

# Risk Assessment Factors



Subrecipient Risk



Environmental  
Factors



Program and  
Fiscal Risk  
Evaluation



Audit Results



History



Reporting



Inherent Risk

# Subrecipient Risk - Internal Control Questionnaire

## Control Environment

- Experience with grants, key personnel turnover
- Code of ethics, board oversight, frequency of board meetings

## Risk Assessment

- Policies and procedures
- Banking policies
- Credit card or letter of credit use

## Control Activities

- Reconciliations and financial monitoring
- Safeguarding assets and separation of duties
- Bonding and insurance

## Information and Communication

- Records retention
- Distribution of financial policies and reports

## Monitoring

- Accounting software
- Financial stability

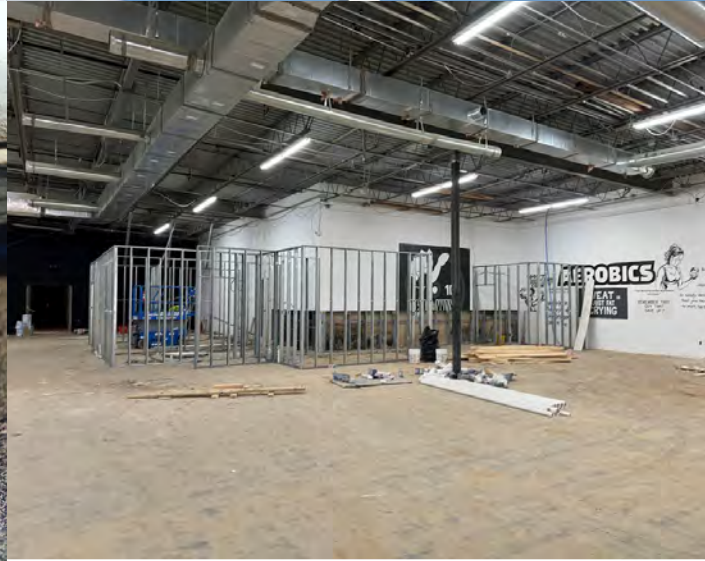
# Common Risk Areas for Non-Compliance

- Procurement
- Inadequate internal controls
- Equipment/inventory
- Time and effort for personnel costs
- Period of performance
- Support for Match
- Cash management
- Supplanting or “dual purpose” purchases
- Ethics issues
- Waste or abuse of funds





# On-site Visits are Valuable!





# Case Study #1 – Red Flags and Delayed Monitoring

[U.S. DHS Office of Inspector General report, Ohio Law Enforcement Terrorism Prevention Program 2004-2006](#)

Questioned costs totaled nearly \$5 million in five categories:

- Unsupported Allocations;
- Transactions Outside the Performance Period;
- Misclassification of Expenditures;
- Unsupported Transactions; and
- Unrelated to Grant Activity



A red flag is shown on the left side of the slide, flying against a background of a blue sky and water. The flag is a solid red color and is positioned vertically. The background is a blurred image of a body of water with a blue sky above it.

# Red Flags

- Multiple letters of credit and bank accounts
- Commingling of grants and other financial transactions
- Credit card reimbursement from statements
- Unable to readily provide records or lack of essential records
- Director's salary driven by funding levels



# OIG Findings – Payroll Expenditures

\$2.8 million in Questioned Costs

- Lack of Timesheets
- Timesheets obtained did not meet compliance requirements
- Allocated Health Insurance to program based on time records
- Health Insurance documents were unable to be provided



# OIG Findings – Non-payroll Expenditures

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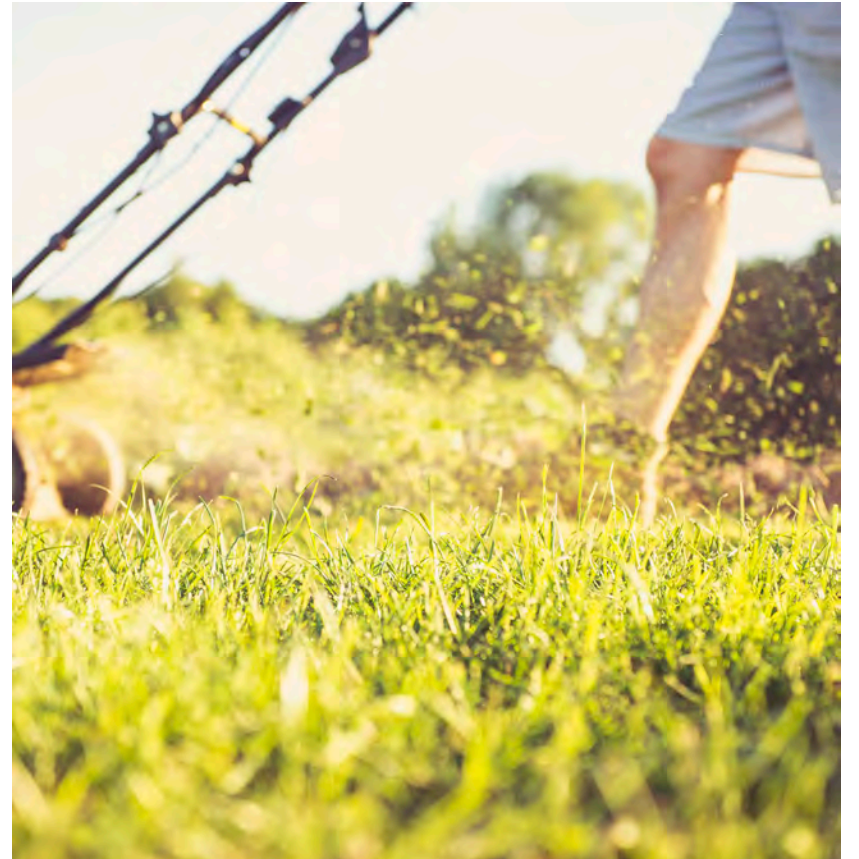
**\$1.9 in Questioned Costs**

**Unsupported Allocations-\$365K**

- Utilities and Building Maintenance
- Unable to Support the Allocation to the Grant

**Transaction Outside the Performance Period-\$789k**

- Internet Service/Maintenance Agreements  
(prepayment for three years)







# OIG Findings – Non-payroll Expenditures (continued)

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## Misclassification of Expenditures- \$345k

- Administrative Costs were classified in other categories
- Expenses may not have been questioned had they been properly classified

## Unsupported Transactions- \$269k

- No or insufficient supporting documentation
- No prior authorization for International Travel

# OIG Findings – Non-payroll Expenditures (continued)

Unrelated to Grant Activity- \$222k

Unable to determine how costs benefited the grant  
(i.e., promotional items, plaques, lapel pins, etc.)



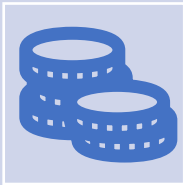
# How did this happen?



Lack of federal grants experience



Focus on the project, not documenting costs



Organization not accustomed to handling large federal awards



Systemic issues with the award process



## Case Study #2 – Lack of Partnership and Monitoring Coverage

US DHS, Office of the Inspector General report, *Ohio's Management of Homeland Security Grant Program*

- Procurement practices by 14 subrecipients led to ***\$3,559,066.76 questioned cost***
- Also noted Ohio did not conduct enough monitoring





# OIG Findings

- Using state's term schedule, GSAschedule, and joint procurement programs
- Failing to get quotes for small purchases
- Claiming sole source without justification or support
- Sole source via emergency with no clear support
- Failing to perform a cost analysis

# How did this happen?

Confusion on requirements

Subrecipients failed to keep documentation

Did not require procurement documentation

Monitoring was not timely





# Lessons Learned

- Set-up clear guidance and directives
- Conduct grant workshops, technical assistance, and trainings
- Set-up pre-approval processes
- Conduct timely on-site monitoring visits
- Set-up a clear risk-based monitoring plan
- Develop a thorough Administration Plan
- Increase the amount of documentation received before payment



When bad things happen?

# Key Elements of a Corrective Action Plan



Root cause



Clear steps to resolve  
issues



Timelines and  
accountability



Follow-up procedures  
and documentation

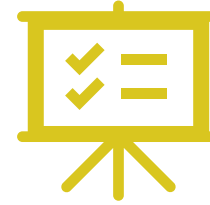


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## Specific Conditions



Reimbursement rather than  
advance



Evidence of performance to  
proceed to the next phase



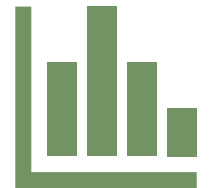
More detailed financial  
reports



Additional project  
monitoring



Require technical or  
management assistance



Prior approvals