

Policy 18 - Guidelines & Procedures for Monitoring Subrecipients

Missouri State University is responsible for the programmatic and financial monitoring of its sponsored research award subrecipients. These guidelines and procedures are provided to assist responsible University employees in ensuring that subrecipients conduct their portions of sponsored projects in compliance with laws, regulations, and terms and conditions of grants/contracts, 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. Grant administrators have responsibility for assisting principal investigators 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 for Sponsored Research (OSR) and Grants and Contracts Accounting have 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. OSR will provide further training, monitoring and guidance in interpreting applicable regulations and subrecipient award terms and conditions, and in interpreting and executing these guidelines. The Office for Sponsored Research and Programs and Grants and Contracts Accounting have 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. The Office of Sponsored Research and Programs, in collaboration with Grants and Contracts Accounting, will conduct a Project Management Review with a principal investigator, and others having project administrative responsibilities, to ensure that there is an understanding of the sponsors' requirements for monitoring and validating subrecipients' expenditures.

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.

Missouri State University's Subrecipient Monitoring Guidelines

On an annual basis, the Office of Sponsored Research and Programs (on non-financial matters related to the grant/contract) and Grants and Contracts Accounting (on financial matters) will review all active subawards for which monitoring is mandated and inquire further into those that are deemed to require closer scrutiny using a "risk-based" approach. A "risk based" approach takes into account 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 Missouri State University 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 Missouri State University is obligated to monitor subrecipients of its federal awards, regardless of the subrecipients being subject to A-133 audits
- Sophistication of the subrecipient's accounting systems and administrative operations

Upon identification of subrecipients that mandate closer scrutiny, based on the above review criteria, the Office of Sponsored Research and Programs and Grants and Contracts Accounting will take appropriate monitoring actions to ensure compliance with subaward performance, financial terms and conditions, and with applicable governmental rules and regulations, and other sponsors' requirements.

In addition to routine monitoring procedures, the Office of Sponsored Research and Programs and Grants and Contracts Accounting will work with principal investigators and department administrators to establish channels of communication for grants/contracts that require further scrutiny of subrecipients.

Administrators at such subrecipient sites may be asked to complete questionnaires (to be filed at Missouri State University) documenting their internal controls and grants management procedures. In addition, subrecipients that are not subject to OMB Circular 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 unit monitoring procedures should be determined jointly by the responsible principal investigator and unit or department grant administrators. A "risk-based" approach to subrecipient monitoring is recommended with the frequency and intensity of monitoring driven by the criteria stated above in the Missouri State University guidelines. Taking this approach thereby focuses monitoring on the subrecipients who are at greater risk of potential for non-compliance.

Department grant administrators, with guidance or assistance from the Office of Sponsored Research and Programs (for technical reports) and Grants and Contracts Accounting (for financial reports), should annually consider the following subrecipient monitoring procedures when appropriate:

- **Review of Technical Performance Reports** should be done on a timely basis by the principal investigator. Any unusual or unforeseen items should be investigated and documented, with the latter retained in the unit or department's files for ready access by responsible University officials as well as authorized representatives of sponsors. 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 subawards. The subrecipient's invoices showing both current period and cumulative expenses-to-budget are generally required. Principal investigators and unit or department grant/contract administrators should compare subrecipient invoices to established subaward budgets. Evidence of the regular review of invoices by both the principal investigator and the unit or department grant/contract administrator should be in place and retained on file. "Evidence" can be in the form of principal investigator's initials or authorizing signature on invoices, e-mail communications, notes of meetings with the department grant administrator, etc.
 - **Clarification of Invoiced Charges** should be requested by principal investigators and unit or department grant/contract administrators 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, department grant administrators may request detailed justifications from subrecipients. Principal investigators and unit or department grant/contract administrators 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, principal investigators and unit or department grant/contract administrators may contact the Office for Sponsored Research for coordination of subsequent actions with the appropriate subawardees' office responsible for coordinating grants.

- **On-site Visits** are a discretionary monitoring procedure. On-site visits conducted by the principal investigator 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 subawards contain "right-to-audit" clauses. Formal audits are performed infrequently.
- **Review A-133 audit reports on-line** – Grants and Contracts Accountants 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. Staff 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 Missouri State University. In cases of continued inability or unwillingness of a subrecipient to have the required audits Grants and Contracts Accounting may consider recommending that the University take appropriate sanctions.
- **When subrecipients have OMB Circular A-133 audit findings** – Grants and Contracts Accounting 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. Grants and Contracts Accounting may also consider whether subrecipient audit findings necessitate adjustment of the university's related grant account 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, Missouri State University may establish its own requirements, as necessary, to ensure compliance by such subrecipients. Office of Grants and Contracts 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 or onsite audits.

Subrecipient contract language advice

All subawards under federal government grants should contain language, substantially as set forth below, requiring subrecipients to report promptly to Missouri State University any problem related to Missouri State University subawards identified in their annual A-133 audits and to submit corrective action plans.

"AUDIT: Subawardee agrees to comply with the requirements of OMB Circular A-133. Subawardee further agrees to provide Missouri State University, 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 Subaward. In cases of such noncompliance, Subawardee 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 Missouri State University or the government during normal business hours. The Subawardee 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 subawardee shall cooperate with Missouri State University in resolving questions that the University may have concerning the auditors' report and plans for corrective action(s)."