TOOLKIT

RISK ASSESSMENT TOOLKIT

Quick Reference Guide to Risk Assessment Basics for Community Action Agencies

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TABLE OF CONTENTS

INTRODUCTION

This is a toolkit designed to be a quick reference guide for the foundational elements of risk assessment. It is based on IM-112 which outlines standards to be used in risk assessment. These standards frame the discussion and are the basis of the ACF/OCS perspective of the subject.

Risk Assessment Foundations

1. **What is IM 112?**

   Information Memorandum 112 is guidance issued on August 18, 2009, by the Office of Community Services, a program of the Administration for Children and Families of the U.S. Department of Health and Human Services. The Office of Community Services (OCS) utilizes Information Memorandums (IM) to provide guidance to recipients and sub–recipients of federal funds for which OCS is responsible. The full text of IM 112 is available at http://www.acf.hhs.gov/programs/ocs/csbg/guidance/im112.html.

   IM 112 was issued to address specific concerns regarding the management of funds made available through the American Recovery and Reinvestment Act of 2009, the federal stimulus dollars frequently referred to by the acronym ARRA. In addition to providing guidance relating to ARRA funding, IM 112 required all CSBG eligible entities to conduct a risk assessment process and to certify that their risk assessment process addressed specific factors identified in the IM. **While the impetus for IM 112 was the provision of ARRA funding, the core risk assessment and risk mitigation strategies expressed in IM 112 continue to be required of all CSBG funding recipients.**

2. **What is ARRA?**

   The American Recovery and Reinvestment Act of 2009 (ARRA) provided funding to States, U.S. Territories, and eligible Tribal governments and Tribal Organizations based on a defined formula outlined in Public Law 105–285, the Community Opportunities, Accountability and Training and Educational Services Act of the 1998. Additional guidance regarding ARRA funding was provided by the Office of Community Services in IM 109 and 110.

3. **Does IM 112 still apply even after all of our ARRA awards are closed?**

   Yes! While IM 112 discusses ARRA funding explicitly, the compliance guidance it provides applies to the management of virtually all federal funding agreements, including ongoing CSBG funding awards. Both before and after ARRA, recipients of federal funds have been required to comply with the OMB Circular A–110 (2 CFR 215) by implementing financial management systems which provide "effective control over and accountability for all funds, property and other assets" (2 CFR 215.21.b.3).

   The GAO Standards for Internal Control (http://www.gao.gov/special.pubs/ai00021p.pdf) and the COSO Integrated Internal Control Framework (http://www.coso.org/IC–IntegratedFramework–summary.htm) referenced in IM 112 comprise the most widely accepted approach to establish financial management systems which provide the effective controls required by A–110. The importance of the COSO framework for internal control in the management of federal funds is further reinforced by the OMB A–133 and its compliance supplements which direct auditors to use the COSO framework as the basis of their audit planning and evaluation of internal controls.

4. **Do CAAs Need to Continue Doing the Certification of Risk Assessment that was required in IM 112?**

IM 112 included a requirement for CAAs to certify the completion of a risk assessment process expressly designed to address risks specific to the management of ARRA funding. The Sample Risk Assessment Template included in IM 112 posed risk assessment questions which continue to be useful in the overall risk assessment process. This is a key element in establishing and main–taining the controls needed for the management of all federal awards.

The IM 112 Risk Assessment Template required Community Action Boards to determine whether their CAA had:

1. Identified and resolved prior audit and monitoring findings;
2. Implemented financial and operational controls to prevent fraud, waste, abuse, and mis-management of federal funds;
3. Established administrative, fiscal, and programmatic policies and procedures in accord with CSBG statutes which are communicated clearly to all staff;
4. Reviewed internal policies and procedures for compliance with the requirements of the CSBG Act, CSBG Information Memorandum, OMB Circulars, ACF Grant Terms and Con-ditions, and other contracted terms and conditions and implemented a methodology for monitoring internal policies and procedures;
5. Reviewed procedures to ensure compliance with CSBG ARRA provisions relating to pur-chase of general purpose equipment;
6. Requested Federal waivers when required to comply with CSBG Statutes relating to the purchase or improvement of land, or the purchase, construction, or permanent improve-ment of buildings or facilities.

While OCS does not currently require Community Action Agencies to complete a similar risk assessment certification, CAAs will want to be sure that they continue to determine whether their organization has addressed the issues identified in questions 1 through 4 and question 6 as part of their comprehensive risk assessment process, and address the underlying issue posed in question 5 (which was ARRA specific) to encompass the specific requirements of their current funding agreements in relation to purchase of general purpose equipment.

5. Does IM 112 require a specific approach to internal controls?

IM 112 notes that CSBG recipient organizations are required to have comprehensive internal controls. IM 112 quotes the definition of internal control provided by the Government Account–ability Office "internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Internal control should be recog–nized as an integral part of each system that management uses to guide its operations rather than as a separate system within an agency "(GAO/AIMD–00–21.3.1, Standards for Internal Con-trol in the Federal Government). GAO standards for internal control in the Federal Government are available online at http://www.gao.gov/special.pubs/ai00021p.pdf.

IM 112 notes that the basis for the GAO standards is found in **The Internal Control Integrat–ed Framework,** published by the **Committee of Sponsoring Organizations of the Tread–way Commission (COSO).** The approach to risk assessment and evaluation of internal controls required by IM 112 is based upon to core tenants of the COSO Integrated Framework.

What is the COSO Internal Control Integrated Framework?

COSO is an acronym for the Committee of Sponsoring Organizations of the Treadway Commission. The Committee included representatives from five major professional organizations headquartered in the United States who came together in 1985 to develop comprehensive guidance for establishing internal controls which would protect all types of entities from error and fraud. The resulting docu-ment –Internal Control–Integrated Framework–was released in 1992. In 2010, COSO announced a project to update the 1992 document. The updating effort will include specific attention to the chal–lenges of nonprofit organizations.

A summary of The Internal Control Integrated Framework may be downloaded free from http://www.coso.org/IC–IntegratedFramework–summary.htm. The entire framework document may be purchased from the same website –however most Community Action Agencies will find the summary meets their needs. The integrated framework identifies 5 key elements of effective systems of internal controls. You'll find help with each of these elements in the FAQs indicated below:

- Risk Assessment – Section IV
- Control Environment – Section V
- Control activities– Section VI
- Information and Effective Communication – Section VII
- Monitoring– Section VIII

The COSO framework provides core guidance for independent auditors as well as Boards and managers. It is utilized by auditors to gain an understanding of auditees' systems of internal controls which will be the basis for the audit plan, design of audit tests, and ultimately findings regarding the adequacy of internal controls.

Preventing Fraud, Waste, and Abuse

6. What kinds of fraud happen in CAAs?

The term "fraud" encompasses three key areas:

- Misappropriation – theft or misuse for personal gain of goods or services
- Misstatement – asserting that information is true, accurate, and complete when it is not
- Corruption– decisions or actions that benefit individuals or other entities but are not in the best interest of the CAA

Unfortunately, all three types of fraud can occur in Community Action Agencies as well as every other type of business or governmental entity. Internal Controls are designed to prevent and detect all types of errors or irregularities, including the types of activities which can be described as controls.

7. What types of misappropriation do CAAs experience?

Unfortunately, virtually all types of theft or misuse are possible. Community Action Agencies must design and implement controls to protect themselves from dishonest acts by both insiders (staff, volunteers, clients, board members) and outsiders (visitors, internet fraudsters, and common thieves). Embezzlement schemes may involve redirection of contributions and other payments intended for the CAA to the accounts of thieves, or various strategies to trick the system into making payments for goods and services not received. Today's computers and printers make it easy for fraudsters to attach the CAA's bank routing information to fake checks which can be cashed with fake IDs. Because new strategies for embezzlement emerge daily, CAAs must continuously monitor their controls to be sure that they designed and implemented effectively to meet emerging risks.

Misuse of the CAA's assets is also a form of misappropriation. Employees or volunteers who "borrow" the use of vehicles or equipment to use for personal purposes may not understand that they are actually committing a form of fraud. Managers or Board members who ask employees to "help out" with personal projects may end up "stealing" services from the organization. The misuse of corporate assets (including staff time as well as equipment) is best prevented by clear policies, strong role models, and whistleblower procedures which encourage everyone associated with the CAA to share information through appropriate channels when they encounter situations that they believe may comprise misuse of assets.

8. What is misstatement and why does it matter?

The fraud of misstatement occurs when an organization asserts that a statement is true when, in fact, it isn't. Potential opportunities for misstatement include both financial and program reporting, especially reporting to funding sources relating to compliance with requirements

referenced in contracts and agreements. Typically, funding source report formats include a statement affirming the accuracy and completeness of the data contained in the report and compliance with law and regulation described in the funding agreement. Unfortunately, weak controls and limited internal monitoring systems may result in managers signing such affirmations in the belief that the organization has complied with the requirements when in fact breakdowns in communications and controls have resulted in failure to comply.

The preparation of financial statements almost always involves some level of professional judgment and reliance on certain estimates and assumptions. Misstatement occurs if the resulting financial information presents a materially misleading picture of financial activities and results. In a grant funded environment, improper coding of costs to the various funding source agreements may result in misstatement – asserting that grant funds have been expended only for allowable purposes when in fact, unallowable costs, including improperly allocated costs, have been included in the report.

Misstatements may lead to audit findings and eventual demands for repayment of funds or exclusion from future funding opportunities. Equally important, misstatement results in both managers and board members making decisions based on faulty information.

9. What is corruption?

Corruption occurs when someone with a decision–making role is induced to make a decision which is not in the best interests of the organization. For example, a vendor who makes gifts to a manager with responsibility for purchasing program supplies is engaging in corruption. Similarly, a Board member who influences a manager's decision on the selection of staff to gain preference for a friend or relative is engaging in corruption. Community Action Agencies regularly utilize Conflict of Interest Policies as part of an overall system to prevent corruption and Whistleblower Policies and Procedures to encourage reporting of concerns about improper conduct.

10. What can Boards do to prevent fraud, waste, and abuse?

Board attention to the control environment is essential to prevent fraud, waste, and abuse. Board members must hold each other to the highest standards of integrity, adopting and fully implementing conflict of interest policies, and regularly reviewing the Board's own performance in relation to effective oversight of the Executive Director (ED), finances, and compliance. Boards delegate substantial responsibility for preventing fraud, waste, and abuse to the Executive Directors and must consistently monitor and evaluate the adequacy of their ED's performance in these key areas. The annual independent audit provides a great opportunity for Board members to get help understanding how well their controls are working from an independent professional. To make the most of this opportunity, Boards need to ensure that either the Audit Committee or full Board conducts a confidential meeting with the auditor at the close of the audit engagement to seek the auditor's observations about controls and the control environment and recommendations for improvements.

Risk Assessment

11. What is Risk Assessment?

Risk assessment is a systematic process of thinking through the many ways that "bad things can happen to good people". Starting from the understanding that every organization intends to do the right thing, from board governance to financial management and the delivery of services, real life experience tells us that things don't always turn out the way we intend to have them turn out. Risk assessment involves identifying the areas in which problems might arise and then systematically evaluating both how likely that each problem is to occur and how serious the consequences of the problem would be. The goal of risk assessment is to understand the risks that our organization confronts and clarify the extent to which we can undertake strategies (risk mitigation) to control the likelihood of occurrence and the severity of the consequences.

12. How can my Board be sure our Community Action Agency has done an effective risk assessment?

Some CAAs establish a Risk Management Committee comprised of Board members and other community members with extensive risk management expertise. Larger businesses, hospitals and health systems, and governmental organizations will be good sources of potential committee members with risk management expertise. The Risk Management Committee can review the risk assessment developed by management and determine whether areas have been missed or minimized. Risk Management Committees also work with management to review the risk mitigation strategies that management has designed and implemented. The committee can then report to the Board to identify any areas that require additional attention or provide assurance that management's risk assessment and risk mitigation approach is sound.

Boards may also consider using independent experts to perform risk assessments and recommend risk mitigation strategies in specific areas or agency–wide. The independent auditor will have reviewed management's risk assessment and risk mitigation strategies in relation to internal controls, so Board conversations with the auditor should include discussion of the adequacy of management's approach to risk. Boards may include a request for risk assessment as part of the responses required from insurance brokers who wish to be considered to work with the CAA. Attorneys with specialized expertise in nonprofit law often provide a form of risk assessment through reviewing the CAA's core legal documents (articles of incorporation, by–laws), board policies and board minutes to provide recommendations about governance risks. Attorneys focusing on employment law and/or human resources consultants may be engaged to review the CAA's employment policies and practices to identify areas of risk and mitigation strategies.

Ultimately, each Board will want to develop a process for identifying risks and evaluating the risk mitigation strategies that the organization has developed to control the risk. Ensuring effective risk assessment and risk mitigation is a core oversight responsibility for every Board. This relates directly to the Board's legal responsibility to protect the assets of the nonprofit and to ensure that all resources are used wisely in the best interest of the corporation.

13. How can representatives of low income communities make an important contribution to risk assessment?

Low income individuals can make tremendously important contributions to risk assessment by sharing their knowledge of how individuals and organizations within low income communities perceive the work of the CAA. By listening to friends, neighbors, and family members, the low income representatives have access to vital information for risk assessment, including:

- Is information about the services of the CAA widely available to average community members?
- Do community members who have sought help through the CAA feel that they have been treated respectfully and fairly?
- Does the information that the CAA provides to individuals and to community organizations make the nature of the services and the requirements for eligibility clear to an average person who is not already knowledgeable about a specific government program?
- Do people in the community perceive the staff of the CAA to be honest?
- Do people in the community perceive that CAA programs are "safe"? If vulnerable people are being served, like children, seniors, or people with disabilities, do community members perceive them to be protected from harm?
- Do you hear suggestions about how to "beat the system" in relation to the CAA?

To get the benefit of the knowledge and insight of low income representatives on the board, the CAA will need to provide an opportunity for confidential communication with the Board committee that is reviewing the organization's risk assessment. While managers generally perform the initial assessment, the Board has a key role in reviewing the work of management

to be sure that risks have been identified clearly. If the observations of the low income community representatives suggest risks that have not been addressed, the Board will need to ask management to determine whether the perceptions reflect reality or whether the underlying issue is really reputation risk – that is the risk that the reputation of the CAA will be damaged by unfair as well as fair perceptions about the competence and integrity of the CAA.

14. How does the size of the CAA impact the Board's role in risk assessment and risk management?

Effective risk assessment and risk management requires both substantial skill and time. Larger CAAs frequently have sufficient resources to hire top managers with both extensive professional preparation and sufficient time to focus on risk assessment and risk management rather than multiple daily operational tasks. For example, a larger CAA may employ a Chief Financial Officer who is qualified as a CPA and has extensive experience utilizing the COSO framework as an auditor, and is supported by a staff of knowledgeable accounts including a Controller who handles the complex demands of overseeing the accounting system and preparing financial statements. In this structure, the Chief Financial Officer (CFO) has both the time and the expertise required to lead a risk assessment process and may even be able to supervise multiple staff with responsibilities for risk management.

In large organizations in which professional staff have both time and expertise to provide effective leadership in risk assessment and risk mitigation, the Board role often focuses on evaluating the performance of management in these areas.   Such Boards frequently utilize committees to address specific components of risk assessment and management including establishing an Audit Committee, Risk Management Committee, Chief Executive Officer (CEO) Compensation Committee, and charging the Executive Committee with particular responsibility for oversight and support of the CEO.

In contrast, in many small and mid–sized CAAs, the person with the CFO or Fiscal Director title is actually fulfilling the role described for the Controller in the larger organization, overseeing the accounting system on a daily basis and preparing financial statements and a variety of funding source reports. So regardless of professional preparation, the fiscal director in the smaller organization may simply not have the time available to lead a comprehensive risk assessment and risk management effort.

In small to mid–sized CAAs, Board members or a Board committee may need to provide leadership in risk assessment and risk management, bringing both professional expertise and mental space to reflecting on the COSO framework within their organization. In some small to mid–sized CAAs, Board members do not have the professional expertise or time required to provide leadership in utilizing the COSO framework, and instead direct the use of resources to obtain professional consulting services for periodic evaluation of risks and risk mitigation strategies.

But regardless of the size of the CAA, Boards have a critical role to play in relation to establishing effective controls by expressing absolute commitment to integrity at every level of the organization and providing resources to ensure that professional expertise is available to ensure both the design and the consistent implementation of cost effective internal controls.

Control Environment

15. What does control environment mean?

The "control environment" refers to the extent to which everyone who has contact with an organization perceives the organization and its leaders to be committed to complete integrity in every aspect of their work. While the presence of policies and procedures which require honesty is an element of the control environment, the actual behavior and attitude of leaders may have a more significant impact on behaviors within an organization. The Board plays a critical role in both establishing a positive control environment and continuously evaluating the control environment which exists within the organization they serve.

16. How can Boards know what the control environment in their CAA really is?

Boards can draw first on their own experiences with the organization, considering the extent to which the Board is demonstrating its commitment to honesty and integrity through its actions as well as words. Board members can reflect upon their experiences with the Executive Director and other staff to understand the extent to which questions raised by the board have been answered fully and information presented to the board has been complete, accurate, and useful. Boards can also reflect on the degree to which their annual performance evaluation of the CEO has provided them with a clear understanding of the person's behaviors in relation to integrity issues.

Board–only discussions with the independent auditor provide an excellent opportunity for the Board to explore the auditor's perceptions regarding the control environment. Board review of reports from funding source monitors may also provide useful information regarding control environment strengths and weaknesses. Whistleblower policies and procedures should be designed to ensure that concerns about integrity and compliance with control procedures are brought to the attention of the Board.

Some Boards form a Risk Management Committee and assign the committee responsibility for evaluating the control environment annually through review of policies and procedures and through interviews with the CEO and key managers. Risk Management Committees may augment the information they receive through these procedures with periodic employee surveys designed to measure employee perception regarding organizational integrity a management attitudes around control issues. Some organizations utilize consultants to conduct exit interviews of some or all departing employees to obtain insight into the actual work environment within the organization.

Board members who are representing low income communities may play a particularly valuable role in building the Board's understanding of the control environment through their direct knowledge of how the organization is perceived by its clients or prospective clients. Risk Management Committee confidential interviews with low income representatives can surface community perceptions of integrity or lack of integrity which can be extremely helpful in building the Board's understanding of the control environment.

17. What is the Board's role in creating and maintaining a positive Control Environment?

The Board sets the tone for the control environment through its selection and oversight of the Executive Director/CEO and through its commitment to attentive, engaged direction of the organization. Maintaining a positive control environment requires regular Board attention for full implementation of the Conflict of Interest policy and meaningful evaluation of the CEO. Boards can reinforce their commitment to integrity and control through contracting with the auditor or other professional resources to review CEO expense reports and executive compensation and benefits. Board or Audit Committee confidential conversations with the independent auditor also provide an important opportunity for understanding the control environment and identifying strategies to strengthen it.

Boards must be committed to following up on any concerns about integrity which may arise through informal as well as formal channels. Some Boards require the use of third party reporting services for whistleblower reporting purposes in order to get expert assistance to follow–up on control concerns.

Control Activities

18. What are Control Activities?

Control activities are the systems, policies, and procedures that CAAs put in place to ensure effective financial management which protects assets and prevents fraud, waste, and abuse. They include fiscal, information technology, human resource, facilities, program, and board policies and procedures designed to prevent improper actions and errors from occurring and detect mistakes (willful or accidental) and ensure correction.

19. What is the Board's role in Control Activities?

Boards most commonly play primarily authorizing and review roles within the organization's overall system of controls. Board approval of the annual budget and authorization of overall CEO/Executive Director compensation are critical control activities. Board review of actual revenues and expenses in comparison to the budget also functions as a control activity, facilitating identification of both potential accounting errors and possible misdirection of resources.

However, given the size, scope, and complexity of operations in most Community Action Agencies, management must take primary responsibility for Control Activities, including the design of control systems, full implementation of the systems, and regular monitoring of internal compliance.

Some control systems utilize Board signatures on checks as a key control activity. As organizations grow more complex, the volume of transactions expands, and the use of electronic payment methods increases, the efficacy of Board signatures on checks as a key control activity becomes less certain. At a minimum, effective use of Board signatures as a control requires training Board signers to conduct a proper review of documentation before signing checks. Inattentive or incomplete review of underlying documentation makes the Board member's signature on the check a very poor control and may actually confuse the process of establishing accountability for improper payments.

More meaningful Board control activities may include:

- Explicit Board approval of the Executive Directors annual compensation including all benefits and perks.
- Periodic review of ED payroll and benefits and spot checks of ED expense reimbursements, or in larger organizations, contracting with an accounting professional to conduct such reviews periodically and report results directly to a designated Board member or committee.
- Explicit Board approval of the opening, closing, signature requirements, and modifications for all bank accounts.
- Explicit Board approval of all mortgage debt, lines of credit, or other corporate borrowing.
- Board approval of very significant purchases, typically including all real estate transactions, either purchase or lease.

Control through Information and Communication

20. Why does effective information sharing and communication matter in relation to the COSO approach to internal controls?

No matter how well an organization has designed its control activities, they won't be effective without getting everyone involved to understand both the organization's commitment to integrity and the specific policies and procedures that have been established. And no matter how well prepared and committed individuals are, mistakes happen. One of the most important controls an organization can utilize to ensure the accuracy of its accounting and financial reporting is to ask staff and managers who have direct knowledge of the work of the organization to review financial reports which relate to their area of activities. Providing reports of revenues and expenses in comparison to budget for specific programs to individuals with direct knowledge of the activities of those programs, provides and essential element of control. Of course for this control to work, the individual reviewing the financial info must be able to communicate their questions and concerns to accounting staff that are must be open to examining the causes of the errors and making corrections.

21. What is the Board's role in information sharing and communication?

Board access to and review of financial information provides an additional level of control by creating the opportunity for truly fresh eyes to spot potential errors or problem areas. However, primary responsibility for the accuracy of financial information must remain with management and Board review of financial information should focus primarily on trends and financial health issues, rather than detailed review of cost center accounting. It may be appropriate for the Finance Committee to review the information sharing and communication procedures that management has implemented. CAA Boards should be aware that periods in which funding has been reduced and staff are expected to do more with less often are accompanied by breakdowns in information sharing and communication which can lead to control weaknesses and compliance failures.

Monitoring

22. What does "monitoring" mean in the COSO framework?

While many Community Action Agencies think of "monitoring" as something that funding sources or other external parties provide, the COSO framework focuses on "monitoring" as a key internal function. Effective systems of internal controls include establishing a consistent process through which an organization conducts its own periodic testing and analysis of whether its controls are working.

Larger Community Action Agencies have begun utilizing a high level staff position (Compliance Officer, Internal Auditor, etc.) to design and manage an internal monitoring system. In smaller CAAs in which funds are not be available to support a separate professional position, consultants can be utilized to establishing an internal monitoring system and help assign responsibilities for implementation of the system to specific positions.

While many Fiscal Directors/CFOs are familiar with the concept of internal auditing and have devised various procedures within the fiscal office to monitor compliance with fiscal policies and procedures, systematic monitoring is also needed to ensure compliance with internal policies and procedures and contractual requirements in all aspects of program service delivery as well as in facilities, human resources, and information technology management.

23. What is the Boards role in Monitoring?

Given the CSBG requirements for tri–partite Boards undertaking specific responsibilities, CAAs must also establish effective monitoring procedures for Board governance. Many Boards conduct an annual assessment of their own performance which includes review of the composition of the board and the board's role in needs assessment, planning, and oversight as required by CSGB.

24. Why don't auditors and funding source monitors provide all the monitoring we could possibly need?

First, by the time an auditor or funding source monitor discovers a breakdown in your systems, damage may already have been done. Remember that independent audits are conducted after the fiscal year is completed and in many cases after specific reports to funding sources have been submitted and some funding agreements have been closed. So, it is often too late to correct mistakes without adverse consequences by the time these external monitors find them.

Perhaps more significantly, auditing standards make it extremely clear that the auditor cannot function as part of the system of controls for organizations they audit. If your auditor did function as part of your system of controls, they would no longer be considered independent and couldn't express an opinion on your financial statements. Part of every audit involves the auditor assessing the adequacy of the internal controls of the organization. The absence of an internal monitoring system is a control weakness in the sense that you have not established a systematic way to be sure that the policies and procedures you have put in place are actually working.

25. Does having a "clean" audit opinion mean that our CAA doesn't need to worry about risk assessment and internal controls?

No! Effective internal controls require continuous risk assessment and consistent implementation of risk mitigation strategies, including regular review and updating of internal controls. Community Action Agencies are operating in a period of rapid change, encompassing both dramatic shifts in the availability of funding resources, and continuously emerging control risks.

A "clean" audit opinion provides the Board with assurance that the independent auditor has concluded that the financial statements fairly present the financial condition of the organization. Auditors use a complex matrix of factors to determine whether any underlying problems with internal controls and compliance are of such significant magnitude that they have resulted in financial statements that do not fairly present the organization's financial condition. The auditor may have found numerous problems with internal controls and compliance which are very significant in relation to the organization's compliance with federal requirements but do not reach the level of significance in presentation of the financial statements that would require the auditor to give a "qualified" or not clean opinion. Most CAAs are required to undergo A–133 audits in which the auditor provides additional reports beyond the standard audit opinion letter. In those reports, the auditor identifies specific control and compliance problems. Discussion of these audit findings with the auditor should be an important part of the Board's risk assessment process.

The completion of an A–133 audit in which the auditor reports no findings, no significant deficiencies or material weaknesses, is a great sign that effective controls have been both designed and implemented. However, even after a successful A–133 audit, Community Action Agencies must continuously assess risks and implement the COSO framework to ensure that current controls are working and to identify emerging risks which must be addressed through new or redesigned controls.

Risk Management and Risk Mitigation

26. What is Risk Mitigation?

Risk mitigation is a term used to describe all the various strategies your CAA uses to reduce or control risks. Risk mitigation can include establishing a positive control environment, adopting and implementing appropriate policies and procedures, hiring competent staff, providing training, monitoring results, and insuring against losses. Once your CAA has identified its most significant risks, the next step will be identifying the risk mitigation strategies that will be most cost effective to control the risks and minimize the damages that the risks may pose to your organization.

27. What is Enterprise Risk Management?

In 1994, COSO released a new framework document – Enterprise Risk Management Integrated Framework –designed to provide more comprehensive guidance for managing risks throughout an organization. The ERM framework incorporates the five key elements of the original COSO Integrated Internal Control Framework (Risk Assessment, Control Environment, Control Activities, Information Sharing and Communication, and Monitoring), and adds 3 additional elements:

- ERM Objective Setting
- ERM Event Identification
- ERM Risk Response

Risk Objective Setting involves high level discussion of an organization's tolerance and appetite for risks. Most CAAs have extremely limited tolerance for risk due to the pressures of compliance with multiple funding restrictions and compliance requirements and the significance of public opinion in relation to the organization's access to funding.

Risk Event Identification is a systematic evaluation of the types of risk events which the CAA may encounter, including events that are driven by both external and internal factors. A central element of ERM is the recognition that events are interdependent, not isolated, and that events can have a positive or negative impact, or in some cases both positive and negative impact. Among the external factors considered in an ERM risk identification process are factors relating to economic conditions, the natural environment, political issues, social forces, and technology. Among the internal factors, ERM considers infrastructure, personnel, process, and internal technology.

Ultimately ERM focuses on Risk Response, a systematic process for:

- evaluating strategies to avoid, reduce, share or accept risk;
- evaluating the risk likelihood and impact
- assessing costs versus benefits
- evaluating response opportunities
- utilizing a "portfolio view" to deal with the interdependent issues.

Enterprise Risk Management is now recognized as a key management discipline. Large businesses and governmental entities employ high level ERM Officers. It is probably both unrealistic from a budget standpoint and unnecessary on a practical level for most CAAs to create such positions. However, the underlying concepts should become a part of each CAAs risk assessment process, and larger CAAs may periodically seek pro bono assistance from entities with expert ERM professionals.

CSBG Basics

28. What is CSBG?

The Community Services Block Grant (CSBG) is federal funding provided through the Office of Community Services, a program of the Administration for Children and Families of the U.S. Department of Health and Human Services. CSBG funding is awarded to states, U.S. Territories, and Tribal governments in accord with the provisions of The Community Services Block Grant Act of 1981 as amended by Section 680(a)(2) of the Community Opportunities, Accountability, and Training and Educational Services Act of 1998 (P.L. 105–285).

The Community Services Block Grant (CSBG) provides funds to alleviate the causes and conditions of poverty in communities. OCS awards CSBG funds to States, the District of Columbia, the Commonwealth of Puerto Rico, U.S. Territories, and Federal and State–recognized Indian Tribes and tribal organizations, Community Action Agencies, migrant and seasonal farmworkers or other organizations designated by the States.

The CSBG program provides funds to lessen poverty in communities. The funds may be utilized to provide a range of services and activities to assist the needs of low–income individuals including the homeless, migrants and the elderly. Grant amounts are determined by a formula based on each State's and Indian Tribe's poverty population. Grantees receiving funds under the CSBG program are required to provide services and activities addressing employment, education, better use of available income, housing, nutrition, emergency services and/or health.

29. What are Community Action Agencies?

Community Action Agencies may be either private nonprofit corporations or public entities that meet the requirements for purpose, governance, and activities specified within the CSBG Act. Community Action Agencies which are operated as private nonprofit corporations organized under state not–for–profit statutes must have governing boards of directors which meet the CSBG Act requirements for Tri–Partite Boards.

When public entity Community Action Agencies operate through a single governmental entity, final authority for their operation rests with the elected governing board of that entity. For example, the County Commission is the final governing authority for a Community Action

Agency operated as part of that county. Some counties choose the form consortiums, through establishing intergovernmental agreements with other counties, to operate a multi–county Community Action Agency. For such consortiums, the intergovernmental agreement establishes the governing structure. Public entity Community Action Agencies are required to establish advisory boards which meet the requirements of the CSBG Act, including the requirement for the tri–partite board.

30. What is a Tri–Partite Board?

The CSBG Act specifies that CSBG eligible entities must be governed by a Tri–Partite Board, which is a board comprised of at least one third representatives of the low income communities served by the entity, one third representatives of elected officials of local governmental entities, and one third representatives of the community at large. The low income representatives of low income communities do not need to be low income themselves but do need to be selected through a "democratic" selection process.

31. How are Representatives of Low Income Communities Selected for Service on a Tri–Partite Board?

The Board may elect individuals who are themselves low income to serve as representatives of low income communities. In order for individuals who are not themselves low income to be considered as "representing low income communities", they must be chosen in one of the following ways:

- Actual balloting by residents of the low income community
- Election at a community meeting held with proper notice in the low income community
- Selection by community groups which the CAA has designated as being composed primarily of low income people

Details on requirements for election/selection of the low income representatives may be found in Chapter 3 of the CAPLAW CSBG training. The CAPLAW CSBG training can be obtained through this link http://www.caplaw.org/resources/csbgresources.html. In addition, one may consult IM–82 for additional guidance with the following link http://www.acf.hhs.gov/programs/ocs/csbg/guidance/im82.html.

Checklists

Checklist for Strengthening Controls through fully Engaging Low Income Community Representatives

Representatives of low income communities on CAA Boards can make significant contributions toward strengthening internal controls. Their relationships with low income individuals and families and knowledge of community perception and needs are essential for effective controls in a Community Action Agency. If you are a low income community representative, you can use this checklist to identify areas in which you may be able to make a greater contribution to your CAA's internal controls.

How is your CAA benefiting from your experience and understanding of the low income community it serves?	Views are sought & used	Opportunity for Improvement
Low Income Community Representatives are encouraged to:		
• Share community perceptions about the integrity, honesty, and effectiveness of CAA services with management and Board committee conducting risk assessment.		
• Share your perception of community needs, including relative importance and urgency of various need areas as part of the CAA's needs assessment process.		
• Share your perceptions regarding the match between the programs and services the CAA offers and community needs as part of the strategic planning process.		
• Share your perception regarding the effectiveness of the CAA's communication strategies in building broad awareness of the programs and services available to low income individuals and families as part of the *strategic planning and evaluation processes.*		
• Share your understanding of other community resources, including changes in their availability, that may impact the demand for the CAA's services through the strategic planning process		
• Observe program activities and provide feedback about the treatment of participants and quality of services as part of Board evaluation of programs.		
• Participate actively in the Board's discussion of the annual budget to understand the proposed use of resources and express your views about priorities for the use of unrestricted funds.		
• Other areas in which your knowledge of the community is essential to effective operation of the CAA?		
• Fully understand the role of the Board as a whole and the specific responsibilities of low income community representatives required under the terms of funding agreements, including the tri–partite Board requirements contained in the CSBG Act.		
• Fully understand the financial condition of the CAA, including understanding its monthly financial reports		
• Share your perceptions about the effectiveness of board practices, including the processes used at board and committee meetings, as part of the Board's annual self –evaluation.		
• Raise questions and offer observations based on your experience during Board discussions.		
• Share your observations regarding strategies that would support full participation by all low income representatives including meeting times, locations, the availability of child care, transportation, or other needed assistance, interpretation services, and other factors which could increase participation by low income representatives.		

Program Manager Control Checklist

Program Manager Controls	Implemented Fully	Implemented Partially	Not Implemented
Risk Assessment			
• You review each new funding agreement related to your program to identify compliance requirements & determine whether adequate control systems are in place to ensure compliance			
• You are required to report risks you observe & clear about the process for reporting & investigating your concerns			
• You are regularly asked to participate in risk assessment discussions			
Control Environment			
• The Board has established an environment which demands honesty and integrity and encourages all staff to report concerns without retaliation			
• Management demonstrates the highest standards of honesty & integrity and encourages all staff to report concerns without retaliation			
• You seek feedback from staff you supervise to understand their perceptions regarding expectations for honesty and integrity			
• Procedures for dealing with concerns about honesty & integrity are clear			
• You have confidence that "whistleblowers" will be treated respectfully & will not face retaliation			
Control Activities			
• You have meaningful input in the job descriptions and hiring decisions for all positions within your program			
• You review & approve the personnel activity reports for all employees you directly supervise			
• You utilize consistent procedures to be certain that employees you supervise who function as supervisors are providing meaningful review of personal activity reports for those they supervise			
• You are responsible for ensuring that all			

purchases made through your program are necessary, reasonable, and allowable			
• You provide input into procurement requirements for goods and services which will be utilized for your program			
Information Sharing & Communication			
• You have easy access to current fiscal policies and procedures which are clear and understandable			
• You receive regular training regarding changes in fiscal policies and procedures and your responsibilities in regard to maintain fiscal controls			
• You have access to information about requirements contained in all funding agreements supporting your program and receive regular training regarding changes or problem areas			
• You have adequate time and support to communicate fully with employees you supervise regarding fiscal and program policies and procedures, quality standards, and control expectations			
• You provide regular input into the design of training and resource materials to assist staff in understanding and complying with control policies and procedures			
Monitoring			
• You systematically review program service data from programs you supervise to ensure that they are complete and accurate			
• You review monthly financial data for programs you supervise, comparing actual to budget, and identifying potential errors or omissions			
• You fully understand the process to report and resolve program and financial data questions and errors is clear and follow it consistently			

Board and Board Committees Controls Checklist

Board and Board Committees Controls Checklist	Document Reviewed	Reviewer	Date
1. Board Policies			
• Conflict of Interest			
• CEO Evaluation and Compensation Setting			
• Audit Policy			
• Investment Policy			
• Risk Management Policy			
• Tri-Partite Board Composition			
• Board Role in Needs Assessment & Planning			
2. Implementation of Board Policies			
• Conflict of Interest Procedures			
• CEO Evaluation			
• CEO Compensation Review & Setting			
• Procedure for Auditor selection & audit review			
• Investment performance review			
• Risk management review			
• Board composition review			
• Board participation in needs assessment & strategic planning			
3. Full Board Financial Oversight			
• Establish Finance & Audit Committees			
• Review performance of Finance & Audit Committees			
• Annual budget approval			
• Monthly financial statement review			
• Review of annual independent audit			
4. Finance Committee Checklist			
• Review draft annual budget for consistency with board policy and strategies			
• Recommend annual budget for board approval			
• Review monthly financial statements including Statement of Financial Position, Statement of Activities, and Statement of Cash Flows			
• Review management recommendations for addressing financial challenges and make recommendations to full board			
• Review cash management policies			
• Evaluate use of lines of credit and management proposals for borrowing – forward recommendations for full board approval for borrowing			

5. Check Signer Checklist			
• Review underlying documentation for all checks to verify proper approvals, consistency in payee and amount and overall reasonableness			
• Decline to sign until questions are resolved			
• Report repeated errors to Audit Committee			
6. Audit Committee Responsibilities			
• Auditor selection			
• Establish direct communication with auditor			
• Review of audit findings			
• Confidential discussion with auditor			
• Recommendations to Board and management regarding audit findings			
• Evaluate performance of Finance Committee			
7. Investment Oversight			
• Policy review and update			
• Selection of investment advisors/managers			
• Review performance of investment managers			
8. Board Risk Management Oversight			
• Review & revised management's risk assessment			
• Identify risk appetite/tolerance levels			
• Review management's risk mitigation plan			
• Obtain periodic independent review of risk assessment & risk mitigation plan			
• Review adequacy of insurance coverage			
• Advice full Board regarding significant risks which have not been adequately mitigated			
9. Board Compliance Oversight			
• Identify Board committee responsible for Compliance Oversight and establish committee charge			
• Review compliance findings in independent audit and/or monitoring reports			
• Monitor progress in resolving findings and improving compliance			
• Review management's structure for achieving compliance			
• Discuss management's compliance structure with independent auditor			

Control Review Checklist

Control	Control documentation reviewed	Reviewed by	Review date
Control Environment			
Conflict of Interest P&P			
Whistleblower Policy			
Code of Ethics/Integrity policy			
Board evaluation of CEO			
Board review of compensation & management capacity			
Board review of monthly financial statements			
Board audit committee/auditor discussions			
Board review of resolution of audit & monitoring findings			
Board review of programmatic accomplishments			
Other			
General Risk Assessment			
External risk review including funding environment, community perception, changing demand/need for services			
Review and update of internal risk identification			
Exposure analysis- ranking of risks by significance of potential losses and likelihood of occurrence			
Contract Compliance Risk Assessment:			
OMB A-110 requirements			
· Allowable activities			
· Allowable cost			
· Cash management			
· Davis Bacon act			
· Eligibility			
· Equip/Real Property management			
· Matching/level of effort			
· Period of availability of fed funds			
· Procurement, suspension & debarment			
· Program income			
· Real property acquisition			
· Reporting			
· Sub recipient monitoring			
· Special tests & provisions			
OMB A-122 requirements			
· Current approved federal indirect cost rate			

• Monitoring of actual indirect costs in comparison to budget			

Control	Control documentation reviewed	Reviewed by	Review date
CFR Requirements			
• Review of CFRs for each funding source			
• Policies & procedures to assure compliance with CFR requirements varying from OMB Circulars			
Control Activities			
Written fiscal and operational policies & procedures			
Top management review of financial & program activities			
Management reviews at program or functional level			
Controls over info processing/IT			
Physical controls over vulnerable assets			
Review of performance indicators			
Segregation of duties			
Proper execution of transactions & events			
Accurate & timely recording of events			
Access restrictions & accountability for resources & records			
Appropriate documentation of transactions & internal control			
Information & Communication			
Monthly financial reporting at program and organization level			
Monthly program accomplishment reporting at program & organizational level			
Manager access to operational and financial data as needed for planning and oversight			
Structures, policies, and procedures to encourage open information flow among all levels of the organization			
Monitoring			
Monthly comparison of planned program and financial activity to actual reviewed by program managers, top management, & Board			
System for tracking all audit & monitoring findings and their correction or resolution			

Responsibility for achieving correction or resolution of all findings clearly assigned			
Authority to resolve/correct findings clearly assigned			

Control	Control documentation reviewed	Reviewed by	Review date
Monitoring – continued			
Progress resolving/correcting findings monitored regularly by CEO & Board			
Reconciliations to verify financial & program data reports routinely completed and reviewed by managers			

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