

**FY21 SUBRECIPIENT FISCAL RISK  
ASSESSMENT REPORT**

**for**

**CHARTER SCHOOLS**

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**Prepared by:**



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## **1.0 Annual Fiscal Risk Assessment**

As a pass-through entity, the New Hampshire Department of Education (NHDOE) awards Federal grant funds to eligible subrecipients, including local educational agencies (School Districts and Charter Schools). The responsibilities of pass-through entities are given in Title II of the Code of Federal Regulations, Part 200.331, which requires NHDOE to “evaluate each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.” To comply with this requirement, the NHDOE conducts an annual fiscal risk assessment of Charter Schools to determine their potential risk of noncompliance. Based upon the outcome of the risk assessment, Charter Schools are selected for fiscal compliance monitoring.

**Programmatic risk assessment is completed by individual program specific NHDOE staff and will not be discussed further herein.**

The NHDOE updates the risk assessment model annually to ensure that risk indicators reflect current risks, such as economic conditions; political conditions; regulatory changes; unreliable information; financial problems that could lead to diversion of grant funds; loss of essential personnel; loss of accreditation; rapid growth; new activities, products, or services; and organizational restructuring.

## **2.0 Purpose of the Annual Fiscal Risk Assessment**

The fiscal risk assessment is used to determine the likelihood that a Charter School may fail to comply with applicable rules. If a Charter School is assigned a high risk level (as a result of the annual risk assessment), it does not indicate that the Charter School has failed to comply with applicable rules. Similarly, a low risk level does not indicate that the Charter School is compliant with applicable rules. Only an independent auditor or a NHDOE fiscal or program monitor can determine if a Charter School is compliant or noncompliant.

The risk assessment is conducted annually, so a Charter School’s risk level can change from year to year. A Charter School assigned a high risk level for 2019–2020 may be assigned a medium or low risk level in 2020–2021. As the purpose of completing an annual risk assessment is to determine the appropriate level of Charter School fiscal monitoring, the results will be used to more efficiently assign NHDOE monitoring resources to those Charter Schools in need of greater oversight and/or technical assistance.

## **3.0 Development of Fiscal Risk Assessment Tool**

Although Title 2 of the Code of Federal Regulations, Part 200.331(b) requires NHDOE, as a pass-through entity, to evaluate a Charter School’s fiscal risk, it does not specify how that evaluation

should be completed. The limited guidance provided in Part 200.331 suggests a Charter School's prior experience with subawards, the results of previous audits, whether the Charter School has new personnel or systems and the results of any Federal audits should be included in any risk assessment.

In completing a cursory review of other State Department of Education risk assessment programs, it is evident that varied approaches are currently being used nationwide. Identified programs ranged from very brief questionnaires to highly elaborate quantitative approaches. In developing its risk assessment methodology, the NHDOE first assured some of the limited criteria provided in Part 200.331 was included. Thereafter, additional criteria the NHDOE felt best quantified the Charter School's potential risk based on local concerns and the NHDOE's prior experience with its FY20 Charter School fiscal monitoring program was added.

The fiscal risk assessment methodology was incorporated into an Excel-based risk assessment tool (RAT) as included in Appendix A. The RAT is a numerical model that generally relies on readily available data sets related to the Charter School's overall management of Federal grant funds. There were three general risk criteria, as discussed briefly below, used to develop the variables utilized in the final version of the RAT.

#### *Grant Award Amount Risk*

The total amount of Federal funds awarded to Charter Schools in FY20 was a primary consideration in assessing Charter School fiscal risk. The more Federal funds being managed the greater the fiscal impact should the funds be mismanaged or otherwise compromised.

#### *Grant Program Risk*

The total number of grant programs awarded to a Charter School in FY20 was also a primary consideration in the fiscal risk assessment. The greater the number of Federal grant programs, the greater the number of program specific grant compliance requirements with which a Charter School must comply.

#### *NHDOE Monitoring Risk*

Whether or not the Charter School was included in the NHDOE Bureau of Federal Compliance's (BFC's) FY20 monitoring program was also a factor when evaluating the Charter School's risk of noncompliance.

#### *Grant Utilization*

Whether a Charter School took full advantage of all of the Federal grants for which it was provided an allocation is also considered a risk indicator. If a Charter School cannot complete its Federal grant applications in a timely manner it may reflect the Charter School's overall struggle with management its federal grants.

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## 4.0 Variables Used in the Risk Assessment Tool

Assessment of the following four fiscal risk variables; grant award amount, number of grants awarded, grant utilization and prior BFC monitoring status were considered appropriate to adequately quantify a Charter School's potential risk relative to their management of Federal grant funds. The span for each variable was set at two (0 to 2 points) to equalize the variables prior to applying the weighting. The criteria that defines each variable range and the corresponding point value is shown on the top of the RAT spreadsheet included as Appendix A.

The justification for inclusion of each of the four risk variables and weighting, as well as any simplifying assumptions, are described in more detail below.

### Grant Award Amount Risk

#### *Grant Award Amount (25%)*

This variable includes the total amount of Federal funds awarded to each Charter School in FY20 plus the amount of the Elementary and Secondary School Emergency Relief (ESSER) Fund allocated to each Charter School. The amount of this specific grant was included as it was unclear in what fiscal year these funds would be awarded due to the late nature of the award. Further, as the ESSER allocation represents a significant increase in a Charter School's total annual Federal funds, the NHDOE felt its inclusion was necessary to adequately represent a Charter School's total amount of Federal funds being managed in FY20 and/or FY21.

A simplifying assumption that was applied in arriving at the amount of Federal grant funds awarded during FY20 was to not include any grant funds associated with the NHDOE Food and Nutrition programs. This was done to simplify the data collection process as these funds are not included in the NHDOE Grants Management System (GMS) from which the data was pulled.

The higher the total dollar amount of Federal grant funds managed by a Charter School the higher the potential risk for loss of funds should waste, fraud or abuse be occurring. If underlying waste, fraud or abuse is not occurring, the magnitude of the grant funds being managed is not material. As such, the 25 percent weighting of this risk parameter is considered appropriate.

Total Charter School Federal funds less than \$50,000 was assigned a value of 0, between \$50,000 and \$100,000 was assigned a value of 1, and above \$100,000 was assigned a value of 2.

### Grant Program Risk

#### *Number of Federal Grant Programs (20%)*

This risk factor primarily relates to the complexity of the Federal compliance requirements related to each individual grant program. Although many requirements with respect to fiscal compliance are common to multiple programs, each program may have specific regulatory requirements, which need to be managed by the Charter School. These may include equitable services, earmarking, matching, maintenance of effort, etc. Based on the foregoing, the 20 percent weighting of this risk variable was considered appropriate.

Similar to the *Grant Amount* variable above, a simplifying assumption that was applied in arriving at the number of grant programs awarded to each District during FY20 was to not include any NHDOE Food and Nutrition programs. In addition, as all Districts are receiving an ESSER grant, but the FY in which it will be awarded is still not known, it was omitted from the each District's grant count for simplicity.

When the number of Federal Grant Programs variable was less than 3 it was assigned a value of 0, between 3 and 4 it was assigned a value of 1, and above 4 it was assigned a value of 2.

#### NHDOE Monitoring Risk

##### *Last Monitored (35%)*

This variable is based on whether the Charter School was subject to an on-site fiscal monitoring visit from the BFC during FY20. FY20 was the first time the NHDOE had completed a formal fiscal risk assessment and comprehensive fiscal monitoring program of Charter Schools. Further, based on discussion with Charter School staff during the BFC site visits, very little technical assistance and/or guidance around fiscal Federal grant compliance had been provided by the NHDOE over the past 10 to 15 years. As such, the majority the Charter Schools which were monitored in FY20 were unaware of numerous Federal grant compliance requirements.

As it is anticipated that the Charter Schools that were not monitored in FY20 may have a similar general lack of understanding of fiscal Federal grant compliance, focusing the FY21 fiscal monitoring program on those Charter Schools that have not been visited yet seems reasonable. As such, the weighting of this variable was set at 35 percent.

When a Charter School was monitored by the BFC in FY20, the variable was assigned a value 0. When a Charter School was not monitored by the BFC the variable was assigned a value 2.

#### Grant Utilization Risk

##### *Grant Utilization (20%)*

As many Charter Schools have limited staff available to work on Federal grant applications and implementation, it is not unusual to see applications for some Federal grants come into the NHDOE late, or not at all. As the NHDOE wants to assure Charter Schools are utilizing their Federal funds to deliver the intended services, to either students or teachers, a Charter School that does not meet this goal is considered a risk for allowing Federal funds to go unused. By considering this issue a risk factor, the NHDOE can identify Charter Schools that may be in need of technical assistance or other resources in order to complete their Federal grant applications in a timely manner. The weighting of this variable was set at 20%.

When a Charter School had completed all of its FY19 Federal grant applications the variable was assigned a value 0. When a Charter School had not completed all of its FY19 Federal grant applications the variable was assigned a value 2.

## **5.0 Collection of Fiscal Risk Assessment Data**

Both the *Grant Award Amount*, *Number of Federal Grant Program*, and *Grant Utilization* data were collected from the NHDOE GMS and were subject to the simplifying assumptions stated above. Whether a Charter School was subject to an on-site fiscal monitoring visit (*Last Monitored* variable) during FY20 was determined using internal BFC tracking documents.

## **6.0 Risk Assessment Index and Classification**

The point values generated for each of the three variables for each Charter School were weighted and then summed to arrive at a final index for each Charter School. After a thorough review of the RAT scores, the NHDOE determined that the 14 Charter Schools having an index above 1.0 would be subject to fiscal monitoring. Based on this criteria, the Charter Schools listed on the attached Table 1 are intended to receive scheduled fiscal monitoring (either on-site or desk monitoring) by the BFC during the upcoming 2020-2021 school year.

In the opinion of the NHDOE, both the risk assessment methodology and the resulting RAT generally meet the requirements of 2 CFR 200.331. The application of the risk assessment tool to categorize Charter Schools is both appropriate and resource efficient.

## **7.0 Charter School Monitoring Based on the Results of Fiscal Risk Assessment**

The extent of Charter School monitoring is dependent on the level of risk assigned to the Charter School. The risk assessment index, and any identified areas of weakness, will assist the BFC in determining the depth, scope and priority for each individual Charter School's individual monitoring plan.