



# OBM

Ted Strickland  
Governor

J. Pari Sabety  
Director

March 27, 2009

**TO:** Agency Cabinet Directors and Chief Fiscal Officers

**FROM:** J. Pari Sabety, Director  
Office of Budget and Management

A handwritten signature in black ink, appearing to read "J. Pari Sabety".

**SUBJECT:** Risk Management and Accountability – OBM Guidance Memo #5

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In addition to general reporting requirements of the American Recovery and Reinvestment Act (ARRA), state agencies must also adhere to the risk management and accountability guidance being released by Federal agencies in implementing the ARRA programs.

While the federal Office of Management and Budget (OMB) has yet to release specific risk management and accountability guidance to the states, they have issued initial implementing guidance to federal agencies. OBM anticipates that future guidance to states will closely mirror the guidance released to federal agencies.

To that end, the following information should enable your agency to meet accountability objectives as well as enable you to build a long term risk management and accountability program for ARRA funded activities.

### Risk Management

Agencies should have in place an effective risk management program for programs receiving ARRA funds. A robust risk management framework will assist in the achievement of ARRA program and economic outcomes, and can help minimize wasteful spending, fraud and abuse. Agencies should align their framework with the Recovery Act Accountability Framework and Objectives referenced in the OMB Initial Implementation Guidance (OMB Guidance) issued February 18, 2009 (Page 19, Section 3.4, Figure 1) to assess the risks of ARRA funding lifecycles. A link to this guidance may be found here: <http://www.recovery.gov/files/Initial%20Recovery%20Act%20Implementing%20Guidance.pdf>

Whenever possible, agencies should leverage existing processes and teams to manage risk. In general, agencies should have in place risk mitigation strategies that assure the following is occurring:

- Management controls are operating to identify and prevent wasteful spending and minimize waste, fraud, and abuse;
- Qualified personnel are overseeing program activities supported with ARRA funds;
- Competitive ARRA awards are maximized for Ohio;
- Recognition of awards of dollars is timely, accurate and appropriately accounted for;

- Expenditures of funds are appropriately recognized, accounted for and reported;
- Cost overruns are minimized; and
- Improper payments are minimized.

As your agency assesses its risk management activities for programs funded with ARRA resources, you should be aware that Federal guidance suggests the following characteristics should be taken into account when assessing risk:

- The volume of ARRA funding being received by various programs within your agency;
- The clarity and measurability of program outputs and outcomes and the presence of tools within the program to measure those outputs and outcomes;
- The extent to which existing resources are sufficient to achieve program objectives;
- The risk profiles of final recipient(s) of funds (e.g., contractor, sub-contractor, state, locality, educational institution);
- The presence of internal controls sufficient to mitigate the risk of waste, fraud, and abuse adequately;
- Performance issues with (potential) funding recipients; and
- Availability of tools for program staff to monitor ongoing program performance frequently.

At a minimum, agencies should focus on those risks with the highest probability of occurrence and the greatest impact on program objectives if not mitigated. Agencies are strongly encouraged to link these risks with corresponding agency controls. Also, we recommend each agency assign a risk officer who will own the documentation and serve as a contact for external parties.

Agencies should determine whether appropriate corrective action has been implemented for prior audits, investigations or other reviews that identified weaknesses or deficiencies that will potentially affect ARRA program areas. If corrective action has not been completed, agencies should expedite such action or provide an explanation why failure to take action does not increase the risk of the administration of ARRA funded programs.

OMB's Guidance suggests the federal Recovery Act Accountability and Transparency Board may initiate reporting requirements related to risk management. Sections 3.5 through 3.9 (pages 20-23) provide additional detail surrounding reporting requirements and risk mitigation actions. Agencies should develop an ongoing plan for monitoring and reassessing risk throughout ARRA funding availability and project close-out.

Risk assessments must be in place and operational in administering any programs your agency is operating under ARRA. You should be aware that the full operation of these risk assessments is part of the assurance statements that OBM has asked Executive Sponsors and Directors to attest to in our previous Federal Stimulus Guidance Document #4 of March 24, 2009.

## Documentation of current processes

In order to conform to the transparency requirements of ARRA, agencies should have documentation of current management and control processes.

Process flow documentation is an effective method to provide reviewers and stakeholders with a high level overview of how current processes work and how ARRA funds are appropriated within those processes. Process flow documentation (process maps) should include agency plans to capture pre-award, performance period, and post performance phases related to financial and statistical data related to accountability objectives. This documentation is important for accounting and transactional purposes as well as providing support to stakeholders and external reviewers (e.g. federal oversight entities, Auditor of State, OBM Office of Internal Audit).

For all programs receiving or administering ARRA funds, agencies should develop end-to-end process flow documentation that illustrates:

- key internal controls,
- process owners overseeing key controls,
- decision points,
- key performance indicators to monitor ongoing program performance,
- program outputs and outcomes, and
- final recipient of funds.

An example of a process map is attached to this document.

OBM will be creating a data repository for process documentation that will be accessible to Executive Sponsors and program administrators to make these documents available for external review by GAO and other audit entities. Executive sponsors should submit risk management documentation and process maps to the repository by May 1, 2009. Until the data repository is fully implemented, please forward completed submissions to Sarah Harrigan at [Sarah.Harrigan@obm.state.oh.us](mailto:Sarah.Harrigan@obm.state.oh.us). Once those documents are submitted, the OBM Office of Internal Audit will evaluate the process maps to determine the adequacy of internal controls and will conduct assurance testing, on a selected basis, to evaluate if the internal controls are operating as designed.

Next steps:

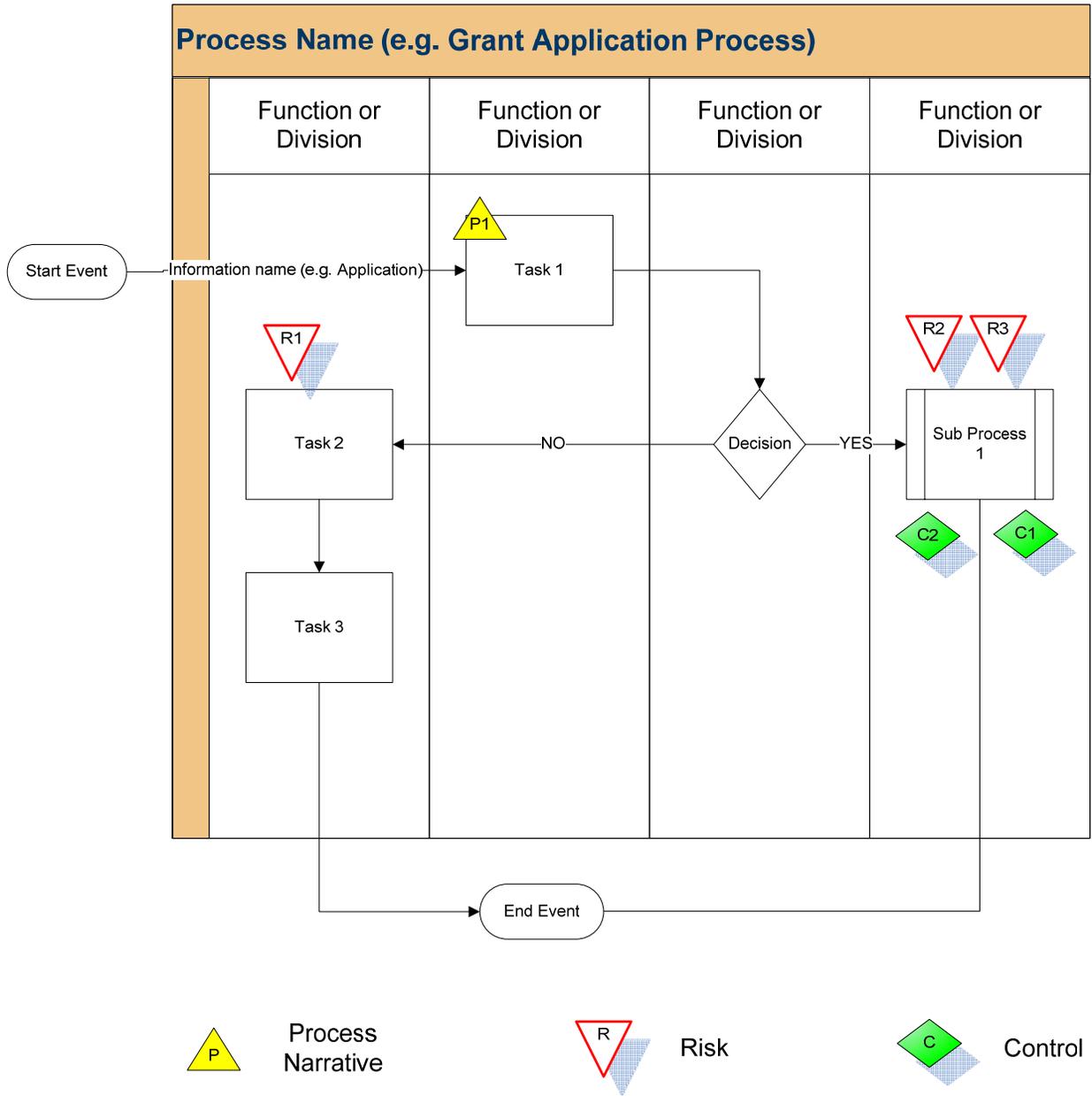
1. Agencies will build a robust risk management program that mitigates risks of ARRA implementation.
2. Agencies will develop process maps of programs that receive ARRA funds (existing or new).
3. Agencies will upload this documentation to a central repository to meet transparency and accountability requirements. Until this repository is fully designed and implemented, documents may be sent to Sarah Harrigan.

4. OBM's Office of Internal Audit will evaluate the process maps and documentation for adequacy of internal controls.
5. OBM's Office of Internal Audit will conduct assurance testing of key internal controls to ensure they are operating as designed at selected state agencies.

Until further guidance is released regarding state agency reporting requirements, this guidance as well as the OMB Guidance should serve as the primary guidance for carrying out ARRA programs. In addition, guidance from federal agencies other than OMB has been issued (e.g. Medicaid, Department of Transportation). Specific reporting requirements outlined in those issuances should be identified, prioritized, and incorporated into your process flow documentation.

We appreciate agency management's flexibility as we continue to move forward to track, monitor, and report on ARRA funds. We anticipate further guidance to be issued from OMB within the next 45-60 days.

# SAMPLE PROCESS FLOW



**Process Owner**  
 Name / Role of person responsible for managing this process

**Key Performance Indicators (Program Metrics)**

Number of....
Percentage of.....
Amount of .....



Internal Controls

C1.

C2.



Risk Descriptions

R1.

R2.

R3.

