

Subrecipient Monitoring

Office of Sponsored Projects

February 2021



The University of Texas at Austin
Office of Internal Audits
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February 9, 2021

President Jay C. Hartzell
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Hartzell,

We have completed our audit of Subrecipient Monitoring, as part of our Fiscal Year 2020 Audit Plan. The objective of the audit was to determine whether controls have been established to ensure compliance with federal regulations. The report is attached for your review.

The Office of Sponsored Projects generally complies with federal subrecipient monitoring requirements. However, there are opportunities to enhance subrecipient risk assessment and monitoring processes. Management has provided their action plans and implementation dates.

Please let me know if you have questions or comments regarding this audit.

Sincerely,

A handwritten signature in blue ink that reads "Sandy Jansen".

Sandy Jansen, CIA, CCSA, CRMA
Chief Audit Executive

cc: Ms. Renee Gonzales, Assistant VP for Research, Office of Sponsored Projects
Ms. Monica Horvat, Director of Administration, Office of the President
Dr. Daniel Jaffe, Interim Executive Vice President and Provost
Dr. Alison Preston, Interim Vice President for Research
Dr. Cathy Stacy, Interim Chief of Staff, Office of the Executive Vice President & Provost



Contents

Executive Summary.....	1
Background and Audit Results.....	2
Observation #1 Subrecipient Risk Assessments	2
Observation #2 Monitoring Procedures.....	4
Observation #3 Management Decision Letters	5
Scope, Objectives, and Methodology.....	6
Observation Risk Ranking	7
Report Distribution	7



Executive Summary

Subrecipient Monitoring

Office of Sponsored Projects

Project Number: 20.004

Audit Objective

The objective of this audit was to determine whether controls have been established to ensure compliance with federal regulations.

Conclusion

The Office of Sponsored Projects generally complies with federal subrecipient monitoring requirements. However, there are opportunities to enhance subrecipient risk assessment and monitoring processes.

Audit Observations¹

Recommendation	Risk Level	Estimated Implementation Date
Risk Assessment Process	High	November 2021
Monitoring Procedures	High	November 2021
Management Decision Letters	Medium	November 2021

Engagement Team

Ms. Erika Lobsinger, Auditor I

Mr. Patrick McKinney, CIA, Assistant Director

Ms. Kiersten Mercado, Auditor III

¹ Each observation has been ranked according to The University of Texas System Administration (UT System) Audit Risk Ranking guidelines. Please see the last page of the report for ranking definitions.



Background and Audit Results

The University of Texas at Austin (UT Austin) generally complies with federal subrecipient monitoring requirements. However, there are opportunities to enhance risk assessment and monitoring processes.

UT Austin passed through greater than \$70M in grant awards to approximately 250 subrecipients during the two-year period of fiscal years 2019 and 2020. Uniform Guidance, the federal grant management framework codified in the Code of Federal Regulations, Chapter 2, Section 200, details responsibilities of pass-through entities to ensure compliance with federal awards and effective subrecipient monitoring.

As a pass-through entity of federal grant awards, UT Austin is responsible for ensuring subaward progress and compliance with federal regulations and award terms. UT Austin's subrecipient monitoring processes rely on the activities of the Office of Sponsored Projects (OSP), principal investigators (PI), and departments. OSP is responsible for assessing subrecipient risk levels, developing contract requirements to mitigate risks, and providing a secondary layer of monitoring. PIs and their departments are responsible for day-to-day monitoring and oversight of subrecipients to ensure project progress and compliance with applicable requirements. Departmental subrecipient monitoring efforts are varied across campus; several areas indicated they receive limited communication or training regarding subrecipient risk levels and monitoring requirements.

Uniform Guidance Definitions:

Subrecipient – a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program.

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

OSP is updating its subrecipient monitoring procedures to effectively manage subrecipient risks. Within these efforts, there are opportunities to develop more comprehensive risk assessment and mitigation processes and to consider input and communication from all relevant parties. These opportunities are outlined in the three observations below.

Observation #1 Subrecipient Risk Assessments

OSP generally conducts subrecipient risk assessments in compliance with Uniform Guidance, which requires pass-through entities to evaluate a subrecipient's risk of noncompliance with federal regulations and award conditions. However, the process is not consistently operating as described by OSP, and opportunities exist to ensure the appropriate level of subrecipient monitoring occurs.

OSP's Proposal Administration team performs risk assessments and assigns risk ratings prior to executing a grant subaward. Risk information is obtained from a potential subrecipient's annual audits and questionnaires, proposed project scope, and prior UT Austin experience with the entity. Risk assessment ratings are considered when developing award terms and conditions and establishing required monitoring activities. Risk assessment results are shared with OSP's post-



OFFICE OF INTERNAL AUDITS REPORT: SUBRECIPIENT MONITORING

award team, Sponsored Projects Award Administration (SPAA), but results are not currently communicated to PIs.

We tested 13 subaward risk assessments executed between January and August 2020 to verify OSP's process was working as intended and in compliance with federal requirements. Five risk assessments resulted in a high-risk rating. Of these, one was not escalated to management for further review, and two were not communicated to SPAA for consideration in determining necessary monitoring. Five of thirteen risk assessments were completed after the subrecipient signed the award agreement, and one was completed the same day the subrecipient signed the agreement. Additionally, two pre-qualifying questionnaires, which are used to help determine risk levels when a subrecipient has not had an annual audit, were completed after the subrecipient signed the agreement. While UT Austin did not sign and execute the agreements prior to completing the risk assessments, the timing of these activities indicates award terms and conditions are established and agreed upon prior to fully assessing subrecipient risk levels.

High-risk subrecipients are subject to more frequent technical reporting requirements and may be required to provide detailed invoice and expense support. Although these additional requirements are essential for high-risk entities, they may not effectively address other potential risks. As part of the annual audit and questionnaire review process, the Proposal Administration team considers subrecipient and project risks arising from areas such as subrecipient internal control environment, changes in financial systems, documented procedures, export controlled research, and required cost sharing. However, UT Austin does not require additional monitoring procedures beyond more frequent reporting requirements and additional expense detail. Uniform Guidance recommends pass-through entities include additional award terms and monitoring procedures (e.g., onsite monitoring, prior approval of expenditures, provision of training or assistance to subrecipients, or fixed-price award agreements) for high-risk subrecipients.

Recommendation: OSP should update its subrecipient risk assessment process to include the following:

- Communication of risk levels to all necessary parties. Monitoring procedures should be discussed and agreed upon by each area responsible for subrecipient oversight (i.e. PIs, SPAA).
- Inclusion of appropriate monitoring procedures to address all identified high risks.
- Full evaluation of subrecipient risk levels prior to developing award terms and conditions.

Management's Corrective Action Plan: OSP will modify their subaward procedures to include: completion of a full evaluation of subrecipient risk levels prior to developing award terms and conditions, increased communication of subrecipient risk levels between all necessary parties prior to award execution, and additional non-invoicing mitigation measures to address various high-risk situations. These new procedures will be developed with SPAA and the Subaward Committee to ensure the identification of high-risk subawards is being effectively communicated and appropriate targeted risk measures are being used.

Responsible Person: Associate Director OSP and Associate Director of SPAA



Planned Implementation Date: November 2021

Observation #2 Monitoring Procedures

UT Austin subrecipient monitoring responsibilities and procedures are not well-defined and may result in inadequate oversight of subrecipients. Day-to-day monitoring is the responsibility of PIs, and SPAA provides a secondary level of oversight. PI monitoring procedures vary across campus, though PIs mostly appear to regularly communicate with their subrecipients. PIs indicated they are primarily focused on project deliverables and milestones and rely heavily on their administrators and subrecipients' sponsored program areas for monitoring and compliance.

The UT Austin PI Book, published by the Vice President for Research, broadly defines PI subrecipient monitoring responsibilities, but the responsibilities are not addressed in other research-related policies. PIs and their administrators said they receive limited guidance regarding subrecipient monitoring. PI approval of subrecipient invoices prior to payment is the primary departmental monitoring procedure; however, this practice is inconsistent. Six of twenty-four invoices, representing three of eight projects reviewed, did not have evidence of PI approval.

OSP is evaluating its subrecipient monitoring procedures to identify process improvements. They do not have formally-defined oversight procedures to determine whether PIs perform appropriate monitoring and do not regularly provide subrecipient monitoring education or training. SPAA's primary method of subrecipient oversight is to perform desk reviews of certain subrecipients each year, which serves as an additional layer of financial monitoring. During FY2020, SPAA completed 12 reviews. OSP is determining the number of reviews necessary to provide an effective secondary layer of monitoring.

Recommendation: OSP should develop formalized subrecipient monitoring guidelines for PIs and departments and should provide periodic subrecipient monitoring training. Additionally, OSP should continue to evaluate its subrecipient monitoring function and develop procedures necessary for effective monitoring and oversight.

Management's Corrective Action Plan: SPAA is in the process of developing more defined procedures for subrecipient monitoring. The new procedures will include: a website for Subrecipient Monitoring providing guidance and detailing the expectations of all responsible parties, enhanced invoice review, campus-wide trainings, and regular desk reviews of high-risk subawards. SPAA will work with departments while developing these new processes and procedures to ensure adequate oversight and routine monitoring is taking place.

Responsible Person: Associate Director of SPAA

Planned Implementation Date: November 2021



Observation #3 Management Decision Letters

OSP does not have a defined process to issue management decision letters and resolve subrecipient single audit findings related to federal pass-through awards. Uniform Guidance requires non-federal entities spending more than \$750 thousand in federal awards in a given year to obtain a single audit or program-specific audit. Pass-through entities are required to issue a decision letter to subrecipients having audit findings directly related to a pass-through award. Pass-through entities must also ensure an acceptable resolution to the findings. SPAA is developing procedures and templates to formalize the decision letter process and ensure compliance with the requirement. They have begun tracking and reviewing subrecipient audits, but have not yet identified audit findings requiring a decision letter.

Recommendation: OSP should develop and document a consistent process to identify subrecipient audit findings, issue management decision letters, and ensure appropriate finding resolutions.

Management's Corrective Action Plan: SPAA is in the process of formalizing the issuance of management decision letters process. The new process will include: identifying audit findings that require a management decision letter per Uniform Guidance, create templates for the letters, meeting with subrecipient entities as needed to ensure acceptable resolution to the findings, and increase communications with OSP and the PI/department in cases where adjustments need to be made to the subaward agreement. SPAA expects this to be an annual process.

Responsible Person: Associate Director of SPAA

Planned Implementation Date: November 2021



Scope, Objectives, and Methodology

This audit was conducted in conformance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted the audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

The scope of this review included FY2020 subrecipient monitoring processes. Specific audit objectives were to:

- Evaluate OSP's subrecipient risk assessment process for consistency, communication of risk to appropriate personnel, and compliance with federal requirements;
- Determine whether policies and procedures establish roles and responsibilities among various personnel responsible for subrecipient monitoring;
- Determine whether OSP and PIs are conducting effective subrecipient monitoring procedures; and
- Evaluate OSPs process to identify subrecipient audit findings and issue management decisions for compliance with federal regulations.

To achieve these objectives, we:

- Interviewed OSP personnel responsible for risk assessment and subrecipient monitoring procedures;
- Interviewed a sample of PIs and members of the Association of Research Administrators to determine departmental subrecipient monitoring procedures;
- Tested a sample of risk assessments for compliance with federal requirements and internal processes;
- Reviewed a sample of subrecipient invoices for PI approval; and
- Reviewed federal subrecipient monitoring requirements and related UT Austin policies and procedures.



Observation Risk Ranking

Audit observations are ranked according to the following definitions, consistent with UT System Audit Office guidance.

Risk Level	Definition
Priority	If not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of The University of Texas at Austin (UT Austin) or the UT System as a whole.
High	Considered to have a medium to high probability of adverse effects to UT Austin either as a whole or to a significant college/school/unit level.
Medium	Considered to have a low to medium probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.
Low	Considered to have minimal probability of adverse effects to UT Austin either as a whole or to a college/school/unit level.

In accordance with directives from UT System Board of Regents, Internal Audits will perform follow-up procedures to confirm that audit recommendations have been implemented.

Report Distribution

The University of Texas at Austin Institutional Audit Committee

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