ERM in Public Entities

PRIMA Presentation

October 21 2010

Agenda

- Enterprise Risk Management (ERM)
- Risk Analysis and Management
- Governance
- Benefits of Risk Management
    - Relationship to Strategic Objectives - examples

ERM

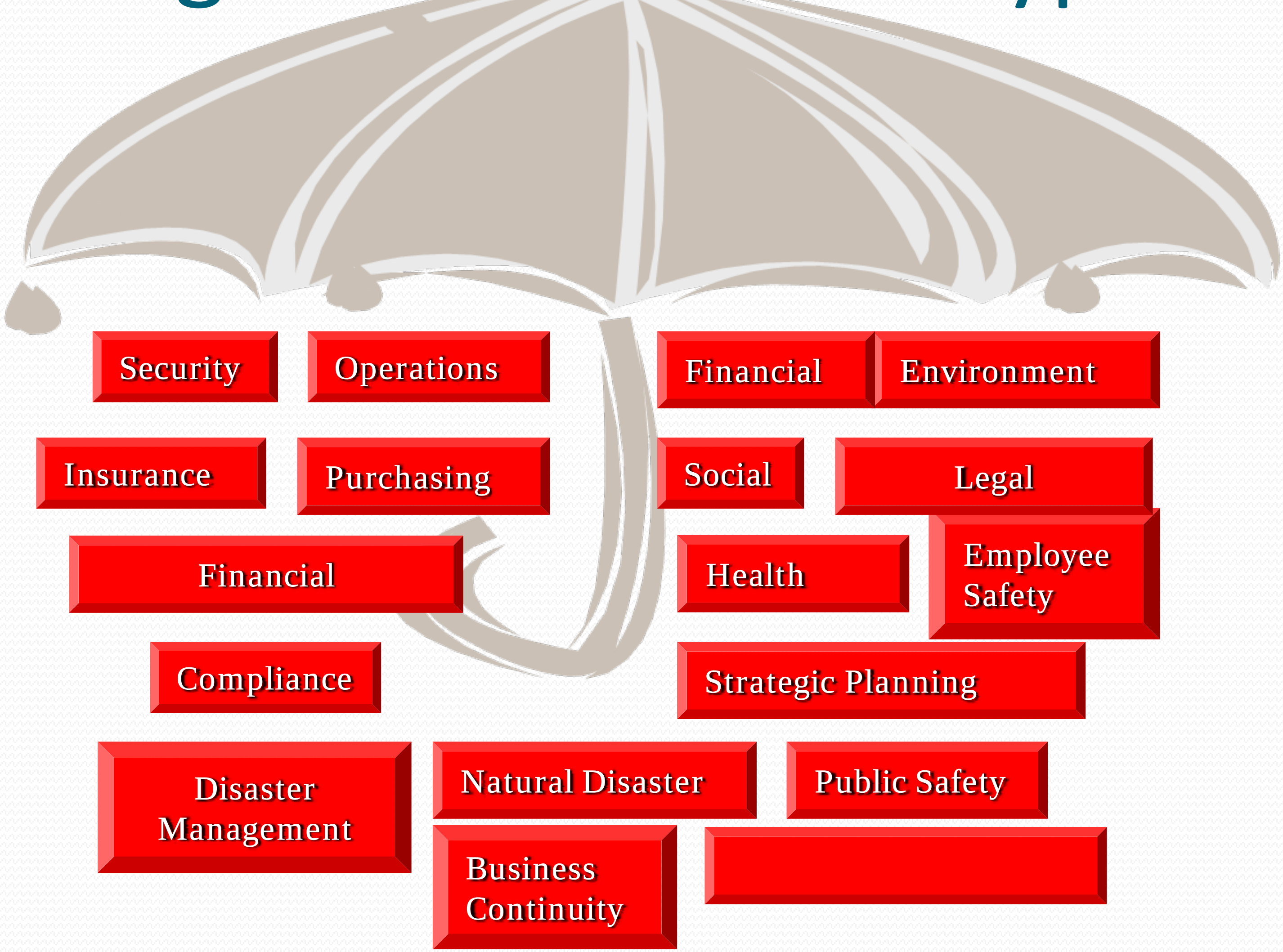
- Definition
  - A systematic approach to analyze and manage those significant risks (threats and opportunities) in an organization.

- How is it done?
  - Identifying & evaluating risks
  - Developing mitigating plans (threats) or optimizing plans (opportunities)
  - Reporting and communicating risks

Types of Risks

- Economic conditions
- Energy cost and supply
- Political and community
- Ability to borrow
- Contractor management
- Public Safety
- Human Resources
- Legal
- Retirement plans
- Unions and labour disputes
- New Regulation / Legislation
  - Adapting to new legislation on employee Health Plans
- Acquisitions
- Divestments

Risk Management covers all types of risk



Risk Analysis and Management – What is it? and Why is it important?

- Continuous review and action process asking:
  - What can go right or wrong?
    - Opportunities & Threats
  - How good or bad can it be?
    - Likelihood & Severity
  - What can be done about it?
    - Risk Management Plan
  - What IS being done about it?
    - Existing Controls – if any

- And that delivers regular status reports with a focus on:
  - Strategic objectives
  - Enterprise-wide implications
  - Risk management plans
  - Communication, Reporting, Escalating risks

Risk is "Uncertainty that Matters"

Governance Structure & Role

- Board or Executive Committees to oversee:
  - Financial & Non-Financial Risks
  - Operational Risks
  - Projects & other Investments

- Setting Policy & Standards
  - Culture – “buy-in”
  - Risk Appetite & Tolerance
  - Key Performance Metrics
  - Key Risk Indicators

Benefits of ERM-
Linking to Strategic Objectives

- Enhance Decision Making
- Increase Sustainability
- Reduce Volatility
- Improve Ability to Meet Strategic Goals
- Increase Management Accountability
- Breaking Silos-Seeing Risk Holistic Approach
- Develop Business Continuity

ERM Overview of Public Entities

- **Longmont, Colorado**-Risk Assessment Tool used in ERM for Strategic Planning
- **Dakota County, Minnesota**-SWOT Analysis used in ERM for Strategic Planning
- **WSDOT**-Performance Metrics used in ERM for Strategic Planning
- **British Columbia**-Risk Register used in project ERM for Strategic Planning

Risk Assessment Tool in ERM

- ***Longmont, Colorado***- Debra Carson is the risk manager and has designed a **Risk & Safety Best Practices Assessment Tool:**
  - List Risk Events & Causes
  - Breaks Down Role & Responsibilities of Staff for Risk
  - Uses Information for the City's Manager and City Council to Help With the City's Strategic Planning

List of Risk Events

- Catastrophes
- Compliance
- Customer/Citizen
- Economic/Financial Operations
- Environmental
- Legislative/Laws/Regulations
- People Assets
- Physical Assets
- Reputation/Political
- Technology Hazards

Risk Event & Causes

- Catastrophes

- Winter Storms
- Landslides/Mudslide
- Sinkholes
- Erosion
- Windstorms
- Fire
- Flood
- Chemical Releases

Stakeholders of Risk

- **Strategic**-Mayor/City Council, City Manager, City Attorney & Executive Directors
- **Operational**- Directors, Managers, Superintendents and Supervisors
- **Tactical**-Line Workers

Stakeholders Role and Responsibility for a Catastrophe

- **Strategic**-Adopt written emergency plan
- **Operational**-Develop written organizational emergency plan including instances when technology is interrupted
- **Tactical**-Participate in emergency plan training exercises

Align ERM with Strategic Goals

- ERM helps management assess and reduce uncertainties associated with strategic planning.
- By aligning ERM goals with strategic goals, an organization can balance enhancing and protecting stakeholder value by looking at both the upside and downside of risk

SWOT Analysis to Strategic Plan

- ***Dakota County, MN***-Taud Hoopingarner is the Director of Operations and has integrated SWOT Analysis into their strategic planning. Their Operations: Risk Management and Homeland Security Manual includes:
  - Mission Statement
  - Description of Services Provided
  - Operations Management Strategic Objective Map
  - **2009 Key Accomplishments by Strategic Objective**
  - **2010 Challenges and Responses by Strategic Objective**
  - Other Indicators and Productivity

2009 Key Accomplishments by Strategic Objectives-Dakota County

- **Stakeholder Perspective**
  - *Strategic Objective* is to provide a safe, healthy and productive environment. Some examples:
    - Recognized by Minnesota Safety Council four times for Best Safety Record Among Counties in Minnesota
    - Implemented 800 MHz Radio Subsystem
    - Develop Guidelines for Personal Protective Equipment
    - Updated the Continuity of Operations Plan
    - Completed Awareness Training to Prevent Slips and Falls

2009 Key Accomplishment by Strategic Objective-Dakota County

- **Financial Perspective**
  - *Strategic Objective*-Deliver Cost Effective Solutions. Some Examples:
    - Marketed the contract for services for TPA's of workers compensation and saved $11,000
    - Auto Policy premium up only 12% despite adverse liability loss exposures experienced
    - Develop grant investment justification to secure $742,329 in homeland security grant funding

2009 Key Accomplishments by Strategic Objective-Dakota County

- **Internal Perspective**
  - *Strategic Objective*-Capitalize on Innovation. Some Examples
    - Coordinated the implementation of the National Emergency Management Network software, Emergency Visions, for resource tracking and emergency responses
    - Implemented the use of Code Red emergency notification software for the activation of the Continuity of Operations Plan Team
    - Integrated the new Fleet Management software into the process for vehicles claims management and vehicle tracking

Challenges

- Continue to secure the time commitment from County Departments for Risk Management activities to actively involve departments in program/policy development and implementation
- Coordinate the ongoing use of the Dakota County 800 MHz Radio Subsystem amongst public safety, public works and Dakota Communication Center
- Continue to improve the safety of County staff and reduce the frequency and severity of injuries

Current Level Responses

- Develop investment justifications for projects under the 2010 Homeland Security UASI Grant program and successfully secure grant funding
- Complete a review of the Continuity of Operations Plan
- Coordinate with the Sheriff's office to provide defensive driver training
- Continue to target ergonomic improvements to reduce employee injuries

Statewide ERM Program in the State of Washington

- ERM implementation has been a stated organizational best practice of the State of Washington since 2006 with 165 agencies participating

- Once a year, during the governor's GMAP forum, ERM maturity model scores of the largest state agencies are reported

Statewide ERM Program in the State of Washington - continued

- There is a seven step ERM Method
  - Clearly state the Goals
  - What are your obstacles in meeting the goals
  - Evaluate each risk
  - Prioritize risks
  - Risk treatment
  - Capture information in a Risk Register
  - Communicating results

Gray Notebook-WSDOT

- Provides quarterly in-depth review of agency and transportation system performance and is the basis for WSDOT's accountability reporting
- It covers 100+ measures and all aspects of the state transportation system
- Read by the Governor, Legislature, general public, media, federal, local, and state agencies and transportation partners around the world

WSDOT's Five Strategic Goals

- **Safety**
- **Preservation**
- **Mobility**
- **Environment**
- **Stewardship**

WSDOT's Five Strategic Goals Safety

Performance Dashboard

✓ Goal has been met. ⇧ Performance is trending in a favorable direction. ⇔ Trend is holding. ⇩ Performance is trending in a unfavorable direction.

Policy goal/Performance measure	Previous reporting period	Current reporting period	Goal	Goal met	Progress	Comments
Safety						
Rate of **traffic fatalities** per 100 million vehicle miles traveled (VMT) statewide (annual measure, calendar years: 2007 & 2008)	0.94	0.87	1.00	✓	⇧	The rate of highway fatalities continues to decline (a lower rate is better)
Rate of **strains and sprains / hearing-loss injuries** per 100 WSDOT workers[1] (quarterly measure: FY10 Q3, FY10 Q4[1])	2.4/ 0.4	2.2/ 0.7	2.4/ 0.4	–	⇩	Strain/sprain goal met for the quarter, but target was to reduce both injury rates
Preservation						
Percentage of state **highway pavements** in fair or better condition (annual measure, calendar years: 2007 & 2008)	93.3%	94.0%	90.0%	✓	⇧	Recovery Act-funded projects are contributing to reductions in "due" rehabilitations
Percentage of **state bridges** in fair or better condition (annual measure, fiscal years: 2009 & 2010)	97.0%	98.0%	97.0%	✓	⇧	Recovery Act funds contributed to increase in Good/Fair rating
Mobility (Congestion Relief)						
Highways: annual weekday **hours of delay** statewide[2] (annual measure: calendar years 2006 & 2008)	37 million	32 million	N/A	N/A	⇧	Delay reduction of 13% due to gas prices, economic downturn, and completed mobility projects
Highways: Average clearance times for **major (90+ minute) incidents** on 9 key western Washington corridors (quarterly: FY10 Q4, FY10 Q4[1])	173 minutes	151 minutes	155 minutes	✓	⇧	The high percentage of fatalities and truck-related incidents contributed to increased clearance times
Ferries: Percentage of trips departing on-time[3] (quarterly, year to year: FY09 Q4, FY10 Q4[1])	93%	88%	90%	–	⇩	Only three routes met the on-time goal for the quarter

WSDOT’s Strategic Plan 2009-2015

- Provides strategic vision and leadership for Washington’s transportation needs
- Balances the quest for short-term cost savings and business process improvements with long-term need to preserve and improve state’s transportation systems
- Accomplishes strategic goals through sound fiscal planning, asset management, and the development of strategic investment programs

British Columbia's Risk Register Used for Winter Olympics

- Risk Register was developed for 2010 Vancouver Winter Olympics for 29 provincial ministries, Crown corporations and central agencies
- It produced biweekly reports for ministry executive and financial oversight bodies
- Risk Register provided a rolled-up view of over 300 risks and 400 mitigation activities
- It brought attention to critical vulnerabilities and escalated issues

Organize Risks Into Operational "Buckets"

- The decision to focus first on objectives before considering the risks
- Organize risks into operational "buckets" based on the province's three distinct Olympic-related objectives
  - Services direct to the Games
  - Olympic-related programs
  - Normal government services to citizens

Three Distinct Elements of BC Risk Identification Process

- **Risk Event**
- **Causes**
- **Impacts**

BC Target Risk Rating

This is the risk rating expected or predicted once all proposed mitigation are in place.

This is an important step, as it allows executives to see whether the proposed mitigation are likely to achieve a result that is satisfactory, if the expected risk reduction is worth the required resources, or if even more resources should be committed to lower the risk further.

BC Current Risk Rating

When risk management is applied to a project on an ongoing basis with regular feedback and updating on risk mitigation implementation the periodic rating of current risk allows executives to see the progress made to date .

Ideally, Current Risk Rating approaches Target Risk over time. If not, this can serve as an important flag that a change of strategy and/or more resources are required.

BC Risk Tolerance Rating

This is the maximum level of risk executives is willing to accept for this event.

This should be provided by the executive after having been briefed on the risk, existing and planned mitigation and associated costs. It is closely related to Target Risk Rating; when Target Risk and Risk Tolerance ratings are congruent, they know that the risk mitigation strategy should lower risk to a level the executives are comfortable with

BC Target, Current, Tolerance Rate

TARGET RISK RATING *(Risk rating expected / predicted once all mitigations are in place.)*				CURRENT RISK RATING *(Current level of risk in light of mitigations implemented at this report period.)*				RISK TOLERANCE RATING *(Maximum level of risk executive is willing to accept. This should be provided by executive after having been briefed on the risk, existing and planned mitigations, and associated costs)*			
LIKELIHOOD (1-5)	CONSEQUENCE (1-5)	TOTAL SCORE (1-25)	RISK RATING	LIKELIHOOD (1-5)	CONSEQUENCE (1-5)	TOTAL SCORE (1-25)	RISK RATING	LIKELIHOOD (1-5)	CONSEQUENCE (1-5)	TOTAL SCORE (1-25)	RISK RATING

Rolling Up Risks from Across Different Ministries

- Having all ministry information on a single form provided an enterprise perspective
- Significant value in identifying and analyzing interrelationships and gaps from an enterprise perspective
- Reporting format supported rational and pragmatic decision-making because the impacts were clearly described
- By using the same methodology the rest of government was using to identify and rate risk, they were able to communicate the urgency of their requirements to senior decision-makers, and secure the resources they needed
- Reporting bodies commented that the process provided an effective route for escalating of issues beyond their control

BC Challenges with Risk Register

- Risk Management Branch of British Columbia had a difficult time anticipating information needs and formats in advance
- Was a new approach to identifying risk and was a challenge for some reporting bodies
- One-way reporting. Not enough information to reporting bodies on steps being taken by senior management
- Managing large amount of data via spreadsheet was time-consuming, error prone and constraining-Use a relational database
- Clear management articulation on reporting requirements, feedback on the adequacy of reports and direction regarding risk tolerance would have contributed to improved risk management

Summary

- Enterprise Risk Management (ERM)
- Risk Analysis and Management
- Governance
- Benefits of Risk Management

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Questions?

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