

# *ACF Office of Family Assistance & Office of Grants Management*

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ADMINISTRATION FOR  
**CHILDREN & FAMILIES**

# Agenda

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- **Overview of Grant Fraud**
- **Single Audits and Common Audit Findings for TANF**
- **Internal Controls**
- **Subrecipient Monitoring**



# The Fraud Triangle



Source: Association of Government Accountants

<https://www.agacgm.org/Intergov/Fraud-Prevention/Fraud-Awareness-Mitigation/Fraud-Triangle.aspx>



# What is Grant Fraud?

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**The intentional misuse of grant funds in a manner that is not consistent with the goals and objectives identified in the grant.**

For Office of Inspector General (OIG) auditors and investigators, grant fraud encompasses a wide range of improper activities often summarized in three general categories:<sup>1</sup>

<sup>1</sup>Reducing Grant Fraud Risk: A Framework for Grant Training  
Financial Fraud Enforcement Task Force  
Recovery Act, Procurement, and Grant Fraud Working Group, March 2012



# OIG Categories of Grant Fraud<sup>1</sup>

## CONFLICTS OF INTEREST

- ❖ Hiring a relative as an employee or as a vendor to supply grant-funded products
- ❖ Purchasing goods or services from a business in which the grant recipient has an ownership interest

## THEFT

- ❖ Fictitious transactions
- ❖ Misusing credit card designated for grant-funded purchases
- ❖ Trafficking Electronic Benefits Transfer (EBT) cards

## MATERIAL FALSE STATEMENTS

- ❖ Falsifying certifications
- ❖ Failing to maintain adequate supporting documentation about the use of funds
- ❖ Misrepresenting elements of costs
- ❖ Charging unallowable costs

<sup>1</sup>Reducing Grant Fraud Risk: A Framework for Grant Training  
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# Grant Fraud Red Flags

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- ❖ More than one explanation for an expense
- ❖ Even dollar claims
- ❖ Unusual spending near the end of the grant period – often done to avoid losing expiring funds
- ❖ Inability/refusal to provide supporting documentation in a reasonable amount of time
- ❖ Plagiarized or otherwise false or misleading reports
- ❖ Unresponsive recipients



# Mitigating Fraud

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- ❖ Maintain a system of effective internal controls
- ❖ Educate staff about risks
- ❖ Identify potential conflicts of interest issues
- ❖ Ensure all certifications, financial reports, and progress reports are adequately supported with appropriate documentation and evidence
- ❖ Share your concerns related to fraud, waste, and abuse of government funds with the OIG



# Suspect Fraud?

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**Refer suspected cases of fraud to the  
HHS OIG Hotline**

Telephone:

**1-800-HHS-TIPS (1-800-447-8477)**

Online:

**[oig.hhs.gov/report-fraud](https://oig.hhs.gov/report-fraud)**





# Single Audit Overview

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As a part of subrecipient monitoring, pass-through entities must:

- Verify that every subrecipient is audited as required by 45 CFR subpart F when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the \$750,000 threshold;
- Follow-up and ensure that the subrecipient takes timely and appropriate action on deficiencies detected through audits;
- Issue a management decision for audit findings pertaining to the Federal award provided to the subrecipient;
- Consider whether the results of the subrecipient's audits require adjustments to the pass-through entity's own records.

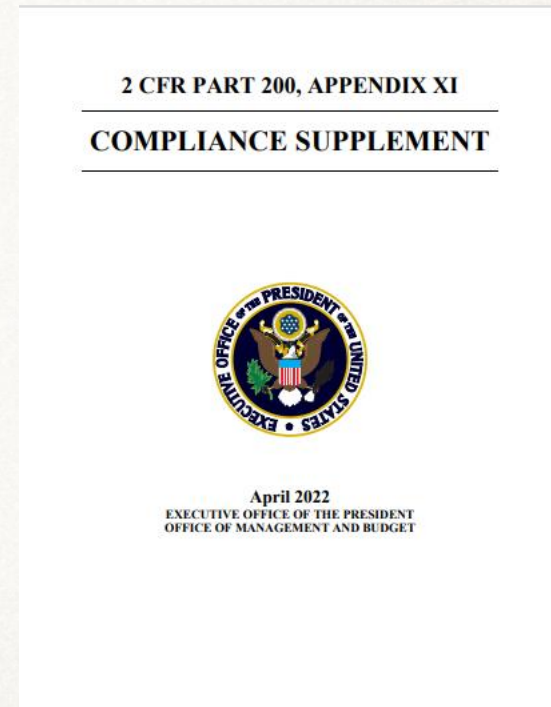


# Single Audit Overview

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## OMB Compliance Supplement:

Provides a source of information for auditors to understand the federal program's objectives, procedures, and compliance requirements subject to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.



Available on the [OMB Website](https://www.omb.eop.govt/200)

# Single Audit Overview

## Compliance Supplement: Audit Matrix

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	Y	N	Y	N	N	N	Y	Y	Y

Excerpt from [2022 Supplement](#) for TANF, Assistance Listing 93.558

Starting in 2019, the Compliance Supplement reduced the areas for compliance reviews from a maximum of 12 to a maximum of six.



# Single Audit Overview

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## The auditor must identify:

- Significant deficiencies and material weaknesses in internal control
- Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards
- Known questioned costs that are greater than \$25,000
- Known questioned costs when likely questioned costs are greater than \$25,000
- Known or likely fraud

# Common Audit Findings

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## Allowable Costs/Cost Principles

- 2 CRF 200 Subpart E, HHS implemented at 45 CFR 75\*:
- Necessary, reasonable, allocable
- Prior Approval – equipment purchase, mortgage payments
- Direct vs. indirect costs – costs allocated to correct program
- Allowable or Unallowable - General Provisions for Selected Items of Cost:
  - § 75.422 Advisory councils – allowable with restrictions
  - § 75.423 Alcoholic beverages – unallowable
  - § 75.425 Audit services – allowable with restrictions
  - § 75.426 Bad debts – unallowable
  - § 75.430 Compensation – personal services – allowable with restrictions

\*see 45 CFR 75.101 for applicability to specific programs.





# Common Audit Findings

## Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Unable to provide detailed records of expenditures:



- Costs must be adequately documented
  - designated subaccounts to separately track program specific funds
  - trace costs to cancelled checks, invoices, vouchers

The financial management system must provide accurate, current, and complete disclosure of the financial results of each Federal award or program, and records that identify adequately the **source and application of funds** for federally-funded activities. (45 CFR § 75.302(b)).



# Common Audit Findings

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## Eligibility

- Unable to verify the household composition, the income reported, the Social Security numbers for all individuals included in the application, or whether a fleeing felon is included on the application.
- Unable to verify the Social Security numbers for all individuals on the application, and whether the applicant was a U.S. citizen.
- Unable to provide sufficient documentation to support that assistance was not provided to any individual who was fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony, or who is violating a condition of probation or parole imposed under Federal or State law as the question was not addressed on the application.

# Common Audit Findings

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## Eligibility – Transfers out of TANF to other programs

- States may transfer a limited amount of federal TANF funds into the Social Services Block Grant (Title XX) (Assistance Listing 93.667) and the Child Care and Development Block Grant (Assistance Listing 93.575).
- Transfers may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level.
- The amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs.
- On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.





# Common Audit Findings

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## Subrecipient Monitoring

State agency did not:

- effectively monitor subrecipients to ensure TANF funds were used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward;
- ensure subrecipient audit reports were submitted timely and accurately;
- monitor subrecipients to ensure that TANF funds were only spent on eligible populations;
- did not address known deficiencies in subrecipient monitoring.

Common causes: limited staffing and resources, need to establish and adhere to MOUs



# ***Trending Audit Findings***

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## **Electronic Benefit Transfers (EBT)**

- Internal controls and procedures need to be strengthened to ensure EBT cards are adequately safeguarded.
  - Monitor physical EBT card
  - Monitor systems/data, IT security
  - PIN security, failed login attempts
  - Skimming
  - Cards lost/stolen
  - Risk of fraud or abuse

# Internal Controls

## GAO Green Book Audit Compliance Supplement

“Management should design control activities to achieve objectives and respond to risks”

Components of Internal Control	Principles
Control Environment	<ol style="list-style-type: none"> <li>1. Demonstrate Commitment to Integrity and Ethical Values</li> <li>2. Exercise Oversight Responsibility</li> <li>3. Establish Structure, Responsibility, and Authority</li> <li>4. Demonstrate Commitment to Competence</li> <li>5. Enforce Accountability</li> </ol>
Risk Assessment	<ol style="list-style-type: none"> <li>6. Define Objectives and Risk Tolerances</li> <li>7. Identify, Analyze, and Respond to Risks</li> <li>8. Assess Fraud Risk</li> <li>9. Identify, Analyze, and Respond to Change</li> </ol>
Control Activities	<ol style="list-style-type: none"> <li>10. Design Control Activities</li> <li>11. Design Activities for the Information System</li> <li>12. Implement Control Activities</li> </ol>
Information and Communication	<ol style="list-style-type: none"> <li>13. Use Quality Information</li> <li>14. Communicate Internally</li> <li>15. Communicate Externally</li> </ol>
Monitoring	<ol style="list-style-type: none"> <li>16. Perform Monitoring Activities</li> <li>17. Evaluate Issues and Remediate Deficiencies</li> </ol>



# Internal Control Activities

## Example of Management Control Activities

- Top-level reviews of actual performance;
- **Reviews by management at the functional or activity level;**
- Management of human capital;
- Controls over information processing;
- Physical control over vulnerable assets;
- **Establishment and review of performance measures and indicators;**
- **Segregation of duties;**
- Proper execution of transactions;
- Accurate and timely recording of transactions;
- Access restrictions to and accountability for resources and records;
- **Appropriate documentation of transactions and internal control.**



# Understanding Control Activities

A control is designed to prevent or timely detect noncompliance

Use a “what-could-go-wrong” approach when writing a control

Preventative controls vs. detective controls

## Examples of Preventative Controls

- Segregation of Duties
- Subrecipient Agreements

## Examples of Detective Controls

- Federal Financial Reports—ACF-196R
- Cash Management
- Subrecipient Monitoring

# Subrecipient Agreements

If using OFA award funds with a subrecipient, you are acting as a “pass-through entity”. This means that you are passing federal funds through your organization to another organization, and are responsible for oversight of these taxpayer dollars

Management requires using a standard template for use for all subrecipient agreements—includes all Uniform Guidance elements.

A good subrecipient agreement would

- Clearly identify each Federal subaward to the subrecipient.
- All requirements imposed on subrecipient, so award is used in accordance with federal requirements, regulations (Uniform Guidance), and terms and conditions.
- Identification of all required financial and performance reports (example: ACF-196R).

Subrecipient agreements are reviewed and approved by knowledgeable supervisors for consistency and compliance with all requirements.



# Subrecipient Monitoring

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Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process, such as missing federal and pass-through entity requirements in subawards

Management tracks subaward notifications and maintains an inventory of executed subaward agreements

Documentation and conclusions of subrecipient oversight activities are reviewed by supervisory personnel

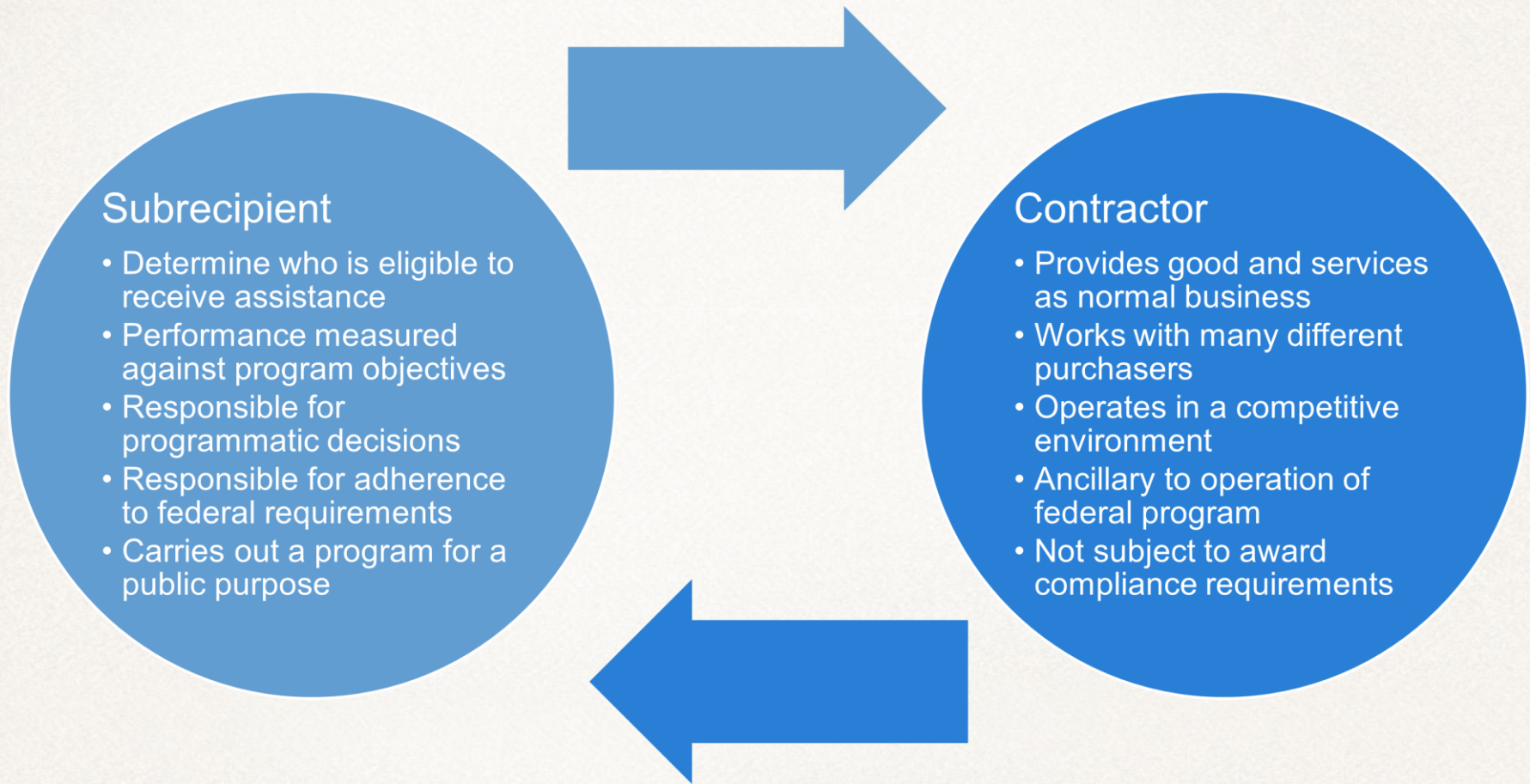
Reconcile and manage the calendar of planned subrecipient monitoring against actual monitoring activities

Registering with, and making updates to, the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS)



# Subrecipient vs. Contractor

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# Questions?

