Grants Management: The Focus on Internal Controls & Compliance

January 23 | 2–3:50 PM ET | 2 CPEs | FOS: MGMT

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Sample CPE Tracking Letter

OMB Circular A-123 History

- 1981 – OMB First Issued Circular No. A-123, Internal Control Systems

- 1982 – OMB Issued Internal Control Guidelines and the Federal Managers Financial Integrity Act was enacted

- 1983 – OMB Issued an Updated Circular No. A-123 Internal Control Systems

- 1986–OMB Updated A-123 to Require Management Control Plans to guide efforts

- 1995–OMB updated A-123, Management Accountability and Control to reflect GPRA, CFO Act, IG Act

- 2004 – OMB updated A-123, Management's Responsibility for Internal Control and added Appendix A, Internal Control Over Financial Reporting

SAMPLE SLIDE

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Speakers

- **Douglas Godesky**, Senior Grants Officer and Policy Advisor, Corporation for National and Community Service
- **Lucy Mungle, MPA, CPA**, Policy Analyst, Office of Justice Program/OAAM
- **D. Clark Partridge, CGFM, CPA,** State Comptroller, AZ Dept. of Administrative GAO

Moderator
- **Bert Nuehring, CPA**, Partner, Crowe

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Learning objectives:

- The importance of internal controls over financial and compliance aspects of grants

- The expectations of internal controls and grant compliance of recipients and subrecipients

- How the GAO Green Book and OMB Supplement can be used to develop sound internal control practices

- The key elements of managing the risk of fraud

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Pass-through Entity and Subrecipient

- Pass-through Entity – a non-federal entity that provides a subaward to a subrecipient to carry out part of a Federal program (2 CFR 200.74).

- Subrecipient – a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program (2 CFR 200.93).

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Policies and Procedures

- A pass-through entity must have established policies and procedures on how subawards will be made and subrecipients managed.

- Policies and procedures must be in writing and clearly describe the pass-through entity's process for pre-award, post-award and closeout.

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Pass-through Entity's Responsibilities

- Ensure subrecipients use grant funds in accordance with all federal and program guidelines.

- Oversee the day-to-day operations of subrecipients to ensure they achieve performance objectives on schedule and within budget.

- Ensure subrecipients' timely submission of all documents necessary to meet all reporting requirements of the awarding agency (FFR, Progress Reports, etc.).

- Take the appropriate actions to get the subrecipient back on track, if problems arise.

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Pass-through Entity's Responsibilities

Pre-award:
- Ensure no conflicts of interest exists with known subawards for funding decision makers
- Establish process to ensure duplication does not occur among subawards
- Check for suspension or debarment

Post-award:
- Maintain adequate documentation of subaward or procurement contract status determination
- Conduct risk assessment and monitor subaward recipients

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Pre-Award Process

A pass-through entity must:

- Decide upon the appropriate type of vehicle for the services needed (i.e., subaward, contract, etc.).

- Have a method for announcing the specific funding opportunities, eligibility requirements and the allotted timeframe to apply.

- Have a process for reviewing each subrecipient's eligibility for federal funding.
    - o Include the criteria to be used to evaluate each application.

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Pre-Award Process Risk Assessment

A pass-through entity should:

- Perform a risk-assessment of applicants prior to awarding funds - Not a federal requirement, but highly recommended.
- Evaluate the risk posed by applicants before they receive an award. Consider such elements as:
    - o Applicant's eligibility or the quality of its application;
    - o Financial stability;
    - o Quality of management system;
    - o History of performance; and
    - o Audit findings.

Note: The evaluation elements above must be described in the announcement of funding opportunities (solicitation).

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Pre-Award Process Risk Assessment *(cont.)*

- The results of the risk assessment can assist the pass-through entity in determining whether additional terms and conditions should be imposed on the award.

- The subrecipient agreement must clearly identify the federal award information, compliance requirements, applicable terms and conditions, and any supplemental requirements imposed by the pass-through entity.

- The pass-through entity must ensure that subrecipients are not suspended or debarred by the federal government prior to making the award.

- The subrecipient agreement must include specific data elements such as Federal Award Identification, etc.
  - o A complete list of those data elements can be found in *Title 2 CFR 200.331(a)*.

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Post-Award Process Risk Assessment

- The pass through entity should perform a risk assessment of each subrecipient for noncompliance with federal requirements and the terms and conditions of the subaward.
  - o To determine the appropriate level of monitoring needed.

- The attributes used by the pass-through entity to evaluate the overall risk of their subrecipients should be customized to suit the specific program.

- There are a number of different attributes to consider when assessing risk. The final score should clearly identify the risk level as either high, medium, or low.

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Post-Award Process Risk Assessment *(cont.)*

- Pass-through entity should develop criteria to determine risk levels and the reason for assigning each subrecipient into risk categories.

- The overall level of risk identified should dictate the frequency and depth of the monitoring practices to include ways to mitigate risk.

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Post-Award Process Risk Assessment *(cont.)*

- Risk Criteria Examples
  - o Award Amount
  - o Past Experience
  - o Timeliness and quality of progress, performance and financial reports
  - o New subrecipient
  - o Date of last monitoring
  - o Excess cash/draw patterns
  - o Single audit opinion

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Post-Award Process Risk Assessment *(cont.)*

- Scoring
  - Low, Medium or High Risk
  - How important is the criteria compared to other criteria in use?
- Calculate total scores
- Arrange in descending order
- Determine which ones rate high, medium or low monitoring priority

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Post-Award Process Risk Assessment *(cont.)*

- Example for Award Amount Criteria
  - Awards range from $10,000 to $200,000 (*Scale 0 to 2*)
    - $10,000 - $100,000 = 0
    - $100,001 - $150,000 = 1
    - $150,001 - $200,000 = 2
  - How important? (*Scale 1 to 3*)
    - 3

- Example for Award Amount Criteria
  - Award amount = $175,000
  - 2 (risk) X 3 (importance) = 6

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- **Requirements for Pass-through Entities**

- **Post-Award Process Subrecipient Monitoring**

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Post-Award Process Subrecipient Monitoring

- The pass-through entity's monitoring plan should include:
  - ○ Subrecipients to be monitored
    - ▪ A higher risk subrecipient should be monitored more extensively than a lower risk sub-recipient
  - ○ Type of monitoring
    - ▪ On-site or in-house review

- Effective implementation of the monitoring plan may also result in the identification of potential areas for training and technical assistance

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Post-Award Process Subrecipient Monitoring *(cont.)*

- Pass-through entities should develop monitoring objectives to ensure subrecipients:
  - oCarry out program activities as stipulated in the agreement;
  - oHave adequate internal controls to protect federal funds;
  - oClaim reimbursement for costs that are allowable, reasonable, allocable, and necessary under program guidelines;
  - oIdentify any conflicts of interest that exist; and
  - oMaintain required supporting documentation/records

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Post-Award Process Subrecipient Monitoring *(cont.)*

- In preparation for an on-site visit, the pass-through entity should review all documentation, such as:
  - o Subrecipient's application for funding;
  - o Written agreement with the subrecipient;
  - o Financial and progress reports;
  - o Drawdown history (payments made to the subrecipient); and
  - o Copies of recent audit reports

- The result of this review may inform the pass-through entity about the subrecipient's operations and identify potential problem areas to examine during the on-site visit

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Post-Award Process Subrecipient Monitoring
(cont.)

There are seven steps to a monitoring visit:
- Notification
- Entrance conference
- Supporting documentation, data gathering and analysis
- Exit conference
- Follow-up
- Corrective action plan (if applicable)
- Closure of site visit

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Pass-through Entity's Responsibilities

When monitoring subrecipients, prime recipients should:
- Ensure financial systems meet guidance in 2 CFR 200.302:
  - Accurate, current and complete disclosure of financial results for each federal award
  - Records that identify the source and application of all federal funds by award that is supported by adequate documentation.
  - Adequate safeguarding of assets
  - Comparison of expenditures to approved budget amounts
  - Written procedures for determining allowability of costs and payment requests (2 CFR 200.305)

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- **Requirements for Pass-through Entities**

- **Post-Award Process Remedies for Subrecipient Noncompliance**

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Post Award Process
Remedies for Subrecipient Noncompliance

- If a subrecipient doesn't comply with federal statues, regulations or the terms and conditions of the subaward, the pass-through entity can impose additional conditions.

- If noncompliance cannot be remedied by imposing additional conditions one or more of the following actions can be taken:
  - o Temporarily withhold funds pending correction of the deficiency;
  - o Disallow all or part of the activity not in compliance;
  - o Wholly or partly suspend or terminate the subaward;
  - o Initiate suspension or debarment;
  - o Withhold future subawards; or
  - o Other legal remedies that may be available

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OJP Monitoring

When monitoring awards with subrecipients, OJP will:

- Review the award recipient's written procedures for its subrecipient award process (pre-award, post-award monitoring, and closeout)
- Review the award recipient's current subrecipient risk assessment and monitoring plan
- Verify that the awardee is conducting subrecipient monitoring
- Verify that the awardee maintains adequate subrecipient files
- Verify that all subrecipients are authorized
- Verify that all subrecipients have been reported in compliance with FFATA reporting requirements

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Audit and Monitoring – Common Findings

- Inadequate policies and procedures
  - o Internal controls (2 CFR 200.303)
  - o Procurement
  - o Subrecipients
- Inaccurate and/or late financial or performance reports
  - o Unallowable expenditures
  - o Unsupported
  - o Unauthorized
  - o Unreasonable

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Recurring OIG Findings

*Pass-through entities are **not**:*

- Establishing policies and procedures on how subawards will be made and subrecipients managed
- Ensuring subrecipient monitoring procedures are adequate and implemented effectively
- Adequately monitoring subrecipients to provide reasonable assurance that they comply with the terms and conditions of the award

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Recurring OIG Findings *(cont.)*

- *Pass-through entities are **not**:*
- Establishing procedures to ensure subrecipients comply with Single Audit Act requirements and take appropriate action on relevant findings in subrecipient audit reports
- Meeting FFATA reporting requirements

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Resources

- Uniform Guidance (2 CFR 200)
- DOJ Grants Financial Guide
- OJP Training and Technical Assistance

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Organizations involved in Coordinating State Administered Grant Activities

- State Agencies (including Universities)
- Local Governments (Cities, Counties, School Districts, etc.)
- Non-profit Organizations
- For-profit Organizations
- Individuals
- General Accounting Office
- Office of the Auditor General (and other auditors)
- Federal Cognizant Agency
- Federal Awarding Agencies

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State Responsibilities

- Similar to Federal Agencies
  - State Agencies administer some programs directly
  - Some grants are administered by other State agencies
  - Other grants are administered by subrecipients

- Coordinate with Federal Agencies

- Contractor and Subrecipient Monitoring

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Common Problems/Issues

- Staff Turnover
- Training
- Documentation (Procedures, Transactions, Outcomes)
- Subrecipient Monitoring
- Eligibility Criteria and Determinations
- Grant Program Compliance
- Communication & Coordination
- Using Proper CFDA#

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Recommendations

- Know your environment
- "When all else fails, read the instructions."
- "An ounce of prevention is worth a pound of cure."
- Training—Invest in Staff
- Reconcile and Review
- Consider Program Checklist
  - o Are we compliant with grant requirements?
  - o Are we achieving the program objectives/outcomes?
  - o Review relevant risks, including disaster recovery, information technology, cyber, Personal Identifiable Information, HIPPA, & fraud

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Recommendations (*cont.*)

- Identify opportunities for grant administration improvement
  - Consider risk levels
  - Focus on purpose and outcomes
  - Level of effort
  - Ability to change
- Coordinate issues with others—GAO, Federal awarding agency, auditors, etc.
- Perspective—Public Servants and Public Trust
- Commit to excellence (Individually and Collectively)

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Internal Controls: Leveraging the Green Book

- Principles in the Green Book can be and are leveraged by others outside the Federal Government
- Some apply the principles more explicitly
- Others apply the principles implicitly
- Link to the Greenbook

  https://www.gao.gov/greenbook/overview

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Internal Controls—Massachusetts

http://www.macomptroller.info/comptroller/guidance-for-agencies/internal-controls.htm

Internal Control Guide

Comptroller of the Commonwealth

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Internal Controls: State of Arizona Accounting Manual

https://gao.az.gov/publications/saam

05 Internal Controls

	SECTION	TITLE	ISSUED DATE
	05	General Internal Controls	10-11-2016
	06	Internal Control Principles and Practices	01-30-2017
	07	Internal Control Considerations for IT Environments	05-19-2016
	10	Internal Controls by Process	10-22-2018
	15	Code of Conduct for Employees Involved in Financial Activities	07-01-2015
	20	Falsification of Public Records	07-01-2015
	21	Preparation and Correction of Paper Accounting Records	07-01-2015
	25	Monthly Financial Review and Verification	04-09-2018
	26	Internal Control Self-Assessment Surveys	06-25-2018
	30	Fraud, Theft, Waste and Abuse	07-01-2015
	35	Related Party Transactions	06-01-2017
	40	Limitation of Security Roles in Certain Systems	10-22-2018

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AGA's Fraud Prevention Tool

Tool Features:

- One of the most comprehensive fraud prevention tools available
- Quick summaries of the types of fraud likely to be encountered by governments
- Tools you can use today, without delay, to help in your fight against governmental fraud
- Links to a wide array of fraud-fighting resources including procedures, protocols, posters and papers on identifying and preventing fraud
- Information organized so that you, in whatever role you play in government operations, can find what you need to fight fraud effectively
- While comprehensive, it doesn't cover every possible fraud, but principles covered are applicable to other circumstances

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AGA's Fraud Prevention Tool

Resources by Business Process:

- Accounts Payable
- Accounts Receivable
- Contract Management
- Grants & Program Management
- Information Technology & Security
- Inventory Management
- Management
- Payroll & Human Resources
- Procurement & Purchasing
- Vendor Debarment

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AGA's Fraud Prevention Tool

Resources by Program Area:
- High Priority Programs (Designated by OMB)
- Construction & Public Works
- Education
- Energy & Environment
- Healthcare Services
- Housing
- Human Services
- Public Safety
- Taxation

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AGA's Fraud Prevention Tool

Resources by Fraud Type:
- Billing Schemes
- Cash Larceny
- Corruption, Bid Rigging, Kickbacks
- Cross Charging
- Eligibility and Credentialing Schemes
- Embezzlement
- Forgery
- Mortgage Fraud
- Payroll Schemes
- Product Substitution & Contract Violations
- Skimming & Lapping
- Theft & Misuse

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AGA's Fraud Prevention Tool

Fraud Awareness and Mitigation:
- Fraud Categories
- Fraud Statistics
- The Fraud Triangle/Diamond
  o Opportunity
  o Rationalization
  o Pressure/Motivation or Incentive & Capability
- Mitigation & Controls: Preventive, Detective, Corrective
- Red Flags
- Risk: Inherent Risk, Control Risk, Detection Risk
- Social Engineering
- Training Materials

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AGA's Fraud Prevention Tool

Best Practices:
- Interactive Treasury Playbook
- Risk Modeling & Assessment
- Master Risk Tables
- Data Analytics
- Glossary of Terms
- Links to US GAO Publications:
  o Standards for Internal Control in the Federal Government (the Green Book)
  o Internal Control Standards: Internal Control Management and Evaluation Tool

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Other AGA Resources

AGA's Intergov website:

- Risk Assessment Tool
- Subrecipient Monitoring and Self-Assessment Guide
- Subrecipient vs. Contractor Checklist
- Candidate Assessment Toolkit for Grant Managers
- Blended and Braided Funding: A Guide for Policy Makers and Practitioners
- Cooperative Audit Resolution and Oversight Initiative (CAROI) Guide
- Successfully Implementing Cooperative Audit Resolution (2016)
- Internal Controls Tool
- ERM (Enterprise Risk Management) Hub
- Making Better Decisions: Leveraging Government Resources in Challenging Financial Times
- https://www.agacgfm.org/Tools-Resources/Intergov/Home.aspx

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Douglas Godesky

Senior Grants Officer, Corporation for National & Community Service

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Non-governmental Recipients
Most to least common…

- Non-profits
  - Universities
    - Partnerships / Consortiums
      - For-profits
        - Individuals

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Why non-governmental recipients have IC challenges

- **Culture**
  - Informal relationships internally and externally – formality avoided
  - Focus on programmatic outcomes usually without metrics that might drive ICs

- **Limited Staffing / Limited Experience with Internal Controls**
  - Small, "flat" organizations
  - Training focused on programmatic; limited exposure to what a control is

- **Experience Not Portable to Government-funded Grant Projects**
  - Foundations accept less detail and don't review ICs
  - Governments look at financial accountability to the $0.01 a new expectation

- **Federal Agencies Offer Limited Guidance**
  - Agencies inconsistent, typically "do what is right for you" advice
  - Vague finishing line – not knowing where to stop inhibits starting

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Common Internal Control Gaps at Non-government Entities

- **Time & Attendance … entities often lack:**
  - o Documented system rules, policies and protocols
  - o Making it important, more than programmatic results
  - o Fail to meet required alternate timekeeping validation cycles when applicable
- **Sub-recipient/Pass-through Awards and Monitoring … entities often lack:**
  - o Risk-based pre-award assessments
  - o Policy and protocol with on-going compliance review
  - o Post-award risk-based monitoring plan
- **Improper Payments … entities often lack:**
  - o Layered approvals
  - o Policies with redundant checking of numbers and paperwork
  - o Routine to keep up with what funding agency is focused on
- **Procurement … entities often lack:**
  - o Policies at anticipated procurement tiers
  - o Policies that encourage maximum open and free competition
  - o Ethics and conflict of interest policies addressing purchasing
- **Matching Share … entities often lack:**
  - o Ability to recognize the value of in-kind contributions
  - o Willingness to "burden" contributions with paperwork
  - o Strong connection between matching share and accounting system records

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Addressing Needed Internal Controls
How can you simplify the expectation?

Design ICs to meet 3 goals:
- Effective and efficient operations
- Reliable reporting
- Compliance with laws, regulations, and grant objectives

Ensure every IC has 5 components addressing:
- Control environment – leadership for each activity set a top down expectation
- Risk assessment – identify and analyze internal and external risks with the activity
- Control activities – policies and procedures that establish the control
- Communication – people understand their role and how it relates to others' roles
- Monitoring – strategy for regular monitoring and testing

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How can a non-government meet this challenge?

Invest time in what pays off the most:
- **Identifying Your Greatest Risks – Focus on Your Most Vulnerable Spending Categories**
  - o Follow the money – focus on where your budget/spending mostly goes
  - o Personnel? Contracts / Sub-awards? Travel?

- **What Does Your Funding Agency Want You to Address?**
  - o All staff must read your award, your proposal, and terms and conditions
  - o Ask – all government funders assign a PO and a GO
  - o Invest in agency training sessions, bulletins, web advice, etc.

- **Leverage Samples and Templates**
  - o Most internal control solutions are portable and adaptable across organizations
  - o Training offerings usually present samples and advice

- **Seek In-kind Professional Contributions**
  - o Experienced volunteer advisors – remember to credit their time as matching
  - o Other grantees share their success stories
  - o Message exchange boards, social media pages

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How Do I Recognize a Well-developed Control?

Does it help ensure grant funding is properly used?

Does it detect and/or prevent errors?

Does it reduce the risk of direct and indirect fraud?

Does it contribute to record and reporting accuracy?

Does it assist in meeting grant performance deadlines for outcomes and accurate reporting?

Does it foster confidence that funds are safeguarded and spent as intended?

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Example 1:
Addressing Subrecipient Oversight IC 5 Components

… control environment
Identify the parts of the organization accountable for awarding and monitoring subgrants
Identify the regulatory environment (e.g., 200.331)

… risk assessment
What have sub-recipients failed to do in the past?
What is my funding source focused on?
What assets are most at risk of loss?
What stage of sub-granting carries the greatest risk of loss?

… control activities
What are the stages of sub-granting that need to be considered for controls?
Does my grant require particular controls in the sub-awarding process?
What schedule / frequency can my workforce support?

… communication
Do my policies largely speak for themselves, are they clear and would largely work on their own?
What high-level training does everyone need? What focused detailed training is needed and for whom?

… monitoring
Who should review compliance?
How frequently can invest in compliance reviews?
Will review cycles work, address control compliance on a multi-year schedule?

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Example 2:
Addressing Improper Payments through Coaching

… help recipient to recognize the most common causes of improper payments
Paying the wrong person
Paying the wrong amount
Reports and records do not align or reconcile
Paying the right person the right amount but without following procedures
- Pre-award competition
- Clearing contractors / individuals to do work under government funded grants

… help design and deploy controls fitting your program design
Identify where your risks of paying wrong person, wrong amount, alignment and procedural risks exist
Consult with funding agency Chief Risk Officer on their concerns
Design solutions that fit, then train and retrain staff

… help test, review and audit their controls
Talk to your people – keep what works, fix what isn't working
Audit your controls – anticipate agency audits
Refresh controls to address new programs and activities involving payments

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Thank you for participating!

Questions?

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