



CASE-IN-POINT

Enterprise-wide Risk Assessments and Objectives

Potholes, Detours, and
Destinations

PRESENTED BY

Scott Johnson, MGO

Mark Cousineau, MGO

**Shari Thomas, City of
Pasadena**



A new breed
of professional
services firm



Session Description

Municipal government risk assessments are often decentralized and informal, which reflects the current state of enterprise risk management (ERM) as a whole. ERM is more than the traditional risk management function because it focuses on the strategic and operational objectives that a municipality wants to achieve in the next operating cycle to fulfill its long-term objectives.

This Case-In-Point will provide you with an overview of the most widely used framework in the United States and some ideas for a successful risk assessment to identify and rank your organization's risks.

Speakers



Scott Johnson, MGO Partner

- Moderator
- CPA/CGMA
- MGO SLG Advisory Services Leader

Mark Cousineau, MGO Director

- Presenter
- CPA/CITP/CGMA, CIA, CFE, CGFM, CGAP, CRMA

Shari Thomas, City of Pasadena Water & Power

- Presenter
- Assistant General Manager, Finance & Administration

INTRODUCTION

Disclaimer



The views expressed in this presentation are those of the presenters and do not reflect the official policy, position, or views of CSMFO, MGO, Committee of Sponsoring Organizations of the Treadway Commission, or the City of Pasadena.

Agenda

ENTERPRISE RISK MANAGEMENT

- Definition
- Purpose
- Miscellaneous

RISK ASSESSMENTS

- Process
- Key Terms
- Types
- Risk Categories

COMMON PITFALLS

- Multi-Purpose
- Ownership
- One and Done

PASADENA'S EXPERIENCE

- The City of Pasadena
- Real-World Incident
- Pasadena's Process
- Purpose and Scope
- Expected Results and Next Steps
- Random Take-Aways



A new breed
of professional
services firm



CASE-IN-POINT

Enterprise-wide Risk Assessments and Objectives

2018 CSFMO Annual Conference
Riverside, California

CASE-IN-POINT

Enterprise Risk Management

mGO
TYPE ATYPICAL

A new breed
of professional
services firm

Defined



A new breed
of professional
services firm

The culture, capabilities, and practices integrated with strategy-setting and its execution that organizations rely on to manage risk in creating, preserving, and realizing value.

- Recognizing culture and capabilities
- Integrating with strategy-setting and its execution
- Managing risk to strategy and business objectives
- Linking to creating, preserving, and realizing value

Purpose



Source: TEPCO

“ THE THINGS THAT COULD HAPPEN

- We ought to think through what are the bad things that could happen, and what are the good things that could happen that we need to be ready for. November 23, 2001 (no time stamp)

DONALD RUMSFELD by Hart Heely
<https://www.politico.com/magazine/story/2018/01/27/donald-rumsfelds-snowflake-poetry-is-exactly-what-america-needs-right-now-216534>

Purpose

“

THE THINGS THAT COULD HAPPEN

We ought to think through what are the bad things that could happen, and what are the good things that could happen that we need to be ready for. November 23, 2001 (no time stamp)

DONALD RUMSFELD by Hart Heely

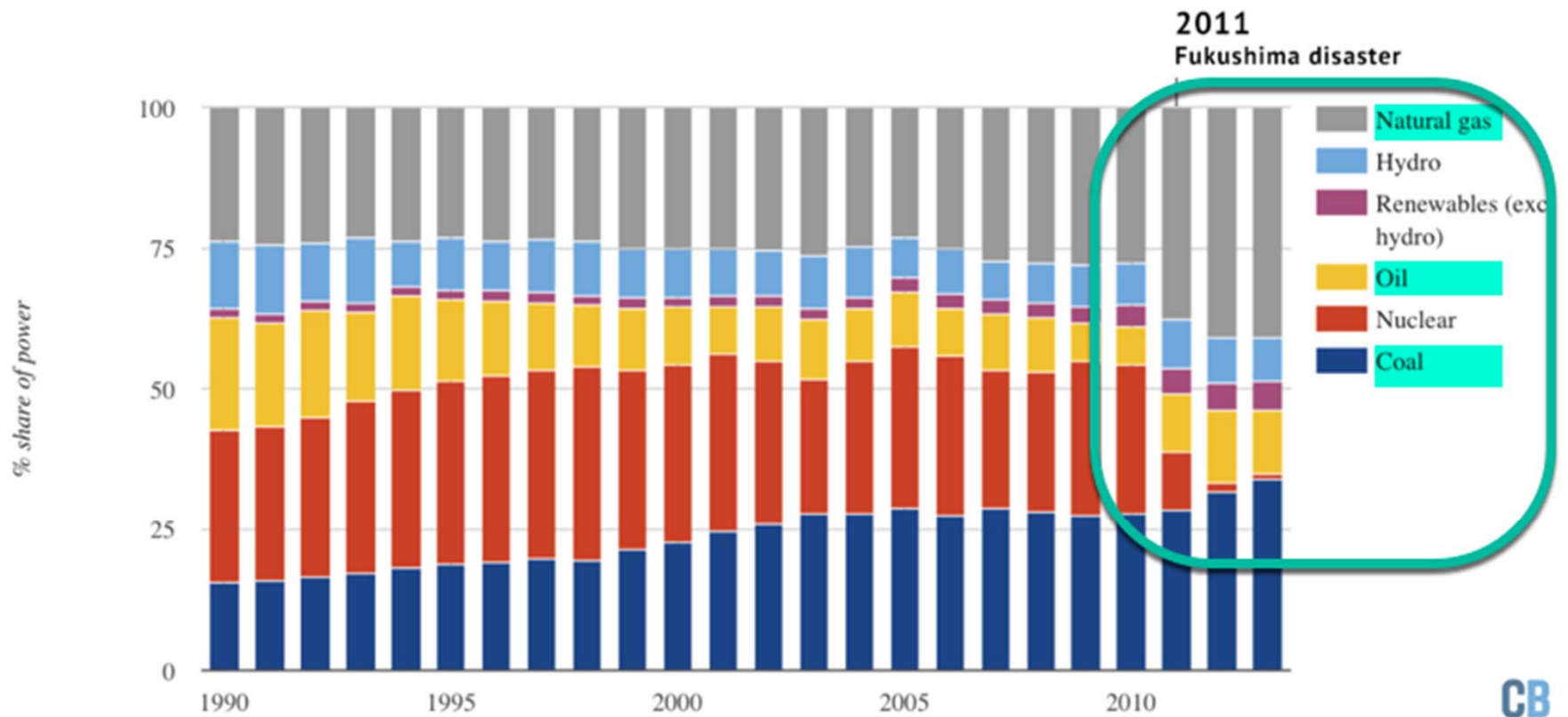
<https://www.politico.com/magazine/story/2018/01/27/donald-rumsfelds-snowflake-poetry-is-exactly-what-america-needs-right-now-216534>

mgo
TYPE ATYPICAL

A new breed
of professional
services firm



Purpose

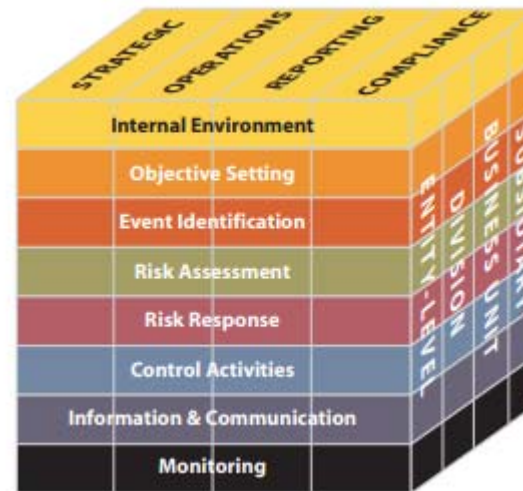


Japan's power consumption. Source: [World Bank](#). Chart by Carbon Brief.

Miscellaneous

History

- COSO ERM (2004)
- COSO ERM (2017)



Governance & Culture

1. Exercises Board Risk Oversight
2. Establishes Operating Structures
3. Defines Desired Culture
4. Demonstrates Commitment to Core Values
5. Attracts, Develops, and Retains Capable Individuals



Strategy & Objective-Setting

6. Analyzes Business Context
7. Defines Risk Appetite
8. Evaluates Alternative Strategies
9. Formulates Business Objectives



Performance

10. Identifies Risk
11. Assesses Severity of Risk
12. Prioritizes Risks
13. Implements Risk Responses
14. Develops Portfolio View



Review & Revision

15. Assesses Substantial Change
16. Reviews Risk and Performance
17. Pursues Improvement in Enterprise Risk Management



Information, Communication, & Reporting

18. Leverages Information and Technology
19. Communicates Risk Information
20. Reports on Risk, Culture, and Performance

Miscellaneous



A new breed
of professional
services firm

Strategy

- Competitive
- Local governments
 - Who is your competition?
 - What are you trying to win or defend?



Ideas & Insights

RISK ASSESSMENTS

**Will your risk
assessment help you
obtain your desired
future state?**

CASE-IN-POINT

Enterprise-wide Risk Assessments and Objectives

2018 CSFMO Annual Conference
Riverside, California

CASE-IN-POINT

Risk Assessments

mgo
TYPE ATYPICAL

A new breed
of professional
services firm

Process



KEY TERMS



Source:
<http://www.earthenvesseljournal.com/static/images/KentArticles/TwoSidesCoin.jpg>

Source: <http://www.pexels.com>

Types



STRATEGIC

- Broad Focus on Long-Term
- Limited Data Collection
- COSO's Emphasis

BUSINESS OBJECTIVES

- Broad Focus on Short-Term
- Department Driven
- Expanded Data Collection

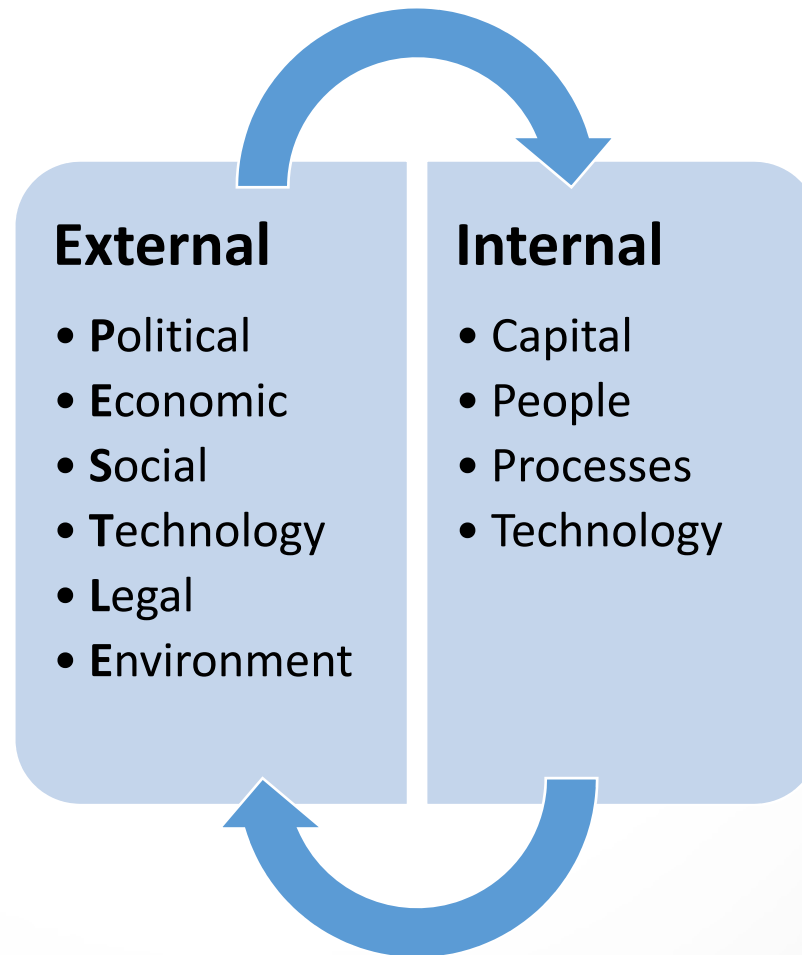
BUSINESS PROCESSES (Functional)

- Central Support Processes
- Narrow Focus but Organization-wide Processes
- Purchasing, Human Resources, Disbursement, Etc.

FRAUD

- Focused
- Government Resources
- Fraud Schemes
- May Be Expanded to Residual Risk

Risk Categories

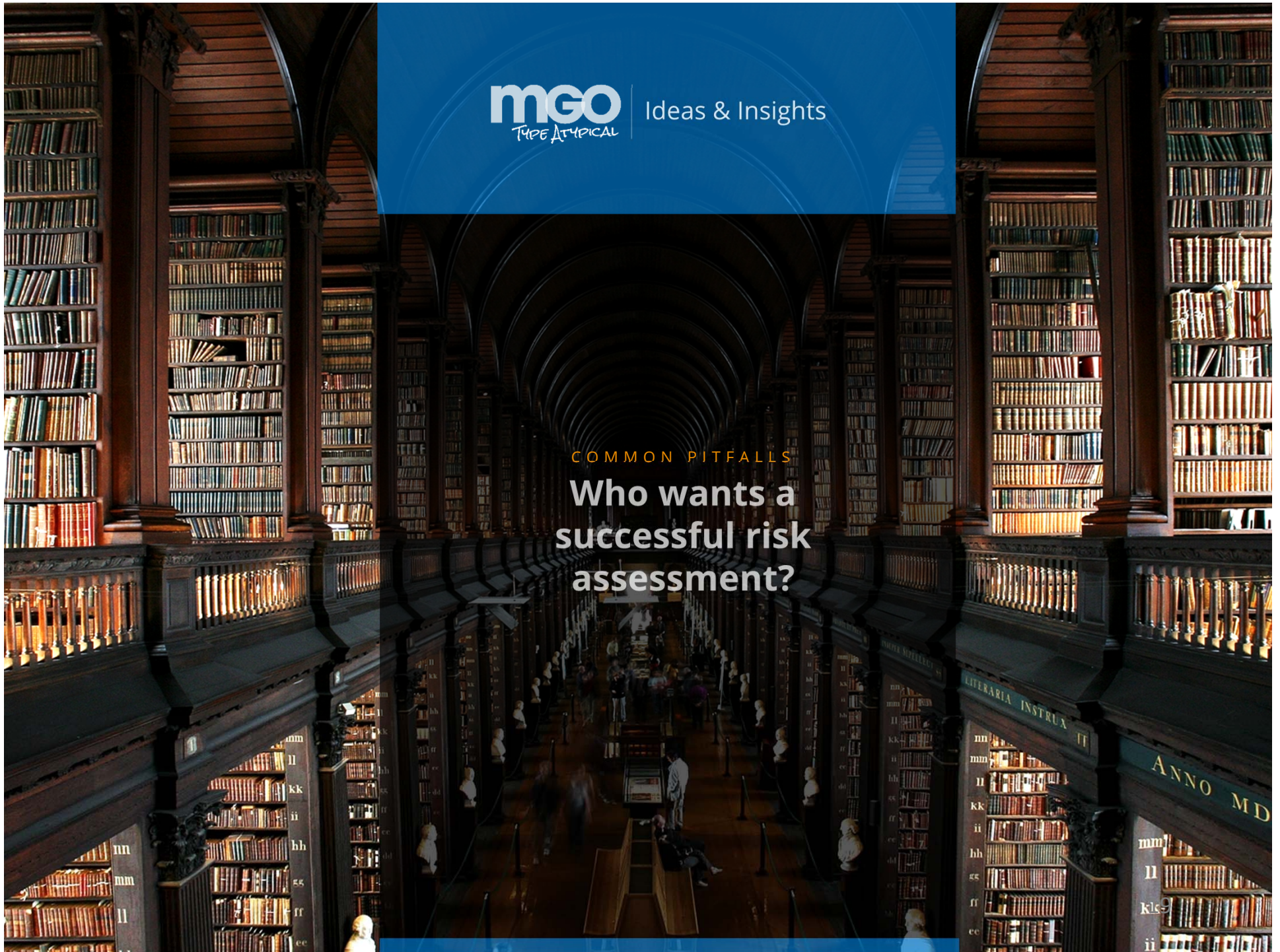





Ideas & Insights

COMMON PITFALLS

Who wants a
successful risk
assessment?





CASE-IN-POINT

Enterprise-wide Risk Assessments and Objectives

2018 CSFMO Annual Conference
Riverside, California

CASE-IN-POINT

Common Pitfalls

mgo
TYPE ATYPICAL

A new breed
of professional
services firm

Testimonial Layout

Multi-Purpose

- Enterprise Risk Assessment (Strategic) combined with
 - Business objectives
 - Functional
 - Annual risk based audit plan
 - Other specialized
- Combination tools are handy...

Ownership

- Who is the sponsor?
- Should be driven from the top

One and Done

- Sized too big, complex, and expensive
- Lack of support from governing board and executive management
- Not part of culture – ERM must become integrated into governance/operations



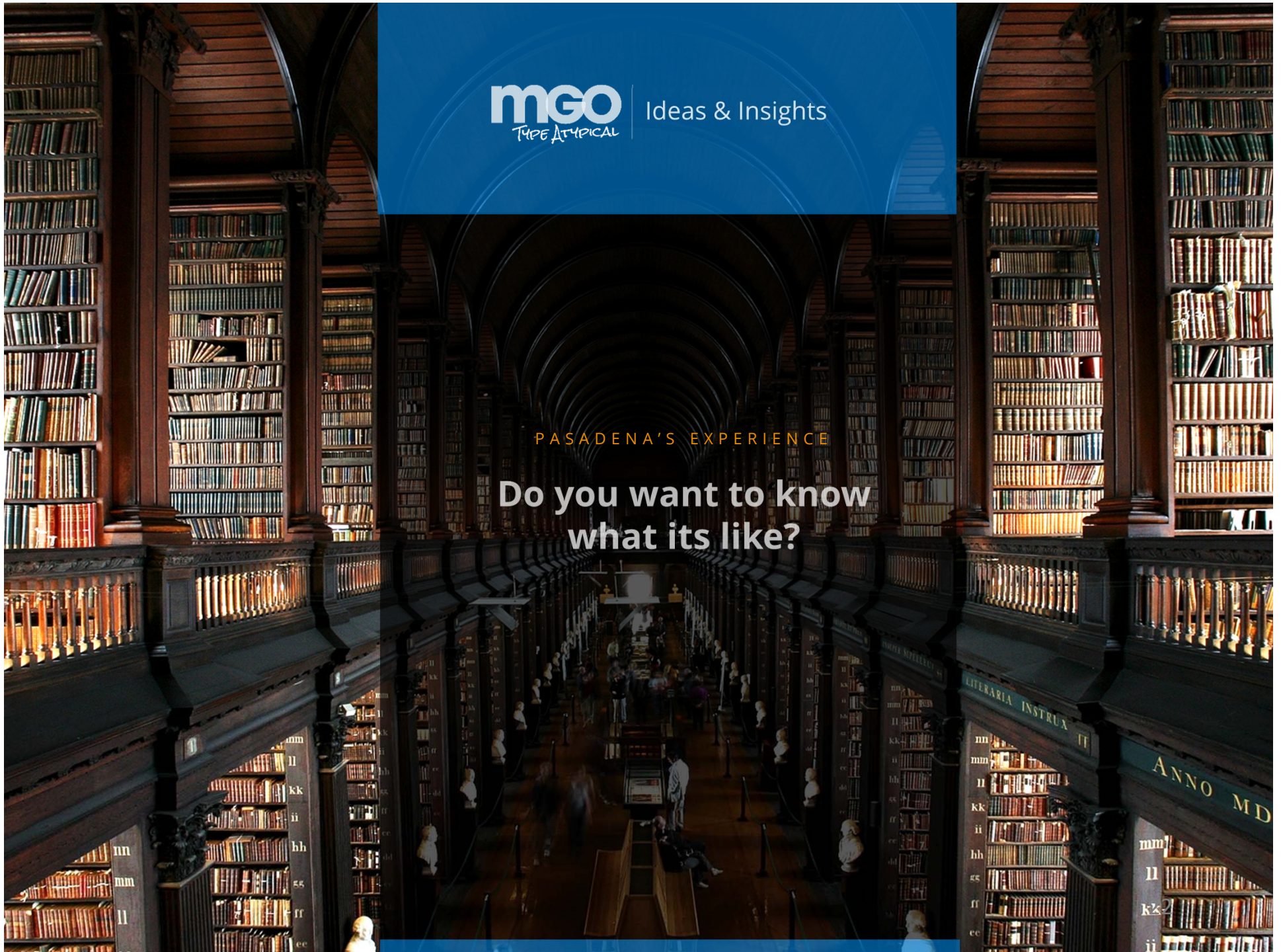
Source: <http://www.terrapeak.com>




Ideas & Insights

PASADENA'S EXPERIENCE

Do you want to know
what its like?





CASE-IN-POINT

Enterprise-wide Risk Assessments and Objectives

2018 CSFMO Annual Conference
Riverside, California

CASE-IN-POINT

Pasadena's Experience

mGO
TYPE ATYPICAL

A new breed
of professional
services firm



PASADENA

- Incorporated in 1886 – full service, charter city
- 23 square miles, about 140,000 residents
- Home of the Rose Bowl and the New year's Day Rose Parade
- Water utility serves about 165,000 people
 - 38,000 meters
- Also a full service electric provider
 - In-city power plants and distribution system

Real-world incident

- November-December 2014 – employee embezzlement discovered by audit
 - One employee
 - Almost 300 fraudulent invoices processed
 - Over more than 10 years
 - Over \$6 million
- Complacency, internal controls, adherence to policy, accountability
 - “Tone at the top...”
- It won't happen here!



Fraud and risk assessment purpose and scope

- Directed by governing body – city council
- Different from financial or internal controls audit
- Purpose and scope:
 - Assessment of risks across the water and power department
 - Organizational/people
 - Retirements, single point of failure, disgruntled, training
 - Financial/business strategy
 - Cash handling, financial planning, rate setting, leverage, credit ratings
 - Operations/business processes
 - Employee Safety, service reliability, aging infrastructure, efficiency, customer interaction
 - Automation/technology
 - Cybersecurity, aging systems, best practices
- Basis for discussion about risk tolerance and mitigation



The Pasadena process

- Each major business unit separately
 - Power Delivery, Power Supply, Water Delivery, Finance & Admin, General Manager
- Cooperative and open environment for discussion
 - What are goals and objectives of Pasadena Water & Power?
 - How do **programs** support or hinder achieving goals and objectives?
 - Are we doing the right things in the right priority?
 - How do **practices** support or hinder achieving goals and objectives?
 - Are we trained, equipped, supervised properly?
 - Where are the opportunities for fraud, lack of productivity, accountability?
- Use on-line, anonymous employee surveys as needed
- Not a “gotcha” exercise – mitigate or manage the risks when discovered
- Employees at every level involved in identifying the likelihood and impact of risks



shutterstock : 126490904

Expected results and next steps

- Still in the process...about halfway through
- Certainly learning a lot about ourselves
- Identifying risks and opportunities for fraud
 - How likely are they to happen or are they happening now?
 - Is the impact low, moderate, high or catastrophic?
- Engage employees in identifying and ranking the assessments
- Deploy mitigation strategies immediately whenever possible
 - Especially for high or catastrophic risks
- Department senior management reviewing preliminary reports
 - Not necessary to agree with every finding
- Final report, **observations and recommendations** to city audit committee & city Council



Some random takeaways...



- Don't be afraid of the process...embrace it
- Virtually impossible to prevent/avoid all risk
 - Would be prohibitively expensive
 - Pasadena is still finding the right balance
- Engage all levels of employees in the process
 - If they are not part of the solution, they will be part of the problem
- “Tone at the top” is a real thing
 - Accountability means crucial conversations
- Be supportive
 - ...Of the process and the people
- Rome wasn't built in a day – change takes time (but not too much!)

Questions? Let's Talk.

Scott Johnson sjohnson@mgocpa.com

Mark Cousineau mcousineau@mgocpa.com

Shari Thomas sthamas@cityofpasadena.net



A new breed
of professional
services firm