

National Association for State Community Services Programs

20
17 **A N N U A L**
Training Conference



Risk Assessment and Risk Mitigation

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Risk Assessment and Risk Mitigation



What is RISK?

Risk is the possibility
that an event will occur and
adversely affect the
achievement of objectives.

Or in other words

WHAT COULD GO
WRONG
WITH MY PROGRAM



What is RISK?

- Risk impacts all elements of a funding source, both financial and program.
- We never eliminate all risk!
- We attempt to mitigate risk to an “acceptable level”.
- Risk is about events that may or may not happen; risk management is planning for uncertainty.



How should we think about RISK Related to Results?

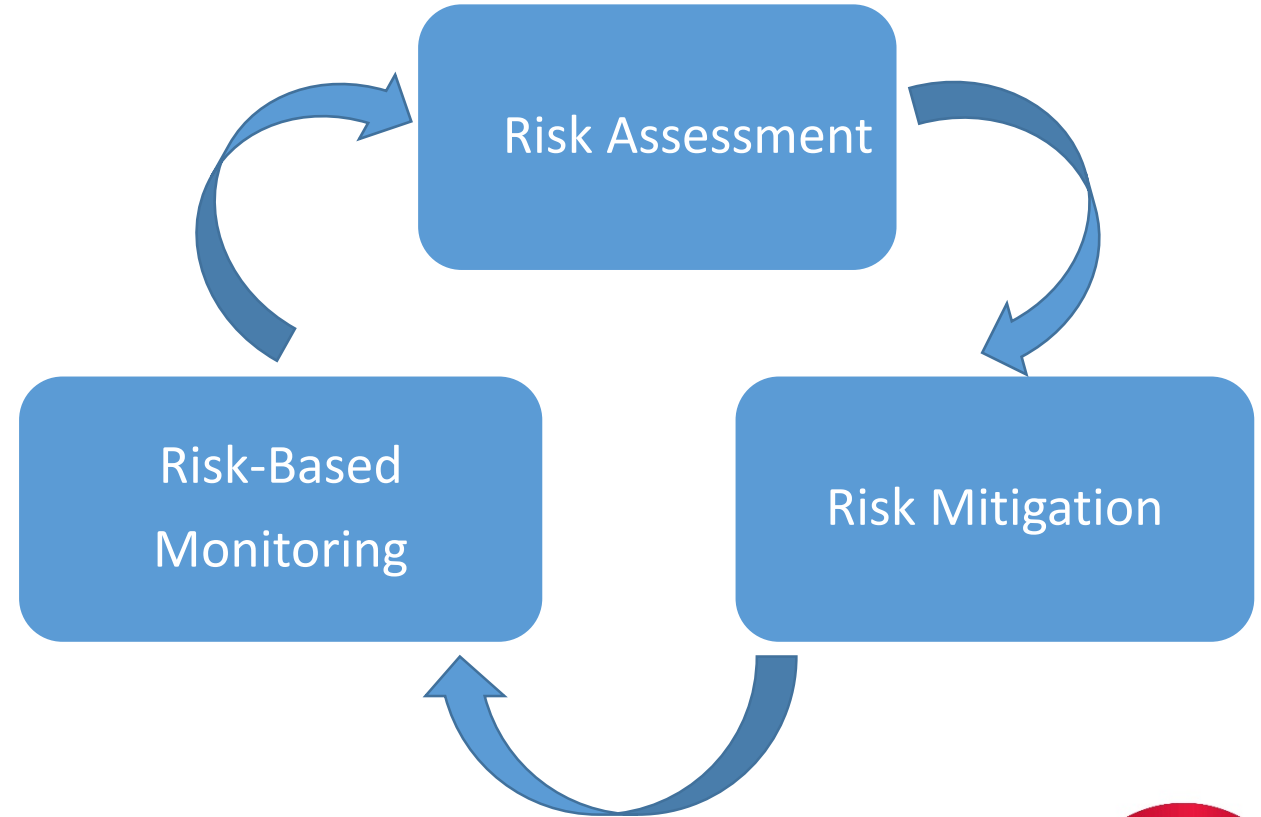
- Do not associate high-risk as a bad program!
Some programs may have inherent high-risk
(working with at-risk children).
- Do not associate low-risk as a good program!



What is RISK Management?

Risk management can be described as the continuous process of

- assessing risks,
- reducing the potential that an adverse event will occur, and
- putting steps in place to deal with any event that does occur.



What is a RISK Assessment?

- The risk assessment is about measuring and prioritizing risks within the constraints of the **defined risk levels** and tolerance thresholds or **acceptable risks**.
- Purpose – how big the risks are, both individually and collectively, in order to focus our attention on the most important threats and opportunities.
- Total risk is never eliminated.



Why conduct a Risk Assessment?

- To ensure that the Federal awards are spent properly and the subrecipient complies with all applicable Federal statutes, regulations, and terms/conditions.
- To identify areas of risk in which we should direct resources
 - Monitoring
 - Training and technical assistance



Why conduct a Risk Assessment?

§200.331 Requirements for pass-through entities.

- Grantees, as pass-through entities, must:
 - Assess risk of subrecipients.
 - Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward...

The risk assessment and monitoring should address both financial and programmatic considerations.



How often do I need to conduct a Risk Assessment?

- Pass-through entities should complete a risk assessment on their subrecipients **prior to issuing an agreement** to pass Federal funds. For multi-year agreements with the same subrecipient, pass-through entities may choose to complete one risk assessment that will cover the entire duration of the award. Pass-through entities are strongly encouraged to **develop written policies and procedures outlining their processes for risk assessments.**



What should we consider when developing the Risk Assessment factors?

- Federal Requirements: § 200.331(b)(1-4) provides some **factors** that pass-through entities may review when evaluating a subrecipient's potential risk of noncompliance.
 - Prior Experience
 - Audit Results
 - New Personnel or new or changed systems
 - Results of Monitoring
- Information from all interactions with the subrecipient; monitoring, grant reviews, report submission, audits, etc.



What are some risk factors that may be included in a Risk Assessment?

- **Size and complexity** of the grant – How large is the grant? Generally, the larger or more complex the grant, the higher the risk.
- **Size of grantee** – How large is the grantee? (amount of revenues, number of employees, etc.) Generally, the smaller the grantee, the higher the risk.
- **Type of grantee organization** – What type of legal entity is it? (Private or Public) Public entities tend to be lower risk.



What are some risk factors that may be included in a Risk Assessment?

- **Longevity of the grantee** – How long has the grantee been in business? Generally, the newer the agency, the higher the risk.
- **Grantee management/organizational structure**, internal controls – Does the grantee have internal controls in place to account for, and use, grant funds for their intended purposes? Well-documented internal controls, that are being followed, generally reduce risk.



What are some risk factors that may be included in a Risk Assessment?

- **Experience and past performance** of the grantee – Did the grantee's monitoring report list any problem/issues? Positive prior experience generally lowers risk.



What are some risk factors that may be included in a Risk Assessment?

- **Financial health** and practices of the grantee – Does the grantee have documented policies and procedures that relate to the grant? Well-documented policies and procedures, which are followed by the grantee tend to lower risk.



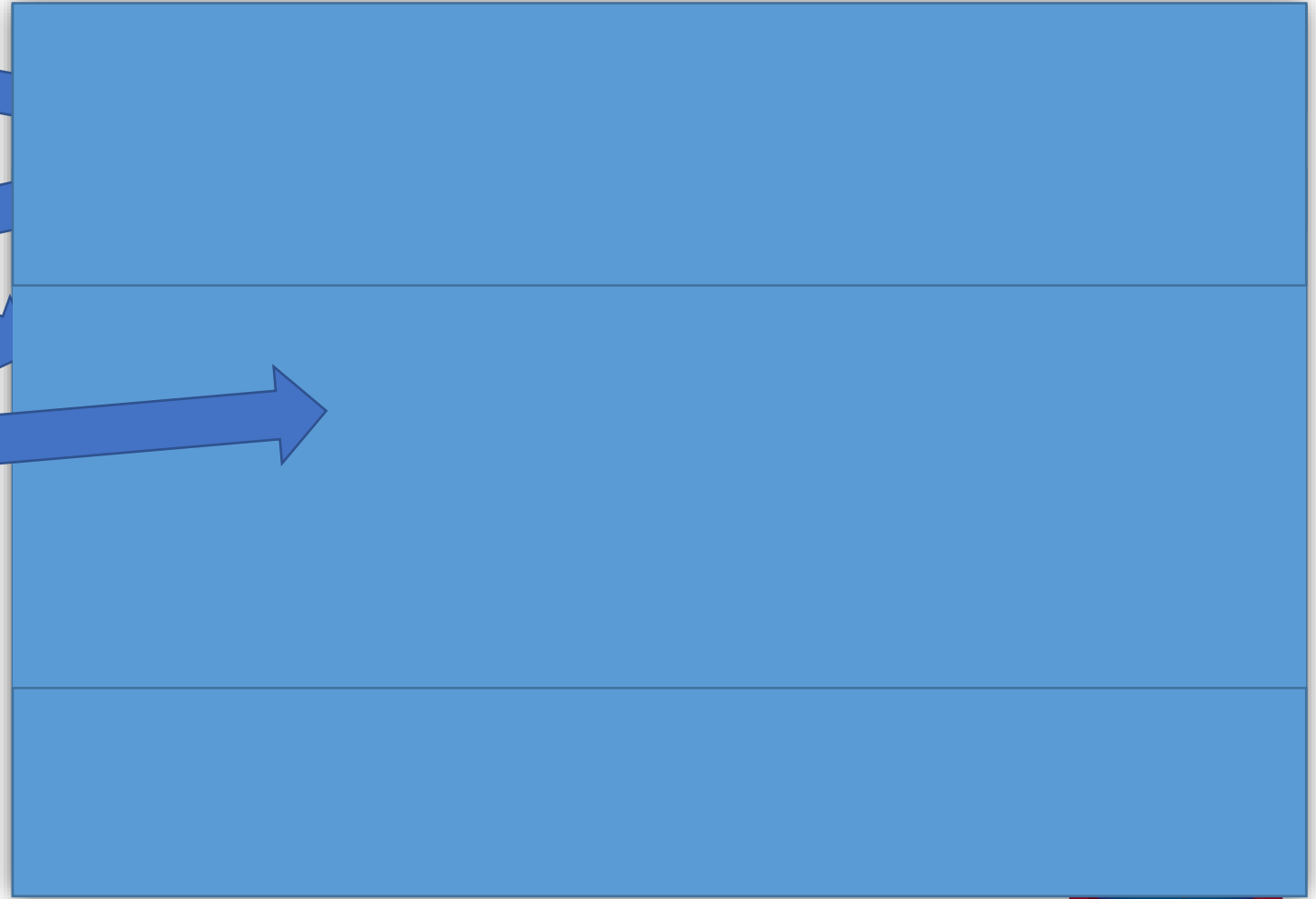
What are some risk factors that may be included in a Risk Assessment?

- **Audit history** of the grantee – Has the grantee has an independent audit?
Clean audit opinions may indicated lower risk.
- **Complaints** – Is there a history of complaints against the grantee?
Generally, the greater the number of past complaints, the higher the risk.



What are the components of a Risk Assessment?

- Risk Factors Categories
- Risk Factors
- Risk scale to measure risk objectives based on risk tolerance
- Risk Level



Another State’s Risk Assessment Sample

Purpose: To ensure program quality, awarding agencies must evaluate applicants for additional conditions on an award, using criteria including: the applicant’s financial stability; quality of its management systems; its history of performance; reports and findings from its audits; its ability to effectively implement statutory, regulatory, or other requirements imposed on non-federal entities.

Procedure: Using the guidelines outlined below, each CSBG eligible-entity will be analyzed and assigned a risk level (high, medium, low). The monitoring strategy will address issued contributing to the assigned risk categories for each program, which may include issues other than those specifically listed below. The results of the risk assessment will strongly contribute to the determination to conduct monitoring prior to the 3-year requirement.

				(the lower the number, the higher the risk)					
Question	Comments			1 (high)	2	3	4	5 (low)	na
CATEGORY	POSSIBLE RANGE		SCORE	SCORE BAND					
Financial (general)	15-75		43	High (15-30)		Medium (31-59)		Low (60-75)	
Financial stability (audit)	7-35		22	High (7-15)		Medium (16-25)		Low (26-35)	
Planning/Evaluation	5-25		6	High (5-10)		Medium (11-17)		Low (18-25)	
Programs, Services	6-30		8	High (6-12)		Medium (13-21)		Low (22-30)	
Human Resources	8-40		24	High (8-16)		Medium (17-28)		Low (29-40)	
Relationships	5-25		11	High (5-10)		Medium (11-19)		Low (20-25)	
Leadership	5-25		9	High (5-12)		Medium (13-19)		Low (20-25)	
Results	3-15		3	High (3-6)		Medium (7-11)		Low (12-15)	
GRAND TOTAL	54-270		126						
RISK FACTOR:									
All entities with a High Score for Financial/Financial Stability will be considered High Risk									
For all others, the following applies:									
TOTAL SCORE BANDS: Circle Appropriate Risk Factor		High (54-126)	Medium (127-199)	Low (200-270)					
LAST CSBG MONITORING VISIT:	June, 2015								
BASED ON THIS RISK ASSESSMENT, THE ENTITY HAS A RISK ASSESSMENT OF HIGH									

How can the risk factors be organized in a Risk Assessment?

Sample Categories:

- Financial Stability
- Quality Management Systems
- Board Compliance
- Past Program Performance
- Monitoring
- Single Audit
- Timely Report Submission
- Complaints



Scoring Mechanism: What should we consider when developing a rating scale for risk?

- Scales are defined in terms of impact
 - Impact (or consequence) refers to the extent to which a risk might affect the agency.
 - When assigning an impact rating to a risk, assign the rating for the highest consequence anticipated
- Criteria for determining low, medium and high risks
- Assess the quantity and quality of risks
- An acceptable level of risk under varying circumstances



Scoring Mechanism: What should we consider when developing a rating scale for risk? An acceptable level of risk under varying circumstances.

Risk Scale: 1 (High) 2 (Moderate) 3(Average) 4 (Medium) 5 (Low)



Financial Stability

Size of Grant and Complexity of Grants

Grant Over \$1M	Grant Between \$1M & \$751,000	Grant Between \$750,000 and \$501,000	Grant Between \$500,000 and \$251,000	Grant Under \$250,000
Budget Over \$5M	Budget Between \$5M & \$3M	Budget Between \$3M & \$1.5M	Budget Between \$1.5M & \$750,000	Budget Under \$750,000
Several very complex and several simple grants, many program requirements	Many complex and many simple grants, many program requirements	1 complex and many simple grants, not many program requirements	Simple Grants not many program requirements	Simple Grants not many program requirements
1 High Risk	2 Moderate	3 Average	2 Mild	1 Low



Risk Assessment Matrix

RISK ASSESSMENT MATRIX				
	Severity			
Likelihood	Negligible	Marginal	Critical	Catastrophic
Frequent				
Probable				<i>High</i>
Occasional			<i>Serious</i>	
Remote		<i>Medium</i>		
Improbable	<i>Low</i>			



Example of how to calculate the Risk Level

Categories	Criteria	Score	Risk Level Calculated		
Financial Stability	5 items	15	15/5	=	3.0
Quality Management Systems	10 items	45	45/10	=	4.5
Board Compliance	4 items	13	13/4	=	3.25
Past Program Performance	25 items	100	100/25	=	4.0
Monitoring	8 items	40	40/8	=	5.0
Single Audit	3 items	15	15/3	=	5.0
Timely Report Submission	5 items	10	10/5	=	2.0
Complaints	1 item	5	5/1	=	5.0
					28.75

Total Risk Score: $28.75/8 = 3.6$

Risk Level: Average to Mild

Quantify the risk by using the completed risk assessment to determine an overall risk score.

Risk Scale:

- 1 (High)
- 2 (Moderate)
- 3 (Average)
- 4 (Mild)
- 5 (Low)



Exercise 15 minutes

- Review the Risk Factors in the Category
- Discuss the documentation you would use to determine the rating score for each risk factor
- Be prepared to report out on your agency



What comes after the Risk Assessment?

- Based **on your acceptable** level of risk, your office will need to decide how to respond to or mitigate the risk, which usually determines a suggested level of grantee monitoring or other appropriate response by your office.
- These include:
 - Additional checks and balance in the accounting area
 - Additional checks and balance in the program area
 - Modify future contracts to incorporate controls
 - Training and Technical Assistance



How does the risk assessment connect to monitoring?

- Periodic monitoring is required and important to ensure that grantees are spending grant funds appropriately and complying with the terms and conditions of the grant.
- The extent, frequency, and type of monitoring will depend on the results of the risk assessments done by your office.
- Monitoring schedules should be determined by your office's policy and based on the results of the risk assessment.



What if my office does not do a risk assessments?

- Without a risk assessment, your office will have to assume high risk, which requires substantially more monitoring.
- Your office may not be able to direct resources towards areas of high noncompliance.



What methods of monitoring may be used in developing a monitoring plan?

- Monitoring may include:
 - Desk Reviews
 - On-Site Visits
 - Financial Reviews
 - Programmatic Reviews
 - Organizational Standard Reviews
 - Client Surveys
 - Focused/Topic Based Reviews
 - External Audit Reviews

And any other method that measures level of compliance



How often should we update the content of our risk assessments?

- Your office may want to establish a policy and timeframe to review and update risk assessments.
- Evaluate annually the risk management process to identify its strengths and weaknesses and refine ability to reduce risk throughout the grant process.



What should be documented?

- All phases of the risk assessment process including:
 - Monitoring policy that defines the risk assessment process
 - Risk Assessment Tool and Updates
 - Risk Assessment Criteria, Factors, Risk Scale, and Risk Level Calculation
 - Completed Risk Assessment with Risk Level for each agency
 - Support documentation to complete the risk assessment
 - Monitoring Plan including a Monitoring Schedule
 - Assessment Reports to the agencies
 - Monitoring Reports
 - Management Decision Letters/Follow-up
 - Close-out



What should be communicated to the subrecipient?

- Items to share with subrecipients
 - Risk Assessment Report
 - Scoring Mechanism and Criteria
 - Monitoring Plan and Schedule
 - Training and Technical Assistance Opportunities
- Carefully Communicate Risk Assessment Results
 - Your internal language might not be appropriate for your agencies
 - Inform subrecipient of the process and timing of the results



Are there other ways to use the Risk Assessment information?

Training and Technical Assistance Opportunities

- Examples of information learned through the process:
 - Potential risks for similar agency types
 - Policies that are confusing and not well implemented
 - Problems stemming from State Policies



Can you summarize the Risk Management Steps?

- Define area to perform risk assessment (this may be an entire program or specific functions of a program)
- Develop/Update the Risk Assessment Tool
- Conduct the Risk Assessment
- Review/Update the Monitoring Policy
- Develop and implement the Monitoring Plan to mitigate risk
 - Monitoring Schedule
 - Monitoring Plan – specific to each grantee
 - Training and Technical Assistance Plan
- Communicate Risk Assessment Results
- Follow-up



Resources

- Office of Financial Management - State Grant Questions and Answers
- Risk and Subaward Management under the Uniform Guidance, U.S. Department of Education
- Risk Assessment Requirements for Pass-Through Entities by Ryan Oster, Aug 19, 2016
- Uniform Guidance
- CSBG Risk Assessment – Michigan



QUESTIONS AND DISCUSSION