

RISK ASSESSMENT – A TOOL TO IDENTIFY HIGH RISK/HIGH VALUE AUDITS



Mid-America Intergovernmental Audit Forum

Johnson County Audit Services

December 8, 2017



TOPICS

Background

- *Why we initiated a risk assessment process*

Risk Assessment

- *Macro view*
- *Program example*

Closing

- *How risk assessment results are used*
- *Pros, cons and future challenges*



BACKGROUND Johnson County Government

Thirty (+) departments/agencies providing diversified services

- Cultural/recreation
- Public Safety
- Utility
- Airports
- Human Services

JOCO Audit Services has 7 FTE

FY 2018 budget = \$1.06 billion

FY 2018 FTE Authorization = 3,950

BACKGROUND Internal Audit Charter

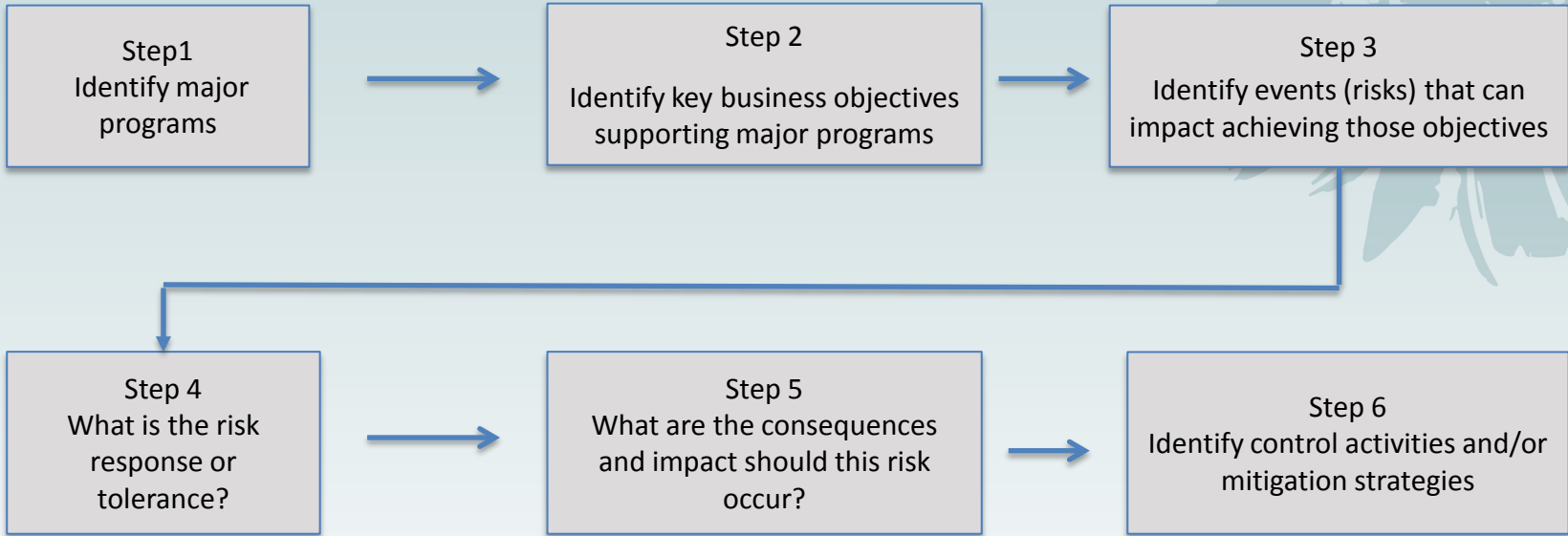
Requires the Auditor to formalize

“a *process* to allocate audit resources **based upon assessing risk within the COUNTY** and focusing efforts on **high risk/high value-added audits;**”

(Resolution No. 080-94)

RISK ASSESSMENT

Macro View



RISK ASSESSMENT Micro View

Program/ Service	Objective	Risk	Risk Type	Likelihood (inherent)	Impact (inherent)	Inherent Rating	Risk Response	Controls/Mitigating Factors	Adjusted Likelihood	Adjusted Impact	Residual Rating	Risk Level Inherent/ Residual Average	Program Average (Residual)	Department Average (Residual)	Last year included in Audit
Adult Residential Center	Promote clients' successful reentry into the community, reduce chances of recidivism, and promote client success while reducing risk to the community.	Clients absconding (AWOL)	Operational/ Compliance	3.00	3.00	3.00	Mitigate/ Share	Share with the Sheriff Office and local law enforcement. Written policy and procedures for AWOL processes, meet with each client during the orientation phase and discuss rules and consequences (educating clients), physical security as far as location, building design, work	2.00	2.00	2.00	2.50	1.70	1.64	2013
New Century AirCenter/ Executive Airport	Operate New Century Airport and Executive Airport in a safe and efficient manner that meets or exceeds guidelines prescribed by Federal Aviation Regulations and the FAA Airport	Fire in the hangars.	Operational/ Compliance/ Financial	2.00	2.00	2.00	Mitigate/ Share	Shared with the vendors and insurance provider. Tenants required to indemnify the airport and include on insurance. State law protects the airport from law suit exceeding \$1 million. Contracts and hangar leases have requirements to prevent	1.00	1.00	1.00	1.50	1.75	1.90	2009
Childcare Licensing	Homes/Centers: to enforce Kansas State statutes and regulations established to protect the health and safety of children in out-of-home care in Johnson County	Unsafe or unhealthy out-of-home care environments	Strategic/ Operational/ Compliance/ Financial	3.00	3.00	3.00	Mitigate/ Share	Share with child care referral resources/Mitigate with regulatory visits, and with education - training, classes, and educational brochures, staff training to understand regulations and their own responsibilities, attendance at professional conferences	1.50	2.00	1.75	2.38	1.92	1.87	2012
Support Services	Provide support, including data entry, to customer service and support services (30%), imaging of evidence (10%), survey support (survey all apartments to determine rent schedules, other surveys), provide internal reporting documentation to monitor costs and efficiency of office operations, respond to property owner inquiries,	Data errors	Operational/ Compliance	3.00	3.00	3.00	Mitigate	Mitigate by requiring review of many quality control reports	1.00	2.00	1.50	2.25	1.83	2.01	NA
Information Technology	Johnson County Library provides access to ideas, information, experiences and materials that support and enrich people's lives through digital resources.	Outdated Technology	Strategic/ Operational/ Financial	2.00	3.00	2.50	Mitigate/ Accept	Technology 5 year plan, staff training, staff on duty that can program, data base evaluation committee for community needs, 4 year computer replacement cycle, staff web developers,	2.00	2.00	2.00	2.25	2.00	1.97	2012

BACKGROUND Risk Assessment – Overview

A standard, recognized approach was used to facilitate an enterprise-wide risk assessment in 30 departments/agencies

Management assessed risks and identified

- 133 programs
- 226 program objectives
- 759 risks

RISK ASSESSMENT Program Example

Johnson County Airport Commission operates 2 airports

- New Century Air Center (formerly Olathe Naval Air Station)
- Executive Airport

Airport Commission identified 4 programs

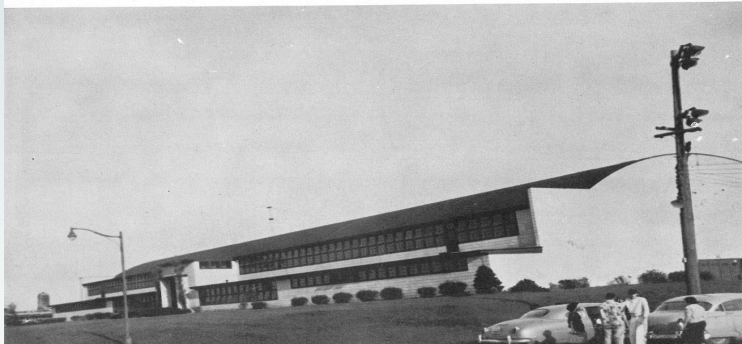
- Airport
- Business Park
- Water
- Rail

RISK ASSESSMENT Olathe Naval Air Station



Administration Building

Kinnick Hall



9

RISK ASSESSMENT Olathe Naval Air Station



RISK ASSESSMENT Olathe Naval Air Station



RISK ASSESSMENT Olathe Naval Air Station



RISK ASSESSMENT Airport Commission

“Airport” Program - Key Business Objective

Operate both airports in a safe and efficient manner that meets or exceeds guidelines prescribed by FAA regulations and FAA Airport Compliance Manual

RISK ASSESSMENT Airport Commission

Risk - “Fire in the hangars”

- 218 T hangars at both airports

What is the risk response? **Mitigate**



RISK ASSESSMENT Airport Commission



RISK ASSESSMENT Airport Commission

Step 1 – Identify major program

- Airports

Step 2 - Identify key business objective

- Operate in a safe and efficient manner

Step 3 – Identify risks

- Fire in the hangars

Step 4 – What is the Risk Response?

- Mitigate



RISK ASSESSMENT Airport Commission

Step 5 – What are the consequences and impact should this risk occur?

- Assess the *likelihood* and *impact* of the risk “fire in the hangars”

RISK ASSESSMENT Airport Commission

Step 6 – Identify mitigation strategies

- Shared with tenants and insurance providers
- Tenants required to indemnify the airport and have insurance
- **Contracts and hangar leases have requirements to prevent activities that would cause of fire**
- Fire station on the field

RISK ASSESSMENT Airport Commission

Management considered the “fire in the hangar” risk to be “low” after assessing the mitigating controls they stated existed

“low” rating....

- Unlikely or remote chance of the event or condition occurring (likelihood)
- The magnitude of the instance is immaterial or inconsequential to financial condition, operations or reputation (impact)

RISK ASSESSMENT Audit Planning

Risk assessment results are used

- Part of the conversation in annual audit planning
 - ✓ County leadership
 - ✓ Audit Committee
 - ✓ County Auditor
 - ✓ Risk Assessment
- Test controls in individual audits

RISK ASSESSMENT Audit Planning

Airport Commission Transition Audit (January 2017)

Audit objective

Are appropriate controls in place to ensure key business objectives are accomplished?

RISK ASSESSMENT Audit Field Work

Risk “fire in the hangar”

Mitigating control

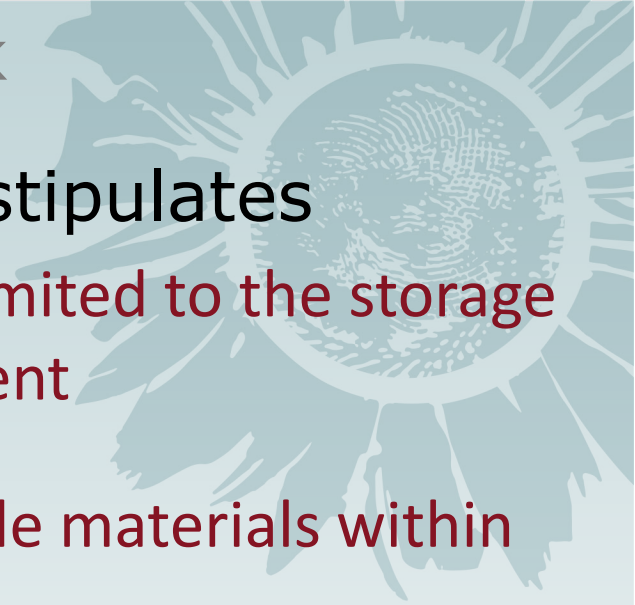
- Contracts and hangar leases have requirements to prevent activities that would cause of fire

Airplane Hangar Rental Agreement stipulates...

- The landlord shall have the right to enter into the hangar, for the purposes of inspection, repair, or maintenance
- Hangar doors will be equipped with locks provided by the landlord. Tenant will not install, replace, change, or use any lock on the hangar doors except for locks provided and installed by the landlord

RISK ASSESSMENT Audit Field Work





Airplane Hangar Rental Agreement stipulates

- The occupancy of the hangar shall be limited to the storage of aircraft and related aviation equipment
- Storage of gasoline or other inflammable materials within the hangars shall be prohibited
- The property shall be maintained free and clear of all debris and trash

RISK ASSESSMENT Audit Field Work



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RISK ASSESSMENT Audit Field Work



RISK ASSESSMENT Closing Comments

Pros

- Excellent tool for audit planning
 - ✓ Identifies high risk areas – fact driven
 - ✓ Identified common themes across the County
- Starts the discussion regarding ERM
- Many departments embraced the concept
 - ✓ Management's assessment

RISK ASSESSMENT Closing Comments

Cons

- Establishing initial baseline of programs & risks
 - ✓ Significant resources
- Audit Risk
 - ✓ Management's assessment – were they always forthcoming?
- Some departments did not embrace the concept

RISK ASSESSMENT Closing Comments

Future Challenges

- How do we improve the process in future updates to generate efficiencies for management and Audit Services

QUESTIONS?

THANK YOU!

JOHNSON COUNTY AUDIT SERVICES

WWW.JOCOGOV.ORG/AUDIT

