



Accounting and Administrative Manual

Section 100: Accounting and Finance

Subrecipient Monitoring
No.: D-07

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General:

The university has responsibilities for the use and reporting of federal funding when it enters into contractual arrangements with government or non-profit subrecipients to carry out a program.

The U.S. Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and other Non-Profit Organizations" was used in the preparation of this procedure and is referenced in the text.

This procedure documents the university's system for monitoring subrecipients and includes the following items:

- A. Subrecipient characteristics and identification
- B. Notification of requirements to subrecipients
- C. Monitoring during the award
- D. Monitoring subrecipients (audits)

A. Subrecipient characteristics and identification:

The definition given in OMB Circular A-133, Subpart A, section .105 is

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.

A "non-Federal entity" means a State, local government, or non-profit organization.

The wording "to carry out a program" is interpreted by the University of Alaska to mean the entity receiving the funding is conducting a substantive portion of the program for which the original agreement is awarded. Distinguishing characteristics of a subrecipient include responsibility to meet compliance requirements, performance measured against meeting the objectives of the program, responsibility for programmatic decision making, and determining eligibility for assistance (*OMB Circular A-133, Subpart B, section .210*).

A vendor means a dealer, distributor, merchant, or other seller providing goods or services for the conduct of the federal program. Distinguishing characteristics of a vendor include such items as providing goods and services within normal business

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operations, providing similar goods and services to many different purchasers, operating in a competitive environment, and not having responsibility for adherence to program compliance requirements (*OMB Circular A-133, Subpart B, section .210*). Audit requirements for vendors are covered by the terms and conditions of the contract and are not addressed in this document.

Attachment A provides a decision tree useful for identifying subrecipients. The questions are answered by individuals having program and/or funding source knowledge of the grant, cooperative agreement, or contract including principal investigators, fiscal officers, proposal officers or grants and contracts administrators. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the contract. The Controller may be contacted if further guidance is needed from the university's federal cognizant agent.

The information to support the subrecipient determination is forwarded to the procurement or contracting officer. If the procurement or contracting officer does not agree with the subrecipient determination, further discussion with the grants and contracts office must take place. The Controller, in conjunction with the Director of Internal Audit, will provide guidance if an impasse is reached. The information to support the subrecipient status should be filed with the federal grant documents.

Normally, if a subrecipient relationship exists, cost reimbursable contracts may be issued. Contracts with subrecipients must include the information listed in Section B below.

B. Notification of requirements to subrecipients:

The procurement officers, working in conjunction with the regional campus grants and contracts offices, must ensure that contracts with subrecipients cite:

- the federal source of funds, including the CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.
- all applicable flow down clauses.
- the cost principle references: OMB Circular A-21 (relocated to Title 2 in the Code of Federal Regulations (2 CFR), Part 220 (2 CFR, Part 220)), OMB Circular A-122 (relocated to 2 CFR, Part 230) and OMB Circular A-87 (relocated to 2 CFR, Part 225).
- the laws and regulations applicable to the program, including the federal and university fiscal and administrative requirements.



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- a clause stating subrecipients must meet the audit requirements of A-133 (*OMB Circular A-133, Subpart D, section .400(d)(4)*). (Entities expending more than \$500,000 in federal awards in their fiscal year are subject to A-133 audit requirements). The clause should be included in all contracts, even those under \$500,000, to ensure the subrecipient has been correctly advised.
 - a clause stating the subrecipient is required to permit independent auditors to have access to the records and financial statements, as necessary, for the university to be in compliance with Circular A-133 (*OMB Circular A-133, Subpart D, section .400(d)(7)*).

An original of the subrecipient cost reimbursement contract/subcontract and all subsequent modifications are to be filed in the procurement or contracting office. Copies are provided to the Grants and Contracts Office or the Business Office for their project files.

C. Monitoring during the award:

The objective of monitoring during the award is to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. (*OMB Circular A-133, Subpart D, section .400(d)(3)*). Monitoring can be done through site visits, reporting, regular contact and other means.

To ensure resources and personnel are best used, subrecipients should be evaluated according to their risk-level to determine the level of monitoring deemed necessary. Judgement is required. There is increased risk to the university with larger subawards or when the subaward is significant relative to the total federal award.

Negative risk factors include subrecipients with:

- constant staffing and/or organizational changes
- low-quality programmatic performance
- inadequate, inaccurate or late progress or financial reports
- lack of previous federal grant experience
- poor results from prior audits

Principal Investigators (PI's) are primarily responsible for doing the during-the-award monitoring. Grants and contracts offices are responsible for informing PI's of these



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requirements and ensuring the subrecipient's risk has been evaluated and appropriate monitoring was performed. Through reporting and regular contact with subrecipients or site visits, PI's are able to verify that program requirements are being met.

D. Monitoring Subrecipients (audits):

The subrecipient contracts are encumbered and accounted for using either account code 3021 or 3022. Two account codes are required to comply with OMB Circular A-21 (relocated to 2 CFR, Part 220) requirement of not recovering indirect costs on the portion of contracts over \$25,000. Using two account codes enables the university to account for all expenditures made to the subrecipients in a fiscal year and to determine which subrecipients require monitoring.

At year end, the Statewide Fund Accounting office identifies subrecipients by reviewing activity in account codes 3021 and 3022. If necessary, the campuses may provide to the Statewide Fund Accounting office copies of source documents including the subrecipient agreement, checks, purchase orders, and vendor invoices to substantiate subrecipient status. The Statewide Fund Accounting office sends letters to subrecipients to verify completion of an A-133 audit and status of any current year or prior year findings. Source documents may be sent to the subrecipients to assist them with the identification process. A sample letter to the subrecipients is in Attachment B, page 7.

The A-133 audit reports are required to be completed within nine months of an entity's year end, unless an approved extension is granted by an entity's cognizant or oversight agency. Alternative procedures for verifying the completion of the audit include obtaining a copy from the entity's website or from the Federal Audit Clearinghouse website.

Remedial action for non-compliance of the audit requirement:

The Statewide Fund Accounting office logs in the audit reports as they are received and determines which entities have failed to report. Second requests for audit information are then sent to the subrecipients.

When no audit report is received and alternative procedures fail, the Statewide Fund Accounting office consults with the regional campus grants and contracts office to consider the various facts and circumstances and to attempt a resolution with the subrecipient. The grants and contracts office reports the non-compliance to the responsible procurement or contracting officer for action. The university procurement or



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contracting officer, with advice from the regional campus grants and contracts office, will consider not issuing further contracts and/or freezing existing contracts. The procurement or contracting officer may request the return of the federal funding and institute collection activity if considered necessary by the university.

Review of audit report findings:

The audit reports are received and reviewed by the Statewide Fund Accounting office to determine if there are findings that relate to the University of Alaska's awards. If there are findings, the Office of Internal Audit, in conjunction with the regional campus grants and contracts office, will request the subrecipient give the university a plan of action to correct the situation cited in the audit report and that it give the university proof of the plan's implementation. Appropriate corrective action is required within six months of the issue date of the audit report (*OMB Circular A-133, Subpart D, section .400(d)(5)*).

The procurement or contracting officer will be notified in writing of any findings regarding the contract. Formal notices may be issued to the subrecipient. The university procurement or contracting officer, with advice from the regional campus grants and contracts office, will consider not issuing further contracts and/or freezing existing contracts.

Adjustment of university accounting records:

The Statewide Fund Accounting office, in conjunction with the Office of Internal Audit, will consider whether an adjustment should be made on the university's records and will make any necessary entries (*OMB Circular A-133, Subpart D, section .400(d)(6)*). The consideration and subsequent action will be in writing and will be retained by the Statewide Fund Accounting office. Copies will be sent to the regional campus grants and contracts offices.

Recordkeeping requirements:

The audit reports are required to be on file in accordance with the university's retention provisions. Generally, contract/order records and related audit documents are retained three years after the date of the final payment, including any settlement payments. Please note: A-133 requires the audit reports be on file for at least three years from the date of receipt (*OMB Circular A-133, Subpart C, section .320(g)*).



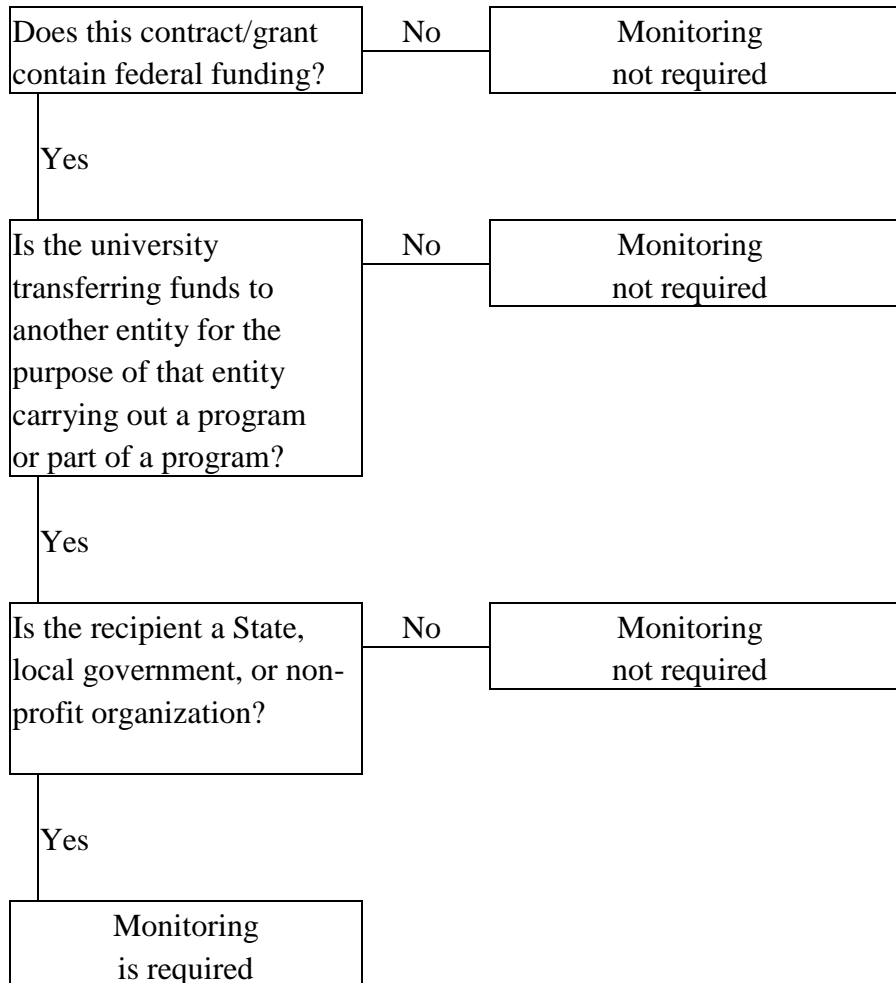
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Attachment A

Monitoring of Non-profit and Governmental Subrecipients
As required by OMB Circular A-133





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Attachment B

Date

Address

Re: Reporting requirements under OMB Circular A-133

In the process of completing the University of Alaska's A-133 Single Audit for fiscal year ended June 30, xxxx, we determined your organization was a subrecipient of federal funds "passed through" the University of Alaska.

In accordance with OMB Circular A-133, please fill in the appropriate information, provide any required report(s), sign, date and return form to the address below. Thank you.

Organization: _____

Contact Person: _____ Title: _____

Phone: _____ Fax : _____

Signature: _____ Date: _____

- 1. [] We have completed our A-133 audit for fiscal year _____.
[] No exceptions were noted.
[] Exceptions were noted. If your audit reports contain findings of noncompliance with federal laws and regulations that have an impact on subcontract agreements with the University of Alaska, please attach your audit response indicating the corrective action taken or planned to be taken as well as a timetable for implementation.
2. [] We are not subject to the audit requirements of A-133 because our organization is:
___ A for-profit organization
___ Other (explain):
3. [] We have not completed our A-133 audit for fiscal year _____. We expect our audit to be completed on _____. We will forward a copy of the audit and advise you of the results upon completion.

Please return to Financial Accounting Director, University of Alaska, P.O. Box 756540, Fairbanks, AK 99775-6540. Should you have any questions, please contact me at (907) XXX-XXXX or email at xxxxxxxx.

Sincerely,

Financial Accounting Director