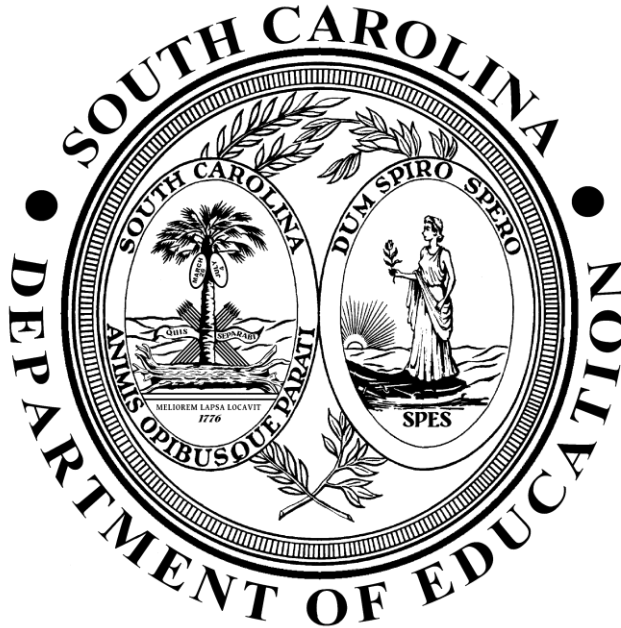


STATE OF SOUTH CAROLINA

DEPARTMENT OF EDUCATION

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STATE SUPERINTENDENT OF EDUCATION



LEA Subrecipient Risk Assessment Internal Procedures

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Introduction

Revisions to the Uniform Grant Guidance in 2014 provides that significant noncompliance by any subrecipient of federal funds may put eligibility for all federal funds for the entire state. This enhanced risk for all public education increases the need to perform risk assessments and to adjust monitoring based upon those assessments.

In accordance with 2 CFR Part 200.332, the South Carolina Department of Education (SCDE) developed a process to assess the risk of its subgrantees. The Uniform Grant Guidance requires the SCDE 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. The purpose of the risk assessment is not to deny awards, but to highlight evidence of potential risks in implementing grants and identify conditions that can help make awarding of grants more successful. As stated by the U.S. Department of Education:

Conducting risk assessments of grantees helps ensure that potential risks are identified and appropriate monitoring is established to mitigate those risks. If the identified risks are significant, the SEA can impose specific conditions under 2 CFR § 200.208 during the course of the award and, in appropriate circumstances, designate those conditions as “high risk” conditions under 2 CFR § 3474.10.¹

Risk Categories

Generally, SCDE will assess risk on a three-point scale (high, medium, low) for ten risk criteria. Four criteria may be scored in a super-high category. The criteria are as follows:

Criteria 1: Key Personnel Turnover (High: 4, Medium: 2, Low: 1)

¹ *Questions and Answers Regarding 2 CFR Part 200*, Subpart C, Question 2, page 6 (March 9, 2016).
<https://www2.ed.gov/policy/fund/guid/uniform-guidance/edfaqs2.docx>

This criterion assesses the subrecipient on maintaining qualified and competent personnel with no or limited turnover in key positions. Key personnel include the federal program manager and the chief financial officer. Program officers rate subrecipients based on turnover in the federal program management of the subrecipient. The Office of Finance rates turnover in the chief financial officer position. High turnover in key personnel should result in a high risk rating. Stability in key personnel should result in a medium risk rating. Maintaining competent, experience personnel should result in a low risk rating. There is a level of risk involved with any turnover. Therefore, any turnover should be rated at least at the medium risk level.

Criteria 2: Required Reporting (High: 4, Medium: 2, Low: 1)

This criterion rates the subrecipient on submission of required programmatic reports, submission of expenditure reimbursement requests, and the timeliness of the submission of such reports. Required programmatic reports will vary by program. Required reports not submitted can result in a high risk rating. Required reporting submitted past the due date can result in a medium risk rating. Required reporting submitted timely can result in a low risk rating. Requests for reimbursement made once a year (giving the appearance of supplanting) will result in a high risk rating. Infrequent requests for reimbursements (less often than quarterly but more than once a year) results in a medium risk rating. Periodic requests for reimbursement (at least quarterly submission) results in a low risk rating.

Criteria 3: Programmatic Compliance (High: 5, Medium: 3, Low: 1)

This criterion rates the subrecipient on complying with programmatic requirements of the grant as noted during various forms of monitoring through the year. Specific items of programmatic compliance will differ based upon the grant award. Questions to ask to assist with rating a subrecipient for this criterion include:

- Did the entity comply with the rules, regulations, terms, and conditions of the grant award? If not, how significant was any noncompliance?
- Were allowable services provided under the grant?
- Were services provided to eligible subrecipients?

If significant programmatic noncompliance was noted during monitoring, the subrecipient will be assessed with a score of high. If minor programmatic deficiencies were noted during monitoring visits, the subrecipient is rated medium risk. If there were very minimal or no instances of programmatic noncompliance, rate the subrecipient low.

Criteria 4: Fiscal Compliance (High: 5, Medium: 3, Low: 1; Major Systematic Issues: 10)

This criterion rates the subrecipient on complying with financial requirements of the grant as noted during monitoring. Questions to ask when rating this criterion include:

- Were expenditures incurred for allowable costs?
- Did the entity use grant funds to supplement and not supplant existing services?
- What is the dollar amount of the fiscal deficiencies?
- How many instances of fiscal noncompliance were noted?

If significant fiscal deficiencies (e.g., more than one instance of the same deficiency, several different deficiencies, significant amount of unallowable costs requiring reimbursement, etc.) were found, the subrecipient is rated high risk. If minor fiscal deficiencies (one instance, no unallowable costs requiring reimbursement) were noted during monitoring, rate the subrecipient medium. If no instances of fiscal deficiencies were noted, rate the subrecipient low.

The Office of Finance also provides a rating for subrecipients for fiscal compliance. If Finance notes that budget amendments were filed after the required deadline and/or the entity frequently submitted reimbursement for overclaimed or unspent funds, the subrecipient will be rated high. If amendments were filed near the deadline and/or there were seldom occasions of reimbursement of overclaimed or unspent funds, the entity should be rated as medium. If budget amendments are filed timely and in advance of expenditures, and the subrecipient has infrequent reimbursements for overclaimed or unspent funds, rate the subrecipient as low.

Criteria 5: Performance (High: 5, Medium: 3, Low: 1)

This criterion rates whether the subrecipient met requirements, expectations, and outcomes listed in the grant award. If the subrecipient failed to meet performance requirements, expectations, and outcomes, rate the subrecipient high. If the subrecipient met most performance requirements, expectations, and outcomes, rate the subrecipient with a score of medium. If the subrecipient met performance requirements, expectations, and outcomes, rate the subrecipient as low.

Criteria 6: Technical Assistance (High: 4, Medium: 2, Low: 1)

This criterion rates the subrecipient on the frequent need for technical assistance. The Office of Finance and all federal program areas provide a rating for this criterion. The rater should take into consideration the experience of key personnel when providing a rating for this criterion and the type of assistance needed. For example, is the frequent need for the technical assistance due to turnover? If so, new personnel should be expected to need frequent technical assistance and should be rated lower. However, experienced personnel should not need frequent basic level support and technical assistance. If experienced personnel requires frequent basic level support, the score should be higher. If the subrecipient repeatedly calls for answers on the same topic, that subrecipient should be rated higher. If the subrecipient lacks understanding following repeated technical assistance, the subrecipient should also be rated higher.

Criteria 7: Financial Stability (High: 5, Medium: 3, Low: 1; Negative Unassigned Fund Balance: 10)

This criterion assesses the financial wealth of a subrecipient based on unreserved fund balance. This measure is supported by the South Carolina Fiscal Practices and Budgetary Conditions Act, which requires districts to maintain one month of unreserved general funds to cover one month of its general fund operating expenditures. For school districts, the assessment is made by comparing unreserved fund balance to the general fund operating expenditures. If unreserved fund balance is less than 8.33% (1month/12 months) of general fund operating expenditures, assess the subrecipient as high risk. If unreserved fund balance is between 8.33% and 9.99% of general fund operating expenditures, assess the subrecipient as medium risk. If unreserved fund balance is 10% or more of general fund operating expenditures, assess the subrecipient as low. (See additional information about rating this criterion in the Compilation Process).

Criteria 8: Quality of Management Systems (High:5, Medium:3, Low:1; Major Systematic Issues: 10)

This criterion assesses reported deficiencies in internal controls and noncompliance with federal awards as listed in the annual audit report.

At least one material weakness or more than one significant deficiency or noncompliance finding will be assessed as high risk. In addition, more than one federal award finding will also be assessed as high risk. One significant deficiency, one noncompliance finding, one federal award finding, or three or more management letter comments will be assessed as medium risk. No significant deficiencies or material weaknesses in financial statement or federal awards or no noncompliance findings will be rated as low risk. Less than three management letter comments will also yield a low risk rating. (The SCDE takes into account varying methods auditors use in making management letter comments in making these determinations.)

Criteria 9: Timely submission of annual audit report (High: 3, Medium: 2, Low: 1)

This criterion assesses the timeliness of the submission of the annual audit report required to be submitted by December 1 under state law.

If the annual audit report is received more than 30 days after the due date, the subrecipient will be rated as high. If the annual audit report is received within 30 days of the due date, the subrecipient will be assessed as medium risk. If the annual audit report is received on or before the due date, the subrecipient will be rated as low.

Criteria 10: Other Material factors-such as accreditation, test security/cheating violations, fraud (High: 5, Medium: 3, Low: 1, None: 0; Varied for accreditation; Major Issues: 10)

This criterion is used to provide a score for other material factors that are known concerning a subrecipient but not specifically identified in one of the previous categories. Other material factors include school wide and district wide accreditation status, founded test security and cheating violations, instances of fraud not already identified in one of the previous categories, and significant violations in nonfederal programs.

Initial Risk Assessment

The annual process for assessing risk will begin in December of each year, the time when district audit reports are due. The SCDE's Office of Auditing Services (OAS) will send instructions to each federal grant program manager requesting a risk rating for every subrecipient (both LEAs and non-leas) by program on Criteria 1-6. There will be at least 5 federal program managers rating each LEA subrecipient, with the exception of the SC Public Charter School District. The Office of Finance will also provide risk ratings for each subrecipient on Criteria 1, 2, 4, and 6. The Office of Auditing Services will provide risk ratings for each subrecipient on Criteria 7, 8, and 9 based upon submission of the annual audit report and the information contained therein. The Office of General Counsel is asked to provide a list of any districts with founded allegations of test security and cheating violations. If any districts are found to have such violations, this information is considered in the rating for criteria 10. The Office of Federal and State Accountability is asked to provide OAS with the annual accreditation report to determine the accreditation status of districts and this information is also used to provide a rating for criteria 10. The Office of Auditing Services, in consultation with the Office of General Counsel, will provide a rating for known instances of fraud.

Risk Ratings

The initial risk assessment performed by the program offices, CFO, and OAS is tiered and on a three-level scale. Tier One consists of Criteria 3-Programmatic Compliance, Criteria 4-Fiscal Compliance, Criteria 5-Performance, Criteria 7 – Financial Stability, Criteria 8-Quality of Management Information Systems, and Criteria 10-Other Material Factors. The initial scores that are assigned in Tier One are a 5 (if the subrecipient is high risk in this category), 3 (if the subrecipient is medium risk in this category), or 1 (if the subrecipient is low risk in this category). Within Tier One, three categories (Criteria 3, 4, and 7) are “super-tiered” and reviewed for a higher risk rating of 10; Criteria 10 may also be increased to 10 points (*see Compilation Process below*). Tier Two consists of Criteria 1-Key Personnel Turnover, Criteria 2-Required Reporting, and Criteria 6-Technical Assistance. The scores assigned in Tier Two are 4 (if the subrecipient is high risk in this category), 2 (if the subrecipient is medium risk in this category), or a 1 if the subrecipient is low risk in this category). Tier Three only includes timeliness of the annual audit report (which is due by state statute on December 1st annually) and the risk scores are 3 (if the subrecipient is high risk in this category), 2 (if the subrecipient is medium risk in this category), or 1 (if the subrecipient is low risk in this category). If no material factors are noted in Category 10, a subrecipient may be scored zero. See more information in the *Compilation Process* below.

Compilation Process

OAS will provide information for Criteria 7, 8, 9, and 10.

OAS reviews the high risk scores for Criteria 4-Fiscal Compliance, Criteria 7-Financial Stability, and Criteria 8-Quality of Management Systems to assess whether the super-tier score of “10” should be assessed.

OAS will review the scores assigned for each subrecipient for Criteria 4-Fiscal Compliance and if at least one program office assigned the subrecipient a 5, OAS will contact that program office and every other program office that provided a 5 to determine the nature of the concern and to determine whether there are systemic issues. If there are systemic issues that may be pervasive across the district, the risk score for fiscal compliance will be increased to a 10.

If after reviewing the annual audit report, OAS determines that the nature of the findings indicate major systemic issues that impact all federal programs and the entire district, the “5” for Criteria 8-Quality of Management Systems will also be increased to a 10.

If review of the District’s financial stability indicates the District has a negative unreserved fund balance, the Criteria 7-Financial Stability score will increase from a “5” to a “10.”

The only criteria that a subrecipient could receive a “0” score in is for Criteria 10. If there are no other material factors, the subrecipient will receive a score of “0” for this criteria.

Under Criteria 10, district-wide accreditation issues are weighted higher than school accreditation issues. If the accreditation status of a school in a district is advised, the subrecipient will be assigned a score of “1.” If a school in a district is warned, the subrecipient will be assigned a score of “3.” If a school is on probation, the subrecipient will be assigned a score of “5.” If the accreditation status for a district is advised, the risk rating will be a “3.” If the district’s probationary status is warned, the risk rating will be assigned as “5.” If the district is on probation, the risk rating will be a “10.”

Level	Advised	Warned	Probationary
School	1	3	5
District	3	5	10

If there are other known material factors for a district such as instances of fraud in state programs with funds passed through from the SCDE, or founded test security and cheating violations, this information will also be considered for ratings in criteria 10. Instances of fraud and founded test security and cheating violations will be evaluated based on severity and materiality. As an example, it is likely that school level fraud involving pupil activity funds will be provided a lower risk rating than district level fraud.

OAS will compile the information by taking the average of the scores in each category (except any categories that have been increased to a 10) to determine the subrecipients total risk score.

That is, the scores provided by each program office and the CFO (as noted) are averaged based upon the number of scores given. The sum of the scores is the subrecipient's overall risk score. The range of possible scores is 9 (low rating of 1 on Criteria 1-9, and zero on Criteria 10) to 65 (high or super-tiered on each category). The total risk score will determine the range of risk as follows:

If the total score is between 9-18, then the subrecipient is considered low risk

If the total score is between 19-28, then the subrecipient is considered medium risk

If the total score is 29 or greater, then the subrecipient is considered high risk.

Communication-Internally

The outcome of this process will be shared first with the administrative working group which currently consists of members of the Offices of General Counsel (Legal, Procurement, and Grants), Finance, and Auditing Services. The information will then be provided to Senior Management and to each federal grant program manager.

Communication-Externally

All high risk subrecipients will receive communication directly from the State Superintendent of Education. All other subrecipients will be notified of their risk score and risk category via email. Notifications are addressed to the Superintendent, Chief Finance Officer, and Director of Federal Programs. Beginning with the FY 2017-18 notifications, the School Board will also be added to the correspondence.

High Risk Procedures

Once a subrecipient is determined to be high risk, a letter addressed from the State Superintendent will be sent to notify of the high risk status. A meeting will be scheduled with the school superintendent and board or executive director (if a non-profit entity) to discuss what that means and to discuss the areas that have been identified as issues. During the meeting, discussion will occur about next steps. A triage team will be assembled that will consist of staff in the areas where the problems have occurred and an in-house meeting will occur to discuss the issues. Based upon the in-house triage team review, an onsite fact finding mission to determine the corrective action needed and implementation timetable will occur. This onsite visit will be flexible enough to allow the triage team to find any additional areas of concern. The team will report back to General Counsel (via a written report). General Counsel will report back to the administrative working group and Senior Management. The subrecipient will implement the corrective action with possible quarterly reviews to ensure things are working as designed. Specific conditions may be placed in the grant award notifications for each grant award.