

Video Transcript: “The Grant Award Audit Process Webinar Video 4: Findings,” August 2018

Welcome to the fourth webinar in our 5-part series. We will continue to describe the lifecycle of a grant award audit. The Department of Justice awards billions of dollars in grant and cooperative agreement funding, which we refer to as “awards” throughout this presentation.

This presentation is for informational purposes only. It does not create or provide any rights to award recipients or other parties relating to the OIG’s audit process, nor does it create any responsibilities for the OIG. Additionally, the information presented here pertains only to grant audits performed by the Department of Justice Office of the Inspector General, and may not describe the practices of the DOJ OIG in other types of audits and reviews, or the practices of OIGs for other federal agencies.

The OIG has two broad types of recommendation categories. The first is management improvement recommendations, which lend themselves to procedural or policy improvements. The second is dollar-related recommendations, which require the DOJ to work with the awardee to respond to the OIG’s findings concerning the use of specific funds identified during our audit. Deficiencies that our audit teams identify can result in both management improvement and dollar-related recommendations.

Management Improvement recommendations may stem from a wide variety of deficiencies, but some of the common findings relate to the following topics:

Program Accomplishments – For example, if recipients are not accomplishing the goals outlined in the approved award documents for which they received award funding, the OIG will make such a finding and recommend management improvements. Egregious deficiencies may also result in the OIG making questioned costs findings, which are described in greater detail later in this presentation.

Reporting – These recommendations arise if recipients must improve procedures to provide accurate performance and financial reports, and retain support for progress reported and transactions reimbursed.

Management improvement findings may also involve the way recipients handle award funds, and the OIG may have findings related to Financial Management and Budget Management:

Financial Management – Recommendations in this area may be appropriate if recipients must strengthen accounting practices or systems to ensure that they can track award funding separately from other sources of funding.

Budget Management – For example, if recipients are not tracking costs according to budget category, are expending costs on unapproved budget categories, or spending in excess of approved budget category amounts, the OIG will make recommendations of this nature.

The OIG will also be looking for indicators of Supplanting. This term refers to the principle that Federal funding must supplement, and not supplant or replace, State funding budgeted for the same purpose. Questions arise if State funding was not expended before Federal funding, or if

Video Transcript: “The Grant Award Audit Process Webinar Video 4: Findings,” August 2018

there is a balance in State funding remaining when Federal funding is exhausted. Also, an unexplained reduction in State funding for a program could result in a finding when Federal funding for the same program increased.

Other management improvement areas that relate to the handling of award funds include Drawdowns and Award Charges:

Drawdowns – If recipients draw down award funds in excess of expenditures, or drew down significant amounts in advance which were not based on immediate need, the OIG will identify these concerns and recommend management improvements.

Award Charges – These recommendations arise if recipients must improve the way they document and track support for charges to conform to award requirements. Improper personnel timekeeping practices are a common OIG finding.

OIG audits also assess recipients’ distribution of award funding to other entities. Management improvement findings in this area often relate to Contracts and Consultants as well as Subrecipient Monitoring:

Contracts and Consultants – If recipients do not properly compete contracts or justify contract decisions, fail to address conflicts of interest, or incur unreasonable contract costs, such as consultant costs that exceed limits in the DOJ Grants Financial Guide, the OIG will make appropriate findings and recommendations for management improvements.

Subrecipient Monitoring – The OIG may have findings related to subrecipients for several reasons. These can include circumstances when, for example, an award recipient does not: 1) Reasonably justify and document subrecipient selection decisions; 2) Maintain written procedures to ensure subrecipients are appropriately managing funds and implementing award programs; 3) Adequately convey requirements and restrictions on DOJ funds down to the subrecipient level; 4) Review and have an understanding of subrecipient financial management systems and controls, and 5) Ensure subrecipients are having Single Audits performed as required, collect these results, and implement corrective action for findings.

The OIG may also have findings if the recipient cannot demonstrate that payments to subrecipients are clearly documented, based on immediate need, and tied to actual expenditures and not estimates. If adequate support for subrecipient payments is not available, costs could be questioned.

If there is a large amount of award funding passed through the primary recipient to other entities, there is an increased responsibility for the primary recipient to manage the risk for misuse of funds and perform adequate monitoring.

Again, this section summarizes different types of management improvement findings the OIG may identify during an audit. However, it is not an exhaustive list.

Video Transcript: “The Grant Award Audit Process Webinar Video 4: Findings,” August 2018

Just as management improvement recommendations may address a variety of areas, dollar-related findings also occur in a variety of circumstances. The most common categories of dollar-related findings are Funds to Better Use and Questioned Costs.

Funds to Better Use are defined as expenditures which could be used more efficiently.

Questioned Costs are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. There are several types of questioned costs: unallowable, unsupported, and unreasonable or unnecessary costs.

Award charges are unallowable if, for example, a recipient charges: salary for personnel who do not work on the award; consultant fees that exceed prescribed limits in the DOJ Grants Financial Guide; or expenses for items not approved in the budget or a grant award adjustment notice.

Award charges are unsupported if the recipient made charges to the award but cannot produce appropriate documents to support these charges. Costs may be questioned as unsupported if the audit team cannot locate, for example: invoices for a purchase; timekeeping records showing actual time worked on award-funded activity; or support for any matching amounts claimed.

The OIG may also question costs charged to the award that it finds were unreasonable or unnecessary, given the scope of the award project.

There are several ways that the grant making agency and the awardee can address, or “remedy,” a dollar-related finding. Specifically, the grant making agency can require the auditee to repay grant funds to the DOJ; it can offset the costs by withholding future funding that the auditee otherwise would have received; it can accept additional supporting documentation from the auditee as proof that the questioned costs were in fact allowable and supported; or it can grant a waiver to the auditee. While these are some of the remedies for dollar-related findings, the type of remedy that is appropriate in response to a particular finding will depend on circumstance.

Thank you for listening to this part of the Grant Award Audit Process webinar. Please make sure to check out the other 4 videos in this series.