

SUBRECIPIENT MONITORING

A Case Study—Lessons Learned

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Background

Increasingly federal financial assistance is awarded to recipients (primes) with the intention that the prime will subgrant some, if not most, of the funds to subrecipients.

- Primes may assign some responsibility for performance to subgrantees while retaining other performance elements for themselves.
- Other primes may delegate virtually all performance requirements to subgrantees while they take on a grants administrator role.
- Regardless of the which prime-subgrantee configuration is used, subrecipient monitoring is essential to ensuring that award performance, objectives are attained; costs claimed are reasonable, allowable, and allocable; and required administrative requirements are in place and operating properly.

Case Study—Lessons Learned

Our office recently completed a series of audits of a prime recipient and 9 of 20 subgrantees, in part to gauge the adequacy of the prime's subrecipient monitoring function.

Today we will share the results of our review and some of our insights regarding subrecipient monitoring.

Audit Target

- A non-discretionary NOAA award to a not-for-profit organization with 20 member entities.
- NOAA's grant to the prime envisioned that award performance would be accomplished by the prime's member entities under 20 individual subgrants.
- The prime's duty was subgrant administration

■ NOAA's grant included:

- Department of Commerce Financial Assistance Standard Terms and Conditions
- NOAA's Standard and Special Terms and Conditions
- Prime's proposal
- Applicable Uniform Administrative Requirements and Federal Cost Principles
- Single Audit Requirements

- NOAA Program Office Memorandum of Understanding (MOU) with the prime provided the basis for the prime's selecting projects and allocating grant funding.
- Prime's Memoranda of Agreement (MOAs) with subgrantees operated as subgrant agreements intended to guide the prime—subgrantee relationship.

Scope of Audit

- Interim audit covering the period from award date to September 30, 2003
- Operations of the prime recipient and individual audits of 9 of 20 subgrantees

Audit Objectives

Assess the:

- Adequacy of prime's subgrant funding process.
- Allowability of subgrant project costs.
- Adequacy of prime's subrecipient monitoring process and results.

Results/Observations

The prime's subrecipient monitoring policies, procedures, and practices were inadequate:

- MOU failed to address prime's subgrant management nor was it reviewed and approved by NOAA Grants Management Division
- MOAs were deficient
- Prime had no provisions for site visits; prime—subgrantee communications were generally limited to phone calls and emails

- Subgrantee audits disclosed serious compliance and financial deficiencies which were unknown to the prime
 - Questioned nearly 60 percent of costs incurred
 - Administrative deficiencies included inadequate financial management systems, noncompliant procurement standards, inadequate or nonexistent property management systems, and failure to obtain required prior approvals
 - Costs questioned involved inadequate or nonexistent time distribution records and related fringe and indirect costs, improperly procured acquisitions, unsupported and unallocable costs.

- Prime had no policy to request, receive, review, or follow-up on subgrantee A-133 single audits.

Subsequent Events

During our survey and subsequent audits of nine individual subgrantees we periodically advised the prime of our findings. The prime made some improvements to its system including assigning qualified technical staff, initiating regular site visits, and developing some limited, written monitoring guidance.

However, additional improvements are required.
The prime continues to:

- Lack adequate written internal control policies and procedures.
- Only partially convey award provisions to subgrantees.
- Fail to test subgrantee costs for compliance with applicable federal guidelines.

QUESTIONS?