

Guidelines & Procedures for Monitoring Subrecipients

The University of Hawaii (UH) is responsible for the programmatic and financial monitoring of its sponsored research award subrecipients. A subrecipient is a third-party organization performing a portion of UH research projects or other sponsored programs. The terms of UH-subrecipient relationships are documented in sub-grant / subcontract / consortium agreements.

These guidelines and procedures are provided to assist responsible faculty and staff in ensuring that subrecipients conduct their portions of research projects in compliance with laws, regulations and terms and conditions of awards and subawards and that project costs incurred by subrecipients are reasonable and allowable.

Roles and Responsibilities:

1. Principal Investigators (PIs) have primary responsibility for monitoring subrecipients to ensure compliance with federal regulations and both prime and subrecipient award terms and conditions.
2. Fiscal Officers (FOs) have responsibility for assisting PIs in discharging their monitoring responsibilities, for reviewing invoices from subrecipients and questioning expenditures if necessary, and for maintaining documentation of monitoring efforts.
3. The Office of Research Services (ORS) has the responsibility for ensuring that the University's subrecipient monitoring procedures are compliant with federal and other applicable regulations and are consistent with sound business practices. ORS will provide further training, monitoring and guidance in interpreting applicable regulations and subrecipient award terms and conditions, and in interpreting and executing these guidelines.

Federal Regulations

The federal regulations that describe subrecipient monitoring are general, but contain the following core elements of compliance:

- Advising subrecipients of all applicable federal laws and regulations, and all appropriate flow-down provisions from the prime agreement
- The routine receipt and review of **Technical Performance Reports**
- The routine **Review of Expenses-to-Budget**
- The periodic performance of **On-site Visits**, or regular contact, if necessary
- The option to perform "**audits**" if necessary
- Review of A-133 audit reports filed by subrecipients and any audit findings
- Review of **corrective actions** cited by subrecipients in response to their audit findings
- Consideration of sanctions on subrecipients in cases of continued inability or unwillingness to have required audits or to correct non-compliant actions

The above list is not exhaustive of all compliance requirements. In addition to the general elements of compliance noted above, there may be additional sponsor- or program-specific requirements that mandate collecting and documenting other

assurances (e.g. on lab animals, human subjects, biohazards, etc.) during the course of a project.

University of Hawaii's Subrecipient Monitoring Guidelines

On an annual basis, ORS will review all active subcontracts for which monitoring is mandated and inquire further into those that are deemed to require closer scrutiny in light of considerations such as:

- Size of the subrecipient award. Large awards (for example with annual budgets >\$500K) would receive substantial and frequent review and monitoring; mid-sized awards (annual budget \$100K - \$500K) would receive proportionately less substantial and less frequent monitoring; smaller awards (<\$100K) would receive general review with the least frequent oversight
- Award size relative to the subrecipient's sponsored research portfolio
- Percentage passed through: the larger the percentage of program award passed through, the greater the need for subrecipient monitoring
- Award complexity, sensitivity of the work and/or extensiveness of the governing regulations
- Prior experience with the subrecipient, e.g. a new subrecipient, an inexperienced subrecipient, a history of non-compliance, having new personnel, or having new or substantially changed systems
- Subrecipient location or for-profit status (remoteness from UH may mandate more oversight); increased risk associated with some foreign and for-profit subrecipients dictates that they would merit a greater degree of review, evaluation and attention
- Degree of external oversight by auditors or sponsoring agencies. Note that UH is obligated to monitor subrecipients of its federal awards, regardless of the subrecipients being subject to A-133 audits
- Sophistication of the subrecipient's systems and administrative operati

Upon identification of subrecipients that mandate closer scrutiny, based on the above review criteria, ORS will take appropriate monitoring actions to ensure compliance with subagreement performance, financial terms and conditions, and with all applicable federal rules and regulations such as:

- **On-site Visits** are a discretionary monitoring procedure. On-site visits conducted by the PI to evaluate both compliance with the scientific objectives of the project and the appropriateness of the subrecipient's administrative systems, processes, and charges should be documented via correspondence, meeting notes, trip reports, etc. and retained on file.

- **Audits** - discretionary audits of subrecipients are an acceptable monitoring procedure under federal regulations, and all of the University's cost-reimbursement subrecipient agreements contain "right-to-audit" clauses. Formal audits are performed infrequently, however, and departments should contact ORS before initiating discretionary audits.
- **Review A-133 audit reports on-line** – ORS should review A-133 reports filed by subrecipients that expend \$500,000 or more of federal funds during the fiscal year and are subject to A-133. ORS may view the subrecipient's A-133 report in the Federal Audit Clearinghouse (FAC) database (<http://harvester.census.gov/sac>). This web site provides evidence to verify that the subrecipient has completed an A-133 audit and to assess the presence of audit findings. This FAC verification would be done in lieu of reviewing A-133 reports submitted by the subrecipient to UH. In cases of continued inability or unwillingness of a subrecipient to have the required audits, ORS may consider taking appropriate sanctions.
- **When subrecipients have A-133 audit findings** – ORS may consider issuing a management decision on audit findings, when appropriate, and evaluate subrecipient corrective actions cited in response to audit findings. Corrective actions cited by the subrecipient should be verified to ensure subrecipient compliance and may necessitate on-site monitoring. ORS may also consider whether subrecipient audit findings necessitate adjustment of their own records.
- **Subrecipients not subject to A-133, including foreign and for-profit entities** – Because A-133 does not apply to foreign or for-profit subrecipients, UH may establish its own requirements, as necessary, to ensure compliance by such subrecipients. ORS should consider using subrecipient monitoring techniques similar to those used for entities that are subject to A-133. Contracts with foreign or for-profit subrecipients should describe applicable compliance requirements and responsibilities. Methods to assess compliance with federal subawards made to foreign or for-profit subrecipients may include pre-award audits, on-site or

Subrecipient contract language advice

All subcontracts under federal government prime contracts and grants should contain language, substantially as set forth below, requiring subcontractors to report promptly to UH any problem related to UH subcontracts identified in their annual A-133 audits and to submit corrective action plans.

"AUDIT: Subcontractor agrees to comply with the requirements of OMB Circular A-133. Subcontractor further agrees to provide the University of Hawaii (UH), in a timely manner, with access to any of the independent auditors' reports that present instances of noncompliance with federal laws and regulations that bear directly on the performance or administration of this Subcontract. In cases of such noncompliance, Subcontractor will provide copies of responses to auditors' reports and a plan for corrective action(s). All reports prepared in accordance with the requirements of OMB Circular A-133 shall be available for inspection by representatives of UH or the government during normal business hours.

The Subcontractor agrees that it shall keep for a period of three (3) years following completion of the project, or until all litigation, claims or audit findings have been resolved and final action is taken, such records as may be reasonably necessary to facilitate an effective audit

The Subcontractor shall cooperate with UH in resolving questions that UH may have concerning the auditors' report and plans for corrective action(s)."

In addition to routine monitoring procedures, ORS will work with PIs and FOs to establish channels of communication with subrecipients that require further scrutiny. Administrators at such subrecipient sites may be asked to complete questionnaires (to be filed at UH) documenting their internal controls and grants management procedures.

Also, subrecipients that are not subject to A-133 may be asked to submit supporting documentation in the form of original receipts, copies of payroll records, audits, etc. if circumstances warrant.

Department-level Subrecipient Monitoring Procedures

The frequency and scope of departmental monitoring procedures should be determined jointly by the responsible PI and FOs. A "risk-based" approach to subrecipient monitoring is recommended with the frequency and intensity of monitoring driven by the criteria stated above in the UH guidelines. Taking this approach thereby focuses monitoring on the subrecipients who are at greatest risk or potential for non-compliance.

FOs, with guidance or assistance from ORS, should annually consider the following subrecipient monitoring procedures when appropriate:

- **Review of Technical Performance Reports** should be done on a timely basis by the PI. Any unusual or unforeseen items should be investigated and documentation thereof should be retained in the department's files for ready access by regulators. In some cases, subaward terms may require specified deliverables in addition to, or in lieu of, technical reports.
- **Review of Invoices and Expenses-to-Budget** should be done for cost-reimbursement subagreements. The subrecipient's invoices showing both current period and cumulative expenses-to-budget are generally required. FOs should compare subrecipient invoices to established subaward budgets. Evidence of the regular review of invoices by both the PI and the department grant administrator should be in place and retained on file. "Evidence" can be in the form of PI initials or authorizing signature on invoices, e-mail communications, notes of meetings with the FOs, etc.
- **Clarification of Invoiced Charges** should be requested by FOs for explanations of any unusual, miscellaneous, apparently excessive or other charges invoiced

by the subrecipient. If the explanations are not sufficient to render a prudent judgment on the allowability of the cost, and the terms of the subcontract permit, FOs may request detailed justifications from subrecipients. FOs may also periodically request, if the terms of the subcontract permit, particularly from high-risk subrecipients detailed support for selected invoiced charges to verify their appropriateness and reasonableness. Examples of detailed justifications that may be requested from subrecipients include:

- Payroll records/data
- Copies of paid invoices showing the cost of items purchased and Vendor Justification Forms if required by Federal contract
- Descriptions of services rendered by consultants including hourly rates and time reports
- Details of incurred travel charges, stating the purpose, airfare, meals, ground transportation, unallowable costs, etc.
- Costs determined to be unallowable or unreasonable should be disallowed
- In circumstances where questionable costs remain unresolved, particularly when subcontract terms do not permit requesting supporting documentation, it may become necessary to conduct a definitive audit of all or a portion of questionable costs. (See **Audits** below) In these cases, FOs may contact the ORS for coordination of subsequent actions with the appropriate school sponsored research office.