

Fall Forum 2023
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INTERNAL RISK ASSESSMENTS

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AGENDA

- Introduction to Risk Assessments
- Conducting an Internal Risk Assessment: 5 Steps
- Risk Assessment Case Studies

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WHY SHOULD SEAS, LEAS, AND Ihes CONDUCT AN INTERNAL RISK ASSESSMENT?

- 1) It is required by the UGG
- 2) ED is regularly citing recipients for their failure to have a risk assessment.
- 3) It is a risk not to have a risk assessment.

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INTRODUCTION TO RISK ASSESSMENTS

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WHAT IS A RISK ASSESSMENT?

"[A risk assessment] assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses...assesses the risks the entity faces from both external and internal sources."

- GAO Standards for Internal Control
<https://www.gao.gov/assets/gao-14-704g.pdf>

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TYPES OF RISK ASSESSMENTS

- Risk assessment for **subrecipients**
 - Federal awarding agency review of risk posed by applicants (2 CFR 200.206)
 - Specific conditions (2 CFR 200.208)
 - Requirements for pass-through entities (2 CFR 200.332)
- **Internal** risk assessment
 - Self-assessment (2 CFR 200.329)
 - Compliance with all requirements of federal award (2 CFR 200.300(b))
 - Internal controls (2 CFR 200.303)

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FEDERAL RISK EVALUATION 200.206(B)(2)

Federal agencies **may** use the following items when reviewing applicant risk:

1. Financial stability
2. Management systems and standards
3. History of performance (including timeliness or compliance with reporting requirements)
4. Audit reports and findings
5. Ability to effectively implement requirements.

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INTERNAL RISK ASSESSMENT REQUIREMENTS UNDER THE UGG

- Self-assessment (2 CFR 200.329)
- Compliance with all requirements of federal award (2 CFR 200.300(b))
- Internal controls (2 CFR 200.303)

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RISK ASSESSMENT PRINCIPLES

1. Develop clear objectives to enable the identification of risks and risk tolerance levels;
2. Identify risks to achievement of objectives across the entity and analyze risks as a basis for determining how the risks should be managed;
3. Consider the potential for fraud; and
4. Identify and assess changes that could significantly impact the system.

GAO Standards for Internal Control:
<https://www.gao.gov/assets/gao-14-704g.pdf>

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SELF-ASSESSMENT 200.329

- The non-Federal entity **must**:
 - Monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved
 - Monitoring must cover each program, function or activity.

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WHY CONDUCT AN INTERNAL RISK ASSESSMENT?

- A risk-based approach helps you prioritize needs, direct resources to the highest areas of risk, and develop proactive solutions
- More grants (stimulus funds!) = more rules to follow, higher scrutiny, and higher risk
- States are receiving findings for not having a formal risk assessment in place

Life lesson- When you're cute, the rules don't apply to you



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CONDUCTING AN INTERNAL RISK ASSESSMENT: 5 STEPS

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THE PROCESS

- Step 1: Information gathering
 - Documentation/desk review (org chart, compilation of existing policies and procedures, recent audits/monitoring reports)
 - Interviews with grants management staff (fiscal and program)

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THE PROCESS

- Step 2: Identifying categories of risk and individual risk factors to be evaluated, for example:
 - Procurement and asset management
 - Allowability
 - Financial management
 - Operations
 - Compliance

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PRACTICE TIP !

- When considering what categories of risk to cover, consider using the UGG as a roadmap
- Look at requirements for procurement, financial management, allowability, cash management, audit requirements, time and effort, etc., and base risk factors to evaluate risk off of these categories.

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THE PROCESS

- Step 3: Develop scoring rubric
 - Factor in internal priorities, potential impact, likelihood of occurrence

Example:

- Risk factor - Shortage of staff
- 0 = Little to no vacancies across SEA;
- 2 = Less than 20% of FTE positions are vacant
- 5 = More than 20% of FTE positions are vacant

Example:

- Risk factor: inconsistent oversight of contracts
- 0 = Process for contract oversight in place and consistently followed
- 3 = Process for contract oversight in place but requires updates
- 5 = No process in place for contract oversight

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THE PROCESS

- Step 4: Score the assessment and provide risk mitigation strategies/next steps
- 5+ points = high risk (red)
- 2-4 points = moderate risk (yellow)
- 0-1 points = low risk (green)

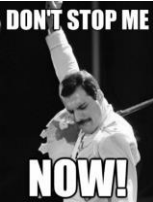
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STEP 5: PRIORITIZE RESOURCES AND IMPLEMENT RISK MITIGATING STRATEGIES

- Once the risk assessment is complete, take steps to mitigate the risks identified
- Start with highest risk areas
- Implement strategies to mitigate risk
- For example, if inconsistent contract oversight is a high-risk area, a mitigating action would be to develop contract administration procedures and train employees



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HOW OFTEN SHOULD WE COMPLETE AN INTERNAL RISK ASSESSMENT?

- Best practice is annually
- Ensure you are tracking progress on steps taken to mitigate risks identified
- Goal is not to have ANY risks, but to show year to year progress; do not want to see same areas of high-risk repeating year after year

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RISK ASSESSMENT CASE STUDIES

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CASE STUDY NO. 1 – INFORMATION GATHERING

- Collected SEA's org chart, existing policies and procedures, recent audits and monitoring reports, and other documents for desk review
- Conducted interviews with:
 - CFO
 - Chief of Staff
 - Director of Financial Services
 - Director of School Finance
 - Director of Program Compliance
 - Director of Title I

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CASE STUDY NO. 1 – RISKS IDENTIFIED

- Operational risk factors:
 - Staff turnover
 - Staff shortages
 - Lack of segregation of duties
 - Inconsistent or lack of staff training; PD opportunities
 - Receipt of new federal grants or significant increase (including stimulus)
 - Lack of uniform grants management system
 - Lack of policies and procedures re employee performance, oversight, reporting, and other procedures related to technology controls such as user access controls

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CASE STUDY NO. 1 – RISKS IDENTIFIED

- Financial management risk factors
 - Lack of transparency of financial information (carryover balances, budget visibility) internally and externally, as needed
 - Lack of protocols on budget-to-actual reporting
 - Lack of consistency/schedule of federal draws
 - Significant carryover of funds
 - Lapsing of funds
 - Lack of written financial management procedures, including on timeliness; payment methods, collecting and evaluating financial data, maintaining accounting records

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CASE STUDY NO. 1 – RISKS IDENTIFIED

- Allowability risk factors
 - Time and effort is incomplete and/or noncompliant
 - Employees allocating time to two or more cost objectives on real time funding system
 - Inconsistent reconciliation of time and effort documentation to budgeted amounts
 - Lack of or inconsistent review process for time and effort
 - Lack of required travel documentation
 - Incorrect calculations of MOE/MSF/Moequity, as required
 - Incorrect calculations of match and in-kind contributions
 - Lack of updated written allowability policies and procedures

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CASE STUDY NO. 1 – RISKS IDENTIFIED

- Procurement and Asset Management Risk Factors
 - Lack of approvals on procurement documentation
 - Failure to obtain required quotes, bids or sole source verification documentation
 - Inconsistent maintenance of procurement record-keeping
 - Inconsistent oversight of contractors
 - Reports (internal and/or external) of conflicts by employees involved in procurement
 - Inadequate security or internal controls over assets
 - Lack of updated written policies and procedures related to management and disposition of equipment, safeguarding assets, conflicts of interest, including reporting conflicts and related disciplinary steps for violations

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CASE STUDY NO. 1 – RISKS IDENTIFIED

- Compliance Risk Factors
 - Inconsistent completion of required corrective actions
 - Lack of internal audit office and/or clear reporting structure and reporting options for internal audit office
 - Lack of updated written record retention policies and procedures
 - Inconsistent or lack of training on SEA policies and procedures
 - Inconsistent or lack of familiarity on EDGAR/UGG requirements

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CASE STUDY NO. 1 – RISK ASSESSMENT SCORES

- 5+ points = high risk (red)
- 2-4 points = medium risk (yellow)
- 0-1 points = low risk (green)
- Included "notes" section to provide additional context regarding risk factor or level
- Included recommended actions section for risk mitigation

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CASE STUDY NO. 1 – RISK ASSESSMENT FOLLOW UP

- Once risk assessment is completed, prioritize highest areas of risk and dedicate staff to mitigating those risks
- Recommended risk mitigating strategies included implementing internal controls and proper segregation of duties, providing LEAs with guidance on spending and allowability, training on the UGG, and drafting or updating policies and procedures.

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CASE STUDY NO. 2 – HIGHEST AREAS OF RISK

- Vacancies and staff turnover
- Transition in staff responsible for requests for reimbursement (RFR) review
- Delays in issuing carryover calculations to LEAs
- Delays in issuing grant award letters to LEAs
- Inconsistent RFR review timelines
- Inconsistent subrecipient monitoring across programs

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CASE STUDY NO. 2 – MODERATE AREAS OF RISK

- Lack of updated written policies and procedures
- Lack of training for personnel on changes in federal rules applicable to the SEA; lack of fiscal training for program staff
- Incomplete time and effort documentation
- Some programs lapsing funds
- Budgets not consistently used to monitor SEA or LEA spending
- Program and fiscal staff working in silos
- Lack of process to obtain technical assistance on compliance with federal rules
- Lack of process for tracking and responding to federal monitoring and audits

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CASE STUDY NO. 2 – LOW AREAS OF RISK

- Application of indirect cost rate
- Onboarding process in place for all staff (although not necessarily consistent across programs)

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CASE STUDY NO. 2 – RISK MITIGATING STRATEGIES

- Risk factor: Inconsistent subrecipient monitoring across programs
- Risk mitigation:
 - SEA revised its subrecipient monitoring process to address this area of noncompliance
 - Created new subrecipient monitoring tools for all federal and state grant programs
 - Drafted a new protocol for LEA risk assessment process
 - Revised protocol for subrecipient monitoring
 - Identified staff responsible for implementation

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CASE STUDY NO. 2 – RISK MITIGATING STRATEGIES

- Risk factor: Vacancies, staff shortages, staff turnover
- Risk mitigation:
 - SEA opened a new office closer to where most staff live
 - Develop plan for attracting and retaining qualified staff; consider factors contributing to staff turnover
 - Implement strategies to support teams who are short staffed
 - Maintain updated written policies and procedures

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CASE STUDY NO. 2 – RISK MITIGATING STRATEGIES

- Risk factor: Transition in staff responsible for RFR review; inconsistent RFR review timelines
- Risk mitigation
 - SEA is developing guidance and allowability “cheat sheets” for staff reviewing RFRs
 - Regular training for fiscal and program staff on UGG, EDGAR, and any changes to the applicable federal rules
 - Training on internal SEA policies and procedures
 - Streamline RFR review process and process for receiving TA; identify and correct patterns of delays in RFR processing

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CASE STUDY NO. 2 – RISK MITIGATING STRATEGIES

- Risk factor: Delays in issuing carryover calculations to LEAs; delays in issuing grant award letters to LEAs
- Risk mitigation
 - Provide LEAs estimated carryover calculations as soon after the end of the period of performance as possible
 - Separate process of providing LEAs grant award letters and carryover calculations; can send award letters out first, then calculate final carryover amount

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CASE STUDY NO. 3 – HIGHEST AREAS OF RISK

- Misallocation of labor and associated fringe benefit and indirect costs across final cost objectives
- Budgeted labor costs are not trued up timely using actual effort reports
- Lack of controls to prevent lapsing funds
- Closeout procedures for prime and subawards, including liquidation of obligations, return of excess cash, and processing final adjustments, are either undocumented or do not reflect current regulatory requirements.
- Subrecipient monitoring procedures do not fully encapsulate risk assessment, monitoring plan development, execution of monitoring, reporting, and follow-up.

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CASE STUDY NO. 3 – MODERATE AREAS OF RISK

- Lack of written conflict of interest procedures
- Inventory procedures apply thresholds and definitions for equipment, supplies, information technology, and real property that are inconsistent with Statewide capitalization policies
- Inventories are not fully reconciled to the State's financial records on at least an annual basis
- Procedures to determine allowability are undocumented and/or not communicated broadly throughout the agency
- Inadequate staffing is provided to allow reasonable assurance that SEA will comply with and oversee LEA compliance with applicable laws, rules, and regulations

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CASE STUDY NO. 3 – LOW AREAS OF RISK

- Inadequately supported travel cost reimbursements
- Written procedures not in place to review and follow-up on subrecipient audits
- Costs allocable to federal programs improperly charged to local funding sources or incorrect final cost objectives
- Undocumented procedures regarding contractor monitoring

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CASE STUDY NO. 3 – SCORING THE RISK ASSESSMENT

- Included point value for reputational/non-technical risk to address matters such as potential declines in public confidence, public relations challenges that would likely result, potential adverse perceptions of the SEA and its leadership by legislators, and other similar matters.
- Included point value for agency prioritization and repeat audit/monitoring findings to help prioritize resources

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QUESTIONS???

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