

# Subrecipient Monitoring: Procedures

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### Responsible College Officer

Associate Controller for Restricted Funds  
& Cost Studies

### Responsible Office

Grants & Contracts

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## Procedure Statement

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The purpose of this document is to assist the University of Medicine and Dentistry of New Jersey's (UMDNJ) 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.

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## Reason for Procedure

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UMDNJ 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 the scope of work on UMDNJ research projects or other sponsored programs. The terms of UMDNJ subrecipient relationships are documented in subaward, subcontract, or consortium agreements. These procedures delineate specific business activity that should be performed in managing subrecipients of sponsored research awards.

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## Applicable Federal Regulations

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These procedures are directed by and consistent with the March 2004 revision to the Office of Management and Budget (OMB) A-133 Compliance Supplement M. While the Federal government has issued these regulations to govern the management of subrecipient activity on Federal awards, UMDNJ conducts this level of management oversight on all sponsored awards.

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 and other audit reports filed by subrecipients
- 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.

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## **Subrecipient Monitoring**

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To meet UMDNJ's obligations to manage subrecipient activity, the following procedures serve as the minimum level of expected business activity with respect to managing subrecipient activity. These procedures reflect the expectations of federal regulations that govern subrecipient activity. Principal Investigators (PIs) have primary responsibility for monitoring subrecipients to ensure compliance with Federal regulations, and both prime and subrecipient award terms and conditions. Finance and Sponsored Research Offices have responsibility for ensuring that UMDNJ's subrecipient monitoring procedures are compliant with Federal and other applicable regulations and are consistent with sound business practices.

While the rest of this document focuses on financial risk monitoring of subrecipients, the following is a summary of tasks various units at UMDNJ shall perform with regard to subrecipients of its sponsored awards:

### **Principal Investigators / Department Administrators**

- Proactively monitor the costs charged by subrecipients in support of work performed on the subaward. See Post-Award Procedural Compliance (Invoices) below for specific monitoring procedures.
- Monitor subrecipients to ensure compliance with Federal regulations and both prime and subrecipient award terms and conditions.

### **Grants & Contracts**

- Confirm that subrecipients expending \$500,000 (for fiscal years ending after December 31, 2003) or more in awards during the subrecipient's fiscal year have met the A-133 audit requirements for that fiscal year. Identify any material weaknesses or reportable conditions that result from the A-133 audit.
- Make a management decision on audit findings within six months after receipt of the subrecipient's audit report, and confirm that the subrecipient takes appropriate and timely corrective action. If a material weakness or other reportable condition exists, monitoring of the subrecipient should be increased per the procedural recommendations outlined below.
- Consider whether subrecipient audits necessitate adjustment of UMDNJ's financial records.
- Require each subrecipient to permit UMDNJ and its auditors to have access to the subrecipient's pertinent records and financial statements, as necessary.

### **Sub-contract/Agreement:**

- Inform subrecipients they are subject to Federal regulations as a result of receiving Federal funding. For Federal awards, subcontract should include CFDA title and number, award name and number, award year, if the award is research and development, and name of Federal agency. When some of this information is not available, UMDNJ shall provide the best information available to describe the Federal award to the subrecipient.

- Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.

### **Conflict of Interest Committee**

- Identify and eliminate or manage any conflict of interest arising from a proposed subaward by UMDNJ to an entity in which UMDNJ or its faculty member has a financial interest or fiduciary relationship.

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## **Risk Monitoring**

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It is the responsibility of Finance (Grants & Contracts) to confirm that the subrecipient's risk profile remains appropriate for a continuing relationship with UMDNJ. Before a subaward is finalized, a pre-award risk assessment is conducted by UMDNJ in either of these circumstances: if the subrecipient organization is a unique organization or has not had a previous relationship with UMDNJ or if the subrecipient award is greater than \$500k. There is an initial review of any significant risk factors contained in the subrecipient's A-133 audit (found in the Federal Audit Clearinghouse database). If the subrecipient does not have A-133 audit information available, Grants & Contracts pre-qualifies potential subrecipients by approving the *Subrecipient Commitment Form* (See attached). This pre-award risk assessment is important so that a variety of financial and organizational information is known about the subrecipient in the pre-award phase.

Annual subrecipient maintenance includes those activities undertaken to mitigate the risk of contracting with a subrecipient (or third-party) organization. A "risk-based" approach to continued subrecipient monitoring is recommended, with the frequency and intensity of monitoring driven by (1) the terms of the grant award, and (2) potential risk factors outlined below.

At least annually, it is the responsibility of Grants & Contracts to gather updated information and documentation on the subrecipient's organization, financial stability, and financial processes and controls. Pertinent information that should be accumulated, reviewed, and analyzed includes but is not limited to:

- Annual financial statements
- Annual audit reports or A-133 audit certification letter
- Certification that institutional management letters do not indicate any control weaknesses
- Financial questionnaires for non A-133 subrecipients

The annual subrecipient monitoring activities should be driven by several factors, including but not limited to:

- Whether the potential subrecipient is subject to an A-133 audit
- 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 (> \$500k) will receive substantial and frequent monitoring; mid-sized awards (annual budget \$100k to \$500k) will receive proportionately less substantial and less frequent monitoring; smaller awards (< \$100k) will receive general review and the least frequent oversight
- Award size relative to the subrecipient's sponsored research portfolio
- Prior experience with the subrecipient (e.g. pre-award negotiations, financial/operational reporting accuracy and timeliness, response to requests, etc.)

- Type of subrecipient organization (for-profit / not-for-profit / foreign / domestic)
- Degree of external oversight by auditors or sponsor agencies
- Organizational and individual conflict of interest

Grants & Contracts has ultimate responsibility for determining the activities that will be undertaken to evaluate subrecipient organizations annually.

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## Post-Award Procedural Compliance

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### Progress Monitoring, Technical Reports, and Deliverables

This procedure requires that PIs and department administrators monitor subrecipients to ensure compliance with Federal regulations and both prime and subrecipient award terms and conditions, as well as the progress of subrecipients. The PI bears responsibility for determining whether the subrecipient scope of work is on schedule, using a variety of means to make this determination. The frequency and scope of post-award departmental monitoring procedures should be determined by Finance and the responsible PI according to the “risk-based” approach described in the Risk Monitoring section of this document.

- The PI should review and evaluate the subrecipient’s progress (e.g., phone conversations, email communication, face-to-face discussion, on-going dialogue), technical reports, or other deliverables, as appropriate, to make periodic determinations about the subrecipient’s overall progress.
- If technical reports are required on the part of the subrecipient, such reports should be collected, reviewed, and evaluated in a timely manner, as well as other deliverables specified in the subaward.
- Unusual or unforeseen items outlined in or omitted from the technical reports should be investigated.
- All subrecipient technical reports should be retained on file in the department and should be readily accessible for College auditors, sponsoring agency auditors, or other Federal regulators.

### Invoices

Invoices from subrecipients should be mailed to UMDNJ, Box 2686, New Brunswick, NJ 08901. Accounts Payable will forward to the Principal Investigator (PI) to ensure they are consistent with the established scope of work and meets the standard format (described below) based on # 2 below. The invoice should be reviewed to ensure that charges are as expected and do not represent a significant over/under expenditure against the approved budget. Currently, the invoices are mailed interoffice to the PI but within the next 4 to 5 months the invoice will be sent electronically via Document Imaging. There are two possible scenarios under which an invoice will be processed for payment:

- 1) If the invoice is sent directly to the PI ( Note – if policies are followed, invoices would not be sent directly to the PI)  
The PI will approve and sign-off on subrecipient invoices to indicate acceptable progress on the project. The invoice should then be forwarded to Accounts Payable, so that payment can be processed.
- 2) If the invoice is sent directly to Accounts Payable:
  - A) If the invoice is for less than \$500 payment will be processed without PI signature.
  - B) If the invoice is between \$501 and \$4,500 A/P will forward a copy of the invoice to the PI for their review and approval. If the invoice is not returned within 2 weeks, a negative confirmation will be assumed and payment processed.
  - C) If the invoice is over \$4,501 a copy of the invoice will be forwarded to the PI for review and approval with payment being processed only after a signed/approved copy is received.

This procedure requires that subrecipient invoices are submitted in a standard UMDNJ approved format or, if submitted in an alternate format, contain a minimum level of information including but not limited to:

- Name of subrecipient
- Date of invoice
- Invoice number
- Purchase order number (if applicable)
- Period of performance covered by invoice
- Description of services reflected by billings
- Current period costs (with sufficient detail)
- Cumulative project costs as compared to the expense budget
- Subrecipient contact person with respect to the invoice
- Statement that the funds expended are reasonable, allowable, and allocable
- Statement that the costs are in compliance with the terms and conditions of the agreement

If, after review of the invoice, an issue or concern with the subrecipient is identified, it is the PI's responsibility to work with the subrecipient to resolve that issue or concern before invoices will be paid. PIs, or their departmental administrators, should request clarification of any unusual, miscellaneous, or apparently excessive or potentially unallowable charges invoiced by a subrecipient. If the explanations are insufficient to render a prudent judgment on the allowability of the cost, the PI or department administrator must request detailed justifications and support from subrecipients. Examples of detailed justifications and support include but are not limited to:

- 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.

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## Roles & Responsibilities

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Responsibilities	PI	Dept Admin	Finance
Receive subrecipient invoice	P	S	
Ensure all invoices from subrecipients are consistent with the established scope of work	P	S	
Review the invoice to ensure that charges are as expected and are aligned with the budget	P	S	
If technical reports are required on the part of the subrecipient, such reports should be collected, reviewed, and evaluated in a timely manner, as well as other deliverables specified in the subaward	P	S	
Approve that work was done by the subrecipient	P	S	
Work with the subrecipient to resolve any issues or concerns before invoices will be paid	P	S	
Send subrecipient invoices to Research Accounting	P	S	
Process payment of subrecipient invoices			P
Gather updated information and documentation on the subrecipient's organization, financial stability, and financial processes and controls according to "risk-			P

based” approach			
When approved, run report of subrecipients and total amounts to be paid to identify which require A-133 reviews			P
Ensure that A-133 reports are received from subrecipients			P

KEY
P = PRIMARY RESPONSIBILITY
S = SECONDARY RESPONSIBILITY

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## Definitions

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Term	Definition
<b>OMB Circular A-133</b>	Circular issued by the Office of Management and Budget (OMB) setting forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.
<b>Federal Audit Clearinghouse database</b>	A database compiled on behalf of the Office of Management and Budget (OMB) whose primary purpose is to disseminate audit information to Federal agencies and to the public, to support OMB oversight and assessment of Federal award audit requirements, to assist Federal cognizant and oversight agencies in obtaining OMB Circular A-133 data and reporting packages, and to help auditors and auditees minimize the reporting burden of complying with Circular A-133 audit requirements.
<b>Prime Institution</b>	Applicant institution which has been awarded the primary grant, contract, or cooperative agreement.
<b>Subrecipient</b>	<p>A subrecipient is a third-party organization performing a portion of the scope of work on UMDNJ’s sponsored project or program. The terms of the subrecipient relationship are generally documented in a subaward / subgrant / subcontract agreement.</p> <p>OMB Circular A-133 defines a subrecipient as follows for purposes of Federal awards, grants, and contracts: “A subrecipient means a non-federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Note that a “subrecipient” does not include a consultant or independent contractor whose services are retained for purposes of carrying out the prime award.”</p>
<b>Subawards / Subgrants / Subcontracts</b>	As it pertains to this policy, these terms mean an award of financial support subsidiary to a prime award (e.g., a grant, cooperative agreement, and other agreements) made by a prime award recipient to an eligible subrecipient. It also includes awards made by a subrecipient to a lower tier subrecipient. It does not include procurement of goods and services through the funds provided in a prime award.