

THE RISK OF NOT KNOWING YOUR RISKS

FMAC PRESENTATION

FEBRUARY 23, 2017



TODAY WE WILL

- Define risk
- Consider the role that risk awareness plays in the success of your agency
- Briefly discuss Executive Order 16-06
- Talk about the risk assessment process
- Go over some tools that can help

DEFINE RISK



“The effect of uncertainty on objectives.”

The effect could be positive (for example, an investment that turns out to be very lucrative) or negative (an investment in which all money is lost).

In a risk assessment, you are typically considering events or conditions that could

- cause harm to personnel, people you serve, property or reputation,**
- cause financial loss or**
- keep your agency from reaching its objectives.**

All potential harm or loss should be considered, not just risk of liability.

Just because you don't see the risks,
doesn't mean they aren't there.

Planning for success includes
anticipating and mitigating risks

MOST AGENCIES HAVE

- **A mission statement**
- **A current strategic plan**

MISSION STATEMENTS



Transforming lives

To improve public safety



Enhancing the safety and security of our state by providing the best in public safety services

Provide safe, reliable and cost-effective transportation options to improve livable communities and economic vitality for people and businesses.



Washington State
Department of Transportation



Deliver innovative, responsive, cost-effective and integrated solutions and services to meet the diverse need of our customers so that we can enable government to best serve the people of Washington.

IF YOUR MISSION STATEMENT AND STRATEGIC PLAN ARE YOUR GPS...

Your mission statement and strategic plan help set the course for the next few years. You have identified your mission and goals and are on the road to success.



... A RISK ASSESSMENT IS YOUR CAR'S COLLISION AVOIDANCE SYSTEM

You know where you want to go, but you need to identify and avoid hazards along the way or you might not get there.



WHAT ARE POTENTIAL RESULTS OF UNMITIGATED RISKS?

- Your agency could fail to achieve its mission

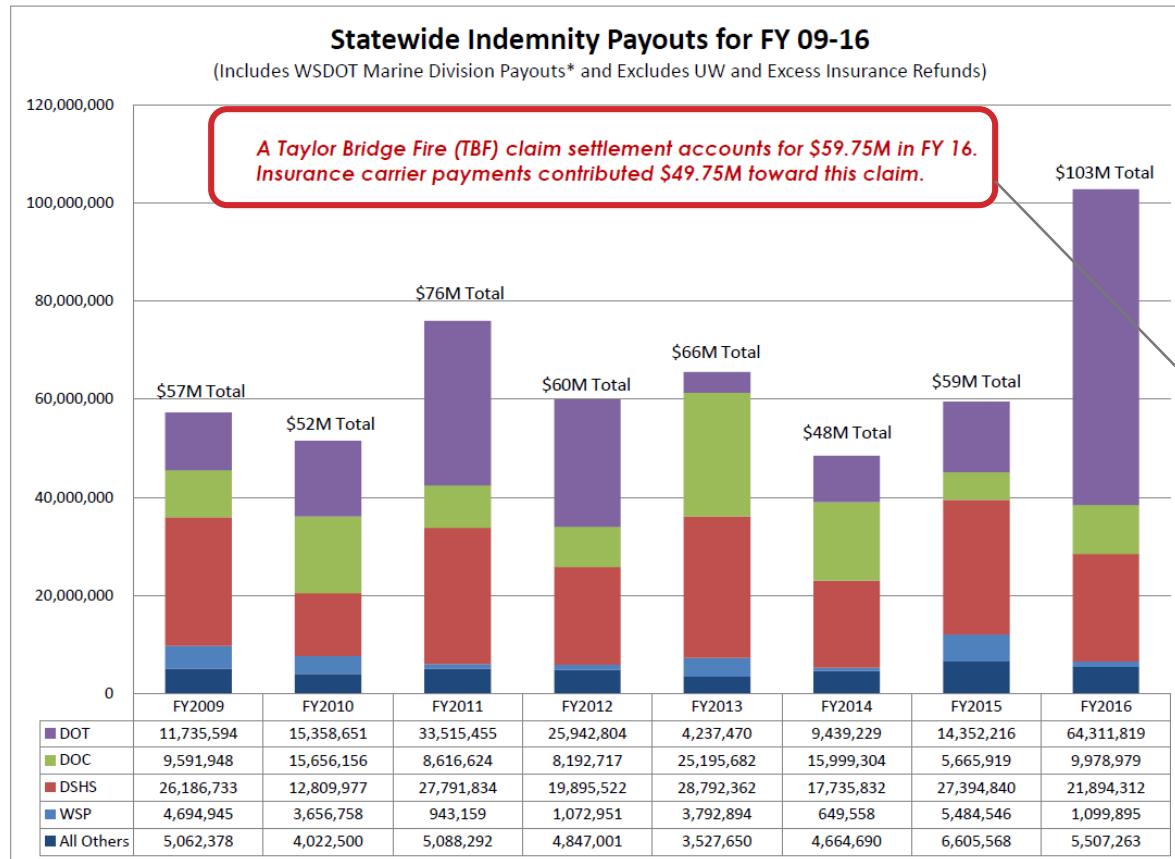
WHAT ARE POTENTIAL RESULTS OF UNMITIGATED RISKS?

- **Your agency could have significant financial loss.**
 - Federal funding
 - Regulatory fines
 - Non-tort lawsuits
 - Tort claims and lawsuits

WHAT ARE POTENTIAL RESULTS OF UNMITIGATED RISKS?

State of Washington
Department of Enterprise Services

Office of Risk Management



In 2016, the state of Washington paid out \$103 million in indemnity costs.

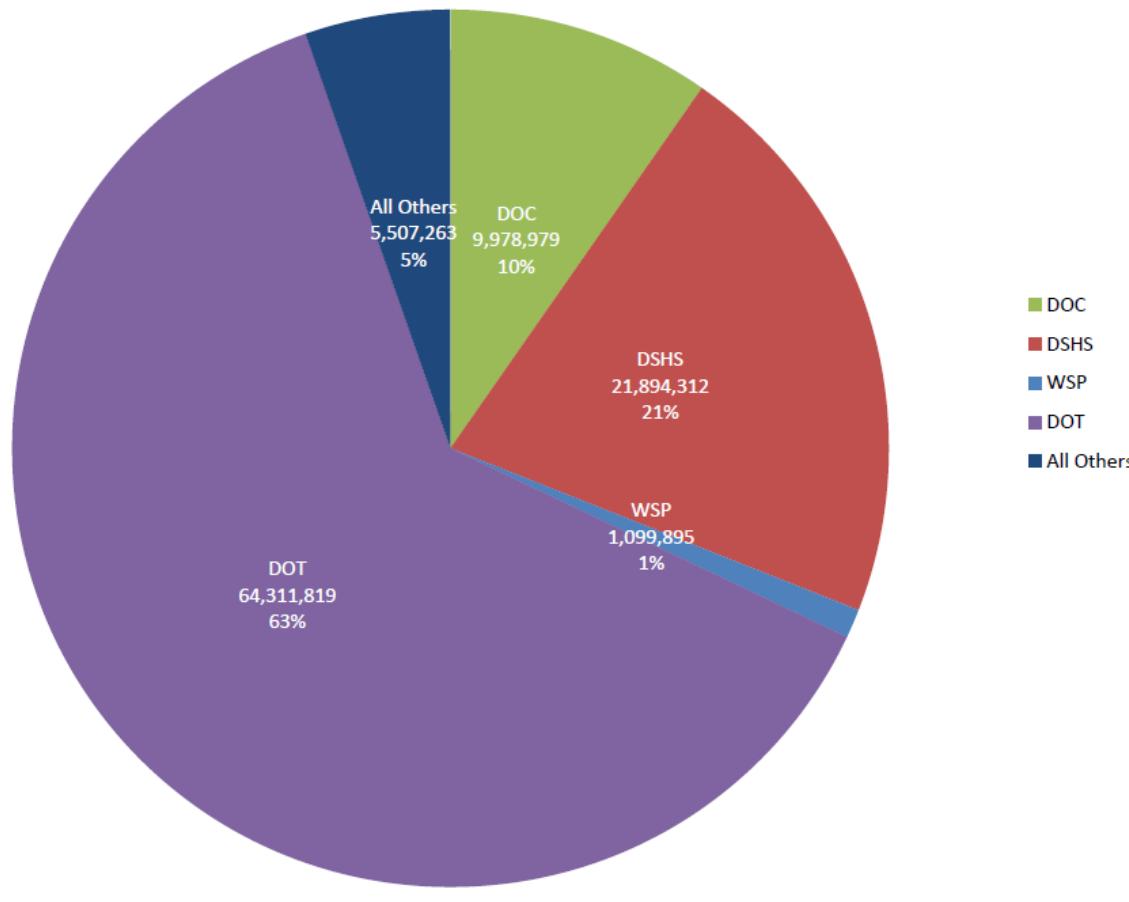
Nearly half (\$59.75M) was for the Taylor Bridge Fire claim settlement.

2016 PAYOUTS

State of Washington
Department of Enterprise Services

Office of Risk Management

FY 16 Statewide Indemnity Payout Distribution
($\$102,792,268$)
(Includes WSDOT Marine Division Payouts and Excludes UW and Excess Insurance Refunds)



2016 PAYOUTS

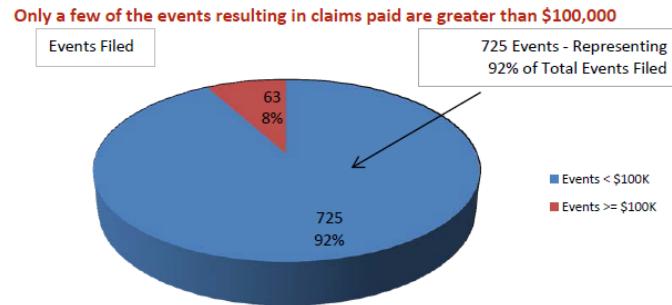
State of Washington
Department of Enterprise Services

Office of Risk Management

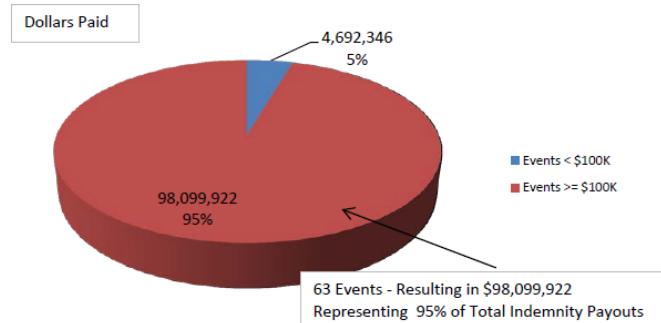
Fiscal Year 2016 Frequency / Severity

92% of event payouts are less than \$100,000 each and make up 5% of total dollars paid out for indemnities

The remaining 8% of event payouts make up 95% of total dollars paid out for indemnities



Most of the events resulting in claims paid are for less than \$100,000



Source: DES Risk Management
Information System (IVOS)

WHAT ARE POTENTIAL RESULTS OF UNMITIGATED RISKS?

- Your agency could receive reputational damage, which can also cause financial damage, morale problems, etc.

WHAT ARE POTENTIAL RESULTS OF UNMITIGATED RISKS?

- **Employees, or people you serve, can be injured or killed.**

WHAT ARE OTHER POTENTIAL RESULTS OF UNMITIGATED RISKS?

- **Audit findings**
- **Cyber breach**
- **Public records issues**

WOULD A RISK ASSESSMENT REALLY PREVENT EVERYTHING?

No.

Running prisons and hospitals, managing a foster care system, building highways and running ferries, managing state parks, etc. are inherently risky. There never seems to be enough staff or funding. We cannot anticipate every bad event, and we cannot 100% mitigate every bad event that we anticipate.

But being aware of specific risks, prioritizing those risks and having plans for how to manage the risks helps.

HOW?

A thorough risk assessment is the best way to determine what might get in the way of accomplishing your goals on time.

- **Current problems unearthed in risk assessments can be resolved sooner**
- **Addressing potential problems unearthed in risk assessments can help you avoid financial losses, reputational damage, injuries or deaths, and other risks that will impede your agency's mission.**
- **The risk prioritization process can help inform how your agency uses limited resources.**

GOVERNOR'S EXECUTIVE ORDER 16-06

The order directs agencies to adopt several best risk management practices. One section that might be of special interest to this group:

- **Allocate resources, to the greatest extent feasible, to services for which the state is at the greatest risk of liability, with the goal of preventing or mitigating loss while meeting service expectations and responsibilities. In doing so, agencies should:**
 - 1) among information systems, technologies and funding requests, prioritize those that support high-risk services and serve to mitigate risk.
 - 2) within available resources, prioritize training for service delivery staff and supervisors relevant to reducing losses and significant claims.

GOVERNOR'S EXECUTIVE ORDER 16-06

All agencies shall, no later than September 1, 2016, prepare and update an agency Risk Management Policy consistent with these best practices. The agency policy shall include risk assessments or registers, with a mitigation plan for each identified risk, and provide such policies to the Office of Risk Management for review.

All agency Risk Management Policies shall be updated at least annually.

THE SUMMER OF 2016

The Governor issued the Executive Order at the beginning of the summer which said that agencies needed to submit an agency risk management policy which includes risk assessments or registers, with a mitigation plan for each identified risk, by September 2016.

There are a handful of agencies that were ahead of the curve and had a strong risk culture.

There were many agencies that did not have a policy or knowledge about how to do a risk assessment.

In 3 months,

- DES ORM provided a 2-day intensive ERM training for risk managers,
- Provided an ERM policy template for use by agencies and
- Conducted dozens of risk assessments at agencies, and sometimes multiple risk assessments in one agency.

To date, about 60 agencies have submitted a full risk register and 20 have submitted a brief risk register as part of the budget submittal.

Next step will be to help colleges with risk assessments.

DOES THE AGENCY BUDGET SUBMITTAL (LIST 3 RISKS) SUFFICE FOR A RISK REGISTER?

Probably not.

When coming up with the three risks, did you do a risk assessment and include the input of all of the departments in your organization?

Does your agency only have three significant risks?

WHAT IS A RISK ASSESSMENT?

**State Administrative & Accounting Manual (OFM) - SAAM
20.20**

“Risk assessment is an ongoing process that includes identifying risks to achieving agency objectives, analyzing the risks, and deciding how to respond to the risks.”

WHAT DOES A THOROUGH RISK ASSESSMENT LOOK LIKE?

- **Identify the risks – involve many in this process. No one person knows all of the risks of your agency.**
- **Prioritize the risks – usually done by managers.**
- **Develop a risk treatment plan (risk register).**

RISK IDENTIFICATION METHODS

Brainstorming workshops

Review of loss histories and near misses

Interviews

Self assessments

Risk survey or questionnaire

Managers only? All staff? Make sure all programs are involved in process.

The risk identification process needs to be safe.

A DES ORM LED RISK ASSESSMENT

Is usually done in two sessions.

The first session includes representatives from all sections of the agency – typically 20-30 people. The session includes a brief overview of enterprise risk management, followed by a risk brainstorming exercise. Participants are given prompts for identifying potential risks, and identified risks are discussed and categorized.

In the second session, participants use an interactive voting tool to determine how likely each risk is to occur, and how significant the impact would be if the risk occurs. This helps to prioritize the risks. It is not unusual to have more than 50 risks.

Following the second session, ORM drafts a risk register for agencies to complete.

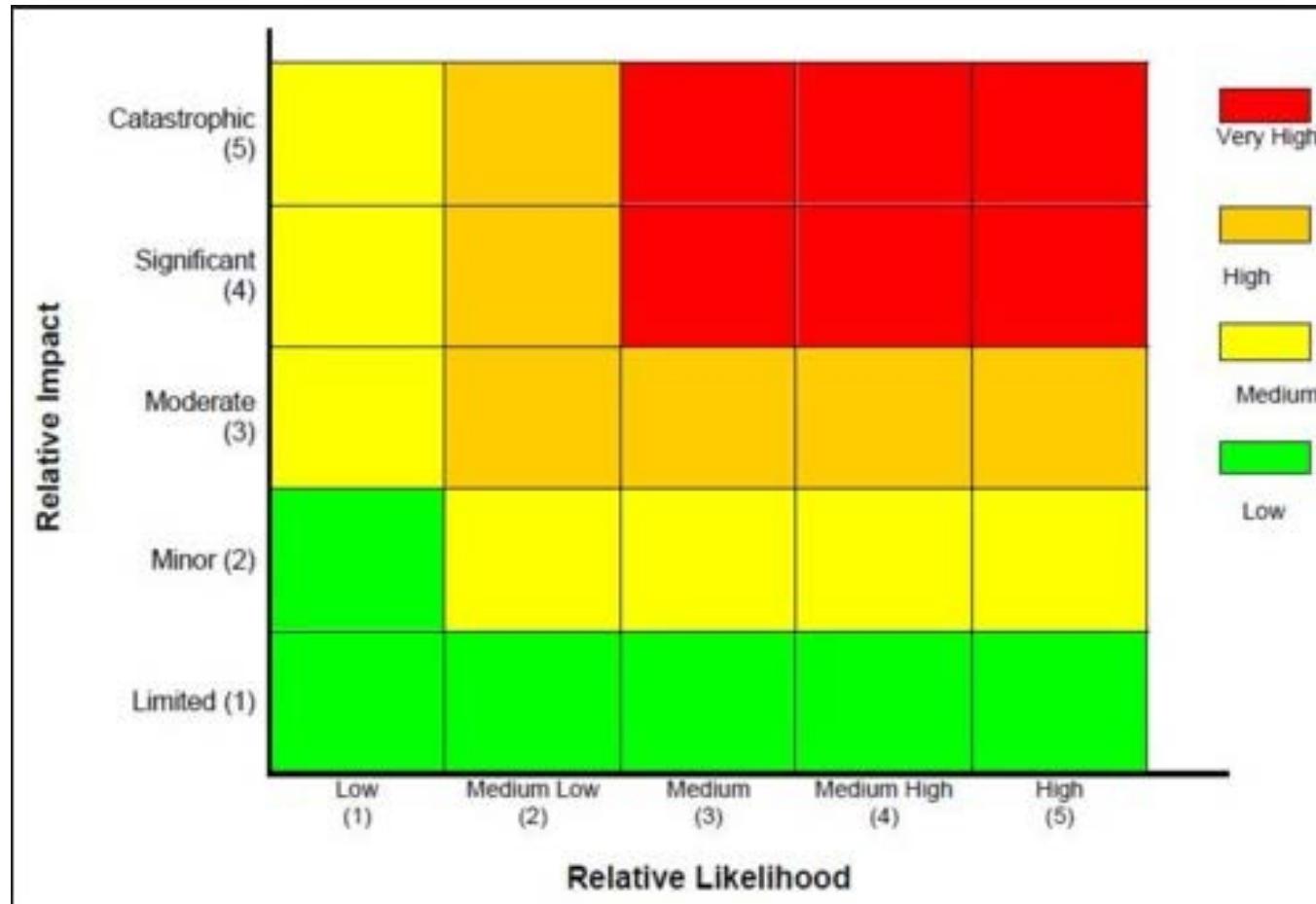
RISK REGISTER

A risk register should (at the minimum):

- List the risks
- Define a mitigation plan for each risk
- Assign each risk to an individual or group that has the authority and responsibility to manage the risk
- Describe the desired outcome (metrics) of each risk treatment

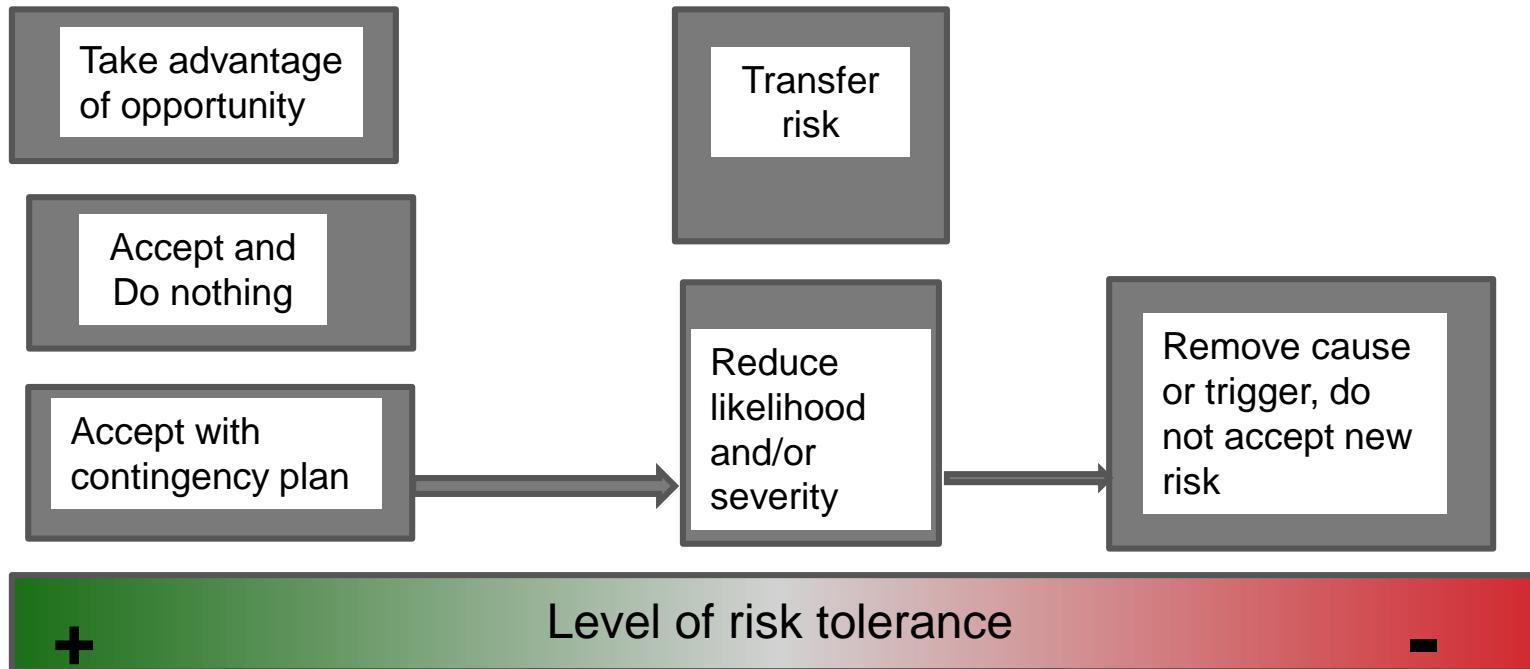
HEAT MAP

The risks can be plotted on a heat map, a powerful visual display of risks



RISK TREATMENT DECISION STRATEGY

How the agency chooses to mitigate risk or accept opportunities will depend on its level of risk tolerance



RISK TREATMENT STRATEGIES

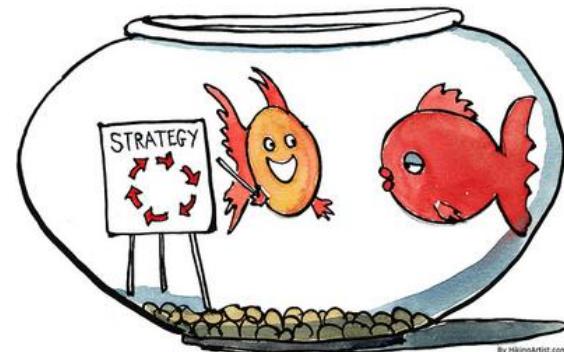
Avoid the risk – Implement actions to avoid the risk, e.g., not take on a new line of work

Transfer or share the risk – Shift the risk to another party (e.g. insurance policy or contract)

Reduce the risk – Implement controls or take actions to reduce the probability the risk will occur and/or reduce the impact should the event occur

Retain the risk by informed decision, continue to monitor

Take the risk in order to pursue an opportunity



RISK REGISTER EXAMPLE

Goal or Objective	Priority Risk or Opportunity	Root Cause(s)	Risk Treatment		How will we know risk or opportunity was successfully addressed?	Target Response Date	Person Responsible	
Maintain grounds to promote health and safety of staff and visitors	Inadequate parking lot maintenance could cause injury to staff or visitors	- Staff turnover	<input type="checkbox"/> Avoid <input type="checkbox"/> Accept & Monitor <input checked="" type="checkbox"/> Reduce frequency <input type="checkbox"/> Reduce impact <input type="checkbox"/> Transfer		-Cross train -Make recruitment / retention a priority	-Maintenance plan is documented and followed -Reduction in injuries Staffing levels at/above 90%	August 2016	Dan Jones
			<input type="checkbox"/> Avoid <input type="checkbox"/> Accept & Monitor <input type="checkbox"/> Reduce frequency <input type="checkbox"/> Reduce impact <input type="checkbox"/> Transfer					
			<input type="checkbox"/> Avoid <input type="checkbox"/> Accept & Monitor <input type="checkbox"/> Reduce frequency <input type="checkbox"/> Reduce impact <input type="checkbox"/> Transfer					
			<input type="checkbox"/> Avoid <input type="checkbox"/> Accept & Monitor <input type="checkbox"/> Reduce frequency <input type="checkbox"/> Reduce impact <input type="checkbox"/> Transfer					
			<input type="checkbox"/> Avoid <input type="checkbox"/> Accept & Monitor <input type="checkbox"/> Reduce frequency <input type="checkbox"/> Reduce impact <input type="checkbox"/> Transfer					

MONITORING & COMMUNICATION

1. Monitor and Adjust: Make risk register review part of your monthly or quarterly meetings

- Risks don't go away once they are written down. Keep monitoring to determine if progress is being made to treat the risk.
- If the initial mitigation leaves the agency with unacceptable residual risk, try another risk treatment.

2. Communicate: Regularly communicate about the progress of the risk treatments

- Celebrate successes! One of the best ways to create a risk aware culture in your agency is to publicize successes. Let people know how the risk they reported was handled and what happened (or didn't happen) as a result.

RISK ASSESSMENT CYCLE BEGINS AGAIN

Start the risk assessment process again every year or sooner if context has changed

- Changes in organization structure or leadership
- New mandates
- Different strategic plan

RESOURCES

- DES ORM can conduct a risk assessment at your agency and provide you with a draft risk register of your prioritized risks.
- Executive Order 16-06 - lists best practices
- ERM for Dummies - a brief overview of enterprise risk management
- ERM Policy Template - adapt for your agency
- Risk Register Template - fill in for your agency
- Quarterly Risk Managers Meetings - hosted at DES
- PRIMA Webinars - hosted at DES

THANK YOU

For further information or assistance contact:

Jean Jelinek

DES Risk Management

Loss Prevention Section Manager

360-407-8158

Jean.Jelinek@des.wa.gov