

Effective Oversight of Recovery Act Funds – A Risk Management Perspective

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Risk & Business Consulting.
Internal Audit.

Agenda

- ARRA background from Protiviti's perspective
- Risk management implications of OMB M 09-15
- Is risk management integral to the success of ARRA?
- Are there risk management related tools, techniques and methodologies that can be applied to oversight of ARRA program?
- Using a risk management framework to drive an audit plan
- Case study

American Recovery and Reinvestment Act of 2009

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- ARRA (the Recovery Act) authorizes approximately \$787 billion in new spending and tax cuts as economic stimulus
- Transparency and accountability are being required by the Obama Administration in implementing Recovery Act programs
- Comprehensive risk management is necessary to meet Recovery Act objectives and avoid problems introduced by the scale and timeliness requirements
- Government agencies have the knowledge to establish and execute these programs; however, the scale and timing requirements of the Recovery Act will severely strain the government workforce and challenge the depth of key skill sets, thereby creating the potential for compounding levels of inefficiencies, waste, fraud and abuse
- The Obama Administration is building in safeguards to make the program as transparent as possible; the President himself has called upon the American people to serve as whistleblowers if they see evidence of waste, fraud and abuse

Recovery Act Accountability Objectives

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes and potential for fraud, waste, error, and abuse are mitigated;
- Projects funded under this Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

OMB M 09-15 Implementing Guidance for Recovery Act

The Guidance outlines necessary enhancements to standard processes for awarding and overseeing funds to meet accelerated timeframes and other unique challenges posed by the Recovery Act's transparency and accountability framework. More specifically, the Guidance:

- Answers questions and clarifies issues related to the mechanics of implementing the Recovery Act;
- Provides clarification on what information will be reported on Recovery.gov and what information will be required to be reported on agency websites;
- Instructs agencies on steps that must be taken to meet these reporting requirements, including incorporation of recipient reporting requirements in award documentation and communications with funding recipients; and
- Establishes a common framework for agencies to manage the risks associated with implementing Recovery Act requirements.

OMB M 09-15 Guidance for Recovery Act – Some Issues

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- Critical to the success of the Recovery Act is addressing Program expectations up-front
- Not enough emphasis exists in the OMB Guidance on preventive process measures
- An effective Risk Management Framework is vital to identifying, sourcing, mitigating and monitoring risks around the Accountability Objectives
- Agencies should not blindly assume that their existing financial reporting controls under A-123 or A-133 will be rigorous enough to manage programs and funding under the ARRA
- Recipients must work within an established framework for agencies to manage risks associated with the Recovery Act
 - Currently there is no framework mandated for the Recipients to use
 - The emphasis on transparency will create a fishbowl environment
 - Accountability required of Recipients in use of Recovery Act funds
 - Compounding the above challenges, there is a sense of urgency to deliver

Why a Framework?

- Without a framework, it would be difficult for an **auditor** to evaluate management's assertion on the effectiveness of internal controls and procedures for reliable reporting and for providing assurance that important business objectives are met
- Without an internal control framework, there is no criteria against which **agency management** or the **inspector general** can measure effectiveness
- The key to effective transparency, accountability and oversight is use of a proven framework
- A framework will assist the auditor in three ways:
 - Planning and executing the audit process
 - Asking the right questions
 - Reporting on the results of the audit process

Recovery Accountability Framework and Objectives from OMB

	Pre-Award	Performance Period		Post-Performance Period
Strategic	Program Outcomes and Economic Outcomes Achieved			
	Competitive (and Fixed Price) Opportunities Maximized			
	Wasteful Spending, Fraud, and Abuse Identified and Minimized			
Operations	Funds Obligated Timely	Funds Expended Timely	Undelivered Orders Minimized	Sunset of Recovery Requirements
	Improper Payments Minimized			
	Timely and Accurate Data Reported to Recovery.gov			
Reporting Compliance	Agency and Program Plans Approved	Agency and Program Plan Milestones Completed by Estimated Dates		
	Spend-Plan Approved	Spend-Plan Milestones Completed by Estimated Dates		

A Definition of Risk Management Using COSO as an Authority*

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- Enterprise risk management is a process, effected by an entity's oversight board, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.
- ERM provides a management structure that directly correlates to the accountability objectives of OMB M 09-15

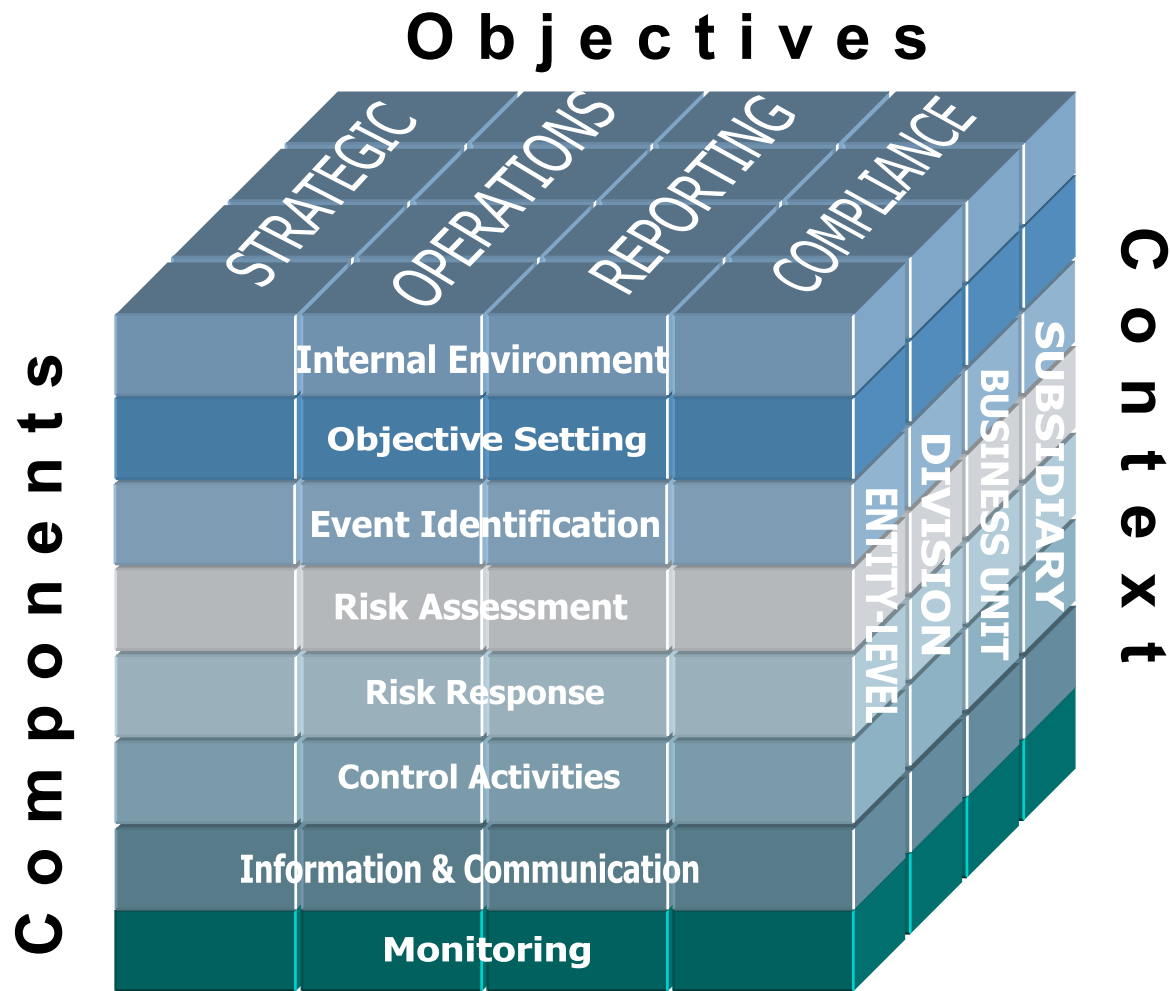
* Source of definition is from the Enterprise Risk Management Integrated Framework, Sept 2004, published by the Committee of Sponsoring Organizations of the Treadway Commission

Applying Risk Management to Managing an Organization

- Enterprise risk management is:
 - A process, ongoing and flowing through an entity
 - Effected by people at every level of an organization
 - Applied in strategy setting
 - Applied across the enterprise, at every level and unit (including specific programs), and includes taking an entity level portfolio view of risk
 - Designed to identify potential events that, if they occur, will affect the entity and to manage risk within its risk appetite
 - Able to provide reasonable assurance to an entity's management and oversight board
 - Geared to achievement of objectives in one or more separate but overlapping categories
- An agency can apply many of the above concepts to managing Recovery Act funds

* Source of definition is from the Enterprise Risk Management Integrated Framework, Sept 2004, published by the Committee of Sponsoring Organizations of the Treadway Commission

COSO ERM Framework Components Provide an Illustration



OMB M 09-15 Requirements in Context of ERM Components

- **Internal Environment**
 - 3.1, 3.2 Recovery board responsible for oversight with assistance from OMB
 - 3.3 and 3.4 Senior accountable official and risk management council responsible for agency activities
 - 3.11 Develop process for documenting, monitoring, and reassessing risks
- **Objective Setting, Event Identification, and Risk Assessment**
 - 3.5 Leverage existing organization to assess risks
 - 3.6, 3.7, 3.8 and 3.11 Assess common risk and program specific risks
- **Risk Response**
 - 3.6 Use accountability objectives to consider risk in funding lifecycle
 - 3.9 and 3.12 Implement mitigation strategies for common, agency and program specific risks
 - 3.10 Remedy existing deficiencies
- **Control Activities and Information and Communications**
 - 3.13 Agencies will eventually be required to submit risk assessment to OMB
- **Monitoring (Oversight/Auditing)**
 - 7.6 OIGs will use risk assessment techniques to identify high risk program and non-federal entities for priority audit

To Assess Adequacy of the Internal Environment

- Conduct a quick review of Recovery Act funded programs to determine their scope as they relate to the agency
- Understand agency management's focus on integrating risk management into the agency's operations – In this context, understand the roles and responsibilities for risk-related activities of key executives:
 - Chief Financial Officer (CFO)
 - Chief Performance Officer
 - Chief Information Officer
 - Contracting Officers and Contracting Officer's Technical Representatives
- Has the agency:
 - Assessed readiness for Recovery Act funds and developed an integrated plan for execution?
 - Reviewed its infrastructure to identify potential gaps and issues that would inhibit its success in meeting ARRA objectives?

Clear Objective Setting

- Objectives can be categorized as strategic, operational, reporting or compliance
- OMB has established some objectives, most of which are operational in nature:
 - Program outcomes and economic outcomes achieved Strategic
 - Funds obligated timely Operational
 - Funds expended timely Operational
 - Competitive opportunities maximized Operational
 - Undelivered orders minimized Operational
 - Wasteful spending, fraud and abuse minimized Operational, Compliance
 - Improper payments minimized Operational
 - Timely and accurate data reported Reporting
 - Program milestones met by estimated date Operational
 - Spend plan milestones met by estimated date Operational
- The message: The OMB framework has more focus on operational efficiency and effectiveness than on compliance

Thorough Event Identification and Risk Assessment

What to look for:

- Assess common agency risks for Recovery Act programs provided by the guidance in OMB in M-09-15
- Assess agency-specific risks to complement the common agency risks
- Consideration of Recovery Act risk factors
 - Programs receiving/providing the most funding (i.e., the greater the funding, the higher the risk)
 - Clear and measurable program outputs and outcomes
 - Availability of tools to measure outputs and outcomes
 - Sufficiency of dedicated program resources
 - Identity of final funding recipients
 - Design effectiveness and operating effectiveness of internal controls to mitigate risk of waste, fraud and abuse
 - Performance issues with funding recipients
 - Lead/lag risk indicators for monitoring ongoing program performance

Risk Response and Control Activities

What to look for:

- Risk mitigation action plans for the priority risks
- Established key performance indicators linked back to program accountability objectives.
- Examples of key indicators include:
 - Prompt, fair and reasonable awards
 - Transparency of recipients and use
 - Clear, accurate and timely reporting of benefits
 - Authorized use of funds
 - Mitigation of fraud, waste, error and abuse
 - Avoidance of unnecessary project delays and cost overruns
 - Achievement of program goals and outcomes
 - Contributions to improved results on broader economic indicators

Information and Communications

- The agency's recovery plan should describe broad Recovery Act goals and how different parts of the agency are coordinating the appropriate efforts
- The Recovery Act program plan should include funding table, objectives, scope of activities, type of financial awards to be used, delivery schedule and the other requirements set forth in M-09-15
- The plan facilitates the identification of reporting and communication requirements and the necessary information collection and dissemination
 - Must segregate Recovery Act funds
 - Must develop a dedicated Recovery Act website page linked to the applicable Federal agency site and ultimately to Recovery.gov
 - Report on government contracts or orders
- Define risk management and compliance standards
- Develop and deliver training for program officials
- Key considerations:
 - OMB A-123, Management's Responsibility for Internal Control
 - COSO Internal Control – Integrated Framework
 - OMB levels of reporting
- Transparency of website disclosure

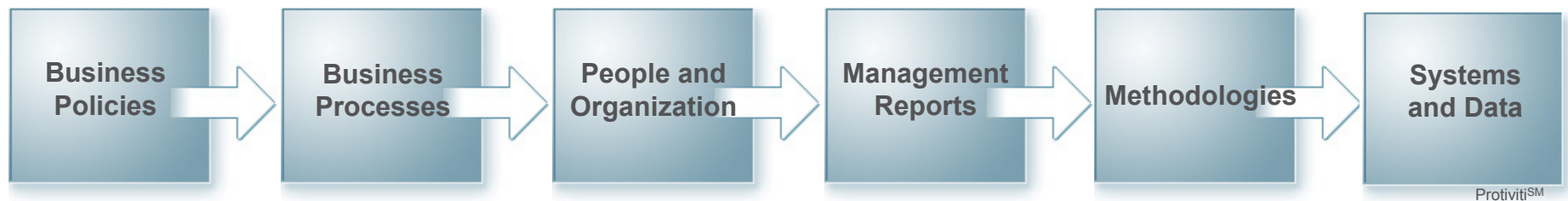
Monitoring

- Effective performance monitoring gives the agency the ability to measure the rate of progress it is making towards the achievement of program objectives and mitigation of risks
- Performance measurement takes the established accountability metrics and the additional measures to address agency-specific risks, as defined by agency management, and uses them to monitor and evaluate results against Recovery Act program objectives
- Monitoring also includes periodic evaluation of the performance of risk mitigation plans and key financial controls
- Measuring performance requires determining outputs and outcomes, effective data collection and a clear understanding of the accountability indicators

The Six Elements of InfrastructureSM Model Can Be a Useful Tool

The Six Elements of InfrastructureSM model includes six important capabilities that should be integrated into each process or function, providing a comprehensive and consistent framework for the documentation of the current state and assessment of the desired state of a process or function. We believe that all processes must be supported by these key elements of infrastructure in order to operate effectively.

Key elements of infrastructure must be linked by design:



Risk if element is deficient:



Process does not carry out established policies or achieve intended result



People lack knowledge and experience to perform process



Reports do not provide information for effective management



Methodologies do not adequately analyze data and information



Information is not available for analysis and reporting

Six Elements of InfrastructureSM – Illustrative Points of Focus

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Policies

- Are specific Recovery fund objectives and requirements incorporated into department policies?

Processes

- Do the critical processes consider the additional Recovery Act objectives and requirements?
 - Procurement
 - Contracting
 - Purchasing
 - Budget execution
 - Disbursements
 - Reporting
 - Other
- Are recipient and sub-award requirements written in a way that articulates expectations up front and achieves accountability and success?

Organization and People

- Is there properly trained staff empowered to make decisions and administer programs?
- Is there sufficient staff to manage the ongoing projects over time?
- Is the staff capable of undertaking a comprehensive risk assessment to identify the key risks to program objectives?
- Are program officials trained in the performance management requirements set forth by the agency in response to the key risks?

Six Elements of InfrastructureSM – Illustrative Points of Focus (Cont'd)

Reports

- Is the necessary reporting in place?
- Is the reporting appropriately reflected on the agency's website?
- Do reports tell agency management what is happening on a timely basis?
- Are issues identified through established reports addressed on a timely basis?
- Are risk management strategies and tactics properly monitored and are reports issued timely on their effectiveness?

Methodologies

- Is there a department-wide methodology for assessing risk, formulating risk mitigation responses, and measuring performance?
- What are the key metrics?
- Are there any process metrics, or are the metrics primarily outcome- oriented?

Systems and Data

- Are financial and operational systems configured to manage and control recovery funds?
- Are the appropriate data elements identified that must be captured, classified and aggregated for analysis and reporting to meet Recovery Act requirements?

Integrate the Framework Into the Internal Audit Process

- Use the selected framework to formulate an appropriate audit plan
- Execute the plan with an objective of evaluating management's ability to manage performance against the established accountability objectives
- Use the framework as a basis for reporting – Can use:
 - The OMB accountability objectives
 - The eight components of COSO
 - The six elements of infrastructure

Case Study – Farm Credit Services of America

- FCSA awards, disburses, and monitors loans for operations, real estate, facilities, and equipment to farmers, ranchers and agribusinesses. FCSA is a large cooperative association with 42 retail branches across four states.
- Each year since 2006, Protiviti has participated with the FCSA in performing a comprehensive risk assessment and developing and executing the resulting Internal Audit plan to address key financial, credit, and compliance risks
- Additionally, Protiviti designed and implemented FCSA's Enterprise Risk Management framework and program. This project included engaging a team to create a common risk language and identify and prioritize their key risks.
- The value delivered to FCSA:
 - Sounding board for FCSA management input by evaluating and prioritizing their risks
 - Designed a customized risk model and language which met FCSA management's needs and reinforced a stronger risk discipline
 - Improved the institution's overall understanding of its significant risks and assist FCSA in the implementation of the new risk reporting frameworks
 - Recommended modifications to the FCSA Board and management committee structures to more appropriately align risk governance and management within the institution

Case Study – Virginia Department of Transportation (VDOT)

- VDOT is a governmental agency with a mission to serve the common public through planning, developing, delivering, operating, and maintaining the best possible transportation systems for the Commonwealth of Virginia
- Engaged Protiviti to provide co-sourced Internal Audit and Construction Audit services in 2004 and has renewed the engagement for the past five years
- Protiviti has developed a risk-based approach to construction contracts and audit review programs, planned and conducted final desk reviews for VDOT contracts to determine compliance with contract cost requirements, including verification of all billed costs
- The value delivered to VDOT:
 - Identified contracts and vendors that have not completed the appropriate finalization process
 - Identified instances of inaccurate allocations and/or inappropriate charges submitted to VDOT
 - In most cases, funds associated with the errors were subsequently returned to VDOT
 - Worked to improve the logging and maintenance process used by VDOT to more accurately track information pertaining to current and past contracts

Summary

- A risk management perspective can be an effective way to evaluate agency performance against OMB M 09-15
- A framework can be useful in applying a risk management perspective
- A framework can drive the formulation of an effective audit plan
- Recipients will also have to address risk assessment and management

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Introduction to Protiviti

Our Vision

To be recognized as the premier global risk consulting and internal audit services company in the world.

Our Mission

To constantly improve how businesses manage risk. We develop deep competencies in people that enhance their value. We bring unparalleled expertise to clients in risk management.

Our Values

- Professionalism
- Productiviti
- Proactiviti
- Objectiviti
- Creativiti
- Integriti

- Protiviti (www.protiviti.com) is a leading independent provider focused solely on business risk consulting, technology risk consulting, corporate governance and internal audit.
- Our parent company, Robert Half International (NYSE: RHI), is a \$4.65 billion company with over 400 worldwide offices. In 2002, RHI formed Protiviti by hiring over 700 "Big 5" risk consulting professionals, including over 50 partners.
- In just over 6 years of operation, Protiviti's client base has grown to include > 20% of the Fortune 1000, > 25% of the Fortune 500, and > 35% of the Fortune 100.
- Protiviti employs more than 3,000 employees in over 60 offices worldwide.
- Protiviti's 2008 revenues were \$546.9 million.
- Protiviti Government Services (www.protiviti.com/government) is a wholly-owned subsidiary of Protiviti. This channel is used to fully leverage Protiviti's complete suite of solutions in the Public Sector.

Commentary from *The Forrester Wave™: Risk Consulting Services*

In June 2007, *The Forrester Wave™: Risk Consulting Services, Q2 2007*, was released. This research was an overview of providers who offered Risk Consulting Services. Research identified Protiviti as “A Risk Consulting Services Leader with a core strength in implementation” in the field.

According to the report:

- Protiviti is an especially good fit for buyers that:
 - Need outside consultants to assist with frontline implementation
 - Demand continuously updated knowledge in all areas of risk management
- “Companies requiring strong skills in the implementation of integrated solutions and companies needing continually updated knowledge across the various risk areas will do well to consider Protiviti.”
- “Protiviti helps companies identify and prioritise risk achieving business goals and objectives, developing action plans for clients to effectively manage those risks.”
- Protiviti was recognized for its “industry leadership” in providing clients up-to-date information across the different disciplines

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