

**Arizona State University
Subrecipient Monitoring
Audit Report
September 21, 2017**

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Arizona State University
Subrecipient Monitoring Audit
September 22, 2017

Summary: The Subrecipient Monitoring audit was included in the Arizona State University (ASU) FY 2017 audit plan approved by the Arizona Board of Regents (ABOR) Audit Committee and ASU senior leadership. The audit focused on compliance with Uniform Guidance related to subrecipient monitoring and management. This audit is in support of ASU's mission to establish ASU as a global center for interdisciplinary research, discovery and development by 2020.

Background: ASU Knowledge Enterprise Development (KED) advances research, innovation, strategic partnerships, entrepreneurship and economic development at ASU, in Arizona and globally. For Fiscal Year 2016, research grants and contracts awarded totaled \$310 Million, which were primarily funded by federal agencies. Funded projects, also referred to as sponsored projects, are projects that are externally funded for which there is a: 1) specific statement of work that is expected within a defined period of time, 2) a budget; and 3) a designated principal investigator or program director. Projects funded by federal agencies are subject to the defined Uniform Guidance, a government-wide framework for grant management. The Uniform Guidance is codified in the Code of Federal Regulations (CFR) §200.

Management of sponsored projects often includes the use of a subrecipient and issuance of a subaward. A subrecipient is a third-party organization that receives funding support from ASU (in the form of a subaward) to collaborate in carrying out the performance of an externally sponsored project. The subrecipient plays an integral role in the project and is responsible for programmatic decision-making. When subrecipients are utilized, ASU retains the responsibility to ensure that all funds are used as defined by the external funding source. As such, effective monitoring of subrecipients is critical in ensuring overall compliance to the required Uniform Guidance.

The Office of Research and Sponsored Project Administration (ORSPA) provides information, documents and tools to principal investigators and research advancement teams across the university. Defined processes and work instructions have been developed and implemented to guide research administration tasks including financial management activities and to ensure compliance with the Uniform Guidance. The defined principal investigator or research team is responsible for selecting the subrecipient as well as management, execution and monitoring of the subaward; ORSPA provides support in the areas of initial and ongoing risk assessments, creating and executing the subaward, subaward setup, invoicing, and project closeout activities.

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Audit Objective: The objective of the engagement was to assess the subrecipient monitoring controls in place to meet Uniform Guidance requirements. Specific objectives included:

- Assessing subrecipient monitoring activities to ensure compliance with federal statutes, regulations and agreement provisions
- Assessing operational risk assessments of the subaward
- Assessing financial risk assessments of the subrecipient
- Reviewing financial controls to ensure funds are utilized for authorized purposes
- Assessing subaward close out activities, and
- Identifying opportunities for improvement.

Scope: The scope of the audit focused on the Uniform Guidance related to subrecipient monitoring and management; specifically, CFR §200.331 - Requirements for pass-through entities. The internal processes and procedures implemented to support overall subrecipient monitoring were assessed as part of this review. The time-period assessed in this review was January 2016 through June 2017.

ORSPA was in the process of implementing the Enterprise Research Administration (ERA) system at the time of this audit. ERA is replacing the use of both COEUS (research administration application) and SharePoint as it relates to subrecipient monitoring activities. As a result, system testing was not considered in scope for this audit.

Methodology: Our audit consisted of tests of procedures necessary to provide a reasonable basis for expressing our opinion. Specifically, audit work consisted of interviews with staff, observation of work processes, and substantive tests including the following areas:

- Confirming operational and financial risk assessments were complete prior to contracting for a sample of 30 subawards
- Confirming the annual financial risk assessments were completed timely for a sample of 25 active subrecipients
- Ensuring operational and financial risk assessments were adequately supported through review and validation of underlying subrecipient forms, certifications and financial reports used in the risk assessment for a sample of 30 operational risk assessments and 55 financial risk assessments
- Validating required data elements were included in the subaward agreements for a sample of 30 subawards

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- Validating accurate set up in COEUS and Advantage for a sample of 30 subawards.
- Validating required information was included in subrecipient invoices and that required approvals were obtained prior to payments being released to subrecipients for a sample of 48 invoices.
- Ensuring subaward close out processes were performed in a timely manner including requesting required closeout documents, final payment validation and tracking of any subsequent inventions/equipment for a sample of 10 projects
- Validating monitoring activities were performed to ensure the subaward was used for authorized purposes and in compliance with Federal statutes and regulations through interviews with principal investigators and review of relevant supporting work product for a sample of 30 subawards.

Conclusion: Overall, ASU Knowledge Enterprise Development has generally implemented adequate controls over the subrecipient monitoring process to ensure compliance with Uniform Guidance. Standard templates have been implemented to ensure required contractual terms are consistently captured. Robust risk assessment processes have been implemented that address both operational and financial risks at a project and subrecipient level. Appropriate financial controls are in place to ensure subrecipient invoices are adequately supported, reviewed and approved prior to payments being made. In addition, effective progress monitoring is occurring by the principal investigator and research teams to ensure subawards are used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward and that subaward performance goals are met.

Three areas were identified that require improvement related to subrecipient monitoring activities. Specifically, invoices submitted by the subrecipient do not consistently incorporate required elements, including the cumulative amount billed for the subaward and the certification statement related to the validity and accuracy of the invoice. In addition, project close out activities are not performed timely, resulting in close out documents being received well after the project has ended. It also was noted that while the financial risk assessments are performed, the secondary review and approval of those rated “not low risk” is not completed in a timely manner.

Additionally, CFR §200.521 requires an assessment of subrecipient single audits to be performed within six months of the report being accepted into the Federal Audit Clearinghouse. At the start of this audit, ORSPA management proactively communicated that they were not utilizing the acceptance date to determine when their assessments should be performed, resulting in annual assessments not being performed by the required due date. OSPRA is currently working on revising processes

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to utilize periodic reporting from the Federal Audit Clearinghouse to drive these activities; however, processes had not been fully implemented at the time of the audit and could not be assessed.

The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Finding No.	Page No.
Reliability and Integrity of Financial and Operational Information	Not Applicable	N/A	N/A
<ul style="list-style-type: none"> Subawards are accurately set up in COEUS and Advantage to support accurate tracking of funds. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Subrecipient invoices are reviewed for appropriateness and required approval prior to payment being made. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Subrecipient invoices include required detail to support tracking of cumulative funds expended and certification related to the accuracy and appropriateness of invoiced amounts. 	Opportunity for Improvement	1	7
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> Subaward close out activities are performed timely to ensure all required documentation is received within 60 days of the project ending. 	Opportunity for Improvement	2	8
Safeguarding of Assets	Not Applicable	N/A	N/A
Compliance with Laws and Regulations			
<ul style="list-style-type: none"> Required data elements are included in federal sub-awards as required by CFR 200.331 (a). 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Each subaward is evaluated from an operational risk perspective to determine additional monitoring activities required prior to contracting with a subrecipient. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Subrecipients are evaluated from a financial risk perspective to determine additional monitoring activities required prior to contracting with the subrecipient and annually thereafter. 	Opportunity for Improvement	3	9
<ul style="list-style-type: none"> Monitoring activities are in place to ensure the subaward is used for authorized purposes, in compliance with Federal statues, regulations, and the terms and conditions of the subaward and that subaward performance goals are met. 	Reasonable to Strong Controls in Place	N/A	N/A

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We appreciate the assistance of Knowledge Enterprise Development staff during the audit.



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Audit Results, Recommendations, and Responses

1. Subrecipient invoices do not contain required provisions as defined by monitoring procedures and in most cases contractual terms.

Condition: Subrecipient invoices that do not contain cumulative costs and the required certification statement are paid.

Invoices are required to include the cumulative amount billed on each invoice submitted for reimbursement. This is required to facilitate accurate tracking of expenditures over the life of the subaward and to prevent project overruns. Invoices are input into COEUS as received, which calculates total funds expended to date. This is validated as part of the invoice processing steps to ensure that ASU and the subrecipient agree on funds spent and funds remaining.

Criteria: Subaward agreements generally include contractual terms addressing invoice requirements. Two items included are:

- 1) Based on internal monitoring processes, invoices should include both current and cumulative costs; and
- 2) CFR §200.415 requires that invoices must include the following certification statement, which is signed as part of the invoice: "I certify to the best of my knowledge and belief that the report is true, complete and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil, or administrative penalties for fraud, false statements, false claims or otherwise. ((U.S. Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812)."

Cause: Contractual terms are not enforced with subrecipients resulting in invoices being paid without complying with the above terms.

Effect: Testing indicated the following exception rates:

- 8 of 48 (16%) invoices reviewed did not contain the cumulative amounts billed included on each invoice.
- 6 of 48 (13%) invoices reviewed did not contain the required certification wording.

While the exception items were valid expenditures, lack of compliance to the defined controls increases the risk of inappropriate items being reimbursed in addition to negatively affecting the overall effectiveness of the subrecipient monitoring program.

Recommendation: Existing processes should be enhanced to prevent invoices from being paid that do not meet the contractual terms contained in the subaward.

Management Response: Management concurs with this finding. An ORSPA process team will review the existing invoice process to determine what changes need to be made to effectively ensure cumulative amounts and certification wording are included on invoices when appropriate.

2. The subaward close out process is not executed in a timely or complete manner.

Condition: The defined process to ensure that close out documents are received by the subrecipient within 60 days of the project end date is not followed.

Criteria: A defined process exists to identify projects that will be ending within 30 days. Close out packages are sent to these subrecipients to collect the necessary information to close out the project via email. The intent is to have all documents received within 60 following the project end date.

Cause: The existing process is manual and time intensive and is currently required for all projects; however, only a subset of the projects actually need the specified documents based on the prime award requirements. As a result, the process is not made a priority within the team and is completed as time permits.

Effect: Subaward close out activities are not performed timely and do not comply with the defined process. Testing indicated the following exceptions:

- 9 of 10 (90%) projects tested did not have the close out documents sent within 30 days of the project end date. In most cases, requests were sent months after the project end date.
- 2 of 10 (20%) projects tested did not have the required Grant Contract Officer approval on the final invoice.
- In one instance, the property report was not processed for inclusion in ASU reporting to the prime sponsor.

Recommendation: The existing process should be revised to require “full” close out activities only where necessary to support the underlying prime award. In these instances, enhanced tracking processes should be implemented to ensure activities are performed timely and completely.

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For those projects where the full package of documents is not necessary, processes should be scaled back to only include what is necessary to effectively manage the subaward through completion.

Management Response: Management concurs with this finding. An ORSPA process team is reviewing the current process to ensure unnecessary documentation is not being required in the close-out process. This will allow resources to focus on processing the required items in a timely manner.

3. Secondary review of financial risk assessments is not performed timely.

Condition: Financial risk assessments are performed on all new subrecipients and annually thereafter. These are documented through the SharePoint site utilized for Research Administration to facilitate subrecipient monitoring activities. The task in SharePoint related to the risk assessment includes who completed the assessment, results and related supporting documentation. If the risk assessment results in a “low risk” rating, no further review or approval is required and the assessment is considered complete. However, if the risk assessment is deemed “not low risk”, a secondary review and approval is required before the risk assessment is considered complete. Once approved as “not low risk”, the principal investigator is notified of the risk rating and the additional monitoring procedures that are being required/recommended as a result. In some cases, this will result in more stringent contractual provisions related to invoices and/or progress reports.

Criteria: The existing subrecipient monitoring process requires that any financial risk assessment deemed “not low risk” be reviewed and approved by the Assistant Director of Research Administration. Once approved, the risk rating is communicated to the principal investigator to be considered in the selection of the subrecipient as well as the ongoing monitoring activities.

Cause: Controls are ineffective to ensure required approvals are obtained. For new subrecipients, contracts are executed without this step being completed. For annual risk assessments, processes are not in place to ensure the secondary review is complete when required.

Effect: The financial risk assessment provides insight to the principal investigator on potential financial risks associated with the specific subrecipient in addition to the recommendations that are made to mitigate the increased risk. If the process is not completed timely or at all, there may not be adequate visibility into the increased monitoring actions required/recommended resulting in inappropriate monitoring efforts.

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Testing indicated that in 4 of 20 (20%) risk assessments reviewed that required a secondary review, the secondary review was not completed timely or at all.

Recommendation: Existing processes should be enhanced to prohibit contracts from being executed that have not completed the required financial risk assessment. In addition, enhanced tracking should be implemented in the annual risk assessment process to ensure secondary approval is completed timely.

Management Response: Resolved. The issues identified were in our previous software. ORSPA has since moved this function into ERA which ensures timely approvals.

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