



Internal Control Officers

July 2024

Session One:

*Risk Assessment - A basis for
how risk will be managed.*

Today's Topics – First Hour



Foundations for Risk Assessment

- Identifying Risk based on Objectives
- Prioritizing Risk
- Responding to Risk
- Finding the Root Cause
- Documenting the Risk Assessment

Corrective Action Plans

Today's Topics – Second Hour

Collaborative Discussion

- Risk Assessment Template Example
- Risk Assessment Progress
- Activity to Review Risk Assessment Concepts





What are the upcoming action items?

July Training and Collaborative Sessions

- Gain an Understanding of the Internal Control Guidelines

Due September 1

- Top Three Risks & Mitigation Plan
- Audit or Review Findings in FY 2024 with proposed plans for resolution
- Progress Report on previously reported corrective action plans and top three risks

Risk Assessment



Define Objectives

What are we trying to accomplish?



Identify Risks to Objectives

What can go wrong?



Prioritize

Impact and Likelihood



Respond

Accept, Avoid, Reduce, Share

Uniform Compliance Guidelines on Internal Control

Part One: Risk Assessment Principles and Points of Focus – page 20

Part Two: Conducting a Risk Assessment – page 45

Part Three: Risk Assessment Template – in.gov/sboa – resources – Development Tools

Part Three: Example Objectives & Risks – page 123

Objectives



Operations – pertains to effectiveness and efficiency of agency operations, including operational and financial performance goals, and safeguarding assets against loss.

Reporting – relates to internal and external financial and nonfinancial reporting, encompassing reliability, timeliness, transparency, or other terms as set forth by regulators, standard setters, or agency policies.

Compliance – deals with adherence to laws and regulations.

Uniform Compliance Guidelines
on Internal Control, p. 16; 20-22;
123 – example section



What is Risk?

Inherent Risk

Fraud Risk

Change Risk

Reputational Risk

Residual Risk

Risk is based on objectives

Uniform Compliance Guidelines on
Internal Control, p. 22-23; 47-52

Questions to Consider

What is our core mission?

How could we fail?

What must go right for us to succeed?

Where are we most vulnerable?

What assets do we need to protect?

How could someone steal from the agency?

How could someone disrupt our operations?

What information do we rely upon the most?

What do we spend the most money on?

How do we collect money?

What decisions require the most judgment?

What is our greatest legal exposure?

What significant changes occurred/will occur?



How is risk prioritized?

- Impact
- Likelihood

Uniform Compliance Guidelines on
Internal Control, p. 22; 48-49



Risk Impact

Chart Source: OMB Administration Portal

Rate/Category	Description/Definition	Example - Federal Noncompliance	Example - Financial Reporting
1 Insignificant	The impact will not significantly affect the ability to achieve objectives.	Immaterial noncompliance	Immaterial errors
2 Minor	Immaterial misstatements		
3 Serious	The impact could significantly affect the agency's ability to achieve objectives.	Audit Finding of Noncompliance	Lack of documentation to support financial reporting
4 Disasterous	Audit Questioned Costs		Material Misstatement
5 Catastrophic	The impact could preclude or highly impair the entity's ability to achieve objectives.	Material loss of federal funding	Failure to maintain financial records

Risk Likelihood

Chart Source: OMB Administration Portal

Category	Description
1 Low	The risk event is unlikely to occur
2 Medium	The risk event is more likely to occur than unlikely
3 High	The risk event is very likely or reasonably expected to occur.
4 Ongoing	The risk event is currently happening.

Uniform Compliance Guidelines on Internal Control, p. 22, 48

Risk Score = Impact x Likelihood

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Risk Score Examples

3 Serious x 4 Ongoing = Score of 12

1 insignificant x 3 high = Score 3

Heat Map



Based on Likelihood and Impact categories and numerical rating scale in OMB Administration Portal. (Colors added for discussion purposes)

Uniform Compliance Guidelines on Internal Control, p. 22; 48-49

Management's Response



Accept – Management acknowledges the risk but makes a deliberate decision to retain the risk.



Avoid – Management eliminates the risk.



Reduce – Management takes action to bring the risk down to a manageable level.



Share – Management shares the risk by transferring the risk to another party.



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Uniform Compliance Guidelines
on Internal Control, p. 22; 49-50

Cost versus Benefit

*Does the benefit of the control
outweigh the cost?*



Uniform Compliance Guidelines
on Internal Control, p. 9, 26, 60

Residual Risk

What is the acceptable level of residual risk?

Uniform Compliance Guidelines
on Internal Control, p. 49



Inherent Risk v. Residual Risk Ratings

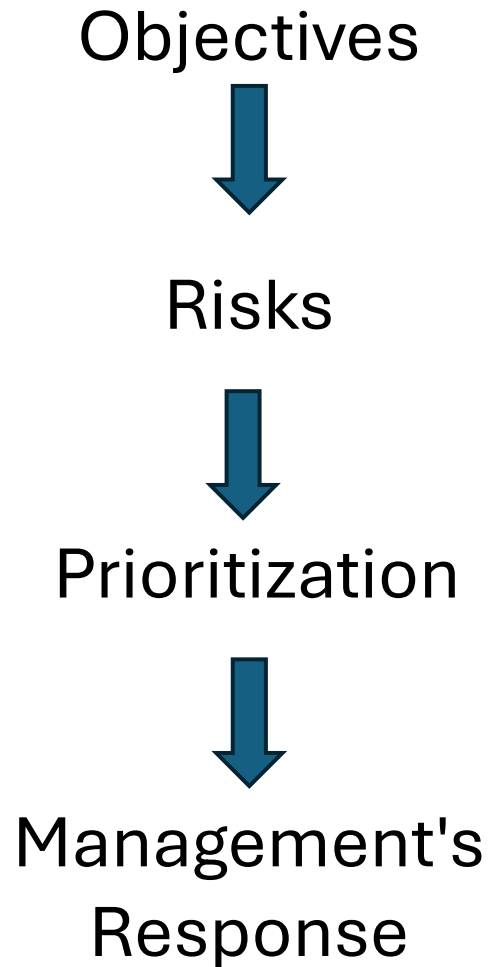
Inherent Risk

Risk Matrix		Impact				
		Insignificant 1	Minor 2	Serious 3	Disastrous 4	Catastrophic 5
Likelihood	Ongoing 4	4	8	12	16	20
	High 3	3	6	9	12	15
	Medium 2	2	4	6	8	10
	Low 1	1	2	3	4	5

Residual Risk

Risk Matrix		Impact				
		Insignificant 1	Minor 2	Serious 3	Disastrous 4	Catastrophic 5
Likelihood	Ongoing 4	4	8	12	16	20
	High 3	3	6	9	12	15
	Medium 2	2	4	6	8	10
	Low 1	1	2	3	4	5

Document Each Step



Corrective Action Plans

Things you will need to report on September 1 –

- Management’s plan to resolve audit or review findings received during the preceding state fiscal year.
- Progress report on the resolution of audit findings **and** top risks *previously reported* to OMB under FMC 6.2.

Things to think about –

- Does the corrective action plan address the root cause?
- Have all five components of internal control been considered?
- Has the plan been implemented?
- Are there any roadblocks that need to be addressed?
- Would consultation with State Advisory Services be beneficial?



What is the root cause?

Samantha Nance, Manager
State Advisory Services



Uniform Compliance Guidelines
on Internal Control, p. 60

A large magnifying glass is positioned on the right side of the slide. The lens is focused on the word "analysis" written in a red, lowercase, sans-serif font. The background behind the lens is a light blue gradient. The handle of the magnifying glass is black and silver.

Define the Problem:

Why is this Happening??

1)

Why is that?

2)

Why is that?

3)

Why is that?

4)

Why is that?

5)

Empty box for defining the problem.

Empty box for the first level of analysis.

Empty box for the second level of analysis.

Empty box for the third level of analysis.

Empty box for the fourth level of analysis.

Empty box for the fifth level of analysis.



BREAK





Activity

Collaborative Discussion

- Were you able to define core objectives for your agency? If so, what was the process? Did you run into any roadblocks?
- Have you already discussed risk with leadership? Has leadership already identified your agency's top risks? If so, do those risks tie to an objective?
- Do you already have a method to document the risk assessment? If so, would you please describe it for us?
- Do you have experience with analyzing root cause? If so, can you share an example of the risk or issue and how you arrived at the root cause? Who was involved in the process?
- What other information do you need to successfully complete a risk assessment?



Risk Assessment Template

Example

Uniform Compliance Guidelines on Internal Control,

Part Three: Risk Assessment Template – [in.gov/sboa](https://www.in.gov/sboa/) – resources – [Development Tools](#)

Part Three: Example Objectives & Risks – page 123

Risk Assessment Template

See Part Two - Section Two: Conducting a Risk Assessment
Uniform Compliance Guidelines on Internal Controls for State and Quasi Agencies
for detailed information on each category

	Identify Risks to the Achievement of Objectives			Prioritize Risks	Respond to Risks	
	Inherent	Fraud	Change	What are the consequences (impact) and how often could the event occur (likelihood)?		Accept Avoid Reduce Share
?	Does this activity have a high risk for error, loss, waste, etc.? Cash receipts / complex programs Unresolved audit findings Other	Is this activity susceptible to fraud, waste, or	What change risks should be considered? Describe	Impact	Likelihood	
missing?						cur
en?						W

July Session Two - Topics

- Responding to Identified Risk
 - ✓ Addressing the Root Cause
 - ✓ Addressing all five components
 - ✓ Documenting the Response
 - ✓ Control Development Tools and Examples

- Information for the OMB Portal

Manuel Mendez - Director, Agency/Program Continuous Improvement

- ✓ How to Use the Portal
- ✓ What Information is Required



July Session Two – Dates and Locations

July 24 - Wabash Hall, Conference Room 2

- 9:00 to 11:00 AM (Small Agencies)
- 1:00 to 3:00 PM (Medium-sized Agencies)

July 31 – Harrison Hall, Conference Room 19

- 9:00 to 11:00 AM (Large Agencies)



Attend only one session.

Material and collaborative session will be tailored to the agency group listed, but you may attend any session

How to Prepare for Session Two

Agency Risk Assessment

Facilitate/Support Management's Risk Assessment

- Define Key Objectives
- Identify Key Risks
- Prioritize Risks using the OMB Scale

Top Three Risks

Facilitate/support Management's Analysis

- Determine response – Accept, Avoid, Reduce, Share
 - Consider Cost Benefit of Controls
 - Consider acceptable level of Residual Risk
- Perform a Root Cause Analysis

Corrective Action Plans

Facilitate/support management in monitoring of corrective action plans for current and preceding years

- Audit or review findings
- Top Three Risk submission in 2022

Contact Us Anytime!

Teams Channel: Send us a chat

Email: stateagencyadvisory@sboa.in.gov

Call: 317-232-2513

Schedule an Appointment



State Advisory Services

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