

Subgrantee Management for Results

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Session Summary

Session will focus on best practices, commonly encountered issues, and strategies for addressing problem Subgrantees

Risk Assessment

Pre-engagement

Post-engagement

Preparation for Success

What are some factors necessary for success at the local level?

Preparation for Success

Be Proactive

Foster Partnership

Evaluate Performance

Follow-up

Proactive Approach

Approach to Subgrantee relationship needs to be proactive from the start

- Establish program requirements
 - Organizational capacity for service area
 - Operational Framework that clearly defines roles and responsibilities of partnership
 - Training/Support
- Evaluate performance
 - Benchmarks
 - Monitoring
- Follow-up
 - Recognize and respond to trends

Organizational Capacity

Fiscal Capacity

- Strong Fiscal Control Environment
- Grant experience
- Competent Fiscal Manager

Programmatic Capacity

- Appropriate Staffing
- Adequate Facilities
- Dynamic Implementation Plan

Operational Framework

Clearly defined roles and responsibilities

- Emphasize partnership
- Proper “flow-down” of federal regulations to grant document (contract)
- Effective procedures (policy) manual
- Timely and accurate reporting

Clearly defined timeframes

- Program year
- Manage workflow to ensure full expenditure of \$
- Closeout procedures

Training & Support

Training/Support

- Conferences
- Roundtables
- Regional meetings
- Webinars
- On-site technical assistance
- Video instructional materials
- Written instructional materials
- Phone support

Program Evaluation

Monitoring Policy Development

- Priorities
- Benchmarks
- On-site/Remote

Monitoring Tools Development

- Standardized questionnaire
- Standardized letter

Follow Up Feedback

- Recurrent issues
- Questions from Subgrantees

Monitoring Follow Up

Monitoring Follow Up should be tuned to identify issues in these four areas of the Subgrantee:

- Organizational structure
- Fiscal
- Rules, regulations, and policy compliance
- Customer service

Potential Organizational Issues

- Program Coordinator leaves the agency
- Other key staff leave unexpectedly
- Technology failures such as phones, internet or computers
- LIHEAP information storage equipment stolen
- Private data are compromised
- Weatherization program fails to provide adequate/accurate data regarding usage of LIHEAP funds

Potential Fiscal Issues

- Fiscal Officer/Manager leaves agency
- Subgrantee fails to spend allocated funds
- Subgrantee uses LIHEAP funds to cover costs of other programs
- Funding is released very late in the fiscal year
- Funding is cut, dramatically and unexpectedly

Potential Policy Issues

- Subgrantee employee fraudulently creates benefit for family member or friend
- Subgrantee employee fraudulently approves benefits without applying verification requirements/policies
- Employee misuses private information of applicant
- Heating system contractor charges for activities that do not occur
- Household applies at multiple Subgrantee offices in order to obtain multiple benefits
- Payments made to false vendor account

Potential Customer Service Issues

- State or local LIHEAP system goes down
- Household application is lost
- Natural disaster prevents office from opening
- Applicants unable to reach Subgrantee by phone
- Long lines and wait times for frail applicants to submit application

Taking Action

Action Steps with Issues

- LISTEN
- Look for the source of the issue
- Make an assessment of the severity of the issue
- Communicate up and down the chain
- Assemble SOLUTIONS team
- Collaboratively design remediation plan
- GET TO WORK!

Open Discussion-Questions?

- Open Question and Answer
- Resources
 - LIHEAP Clearinghouse
 - NEADA
 - OCS Regional Representative

Sub-Recipient Oversight and Risk Assessment

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Office of Community Services

Administration for Children & Families

U.S. Department of Health and Human Services



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Session Topics

- **Minimum Requirements**
- **Best Practices**

Requirements of Pass Through Entities Distributing LIHEAP

- Relevant Sections of the Uniform Administrative Requirements:
- With regard to risk assessments for LIHEAP, states are required to comply with:
 - 2 CFR 200.330 – Sub-recipient and contractor determinations.
 - 2 CFR 200.331 - Requirements for pass-through entities.

Sub-recipient and contractor determinations

- The pass-through entity must determine the nature of the relationship
 - for each specific award
 - based on the circumstances of the award.
- Refer to 2 CFR 200.330 for the specific characteristics of sub-recipients and contractors
- Many relationships have characteristics of both
- How the agreement is formalized between the pass-through and the other non-federal entity is not relevant to the determination
- For LIHEAP awards, most relationships are sub-recipient

Requirements for pass-through entities

- 2 CFR 200.331 details multiple requirements for pass through entities.
- These requirements range from documentation of program information to the audit of sub-recipients. It is worth reviewing to assure that you, or others in your organization, are aware of and in compliance with these requirements. For the purposes of this session, we will focus on 2 CFR 200.331 (b).

Requirements for pass-through entities

- 2 CFR 200.331 (b) requires the pass-through to evaluate each sub-recipient's risk of non-compliance with federal statutes, regulations and the terms and conditions of the award:
 - Document this evaluation! If it's not documented, it didn't happen
 - The requirements include 4 elements that may be included in the evaluation:
 - The sub-recipient's prior experience with the same or similar sub-awards
 - The results of previous audits including whether or not the sub-recipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar sub-award has been audited as a major program
 - Whether the sub-recipient has new personnel or new or substantially changed systems
 - The extent and results of Federal awarding agency monitoring (e.g., if the sub-recipient also receives Federal awards directly from a Federal awarding agency)

Requirements for pass-through entities

- If you decide to use other criteria for evaluation, such as financial position, we recommend documenting the standards and procedures and applying to all sub-recipients of a specific award
- 2 CFR 200.331 also has sections on Audit Requirements and Monitoring that pass-through agencies must comply with, for operations personnel these requirements may be useful to understand even though it may be performed in another section of the agency.

Best Practices for Risk Assessments

- Please note that not all best practices will work for every agency due to resources available and specific challenges. Also, note that best practices may be in place at your agency that is not adequately captured here. Consider the information provided in your own context and how best to serve your customers.
- It's important to note that a high quality risk assessment process is not a singular event or a box on a checklist. A high quality risk assessment is an ongoing effort to evaluate the performance of sub-recipients and the entire program. Integrated into other oversight allows for an efficient use of oversight resources.

Maximizing Value from Required Activities

- Consider the development of a risk matrix for the sub-recipients. Within the matrix, develop a score based on measurable objective data. Where appropriate, develop a score for non-objective data.
- At OCS, we have a matrix we update annually that has scores for each state based upon single audit findings for our specific programs, single audit findings for related programs, dollar amount of the awards, and other data we find important that includes staff turnover and entities in crisis. We developed a score on a 5 point scale that evaluates risk to our programs based on what information is available. We then provide a factor to weigh each metric to match the significance of each criterion to our specific program objectives.

Practices for consideration

- In addition to the required activities, and the implementation of regular risk assessment activities, pass through agencies may wish to consider:
 - Background checks of key personnel and organizations
 - Financial ratio analysis
 - Reviews of substantive disclosures in the financial statements and tax returns

Background Checks

- Pass through agencies should consider regular background checks of key personnel for the sub-recipient.
- Pass through agencies may define who qualifies as key, we would recommend that personnel that have significant responsibilities for handling and reporting of federal funds be included.
- Organizations can be reviewed in Sam.gov, which includes excluded parties and delinquency on federal debt.

Financial Ratio Analysis

- Agencies may use those metrics that they feel best meet their needs, we recommend consideration of the following:
- Current Ratio (Current Assets / Current Liabilities)
- Cash Ratio (Cash + Cash Equivalents) / (Current Liabilities)
- Debt to Asset Ratio (Total Liabilities / Total Assets)
- Long Term Debt to Revenue Ratio (Long Term Debt (Net of Current Portion) / Total Revenue)
- The current and cash ratios measure an organization's ability to pay their current liabilities. The use of the cash ratio aids in the understanding of the current ratio and really measures the quality of the current assets (more liquid assets are of a higher quality).
- The debt to asset and long term debt to revenue ratios are meant to complete an understanding of how much liabilities make of the operation and the overall impact that debt has on the organization.

Financial Ratio Analysis

- The statement of cash flows provides cash basis type of reporting consistently each year.
- Accounting rules that force entities to capitalize assets or book accruals do not compromise a layman from understanding the cash flows.
- The statement of cash flows measures, by category, how an entity received or spent cash.
- This information is extremely helpful in understanding the entity and trend analysis increases this usefulness.

Reviews of Substantive Disclosures in the Financial Statements and Tax Returns

- Opinions matter. Read them.
- The typical single audit has reports on
 - financial statement adherence to Generally Accepted Accounting Principles (GAAP)
 - the organization's internal control over financial reporting, and
 - a report on compliance for each major program.

Reviews of Substantive Disclosures in the Financial Statements and Tax Returns

- Each report has an auditor opinion.
 - Qualified or modified opinions are worthy of your time to understand the problem and how it will be corrected, the standards auditors use to determine if a qualified or modified opinion should be issued has a significant amount of professional judgment so they will not necessarily be equal across the board.
 - Negative opinions, such as a disclaimer or an adverse opinion are rare and deserve immediate attention.
 - Going concern opinions are a significant indicator of a failing organization. Please note that the absence of a going concern opinion is not a “thumbs up” from the external auditor.

Reviews of Substantive Disclosures in the Financial Statements and Tax Returns

- The notes to the financial statements can give you significant insight into the operation of the organization.
- The notes describe the entity, their purpose, how they treat transactions, detail of significant items like fixed assets and long term debt, off balance sheet commitments, and may include disclosures about the viability of the organization as well as related party transactions.
- The notes will not provide all the information you need, but may provide insight and prompt other questions that may not occur to you without the appropriate background.

Reviews of Substantive Disclosures in the Financial Statements and Tax Returns

- For non-profit organizations consider a review of the IRS form 990.
- The form has some financial information available but it is not presented consistently with audited financial statements.
- The 990 has required related party transactions as well as details about related parties.
- The 990 has detailed payroll information for officers and key employees and top 5 vendors.

Document, Document, Document!

- For the required procedures document the process in policies or procedures. Include the frequency of the activity.
- Document the actions taken.
- If it is not documented, it didn't happen!

Thank You



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