

USING ERM TO MANAGE UNIMPLEMENTED RECOMMENDATIONS AND FOLLOW-UP AUDITS

TABLE OF CONTENTS

- WHAT'S TRENDING
- GAO GREEN BOOK
- OMB A-11
- OMB A-123
- FRAUD REDUCTION AND DATA ANALYTICS ACT OF 2015
- GAO FRAMEWORK FOR MANAGEMENT FRAUD RISKS IN FEDERAL PROGRAMS

IG Act requires semiannual reporting of each significant recommendation on which corrective action has not been completed.

U.S. Department of Health & Human Services
Office of Inspector General

Semiannual Report to Congress

October 1, 2017 - March 31, 2018





AMERICAN OVERSIGHT



U.S. Department of Health & Human Services
Office of Inspector General

Compendium *of* Unimplemented Recommendations

May 2017

CONGRESSIONAL INTEREST

- CONGRESSIONAL INTEREST IN THE GROWING NUMBER OF UNIMPLEMENTED RECOMMENDATIONS REPORTED BY THE OIGs
- JUNE 2017 HOUSE COMMITTEE ON ENERGY AND COMMERCE: CONCERNED THAT CMS HAS A BACKLOG OF MORE THAN 150 UNIMPLEMENTED RECOMMENDATIONS ISSUED IN REPORTS BY THE OIG
- SEPTEMBER 2017 EPA TESTIMONY ON ADDRESSING UNIMPLEMENTED RECOMMENDATIONS

OIG 2017 PRIORITY OUTCOMES

- REDUCE THE AVERAGE TIME TO IMPLEMENT RECOMMENDATIONS

We Develop a New Process:



 TO ENSURE THAT OUR RECOMMENDATIONS HAVE SIGNIFICANT IMPACT ON:

- REDUCING FRAUD, WASTE, AND ABUSE
- PROMOTING HEALTH AND SAFETY

 TO PROMOTE A CONSISTENT FOLLOW-UP APPROACH WITHIN OAS



Why use Enterprise Risk Management?

It provides standard procedures for promoting consistency.



WHAT IS THE ENTERPRISE RISK MANAGEMENT FRAMEWORK?

RISK: AS OLD AS TIME



ZWANI.COM

RISK

- THE POSSIBILITY OF AN EVENT OR CONDITION OCCURRING THAT WILL HAVE AN IMPACT ON THE ABILITY OF AN ORGANIZATION TO ACHIEVE ITS OBJECTIVES

RISK ASSESSMENT

The identification and analysis of risks to the achievement of an organization's objectives for the purpose of determining how those risks should be managed.

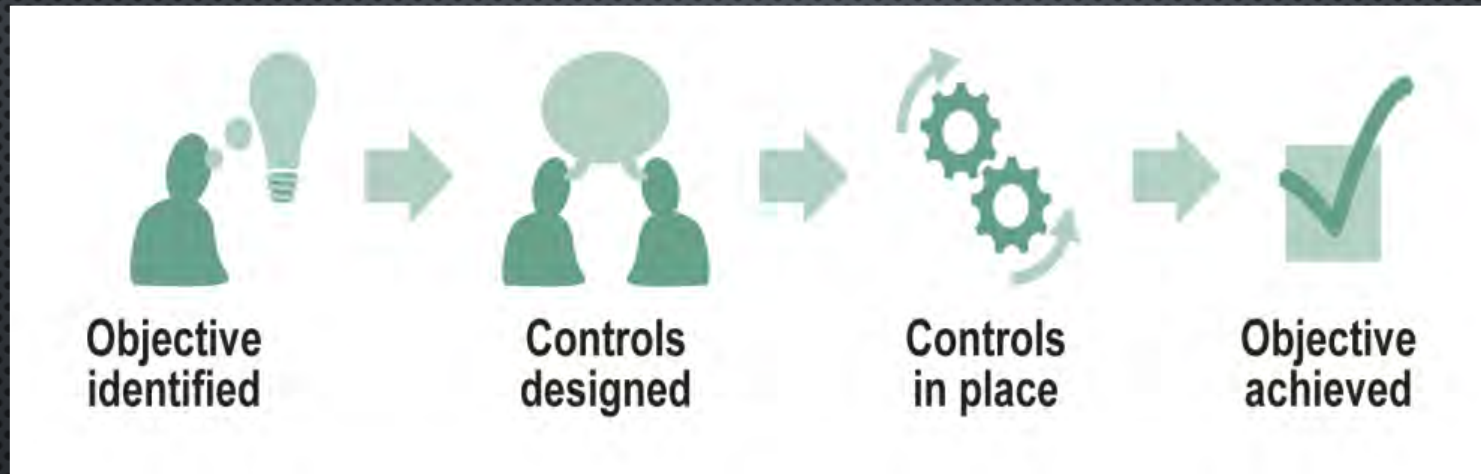
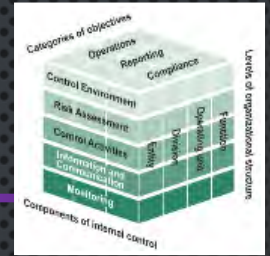
RELATIONSHIP BETWEEN INTERNAL CONTROLS AND ERM



- **ERM**: **AGENCY-WIDE** APPROACH FOR IDENTIFYING, ASSESSING AND MANAGING RISKS. FOCUS IS FULLY INTEGRATED, PRIORITIZED, AND FORWARD-LOOKING FOR BETTER DECISIONS.
- **RISK MANAGEMENT**: COORDINATED ACTIVITIES TO CONTROL RISK. FOCUS IS FORWARD THINKING, BUT WITHIN SCOPE OF **PROGRAM OR PROJECT**.
- **INTERNAL CONTROL**: MANAGEMENT'S **PROCESS** FOR ACHIEVING OBJECTIVES. FOCUS IS ON PAST PERFORMANCE.



Green Book's Fundamental Concepts of Internal Control



**Control
Environment**

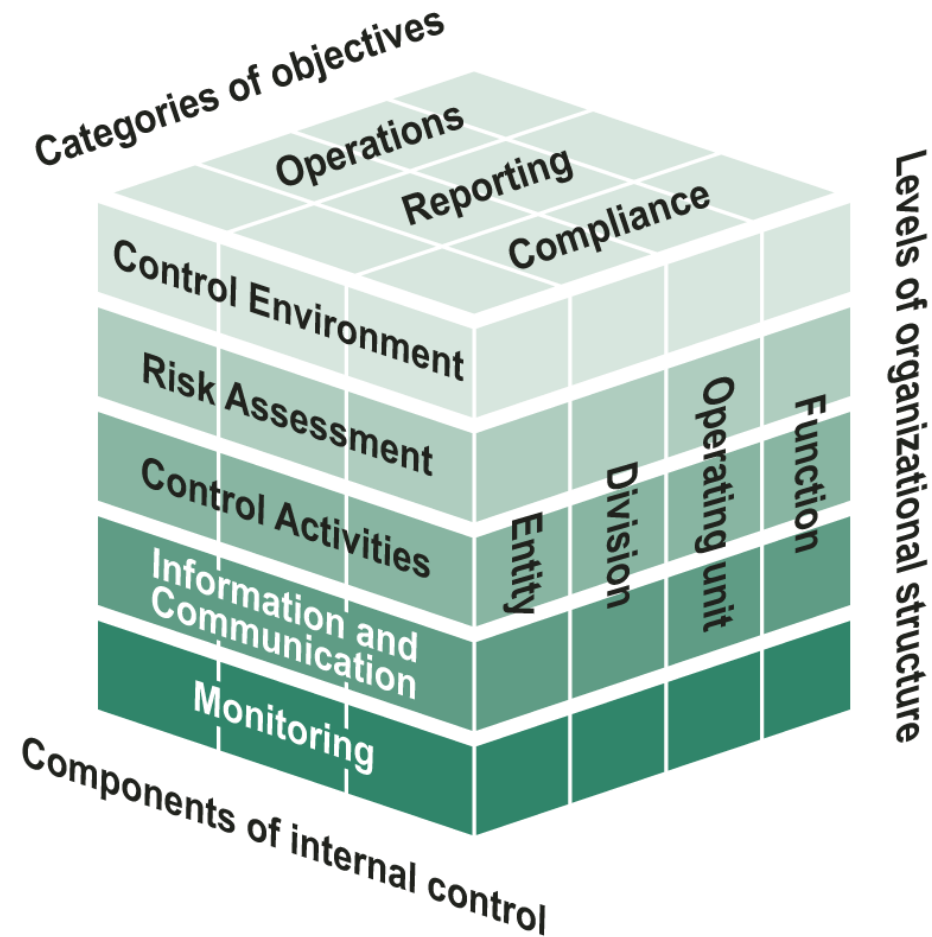
**Risk
Assessment**

**Control
Activities**

**Information &
Communication**

Monitoring

UPDATED GAO GREEN BOOK (2014)

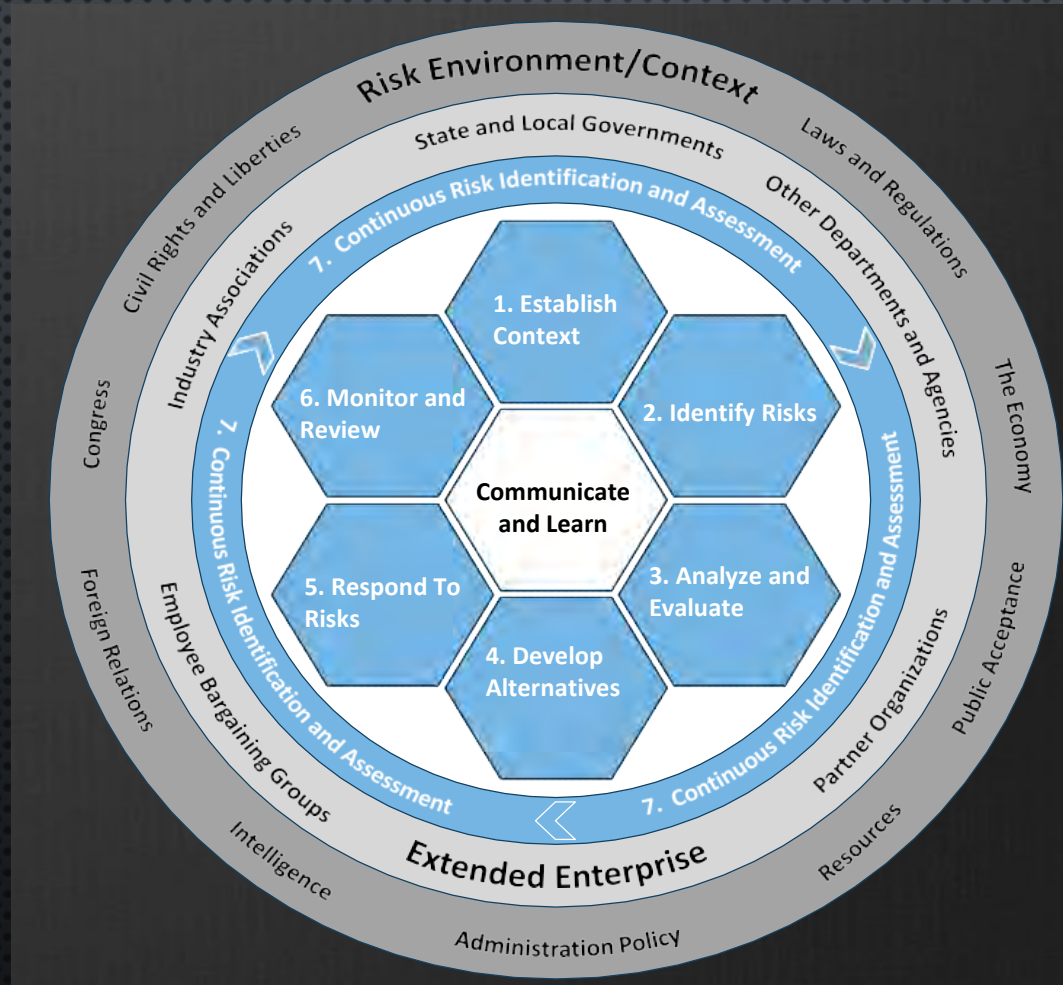


OMB A-123 (JULY 2016)

Risk	Inherent Assessment	Current Risk Response	Residual Risk Assessment		Proposed Risk Response	Owner	Proposed Risk Category	
	Impact Likelihood		Impact	Likelihood				
STRATEGIC OBJECTIVE – Improve Program Outcomes								
OPERATIONS OBJECTIVE – Manage Risk of Fraud in Federal Operations								
REPORTING OBJECTIVE – Provide Reliable External Financial Reporting								
COMPLIANCE OBJECTIVE – Comply with the Improper Payments Legislation								
								16

ERM PLAYBOOK

(U.S. CHIEF FINANCIAL OFFICERS COUNCIL)



GAO'S FRAMEWORK FOR MANAGING FRAUD RISKS IN FEDERAL PROGRAMS (JULY 2015)

- FOUR COMPONENTS



- **COMMIT** TO COMBATING FRAUD BY CREATING AN ORGANIZATIONAL CULTURE AND STRUCTURE CONDUCIVE TO FRAUD RISK MANAGEMENT
- PLAN REGULAR FRAUD RISK ASSESSMENTS AND **ASSESS** RISKS TO DETERMINE A FRAUD RISK PROFILE
- **DESIGN AND IMPLEMENT** A STRATEGY WITH SPECIFIC CONTROL ACTIVITIES TO MITIGATE ASSESSED FRAUD RISKS AND COLLABORATE TO HELP ENSURE EFFECTIVE IMPLEMENTATION
- **EVALUATE** OUTCOMES USING A RISK-BASED APPROACH AND **ADAPT** ACTIVITIES TO IMPROVE FRAUD RISK MANAGEMENT

About the Committee of Sponsoring Organizations



> 600,000
professionals

Originally formed in 1985, COSO is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management (ERM), internal control, and fraud deterrence.

About the Committee of Sponsoring Organizations



> 600,000
professionals

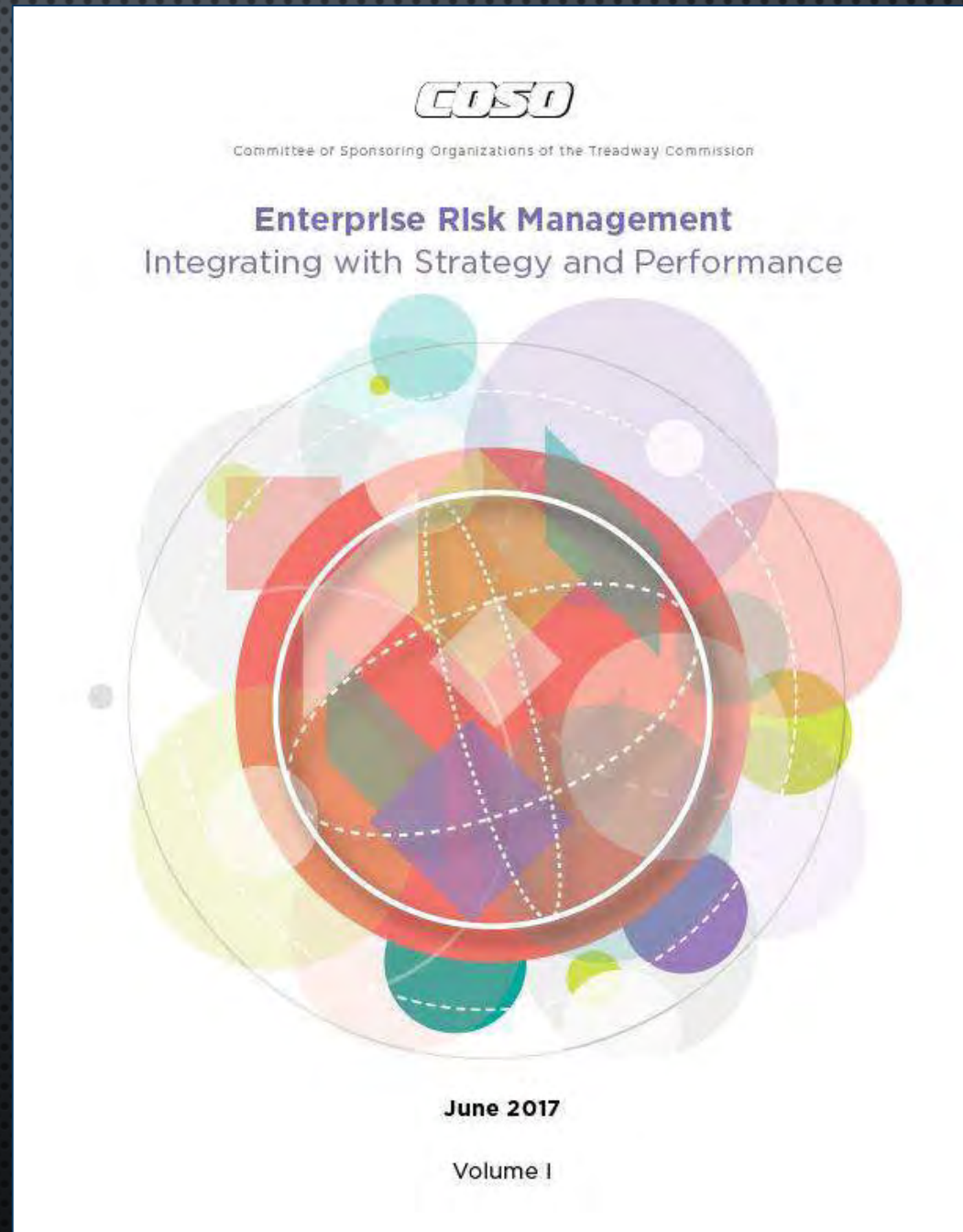
Originally formed in 1985, COSO is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management (ERM), internal control, and fraud deterrence.

COSO Publications



ENTERPRISE RISK MANAGEMENT FRAMEWORK: INTEGRATING WITH STRATEGY AND PERFORMANCE

(June 2017)



ENTERPRISE RISK MANAGEMENT

- UNDERLYING PREMISES:
 - EVERY ENTITY, INCLUDING GOVERNMENTAL, EXISTS TO PROVIDE VALUE FOR ITS STAKEHOLDERS
 - ALL ENTITIES FACE RISK IN THE PURSUIT OF VALUE
 - RISK AFFECTS AN ORGANIZATION'S ABILITY TO ACHIEVE ITS STRATEGY AND BUSINESS OBJECTIVES
 - ERM HELPS MANAGEMENT TO OPTIMIZE OUTCOMES WITH THE GOAL OF ENHANCING CAPABILITIES TO CREATE, PRESERVE, AND ULTIMATELY REALIZE VALUE

Key Things to Know about the Updated Framework

Provides a New Structure

- Framework focused on fewer components (five instead of eight)



- Uses focused call-out examples to emphasize key points
- Follows the business model versus isolated risk management process

Introduces Principles

20 key principles within
each of the five components

 Governance & Culture	 Strategy & Objective-Setting	 Performance	 Review & Revision	 Information, Communication, & Reporting
<ol style="list-style-type: none">1. Exercises Board Risk Oversight2. Establishes Operating Structures3. Defines Desired Culture4. Demonstrates Commitment to Core Values5. Attracts, Develops, and Retains Capable Individuals	<ol style="list-style-type: none">6. Analyzes Business Context7. Defines Risk Appetite8. Evaluates Alternative Strategies9. Formulates Business Objectives	<ol style="list-style-type: none">10. Identifies Risk11. Assesses Severity of Risk12. Prioritizes Risks13. Implements Risk Responses14. Develops Portfolio View	<ol style="list-style-type: none">15. Assesses Substantial Change16. Reviews Risk and Performance17. Pursues improvement in Enterprise Risk Management	<ol style="list-style-type: none">18. Leverages Information and Technology19. Communicates Risk Information20. Reports on Risk, Culture, and Performance

Incorporates New Graphics

Graphic has stronger ties to the business model



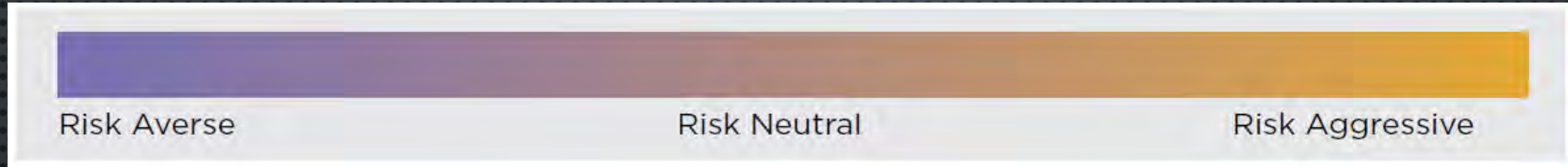
EMPHASIZES VALUE

- VALUE IS **CREATED** WHEN THE BENEFITS DERIVED FROM RESOURCES DEPLOYED EXCEED THE COST OF THOSE RESOURCES.
- VALUE IS **PRESERVED** WHEN THE VALUE OF RESOURCES DEPLOYED IN DAY-TO-DAY OPERATIONS SUSTAIN CREATED BENEFITS.
- VALUE IS **ERODED** WHEN MANAGEMENT IMPLEMENTS A STRATEGY THAT DOES NOT YIELD EXPECTED OUTCOMES OR FAILS TO EXECUTE DAY-TO-DAY TASKS.
- VALUE IS **REALIZED** WHEN STAKEHOLDERS DERIVE MONETARY OR NON-MONETARY BENEFITS CREATED BY THE ENTITY.

Links to Performance

- Enables achievement of strategy by actively managing risk and performance
- Focuses on how risk is integral to performance by:
 - ✓ Exploring how enterprise risk management practices support risk identification and assessment that impact performance
 - ✓ Discussing tolerance for variations in performance
- Manages risk in the context of achieving strategy and business objectives – not as individual risks

Recognizes the Importance of Culture



- Addresses the growing focus, attention and importance of culture within ERM
- Influences all aspects of ERM
- Explores culture within broader context of overall core
- Depicts culture behavior within a risk spectrum
- Explores possible effects of culture on decision-making
- Explores alignment of culture between individual and entity behavior

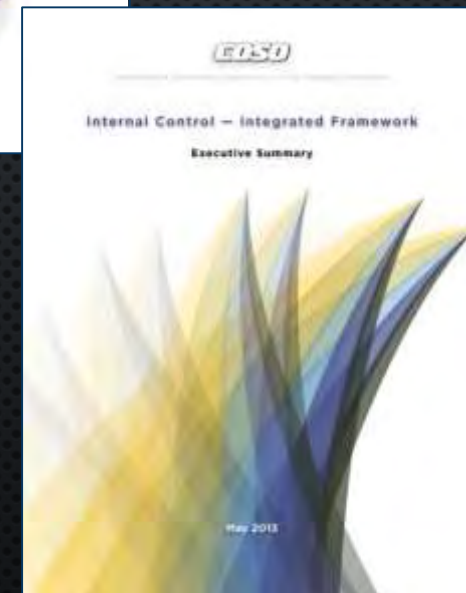
Focuses on Decision-Making

- Explores how enterprise risk management drives risk aware decision-making
- Highlights how risk awareness optimizes and aligns decisions impacting performance
- Explores how risk aware decisions affect risk profile



Builds Links to Internal Control

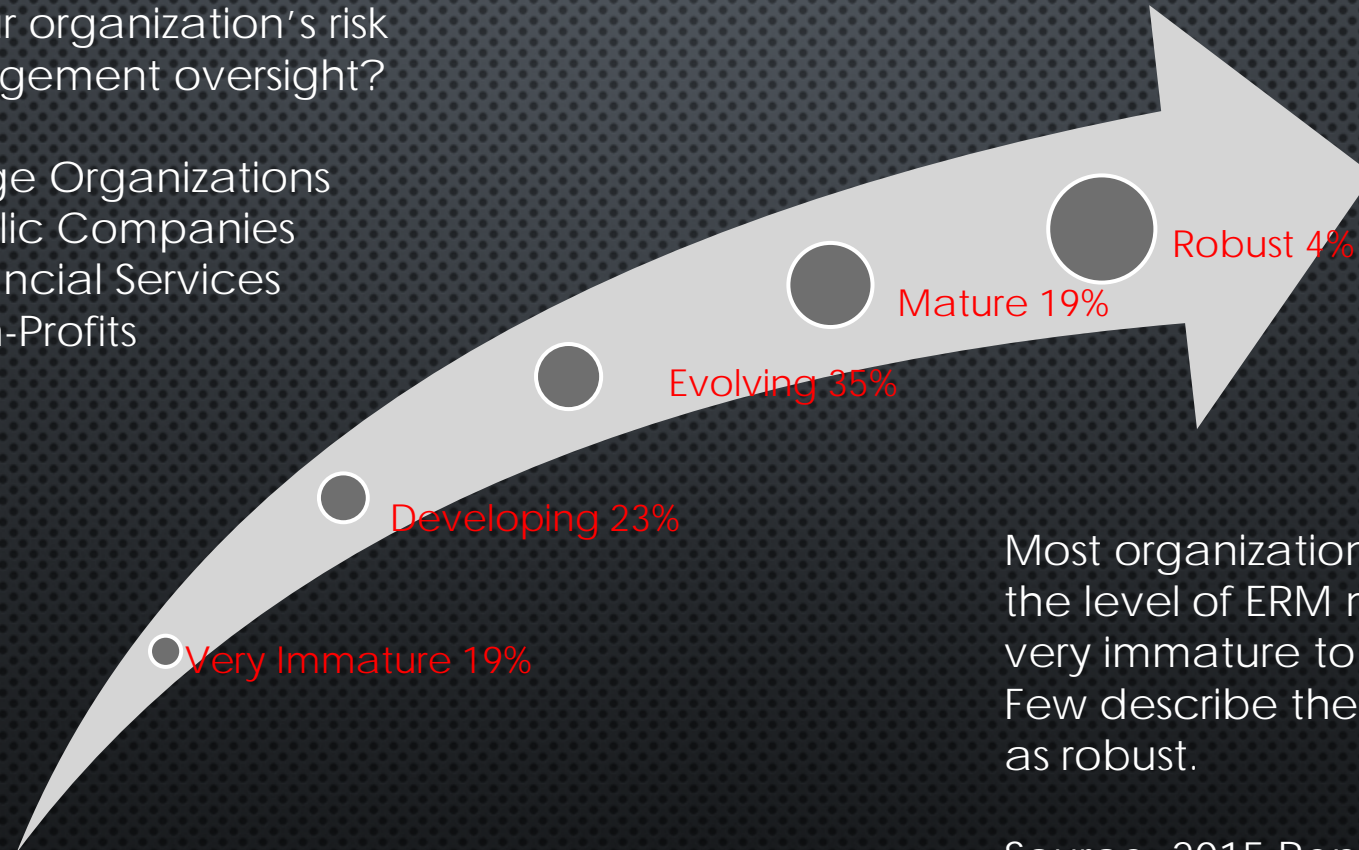
- Document does not replace the Internal Control – Integrated Framework
- The frameworks are distinct and complementary
- Both use a components-and-principles structure
- Aspects of internal control common to enterprise risk management are not repeated
- Some aspects of internal control are developed further in this framework



...BUT IT TAKES TIME TO MATURE

What is the level of maturity of your organization's risk management oversight?

- Large Organizations
- Public Companies
- Financial Services
- Non-Profits



Most organizations describe the level of ERM maturity as very immature to evolving. Few describe their process as robust.

Source: 2015 Report on the Current State of ERM/AICPA/North Carolina State University

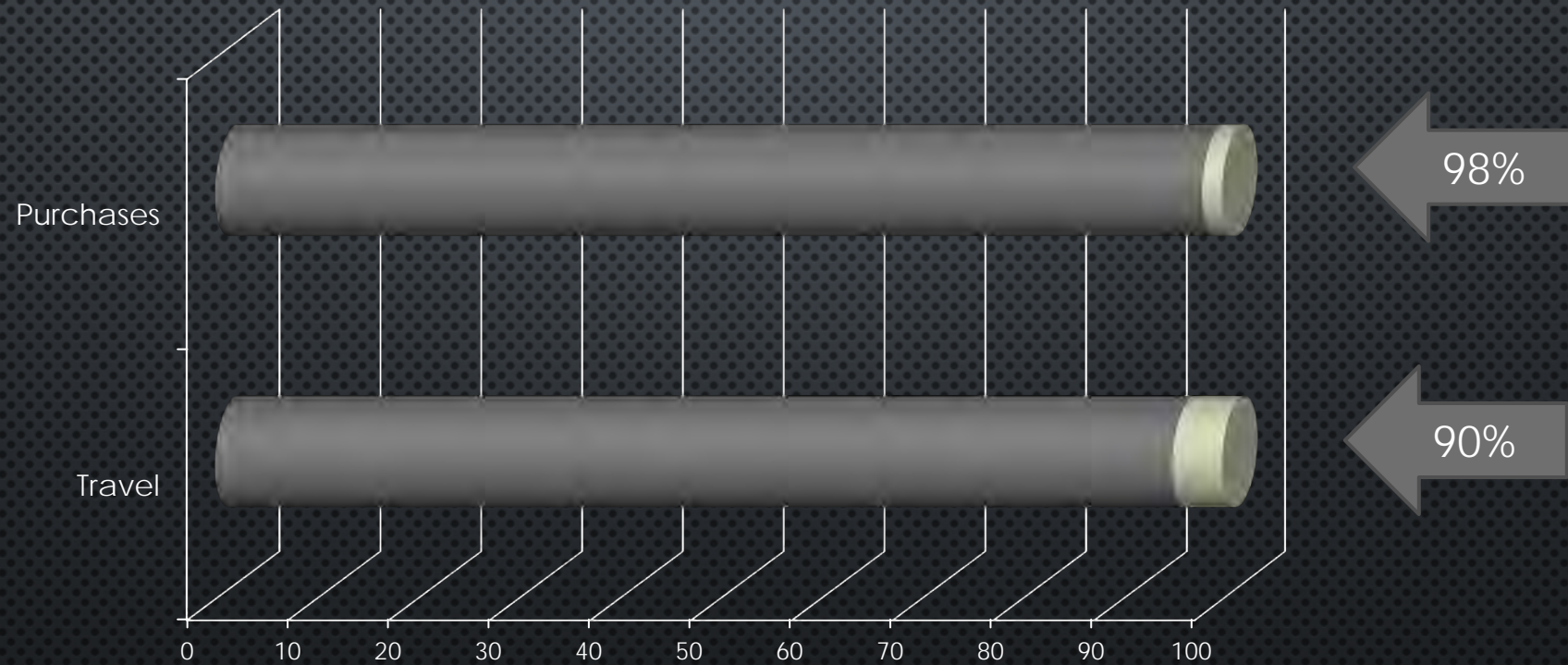
USING ERM

SO WHAT DOES THIS LOOK LIKE IN PRACTICE?

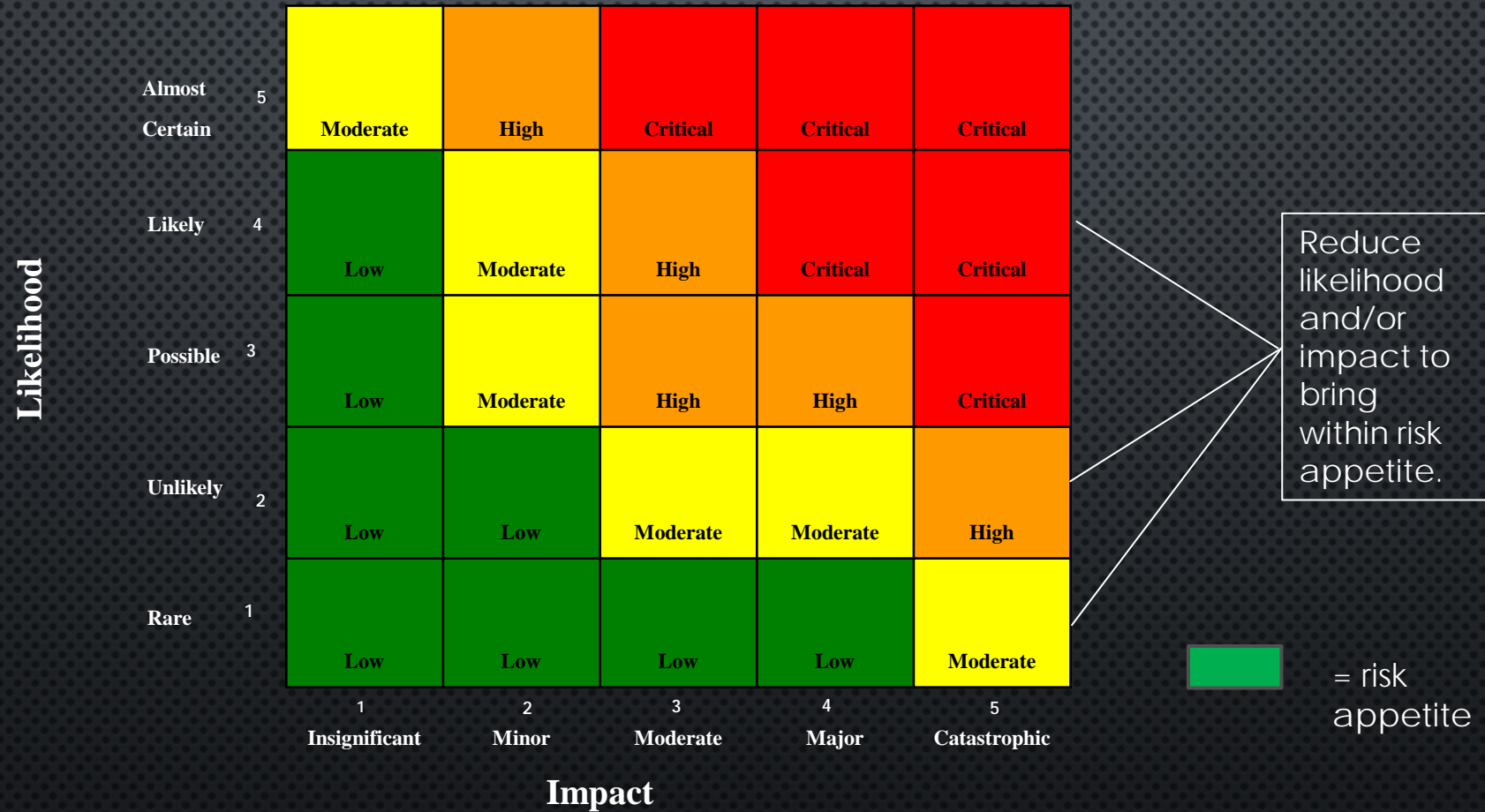
ASSES RISK: PURCHASE AND TRAVEL CARDS RISK ASSESSMENT

- OBJECTIVE: CHARGE CARD ACT OF 2012 AND OMB M-13-21 REQUIRES MANAGEMENT TO IMPLEMENT SAFEGUARDS AND INTERNAL CONTROLS TO PREVENT WASTE, FRAUD, AND ABUSE OF CHARGE CARD PROGRAMS.
- IGS REQUIRED TO PERFORM ANNUAL RISK ASSESSMENTS.
- HHS-OG;s FIRST ASSESSMENT DONE IN 2014 AND INCLUDED 2013 PURCHASE AND TRAVEL CARD EXPENDITURES INCURRED BY:
 - FDA
 - IHS
 - NIH
 - CDC
 - PROGRAM SUPPORT CENTER (ACF, ACL, OS)

EXPENSES COVERED



Heat Map to Summarize Results



LIKELIHOOD

(BASED ON THE PROBABILITY AN EVENT WILL OCCUR)

Risk Score	Definition
Rare (1)	Event may only occur in exceptional circumstances (<5%)
Unlikely (2)	Event could occur in rare circumstances (<25%)
Possible (3)	Event could occur at some time (<50%)
Likely (4)	Event will probably occur in most circumstances (<75%)
Almost Certain (5)	Event is expected to occur in most circumstances (≥ 90%)



IMPACT

(THE EFFECT OF AN EVENT ON STRATEGIC GOALS AND OBJECTIVES)

Risk Score	Definition
Insignificant (1)	Increasing levels of impact for: <ul style="list-style-type: none">• Financial risk• Operational risk• Reputational risk• Strategic risk
Minor (2)	
Moderate (3)	
Major (4)	
Catastrophic (5)	

ASSESS RISK (ERM CUBED)

Risk Factors	ERM Risk Sub-Factors	Adjustments to Factors	Total Sub-Factors Used
Internal Environment	14	-7	7
Objective Setting	5	0	5
Event Identification	16	-4	12
Risk Assessment	4	0	4
Risk Response	6	0	6
Control Activities	9	+32	41
Information and Communication	32	-7	25
Monitoring	11	+2	13
Total	97	+16	113

INDIAN HEALTH SERVICES

Summary	IE (Internal Environment)	OS (Objective Setting)	EI (Event Identification)	RA (Risk Assessment)	RR (Risk Response)	CA (Control Activities)	IC (Information & Communication)	M (Monitoring)	Total Average Scores
Total Score – Likelihood (L)	25	12	42	14	12	98	61	36	
Total Score – Magnitude (M)	24	10	38	14	12	97	50	23	
Number of Factors (NF)	7	5	11	4	3	34	18	10	
Average Likelihood Score (L ÷ NF)	3.57	2.40	3.82	3.50	4.00	2.88	3.39	3.60	27.2
Average Magnitude Score (M ÷ NF)	3.43	2.00	3.45	3.50	4.00	2.85	2.78	2.30	24.3
Risk Assessment (Use the average likelihood score, average magnitude score and "Risk Evaluation Grid" tab to assign a level of risk of <u>low</u> , <u>moderate</u> , <u>high</u> or <u>critical</u> . This process is automatically summarized in the below Risk Evaluation Matrix.)	High (9)	Low (4)	High (9)	High (9)	Critical (16)	Low (4)	Moderate (6)	Moderate (6)	
Agency Rating (Calculate the average likelihood score and the average magnitude score. Determine the composite assessment for the agency: 1=Low, 2=Moderate, 3=High, 4=Critical.)	3.4	Agency Likelihood Score							
	3.0	Agency Magnitude Score							
	High (9)	Agency Rating (Low/Moderate/High/Critical)							
OAS Response (Which control objectives have high and critical risks and what are those risks? Which risks are currently addressed by the work plan? Which risks have you addressed by developing an audit lead? Which risks need to be researched and developed?)	Objective setting, risk response, monitoring								

IHS Heat Map

42

Likelihood

Almost Certain	5	Moderate	High	Critical	Critical	Critical
Likely	4	Low	Moderate	High	Critical	Critical
Possible	3	Low	Moderate	High	High	Critical
Unlikely	2	Low	Low	Moderate	Moderate	High
Rare	1	Low	Low	Low	Low	Moderate
		1	2	3	4	5
		Insignificant	Minor	Moderate	Major	Catastrophic

Impact

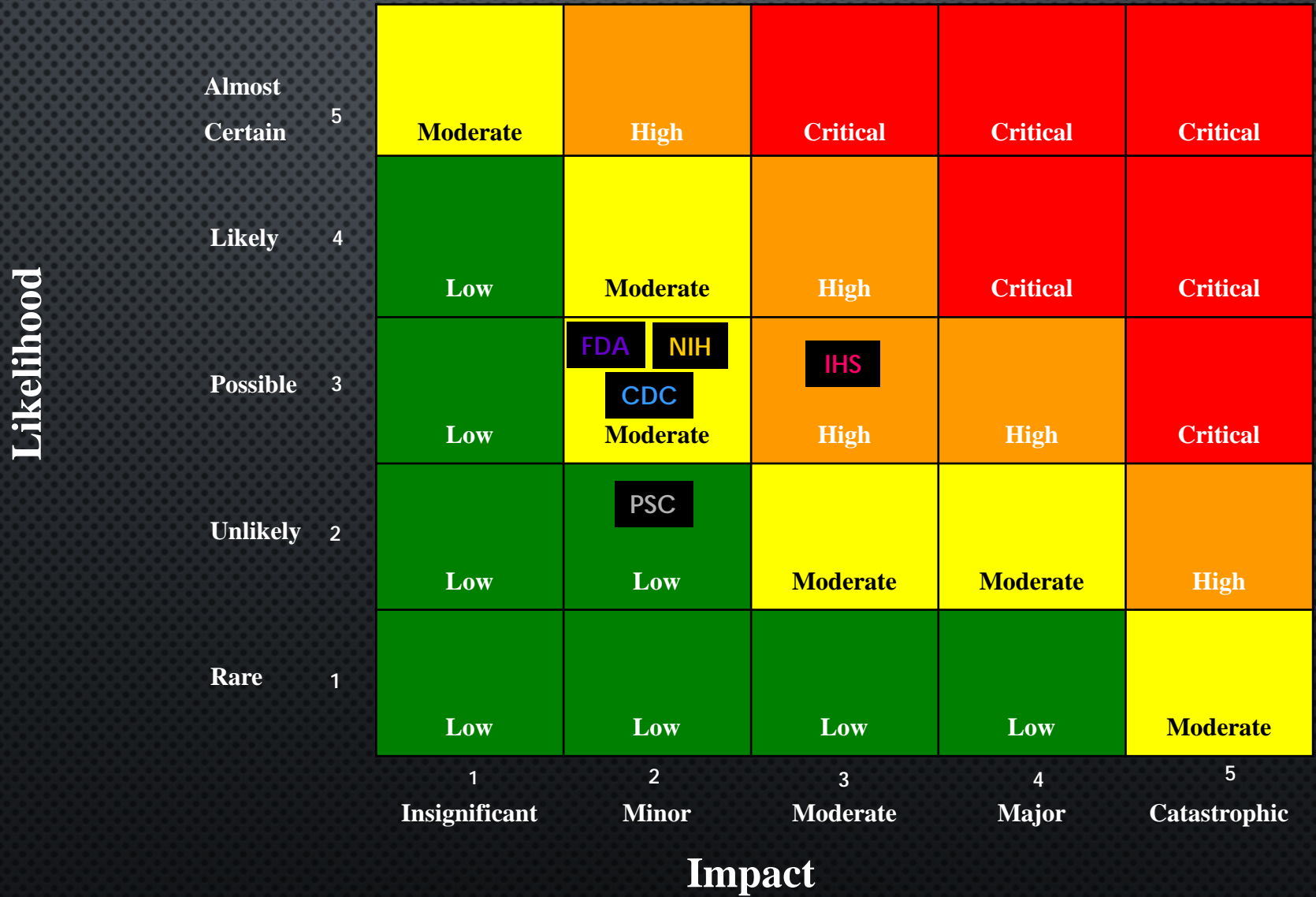
IC M

IE RA EI

OS CA

RR

Charge Card Heat Map



University of Alberta

Statement of Risk Tolerance

The University acknowledges that there is an element of risk in any decision or activity and encourages risk taking when the risk is appropriately managed. This *Statement*, which is to be applied at the institutional level, explains a critical component of the University's risk management framework by attempting to quantify the level of risk the University is willing to tolerate across the following vital areas:

- Reputation
- Infrastructure (financial and physical)
- Education/Research
- Human Resources
- Safety/Security

Likelihood of Event of Condition Occurring

Category	Qualitative interpretation
Rare	Has not occurred at any university in the last 10 years
Unlikely	Has not occurred at a Canadian university within the last 10 years or any university within the last 5 years
Moderate	Similar events have occurred at Canadian universities at a rate of at least once every 10 years or any university with a rate of at least once every 5 years.
Likely	Similar events have occurred at the University of Alberta at a rate of at least once every 10 years or at Canadian Universities at a rate of at least once every 5 years or any university with a rate of at least once every 2 years.
Almost Certain	Similar events have occurred at the University of Alberta at a rate of at least once every 5 years or at Canadian Universities at a rate of at least once every 2 years or any university with a rate of at least one (or more) events every year.

CONSEQUENCE OF AN EVENT OF CONDITION OCCURRING – REPUTATION

Category	Qualitative interpretation
Negligible	Brief negative attention in local news/social media
Minor	Negative attention in local news/social media for up to 1 week.
Moderate	<ul style="list-style-type: none">• Negative attention in national news/social media for less than one week, or• Negative attention in local news/social media for 1 to 2 weeks, or• Negative reaction among surrounding communities for less than 2 weeks.
Major	<ul style="list-style-type: none">• Negative attention in international news/social media for less than 1 week, or• Negative attention in national news/social media for 1 to 2 weeks, or

CONSEQUENCE OF AN EVENT OF CONDITION OCCURRING – INFRASTRUCTURE (FINANCIAL OR PHYSICAL)

Category	Qualitative interpretation
Negligible	A loss of less than \$250,000.
Minor	A loss of between \$250,000 and \$1,000,000.
Moderate	A loss of between \$1,000,000 and \$2,000,000.
Major	A loss between \$2,000,000 and \$5,000,000.
High	A loss greater than \$5,000,000.

Treating Risk

- Level 4 The University will not accept a risk at level four unless fully reviewed and approved by the President's Executive Committee - Operational. For all other risks at level four, *Risk treatment* actions must be established immediately such that the *residual risk* is at 3 or below.
- Level 3 The University will accept a risk at level three as long as it is reduced to a lower level of risk in the midterm through reasonable and practicable risk treatments.
- Level 2 The University will accept the risk at level 2 as long as it is reduced to a lower level of risk in the long term using low resource options.
- The risk should be analyzed to determine whether it is being "over managed," where the control strategies could be relaxed in order to redeploy resources.
- Level 1 A low risk that requires no additional risk treatment.
- The risk should be analyzed to determine whether it is being "over managed" and that control strategies can be relaxed in order to redeploy resources.

THE MATRIX

C
O
N
S
E
Q
U
E
N
C
E

High	Level 3	Level 4	Level 4	Level 4	Level 4
Major	Level 2	Level 3	Level 3	Level 4	Level 4
Moderate	Level 2	Level 2	Level 2	Level 3	Level 3
Minor	Level 1	Level 1	Level 2	Level 2	Level 3
Negligible	Level 1	Level 1	Level 1	Level 1	Level 2
	Rare	Unlikely	Moderate	Likely	Almost Certain

LIKELIHOOD

PORTFOLIO VIEW OF RISK

OIG Strategy View (Portfolio)

Fight FWA. Promote quality, safety, and value. Secure the future. Advance excellent and innovation.

OAS/Entity Objective View for Unimplemented Recommendations (Risk Profile)

Promote follow-up audit process

Ensure recommendations have impact

Business Objective View (Risk Profile)

Effectively manage URs	Effectively track URs	Comply with A-50	Build relationships with OPDIVs	Address congressional concerns
------------------------	-----------------------	------------------	---------------------------------	--------------------------------

Risk View

Risk of not addressing high risk areas	Risk of old URs and large inventory balances	Risk of damaging reputation	Risk of reducing QCs, key controls not implemented	Risk of unwanted legislation
--	--	-----------------------------	--	------------------------------

Risk Category View

Operational Risk

Compliance Risk

Strategic Risk

PORTFOLIO VIEW OF RISK

Strategy View for Assessing UR (Portfolio)

Appropriately use ERM to assess unimplemented recommendations.

Entity Objective View for Assessing UR (Risk Profile)

Likelihood score reflects probability of problem occurring if no corrective action.

Impact scores reflects associated risks if problem occurred.

Business Objective View (Risk Profile)

Use risk ratings to follow-up on high risk audits.

Dashboards identify programs with large number of high risk URs.

Improve Semi-Annual reporting.

Reduce inventory by low risk URs and focus resources on high risk URs.

Risk View

Risk of gaming the process.

Risk of not taking/applying training and providing risk scores that do not reflect level of risk.

Risk of inconsistent results across OAS.

Risk of cultural resistance.

Risk Category View

Operational Risks

Informational Risks

Strategic Risks

PORTFOLIO VIEW OF RISK

Risk Category View (White Paper)

Strategic Risks	Compliance Risk	Operational Risks	Financial Risks
-----------------	-----------------	-------------------	-----------------

Risk View (OIG Findings)

Poor tone at the top	Fails to follow P&Ps	Inexperienced board, no finance background	Poor accounting system, allocate costs	Grant is only funding source
----------------------	----------------------	--	--	------------------------------

Business Objectives for Grantees (Risk Profile)

Adheres to core values	Develops and follows SOPs	Hires experienced staff	Maintains sufficient management systems	Maintains financial stability
------------------------	---------------------------	-------------------------	---	-------------------------------

OPDIV/Entity Objective View for HHS Grants (Risk Profile)

Identify and mitigate potential risks posed by grant applicants prior to awarding funds	Ensure successful performance and administration of the grant award
---	---

Strategy View for HHS Grants (Portfolio)

Comply with administrative requirements for awarding and monitoring grants.

EXAMPLE #1: HIGH RISK AUDIT

- NC DID NOT COMPLY WITH REQUIREMENTS WHEN MAKING MEDICAID COST-SHARING PAYMENTS FOR PROFESSIONAL MEDICAL SERVICES. NC INCORRECTLY PAID 184 OUT OF 200 SAMPLE ITEMS. WE ESTIMATED THAT NC MADE AT LEAST \$63M (\$41M FEDERAL SHARE) IN IMPROPER MEDICAID COST-SHARING PAYMENTS.
- THESE IMPROPER PAYMENTS OCCURRED BECAUSE NC DID NOT PROGRAM ITS MEDICAID MANAGEMENT INFORMATION SYSTEM (MMIAS) TO CALCULATE MEDICAID COST-SHARING PAYMENTS FOR PROFESSIONAL MEDICAL SERVICES IN ACCORDANCE WITH THE REQUIRED COST-SHARING PAYMENT METHODOLOGY.
- NC REPLACED ITS MMIS AFTER OUR AUDIT PERIOD. WE REVIEWED A LIMITED NUMBER OF COST-SHARING PAYMENTS MADE AFTER OUR AUDIT PERIOD AND VERIFIED THAT THE NEW SYSTEM CORRECTLY CALCULATED THE PAYMENTS.

REC #1: REFUND \$41.2M TO THE FEDERAL GOVERNMENT

Impact	Strategic Risk	Financial Risk	Informational Risk	Operational Risk	Compliance Risk
Score	N/A	3	N/A	N/A	N/A
Justification		Amounts recommended for refund could have a moderate impact on the program. NC made inaccurate payments which did not reflect the actual program costs.			

Likelihood – 3 Possible: NC is no longer making cost-sharing payments using estimates. However, based on our analysis of the culture in the next recommendation, there is the possibility that the State Medicaid agency may be using unapproved payment methodologies for other calculations that result in maximizing Federal reimbursement.

REC#2: ENSURE THAT FUTURE CHANGES TO MEDICAID PAYMENT METHODOLOGIES COMPLY WITH THE MEDICAID STATE PLAN.

Impact	Strategic Risk	Financial Risk	Informational Risk	Operational Risk	Compliance Risk
Score	3	4	1	4	3
Justification	Lack of a focused strategy may affect NC's ability to properly use Medicaid funds and meet the objectives in the State Plan and/or Medicaid regulations.	Audit identified \$41 million in overpayments in part due to the lack of payment methodologies complying with State Plan. Without corrective action, future payments will likely be inappropriately made and will not reflect the actual costs of the program which would negatively affect the State agency's ability to prepare accurate budgets and forecasts.	Insignificant impact on program.	Without corrective action, the State agency will compromise its ability to comply with Federal and State requirements and impact stakeholders (beneficiaries) with less resources for other Medicaid programs.	The State Agencies failure to comply with regulations will likely have a local negative impact on reputation of Medicaid program (article on report in local newspaper).

REC#2: ENSURE THAT FUTURE CHANGES TO MEDICAID PAYMENT METHODOLOGIES COMPLY WITH THE MEDICAID STATE PLAN.

Likelihood – 4 Likely:

- NC indicated it verbally informed CMS of its intention to deviate from the cost-sharing payment methodology in the Medicaid State plan, CMS did not require a formal submission, and CMS did not officially comment on the change.
- NC was not willing to take corrective action.
- These actions question whether the State Medicaid agency is maintaining the culture and core values defined by NC's DHHS and possibly becoming more risk aggressive. The closer an entity is to the risk aggressive end of the spectrum (risk adverse – risk neutral – risk aggressive), the greater its propensity for and acceptance of differing types and greater amounts of risk to achieve its objectives.
- One of NC's core values includes accountability, and yet the tone at the top of the State Medicaid agency does not portray a fully honest and truthful environment. If these and other similar trends continue, the State Medicaid agency risks having payment methodologies that do not comply with the State Plan and result in unallowable payments.

EXAMPLE #1: HIGH RISK AUDIT

- **AVERAGE RISK SCORE: 10** — HIGH RISK — CANDIDATE FOR FOLLOW-UP AUDIT
- ALTERNATE SCENARIO: LET'S ASSUME THAT DURING OUR AUDIT, NC WAS OPEN TO IDENTIFYING OTHER PAYMENT METHODOLOGIES THAT MAY BE CREATING OVERPAYMENTS. THE STATE MEDICAID AGENCY HAD A STRONG TONE AT THE TOP (CULTURE) AND A LOW RISK APPETITE FOR POOR OPERATIONS THAT WOULD RESULT IN THE LIKELIHOOD OF AN OVERPAYMENT BEING RARE OR REMOTE (SCORE: 1).
 - **AVERAGE RISK SCORE: 7** — MODERATE RISK — HQ ARRANGES A CONFERENCE WITH ACTION OFFICIAL TO DISCUSS FINAL ACTION

EXAMPLE #2: CRITICAL RISK AUDIT

- A HEAD START AGENCY CANNOT EFFECTIVELY MANAGE AND ACCOUNT FOR FEDERAL FUNDS OR OPERATE ITS PROGRAM IN ACCORDANCE WITH FEDERAL REGULATIONS. SPECIFICALLY, IT:
 - LACKED SUFFICIENT CASH TO MEET ITS OPERATING EXPENSES AND DEBT OBLIGATIONS
 - LACKED AN EFFECTIVE FINANCIAL MANAGEMENT SYSTEM TO ADEQUATELY MANAGE AND ACCOUNT FOR FEDERAL FUNDS
 - DID NOT ALWAYS VALUE OR ACCOUNT FOR THE NON-FEDERAL MATCHING PORTION OF ITS BUDGET IN ACCORDANCE WITH FEDERAL REGULATIONS
 - DID NOT OBTAIN HHS APPROVAL BEFORE SECURING A BANK LOAN WITH PROPERTY IN WHICH THE FEDERAL
- BASED ON ITS CURRENT FINANCIAL POSITION AND FUTURE DEBT OBLIGATIONS, THE HEAD START AGENCY MAY NOT BE ABLE TO CONTINUE FUNCTIONING AS A “GOING CONCERN” UNLESS IT RECEIVES ADDITIONAL FUNDING.

REC: IN DETERMINING WHETHER THE HEAD START AGENCY SHOULD BE AWARDED ADDITIONAL HEAD START AND RECOVERY ACT GRANT FUNDS, ACF SHOULD CONSIDER THE INFORMATION PRESENTED IN THIS REPORT IN ASSESSING ITS FINANCIAL CONDITION.

Impact	Strategic Risk	Financial Risk	Informational Risk	Operational Risk	Compliance Risk
Score	5	5	5	5	3
Justification	Changes in the economy, demand for services, fluxuations in the housing market, or political changes have a catastrophic impact on the agency's ability to fulfill its role to impact low-income families.	Inability to manage its cash flow, pay its creditors, and maintain an effective financial system may lead to bankruptcy.	Lack of an effective financial system resulted in the agency not having the information needed for analysis, budgeting and managing cash.	The Board failed to ensure that the agency had adequate processes, people and systems in place to run the organization.	Failure to comply with laws/regulations allowed unethical and possible fraudulent activities to impact finances and operations.

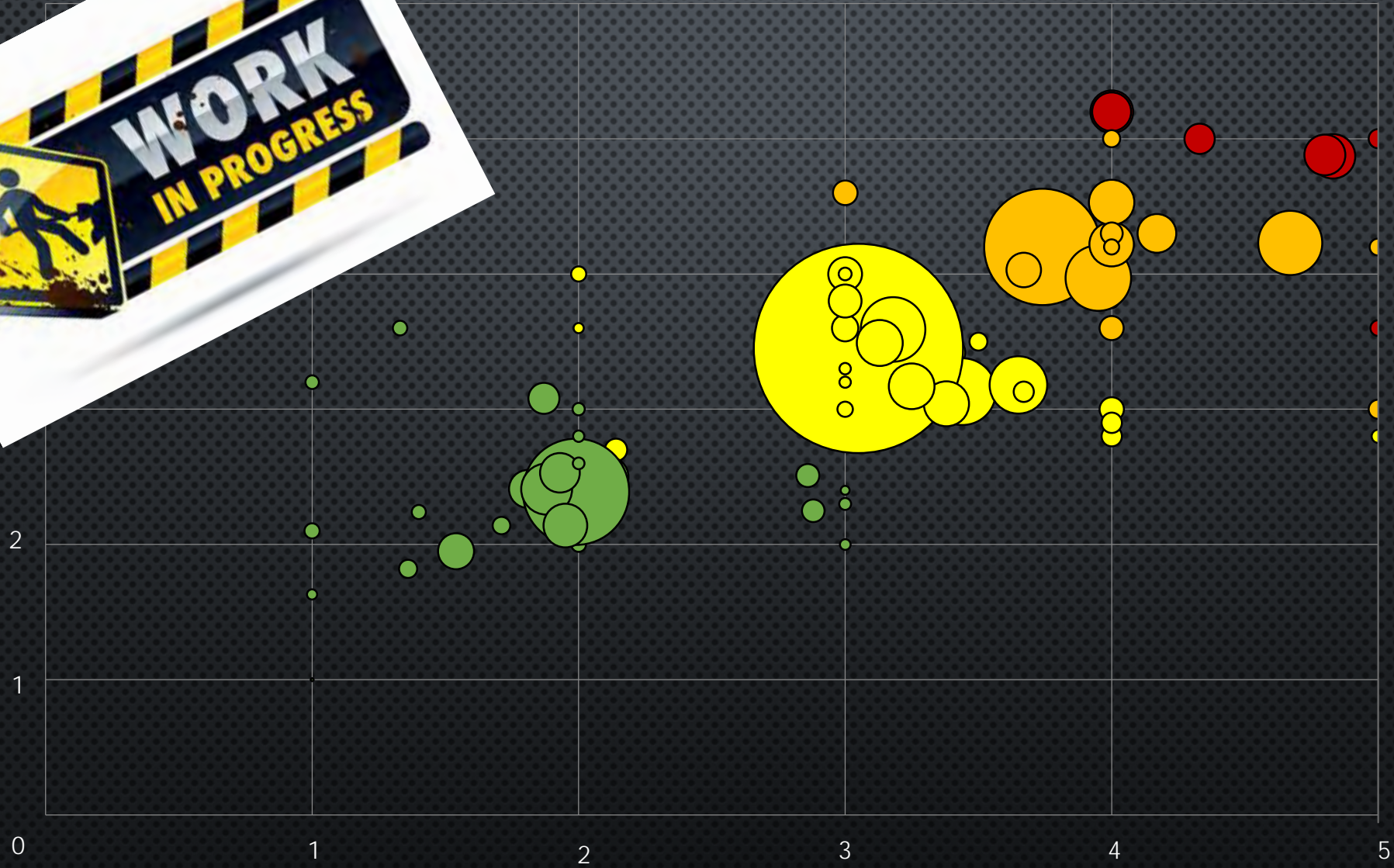
REC: IN DETERMINING WHETHER THE HEAD START AGENCY SHOULD BE AWARDED ADDITIONAL HEAD START AND RECOVERY ACT GRANT FUNDS, ACF SHOULD CONSIDER THE INFORMATION PRESENTED IN THIS REPORT IN ASSESSING ITS FINANCIAL CONDITION.

- **LIKELIHOOD – 5 – ALMOST CERTAIN:**

- IT IS ALMOST CERTAIN THAT THE AGENCY'S INABILITY TO MANAGE AND ACCOUNT FOR FEDERAL FUNDS, COMBINED WITH ITS GOING CONCERN ISSUES AND POSSIBLY FRAUD, WILL PREVENT IT FROM ACHIEVING THE ITS MISSION.
- THE AGENCY HEAD HAS COMPLETE AUTONOMY (NO MANAGEMENT STRUCTURE) AND THE BOARD HAS NOT HELD HIM/HER ACCOUNTABLE FOR FAILING TO MANAGE THE AGENCY'S FINANCES AND OPERATIONS.
- NEITHER THE DIRECTOR NOR BOARD HAD A COMMITMENT TO INTEGRITY AND ETHICAL VALUES.
- INTERNAL CONTROLS WERE LACKING.
- THE AGENCY DOES NOT HAVE THE CAPACITY TO FULFILL THE NEEDS OF THE HEAD START PROGRAM AND WILL RESULT IN OPERATIONAL FAILURE.

EXAMPLE #2: CRITICAL RISK AUDIT

- **AVERAGE SCORE: 23** — CRITICAL — REGIONAL DIRECTOR SHOULD REPORT IMMEDIATELY TO HQ THE CRITICAL IMPACT OF ANY DELAY ON IMPLEMENTING THE RECOMMENDATION AND THE NEED FOR IMMEDIATE FOLLOW-UP.



Questions?