

Balancing Risk While Enhancing Controls



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Introductions

- Brian Pye
 - CliftonLarsonAllen – Senior Manager
 - Business Risk Services group
 - 15 years of experience with risk management and process improvements
- Melissa Pelland, CPA
 - Minnesota Philanthropy Partners
 - Controller

Session Objectives

- Define risk and risk assessment.
- Execution of assessment and approach
- Impact on controls and future state improvements
- Business case example

What is Risk?

- Risk may be caused by an event (or series of events) that can adversely affect the achievement of your objectives.
- Risks are generally thought to be associated with taking actions; however, risks can also occur when no action is taken in the form of missed opportunities.
- Risk is measured by impact and vulnerability and results in mitigated value.

What is Risk Assessment?

- A systematic process for utilizing professional judgments to evaluate probable adverse conditions and/or events and their potential effects on your organization.
- A process for risk identification and prioritization of the foundation's key business risks (i.e. operational, financial, strategic).
- Enterprise-wide risk assessment is defined as assessing risk for all functional business areas of an organization.

Business Justification for Risk Management

- Foundations need to understand overall inherent levels of risk embedded within their processes and activities.
- It is important for the foundation to then recognize and prioritize significant risks and identify the weakest critical controls.
- Resulting in improved operations.
 - Policies and procedures
 - Internal control design
 - Efficiencies of processes

Develop Risk Model

A risk model framework is defined by six types of risk:

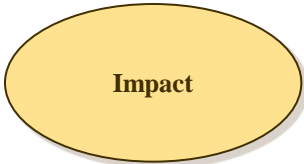

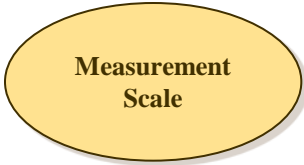
- **Strategic**: The risk that business objectives will not be met due to poorly defined business strategies, poorly communicated strategies, or the inability to execute these strategies due to inadequate organizational structure, infrastructure or alignment.
- **Operational**: The risk that operational processes are not achieving the objectives they were designed for to support the business model. This risk addresses inefficient operations, poor alignment of processes with objectives and strategies, failure to protect assets, etc.
- **Financial**: The risk that financial reporting is inaccurate, incomplete, or untimely due to a variety of factors including the pace of change, the amount of uncertainty, the presence of a large error, or the pressure on management to meet certain expectations.

Develop Risk Model (continued)

- **Compliance**: The risk that legal and regulatory requirements associated with mandated Federal and State regulations, statutes, and standards are not in compliance.
- **Technology**: The risk that IT systems/applications are unavailable and/or there is lack of integrity with the data and information to support decision making. This risk also considers the level of use, sophistication, complexity, robustness, ease of use and speed, and accuracy of recovery/replacement of systems.
- **Human Capital**: This risk addresses the type of behaviors encouraged by management; the methods used to reward employees; the approach to consistently enforce policies and procedures; the selection, screening, and training of employees; and the reason and frequency of turnover.

Develop Risk Model (continued)

- Next, we define criteria to use as a tool in ranking risks based on the impact the risk could have on the organization and the vulnerability that a risk would occur by evaluating the underlying attributes of the process and by assessing the effectiveness of the control environment around that process.
- The criteria are defined in terms of high, moderate, and low.

Areas of Focus	Definitions
 <p data-bbox="330 779 417 805">Impact</p>	<ul data-bbox="730 711 1045 893" style="list-style-type: none"> • Financial • Stakeholder • Reputation • Legal / Regulatory • Operations
 <p data-bbox="295 1001 452 1026">Vulnerability</p>	<ul data-bbox="730 933 1396 1196" style="list-style-type: none"> • Control Efficiency & Operating Effectiveness • Speed of Response • Complexity • People • Operational Efficiency • System Capability • Rate of Change
 <p data-bbox="291 1208 455 1262">Measurement Scale</p>	<ul data-bbox="730 1239 996 1345" style="list-style-type: none"> • High Risk • Moderate Risk • Low Risk

Understanding Your Business

- We begin by understanding our business by gathering the organizational objectives, goals, and strategies.
- Gain an understanding of the size and complexity of the organization (i.e. number of physical locations, number of IT systems, number of employees, total revenue, etc.).
- Gain an understanding of the key financial, operational, and IT processes.
- Evaluate the external and internal risks related to the industry.

Execute Risk Assessment Approach

- **Planning & Data Gathering:**
 - Validate objectives, scope, and approach; understanding of expectations, develop a project plan, etc.
- **Interviews / Surveys:**
 - Identifying various participants, including key process owners and conduct interviews and/or surveys. Key risks are gathered and documented during this stage.
- **Ranking of Risks:**
 - Using the risk model we rank each identified risk as high, moderate, or low based on the defined impact and vulnerability criteria.
- **Validation of Risks:**
 - Discuss and validate all risks identified, including risk rankings and recommendations with the foundation.
- **Reporting Results:**
 - Develop a report that is inclusive of the risk assessment methodology; the scope, objectives, and approach taken; and the specific risks identified including recommendations and risk ranking.

Benefits of a Risk Assessment Program

- Helps ensure that the greatest risks to the foundation are identified and addressed on a continuing basis.
- Helps personnel throughout the foundation better understand risks to business operations and teaches them to avoid risky practices.
- Reduces the assumption of risk as it identifies key areas where actual risks lie.
- Helps track risks and vulnerabilities to the organization as changes occur over time.
- Improve overall Organizational Value

Impact on Controls

- **Facilitate Process and Internal Controls Discussions**
 - Discussions with key managers and stakeholders associated with the agreed upon process areas.
 - Facilitate discussions and to gain an understanding of the current state processes and internal controls, personnel involved, and supporting technology.
- **Document Current State Processes and Internal Controls**
 - Document the current state processes and internal controls, as necessary, to mitigate relevant risks as defined by the discussion.
 - Identify flow of a process, various internal control points that exist within each process, and identify significant risks.
- **Walkthrough of Processes, Internal Controls and Supporting Documentation**
 - A walkthrough is the method of discussing all relevant processes and internal controls with key stakeholders and observing and/or inspecting the documentation available to validate whether appropriate documentation appears to be in place.

Outcomes and Improvements

- **Design Analysis and Recommendations.**
 - determine the areas where additional internal controls may be needed, and, as needed, compare the operations to widely accepted best practices.
 - The design analysis will allow us to identify specific actions that will result in recommendations for improvement.
- **Work procedures include:**
 - ◇ Determine if current internal controls are designed appropriately to mitigate the identified risks.
 - ◇ Determine adequacy of the design of internal controls that currently exist as it relates to effective and efficient achievement of the specified purpose.
 - ◇ Provide detailed recommendations for future state improvements to internal controls.
 - ◇ Identify inefficient and ineffective processes and departures from existing policies and procedures — assess current management processes to identify issues and their underlying cause (i.e. people, process, or technology).



Minnesota Philanthropy Partners

Software Conversion

Background

- We had a fully customized product
- Changed support structure and would not be rolling out enhancements
- Data integrity issues
- What we needed
 - Customer relationship management reporting
 - Ad hoc reporting and query ability
 - Flexibility
- It was time to move on

Design

- Scope and design started in May 2009
- “Go live” February 2010 with no parallel processing
- Assembled a Technology Team
- Hired consultant to map our data
- 8 months in we learned we will need custom products to handle our business needs

Conversion Risk

- The donor experience needed to be seamless
- Running parallel (backfilling) in two systems.
Fully parallel in February 2012.
- No formal documentation of processes in new system.
- Accurate reporting

Board Concerns

- Reputational risk
- Human capital risk
- Strategic risk
- Internal controls
- Efficient and effective use of new system
- No documentation to support our processes

Our Plan

- All of our processes have changed
- What processes and when?
- Engaged an outside consultant
 - Evaluate processes
 - Ensure risks have been appropriately identified and mitigated
 - Identify improvement opportunities
 - Report back to the committee

Lessons Learned and What is Next for MN Partners

- We are smarter!
- Analyze, track and develop detailed plans for missing features in the new system
- Have a training plan
- Evaluate and enhance our processes in the new system
 - Conversion delays caused us to simply configure “what was” into “what is” without taking the time to rethink the why’s and how we can do it better.



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