Risk Management Overview and Framework for the American Reinvestment and Recovery Act

The American Recovery and Reinvestment Act (Recovery Act/ARRA) is designed to balance the need to quickly spend money that creates jobs, sustains vital "safety net" programs for people hit hard by the recession and help move the economy forward; in addition to providing the need for transparency and accountability - including preventing waste, fraud and abuse. Because of the size and complexity of the Recovery Act, it is important to give special attention to risk management and internal controls at the federal, state and local government levels.

The Colorado Economic Recovery Accountability Board (CERAB) does not have authority to direct Recovery Act funds or order agency action. However, the board does work to oversee state ARRA funds and help ensure that the process used to direct ARRA funds is accountable and transparent. This document provides a risk management framework and guiding principles to Colorado agencies and program managers using Recovery Act funds.

Prioritizing High Risk Programs and Activities

To address potential risks within programs and activities funded with ARRA dollars, it is necessary to identify and prioritize primary risk areas and to develop strategies to mitigate risk in those areas. This will allow the state to more quickly direct limited resources to areas that warrant the most attention.

Below is a partial list identifying increased risk factors related to ARRA-funded projects and activities:

1. Significant increase in program funding, stressing already limited resources to properly manage those funds
2. New programs or activities with limited management history
3. Personnel with limited experience
4. New program and management requirements attached to ARRA funding:
    a. 1512 Reporting
    b. Certification
5. Increased communication, collaboration and training required across ARRA programs and activities

Categorizing the risk level of programs and activities will allow the state to optimize limited resources and deploy risk management more effectively. As illustrated in the following table, ARRA programs and activities can be categorized as high, moderate and low risk based upon the risk factors such as those listed above. High risk programs will exhibit the most challenges in complying with ARRA's requirements; moderate risk programs will have some potential to experience difficulty ; and low risk programs should have little or no difficulty with ARRA compliance.

To help evaluate risks, the Governor's Economic Recovery Team (Recovery Team) and state agencies will consider the likelihood of risk and the impact of the risk. The table below demonstrates how ARRA programs and activities should be prioritized and addressed.

Probability

Impact

Insignificant Impact High Likelihood **Moderate Risk** **Control**	Significant Impact High Likelihood **High Risk** **Mitigate**
Insignificant Impact Low Likelihood **Low Risk** **Accept**	Significant Impact Low Likelihood **Moderate Risk** **Control**

The Recovery Team will work with the various Departments to prioritize and track the moderate and high risk projects, with particular emphasis on the mitigation of the high impact - high probability risks..

During the review of the programs located in the Red Zone, the Team will review what, if any, resources are currently being directed to mitigate and identify risks.

Use of Recovery.Gov Reporting Data

In addition to evaluating risk based upon the list and table above, the Recovery Team can utilize data from the federal website Recovery.gov. With the successful completion of the first Recovery Act recipient reporting cycle (known as Sec . 1512 reporting), a significant amount of data can be assessed and manipulated to help identify contracts, grants and awards with a higher risk of mismanagement. The data uploaded to Recovery.gov for the first time in October 2009, provides data about expenditures and job impact submitted by recipients for each award. The data submitted by recipients include the primary place of performance, vendor and contractor information, amounts awarded, received and expended to date. Such data can be used to determine if suspect data is due to reporting errors or program/activity management problems. The national Recovery Accountability and Transparency Board (RATB) has already taken steps to identify potential fraud by analyzing the data on the Recovery website. The RATB is developing software analytics to review 1512 spending data for possible irregularities. We expect this to provide another useful tool to identify potential program weakness. It is important to recognize however that 1512 reporting does not apply to all ARRA programs and

activities. For ARRA programs such as Medicaid (known as FMAP), Unemployment Insurance (UI) and other programs, recipients do not submit the same type of information that is available through the 1512 reporting process.

Use of Audits and OIG Resources

Colorado is one of 16 states designated for additional oversight by the Government Accountability Office (GAO). To date, the GAO has issued four bi-monthly reports on the Recovery Act - each with a Colorado appendix reviewing specific Recovery Act activities in the state. In addition, the Office of the State Auditor (OSA) is conducting performance and federal single audits on Colorado ARRA programs. Along with OSA audits conducted in prior years for programs and activities that are now receiving additional Recovery Act funds, these new audits can serve as useful guides to identify weaknesses that warrant additional review for risk management purposes. The Colorado Economic Recovery Accountability Board (CERAB) and the Recovery Team are working closely with the GAO and OSA to assist in coordinating the audit process and help identify areas of potential mismanagement as soon as possible. In addition, many ARRA recipients and some Colorado departments are working with the Office of the Inspector General (OIG) on risk assessment strategies and risk mitigation training initiatives.

Department Risk Management Plans

Concurrent with the prioritization of programs and activities in need of additional oversight, risk management and control of ARRA funds flowing through Colorado state government programs can be enhanced if the state agencies overseeing ARRA funds develop simple but robust Risk Management Plans specific to Recovery Act spending. Indeed, some departments have already developed a risk mitigation plan and strategy.

Departments need to tailor the plans to best suit specific ARRA programs and activities, but plans should have some common elements identified below:

- Identification and prioritization of risk areas which could include:
    - Financial risk
    - Strategic or operational risk
    - Compliance with unique ARRA deadlines and requirements,
    - Oversight of locally administered projects and activities
    - Reporting and transparency
    - Risk of Fraud, waste or abuse
- Specify primary contact(s) for risk management for each department-managed project
- Communication and training

Where possible, the Recovery Team will facilitate the sharing of "best practices" across state departments. As an example, the current risk management plan for the Colorado Department of Transportation (CDOT) is attached as an appendix to this document.

Integrate Existing Practices and Documentation

State agencies and program managers are already utilizing a host of strategic and operational activities that have internal control and risk management functions. The vast majority of ARRA funds coming to state agencies augments exisiting programs and activities and are therefore already subject to extensive program oversight and risk management practices. Department executive management, agency controllers, purchasing offices, internal auditors and other areas with oversight responsibilities have already implemented many protections and procedures designed to identify risk and to prevent misuse of state and federal funds. In many cases, departments have developed internal guidance dealing with the management and oversight of ARRA specific funds. Part of the purpose of creating specific risk management plans for each state agency will be to identify and document existing practices and determine where there are gaps that need to be filled or enhancements that need to be integrated.

Department Meetings and Best Practices

As part of the process of creating department-level risk management plans, the Recovery Team will meet with all agencies receiving ARRA dollars or overseeing Recovery Act programs. By meeting with agencies, we can expedite planning and emphasize the importance of internal controls and risk management related to ARRA funds. Meetings have already started and will roll out based on the amount of Recovery Act dollars and complexity of ARRA programs. Federal agencies also offer opportunities to apply fraud detection techniques that are already working elsewhere. For example, the Office of Inspector General (OIG) for the Department of Justice is providing a list of recommendations and examples for granting agencies to consider to minimize opportunities for fraud, waste and abuse around the Grant Management Process. The document is available on the DOJ website.

Optimize Outreach, Training and Communication

Prioritization of activities and department reports are useful tools for identifying risk associated with Recovery Act funding. But documents alone won't improve risk management practices without effective leadership, communication and training to integrate control practices into day-to-day activities. Risk management and internal control practices need to be fully integrated from top management to the field where Recovery Act dollars will ultimately be put to work. Each agency plan will identify methods to communicate and integrate risk mitigation practices into the activity or program. The federal Recovery Accountability Transparency Board (RATB) is offering assistance in this area through meetings and webinars put on by OIG staffers. To date 46,000 have been contacted including contract and grant officials at state and federal levels.

If Necessary Utilize Outside Expertise

Once department plans have been developed and reviewed, the total risk associated with ARRA activities overseen by Colorado state government can be more accurately assessed. The plans will help identify weaknesses and available resources. The Recovery Team will work with state agencies, the State Controller, the OSA, and others as needed to determine if additional resources are needed. At this point, Colorado's approach to the Recovery Act has been consistent with other states in regard to utilizing outside resources to help manage ARRA oversight. The goal is to first optimize existing resources before increasing administrative oversight costs through third- party vendors. There are many capable private risk management vendors - large and small - who can offer Colorado needed assistance. However, the state is working hard to to optimize value to the taxpayer and limit administrative overhead costs.

Reporting Irregularities

Since ARRA's enactment in February 2009, great emphasis has been placed on detecting and preventing problems. In addition to actions taken by the IG, OSA, and others, CERAB, Recovery.gov and the Colorado.gov/recovery website offer methods to report irregularities related to ARRA funding by state employees and citizens alike. CERAB cannot offer legal protection for "whistleblowers. " Therefore, , it is important that problems be reported to the federal government through the Recovery.gov website or other appropriate reporting method.