

# **FY21 SUBRECIPIENT FISCAL RISK ASSESSMENT REPORT**

**for**

## **SCHOOL DISTRICTS**

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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 (LEAs). In New Hampshire, School Districts and public Charter Schools are considered LEAs. The responsibilities of pass-through entities are given in Title 2 of the Code of Federal Regulations, Part 200.331, which requires the 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 School Districts (Districts) to determine their potential risk of fiscal noncompliance. Based upon the outcome of the risk assessment, Districts are assigned a risk level of low, medium, or high. A separate risk assessment is completed for Charter Schools due to their different risk environment.

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

The NHDOE updates the fiscal risk assessment model annually to ensure that risk indicators and weights reflect current risks, such as economic conditions; political conditions; regulatory changes; unreliable information; financial problems that could lead to the diversion of grant funds; loss of essential personnel; loss of accreditation; rapid growth; new activities, products, or services; and organizational restructuring. Also, both risk criteria and weighting may change year to year based on District monitoring results from prior years.

The risk assessment criteria includes indicators and weights derived from multiple sources. Each District is assigned a point value based upon these criteria, and assigned a risk level of high, medium, or low based on the total number of points assigned.

## 2.0 Purpose of the Annual Fiscal Risk Assessment

The fiscal risk assessment is used to determine the likelihood that a District may fail to comply with applicable laws, rules and regulations. If a District is assigned a high risk level (as a result of the annual risk assessment), it does not necessarily indicate that the District has failed to comply with applicable rules. Similarly, a low risk level does not indicate that the District is fully compliant with applicable rules. Only an independent auditor or a NHDOE fiscal or program monitor can determine if a District is compliant or noncompliant. Even then, areas of noncompliance may exist if those areas were not specifically reviewed during the auditing or monitoring process.

The fiscal risk assessment is conducted annually, so a District’s assigned risk category can change from year to year. A District assigned a high risk level for FY19 may be assigned a medium or low risk level for FY20.

The purpose of completing an annual risk assessment is to determine the appropriate level of District monitoring and technical assistance. The results are used to more efficiently assign NHDOE monitoring resources to those Districts that need greater compliance 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 District's fiscal risk, it does not specify how that evaluation should be completed. The limited guidance provided in Part 200.331 suggests the District's prior experience with subawards, the results of previous audits, whether the District 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 District's potential risk based on local concerns and the NHDOE's prior experience with its FY19 and FY20 District 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 Districts' overall management of Federal grant funds. There were five general risk criteria, as discussed briefly below, used to develop the eight variables utilized in the final version of the RAT.

#### *Grant Award Amount Risk*

The total amount of Federal funds awarded to Districts in FY20 was a primary consideration in assessing District 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 District 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 as District must comply.

#### *Single-Audit Risk*

If a District will have a single-audit of either their FY20 and/or FY21 grant funds completed, this additional level of monitoring would reduce the overall risk of non-compliance with Federal grant requirements not being identified. However, if the completed single-audit resulted in audit findings, this would tend to increase the risk profile of a District until the audit findings are corrected.

### NHDOE Monitoring Risk

Whether or not the District was included in the NHDOE Bureau of Federal Compliance's (BFC's) FY19 or FY20 monitoring program was also a factor when evaluating the District's risk of noncompliance.

### Key Staff Turnover Risk

Based on the result of the BFC's prior two years of District fiscal monitoring, the turnover of key District staff, to include the Superintendent and the Business Administrator, appears to be a risk indicator relative to Federal grant compliance.

## **4.0 Variables Used in the Risk Assessment Tool**

Assessment of the following six fiscal risk variables; grant award amount, number of grants awarded, single-audit status, unresolved single-audit findings, prior BFC monitoring status and key staff turnover were considered appropriate to adequately quantify a District'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 six risk variables and weighting, as well as any simplifying assumptions, are described in more detail below.

### Grant Award Amount Risk

#### *Grant Award Amount (20%)*

This variable includes the total amount of Federal funds awarded to each School District in FY20 plus the amount of the Elementary and Secondary School Emergency Relief (ESSER) Fund allocated to each District. 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 District's total annual Federal funds, the NHDOE felt its inclusion was necessary to adequately represent a District'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. Additionally, as almost every District participates in the Food and Nutrition programs to some extent, the exclusion of these programs was not anticipated to be a significant differentiating factor.

The higher the total dollar amount of Federal grant funds managed by a District 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 20 percent weighting of this risk parameter is considered appropriate.

Total District Federal funds less than \$1,000,000 was assigned a value of 0, between \$1,000,00 and \$2,000,00 was assigned a value of 1, and above \$2,000,000 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 District. 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 to be 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 6 it was assigned a value of 0, between 6 and 11 it was assigned a value of 1, and above 11 it was assigned a value of 2.

### Single-Audit History Risk

#### *Single-Audit Status (10%)*

If a District will more likely than not be required to have a single-audit of either their FY20 or FY21 grant funds completed, this additional level of fiscal monitoring would reduce the overall risk of non-compliance with pertinent Federal grant requirements not being identified. Whether a District would be required to have a single-audit of their FY20 or FY21 Federal fund expenditures was determined by assuming that if they had a FY18 single-audit (last complete data set) they would likely also have a FY20 or FY21 single-audit completed particularly due to the additional funds to be provided to School Districts by the ESSER Fund grant.

The weighting of this risk variable has been assigned a value of 10 percent. When a District had a FY18 single-audit completed the variable was assigned a value of 0. When a FY18 single-audit was not completed, or a required single-audit was submitted to the Federal Audit Clearinghouse after the Federal deadline, the variable was assigned a value of 2.

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*Unresolved FY18 Single-Audit Findings (20%)*

A non-compliance or internal control finding within a District's single-audit related to the management of Federal grant funds is a significant risk indicator. As such, this variable was assigned a weighting of 20 percent.

Given the extension of the deadline for submission of District single-audits to the Federal Audit Clearinghouse (FAC) due to the COVID-19 pandemic, the NHDOE relied on its review of the Districts' FY18 single-audits (last complete data set) rather than the FY19 single-audits when populating this variable field.

When a District is has unresolved FY18 single-audit Findings the variable was assigned a value of 2. When a District does not have any unresolved FY18 single-audit Findings the variable was assigned a value of 0.

NHDOE Monitoring Risk

*Last Monitored (15%)*

This variable is based on whether the District was subject to an on-site fiscal monitoring visit from the BFC during FY19 or FY20. FY19 was the first time the NHDOE had completed a formal fiscal risk assessment and comprehensive fiscal monitoring program in a number of years. Further, based on discussion with numerous District staff during the 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 vast majority the Districts which were monitored were unaware of numerous Federal grant compliance requirements.

As it is anticipated that Districts that were not monitored in FY19 or FY20 may have a similar general lack of understanding of fiscal Federal grant compliance, focusing the FY21 fiscal monitoring program on those Districts that have not been visited yet seems reasonable. The weighting of this variable was set at 15 percent.

When a District was monitored by the BFC in either FY19 or FY20, the variable was assigned a value 0. When a District was not monitored by the BFC the variable was assigned a value 2.

Key Staff Turnover Risk

*Superintendent/Business Administrator Turnover (15%)*

Based on the results of the last two years of fiscal monitoring completed by the BFC, it is evident that turnover of key staff in leadership positions can have a significant impact on compliance with Federal grant funds. The risk to proper Federal fund management is due primarily to a loss "institutional knowledge" as well as continuity and an understanding of local initiatives. The risk due to key staff turnover in many Districts is further exacerbated by the absence of written internal control documents.

For the purposes of defining this variable, data on the turnover of either the School District Superintendent or the Business Administrator during the past 12 months, or anticipated for FY21 (after June 30, 2020) was collected. This variable was assigned a weighting of 15 percent. It should be noted that given the fluid nature of this data set it may not perfectly represent the employment conditions that exist at the end of FY20.

When turnover of key leadership staff was identified, the variable was assigned a value 2. When a key staff turnover was not identified the variable was assigned a value 0.

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

Both the *Grant Award Amount* and *Number of Federal Grant Program* data were collected from the NHDOE GMS and were subject to the simplifying assumptions stated above. The *Single –Audit Status* and the *Unresolved FY18 Single-Audit Finding* data was pulled from the BFC maintained District FY18 audit tracking spreadsheet. Similarly, whether a District was subject to an on-site fiscal monitoring visit (*Last Monitored* variable) during FY19 or FY20 was also determined using internal BFC tracking documents. Lastly, *Superintendent/Business Administrator Turnover* information was collected reviewing data submitted to the NHDOE I4C system or through personal knowledge.

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

The point values generated for each of the six variables for each District were weighted and then summed to arrive at a final index for each District. After a thorough review of the RAT scores, the NHDOE determined that for the FY21 monitoring program a District having an index below 0.7 was classified as low risk, 0.7-0.9 was classified as moderate risk, and above 0.9 was classified as high risk.

The attached Table 1 lists the Districts that have been categorized as having either a high or moderate risk index. The Districts listed on 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 Districts is both appropriate and resource efficient.

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

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