

Risk Management For Government

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Opening Thought

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" Let's get this straight up front – Risk is good. The point of risk management isn't to eliminate it; that would eliminate reward. The point is to manage it – that is, to choose where to place bets, and where to avoid betting all together."

-Thomas Stewart
Leading Edge - Fortune Magazine

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Discussion Topics

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- What is Risk Management?
- Applying Risk Management to Government
- Government Risks
- Fraud Risks
- Risk Management Program
- Questions To Ask Yourself

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What is Risk Management?



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Definition

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Continuous process that identifies, mitigates, and monitors potential events that create uncertainty to the achievement of objectives.



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Purpose

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Protect the integrity of the enterprise

- Goals and objectives
- Operations/Services
- Reporting (Financial & Non-Financial)
- Compliance
- **Reputation**



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Value

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- Risk management enables management and elected officials to identify and deal effectively with potential future events that create uncertainty.

- Risk management ensures management and elected officials respond in a manner that reduces the likelihood of downside outcomes and increases the upside outcomes (opportunities).

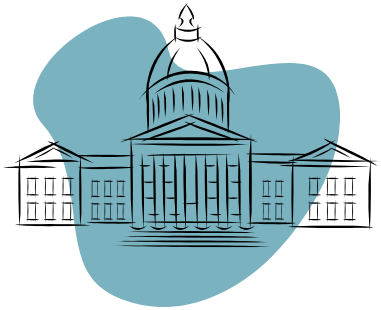


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Applying Risk Management to Government



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GFOA Best Practice

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GFOA recommends:

- ❑ Governments develop a comprehensive risk management program that identifies, reduces or minimizes risks to its property, interests, and employees.
- ❑ Costs and consequences of harmful or damaging incidents arising from those risks should be contained.



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Risk Management Program

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GFOA recommends that the following steps be included in an effective risk management program:

- Risk Identification.
- Risk Evaluation.
- Risk Treatment.
- Risk Management Implementation.
- Risk Program Review.



MORE TO COME LATER IN THE PRESENTATION

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Government Risks



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Things to Consider

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- External factors – e.g., legal, regulatory, economic, demographic
- Strategy and key initiatives
- Who are your stakeholders and are there risks that need to be considered
- Types of programs and services provided
- Business partners/vendors
- Financial risks – funding sources, liquidity, credit, financial reporting
- Fraud risks
- Transactional risks – e.g., acceptance of credit cards
- Areas of complexity or judgment
- Reputation



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Potential Government Risks

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- Public trust
- Accountability & Transparency
- Compliance
- **Fraud/Abuse**
- Inefficiency/Waste
- Ineffectiveness
- Legal
- Financial
- Technological
- Operational
- Safety
- Reporting Disaster
- Vendor reliability



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Fraud Risks

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ACFE 2014 Fraud Study Findings

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1. Typical organization loses 5% of annual revenue to fraud – estimate $3.7 trillion annually.
2. Median loss in the study was $145,000 and lasted 18 months.
3. Most likely to be detected by tips (40%), management review (15%) and Internal Audit (14%).
4. Small organizations are disproportionately victimized by occupational fraud.
5. **Government/public administration was one of the most commonly victimized industries.**
6. Anti-fraud controls appear to help reduce the cost and duration of occupational fraud schemes.
7. High-level perpetrators cause the greatest damage to their organizations.

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ACFE 2014 Global Fraud Study Findings

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9. More than 85% of fraudsters had never been previously charged or convicted for a fraud-related offense.

10. Fraud perpetrators often display warning signs – most common were perpetrators living beyond their means (36%) and experiencing financial difficulty (27%).

11. Nearly half of victim organizations do not recover any losses that they suffer due to fraud.



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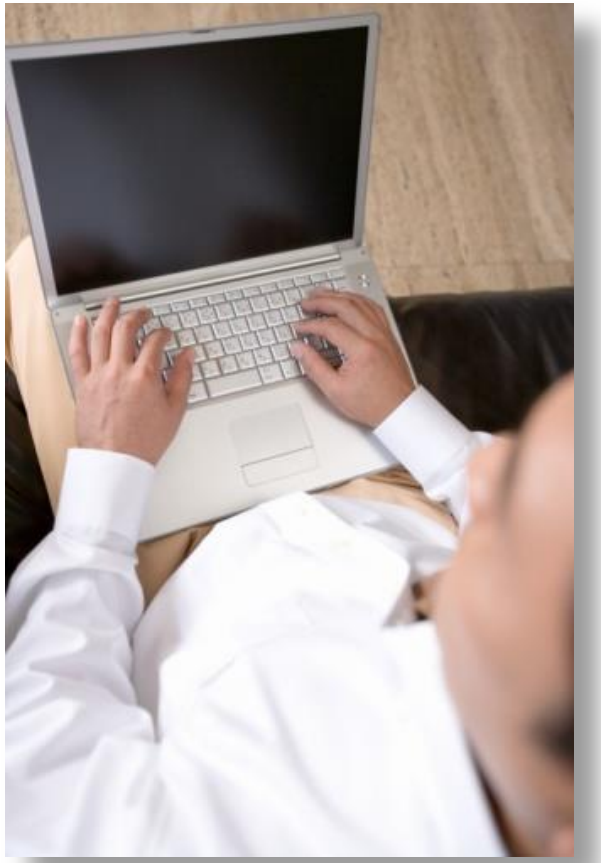
Occupational Fraud Definition

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The use of one's occupation for personal enrichment through the deliberate misuse or application of the employing organization's resources or assets.

Three general categories:

- ✓ Asset misappropriation
- ✓ Corruption
- ✓ Financial statement fraud



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Asset Misappropriation

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Employee steals or misuses an organization's assets/resources.



Examples:

- Clerk stealing cash receipts.
- Payroll Clerk creating a ghost employee.
- Purchasing Clerk creating a fictitious vendor and false invoice.
- Street Department personnel "borrowing" equipment.
- City Manager purchasing personal items on the City credit card.

Per ACFE 2014 Fraud Study - the most common form of fraud, representing 85% of the cases with a median loss of $130,000.

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Corruption

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Employee's use of his/her influence in business transactions in a way that violates his/her duty to the employer for the purpose of obtaining benefit for him/herself or someone else.



Examples:

- City Council member trading votes for personal favors.
- Purchasing Department Manager awarding a City contract to a vendor for a kickback.
- Human Resources Director hiring unqualified "friends" to fill positions.

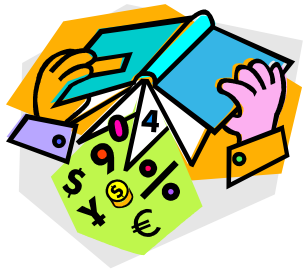
Per 2014 ACFE Fraud Study - comprised over 37% of cases with a median loss of $200,000.

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Financial Statement Fraud

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Intentional misstatement or omission of material information in the organization's financial reports with the intent to mislead.



Examples:

- Inflating City revenues on the Consolidated Annual Financial Report.
- Forcing actual expenditures to match budget by moving expenses between accounts.
- Improperly accounting for grant receipts and expenditures.

Per 2014 ACFE Fraud Study - least common form of fraud, representing 9% of the cases with a median loss at $1 million.

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Risk Management Program

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Risk Management Program Overview

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Risk Identification

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Identify the risk exposures to your organization considering each of the following environments:



- Physical - natural or man-made disasters and infrastructure.
- Legal - laws and legal precedents.
- Compliance - policies, procedures, contracts/agreements.
- Operational – day-to-day activities, actions, services, workforce.
- Political – legislative activity, elections.
- Social – socio economic composition of the community.
- Financial – revenues, expenditures, assets, liabilities.
- Economic – market trends and interest rates.
- Fraud – asset misappropriation, corruption, financial statement.
- Reputation – social media, media relations, employee/elected official actions.
- Technological – technology infrastructure (internal network and internet) and systems,

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Risk Evaluation

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Evaluate each risk identified based on:

- Likelihood of occurrence.
- Impact on organization.
- Organization readiness.



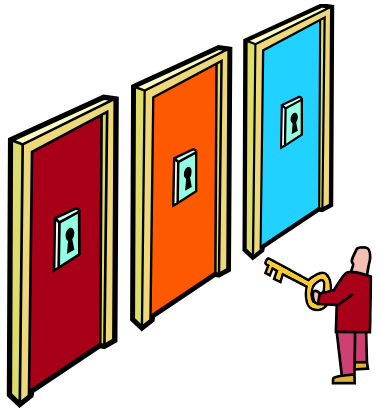
Determine overall risk and prioritize.

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Risk Treatment

Decide how to treat/mitigate each risk exposure:

- Avoid = Don't provide the service.
- Accept = retain the risk, but monitor.
- Reduce = institute or tighten controls.
- Share = partner with someone (insurance).



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Risk Management Implementation

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- Establish risk management policies and procedures that include:
  - Statement of organization's goals.
  - Identifies officials charged with carrying out risk related functions.
  - Contains guidelines for making decisions.

- Ensure Government officials are aware of the policies and procedures.

- Provide assurance that risk responses are implemented and effectively carried out.



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Risk Program Review

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Periodically review the effectiveness and efficiency of risk management program and make changes as necessary.

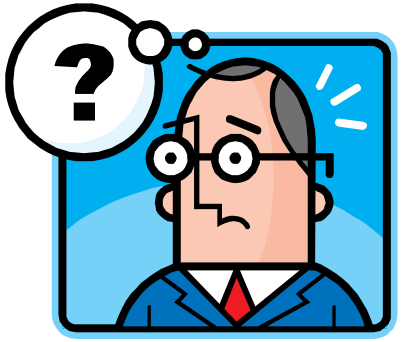


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Questions To Ask Yourself

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1. What are our key risks?
2. How are we managing these risks?
3. Are we taking the right amount of risk?
4. How do we ensure risk management is an integral part of what we do?
5. How do we take advantage of the organizational learning that results from the risk management program and activities?



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Contact Information



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