
TITLE 3

RISK ASSESSMENT

CHAPTER 1

IDENTIFYING RISKS

The board should have processes in place to identify potential risks due to changing circumstances. Technological developments, employee turnover, new programs, new accounting standards, new laws and regulations, economic growth and decline, and many other factors impact the adequacy of a district's internal control structure. Each change will present different risks that must be identified and adequately addressed. Throughout this manual, various control procedures, information and communication system designs as well as monitoring processes, are required as a result of risks that the Comptroller's office has previously identified in numerous local governments. Because those risks were not addressed, theft and other improprieties occurred and were not detected by the board or were only detected after a significant amount of cash or other assets were misappropriated.

- Section 1 The board should review all operations periodically and reassess the risks related to entity-wide and activity-level objectives.
- Section 2 The board should identify risks during the planning process for all new programs, projects, and activities.
- Section 3 The board should adopt a policy defining risk management objectives and evaluating alternative methods of meeting these objectives.

Although the following example objectives are relatively generic due to the broad-based focus of this manual, they should be used as guidelines in developing specific objectives.

Entity-wide objectives considered in this manual:

Operations (O) –

- Ensure that the district's resources are adequately safeguarded
- Provide services efficiently and effectively
- Limit the need for rate increases
- Provide for the long-term stability of the district
- Provide a stable and rewarding environment for employees

Financial Reporting (F) –

- Provide timely interim financial reports and schedules for evaluating operations
- Issue timely financial reports that comply with generally accepted accounting principles and the additional requirements of the Tennessee Comptroller of the Treasury and federal OMB Circular A-133

Compliance (C) –

- Comply with all relevant laws, regulations, contracts and grant agreements

Limited assessment of activity-level objectives considered in this manual:

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
Internal and External Reporting	Prepare accurate and timely internal reports necessary to meet legal and organizational responsibilities	O, F, C	Incomplete or inadequate information is available	Title 4, Chapters 2, 3, 4, 5, and Title 5, Chapters 1, 2, 3, 4, 5, 6
			Records are discarded improperly or before all audit, contractual and legal retention limits are met	Title 4, Chapter 5 and Title 5, Chapter 6
	Prepare accurate and timely external reports necessary to meet legal and organizational responsibilities	O, F, C	Incomplete or inadequate information is available or provided to users	Title 4, Chapters 2, 3, 4, 5, and Title 5, Chapters 1, 2, 3, 4, 5, 6
			Financial report does not include all required statements, schedules and disclosures	Title 4, Chapters 2, 3, 4, 5, and Title 5, Chapters 1, 2, 3, 4, 5, 6
			Records are discarded improperly or before all audit, contract and legal retention limits are met	Title 4, Chapter 5 and Title 5, Chapter 6
Manage Cash and Investments	Ensure that all cash receipts are accurately recorded and adequately safeguarded	O, F	Cash could be misappropriated, lost or stolen	Title 5, Chapters 1, 7, 8, 9, 10, 11, 12
			Cash collections could be manipulated to cover shortages	Title 5, Chapters 1, 7, 8, 9, 10, 11
			Cash collections are not accurately posted to the accounting records	Title 5, Chapters 1, 7, 8, 9, 10, 11

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
	Ensure that petty cash is secure and properly accounted for	O, F	Petty cash could be used for unauthorized purposes	Title 5, Chapters 1, 8
			Petty cash transactions are not properly recorded	Title 5, Chapter 8
			Petty cash is not maintained at a fixed amount or is commingled with other receipts	Title 5, Chapter 8
			Responsibility for petty cash is not clearly established	Title 5, Chapter 8
	Change funds are secure and properly accounted for	O, F	Change funds are not monitored resulting in loss of money, inappropriate use of money, excessive or inadequate cash on hand	Title 5, Chapters 1, 8
	Ensure that all cash balances are adequately insured or collateralized	O, C	Cash balances exceed insured limits and are not properly collateralized, which could result in loss of funds	Title 5, Chapter 7
	Cash flow forecasts are accurate so that investment returns can be maximized and cash shortfalls can be avoided	O	Adequate information is not available to forecast cash flows or inaccurate information is used resulting in incorrect forecasts	Title 5, Chapter 9
	Investments are authorized, provide maximum returns with minimum risks and comply with legal requirements	C	Investments are not in compliance with state and local laws or are not as profitable or the risk of loss of funds is excessive	Title 5, Chapter 9

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
		O	Investments are not properly timed or monitored resulting in lost revenue or early withdrawal fees	Title 5, Chapter 9
			Negotiable investments are not adequately safeguarded	Title 5, Chapters 1, 9
	Ensure that all disbursements are for district purposes	O, C	Disbursements are not for a district purpose and inappropriate or unauthorized disbursements could be made	Title 5, Chapter 12, 13
	Ensure that all disbursements are accurately recorded	O, F	Disbursements are recorded to the wrong accounts or for the wrong amounts	Title 5, Chapters 1, 13, 14
			Payroll reports for federal reporting are inaccurate resulting in penalties	Title 5, Chapter 15
	Ensure that all disbursements are authorized and proper	O, C	Disbursements are not authorized or are not for a district purpose	Title 5, Chapters 1, 13, 14
			Bids are not solicited for purchases exceeding bid limits which can result in the best price/product not being obtained	Title 5, Chapter 13
			Disbursements are unnecessary	Title 5, Chapter 13, 14
			Disbursements are for goods that were never received	Title 5, Chapters 13, 14

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
			Disbursements do not comply with legal or contractual restrictions, and may be required to be returned to the grantor	Title 5, Chapters 12, 13, 20, 21
			Duplicate payments occur	Title 5, Chapters 13, 14
			Payroll amounts are improper	Title 5, Chapter 15
			Compensation of officials is improper	Title 5, Chapter 15
			Debt payments are improper	Title 5, Chapter 18
			Travel payments are improper	Title 5, Chapter 14
	Ensure that all payments are timely	O	Penalties have to be paid	Title 5, Chapters 14
	Ensure that all investments are accurately recorded	O, F	Investments are not recorded properly, or in inaccurate amounts	Title 5, Chapter 9
	Ensure that all investments are authorized and comply with all internal and external restrictions	O, C	Investments are not authorized in accordance with applicable restrictions	Title 5, Chapter 9
			Investments have not been properly approved by the Comptroller	Title 5, Chapter 9
			Investments exceed risk thresholds set by the board	Title 5, Chapter 9
			Investments are not maximizing earnings	Title 5, Chapter 9

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
			Penalties are incurred due to early withdrawal to meet cash flow demands	Title 5, Chapter 9
	Investments are adequately safeguarded	O	Investments are misappropriated	Title 5, Chapters 1, 9
Manage other assets (inventory, capital assets, and moveable, high-risk, sensitive property)	Ensure that all assets are properly recorded	O, F	Inventory and capital assets are not recorded or are valued incorrectly	Title 5, Chapters 16, 17
			Obsolete inventory or retired capital assets are still recorded	Title 5, Chapters 16, 17
			Mapping of the system is inadequate to address maintenance, water or gas losses, etc.	
	Ensure that all assets are adequately safeguarded	O	Inventory, capital assets and moveable, high-risk, sensitive property are misappropriated or lost	Title 5, Chapters 1, 16, 17
			Inadequate insurance is maintained and the district is susceptible to losses beyond its ability to pay	Title 5, Chapter 17
	Ensure that inventory is necessary and reasonable	O, F	Inventory levels are excessive	Title 5, Chapter 16
			Inventory items are not available when needed	Title 5, Chapter 16

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
Human Resources	Ensure that the district is in compliance with applicable laws, regulations and policies and maintain adequate documentation of same	O, C	The board is unaware of legal requirements	Title 5, Chapter 20, 21
			Documentation is not maintained to demonstrate compliance	Title 5, Chapter 14, 15
			Records are discarded improperly or before all audit, contractual and legal retention limits are met	Title 4, Chapter 5 and Title 5, Chapter 6
	Ensure that sufficient qualified personnel are hired	O	Employees are unable to perform basic required duties	Title 5, Chapters 1, 15
			Segregation of duties can not be achieved	Title 5, Chapter 1
	Employee benefits are properly administered	O, C	Group insurance is not adequately overseen resulting in excessive or additional costs	Title 5, Chapter 15
	Information is adequately communicated to employees	O, C	Employees are unaware of requirements or important changes	Title 5
			Controls do not prevent or detect errors, thefts, or abuse in a timely manner	Title 5
			Employees do not monitor expenditures to ensure that they are allowable resulting in loss, theft and/or penalties	Title 5

Activity	Objectives	Related Entity-wide Objectives	Risks	Manual Reference for Control Activities
Manage Information Systems	Ensure that information is complete, accurate, and available to only authorized individuals	O, F	Information is incomplete, inaccurate, and/or unavailable	Title 5, Chapter 19
			Unauthorized access occurs, resulting in distribution of confidential information and or data being corrupted	Title 5, Chapter 19
			Information is not available to be audited	Title 5, Chapter 19