

SIG Lesson Learned #17 - Mitigate Significant State Risks when Administering Federal Grants

Many State agencies administer federal grants, often passed through to non-profits known as grant sub-recipients (GSR). State government is financially liable to the federal government for both performance failures by GSRs **and** GSRs' inability to maintain accurate records and supporting documentation. The risk for significant State liability generally emanates from GSRs managing multiple grants including the added complexity of those requiring indirect cost allocations. Significant GSR problems generally result from a combination of a weak accounting system and weak accounting personnel that produce a record system incapable of documenting grant expenditures. The result—many months, if not years, of disrupted operations for both the State agency and the GSR dealing with forensic audits, claims, counter-claims, and then at the end, a bill due to the federal government. Further, even if the GSR had delivered adequate service or products and complied with State grant reporting requirements, the GSR and the State are still liable to the federal government if the GSR's accounting system can't substantiate grant expenditures.

The SIG suggests State agencies, particularly with a high risk complex GSR, emphasize all new grants start on a solid foundation with a thorough initial assessment of its accounting system, accounting personnel, and the GSR's operational capacity. It is important to assess the GSR's accounting system and personnel on-site on the front end of a grant, followed by actual transaction testing several months later. This will identify deficiencies early and allow mitigation before financial consequences multiply over time. This early on-site accounting and operational evaluation will also allow the State agency to assess a GSR's grant risk and allow an opportunity to build a cost/effective long-term grant monitoring plan for the GSR.