Risk Assessment Update

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Agenda

- Review Green Book and its Internal Control Framework
- Discuss state and federal requirements regarding risk assessment
- Discuss *FY 16 Subrecipient Risk Assessment Report*
- Discuss ongoing Department Wide Risk Assessment and 18 month Audit Work Plan
- Questions

Standards for Internal Control in Federal Government (Green Book)

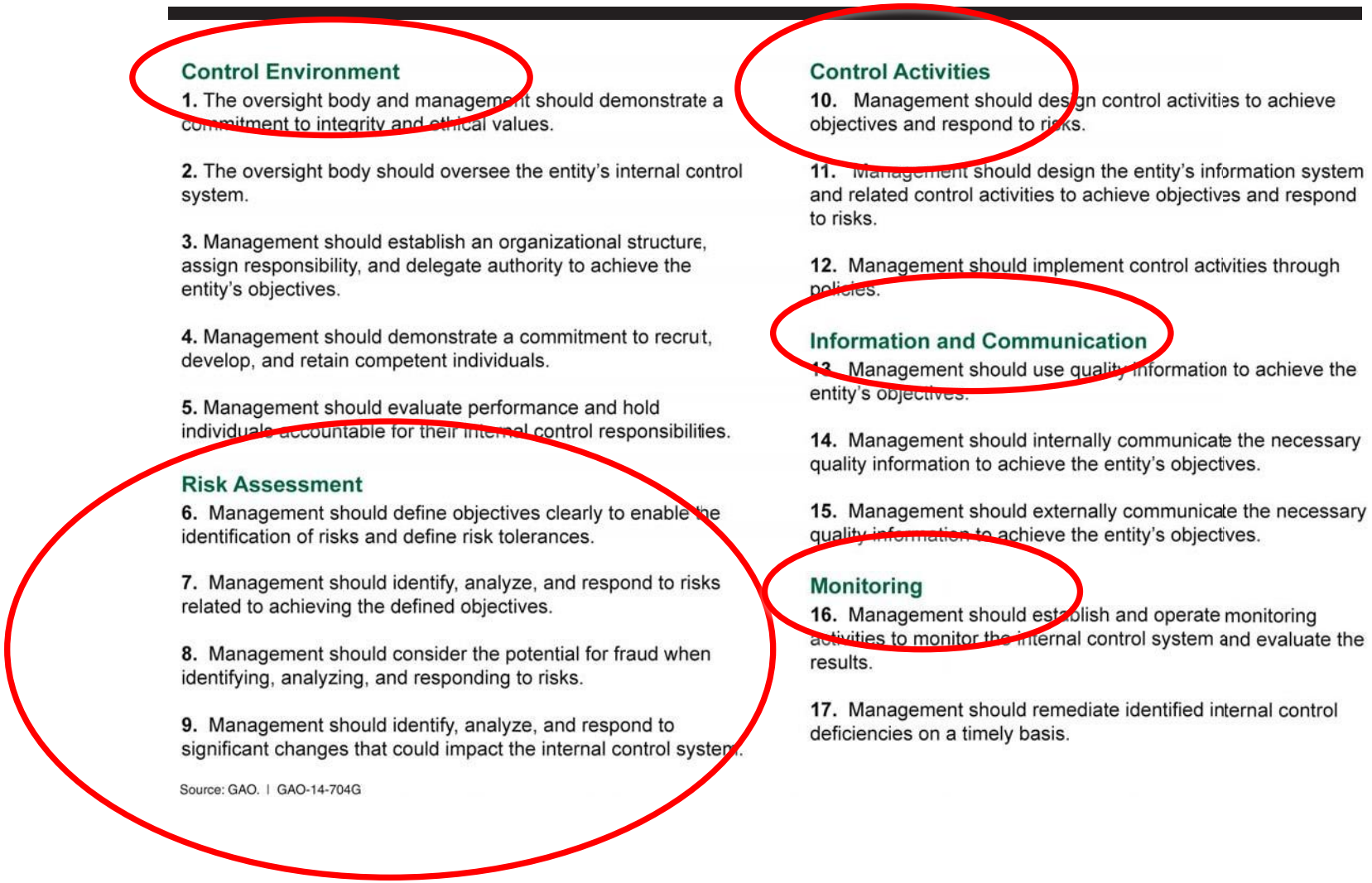
- Published by the U.S Government Accountability Office

- Sets internal control standards for federal entities.

- Adopted by the State Transportation board during the 2016 May Board Meeting in Blue Ridge

Internal Control Framework

OV2.09 Figure 3 lists the five components of internal control and 17 related principles.



Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.

2. The oversight body should oversee the entity's internal control system.

3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.

7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.

8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.

9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

12. Management should implement control activities through policies.

Information and Communication

13. Management should use quality information to achieve the entity's objectives.

14. Management should internally communicate the necessary quality information to achieve the entity's objectives.

15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

State requirements

- State agencies are required to document each component of Internal Control including Risk Assessment

- State requirements met by submitting Risk Assessment and Control Activities documentation to SAO by 10/31/16 deadline.
  - GDOT's risks and mitigating controls related to Financial Reporting and Recording
  - Submitted by Office of Accounting

- Documentation of remaining 2 components (Information/Communication and Monitoring) to be submitted to SAO during FY 17

Federal Requirements
Uniform Grant Guidance (2 CFR 200)

- §200.331 (b) "Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward."

- The level of subrecipient monitoring should be driven by the results of the risk assessment.

Subrecipient Monitoring

Deficiencies in subrecipient monitoring can result in:

- Federal Award Findings
  - Creates administrative burden to GDOT
- Reimbursement of federal funds to the federal awarding agency using state funds

Subrecipient Risk Assessment Report (FY16 Highlights)

See Handout A

- $132.2 million in total pass-through funds
- Subrecipients identified that received 3% or more in total pass-through funds
- Subrecipients identified that received 3% or more in pass-through funds from each grant

Subrecipient Risk Assessment Report (FY16 Highlights)

- Subrecipient Single Audit Reviews
  - 10 subrecipients identified as requiring Corrective Action Plan to be submitted to GDOT (see page 9)

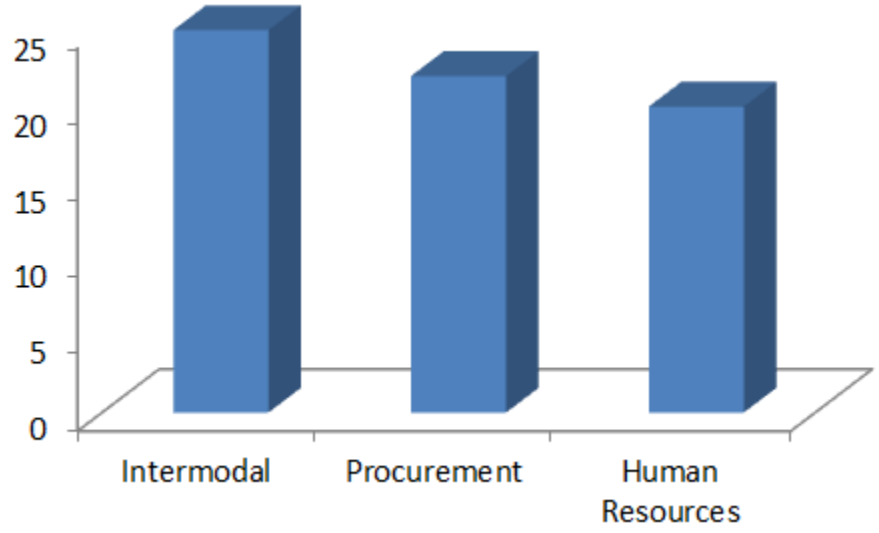
- Agreed Upon Procedures Audit
  - Macon Transit Authority

- Other Subrecipient Monitoring activities

Department Wide Risk Assessment

- Risk Questionnaires submitted to 33 critical functions/offices
  - Questions covered 8 risk factors (Handout B)
- Analysis of Offices with highest levels of risk
- Preliminary Audit List - approved by Commissioner
- Audit Work Plan (18 month Period)

Examples



Potential Audits

- Compliance Audits - Intermodal Subrecipient
- Internal Review – Prequalification Process
- Documentation Review – Employee Hiring Process

Summary

- State and federal standards require us to adequately assess the risks related to GDOT and its subrecipients.
- Failure to assess risk and monitor subrecipients can result in federal findings and reimbursement of federal funds to the federal awarding agency.
- GDOT remains proactive in meeting State and Federal requirements.
- The Subrecipient Risk Assessment Report provides information related to subrecipients that receive large amounts of pass-through funds from GDOT and notes other subrecipient monitoring activities.
- The Department wide risk assessment process helps provide risk related information to executive management and drives the use of Audits resources in the allocation of audits.

QUESTIONS?