Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

THE UNIVERSITY OF MINNESOTA COMPLIED WITH FEDERAL REQUIREMENTS TO PERFORM RISK ASSESSMENTS AND MONITOR SUBRECIPIENTS

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A-05-18-00015

Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief
Date: November 2019
Report No. A-05-18-00015

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

The University of Minnesota Complied With Federal Requirements To Perform Risk Assessments and Monitor Subrecipients

Why OIG Did This Audit

HHS codified the Uniform Guidance at 45 CFR part 75, which governs awards and award increments made on or after December 26, 2014. The new rule requires prime Federal award recipients to perform pre-award subrecipient risk assessments and monitor the programmatic activities of subrecipients throughout the life of each subaward.

Our objectives were to determine whether the University of Minnesota (Minnesota) (1) performed subrecipient risk assessments and monitored subrecipients in compliance with Federal regulations and (2) complied with Federal regulations and National Institutes of Health (NIH) grant policies related to expenditures for subawards.

How OIG Did This Audit

Minnesota was the prime recipient of 250 NIH grants, totaling more than $515 million, that contained subawards to other entities. Minnesota was the subrecipient of 509 grants, totaling more than $160 million, which other NIH prime recipients awarded to Minnesota. The grants were for the period July 2015 through December 2017.

We reviewed 30 grants for which Minnesota was the prime recipient and 30 grants for which Minnesota was the subrecipient. We reviewed the awards, monitoring of the subawards, and costs claimed.

What OIG Found

Minnesota performed subrecipient risk assessments and monitored subrecipients in compliance with Federal regulations and NIH grant policies, and claimed allowable costs on subawards received from other NIH awardees; however, it claimed unallowable costs totaling $1,924 associated with costs submitted by a subrecipient.

Of the 30 subrecipients reviewed, the costs claimed for 1 subrecipient was not adequately documented. The initial support received from the subrecipient did not match the costs charged to the NIH grant. The subrecipient provided additional documentation for the claimed costs, resulting in a reduction of the costs charged by $1,924. We did not find any underlying systemic issues during our audit period. Minnesota is seeking reimbursement for the unallowable costs and has increased the level of monitoring of the subrecipient.

Minnesota claimed allowable facilities and administrative (F&A) costs at the appropriate F&A rate.

What OIG Recommends and Minnesota's Comments

We recommend that Minnesota refund $1,924 to NIH for unallowable costs claimed.

In written comments on our draft report, Minnesota concurred with our recommendation and provided details on its corrective action.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards[1] (commonly called Uniform Guidance) was intended to ease the administrative burden and cost of compliance for entities that receive Federal awards. The U.S. Department of Health and Human Services (HHS) codified the Uniform Guidance at 45 CFR part 75, which governs awards and award increments made on or after December 26, 2014. The new rule requires a prime Federal award recipient to perform pre-award subrecipient risk assessments and to monitor the programmatic activities of subrecipients throughout the life of each subaward. We are auditing colleges' and universities' controls over the subcontracting of National Institutes of Health (NIH) grant and contract work.

As a recipient of NIH grant funds, the University of Minnesota (Minnesota) is subject to the requirements set forth in 45 CFR part 75 for subrecipient monitoring and Federal cost principles.

OBJECTIVES

Our objectives were to determine whether Minnesota (1) performed subrecipient risk assessments and monitored subrecipients in compliance with Federal regulations and (2) complied with Federal regulations and NIH grant policies related to expenditures for subawards.

BACKGROUND

National Institutes of Health

Within HHS, NIH is the agency that is responsible for the Nation's medical and behavioral research. Its mission is to seek fundamental knowledge about the nature and behavior of living systems and to apply that knowledge to enhance health, lengthen life, and reduce illness and disability. In Federal fiscal year (FY) 2017, NIH awarded more than $18 billion in grants and contracts to domestic institutions of higher education.

University of Minnesota

Minnesota's mission is carried out through research and discovery, teaching and learning, and outreach and public service. Minnesota ranks eighth among U.S. public universities in research spending. In FY 2017, NIH awarded more than $245 million in grants and contracts to Minnesota.

[1] 2 CFR part 200.

Federal Regulations

The regulations at 45 CFR part 75 describe subrecipient monitoring and management requirements applicable to all non-Federal entities that provide a subaward to carry out part of a Federal program.[2] Minnesota, as a prime recipient and subrecipient, is required to comply with applicable Federal requirements and ensure that grant costs submitted for Federal reimbursement are reasonable, allocable, and otherwise allowable.

The regulations state that pass-through entities must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward to determine the appropriate subrecipient monitoring.[3]

This risk assessment may consider such factors as:

- the subrecipient's prior experience with the same or similar subawards;
- the results of previous audits, including whether or not the subrecipient receives an A-133 audit, and the extent to which the same or similar subawards have been audited as a major program;
- whether the subrecipient has new personnel or new or substantially changed systems; and
- the extent and results of HHS awarding agency monitoring (e.g., whether the subrecipient also receives Federal awards directly from a Federal awarding agency).

Pass-through entities also must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward, and that subaward performance goals are achieved.[4]

Federal regulations require that costs:[5]

- be necessary and reasonable for the performance of the Federal award and be allocable under these principles,

[2] 45 CFR §§ 75.351 through 75.353.

[3] 45 CFR § 75.352(b).

[4] 45 CFR § 75.352(d).

[5] 45 CFR § 75.403.

- conform to any limitations or exclusions set forth in these principles or in the Federal award,

- be consistent with policies and procedures that apply uniformly to both federally financed activities and other activities of the non-Federal entity,

- be determined in accordance with Generally Accepted Accounting Principles, and

- be adequately documented.

HOW WE CONDUCTED THIS AUDIT

Minnesota was the prime recipient of 250 NIH grants, totaling more than $515 million, that contained subawards to other entities. The grants were for the period July 2015 through December 2017 (audit period). During the same period, Minnesota was the subrecipient of 509 grants, totaling more than $160 million, which other NIH prime recipients awarded to Minnesota.

We judgmentally selected 30 new or incrementally funded grants with subawards that were subject to 45 CFR part 75 and reviewed costs totaling more than $943,000. We reviewed Minnesota's risk assessment and monitoring of the subrecipients and Minnesota's facilities and administrative (F&A) costs for each selected grant and determined whether the claimed F&A rate was allowable.

We also judgmentally selected 30 grants with subawards Minnesota received from another NIH prime recipient that were subject to 45 CFR part 75 and reviewed costs totaling more than $883,000. These costs were for salary and wages, equipment, supplies, travel, and the associated F&A costs and rates.

We limited our internal control review to obtaining an understanding of Minnesota's policies and procedures for performing risk assessments, monitoring subrecipients, and claiming costs as a subrecipient.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

Minnesota performed subrecipient risk assessments and monitored subrecipients in compliance with Federal regulations and NIH grant policies, and claimed allowable costs on subawards received from other NIH awardees; however, it claimed unallowable costs totaling $1,924 associated with costs submitted by a subrecipient.

MINNESOTA PERFORMED SUBRECIPIENT RISK ASSESSMENTS AND MONITORED SUBRECIPIENTS

Federal regulations require pass-through entities to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward to determine the appropriate type of subrecipient monitoring (45 CFR § 75.352(b)).

Minnesota performs a risk analysis to evaluate the likelihood that a subrecipient will fail to comply with the requirements of the subaward. Minnesota performs the risk analysis during the issuance process and monitors performance during the life of the subaward.

The criteria Minnesota uses in evaluating risk for a subrecipient subject to the Uniform Guidance may include:

- the subrecipient's audit experience;
- the prior oversight and monitoring the subrecipient has received;
- the size, nature, and complexity of the proposed research project; and
- the fiscal maturity of the subrecipient.

If the subrecipient is not subject to the Uniform Guidance single audit requirement, Minnesota may contact the subrecipient to obtain a copy of its audit or ask it to complete a financial questionnaire. Minnesota also verifies that financial conflict-of-interest documentation is on file.

During the subaward, Minnesota's Principal Investigator is responsible for the following oversight:

- monitoring scientific progress and the subrecipient's adherence to the terms of the agreement,
- verifying that cost sharing commitments are met,

- verifying that compliance approvals are current for the subrecipient's portion of the statement of work,

- documenting and storing required reports submitted by the subrecipient, and

- approving invoices.

Minnesota met Federal regulations and NIH policies for performing subrecipient risk assessments and the monitoring of subrecipients.

SUBAWARD COSTS CLAIMED WERE GENERALLY ALLOWABLE

Federal regulations require that the pass-through entity monitor the activities of subrecipients to ensure that subawards are used for authorized purposes and that there is adequate documentation of costs charged to a grant.

Minnesota's claimed costs on subawards received from other NIH awardees and reviewed as part of our judgmental sample were allowable. However, one Minnesota subrecipient claimed unallowable costs. Of the 30 subrecipients reviewed, the costs claimed for 1 subrecipient was not adequately documented. The initial support received from the subrecipient did not match the costs charged to the NIH grant. The subrecipient provided additional documentation for the claimed costs, resulting in a reduction of the costs charged by $1,924. We did not find any underlying systemic issues during our audit period. Minnesota is seeking reimbursement for the unallowable costs and has increased the level of monitoring of the subrecipient.

Minnesota claimed allowable F&A costs at the appropriate F&A rate.

RECOMMENDATION

We recommend that the University of Minnesota refund $1,924 to NIH for unallowable costs claimed.

MINNESOTA'S COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Minnesota concurred with our recommendation and provided details on its corrective action. Minnesota's written comments are included in their entirety as Appendix B. We did not include the additional documentation supporting the corrective action in this report.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Minnesota was the prime recipient of 250 grants from NIH. NIH made these awards either on or after December 26, 2014, or awarded them before that date but later provided incremental funding during the audit period (July 1, 2015, through December 31, 2017).

Minnesota issued subawards to various colleges, universities, and other entities for a portion of these grant funds, which Minnesota administered under 45 CFR part 75. For these 250 grants, Minnesota received more than $515 million. From the 250 grants, we judgmentally selected 30 grants for review.

Minnesota was the subrecipient of 509 grants that NIH had awarded to prime recipients either on or after December 26, 2014, or awarded them before that date and then provided incremental funding during the audit period. Minnesota administered the awards and incremental funding under 45 CFR part 75. For these 509 grants, Minnesota received more than $160 million. From the 509 grants, we judgmentally selected 30 grants for review.

We limited our internal control review to obtaining an understanding of Minnesota's policies and procedures for performing risk assessments, monitoring subrecipients, and claiming costs as a subrecipient.

We conducted our audit, which included fieldwork at Minnesota's offices in Minneapolis, Minnesota, from March 2018 through August 2019.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed applicable NIH grant policies and procedures;
- held discussions with Minnesota officials regarding grant policies and procedures for monitoring subrecipients and claiming allowable costs;
- reviewed a judgmental sample of 30 of 250 grants that NIH awarded and incremental funding that it provided to Minnesota on or after December 26, 2014, and that contained a subaward from Minnesota to another entity;[6]

[6] We designed the sample to target a variety of awards based on the subrecipients' location, type of recipient, and amount of awards and subawards.

- reviewed a judgmental sample of $943,236 in costs incurred by Minnesota's subrecipients;[7]

- reviewed Minnesota's risk assessment and monitoring of subrecipients;

- reviewed a judgmental sample of 30 of 509 grants that NIH awarded and incremental funding that it provided on or after December 26, 2014, for which Minnesota was a subrecipient;[8]

- reviewed a judgmental sample of $883,871 in costs Minnesota claimed as the subrecipient;[9]

- reviewed Minnesota's HHS-approved rate agreement for the F&A cost rates applicable to the audit period and F&A costs for each selected grant and verified that the claimed F&A rate was allowable; and

- discussed our results with Minnesota.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[7] We designed the sample to target a variety of high and low expenses and types of expenses.

[8] We designed the sample to target a variety of awards based on the prime recipients' location, type of prime recipients, and amount of awards and subawards.

[9] We designed the sample to target a variety of high and low expenses and types of expenses.

UNIVERSITY OF MINNESOTA

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October 3, 2019

Sheri L. Fulcher
Regional Inspector General for Audit Services
Department of Health and Human Services Office of Inspector General
Office of Audit Services, Region V
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Chicago, IL 60601

Dear Ms. Fulcher,

I am writing in regards to the finding noted in Report No. A-05-18-00015. The finding indicates that the University of Minnesota received reimbursement from NIH for $1,924 in costs from one of its subrecipients that were not able to be substantiated. The recommendation related to this finding is for the University to refund $1,924 to NIH. The University concurs that these costs were unsubstantiated and requested a refund from the subrecipient for $1,924.

Based upon our request to refund the unsubstantiated costs, the subrecipient conducted a review of all of their claimed costs for budget period ending June 30, 2015 and identified additional unsubstantiated costs. They revised their invoice for budget period ending June 30, 2015 and their actual refund was in the amount of $5,359.72. Documentation confirming this refund is attached for your reference.

The University believes that we may use our rebudgeting authority to reallocate the refunded amount for other allowable project costs rather than returning that amount to NIH. In the event that insufficient allowable project costs are identified, we will return any remaining balance to NIH.

Thank you for the opportunity to respond to the finding included in the audit. As the report demonstrates, the University is committed to maintaining a strong internal control environment that supports compliance with federal, state and University policies. Please let me know if you have any questions about this response.

Sincerely,

/Nicole Pilman/

Nicole Pilman, Director
Sponsored Financial Reporting

Attachments