Risk Assessment and Risk Mitigation
Speaker

Kris Schoenow, Michigan Department Health and Human Service, Bureau of Community Action and Economic Opportunity, Executive Director
The Michigan Department of Health and Human Services (DHHS) strives to promote better health outcomes, reduce health risks, and support stable and safe families while encouraging self-sufficiency.
Michigan

Across the 83 counties:
- 29 Community Action Agencies
- 29 Energy Assistance Providers
- 26 Weatherization Providers

Community Services Block Grant
- LIHEAP & DOE Weatherization
- Energy Assistance Program
- School Success Program

Number of Low-Income in State
- Total Population: 9,678,203
- Households in Poverty: 1,616,870
- Percent in Poverty: 16.71%

Annual Budget: $58,178,665

CSBG $25,895,905
WAP DOE $15,282,760
WAP LIHEAP $7,000,000
Energy Assistance $10,000,000

State Plan Development and Implementation
- Grants Management
- Policy Development
- Monitoring: Programmatic, Financial & Organization Standards
- Training and Technical Assistance
Weatherization Assistance Program Funding and Production Summary

DOE PY2017 Funding Allocations (July 1):
- Program Allocation: $12,897,077
- T & TA Allocation: $2,385,683
- Total Allocation: $15,282,760

LIHEAP FY2018 Funding Allocations (Oct 1):
- Total Allocation: $6,000,000

Weatherization Operators Summary of DOE PY17 Funding
26 Community Action Agencies

- Small CAAs:
  - Avg Production: 28
  - Avg Funds: $292,766
  - Agencies: 15

- Medium CAAs:
  - Avg Production: 56
  - Avg Funds: $537,406
  - Agencies: 7

- Large CAAs:
  - Avg Production: 80
  - Avg Funds: $754,699
  - Agencies: 3

- Ex-Large CAA:
  - Production: 255
  - Funding: $2,365,512
  - Agency: 1

<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Ex-Large</th>
</tr>
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<tbody>
<tr>
<td>Total Allocation</td>
<td>$4,391,489</td>
<td>$3,761,842</td>
<td>$2,264,097</td>
<td>$2,365,512</td>
</tr>
<tr>
<td>Total Minimum Production</td>
<td>423</td>
<td>391</td>
<td>239</td>
<td>255</td>
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</tbody>
</table>
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 the weatherization assistance program including financial, programmatic, and technical weatherization work.

• 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
  (High-Risk: Potential hazards and unhealthy conditions after weatherization).

• 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?

• Purpose is to identify how big the risks are, both individually and collectively, in order to focus our attention on the most important threats and opportunities.

• The risk assessment is about measuring and prioritizing risks within the constraints of the defined risk levels and tolerance thresholds or acceptable risks.

• 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, programmatic, and technical considerations of the Weatherization Assistance Program.
How often should we 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 building the RISK Assessment tool?

• 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.
Required RISK Factors

– Prior Experience
– Audit Results
– New Personnel or new or changed systems
– Results of Monitoring

How can we evaluate these RISK Factors?
What are some other RISK factors to consider?

- **Size and complexity** of the grant – How large is the grant? Generally, the larger or more complex the grant, the higher the risk. A large Weatherization agency poses a high 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. In Weatherization, the smaller agencies pose a high 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 other RISK factors to consider?

• **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 other RISK factors to consider?

• **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 other RISK factors to consider?

• **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 other RISK factors to consider?

• **Audit history** of the grantee – Has the grantee had 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 some other RISK factors to consider?

- **Weatherization Contractors** – Has the grantee had trouble finding and obtaining contractors? Lack of contractors may indicate higher risk.

- **Rebuilding Weatherization** – Is the grantee moving from contractors to crews? Moving from one style to another may indicate higher risk.
What are some other RISK factors to consider?

• **Weatherization Production and Expenditure Goals** – Has the grantee demonstrated their ability to meet production and expenditure goals on a quarterly basis? Agencies that cannot meet goals are a higher risk. Agencies that exceed spending with low production are a high risk.

• **Weatherization Field Guide and SWS** – Does the grantee use the field guide/SWS? Field Guide and SWS use in the field generally lowers risk.
What are some other RISK factors to consider?

• **Health and Safety Plan** – Does the grantee understand the Health and Safety Plan? Agencies that typically have a higher cost associated with Health and Safety items may be a higher risk.

• **Weatherization pre and post inspections** – Is the inspections being completed properly? Generally, proper completions of the pre and post inspections would be low risk.
What are some other RISK factors to consider?

- **Weatherization Application Redetermination** – Does the grantee’s documentation show many jobs with application redeterminations? Agencies that typically have a high number of redeterminations may be a higher risk.
What are the components of a RISK Assessment?

- Risk Factor Categories and Risk Factors
- Risk scale to measure the objectives based on risk tolerance
- Risk Score
How can the risk factors be organized in a RISK Assessment?

Sample Categories and Risk Factors:

– Financial Stability
  • Cash Flow

– Financial/Quality Management Systems
  • Policies and Procedures
  • Internal Controls
  • Financial Management Systems

– Board Compliance
  • Board Membership
  • Board Participation and Knowledge of Weatherization

– Weatherization Assistance Program (Past Performance)
  • Staffing
  • Health and Safety Plan
  • Inspections pre and post
  • Weatherization production goals

– Monitoring
  • Status and type of prior findings

– Single Audit
– Timely Report Submission
– Complaints
Scoring Mechanism: Risk Scale
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. Consider the likelihood and the severity of the risk.

• Criteria for determining low, medium and high risks
  – When assigning an impact rating to a risk, assign the rating for the highest consequence anticipated

• Assess the quantity and quality of risks

• An acceptable level of risk under varying circumstances
Scoring Mechanism: Risk Assessment Matrix

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Negligible</th>
<th>Marginal</th>
<th>Critical</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequent</td>
<td></td>
<td></td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Probable</td>
<td></td>
<td></td>
<td>Serious</td>
<td></td>
</tr>
<tr>
<td>Occasional</td>
<td></td>
<td></td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Remote</td>
<td></td>
<td></td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Improbable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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)
- 3 (Average)
- 5 (Low)
Setting up a Risk Factor

**Risk Factor: Weatherization Production Goals**

- Did not meet production goals
  - Did not meet expenditure goals
  - Did not have in progress work to support meeting production goals
  - 1 High Risk

- Met production goals for the program year
  - State needed to put agency on a technical assistance plan to meet production goals
  - 3 Average

- Agency met and/or exceeded the production goals
  - Agency met their expenditure goals
  - 1 Low Risk
## Calculating a Risk Assessment Score

<table>
<thead>
<tr>
<th>Categories</th>
<th>Risk Factors</th>
<th>Score</th>
<th>Risk Calculated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Stability</td>
<td>5 items</td>
<td>15</td>
<td>15/5 = 3.0</td>
</tr>
<tr>
<td>Quality Management Systems</td>
<td>10 items</td>
<td>45</td>
<td>45/10 = 4.5</td>
</tr>
<tr>
<td>Board Compliance</td>
<td>4 items</td>
<td>13</td>
<td>13/4 = 3.25</td>
</tr>
<tr>
<td>Weatherization Performance</td>
<td>25 items</td>
<td>100</td>
<td>100/25 = 4.0</td>
</tr>
<tr>
<td>Monitoring</td>
<td>8 items</td>
<td>40</td>
<td>40/8 = 5.0</td>
</tr>
<tr>
<td>Single Audit</td>
<td>3 items</td>
<td>15</td>
<td>15/3 = 5.0</td>
</tr>
<tr>
<td>Timely Report Submission</td>
<td>5 items</td>
<td>10</td>
<td>10/5 = 2.0</td>
</tr>
<tr>
<td>Complaints</td>
<td>1 item</td>
<td>5</td>
<td>5/1 = 5.0</td>
</tr>
</tbody>
</table>

**Total Risk Score:** 28.75/8 = 3.6

Average to Mild Risk
Excel File Layout

- **STAR Assessment Tab**
  - Score each Risk Factor. Form will automatically calculate a Risk Score.
  - Complete fields starting in Column H to build a Risk-Based Monitoring Plan.

- **Risk Based Monitoring Plan Tab**
  - The Risk Based Monitoring Plan will be automatically populated with specific monitoring details that need to be reviewed. The items in purple need to be completed before submitting to the monitor.

- **Agency STAR Results Tab**
  - The Agency Star Results Tab will be automatically populated with the STAR Assessment Risk Factor Categories Scores. This report can be sent to the Weatherization Operators.
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
  – Additional checks and balance in the technical 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.
How should we use the results of the Risk Assessment?

• § 200.331 (d)
  Determine the appropriate levels of monitoring.

  Monitoring must include:
  – Review of financial and performance reports
  – Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies detected in audits, on-site reviews, and other means
  – Issuing a management decision for audit findings

• § 200.331 (h)
  Consider taking enforcement action against noncompliant subrecipients
What if my office does not do a Risk Assessment?

• 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.
How often should we update the content of the Risk Assessment?

• 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 communicated to the subgrantee?

• 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 grantees of the process and timing of the results
Are there other ways to use the completed Risk Assessment?

- Information learned through the process:
  - Training and Technical Assistance Opportunities
  - Potential risks for similar agency types
  - Policies that are confusing and not well implemented
  - Problems stemming from State Policies
  - The agencies that need more attention
  - The focus of monitoring
Risk Assessment Processing Steps

• Define the Risk Assessment for the Weatherization Assistance 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
  – Develop a Monitoring Schedule
  – Develop a Risk Based Monitoring Plan for each grantee
  – Develop a Training and Technical Assistance Plan for each grantee as needed
  – Develop a Statewide Training Plan
  – Update and implement State policies

• Communicate Risk Assessment Results with your grantees

• 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