



Evaluating Subrecipient Fraud Risk

Webinar

Presenter:

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VANDER WEELE GROUP ^{LLC}
Making Monitoring Meaningful



Agenda

- Revisions to 2 CFR § 200.332 Requirements for Pass-Through Entities
- New Administration's Focus on Waste, Fraud, and Abuse in Federal Grants
- Key Elements of the Fraud Risk Assessment Process
- Recommendations for Managing Subrecipient Fraud Risk

Occupational Fraud 2024 (ACFE)

- 18 common anti-fraud controls and each was associated with faster detection and fewer losses.
- Four controls—surprise audits, financial statement audits, hotlines, and proactive data analysis—were associated with at least a 50% reduction in both fraud loss and duration.
- Surprise audits and proactive data analysis were among the least commonly implemented anti-fraud controls in the study.

§ 200.332 Requirements for Pass-Through Entities

From October 1, 2024 – A pass-through entity must:

§ 200.332 (c) *Evaluate each subrecipient's fraud risk* and risk of noncompliance with a subaward to determine the appropriate subrecipient monitoring described in paragraph (f) of this section.



§ 200.332 (c) Evaluate each subrecipient's fraud risk ...

When evaluating a subrecipient's risk, a pass-through entity should consider the following:



- The subrecipient's prior experience with the same or similar subawards;
- The results of previous audits;
- Changes in program management or personnel;
- Prior monitoring reviews from Federal agencies.

New Administration's Focus on Waste, Fraud, and Abuse in Federal Grants

IMPROVING OVERSIGHT OF FEDERAL GRANTMAKING

Executive Order, dated August 7, 2025

“By the authority vested in me as President by the Constitution and the laws of the United States of America, and **to improve the process of Federal grantmaking while ending offensive waste of tax dollars**, it is hereby ordered ...”

- Insufficient automatic checks of databases and overreliance on manual checks that could introduce human error.
- Volume of applications causes excessive pressure to expedite approvals and results in less attention paid to verifying identities.
- Management override of control activities.
- Poor fraud awareness among supervisors and application reviewers.

Fraud Risk Factors

Key Elements of the Fraud Risk Assessment Process*

1. Identify inherent fraud risks affecting the program.
2. Assess the likelihood and impact of inherent fraud risks.
3. Determine fraud risk tolerance.
4. Examine the suitability of existing fraud controls and prioritize residual fraud risks.
5. Document the program's fraud risk profile.

*GAO Framework for Managing Risk in Federal Programs

1. Identify inherent fraud risks affecting the program.

- Types of fraud:
 - Financial reporting
 - Misappropriation of assets
 - Corruption
 - Conflicts of Interest
- Applicants using false identities to apply for benefits.
- Primary residence.



2. Assess the likelihood and impact of inherent fraud risks.



- Assessment can be quantitative or qualitative.
- Impact of fraud risks on finances, reputation, and compliance.

3. Determine fraud risk tolerance.

- Cost effective or cost benefits allowance.
Do the costs of a control activity exceed the benefits?
- U.S. Treasury Homeowner Assistance Fund.
- Cost effective analysis to compare alternate means of achieving the objective.

Key Elements of the Fraud Risk Assessment Process

4. Examine the suitability of existing fraud controls and prioritize residual fraud risks.



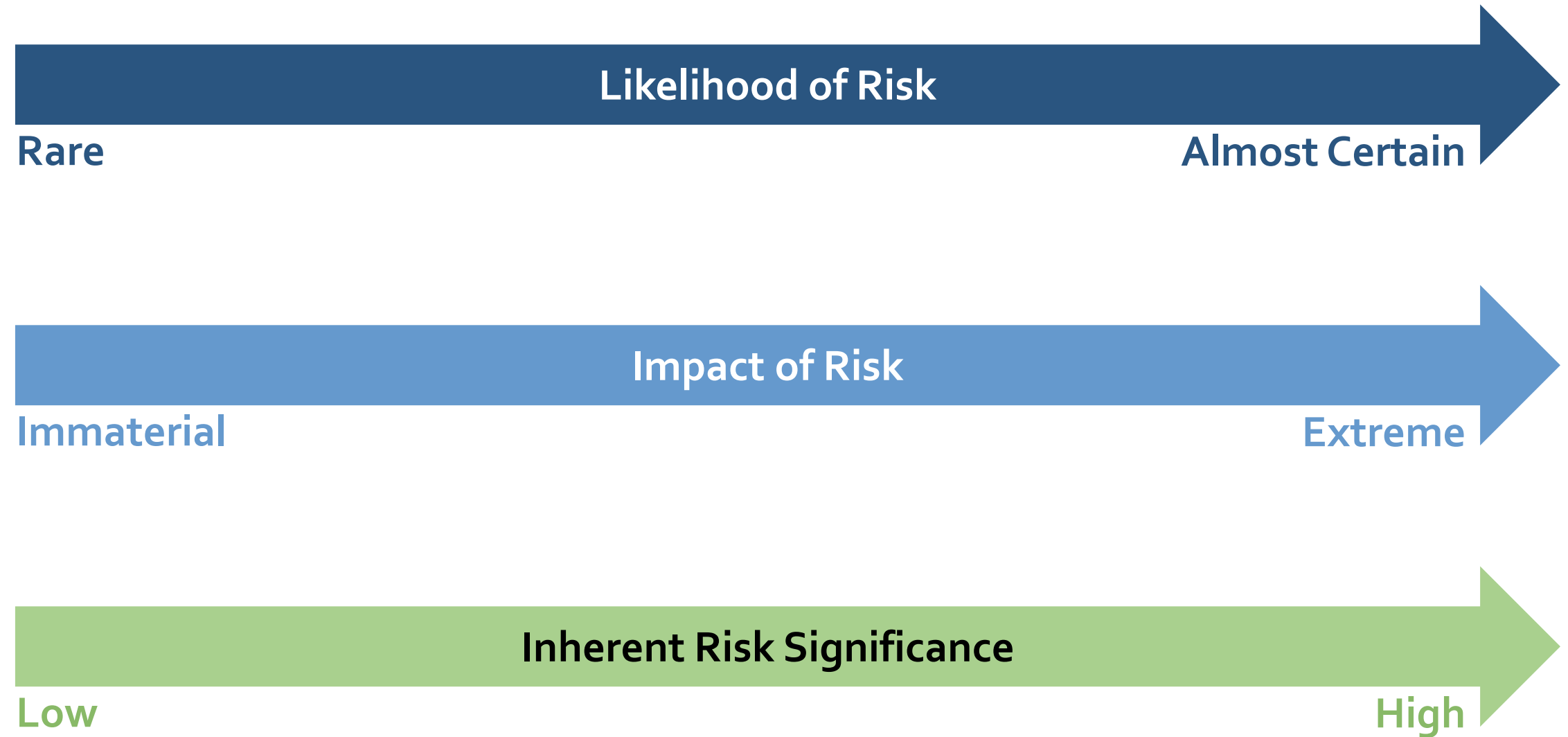
- Applicants with false identities.
- Primary Residence.
- Restrictive Covenant or Lien.

5. Document the program's fraud risk profile.

- Effectively assessing fraud risks involves documenting the key findings and conclusions from Steps 1–4, including:
 - The analysis of the types of fraud risks,
 - Their perceived likelihood and impact,
 - Risk tolerance, and
 - The prioritization of risks.



5. Document the program's fraud risk profile.



10 Sample Steps toward Managing Subrecipient Fraud Risk

1. Require fraud awareness training tailored to the grant program. Explain escalation procedures when fraud is suspected and penalties if fraud occurs.
2. At subrecipient work sites, require fraud reporting posters with hotline numbers.
3. Segregate the monitoring function from program management.
4. Deploy monitoring in the first year of the program to ensure real time oversight.
5. Conduct existing testing through site visits.

10 Sample Steps toward Managing Subrecipient Fraud Risk

6. During monitoring, engage subrecipients in two-way conversations to identify program strengths and weaknesses. Go beyond check-the-box compliance tests.
7. In software systems, embed from the program's inception data fields designed to enhance data analytics for fraud and program effectiveness.
8. Use human-facilitated AI and vetted data analytics to detect and investigate anomalies in beneficiary applications and spending data.
9. In beneficiary programs, brainstorm checks and balances specific to the program.
10. Create and deploy logical and effective escalation procedures for incidences when "red flags" arise. Create effective systems for follow up, including heat maps indicating urgent issues that require follow up.

Questions?

Thank you for participating!

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Additional resources:

Our Resource Library:

<https://www.vanderweelegroup.com/resources>

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Next webinar:

Fraud Guardrails for your Grant Program

Wednesday, October 22 at 12 p.m. Central