

# Subrecipient Monitoring

Audit Report # 16-11  
August 30, 2016

The University of Texas at El Paso  
Institutional Audit Office

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August 30, 2016

Dr. Diana Natalicio  
President, University of Texas at El Paso  
Administration Building, Suite 500  
El Paso, Texas 79968

Dear Dr. Natalicio:

The Office of Auditing and Consulting Services has completed a limited scope audit of UTEP's subrecipient monitoring program. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. The recommendations are intended to assist the department in strengthening controls and help ensure that the University's mission, goals and objectives are achieved.

We appreciate the cooperation and assistance provided by the Office of Research and Sponsored Projects during our audit.

Sincerely,

Lori Wertz  
Chief Audit Executive

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## **EXECUTIVE SUMMARY**

The Office of Auditing and Consulting Services has completed a limited scope audit of subrecipient monitoring at the University of Texas at El Paso. The audit scope was from January 1, 2015 to February 29, 2016, and included the review of active subawards during this period. The objectives were to determine if University monitoring efforts provide reasonable assurance that subrecipients are in compliance with federal regulations and requirements.

During the audit we noted the following:

ORSP has implemented several new procedures to assist with subrecipient monitoring. However, the University does not have a fully developed risk assessment methodology for the evaluation of each subrecipient and the impact of subrecipient activities on the University's ability to comply with applicable Federal regulations.

## BACKGROUND

*"The Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (commonly called "Uniform Guidance") was officially implemented in December 2014 by the Council on Financial Assistance Reform (COFAR). The Uniform Guidance – a "government-wide framework for grants management" – synthesizes and supersedes guidance from earlier OMB circulars.*

The Uniform Guidance is codified in the Code of Federal Regulations (CFR) 200 and defines the following terms for grant management:

*Pass-through entity* means a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program.

*Subrecipient* means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program.

CFR 200.331 *Requirements for pass through entities* outlines specific requirements for subrecipient monitoring that include:

- the clear identification of the subaward to the subrecipient including specific information listed in 200.331(a), and
- the evaluation of each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms as described in §200.331(b)

As the pass through entity, The University of Texas at El Paso (UTEP) shares subrecipient administration and monitoring responsibilities with the following parties:

- Principal Investigators (PIs) are the individuals who manage and conduct research, and are the technical experts who are ultimately responsible for the execution of grants. PIs are also responsible for the receipt and review of technical performance reports and the review and approval of expenses.
- The Office of Research and Sponsored Projects (ORSP) ensures that subaward agreements are properly processed and functions as an oversight body to warrant compliance with applicable regulations.
- The Office of Contracts and Grants provides guidance to PIs to assist them in financial management of the grants in compliance with applicable laws and regulations.

## **AUDIT OBJECTIVES**

The objectives of this audit was to determine whether:

- The University is monitoring subrecipient activities in compliance with federal statutes, regulations and Uniform Guidance,
- The University monitoring efforts provide reasonable assurance that subrecipients are in compliance with federal and award requirements, and
- Financial operations are being administered to provide reasonable assurance that funds are used for authorized purposes.

## **SCOPE AND METHODOLOGY**

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

The scope of this audit was from January 1, 2015 through February 29, 2016. To satisfy our objectives, we performed the following:

- Gained an understanding of subrecipient monitoring and management according to Uniform Guidance §200.330 & §200.331 and University guidelines,
- Determined if the Institution has implemented procedures to comply with §200.331 Requirements for pass-through entities for the monitoring of subrecipients, and
- Conducted interviews with the Office of Research and Sponsored Projects, the Office of Contracts and Grants, and Principal Investigators.

## RANKING CRITERIA

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for the rankings are as follows:

**Priority** – An issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.

**High** – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

**Medium** – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.

**Low** – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.

## AUDIT RESULTS

### A. SUBRECIPIENT MONITORING AND MANAGEMENT

#### A.1 Subrecipient Monitoring

Policies and Procedures: The Office of Research and Sponsored Projects (ORSP) has an on-line Research Administration Handbook, updated in March 2015. The handbook is divided in subchapters which cover procedures from the inception and initial set-up of the project to the close-out of the awards and post award changes.

Additional forms and guidance are available on the ORSP website to assist in the determination of an entity's classification as a subrecipient or contractor.

Subaward Documentation: ORSP uses a forms processing software tool called Questys to store and index subrecipient forms and documents for easy filing and retrieval.

Monitoring Activities:

Eleven out of 144 subawards were judgmentally selected to review compliance with applicable OMB guidance for subrecipient monitoring.

ORSP has implemented several monitoring procedures:

Subrecipients must complete the UTEP Subrecipient Commitment Form (SCF) which requires, among other things:

- Subrecipient Institutional Information required for OMB audits
- Certification of Appropriate Conflict of Interest Policy
- Copy of most recent OMB Audit or website link to access audit
- Disclosure of Federal or State agency suspension or debarment, if applicable

Additional subrecipient monitoring activities were confirmed through interviews with 20% of the Principal Investigators in the selected sample:

- Site visits
- Regular contact with the subrecipient
- Subrecipient training
- Review of subrecipient progress reports

## A.2 Risk Assessment and Support Documentation

UTEP does not have a fully developed risk assessment methodology for the evaluation of each subrecipient and the impact of subrecipient activities on the University's ability to comply with applicable Federal regulations.

ORSP determines risk for domestic subrecipients during the review of the Subrecipient Commitment Form. If indications of high risks are noted in the SCF, the research administrators send the SCF to the Assistant Vice President (AVP) for review. The AVP determines if the FDP Risk Assessment Questionnaire (RAQ) should be used to evaluate the subrecipient. The risk assessment questionnaire was recently implemented and has not yet been used to evaluate a subrecipient.

All international subrecipients are considered high risk and go through additional review using Visual Compliance, a web based tool for export control management and screening of all parties involved in UTEP transactions, to ensure there are no government restrictions placed upon them.

According to UG §200.331 *Requirements for pass-through entities*, all pass-through entities must:

(b) Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring..., which may include consideration of such factors as:

- (1) The subrecipient's prior experience with the same or similar subawards;
- (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;
- (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
- (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency)

### **Recommendation:**

*The University should continue to develop a documented methodology for the evaluation of subrecipients' risk of non-compliance with Federal statutes and regulations. In addition, ORSP should ensure all necessary documentation is submitted by the subrecipient in order to properly perform the risk assessment and comply with the Uniform Guidance.*

**Level:** Medium due to the need to comply with the requirements of the Uniform Guidance.

**Management Response:**

*The University will continue to develop a documented methodology for the evaluation of subrecipient's risk of non-compliance with Federal statutes and regulations. University ensures all necessary documentation is submitted by subrecipient in order to properly perform the risk assessment and comply with the Uniform Guidance when applicable.*

**Responsible Party:**

*Manuela Dokie, Assistant Vice President of Research and Compliance Services*

**Implementation Date:**

*12/31/2016*

## **B. FINANCIAL MONITORING**

### **B.1 Financial Monitoring Process**

Subrecipient monitoring is an ongoing process that involves several units at all stages of the subaward. As part of Code of Federal Regulations §200.331, pass-through entities must monitor the activities of the subrecipient as necessary to ensure:

- subaward is used for authorized purposes,
- subaward is in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and
- subaward performance goals are achieved.

With the implementation of PeopleSoft as the university accounting system, UTEP had to redesign the process for financial monitoring of subrecipients. It has been a continuous improvement progression of implementing new techniques and tools to enhance and facilitate the monitoring practice.

Most recent changes were implemented in June of 2016. The improvements consist of setting up a “child” project for each subrecipient under a “parent” award. This will increase the visibility of each subrecipient transaction independently, reduce manual procedures, and facilitate monthly reconciliation. Due to the timing of implementation, the new procedures were not tested.

Additionally, the Vice President of Research created the Project Information Center (PIC). This tool provides a fast and easy accessibility to view demographic and financial details related to the Principal Investigator (PI) specific award(s) and project(s), including subrecipient “child” projects, in PeopleSoft. Through the PIC portal, PIs are able to view details such as award, project and “child” project beginning and end dates, award sponsors, award status, budget status, and balances.

The new process improvement in conjunction with the PIC tool, will allow PIs to perform a more accurate monthly reconciliation of subrecipients’ budget and expenditures, and verify the invoices they approved through workflow have actually been paid out.

## **B.2 Review of Invoices from Subrecipients**

As a condition of its acceptance of funding from sponsors, the University is obligated in its role as primary recipient to undertake certain stewardship activities as well as comply with federal, state and local regulations. When the University assigns responsibility for conducting a portion of the work sponsored by an award to a subrecipient, the University remains responsible to the sponsor for management of funds and meeting performance goals.

PIs from an administrative point, are responsible for approving expenditures made from grants. PIs are required to review subrecipient’s invoices for appropriateness of expenses and unusual or excessive charges. Evidence of the regular review and approval of invoices by principal investigator should be in place and retained on file.

The current process requires subrecipients to submit all invoices to the Office of Contracts & Grants (C&G). The assigned C&G accountant processes subrecipient invoices via non-PO vouchers through workflow to the appropriate PI for approval before payment. We selected a sample of five invoices and requested evidence of PI approval. No exceptions were found.

## **B.3 Close-out Process**

When a Federal award is terminated or partially terminated, both the Federal awarding agency or pass-through entity and the nonfederal entity remain responsible for compliance with the requirements in §200.343 Closeout and §200.344 Post-closeout adjustments and continuing responsibilities. As the prime partner, the university is responsible for ensuring that subrecipients comply with all financial and other requirements under the award, including post-award requirements. A subrecipient award may not be formally closed until all of the applicable closeout requirements have been accomplished.

As part of the close-out process, for projects with a subrecipient component, ORSP prepares the 'Subrecipient Release Form' and emails the subrecipient for signature. With information from C&G, the ORSP specialist also ensures figures match with all payments issued, no payments are outstanding and the final invoice has been received. If there are any outstanding issues, the ORSP Specialist, C&G Accountant, Accounts Payable, Research Administrator and PI jointly resolve the situation.

Recently the University implemented a new process where PIs, ORSP and C&G will get notified 120, 90, 60 and 30 days before the end of an award. The early notification will allow all parties involved to prepare for the upcoming award end date. Also, notifications will be sent 30, 60, 90, and up to 120 days after the end date to ORSP and C&G to facilitate and better monitor the process of completing financial close out, final invoices, and financial reports no later than the required date, depending on sponsor requirements.

As part of the financial close-out, the C&G accountant confirms ORSP has received the 'Subrecipient Release Form' and the approved subrecipient's final invoice is kept on file. For our testing, we selected three subrecipients that had been closed and requested from C&G the final invoice and confirmation of payment. No exceptions were found.

## **CONCLUSION**

Based on the audit work performed, we conclude that while The University of Texas at El Paso is in general compliance with subrecipient monitoring requirements. Opportunities exist to improve the risk assessment methodology for the purpose of determining the proper level of monitoring for each of the subawards.

We wish to thank the management and staff of the Office of Research and Sponsored Projects and Contracts and Grants for their assistance and cooperation provided throughout the audit.