Assess and mitigate financial risk: insights for state and local government agencies

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> Elections bring leadership transitions, new responsibilities and often revised federal programs with new rules. Change is inevitable, and agencies have less time to adjust before becoming front page news. This is why it is imperative to always have an unbiased and accurate view of the financial position, processes and capacity.

Financial risk assessments are indispensable tools for government agencies dedicated to maintaining financial integrity and operational excellence. These insights are particularly valuable for leaders who have inherited the operations of a previous administration, as they help deepen operational understanding and address risks related to fraud, waste and abuse. Leaders can identify an operational baseline, prepare for audits of substantial federal programs such as the Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA), and seek to increase transparency in vendor spending. A financial risk assessment and resulting action plan by an objective third party can equip agency leaders with compliance insights needed to streamline financial processes, design and implement robust internal controls, and define staffing roles and responsibilities.

In this article, we delve into the risks that assessments can identify, strategies to mitigate such risk, and the resulting road map that can guide agency leaders to efficiently and effectively serve the public interest and tax dollars.

Evaluating current financial processes

Safeguarding against fraud, waste and abuse

A key aspect of financial risk assessments is the evaluation of internal controls designed to prevent and detect instances of fraud, waste and abuse. This process involves documenting and mapping key controls, with a focus on both preventive measures (such as segregation of duties, authorization requirements and vendor due diligence), and detective measures (such as regular audits, account reconciliations and continuous monitoring systems). Reviewing these high-risk areas and testing the controls in place are essential steps in obtaining a thorough understanding and reinforcement of the mechanisms that are instrumental in mitigating risks related to fraud, waste, abuse and financial misstatements.

Enhancing audit readiness

Ongoing monitoring of compliance-related controls is a critical step in identifying and addressing gaps, leading to sustained integrity and adherence to regulations. Examining financial processes, documentation and internal controls prepares agencies for future state and federal program audits. Through in-depth reviews, process walk-throughs and employee interviews, agencies can uncover gaps and bolster audit readiness. This proactive approach is essential for the effective management of funds from significant federal programs, enabling compliance and accountability.

Optimizing vendor management and mitigating third-party risks

Financial risk assessments empower agencies to gain clarity on vendor spend, thereby reducing compliance risks associated with third-party relationships. Using data analytics and benchmarking tools, these assessments help prevent unexpected financial obligations and improve vendor oversight, resulting in more efficient resource allocation and enhanced financial controls.

Optimize processes and build organization resiliency

Streamlining operations

Identifying inefficiencies and redundancies in financial processes is crucial for enhancing operational efficiency and reducing costs. Inefficiencies often arise due to changes in personnel, the incorporation of new technology, automation processes or significant transformations in the operating model. An objective third party can leverage analytical tools to detect fraudulent claims and anomalous transactions that may signal financial risk. Coupled with industry-specific insights, these tools aid in creating and implementing improved processes and control activities. Agency leaders can understand the performance of key tasks beyond the written procedures, potential gaps and opportunities for improvement.

Preparing for unexpected crises

Agencies can prepare for potential crises by evaluating financial resilience and emergency response capabilities. A crisis could be allegations of fraud, waste and abuse; abrupt departure of key executives; ransomware attacks; or natural disasters. These crises may cause reputational risks and additional scrutiny, crippling an agency and sowing distrust among the constituents who depend on the services of the agency, weakening collaboration with stakeholder entities, and reducing the effective positive outcomes. Testing these plans through tabletop exercises and crisis response simulations against leading standards can also bring to light potential gaps and opportunities. The assessment of existing plans, policies, processes and playbooks supports the enhanced response to threats and crises, so agencies can respond effectively to unforeseen events in the future.

Leading through transition with effective change management

Optimizing staffing roles and responsibilities is essential for managing change and crises. Financial risk assessments assist agencies in restructuring efforts by mapping key process owners and responsibilities, facilitating smooth knowledge transfer and preparing the workforce for transitions.

In conclusion, whether you are taking the reins of an agency in a new role or responding to an unprecedented emergency situation, identifying and mitigating financial risks can foster transparency with financial insight. Agencies should consider implementing the actions above to remain vigilant and proactive in managing financial and compliance risks. By understanding the financial implications of policy shifts and organizational restructuring, agencies can plan for success, preserve institutional knowledge and navigate change with confidence.

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