BUILDING AN EFFECTIVE RISK ASSESSMENT

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Building a Risk Assessment

1. Assess the environment
2. Explore available data
3. Develop the risk criteria
4. Develop scoring for criteria
5. Develop weighting for criteria
6. Array the scores and determine risk categories
7. Evaluate and adjust
1. Assessing the Environment

• 42 Office of the Inspector General Audits
• 254 findings
  • 120 findings related to subrecipient management
1. Assessing the Environment - Subrecipient Management Findings

- 25 - unallowable/unsupported costs
- 19 – performance data
- 18 – risk assessment and monitoring
- 17 – pre award procedures (including ensuring priority area spending is met)
1. Assessing the Environment - Subrecipient Management Findings

- 15 – financial and cash management
- 10 – time and attendance
- 7 – match
- 5 – conflict of interest
- 4 - other
1. Assess the Environment - Risk at All Stages of Grant Lifecycle
1. Assess the Environment - Assessing Risk at Various Levels

- Program
- Entity (subrecipient)
- Grant
- Process (both those of the granting agency and the recipient)
  - System (manual vs. automated)
  - Internal controls
  - Payments (risk of improper payments/fraud)
2. Explore the Data - Program Characteristics

- Number of open awards
- Priority area spending
- Award amounts (High/low range and average)
- New Projects or areas of focus
- Number of solicitations
- New Grantees
- High Risk Grantees
- Subawards
- Grant manager workload
- Matching
- Monitoring/Audit results
2. Explore the Data - Entity Level Risk

- Number of open awards
- Total Award amounts
- Other Federal Awards in USASpending.gov
- New Grantee
- High Risk Grantee (based on known issues)
- Subawards
- Monitoring/Audit results
- Past performance
- Credit score
- Excluded Party List
2. Explore the Data – Grant Level Risk

- Programmatic Progress reporting
- Performance Measures reporting
- Award modification requests
- Audit results (OIG, GAO, and Single Audit)
- Financial reporting
- Annual desk reviews
- Draw patterns
3. Developing Risk Criteria

Based on the findings and other available data, what data points or sources might be included in a risk assessment?
3. Possible Risk Criteria

- Expenditures to date or expenditures above a certain threshold
  - Note that the risk assessment process will differ based on the process used to approve subrecipient payment requests
- Priority spending information to date compared to program planning information
- Draws compared to expenditures to date, draw patterns
- Budgeted personnel costs (or actual if data is available)
- Budgeted match (or actual if data is available)
3. Possible Risk Criteria

- Timeliness of reporting
  - Financial and programmatic
- Qualitative assessment from grant manager on whether recipient is meeting goals and objectives
- Performance data points and thresholds
- Previous monitoring and audit results
- New grantee
- New project or program
- Credit score
4. Develop scoring

- Examples
  - 0 – no risk added
  - 1 – moderate risk
  - 2 – higher risk
- Likert scale 1 – 5
- For many of the criteria – explore the data and set thresholds for scoring. For example if there are 100 awards ranging in amount for $50k to $100K, at what dollar amounts does the award get scored as moderate or higher risk?
5. Develop weighting

• Not all risk criteria are equally important

• Determine which criteria are more important and a means to weight them

• Example
  • 1 – average importance
  • 2 - moderate importance
  • 3 - higher importance
6. Array the scores and determine risk categories

- Multiply weight by score to come up with final score for criteria
- Array scores from lowest to highest
- Look for natural breaks to help determine high, medium and low monitoring priorities
6. Array the scores and determine risk categories
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<table>
<thead>
<tr>
<th>ID</th>
<th>Risk Indicator Title</th>
<th>Current Quarter</th>
<th>Previous Quarter</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Award Type</td>
<td>Risk Score</td>
<td>Risk Value</td>
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<tr>
<td>2</td>
<td>Grantee Type</td>
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<td>3</td>
<td>State Administering Agency (SAA)</td>
<td>Risk Score</td>
<td>Risk Value</td>
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<td>4</td>
<td>Award Amount (with the exception of SAA's)</td>
<td>Risk Score</td>
<td>Risk Value</td>
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<td>5</td>
<td>JAG Disparate Jurisdiction</td>
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<tr>
<td>6</td>
<td>Confidential Funds</td>
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<tr>
<td>7</td>
<td>Matching Funds</td>
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<tr>
<td>8</td>
<td>Fiscal Integrity Review Referral</td>
<td>Risk Score</td>
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<tr>
<td>9</td>
<td>Grants With No Financial Clearances (not scored on current fiscal year grants until second quarter)</td>
<td>Risk Score</td>
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<tr>
<td>10</td>
<td>New Grant (Past 3 FY)</td>
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<td>11</td>
<td>New Program</td>
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<td>12</td>
<td>DOJ High Risk Grantee</td>
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<tr>
<td>13</td>
<td>Award Open greater than 4 Years</td>
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<tr>
<td>14</td>
<td>Awards With Undelivered Balances greater than 2 Years after Start Date</td>
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<td>15</td>
<td>Number of No-cost Extensions Approved</td>
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<td>16</td>
<td>FFR Timeliness</td>
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<td>Progress Report Timeliness</td>
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<td>PFFA Reporting Compliance</td>
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<td>Active Withholding of Funds (with the exception of FRA/Rpt related tasks)</td>
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<td>Risk Value</td>
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<td>Program Income Reported on Latest FFR (with the exception of JAG23ABG)</td>
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<tr>
<td>21</td>
<td>Potential Excess Cash (with the exception of JAG23ABG)</td>
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<td>Controlled Equipment Expenditure</td>
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<td>Issue for Resolution greater than 1 Year Old - Programme Site Visit</td>
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<tr>
<td>24</td>
<td>Issue for Resolution greater than 1 Year Old - Financial Monitoring Visit</td>
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<td>Repaid Program/Grant Implementation Concerns</td>
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<td>Conference Costs</td>
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<td>27</td>
<td>Subawards/Subcontracts</td>
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<tr>
<td>28</td>
<td>Current Ongoing OIG Audit</td>
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<tr>
<td>29</td>
<td>Grant Has Received Programmatic Site Visit (Past 2 FY)</td>
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<tr>
<td>30</td>
<td>Grant Has received OIG Financial Monitoring Visit (Past 2 FY)</td>
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<tr>
<td>31</td>
<td>Grant Has Not Received In-Depth Monitoring in Last 4 Years (Programmatic or OIGFO)</td>
<td>Risk Score</td>
<td>Risk Value</td>
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<tr>
<td>32</td>
<td>Independent Audit on Record</td>
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<td>Risk Value</td>
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<tr>
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<td>Most Recent Single Audit Opinion (FAO)</td>
<td>Risk Score</td>
<td>Risk Value</td>
</tr>
<tr>
<td>34</td>
<td>Pre Award Risk Rating - High</td>
<td>Risk Score</td>
<td>Risk Value</td>
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</tbody>
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7. Evaluate and adjust

Risk-based monitoring plan - Set a monitoring target based on resources and risk assessment

• Address the content and substance of the program

• Qualitative and quantitative reviews to assess grant performance, innovation, and contribution to the field.
7. Evaluate and adjust - Monitoring

- Substantive, intensive work with recipients by mail, e-mail, or phone
- Desk Reviews
- In-depth Monitoring (Onsite Visits)
- Coordinated in-depth financial and programmatic site visits for highly complex grant recipients
7. Evaluate and Adjust - Monitoring

Grant Monitoring includes three elements:

1. **Programmatic**
   - Addresses the content and substance of the program

2. **Financial**
   - General review of financial reports and an evaluation of grant expenditures compared to the approved budget

3. **Administrative**
   - Compliance with grant terms and conditions and reporting requirements

- Results should feed back into risk assessment.
7. Evaluate and Adjust - Higher Risk Subrecipients

- Identify those that are higher risk
- Consider additional procedures for Higher Risk Recipients
  - Additional documentation required to draw funds
  - More frequent communication and monitoring
  - Holding funds until corrective actions have been satisfactorily completed
7. Evaluate and Adjust - Training and Technical Assistance

- Risk assessment and monitoring results should inform training and technical assistance efforts.

- Measure the effect of training and technical assistance and adjust the risk assessment and monitoring as needed.
Questions?