**Frequently Asked Questions-Risk Assessment**

**From the COFAR:**

***.205-1 Review of Risk Posed by Applicant- Financial Stability***

In section 200.205, “Federal awarding agency review of risk posed by applicants,” what guidelines are auditors given to determine financial stability?

The guidance in this section applies to Federal awarding agency pre-award review of risk posed by applicants, not the risk assessment process used by auditors. Guidance given to auditors for reviewing risk can be found in Subpart F of the Uniform Guidance and generally accepted government auditing standards (GAGAS).

**From the U.S. Department of Education:**

***Question:*** Are grantees required to assess risks of subgrantees before awarding subgrants?

***Answer:*** Risk assessments are required; however, there is no requirement for grantees to assess risks before making subgrants. Under the Uniform Guidance, grantees must assess risks to inform monitoring priorities. However, grantees have discretion to make risk assessments before awarding subgrants. The procedures for assessing risk should be documented and included as part of a grantee’s written internal controls. Factors for grantees to consider when developing their risk tools can be found at 2 CFR §200.331.

***Question:*** Is the risk assessment for both contractors and subgrantees?

***Answer:*** Generally yes; however, risks posed by contractors are addressed differently than those posed by subgrantees.

The Uniform Guidance requires grantees to assess risks posed by subrecipients (i.e., subgrantees). Even if a State uses a contract to award financial assistance to an entity that ED considers a subgrantee, the risks posed by that entity must be assessed. See 2 CFR §§ 200.330 and 200.331. Grantees must assess risks of a subgrantee not complying with Federal statutes, regulations, and the terms and conditions of the subawards. Risks may be posed by weak internal controls, including inadequate financial systems. The risk assessment requirements, monitoring requirements, and specific conditions for subawards are identified in 2 CFR § 200.331.

While the Uniform Guidance doesn’t use the term “risk assessment” to describe the review that grantees must give potential contractors, the Uniform Guidance requires grantees and subgrantees to determine whether each potential contractor has the ability to perform successfully under the terms and conditions of a proposed procurement and consider the contractor’s integrity, compliance with public policy, record of past performance, and financial and technical resources. See 2 CFR § 200.318(h). While not described as a risk assessment, consideration of these issues is, in essence, a risk assessment.

Procurement standards are identified in 2 CFR §§ 200.117 through 200.326.

***Question:*** Are recipients of formula grants required to complete risk assessments on each subgrantee?

***Answer:*** Yes, see 2 CFR §200.331 for those requirements. Grantees must assess all subgrantees for risk. OMB is revising its regulations regarding the Federal Awardee Performance and Integrity Information System (FAPIIS) and updating the capabilities of FAPIIS. We expect that grantees and subgrantees soon will be able to use FAPIIS to assess risks posed by subgrantees.

***Question:*** How will State Education Agencies (SEAs) be able to conduct risk assessments on all Local Education Agencies (LEAs)?

***Answer:*** Section 200.331 of the Uniform Guidance does not mandate how grantees must conduct risk assessments on subawards. During the first year of implementation, we expect that grantees will develop risk assessment systems to establish monitoring priorities and SEAs have discretion to establish risk assessment systems that assess risks before making subgrants. We expect that those systems would be in place before States receive their first formula-grant awards and allotments on July 1, 2015.

***Question:*** What is the purpose of a risk assessment on formula grantees, if it does not impact receipt of an award or the amount of the award?

***Answer:*** Conducting risk assessments of subgrantees 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 § 200.207 during the course of the award and, in appropriate circumstances, designate those conditions as “high risk” conditions under 2 CFR § 3474.10.