



Prioritizing Audits by Assessing Risks

Andrew Katsaros, CPA

U.S. Department of Commerce

Office of Inspector General



September 22, 2016

In this Presentation



- Department of Commerce and Office of Inspector General (OIG) by the numbers
- Coverage challenges
- Risk-based approach to annual planning
- Organizational approach to audit plan development

Department of Commerce by the Numbers



- 12 Bureaus
- 47,000 employees
- Over \$12B in budget authority
- Over 80% of budget authority and employees contained within three Bureaus (Census, USPTO, and NOAA)
- Additional ~\$6B available for the First Responder Network Authority
- ~\$2.8B in contracts; ~\$1.5B in grants annually
- Appropriations and budget authority spike during peak Census years

Commerce OIG by the Numbers



- 170 employees
- 100 Audit and Evaluation team members
- 30-35 Investigative professionals
- 50+ annual public audit products
- Legislative mandates, Congressional requests, and other mandatory work comprise ~25% of annual products

Audit Coverage Challenges



- Providing adequate coverage of Commerce programs and activities
- Delivering products with a high-return covering sensitive and high-risk activities
- Meeting deadlines for products with legislative mandates
- Maintaining responsiveness with Congressional Committees and Members

Addressing the Challenge: Risk-based Approach to Annual Planning



Compile universe of Commerce programs and offices.

Populate with FY 2017 Base Program amounts.

Develop rating, scoring, and weighting methodology for risks likelihoods, risk impacts, and custom measures.

Develop questions, canvass assessors, and rate offices against each risk.

Enter results in TeamRisk databases, validate and **analyze results**, and develop reports.

Addressing the Challenge: Commerce Offices and Activities Assessed by OIG



- 2020 Decennial Planning
- BEA
- BIS Export Administration
- Census Current Surveys and Stats
- Census Economic Programs
- Census Procurement
- Department Acquisition Management
- Department Chief Information Officer/IT Security/IT Management
- Department Financial Management
- Department General Counsel
- Department Office of Security
- EDA
- FirstNet Public Safety
- ITA Global Markets
- ITA Industry and Analysis
- NIST Industrial Technology Services
- NIST Procurement
- NIST Scientific and Technical Research and Services
- NOAA Fisheries Office of Law Enforcement
- NOAA Fisheries Office of Sustainable Fisheries
- NOAA National Environmental Satellite, Data, and Information Service
- NOAA National Ocean Service
- NOAA National Weather Service
- NOAA Oceanic & Atmospheric Research
- NOAA Office of Marine and Aviation Operations
- NOAA Procurement
- NOAA Program Support
- PTO Intellectual Property Policy, Protection and Enforcement
- PTO Patents
- PTO Procurement
- PTO Trademarks
- Spectrum Management

Addressing the Challenge: Developing Non-statistical Risks



The following non-statistical ratable risks will be assessed for each program/office.

Each risk (written in the negative) has a relative importance rating of high, medium, or low.

1. Workforce planning is inadequate (low).
2. Internal control is inadequate (high).
3. IT Systems are high risk or do not meet program needs (high).
4. The program has undergone significant changes in the past 1 - 2 years (medium).
5. Contracts are not appropriately planned, awarded, or administered (high).
6. Programs are duplicative or overlap other government programs (medium).
7. Grants are not appropriately planned, awarded, or administered (medium).

Risk Likelihood Definitions



Assessors will rate the likelihood of individual risks as follows:

- ▶ **Certain:** Strongly agree that this event is expected to occur in most circumstances or is already happening.
- ▶ **Likely:** Agree that the event will probably occur.
- ▶ **Possible:** Event may occur at some time but is less than likely.
- ▶ **Unlikely:** The possibility of the event occurring is remote.

Risk Impact Definitions



Assessors will rate the impact of individual risks as follows:

- ▶ **Catastrophic:** Would have an IRREPARABLE IMPACT on DOC missions, functions, programs, customers or reputation, such that the catastrophic result would not be able to be repaired or set right again. Could result in loss of MAJOR tangible assets or resources, including posing a threat to human life.
- ▶ **Adverse:** Would have an ADVERSE IMPACT on DOC missions, functions, programs, customers or reputation, such that the impact would place the DOC at a significant disadvantage, or could result in loss of SIGNIFICANT tangible assets or resources.
- ▶ **Noticeable:** Would have a NOTICEABLE but less significant impact on DOC missions, functions, programs, customers or reputation, such that the impact could challenge the DOC to recover from a disadvantageous result.
- ▶ **Minimal:** Would have a MINIMAL IMPACT on DOC's missions, functions, programs, customers or reputation, such that the impact would result in the least possible significant unfavorable condition with a negative outcome, or could result in loss of SOME tangible assets or resources.

Addressing the Challenge: Developing Measurable Risks

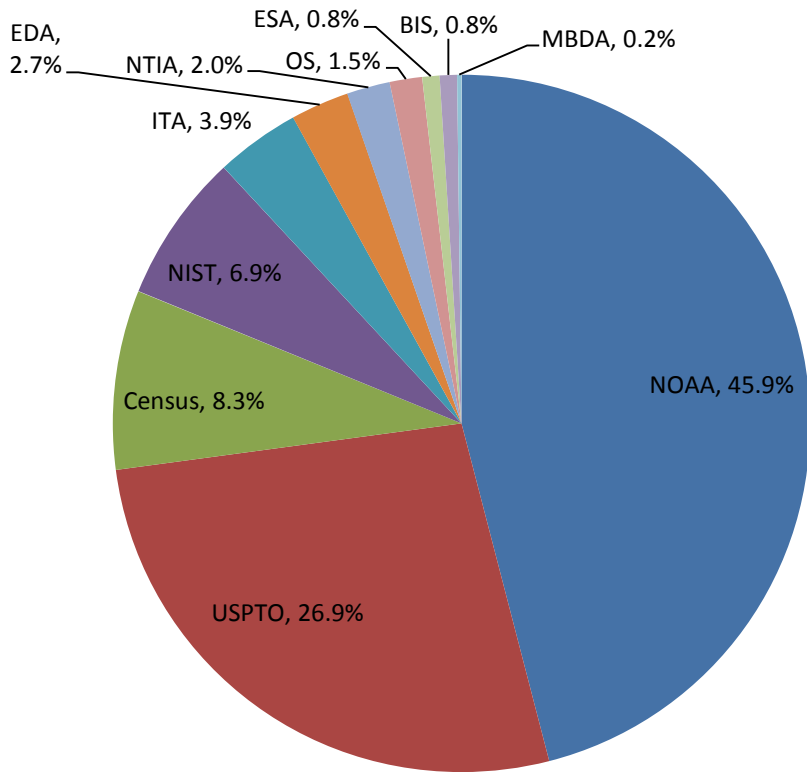


- ❑ The following custom measures were assessed for each office. Each custom measure has a relative importance rating of high, medium, or low. Items in red were evaluated by assessors.
 - ▶ Legal/Ethics risk measures
 - ▶ Congressional interest
 - ▶ Significant investigations, oversight inquiries, or hotline activity
 - ▶ Public interest/Reputational Risk
 - ▶ Legislative audit requirement
 - ▶ No. of employees
 - ▶ Operations risk measures
 - ▶ Purchase/Travel/Fleet Cards
 - ▶ FY2017 Budget Request
 - ▶ FY2015 Budget Authority
 - ▶ Unapportioned (unobligated) balances
 - ▶ Unliquidated obligation balances
 - ▶ Asset risk rating
 - ▶ Strategic/Program risk measures
 - ▶ OIG Top Management Challenge
 - ▶ Significant issue raised in earlier audits or reviews
 - ▶ Ongoing OIG or GAO work
 - ▶ GAO High-risk list
 - ▶ Percentage of budget non-personnel costs
 - ▶ Acquisitions risk measures
 - ▶ High Risk Contracts
 - ▶ Uncompleted Contracts

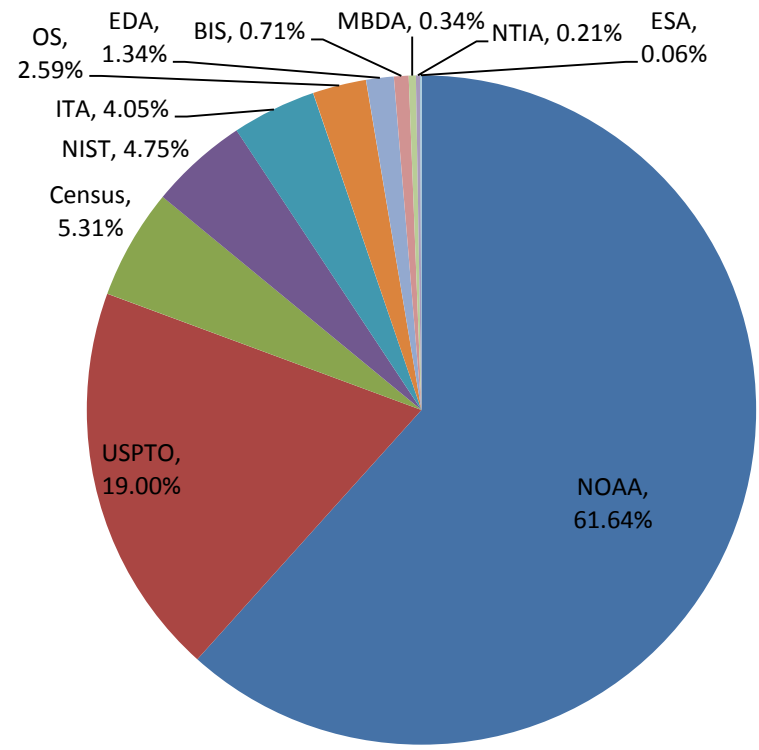
Custom Measure Highlight: FY 2014-2015 Commerce Budget Authority Comparison



FY14 General Funds

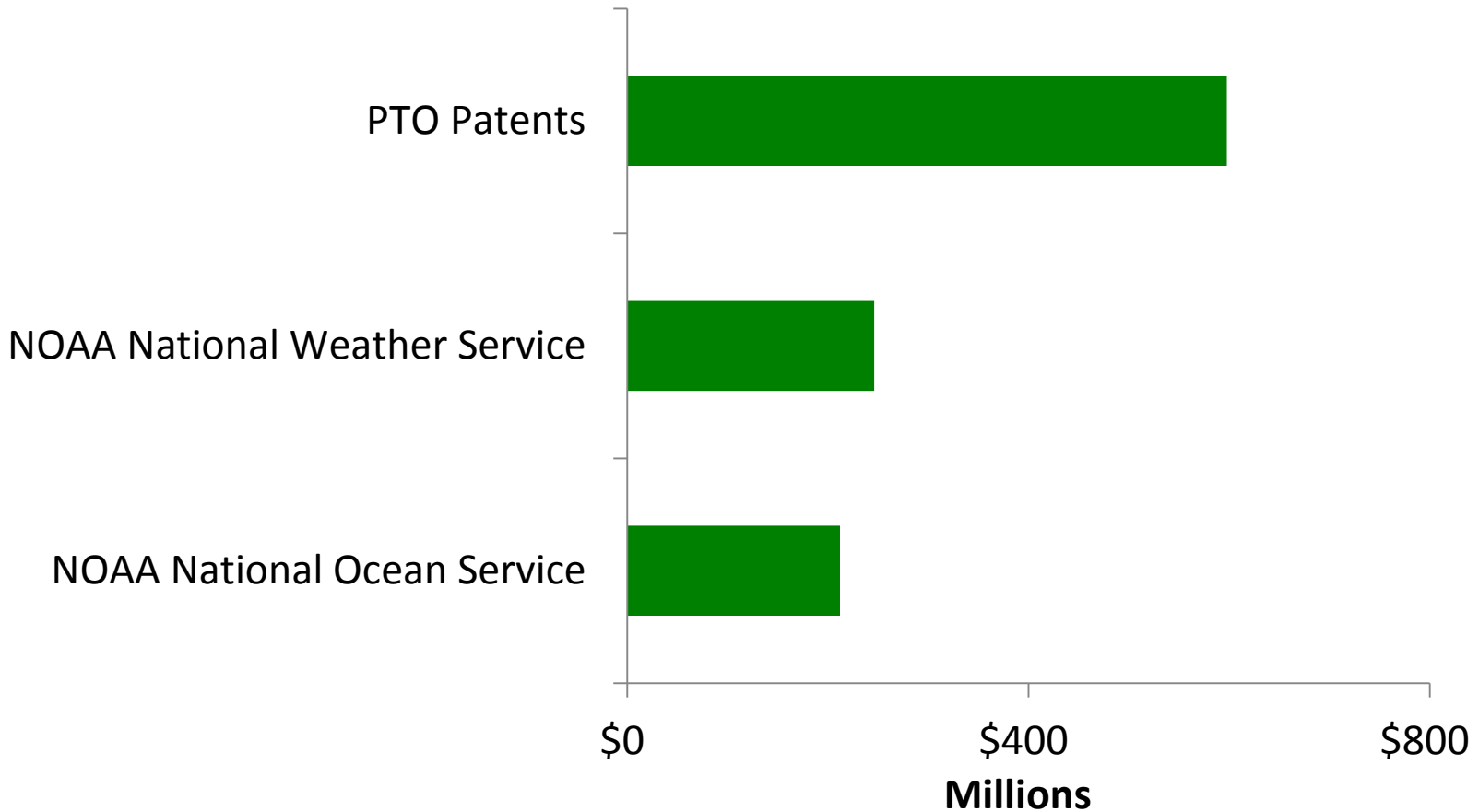


FY15 General Funds

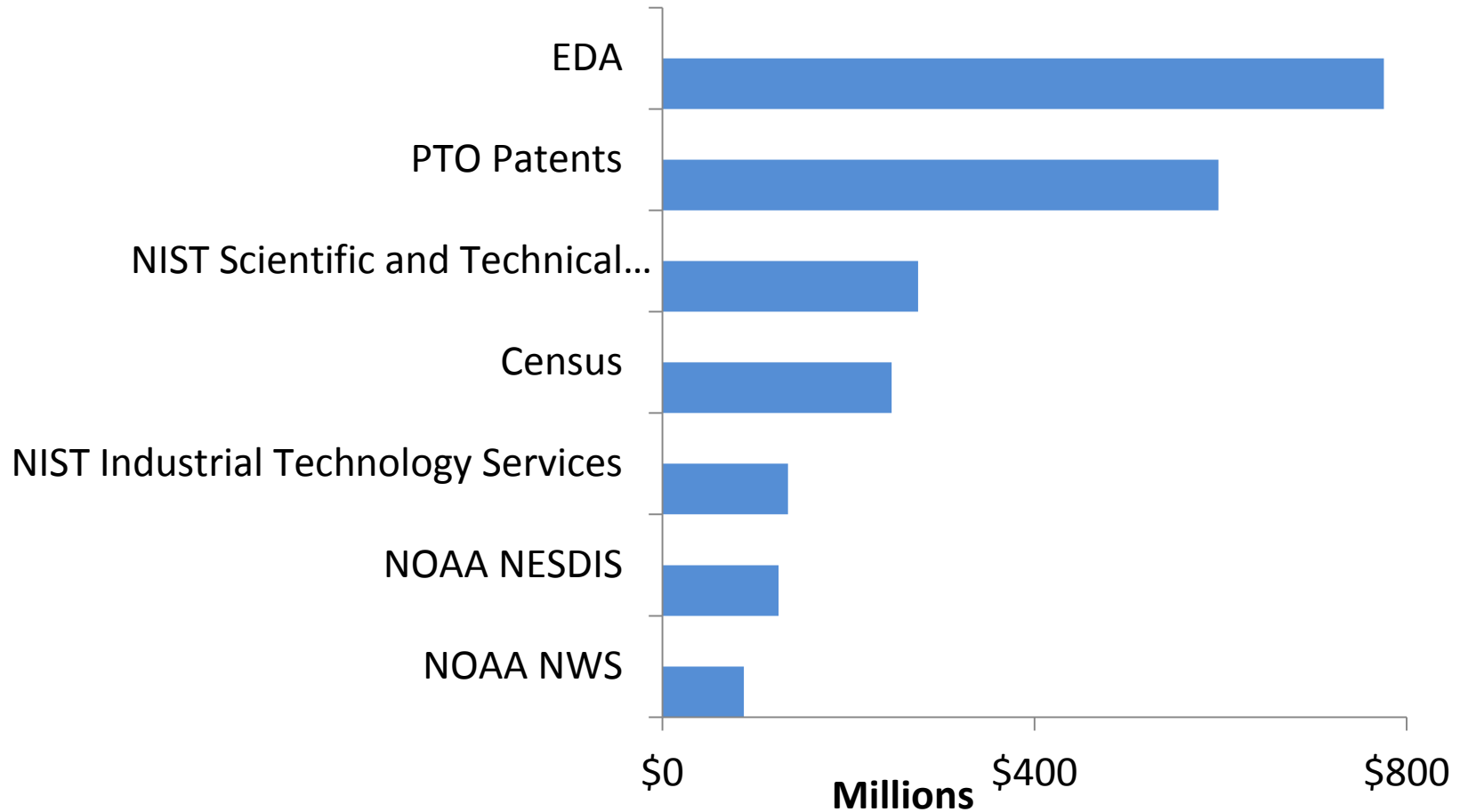


Source: FY 2014, 2015 SF-133s, and CBS financial reports

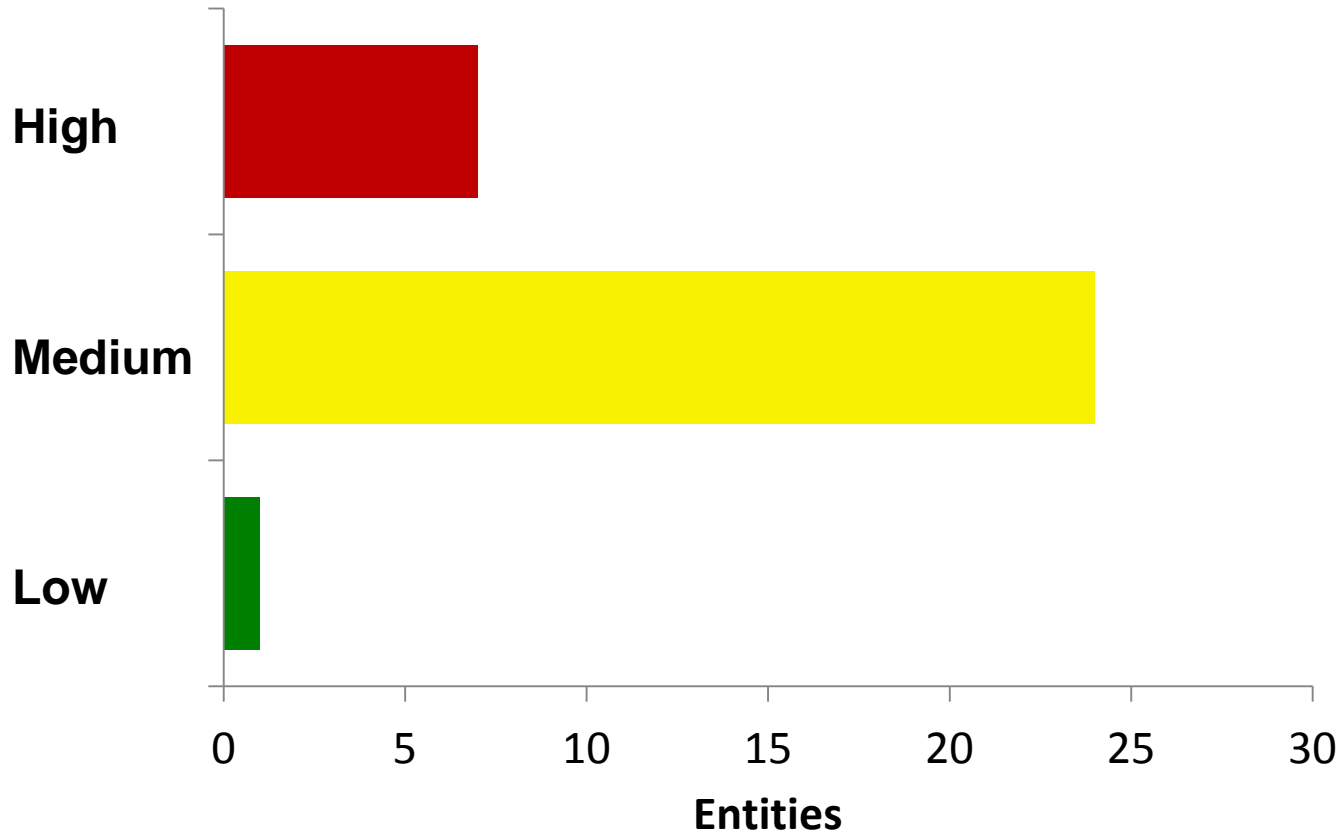
Custom Measure Highlight: Unobligated Funds



Custom Measure Highlight: Unliquidated Obligations



Custom Measure Highlight: Distribution of Purchase/Fleet/Travel Card Risks



Addressing the Challenge: Custom Measure Risk Summary



Custom Measure Risks:

- FY 2017 Budget Request
- FY 2015 Budget Authority
- Asset Risk Rating
- FY 2014/2015 Budget Authority Difference
- Unobligated Funds
- Unliquidated Funds
- Percentage of Budget Non-Personnel Costs
- Percentage of High-Risk Contracts
- Percentage of Uncompeted/Limited Competition Contracts
- FTEs
- Purchase/Travel/Fleet Card Rating

Custom Measure Risk (32 total programs/offices)		
Some Risk	Moderate Risk	High Risk
13 Programs/Offices (41%)	14 Programs/Offices (43%)	5 Programs/Offices (16%)

Addressing the Challenge: Calculating Non-Statistical Risk Likelihoods



The summary below represents the average likelihood of all 7 non-statistical risks, rated on scale from 1 – 4:

- (1) Unlikely – The possibility of the event occurring is remote.
- (2) Possible – Event may occur at some time, but is unlikely.
- (3) Likely – Agree that the event will probably occur.
- (4) Certain – Strongly agree that this event is expected to occur in most circumstances or is already happening.

Non-Statistical Risk	Average Likelihood
Workforce planning is Inadequate.	2.125
The program has undergone significant changes in the past 1 - 2 years.	2.125
IT systems are high risk or do not meet program needs.	2.063
Contracts are not appropriately planned, awarded or administered.	1.781
Internal controls are inadequate.	1.719
Grants are not appropriately planned, awarded or administered.	1.387
Programs are duplicative or overlap other government programs.	1.292

Addressing the Challenge: Calculating Non-Statistical Risk Impacts



The summary below represents the average impact of all 7 non-statistical risks, rated on scale from 1 – 4:

- (1) Minimal – Would have a Minimal impact on DOC's missions, functions, programs, customers or reputation.
- (2) Noticeable – Would have a Noticeable, but less significant impact on DOC missions, functions, programs, customers or reputation.
- (3) Adverse – Would have an Adverse impact on DOC missions, functions, programs, customers or reputation
- (4) Catastrophic – Would have an Irreparable impact on DOC missions, functions, programs, customers or reputation.

Non-Statistical Risk	Average Potential Impact
IT systems are high risk or do not meet program needs.	2.437
Internal controls are inadequate.	2.188
Workforce planning is Inadequate.	2.156
Contracts are not appropriately planned, awarded or administered.	1.875
Programs are duplicative or overlap other government programs.	1.542
The program has undergone significant changes in the past 1 - 2 years.	1.468
Grants are not appropriately planned, awarded or administered.	1.226

Addressing the Challenge: Developing Risk Assessment Summary Results



32 Programs/Offices were reviewed during this Risk Assessment Cycle

The Combined Risk Ratings incorporate all quantitative and qualitative measures.

Program/Office	Overall Risk Rating
High Risk	

Program/Office	Overall Risk Rating
Moderate Risk	

Program/Office	Overall Risk Rating
Low Risk	

Audit Planning



The results of the risk assessment inform the subsequent Commerce OIG Audit Plan which includes the following sections:

- Main projects to be initiated in FY 2017
 - Audits/evaluations required by law
 - Audits/evaluations required by House or Senate Committee language
 - Audits/evaluations related to the OIG's FY 2016 or planned FY 2017 Top Management Challenges
 - Audit/evaluation ideas identified in the course of the risk assessment
 - Other audits/evaluation ideas identified in the audit planning process
- A summary of planned projects and products by program area
- Carry-forward projects from FY 2016
- Reserve projects

Annual Audit Planning Activities and Timeline



- Begin organizational risk assessment (February/March)
- Complete risk assessment (June)
- Initialize SharePoint community planning site (July)
- Populate plan ideas (July)
- Conduct Managers meeting (August)
- Develop draft audit plan (August)
- Refine audit plan ideas (August/September)
- Issue final audit plan (September 30)