

U. S. Department of Justice (DOJ) Grants Training



High-Risk Grantee Designation and Prevention

*Sponsored by Office of Justice Programs
Office of Audit, Assessment, and Management*

High-Risk Grantee Training: Outline of Presentation

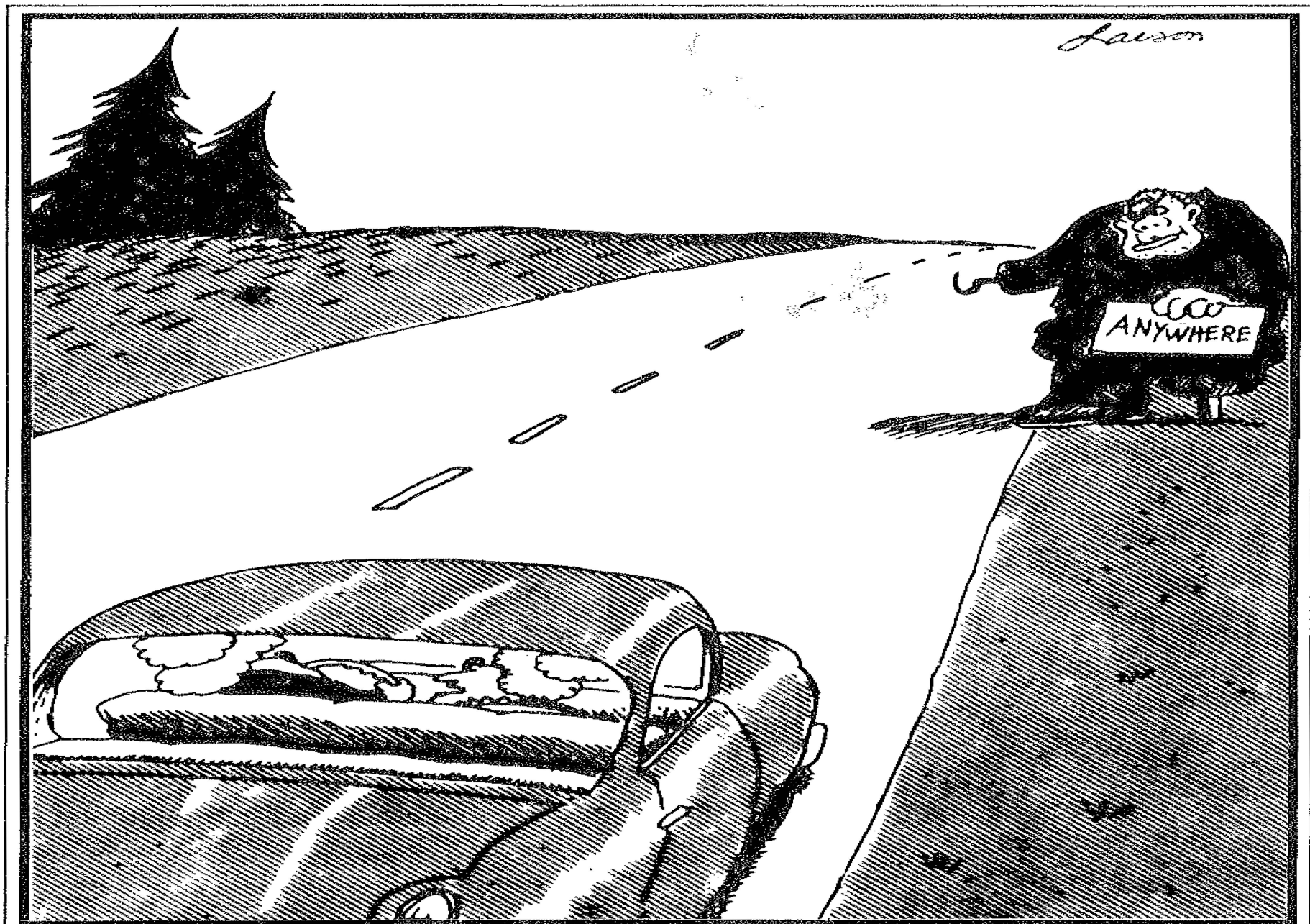
This training covers three broad topics:

1. Overview of High-Risk Designation
2. How the High-Risk Process Works
3. How to Avoid or Minimize High-Risk Designation Status

High-Risk Grantee Designation

Section One:

Introduction and Overview



"C'mon, Sylvia . . . where's your spirit of adventure?"

What is a “High-Risk” Grantee?

- For DOJ purposes, is a Grant Recipient that:
 - Based on past performance and/or business attributes, poses a higher than normal risk to Federal Assistance award funds.
 - Must be managed more closely, and provided with additional oversight, to ensure that Federal funds are adequately protected.

Purpose

- Why a DOJ-Wide High Risk Grantee policy?
 - “Early Warning System”
 - Gives DOJ grant-making components a chance to manage grantees with risk factors, before they potentially become bigger problems
 - High-risk designation does not prevent new grant awards, but puts special conditions and other controls in place to mitigate risk factors
 - Consistency across DOJ’s three major grant-making components, who share many grantees:
 - Office of Justice Programs (OJP)
 - Office of Community Oriented Policing Services (COPS)
 - Office on Violence Against Women (OVW)

What makes a grantee “high-risk”?

Per CFR, Section 200.205, Federal agencies consider applicants:

- Financial Stability
- Quality of management systems (including financial management system)
- History of performance on Federal awards
- Reports and findings from audits and related reviews, which identify non-compliance
- Applicant’s ability to effectively implement statutory, regulatory, or other requirements

Financial Stability

- History with DOJ (if any)
- Financial Capability Questionnaire
- Grantee Audit Report Findings (e.g., “Going Concern”)
- Applicant Federal Debt
- Adverse Credit Ratings
- Bankruptcy/ Insolvency

High-Risk Grantee Designation

Section Two:

How the High-Risk Grantee Process Works

High-Risk Grantee Process

Section Two:

(A) High-Risk Designation Types

(B) High-Risk and Audits

(C) DOJ Roles & Responsibilities

High-Risk Designations: Two Types

- Automatic High-Risk Designations
- High-Risk Designation Referrals

Automatic High-Risk Designations

SEVEN Categories = Automatic High Risk:

1. Audit Report (OIG or Single Audit) recommendation(s) remain open more than one year and grantee has not submitted documentation sufficient to close the recommendations.
2. Grantee is Unresponsive to Audit Report Recommendations (e.g., Corrective Action Plan not provided within 105 days of transmission of final audit report (OIG or Single Audit) to the grantee; or Grantee becomes non-responsive at any point of audit follow-up process).

Automatic High-Risk Designations

3. Open audit report recommendations with questioned costs of \$500,000 or more.
4. Grantee has been referred to the U.S. Department of Treasury, or other Federal agency, for collection of unpaid debt related to a prior DOJ award.

Automatic High-Risk Designations

5. Grantee is on the active COPS Restricted Grantees List.
6. Grantee has been recommended for government-wide suspension or debarment by DOJ, or has been suspended/debarred by any Federal agency.
7. Grantee is Financially Distressed (e.g., bankrupt, insolvent, subject of a going-concern finding, etc.)

Automatic High-Risk Designations

- Summary:
 - Any DOJ grantee that falls into one of these 7 categories is automatically designated High-Risk for all DOJ awards.
 - OJP's Office of Audit, Assessment, and Management (OAAM) notifies the grantee.
 - Three specific special conditions will be applied to all new DOJ grant awards until the high-risk conditions are removed. Other special conditions may be applied based on the specific high-risk circumstances.

High-Risk Designation Referrals

- In addition to the 7 categories of automatic High Risk designations, DOJ staff can refer grantees for consideration as High-Risk.
- Staff refer grantees through their internal (OVW, OJP, COPS) process to OAAM for consideration.
- OAAM coordinates with the affected offices and makes a decision on each referral.

High-Risk Designation Referrals

- Possible Reasons for Referral:
 - Questioned costs identified through monitoring reviews or audits [below the \$500k automatic referral threshold] which are otherwise material in amount or significant in nature.
 - Other significant noncompliance issues have been identified through normal grant administration and monitoring processes.

High-Risk Designation

Referrals

- Grantee failed to respond to DOJ requests to address open compliance issues (audit recommendations, financial or programmatic monitoring issues, etc.).
- OIG Investigation or Audit resulted in significant noncompliance findings requiring corrective action.
- Grantee is delinquent in submitting required A-133 Single Audit Report(s).
- Grantee has recurring and significant findings in its Single Audit Reports.

High-Risk Designation Referrals

- Grantee is referred and/or designated as high-risk designation by another Federal agency (outside of DOJ).
- Grantee is deemed not financially stable or is the subject of concerns regarding performance, reliability, or risk.

High-Risk Designation and Audits

Two Types of Audits:

- 1) OIG Grant Audits
- 2) Single Audits (i.e., OMB Circular A-133)

High-Risk Designation and Audits

OIG Grant Audits:

- Conducted by DOJ's Office of the Inspector General (OIG)
- Any DOJ grant/grantee is subject to audit
- Typically, is a full-scope audit covering all aspects of DOJ grant(s), including:
 - Financial/accounting
 - Programmatic/progress
 - Compliance

High-Risk Designation and Audits

Single Audits:

- Conducted by independent CPA firms or state audit agencies
- Required by OMB Circular A-133, for any grantees that expend more than \$750k in Federal funds per year
- All Federal awards (not just DOJ) are subject to audit/review
- Single Audit Reports cover three primary areas:
 - Financial Statements
 - Internal Controls
 - Compliance with Applicable Laws and Regulations

High-Risk Designation and Audits

- DOJ/Grantee Responsibility
- Corrective Action Plan
- Automatic High Risk Designation
- Grantee Response
- Questioned Costs

Responsibilities

- DOJ Responsibility
 - Monitor Status of Open Audit Reports
 - Single Audit
 - Office of Inspector General (OIG) Audit
 - Take appropriate action to ensure
 - Recommendations resolved
 - Recommendations closed in a timely manner
- Grantee Responsibility
 - Provide Corrective Action Plan (CAP)
 - Resolve and close/remedy open recommendations and questioned costs
- OIG Responsibility
 - Determining sufficiency of correction actions
 - Closing audit report

What is a Corrective Action Plan (CAP)?

- CAP describes
 - (a) the corrective action(s) the grantee will take, or has taken, to address each audit recommendation *and*
 - (b) the amount of time projected to satisfy each recommendation
- *Corrective action:*
 - Corrects identified deficiencies;
 - Produces recommended improvements; or
 - Demonstrates that audit findings are either invalid or do not warrant grantee action.

What must be included in the CAP?

- CAP submitted to DOJ must include the following two elements:
 - Corrective Action(s) proposed for each recommendation; AND
 - Timeframe for correcting each deficiency.

Automatic High-Risk Designation: Three Audit Categories

- Single Audit Report or OIG Audit Report recommendations open more than one year *and* the grantee has not submitted documentation adequate to close the recommendations
- No acceptable CAP submitted within prescribed deadlines; or Grantee becomes Non-Responsive
- Open recommendations with questioned costs exceeding \$500,000 (regardless of how long the audit has been open)

Responsive Grantees

- Grantees are considered “responsive” if:
 - CAP submitted to DOJ by deadline
 - *Both* CAP criteria are met:
 - Corrective Action(s) proposed for remedying each audit finding/recommendation; AND
 - Timeframe for implementing each recommendation
- But responsive grantees may still be designated high-risk . . .

Responsive Grantees

- Responsive grantees are still designated as high risk if they *fail to submit documents adequate to close the recommendations within one year.*
- Limited time frame exceptions may be made for delays that are beyond the grantee's control (such as DOJ delays).

Non-Responsive Grantees

- Within 30 days of transmission of Single Audit or OIG Audit Report, DOJ will issue letter to grantee requesting CAP
- DOJ will send up to 3 letters requesting CAP prior to high-risk designation
- Elapsed time between DOJ first request and high-risk designation: **105 days**

DOJ Request for CAP	Response Required (number of days to submit CAP)	Grace Period (number of days to submit CAP)	Total Days
Initial Request	30	15	45
Second Request	15	15	30
Third Request	15	15	30

Summary of High Risk Policy and Audits

- “Audits” = Single Audits and OIG Audits
- Three audit categories = automatic High-Risk:
 1. CAP submitted, but grantee has not submitted documentation sufficient to close recommendations within one year
 2. CAP not submitted within 105 days (three requests) of dissemination of final audit report; or at any time during audit follow-up process where grantee becomes non-responsive.
 3. Questioned costs of \$500K or more (regardless of age of audit)

High-Risk Policy

Roles and Responsibilities

High-Risk Designation Process: Respective Roles

Procedures to
Apply and Remove
High-Risk Designations

High-Risk Notifications: OAAM Actions

- Upon DOJ designation of grantee as high-risk, OJP's Office of Audit, Assessment, and Management (OAAM) will:
 - Issue letter notifying grantee of high-risk status (with cc to applicable DOJ offices), which explains:
 - reason(s) that they were designated as high-risk;
 - terms and conditions of high risk status;
 - information on what grantee needs to do to be removed from high-risk status;
 - future penalties that may be imposed if the grantee does not complete timely corrective action; AND
 - the process for requesting reconsideration of the high-risk designation and/or specific conditions.

High-Risk Notification: OAAM Actions

OAAM also will:

- Update DOJ High Risk listing with grantee information and recommended high risk special conditions
- Update Grants Management System (GMS) to “flag” grantees designated as high-risk

Program Office Responsibilities

- Processing New Awards for High Risk Recipients
- Administering Existing Awards for High-Risk Recipients
- Special Coordination Information for COPS and OVW

Before You Issue a New Award....

- Check DOJ High-Risk listing against grant announcement lists (pre-award)
- If any grantee is designated as High- Risk, add recommended special conditions to all new DOJ awards

High-Risk Special Conditions

- 16 Standard High Risk Special Conditions
 - First 3 High-Risk Special Conditions are mandatory for all new awards
 - Last 13 High-Risk Special Conditions are to be applied depending on the circumstances, and as recommended by OAAM or the referring program office
- Some (but not all) special conditions require a withholding of grant funds until the high-risk condition is satisfactorily addressed/retired

High-Risk Special Conditions (cont.)

1. Documentation upon request (*mandatory*)
2. Possible additional on-site monitoring (*mandatory*)
3. Financial grant administration training (*mandatory*) {Note – OJP's OCFO offers this free training on-line to DOJ grantees with active awards}
4. Quarterly report – expenditures by budget category
5. Quarterly progress reports
6. Reimbursement basis
7. Separate bank account *withholding*
8. Subrecipient monitoring policies *withholding*

High-Risk Special Conditions (cont.)

9. Time/attendance policies *withholding*
10. Procurement policies *withholding*
11. Third-party management *withholding*
12. Audit report issues *withholding*
13. Financial monitoring site visit issues *withholding*
14. Programmatic monitoring site visit issues *withholding*
15. Travel policies *withholding*
16. Grant closeout *withholding*

When Managing Existing Awards with High-Risk Special Conditions

- Provide documentation demonstrating grantee's compliance with high-risk special condition to OAAM for approval
- Once approved by OAAM, prepare a Grant Adjustment Notice (GAN), or similar document, to remove condition
- If special condition being removed involves withholding of funds, coordinate with OCFO to ensure release of funds, as appropriate

Removal from High Risk Status

Once all high-risk special conditions and requirements have been satisfied, OAAM will:

- Issue letter notifying grantee they have been removed from high-risk designation status (with cc to applicable DOJ offices)
- Update DOJ High-Risk listing, accordingly
- Update GMS to remove high risk indicator (i.e., “red flag”)

Summary of High-Risk Roles and Responsibilities

- OAAM oversees the implementation
- OAAM issues high-risk letters to grantees
- OVW, COPS, and OJP program staff must
 - Compare new award lists to High-Risk list
 - Apply required High-Risk special conditions
 - Notify OAAM when grantee takes action to remove high risk conditions
 - Coordinate with OCFO to release funds when a withholding special condition is removed
 - Notify OAAM of other high-risk relevant data (such as restricted periods, audit closures, etc.)

Summary of High-Risk Grantee Process

- Shared policy for OJP-OVW-COPS
- OAAM coordinates implementation for DOJ
- “Early Warning System” for at-risk grantees
- High-Risk Categories include:
 - Automatic designations
 - Referred designations
- Three Special Conditions are mandatory for new awards to High-Risk grantees
- Other Special Conditions are applied as appropriate, based on the facts

High-Risk Grantee Designation

Section Three:

Avoiding/ Minimizing High-Risk Designation Status

High-Risk Grantee Designation

Section Three:

- (A) Grant Accounting & Internal Controls
- (B) Preparing for Audits/ Monitoring Reviews
- (C) Dealing with High-Risk Issues

Grant Accounting & Internal Controls

Tips:

- Set-up separate account within your financial management system for each individual award (see 28 CFR, Section 66.20)
- Avoid Commingling
- Ensure Key Duties are properly separated (e.g., initiating/approving expenses, authorizing drawdowns, recording financial transactions, financial/program reporting, etc.)
- Document Key Processes (e.g., procurement, accounting, travel, payroll, subrecipient monitoring, fixed assets, bank reconciliations, etc.); and ensure they're consistent with Federal grant regulations.

Grant Accounting & Internal Controls

Tips (cont.):

- Track cumulative grant costs in accordance w/ approved grant budget
- Ensure compliance with award Special Conditions
- Timely submit required reports (financial, progress, audit)
- Ensure that expenditures reported on SF-425s (Federal Financial Reports) are based on amounts recorded in grant accounting records

Grant Accounting & Internal Controls

Tips (cont.):

- Limit drawdowns to amounts needed for immediate disbursement (i.e., within 10 days)
- Conduct internal audits/self-monitoring, where feasible
- Maintain supporting documentation for all grant-related expenditures (at least 3 years after grant is closed, or after related audit is closed, whichever is later)

Preparing for Audits/ Monitoring Reviews

Tips:

- Ensure all records are readily accessible
 - Accounting
 - Performance
 - Source Documents
- Review audit engagement letter to understand purpose/scope
- Communicate clearly and openly with auditors

Preparing for Audits/ Monitoring Reviews

Tips (cont.):

- Have program and financial personnel available or on-call
- Timely respond to all auditor questions or requests for documents
- Ask questions of auditor to ensure understanding of requirements and/or preliminary findings

Dealing with High-Risk Issues

Tips:

- Review High-Risk Designation Letter to ensure understanding of terms/conditions
- When applying for new DOJ awards, communicate high-risk designation status with other Federal agencies
- Ensure key personnel timely complete Grants Financial Management Training

Dealing with High-Risk Issues

Tips (cont.):

- Timely submit written response (i.e., CAP) to address all audit or monitoring report recommendations
 - Include specific action(s) taken or to be taken
 - If already implemented, include supporting documentation
 - If to be taken, include:
 - projected date of completion; and
 - individual(s) responsible for implementation

Dealing with High-Risk Issues

Tips (cont.):

- Timely implement corrective actions for all audit/monitoring recommendations
- Review other high-risk conditions to ensure compliance
- Follow-up frequently with OAAM, Grant Manager, OCFO, etc.
- On exception basis, may request partial release of funds (if needed)
- Primary focus: addressing ALL high-risk issues, and being removed from high-risk status ASAP

Dealing with High-Risk Issues

Tips (cont.):

- When removed from High-Risk Status:
 - Obtain, review, and maintain high-risk removal letter
 - Ensure any withholdings of funds are removed from active DOJ awards
 - Communicate updated status to other Federal awarding agencies, if applicable
 - Take steps (now) to prevent recurrence

Conclusion

- Key tool utilized by DOJ to mitigate risks associated with high-risk grantees, while enabling programs to continue
 - DOJ High-Risk Designation applies to all three major awarding agencies (OJP, COPS, & OVW)
 - Audit Report issues are primary culprit of high-risk designations
 - High-Risk does not prevent obtaining future awards with DOJ
 - However, High-Risk can result in funds being withheld
- Be Proactive to Prevent High-Risk Designation; and/or Reduce Time on High-Risk List

High-Risk Designation Process

QUESTIONS... (?)

DOJ High-Risk Points of Contact

- Ralph Martin, Director, OAAM/OJP
202.305.1802
- Jeff Haley, Deputy Director, OAAM/OJP
202.616.2936
- Linda Taylor, Team Leader, Audit Coordination, OAAM/OJP
202.514.7270
- Tom Murphy, High-Risk Coordinator Designee, OAAM/OJP
202.353.8734