an active subaward.

Subaward

A subaward is an award of financial support from a prime awardee (e.g., UML) to a qualified organization for the performance of a substantive portion of the program funded under the prime award. The term also includes awards made by a subrecipient to a lower-tier subrecipient. It does not include procurement of goods and services funded by a prime award (i.e., vendors are not considered subrecipients).

Procedure

A. Pre-award Subrecipient Review/Risk Assessment

Before executing a subrecipient agreement, the University will conduct an assessment to identify risks. A subrecipient risk assessment may take into account several factors, including but not limited to:

- whether the potential subrecipient is subject to an A-133 audit or other federal financial review;
- degree of external oversight by auditors or sponsor agencies;
- evidence of effective financial controls within the subrecipient's systems and administrative operations through review of the organization's audit reports, management letter, or other acceptable documentation;
- size of the subrecipient;
- size of the subrecipient award;
 - As a guideline, large awards may receive substantial and frequent monitoring; mid-sized awards may receive proportionately less substantial and less frequent monitoring; smaller awards may receive general review and the least frequent oversight.
- award complexity, sensitivity of the work, and/or extensiveness of the governing regulations;
- prior experience with the subrecipient (e.g. Pre-award negotiations, financial/operational reporting accuracy and timeliness, response to requests, etc.);
- subrecipient location (i.e., remoteness from the University might require more oversight);
- type of subrecipient organization (for-profit / not-for-profit / small business / corporation / foreign / domestic); and
- organizational and individual conflict of interest.
- confirmation that the subrecipient is not listed on the Excluded Parties List System

Where the risk assessment reveals a high potential for financial risk, a proposed risk mitigation strategy will be developed by the Office of Research Administration (ORA), in consultation with the Associate Vice Chancellor for Finance Services and General Counsel as appropriate before proceeding with establishment of the subaward. Before signing an agreement with a new subrecipient, it is the responsibility of the ORA to gather information and documentation on the potential subrecipient's organization,

financial stability, and financial processes and controls. Pertinent information may be gathered from the following sources:

- A-133 audit certification letters for A-133 covered entities;
- annual financial statements from non-A-133 covered entities.

When negotiations begin, ORA will request documentation of financial status from subrecipients not subject to A-133 audit requirements. A subrecipient unwilling or unable to provide required audit reports for review will be evaluated by ORA, and appropriate actions will be taken to manage risk. The frequency of monitoring will be determined based upon the specific organization and the nature of the subaward proposed.

B. Negotiating and Executing Subrecipient Relationships

Standard Terms in Subrecipient Agreements

The University subrecipient agreements generally will include the following, as appropriate:

- terms that specifically address the implementation of any appropriate and necessary risk mitigation strategies;
- for subrecipients subject to A-133, a requirement to report any problem related to the subaward identified in their annual audits and to submit corrective action plans for review by the University;
- mandatory flow-down provisions from the prime award, such as the requirements of certain federal laws and regulations as applicable;
- financial terms and conditions including but not limited to: fixed price or cost, term and termination, billing requirements, and payment terms;
- ownership of intellectual property and data;
- a requirement to permit the sponsor and or the University and their auditors to have access to the records and financial statements as necessary for the University to conduct a review if deemed appropriate and to cooperate with the University in resolving problems;
- terms indicating that subrecipient submission of an invoice constitutes certification that the items included on the invoice represent reasonable, allocable, and allowable costs associated with performing the project defined in the agreement;
- for federal awards, each subrecipient will be informed of the Catalog of Federal Domestic Assistance (“CFDA”) title and number, award (name, number, and year), whether the award is Research & Development (“R&D”), and the name of the federal agency sponsoring the award. When some of this information is unavailable, the University shall provide the best information available to describe the federal award.

C. Post-award Subrecipient Monitoring

Department Monitoring of Ongoing Activities

The University has the responsibility, on an ongoing basis throughout the life of the award, to monitor the activities of subrecipients in accordance with the governing agreement, to assure that awarded funds are used for authorized purposes in compliance with the provisions of the agreement, and to ensure that performance goals are achieved. The responsible Principal Investigator (“PI”) and department grant administrators should jointly determine the frequency and scope of departmental monitoring procedures. A “risk-based” approach to subrecipient monitoring is recommended with the frequency and intensity of monitoring driven by (1) the terms of the grant award and (2) the criteria identified in the section of this procedure titled “Pre-award Subrecipient Review.”

Progress Monitoring, Technical Reports, and Deliverables

PIs are responsible for monitoring the progress of subrecipient work scope, using a variety of means to make this determination. Such review should generally take place at least quarterly.

The PI might receive informal progress reports via phone conversations, e-mail communications, or face-to-face discussions, or more formal technical reports or other deliverables might be required and due on specific dates. If formal technical reports are required, they should be filed with the grant files in the department and retained in the same manner as other grant documents.

Technical progress reviews by the PI are documented by that PI’s signature on invoices. Subrecipient invoices submitted to a department must contain a minimum level of information including but not limited to:

- name of subrecipient;
- date of invoice;
- invoice number;
- period of performance covered by invoice;
- description of services reflected by billings (e.g., major expenditure categories);
- current period costs, including cost sharing (in sufficient detail to enable comparison to project budget);
- cumulative project costs, including cost sharing, as compared to the project budget;
- subrecipient contact person with respect to the invoice;
- certification on each invoice as to the truth and accuracy of the invoice.

The PI must submit invoices to ORA for payment within 30 days of the invoice date unless there are extenuating circumstances that have been approved by ORA. The PI must retain a copy for departmental records. The PI’s signature on the invoice indicates that review has taken place and that the invoice adheres to budget.

Resolving Invoice Issues

If, after review of the invoice, a concern with subrecipient performance is identified, the PI should request clarification from the subrecipient PI. If the PI identifies any unusual, miscellaneous, apparently excessive, or potentially unallowable charges invoiced by a subrecipient, and if the explanations from the subrecipient are insufficient to render a

prudent judgment on the allowability of the cost, the PI shall refer the matter to ORA for resolution with the subrecipient's institutional authorities. When ORA is satisfied that the issues are resolved, they will notify the PI to proceed with approval for payment. Invoices should not be approved for payment until all issues or concerns have been resolved.

ORA Monitoring of Ongoing Activities

ORA will provide a review of all subrecipient invoices submitted for payment. The review will, at a minimum, include:

- appropriate invoice format and level of detail;
- signature of the PI;
- certification or signature by authorized subrecipient representatives.

ORA may disallow invoice charges determined to be unreasonable, unallowable, or unallocable. ORA will work with the PI to document the reason for the disallowance and contact the subrecipient organization to request a revised invoice.

D. Annual Subrecipient Monitoring

Risk Monitoring

ORA has ultimate responsibility for determining the activities that will be undertaken to annually evaluate subrecipient organizations, as well as to collaborate with the Associate Vice Chancellor for Financial Services and General Counsel (as appropriate) to determine what corrective actions should be taken. At least annually, ORA will gather updated information and documentation on subrecipient organizations' financial stability, financial processes, and controls. Pertinent information will be accumulated, reviewed, and analyzed as follows:

• A-133 Entities

Subrecipients that expend \$ 500,000 or more of federal funds annually are subject to A-133. Annual A-133 audit certification letters indicating compliance with the A-133 certification standards will be requested and reviewed by ORA.

• Subrecipients Excluded from A-133 Audit Requirements

Annual financial statements or completed annual financial controls surveys from non-A-133 covered entities will be requested and reviewed by ORA .

In addition, the following approaches may be used to learn more about the subrecipient and confirm the risk profile:

- desk audits of a sample of subrecipients;
- site visits to review processes, systems, and controls;
- other procedures deemed appropriate.

Similar to Pre-award risk assessments, the annual subrecipient financial monitoring activities should be driven by several factors discussed in the section of this procedure titled “Pre-award Subrecipient Review”.

Upon receipt of an unfavorable audit report from a subrecipient, the University will confirm that the subrecipient has taken appropriate and timely corrective action.

E. Closeout of Subrecipient Awards

ORA, in collaboration with the PI, should begin subaward closeout actions immediately following conclusion of the subaward period of performance.

Where possible, subrecipient awards should be processed for closeout and formally closed within a 60-day time period, unless ORA grants an extended time period to close out the subrecipient award. A subrecipient award may not be formally closed until all of the applicable closeout requirements have been accomplished.

Subrecipient award closeout requirements must include:

- receipt of final invoice;
- collection of all required deliverables (e.g., technical/progress reports, patent/invention documentation, equipment reports, etc.) to be provided by the subrecipient and final verification of technical completion by the PI, indicated by the PI’s signature and date on the final invoice;
- completion of any necessary final review of costs charged to the University by the subrecipient and final closeout of all commitments, accrued costs, or payables.

The requirements of the prime award, under which a subrecipient award is issued, will be considered during the closeout process. In general, a subaward is closed when it has expired and/or when final technical deliverables are received and financial matters are concluded.