COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 1, 2015

To: Scott B. Manske, Comptroller
Chris Abele, Milwaukee County Executive
Marina Dimitrijevic, Chairwoman, Milwaukee County Board of Supervisors

From: Jerome J. Heer, Director of Audits

Subject: Baker Tilly Report on Risk Management

The enclosed report was prepared by Baker Tilly under a contract with the Comptroller's Audit Services Division. It presents an assessment of Milwaukee County's risk management program. The report approaches risk management in the broadest sense as it affects all County programs. It is not focused solely on insurance and loss prevention as the term is more narrowly applied within County government.

We retained Baker Tilly to conduct this review in response to questions raised over the past several years by both Executive and Legislative officials. One recent example that illustrates these concerns was the 2013 Courthouse electrical fire. The absence of an effective continuity of operations plan and questions about deferred property maintenance prompted interest in the County's ability to be more proactive in the face of the risks associated with County operations.

As Baker Tilly has pointed out, Milwaukee County is in the initial phase of building an effective risk management program. While some Departments and Divisions are further along in this process, others are in need of greater improvement. More detailed assessments of several key administrative and operational agencies are presented in the report. It is important to note that assessment at a lower level of risk management readiness is not a good indicator of the performance of management and staff. Differences across the County are more likely rooted in decisions that have been made about resources and priorities. In many instances the constraints impacting risk management are budgetary, external or both. Our goal in presenting this information is not to critique management. Rather, it is to offer suggestions that can, hopefully, enhance County government's ability to address challenges proactively.

If you have any questions, please call me at 278-5185.

Jerome J. Heer

Jerome J. Heer

JJH/cah

cc: Milwaukee County Board of Supervisors
Milwaukee County Department Heads
Baker Tilly Virchow Krause, LLP

Current State Assessment of the Risk Management Program

Milwaukee County

June 30, 2015

BAKER TILLY

Candor. Insight. Results.

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Executive Summary

Background and Methodology

Baker Tilly performed a comprehensive current state assessment of Milwaukee County's (the "County") risk management ("RM") program. The purpose of this engagement was to evaluate the maturity of the County's current enterprise risk management programs across multiple departments and identify opportunities for improvement. Within Milwaukee County, risk management is generally considered the responsibility of one administrative division that is charged with insurance, safety and loss prevention services. However, current practice in both the private and public sector is to view risk management as a more comprehensive process. Specifically, enterprise risk management is a continuous process that identifies, mitigates, and monitors potential future events that create uncertainty, in a manner that reduces potential loss and increases gain.

RM is a process which:

- Affects the full scope of operations for the County. It is not singularly focused on insurance or accidents or emergency management.
- Is applied in strategy-setting across the County.
- Is designed to identify potential events that may affect the County, and manage risk within the risk appetite and/or risk tolerance.
- Provides reasonable assurance regarding mitigation, avoidance, and management of risk factors and circumstances, as well as promotes opportunities to capitalize on risk events and thresholds.

There are a number of benefits to RM. The most impact and recognition of value is often perceived more at the senior management levels. Some of the key benefits are:

- Financial Incentives
  - Strong RM practices should increase preparedness before adverse events occur which in turn helps to minimize operational surprises and losses.
  - Awareness of risks involved in processes will help align resources which may increase productivity and revenues, as well as improve service delivery capabilities. Scrutiny of controls embedded in processes based on risk and agreed-upon tolerance levels will also help with resource allocation as well as enhance efficiencies.
  - Documentation helps to link growth, risk and return and rationalize funding.
- Enhanced Internal Communications
  - A consistent vocabulary and methodology may provide employees with a clear and common understanding of the organization's goals and objectives, therefore enhancing strategic and values-driven communications across the organization.
  - Effective communications lead to enhanced staff morale and help promote teamwork. Employees may desire a clear perspective on the impacts their role has on the overall mission of the organization and the value they provide RM practices can help highlight that value.

- Improved Decision Making
  - Informed strategic choices can be made consistent with the organization's goals and objectives based on a consideration of risks and rewards. RM provides increased risk intelligence and thereby reduces traditional risk aversion based decisions.
  - RM helps stimulate defined success criteria, increased accountability, clearer performance measurement and improved performance reporting.
- Enhanced Partnerships
  - RM processes may highlight opportunities for working across the County on providing integrated responses to multiple risks and pathways to seizing opportunities.

Objectives

In assessing each of the eight core objectives below, which make up the RM process at the County, we evaluated the maturity of the underlying process. To evaluate the maturity of the process we looked at not only the output of the process but the process used to generate those outputs as well. We considered various activities, which we believe would be present in an effective and mature process. Mature processes provide several benefits including predictability of results, the avoidance of repeat mistakes, and informed decision-making.

The objective of our assessment was to identify areas for improvement and develop recommendations. Our goal was to determine whether the objective at the County contributed to an effective RM program and discipline. We assessed these areas from both an aggregated County-wide measure as well as from an individual departmental perspective. This allowed us to account for any departmental specific fluctuation.

The subsequent eight core objectives or risk components as stated by the Committee of Sponsoring Organizations (COSO) cover a broad scope of risks and are used as a framework to analyze risk and assess RM issues.

#	Core Objective	Description
1	**Internal Environment**	Internal environment factors include the County's RM philosophy; its risk appetite; oversight by the Board of Directors; the integrity, ethical values, and competence of the County's people; and the way Management assigns authority and responsibility, and organizes and develops its people.
2	**Objective Setting**	Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives. The County faces a variety of risks from external and internal sources, and a precondition to effective event identification, risk assessment, and risk response is establishment of objectives. Objectives are aligned with the county's risk appetite, which drives risk tolerance levels for the county.
3	**Event Identification**	Management identifies potential events that, if they occur, will affect the County, and determines whether they represent opportunities or whether they might adversely affect the County's ability to successfully implement strategy and achieve objectives. Events with negative impact represent risks, which require Management's assessment and response. Events with positive impact represent opportunities, which Management channels back into the strategy and objective-setting processes.

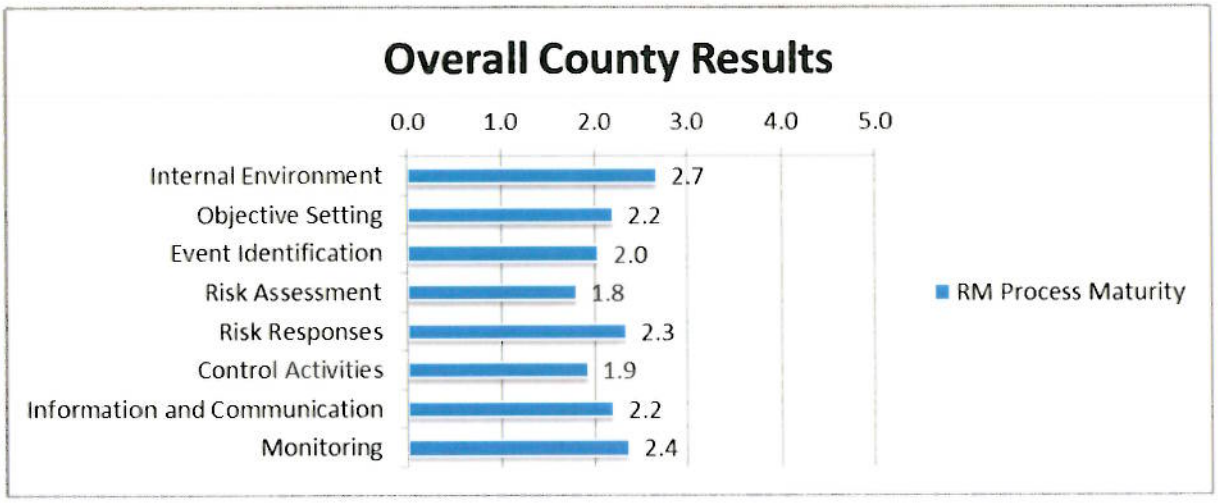
#	Core Objective	Description
4	**Risk Assessment**	Risk assessment allows the County to consider the extent to which potential events have an impact on achievement of objectives. Management assesses events from two perspectives – likelihood and impact– and normally uses a combination of qualitative and quantitative methods. The positive and negative impacts of potential events should be examined, individually or by category
5	**Risk Responses**	Having assessed relevant risks, Management determines how it will respond. Responses include risk avoidance, reduction, sharing, and acceptance. In considering its response, management assesses the effect of risk likelihood and impact, as well as costs and benefits, selecting a response that brings residual risk within desired risk tolerances.
6	**Control Activities**	Control activities are the policies and procedures that help ensure that Management's risk responses are carried out. Control activities occur throughout the County, at all levels and in all functions. They include a range of activities – as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.
7	**Information and Communication**	Pertinent information is identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems use internally generated data and information from external sources, providing information for managing risks and making informed decisions relative to objectives. All personnel receive a clear message from senior management that RM responsibilities must be taken seriously. They understand their own role in RM, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties, such as customers, suppliers, regulators, and shareholders.
8	**Monitoring**	RM is monitored by assessing the presence and functioning of its components over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the normal course of Management activities. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Performance Scale

The following scale was utilized in performing our assessment of areas for improvement.

Level #	Description
Level 0	Non-existent.
Level 1 Ad-hoc	Processes are (typically) undocumented and in a state of dynamic change, tending to be driven in an ad hoc, uncontrolled, and reactive manner by users or events. This provides a chaotic or unstable environment for the processes.
Level 2 Initial	Some processes are repeatable, possibly with consistent results. Process discipline is unlikely to be rigorous, but where it exists, it may help to ensure that existing processes are maintained during times of stress. Various departments may before similar processes inconsistently.
Level 3 Defined and Repeatable	There are sets of defined and documented standard processes established and subject to some degree of improvement over time. These standard processes are in place (i.e., they are the as-is processes) and used to establish consistency of process performance across the County. Departments performing similar processes can be expected to use the same or nearly identical procedures.
Level 4 Managed	Using process metrics, Management can effectively control the as-is process. In particular, Management can identify ways to adjust and adapt the process to particular projects without measurable losses of quality or deviations from specifications. Processes at this level can be demonstrated to achieve their stated purpose, including the measurement of variability in process performance, and the variability will be within organizational tolerances.
Level 5 Optimizing	The focus is on continually improving process performance through both incremental and innovative technological changes/improvements. Trends are moving in the optimal direction.

Overall, the County's performance RM rating was 2.2, which is identified between initial characteristics of a defined RM program and defined and repeatable characteristics of a program.



Themes

The RM process at the County ranges between departments, however, overall it consists of initial characteristics of a RM program to some defined and repeatable processes in its maturity. During the course of the assessment, notable themes were identified across multiple departments.

- A risk universe (an all-inclusive listing of risks affecting the County) has not been developed (capturing all key risks). This positively correlates to an almost non-existent common risk language within the County. RM is usually not explicitly referred to or understood as "risk management." Inherently, employees are thinking and doing some type of risk management, but it is not called "risk management."
- The County tends to be more reactive in addressing risks rather than proactive. As risk events occur within the County, the specific department addresses the risk and solves the situation at hand. This is not risk management; it is crisis management—a reactive approach whose purpose is to limit the damage. Employees are thus seeing these risks as consequences rather than an opportunity to improve.
- The County places a large emphasis on emergency crisis planning and requires all departments to have a continuity plan. The emphasis on emergency planning overshadows the operational risks, which some of the individual departments have a difficult time identifying.
- The responsibility of risk is thought to be within only the Risk Management Division or Office of Emergency Management, as stated above. RM is not being contextualized as part of individual Director's day to day activities.
- The internal environment within the County possesses characteristics of being defined with a clear organizational structure and strong attention to integrity.

We believe that the County should consider developing and implementing a process to further develop the maturity of its RM program. We evaluated the eight core objectives within the departments and identified notable strengths and considerations and areas for improvement.

Notable strengths include:

- An internal environment where all key stakeholders (e.g., Directors, management, Board) share a similar tone at the top for discipline and structure.
- The Risk Management Division has taken great strides to communicate information effectively to other department Directors, by delivering data in easy to view risk reports and charts.
- Emergency crisis planning has required each department for the first time to write their own continuity plan in the event of an emergency.

Key findings include:

- A comprehensive risk assessment, including likelihood and impact, has not been conducted for a majority of the departments within the County.
- A risk methodology as well as a comprehensive training for all directors has not been defined or executed.
- If and when event identification techniques are utilized, they only look to the past, rather than both the past and future. A large amount of events are identified only at the time the event occurs.
- There is a lack of communication of the County's risk appetite. It was determined through interviewees that the County's tolerance to risk is conservatively low; however, this is not defined nor articulated throughout the departments.
- Policies and procedures for information technology are out of date and should be updated for current systems, including customized and packaged systems. A form of communicating these policies to employees who have access to systems should be established.
- Proactively identifying risks (inherent and residual) prior to risk events occurring and documentation of these risks within a portfolio of a risk universe is not being completed.

Summary of Recommendations

In order to move to establish an RM process that results in a clear and articulated mission, strategic objectives, risk appetite, related objectives and measures, we believe that the County is best served by taking into account the following summarized recommendations .

- **Establish a plan for implementing components of RM**
  - The County should consider instituting a mechanism to ensure that the plan is adjusted over time and remains current.
- **Establish a clear vision for RM**
  - Each department should establish documented goals, objectives, required levels of maturity, and a clear vision for its RM program specifically. In doing so, we recommend that each department establish clear roles and responsibilities for employees, management, RM liaisons and other stakeholders.

> **Tiered levels of Risk**

- The County's departments should establish thresholds based on the assessed level of risk that allows for increasing levels of authority to provide oversight of risk management activities. Risks, which do not appear to create a threat to the overall strategic mission and objectives, do not require Board oversight, and accordingly senior management should be assigned to manage and monitor those risks. By delegating authority to manage risks to various levels in each individual department, the County can allow its RM resources to be used most effectively.

Scope

The scope of the assessment included, but was not limited to interviews with department leads (listed below) through standard questions (Questionnaire is Appendix A). Interviews consisted of 1 ½ - 2 hour meetings.

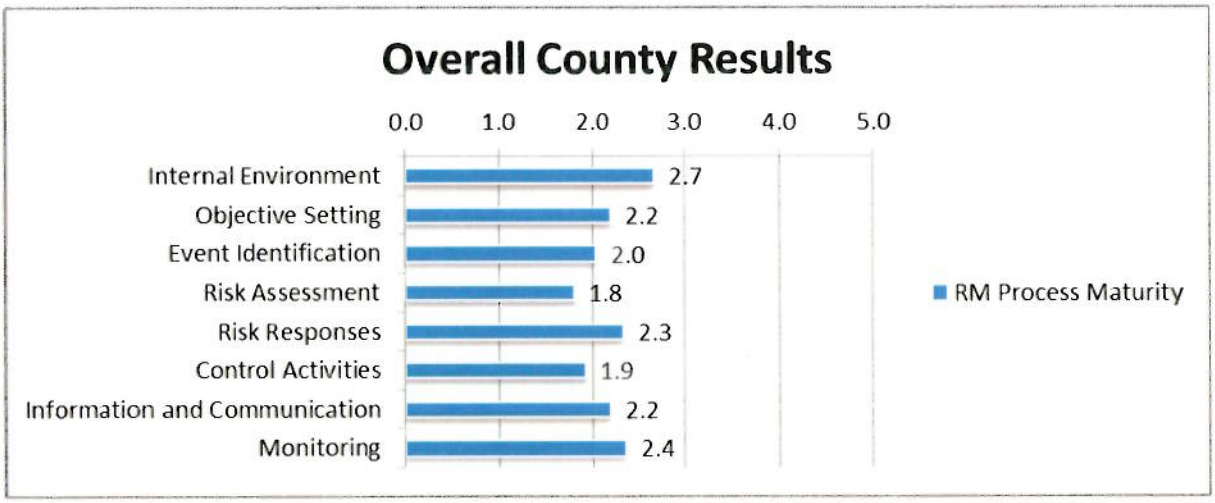
#	Department	Interviewee
1	Department of Administrative Services	Teig Whaley-Smith
2	Risk Management	Amy Pechacek
3	Procurement	Patrick Lee
4	Information Management Services	Laurie Panella
5	Facilities Management	Greg High
6	Facilities Management	Gary Waszak
7	Human Resources	Kerry Mitchell
8	Corporation Counsel	Paul Bargren
9	Parks, Recreation and Culture	John Dargle
10	Parks, Recreation and Culture	Staci Piontek
11	Health and Human Services	Jeanne Dorff
12	Emergency Management	Christine Westrich
13	Audit Services Division	Jerome Heer
14	Office of the Comptroller	Scott Manske

Detailed Report

Results

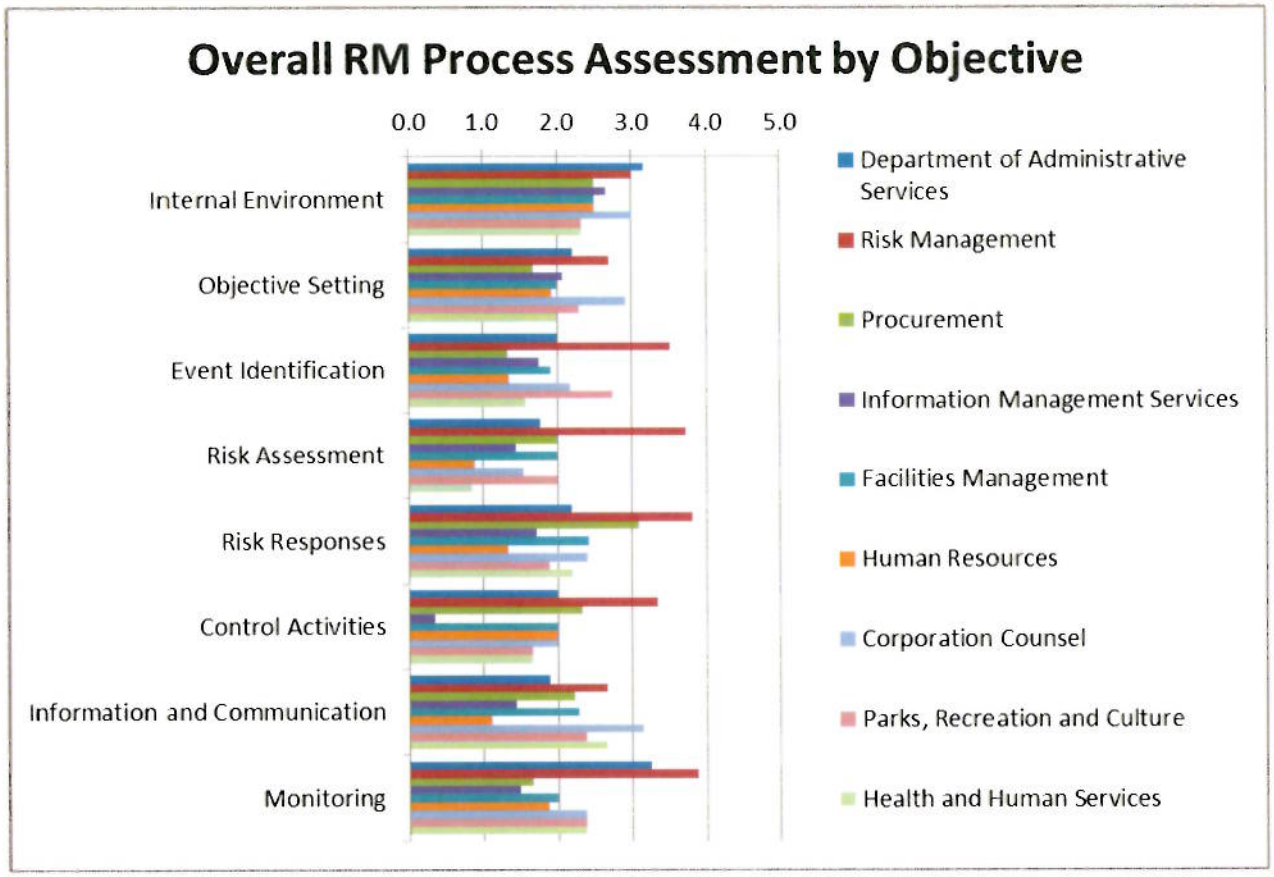
Based on the information we gathered through our interviews and the review of various documents provided by management, we reached an assessment per each Department's RM process. **Due to varying levels of support and experience within the departments, the following summary of findings is not intended to be a scorecard of management but an analysis of current risk assessment maturity within the applicable departments.** As various modifications are made to the RM process, attention should be paid to evaluating the results of the program. Consideration of such factors as changes in the overall level of risk accepted by the County and the specified department, costs of the RM process in comparison to benefits derived, and opportunities seized which have advanced the County's mission, may help provide sufficient context for ongoing program adjustments.

We performed an assessment of the maturity of the County's implementation of each component of the eight core objectives within each department. When evaluating individual sub processes we noted comparable levels of maturity of approach. The majority of the departments are near the initial stages of an RM process.



Overall Process Maturity Assessment: 2.2

The chart above lists out the average of the department's core process objectives. As evidenced, Internal Environment ranked highest amongst the objectives and Risk Assessment ranked lowest.



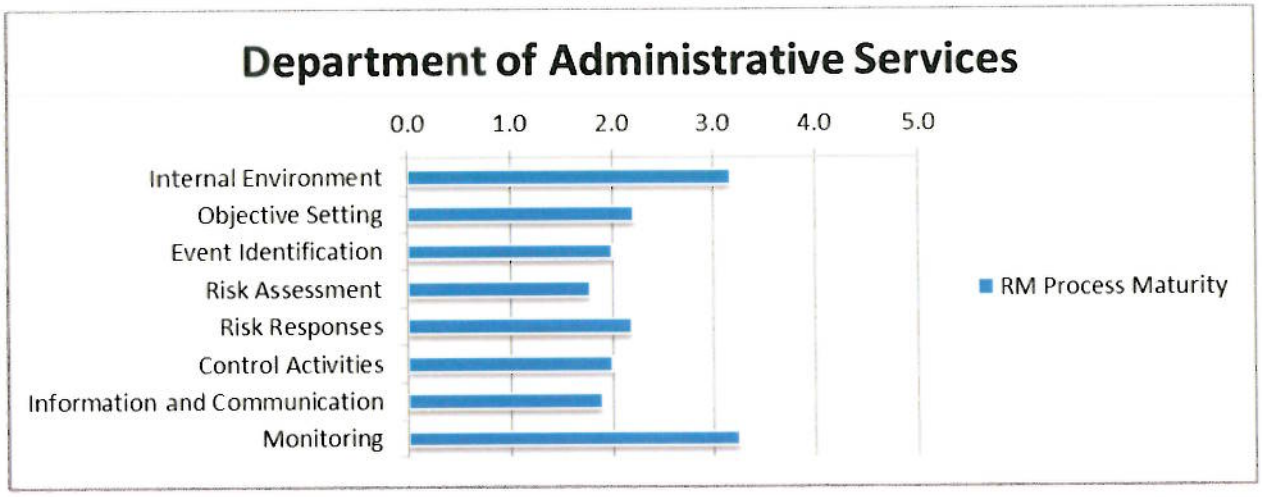
The chart above lists each department's core process objectives and ratings. This chart provides a visual representation of our opinion on the current state risk maturity of the individual departments. Individually assessed departments have been analyzed below.

Key Takeaways

- As expected, Risk Management has the most developed RM program inching to almost managed levels in some objectives. They have taken a proactive approach to many of the objectives and have enhanced their already existing standard processes to approach RM.
- The majority of the Departments managing their risks are in an ad-hoc state where risks are not necessarily thought of as a priority.
- For a few departments, their existing RM processes in place are at their initial stages but inconsistency still exists as risk levels are not defined.

The Information Management Services and Human Resources Departments have the least developed program, due to the current state of critical systems and applications and the absence of a risk universe.

Department of Administrative Services



Department Process Maturity Assessment: 2.3

The Department of Administrative Services has not fully adopted all eight core objectives, which prevents the department from deriving maximum value from its current RM investments. Risk Assessment falls lowest in the objectives due to a lack of formal assessment of the magnitude of impact of each type of risk, including lack of mechanisms to assess inherent and residual risks. The risk events that are identified at the department and activity level are most commonly referred to emergency planning rather than day to day operational risks.

The department has nearly managed distributing risk management reports and appropriately communicates these findings to key stakeholders. As it relates to Internal Environment, the department clearly exhibited and spoke of a strong attention to integrity and ethical values. While the department will inevitability encounter employees and others who may violate those norms, we found a clear commitment to ethics as a strength for the department.

Risk Management

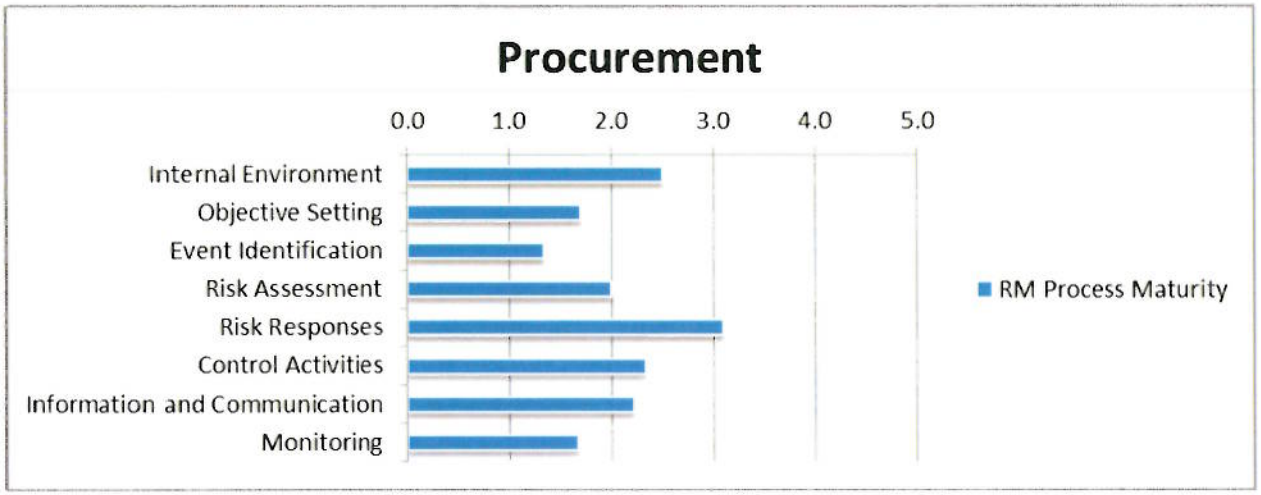
Department Process Maturity Assessment: 3.3

The Risk Management Division is a major division under the Department of Administrative Services. As mentioned previously, the assessment of Internal Environment within Risk Management is contributed to integrity and ethical values. The Board and County Executive are committed and support the risk management philosophy. As new Directors have joined the department, an emphasis on data collection and benchmarking assessments have been created. This is a new initiative and has become much more formal within the past year. The Board's commitment to the philosophy and driving accountability should continue to be a priority going forward.

Compared to other administrative services, Risk Management has created and defined standard processes to approach Risk Assessment and Response within the department. Qualitative assessments of impact, likelihood and frequency are performed through benchmarking. As this approach is fairly new for the department, careful consideration should be given over the qualitative methods chosen to utilize.

Data that was collected from the above benchmarking assessments was communicated to the applicable departments via quarterly meetings and standardized reports. Risk Management has taken a proactive approach to communicating pertinent information and has developed in person trainings, newsletters and process guides for supervisors and employees. The technology for monitoring Information and Communication is still at the initial stages as some modules are limited to self-monitored pen and paper tracking and limited reports to verify compliance.

Procurement



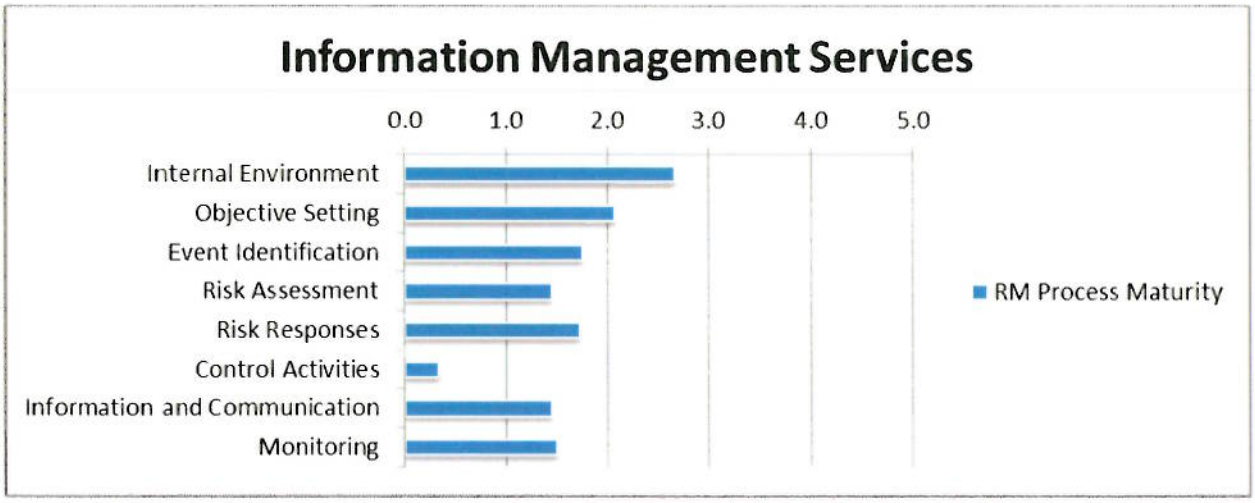
Department Process Maturity Assessment: 2.1

The Procurement Division is a major division under the Department of Administrative Services. As mentioned above, the assessment of Internal Environment within Procurement is contributed to integrity and ethical values, however is deficient in clearly defined roles and responsibilities. There is limited visibility when approving purchase orders and often unfamiliarity of knowing the actual employee signing off on the order and identifying whether they have the correct authority. There has been communication of department plans to install a new procurement system, which has been deemed to be the main source of the above issue.

A specific risk universe relating to Procurement has not been developed to inventory specific risks that the department faces. The risk universe, along with ad-hoc event techniques caused Event Identification to score lower than all other objectives.

The Risk Responses within the department was identified to be more defined and managed due to specific risk avoidance and acceptance options. This was mainly contributed due to the assistance of Risk Management and their efforts in the prior year.

Information Management Services



Department Process Maturity Assessment: 1.6

Information Management Services is a major division under the Department of Administrative Services. Information Management Services has not fully adopted all eight core objectives and lacks basic risk principles. The department will have a better chance of successfully implementing a RM program if the department:

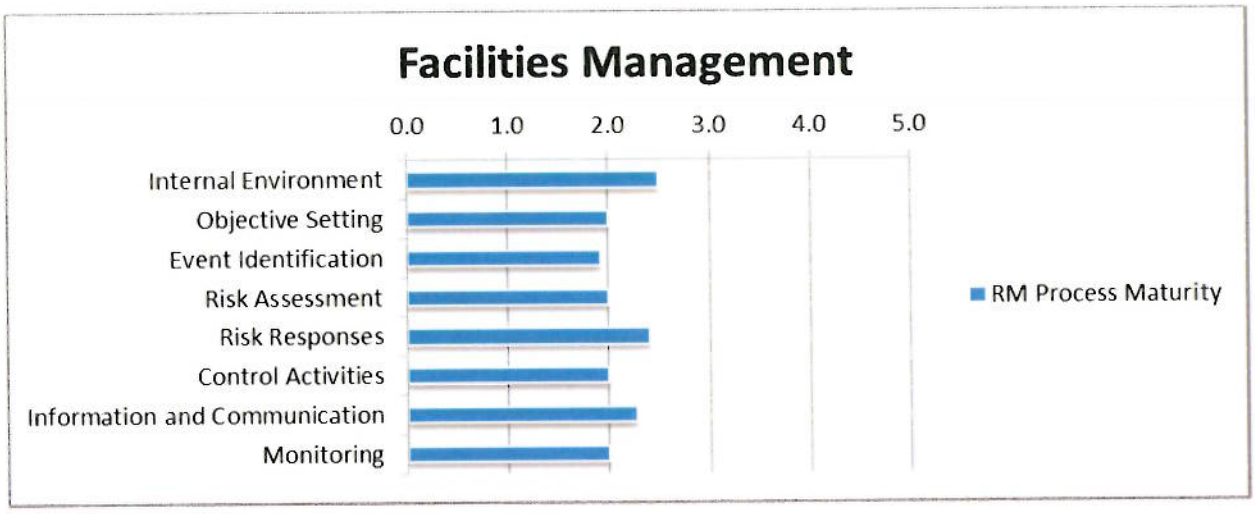
- Knows how much risk they can tolerate (risk appetite)
- Recognizes the strengths and weaknesses in managing risks (risk maturity)
- Knows how to treat a risk once identified (risk response)

With recent turnover and open positions within the division, leadership over RM has taken a backseat, causing more reactive decisions rather than proactive. Risk mitigation has begun in certain areas with the removal of outdated unsupported systems.

The mission statement was stable for a period of time but is now being reconstructed to align with technology basics, business value and operations. Even though the mission statement is not necessarily stable, it is noted that it is being updated for changing needs, which can be dynamic in a technology focused division.

A risk universe relating to the County's data, applications, operating systems and network should be developed to inventory the specific risks to each. Assessing the impact and likelihood of each risk will help rate and identify high priority key risks which should be addressed in a timely manner.

Facilities Management



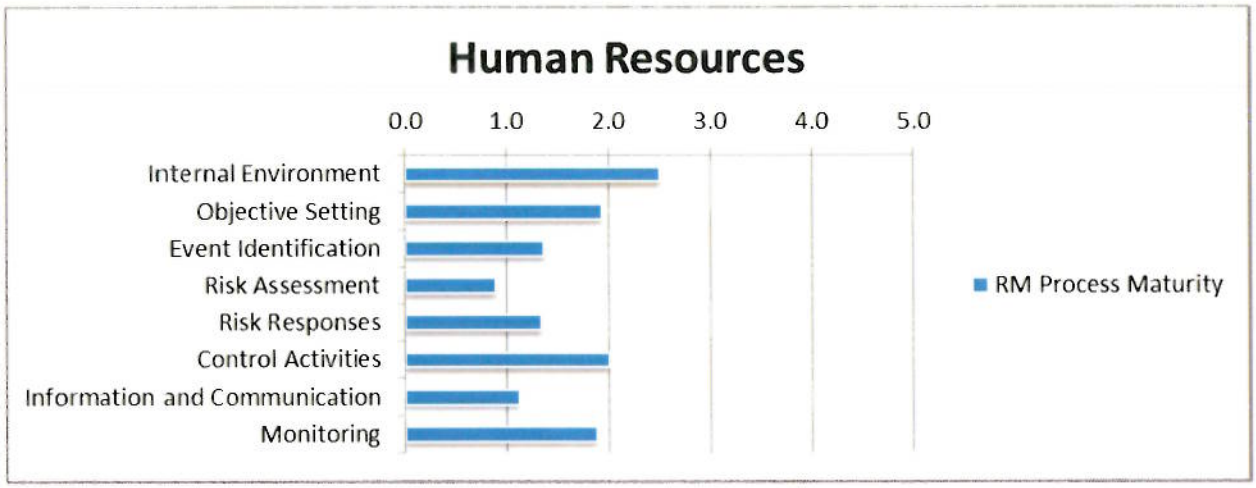
Department Process Maturity Assessment: 2.1

Facilities Management is a major division under the Department of Administrative Services. As mentioned previously, the assessment of Internal Environment within Facilities is contributed to integrity and ethical values. Per discussion with the interviewees, a stated risk management philosophy has not been established. Specifications within contracts relating to clauses and indemnity were noted but were not linked to a County or division philosophy.

As the division's risk appetite changes, it is moving toward aligning with their strategic objectives, which are also being changed to be more specific to Facilities.

Systems utilized within Event Identification could be outdated with inaccurate information. A time horizon function has been built into the division's system, however without valid information, incorrect priorities could be assigned to buildings. Monitoring of systems should be a continuous repetitive assessment to keep the risk management process current and relevant.

Human Resources



Department Process Maturity Assessment: 1.6

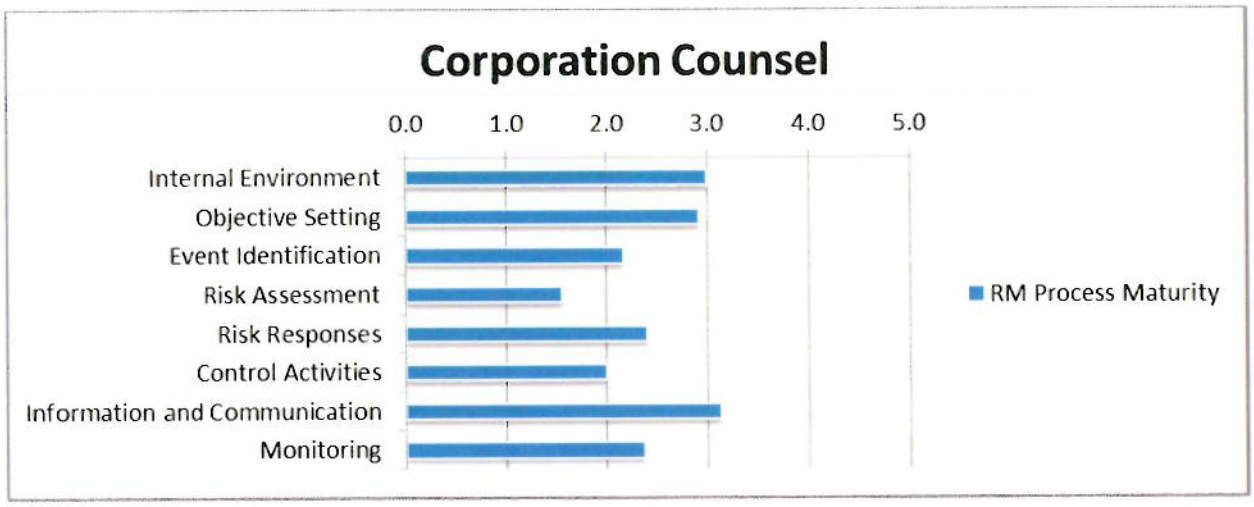
The Human Resources Department does not fall under the Department of Administrative Services; however, the department had similar scores within Internal Environment due to integrity and ethical values and having a clear and defined organizational structure. The department lacks a defined RM process; however is putting forth initial efforts to strengthen its RM environment. A stated risk management philosophy was not in place for the department.

Information provided within the department is lacking data integrity, which could lead to invalid and inaccurate benchmarking reports. As the vendor no longer supports the current version of their key application, an additional inherent risk is assessed within that application as it is now more vulnerable.[1]

Rather than identifying events and having a designed and comprehensive risk universe, the department tends to be more reactive to situations in times of instability, causing for losses which could have been identified and mitigated, if not prevented.

[1] System upgrades and new system implementations are planned for the latter half of 2015 within the Human Resources Department.

Corporation Counsel



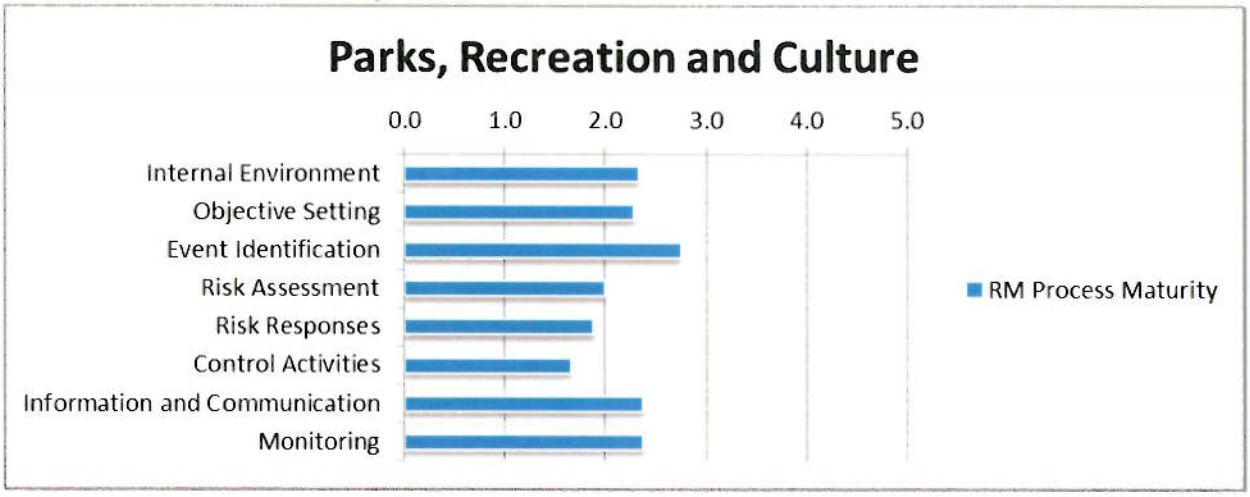
Department Process Maturity Assessment: 2.4

The assessment of Internal Environment within Corporation Counsel is contributed to integrity, ethical values and a defined organizational structure; however the department lacks communication of a formalized understanding of authority levels and responsibilities. Communication of these levels is word of mouth and unwritten collective knowledge.

Within the Risk Assessment objective, it was identified that the department does not appear to formally assess the impact of positive or negative events nor do they consider the time horizon. A mechanism that has been long-standing is to apply some type of insurance and limiting the amount of loss (risk averse).

Risk Responses within Corporation Counsel have been defined, repeatable and often times managed as evidenced by handling of claims and having the appropriate individuals (e.g., Corporation Counsel, Board) sign-off on documents when needed.

Parks, Recreation and Culture



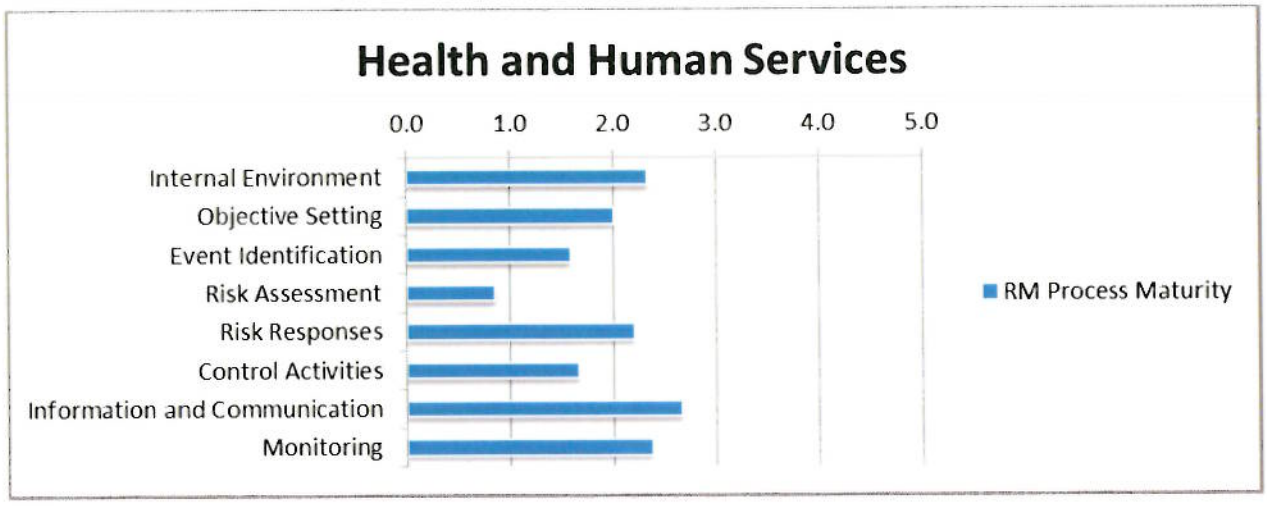
Department Process Maturity Assessment: 2.2

The Parks, Recreation and Culture Department has not fully developed all elements of the core objectives and is more notably recognized at the initial stages of an RM process. As the department is an area for higher worker's compensation claims, a risk portfolio/ universe should be in place (only specific training areas have been noted, but specific risks associated with the employee position or duties of that role have not been articulated).

An area that the department has managed fairly well is Event Identification, especially within the areas of identifying past and future risk events at the activity level. This could be due in part to multiple repeatable events (e.g., Picnic rentals, severe weather) and unwritten collective knowledge, however it was noted that notification tree checklists and operational processes are utilized as well.

A portion within the Risk Assessment objective that the department has managed is assessing the inherent and residuals risks. Based on the job activity, specialized training or certifications are required to perform the duties of the job. Surveys are given to County residents and incident reports are utilized at the end of a particular period (i.e., season) to assess accidents relating to a particular event.

Health and Human Services



Department Process Maturity Assessment: 2.0

The Health and Human Services Department lacks a defined RM process and is more positioned as having an initial RM process. Neither a risk universe nor a risk language has been established within the department, which could contribute to the higher claim rates in certain divisions of the department. A RM process requires taxonomy or a classification scheme of the most important risks to the department and a common language for understanding those risks. At the current state, most notably identified risk areas revolve only around crisis management.

Relating to Risk Assessment, the department does not analyze impact or likelihoods of specific risks nor do they assess inherent or residual risks. As these criterions are not assessed, neither is the time horizon which characterizes Risk Assessment at an almost non-existent level.

Detailed Findings

Recommendations

We believe that certain adjustments to the RM process could help improve the RM program at Milwaukee County. In order to move to establish an RM process that results in a clear and articulated mission, strategic objectives, risk appetite, related objectives and measures, we believe that the County is best served by taking into account the following recommendations.

> **Establish a plan for implementing components of RM**

We believe the following key action steps should guide the County in its approach to implementing all of the components for RM. The County should consider instituting a mechanism to ensure that the plan is adjusted over time and remains current.

- Seek Board and senior management involvement and oversight
- Identify and position a leader to drive the RM initiative
- Conduct an initial County wide risk assessment and action plan
- Inventory the existing risk management practices
- Develop initial risk reporting
- Develop the next phase of action plans and ongoing communications

> **Establish a clear vision for RM**

We recommend that each department establish documented goals, objectives, required levels of maturity, and a clear vision for its RM program specifically. In doing so, we recommend that each department establish clear roles and responsibilities for employees, management, RM liaisons and other stakeholders.

- A pilot group or department may be chosen and regular check-ins on the department are established on their progress toward their RM program.
- Departments (or liaisons) should be patient and not be discouraged if the initiative starts out slowly. RM is not an interim project and will require a cultural change. Items to keep in mind are to expect resistance and not to exaggerate the benefits of RM as it is a dynamic process that will continue to evolve.

> **Tiered levels of Risk**

County departments should establish thresholds based on the assessed level of risk that allows for increasing levels of authority to provide oversight of risk management activities. Risks, which do not appear to create a threat to the overall strategic mission and objectives, do not require Board oversight, and accordingly senior management should be assigned to manage and monitor those risks. By delegating authority to manage risks to various levels in each individual department, the County can allow its RM resources to be used most effectively.

Leading Practices

When implementing RM, stakeholders (e.g., Directors, Board leaders) should keep in mind the following leading practices.

1. **Don't reinvent the wheel**

   If there is an existing internal control framework in place, build upon that and use what you have. Strategize about how RM can enhance or strengthen your existing internal control environment.

2. **Knowledgeable employees**

   Have experienced staff available to act as a liaison and carry out the vision of the RM process. A knowledgeable workforce is the key to successful RM implementation. If you cannot hire new employees, retrain the staff that you have.

3. **Communication of wins**

   Communicate and deliver short wins immediately as nothing reinforces success like results. Show department stakeholders how RM has led to successful identification and mitigation of risks, opportunities or cost savings.

4. **Risk is everyone's responsibility**

   Where Risk Management (*not ERM),* Emergency Management and Internal Audit programs exist, it is often perceived that risk is managed entirely by them. This is not the case. It is important for staff to understand that they have a critical role in the identification and mitigation of risks to the County.

Appendix A

Appendix A: Detailed RM Process Assessment Questionnaire

Internal Environment

1. Does the company have a stated risk management philosophy?
2. Is the Board of Directors committed to the risk management philosophy and strategies?
3. Is the organizational structure clearly defined?
4. Are authority levels and responsibilities clearly assigned and communicated throughout the organization?
5. Does management have a strong attention to integrity, ethical values, and "doing the right thing"?
6. Is management committed to lead the company forward in meeting its goals, objectives, and strategies?

Objective Setting

1. Has the company defined and articulated its risk appetite?
2. Are the company's tolerances to risk clearly defined and articulated?
3. Have these risk tolerances been established at an appropriate level within the company (e.g., Board of Directors, senior management, risk committee, delegated individuals)?
4. Have quantifiable levels (e.g., limits, boundaries, financial impact) been established and approved, where appropriate, with respect to risk tolerance
5. Has management's tolerance relative to their acceptance of each risk's exposure been determined?
6. Has the company established a common risk language?
7. Does the company have an identified mission? If so, is it clearly articulated and understood throughout the organization?
8. Has the entity established strategic objectives that must be achieved to accomplish the mission? If so, is it clearly articulated and understood throughout the organization?
9. Are executive sponsors established or identified for each strategic objective?
10. Is the mission stable, with few changes over short periods of time (1-5 years)?

Objective Setting (Cont.)

11. Are the strategic objectives relatively stable, understanding they would change more frequently than the mission would?
12. Has the company aligned risk appetite and strategy?
13. Are there goals and objectives for departments or individuals that support enterprise risk management activities on an annual basis? If so, do they align with and support the overall strategy and objectives?
14. Do the departmental goals/objectives address operations, reporting, and compliance?

Event Identification

1. Have risk events or scenarios been identified?
2. Does the entity identify events at the entity level?
3. Does the entity identify events at the activity level?
4. Do event identification techniques look to both the past and the future?
5. Do event identification techniques include any of the following: event inventories, internal analysis escalation or threshold triggers, facilitated workshops and interviews, and/or process flow analysis, leading event indicators, loss event data methodologies?
6. Have positive risk events been linked to the company's strategy (are opportunities to exploit)?
7. Have negative risk events been linked to the company's strategy?
8. Does management evaluate potential events to determine if they will affect the entity's ability to successfully implement strategy and achieve objectives?
9. For events with negative impact, does management have a defined process to determine and implement responses?
10. During its analysis of events (positive or negative), does management evaluate external factors including the following categories: economic, natural environment, political, social, and technological?
11. During its analysis of events (positive or negative), does management evaluate internal factors including the following categories: infrastructure, personnel, process, and technology.
12. Has a risk universe been developed that captures all key risk events the company faces?

Risk Assessment

1. Has the likelihood of that risk occurring been determined for each risk?
2. Has the magnitude of impact of each risk been formally assessed?
3. Does the entity have a mechanism to assess inherent risks?
4. Does the entity have a mechanism to assess residual risks?
5. Does the entity assess the positive impact of events?
6. Does the entity assess the negative impact of events?
7. Does the company consider the time horizon (when the event might occur)?
8. Is the time horizon used to assess risks consistent with the time horizon of the related strategy and objectives?
9. Does the entity use any of the following qualitative assessment methods to assess risks: benchmarking, probabilistic, and non-probabilistic methods?

Risk Response

1. Have risk acceptance options been considered for risks where the impact could be tolerated (i.e., self-insured or managed with other risk acceptance techniques)?
2. Have practical risk reduction options been identified for those risks that should be retained internally, but management's tolerance requires mitigation of the risks (i.e., through internal controls)?
3. Have risk transfer options been considered for risks that can be managed more effectively by third parties, justifying a risk transfer or sharing option (e.g., insurance programs)?
4. Have risk avoidance options been considered for risks that are not core to the business and have such a potentially significant impact that the County cannot retain these risks (e.g., exiting a line of business)?
5. Have risk exploitation options been considered for key competencies or areas of competitive advantage?
6. Has management considered risks responses, which could also address entity objectives beyond dealing with the specific risk?
7. Has management assessed the impact of risk responses on likelihood, impact, as well as costs/benefits?
8. Do the risk mitigation strategies appear to be consistent with the company's stated tolerances for risk and overall strategic objectives?
9. Have risks been aggregated where appropriate?
10. Has the company taken a portfolio view towards risk?
11. Does management monitor results of actions taken to mitigate risk?

Control Activities

1. Is pertinent information identified, captured, and communicated in a form and timeframe that enables staff to carry out their responsibilities?
2. Does management make use of information from a variety of sources (internally and externally generated) to provide information for managing risks making informed decisions?
3. Are risk owners assigned for each key risk? Is there an infrastructure around the risk environment?

Information and Communication

1. Is pertinent information identified, captured, and communicated in a form and timeframe that enables staff to carry out their responsibilities?
2. Does management make use of information from a variety of sources (internally and externally generated) to provide information for managing risks making informed decisions?
3. Are risk owners assigned for each key risk? Is there an infrastructure around the risk environment?
4. Do risk owners have the right authority, responsibility, and experience to effectively own the risk?
5. Does the technology appropriately enable the people and processes to facilitate the risk management activities?
6. Is the information necessary to populate systems or facilitate key decisions accurate, available, relevant, and timely?
7. How are members of senior management kept informed of risk management performance? Do they receive regular reports of RM effectiveness?
8. Do all personnel receive clear messages from top management regarding the importance of RM responsibilities?
9. Do all managers within the organization know which risks they are responsible for managing and do they understand how their risk management efforts will be evaluated?

Monitoring

1. Are there specific and relevant performance measures of RM program/continuous improvement that facilitate monitoring of risk management performance?
2. Is sufficient data collected and consolidated into meaningful reports to facilitate effective monitoring of risk management performance?
3. Are risk management reports distributed to the appropriate individuals on a timely basis?
4. Does management establish periodic reviews of the achievement of its objectives, and the impact of any risk events?
5. Are individuals at the appropriate levels assigned responsibility to monitor risks?
6. Are reporting protocols established to information top management or other departments when specific conditions are detected?
7. Does management or the board commission periodic assessments of the risk management process?
8. Does the Board receive an appropriate amount of detail on a regular basis regarding the RM program to stay informed?

Appendix B

Appendix B: Performance Scale

- **LEVEL 0** – Non-existent.
- **LEVEL 1** – Ad-hoc - It is characteristic of processes at this level that they are (typically) undocumented and in a state of dynamic change, tending to be driven in an ad hoc, uncontrolled, and reactive manner by users or events. This provides a chaotic or unstable environment for the processes.
- **LEVEL 2** – Initial - It is characteristic of processes at this level that some processes are repeatable, possibly with consistent results. Process discipline is unlikely to be rigorous, but where it exists, it may help to ensure that existing processes are maintained during times of stress. Various departments may before similar processes inconsistently.
- **LEVEL 3** – Defined & Repeatable - It is characteristic of processes at this level that there are sets of defined and documented standard processes established and subject to some degree of improvement over time. These standard processes are in place (i.e., they are the as-is processes) and used to establish consistency of process performance across the County. Departments performing similar processes can be expected to use the same or nearly identical procedures.
- **LEVEL 4** – Managed - It is characteristic of processes at this level that, using process metrics, management can effectively control the as-is process. In particular, management can identify ways to adjust and adapt the process to particular projects without measurable losses of quality or deviations from specifications. Processes at this level can be demonstrated to achieve their stated purpose, including the measurement of variability in process performance, and the variability will be within organizational tolerances.
- **LEVEL 5** – Optimizing - It is characteristic of processes at this level that the focus is on continually improving process performance through both incremental and innovative technological changes/improvements. Trends are moving in the optimal direction.

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