

AUDIT AND FINANCE COMMITTEE

Tuesday, February 18, 2014

SUBJECT: REVIEW OF AUDITS: FAU 13/14-2, AUDIT OF SUBRECIPIENT CONTRACT AWARD AND MONITORING FOR FISCAL YEAR ENDED JUNE 30, 2013.

PROPOSED COMMITTEE ACTION

Information Only.

BACKGROUND INFORMATION

As a pass-through entity, FAU is required by the federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations* to monitor subrecipients of Federal awards. The primary objectives of this audit were to:

- Determine the adequacy and effectiveness of the university's subrecipient contract award and monitoring policies, procedures, and practices; and,
- Evaluate the extent to which the Division of Research was in compliance with established subrecipient contract award and monitoring requirements.

IMPLEMENTATION PLAN/DATE

N/A - Appropriate action was taken during the audit to address our single recommendation.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Audit Report FAU 13/14-2

Presented by: Mr. Morley Barnett, Inspector General

Phone: 561-297-3682

Report No. FAU 13/14-2
Report Issue Date: November 7, 2013

FLORIDA ATLANTIC
UNIVERSITY™

Office of Inspector General

Audit Report: *Research – Subrecipient Contract Award and Monitoring*
For the Fiscal Year Ended June 30, 2013

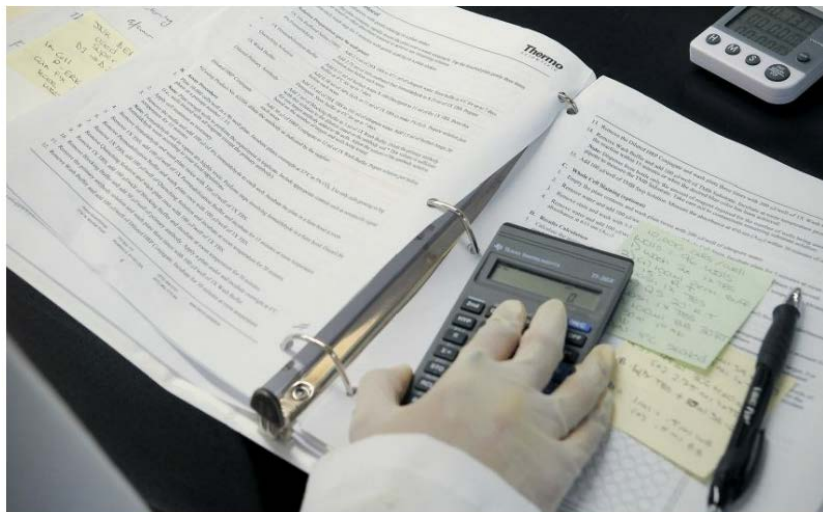
Use of Report

We are employed by Florida Atlantic University. This report is intended solely for the internal use of the State University System and is not intended to be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

**REPORT ON THE AUDIT OF
RESEARCH – SUBRECIPIENT CONTRACT AWARD AND MONITORING**

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MEMORANDUM

TO: Dennis Crudele
Interim President

FROM: Morley Barnett 
Inspector General

DATE: November 7, 2013

SUBJ: AUDIT OF RESEARCH – SUBRECIPIENT CONTRACT AWARD AND MONITORING

In accordance with the University's Internal Audit Plan for fiscal year 2013/14, we have conducted an audit of the Division of Research policies, procedures, and practices for the award and monitoring of subcontracts involving Federal funds expended to non-Federal entities for the 2012/13 fiscal year. The report contained herein presents our scope and objectives and provides comments and conclusions resulting from procedures performed.

We have one finding and recommendation for which management has already taken appropriate corrective action. To the extent that we were able to verify the successful implementation of the corrective measures during the course of our fieldwork, no subsequent follow-up action is deemed necessary by our office.

Please call me if you have any questions.

cc: Interim Provost
Senior Vice Presidents
Vice Presidents
Auditees
FAU BOT Audit and Finance Committee
Inspector General's Office, Florida Board of Governors
Florida Auditor General

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EXECUTIVE SUMMARY

In accordance with the University's Internal Audit Plan for fiscal year 2013/14, we have conducted an audit of the Division of Research policies, procedures, and practices for the award and monitoring of subcontracts involving Federal funds expended to non-Federal entities for the 2012/13 fiscal year. As a pass-through entity, FAU is required by the Federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* to monitor subrecipients of Federal awards. The primary objectives of this audit were to:

- Determine the adequacy and effectiveness of the university's subrecipient contract award and monitoring policies, procedures, and practices; and,
- Evaluate the extent to which the Division of Research was in compliance with established subrecipient contract award and monitoring requirements.

Audit procedures included, but were not limited to, the evaluation of internal controls as those controls relate to the accomplishment of the foregoing audit objectives, as well as the performance of documentation compliance testing of a judgmentally selected sample of subcontracts funded via Federal awards that were active during the 2012/13 fiscal year, in order to determine whether control procedures were operating effectively.

Based on the reviews and tests performed, we believe management has adequate and effective policies, procedures, and practices in place to facilitate compliance with the requirements of OMB Circular A-133 pertaining to the eligibility and monitoring of subrecipients of Federal awards. However, we identified certain incomplete documentation pertaining to Federally-funded subcontracts awarded by the university to two subrecipients for which management took corrective action during the course of our fieldwork. The details of this finding, as well as the corrective action recommended and taken, can be found in the Comments and Recommendations section of this report.

November 7, 2013

Dennis Crudele
Interim President
Florida Atlantic University
Boca Raton, Florida

Dear Interim President Crudele:

SCOPE AND OBJECTIVES

In accordance with the University's Internal Audit Plan for fiscal year 2013/14, we have conducted an audit of the Division of Research policies, procedures, and practices for the award and monitoring of subcontracts involving Federal funds expended to non-Federal entities for the 2012/13 fiscal year. As a pass-through entity, FAU is required by the federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* to monitor subrecipients of Federal awards. The primary objectives of this audit were to:

- Determine the adequacy and effectiveness of the university's subrecipient contract award and monitoring policies, procedures, and practices; and,
- Evaluate the extent to which the Division of Research was in compliance with established subrecipient contract award and monitoring requirements.

We obtained an understanding of the University's subrecipient contract award and monitoring functions by interviewing key Division of Research managers, and reviewing applicable rules, regulations, policies, and procedures. Our assessment of compliance with established requirements was based primarily on documentation compliance testing of a judgmentally selected sample of subcontracts funded via Federal awards that were active during the 2012/13 fiscal year. Populations, sample sizes, and selection methods were determined based on our evaluation of internal controls, our assessment of audit risk, the availability of pertinent University records, and other factors including auditor judgment.

We conducted our audit in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

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BACKGROUND

Florida Atlantic University – as a pass-through entity – is responsible for ensuring compliance with OMB Circular A-133 requirements related to expenditures of Federal funds awarded to the university that are subcontracted to non-Federal entities. Basic control objectives outlined in the aforementioned circular include strong management oversight, risk assessment of subcontractors, and open communications with subrecipients about their responsibilities. According to the OMB Circular A-133 Compliance Supplement, monitoring of subrecipients includes establishing a tracking system to assure timely submission of required reporting, such as financial reports, performance reports, audit reports, onsite monitoring of subrecipients, and timely resolution of audit findings; and, supervisory reviews performed to determine the adequacy of subrecipient monitoring.

The Sponsored Programs unit of the Division of Research is primarily responsible for evaluating the eligibility of potential subrecipients of Federal award funds, as well as preparing the written agreements and reviewing the purchase orders for approved subcontractors. The Research Accounting unit of the Division of Research is involved in subcontract monitoring to the extent that, among other things, it solicits, obtains, and reviews annual audits of the subcontractors, and assists the (FAU) Principal Investigators (PIs) responsible for the primary federal awards in performing their monitoring duties by issuing and maintaining the subcontractor verification forms used by the PIs to document their periodic reviews of the subcontractors.

According to information provided by Research Accounting, the university had a total of 27 active subcontracts involving Federal award funds during the 2012/13 fiscal year. Financial records indicated the aforementioned subcontracts had a total adjusted contract value of approximately \$11.3 million (as of 6/30/13), and the university had disbursed a total of approximately \$3.7 million to the subcontractors during fiscal year 2012/13.

COMMENTS AND RECOMMENDATIONS

Corrective Action Already Taken

Incomplete Documentation of Subcontractor Eligibility and Monitoring Efforts

In accordance with the Division of Research Subcontract and Monitoring Policy 10.5.16, all potential subcontractors are required to complete a *Subcontract Application Form* which includes, but is not limited to, contact information, proposal information, scope of work, detailed budget, disclosure of financial conflict of interest status, and financial profile form. The (FAU) PI is responsible for reviewing the *Subcontract Application Form* and completing a *Subcontract Verification Form – Proposal Review* to confirm that the prospective subcontractor's proposal is acceptable. Sponsored Programs is responsible for reviewing the aforementioned forms to determine eligibility, and documents the evaluation process by completing a *Subcontract Risk Assessment Form*. Upon approval of the subcontractor by Sponsored Programs, the (FAU) PI will request a signed *Letter of Intent* from the subcontractor to be submitted with the primary grant proposal. Sponsored Programs will prepare the subcontract agreement for execution upon receipt of notification of the primary grant award, and approval of the subcontractor.

The abovementioned Division of Research Policy obligates Research Accounting to monitor subcontracts after their execution by obtaining and reviewing the subrecipient's annual A-133 audit – as applicable – and documenting the review by completing the *Subcontract Monitoring Form*. Further, Research Accounting is required to assist the (FAU) PIs in performing their monitoring responsibilities by issuing and maintaining the *Subcontractor Verification Forms* used by the PIs to document their semi-annual reviews of the subcontractors.

Compliance testing of the records for a judgmentally selected sample of 10 subcontracts funded via Federal awards that were active during the 2012/13 fiscal year, indicated the following documentation deficiencies relating to subcontractor eligibility and monitoring:

- A completed *Subcontract Application Form*, *Subcontractor Verification Form – Proposal Review*, *Subcontract Risk Assessment Form*, and *Subcontract Verification Form – Semi-Annual*, as well as evidence of Research Accounting's review of the subrecipient's most recent annual OMB A-133 audit report and any findings – required to be documented on a *Subcontract Monitoring Form* – were not on file for the subcontractor University of Connecticut; and,
- A completed *Letter of Intent (LOI)* was not on file for the subcontractor Piedra Data Services. The signed LOI from the subcontractor is required to be submitted with the (FAU) PI's grant proposal, and is important in terms of documenting the subcontractor's intent, capability, and willingness to provide services in support of the proposed research project.

According to management, the aforementioned documents were not initially obtained from the subcontractors because of clerical oversights. After the issues were brought to their attention, Division of Research personnel took corrective action to obtain the requisite completed and signed-off documentation from the subcontractors. To the extent that we were able to verify that this corrective action had been taken prior to the completion of our fieldwork, no further action or response from management is deemed necessary.

Management Letter Comments

In addition to the issues presented above, we became aware of certain matters which, because of their character or relation to the scope of the audit, are not included herein. These audit comments have been communicated to management in a separate letter.

Prior Audit Recommendations

Our examination generally includes a follow-up on findings and recommendations of prior internal audits, where the subjects of such findings are applicable to the scope of the current audit.

Within the past three fiscal years, there have not been any internal audits pertaining to the Research Division's subrecipient contract award and/or monitoring functions. Accordingly, a

follow-up on prior audit recommendations is not applicable.

CONCLUSION

Based on the reviews and tests performed, it is our opinion that the Division of Research has adequate and effective policies, procedures, and practices in place to facilitate compliance with the requirements of OMB Circular A-133 pertaining to the eligibility and monitoring of subrecipients of Federal awards.

We wish to thank the staffs of Research Accounting and Sponsored Programs for their cooperation and assistance, which contributed to the successful completion of this audit.

A handwritten signature in cursive script that reads "Morley Barnett".

Morley Barnett, CPA, CFE
Inspector General

Audit Performed by: Mike Hewett, CIA, CGAP, CBA, CFSA
Ben Robbins, CPA