Risk Management

An Introduction for Wyoming Municipalities

Trainer

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2021 Financial Management: Expenditures & Revenue
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Objectives

1

Understand how risk management fits into municipal governance

2

Learn the risk management process and methods

3

Learn how risk management is used to protect your municipality

4

Explore specific examples of how risk management is used to deliver municipal services

How do you manage?

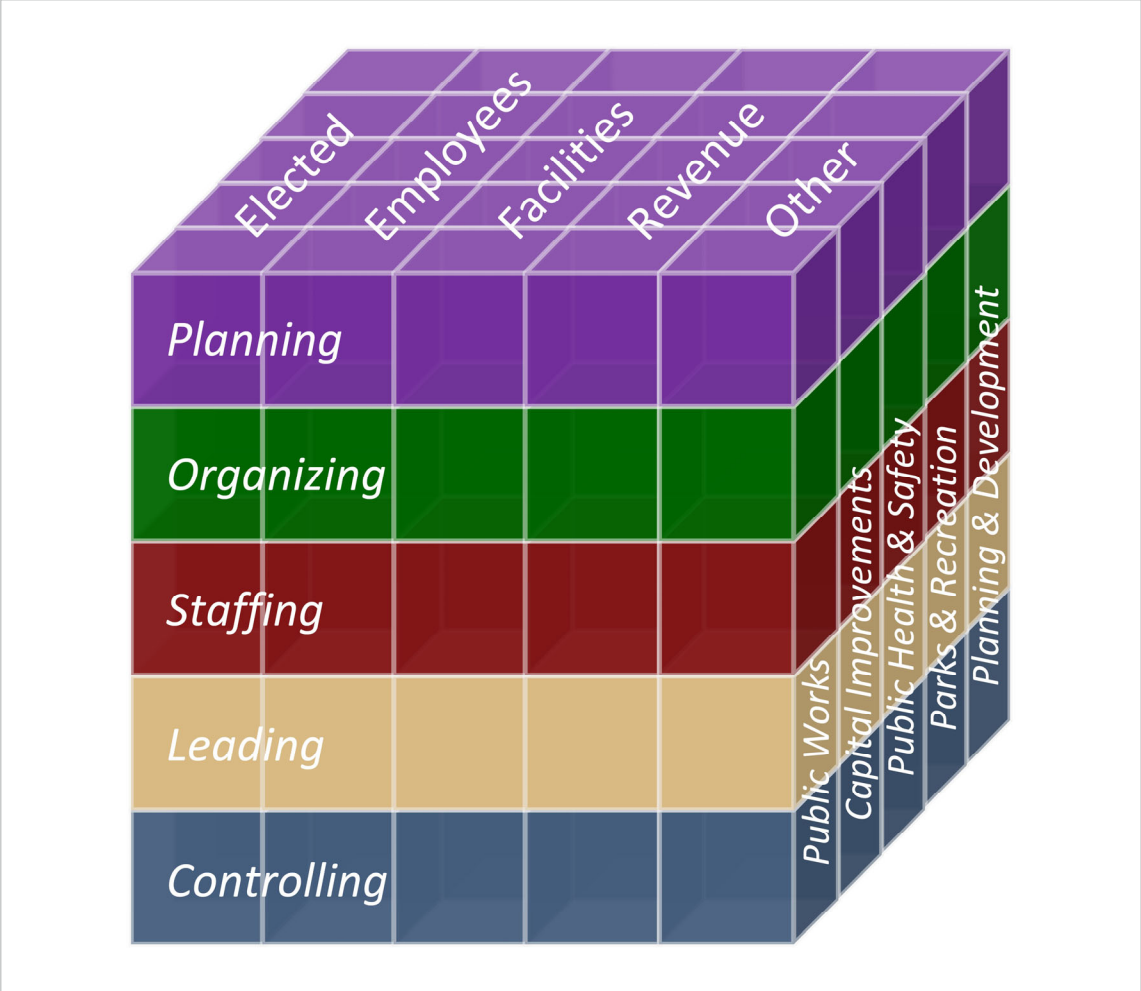
Municipalities are organizations that must be managed

Best practices tell us that systems theory, enterprise architecture, and frameworks really do help

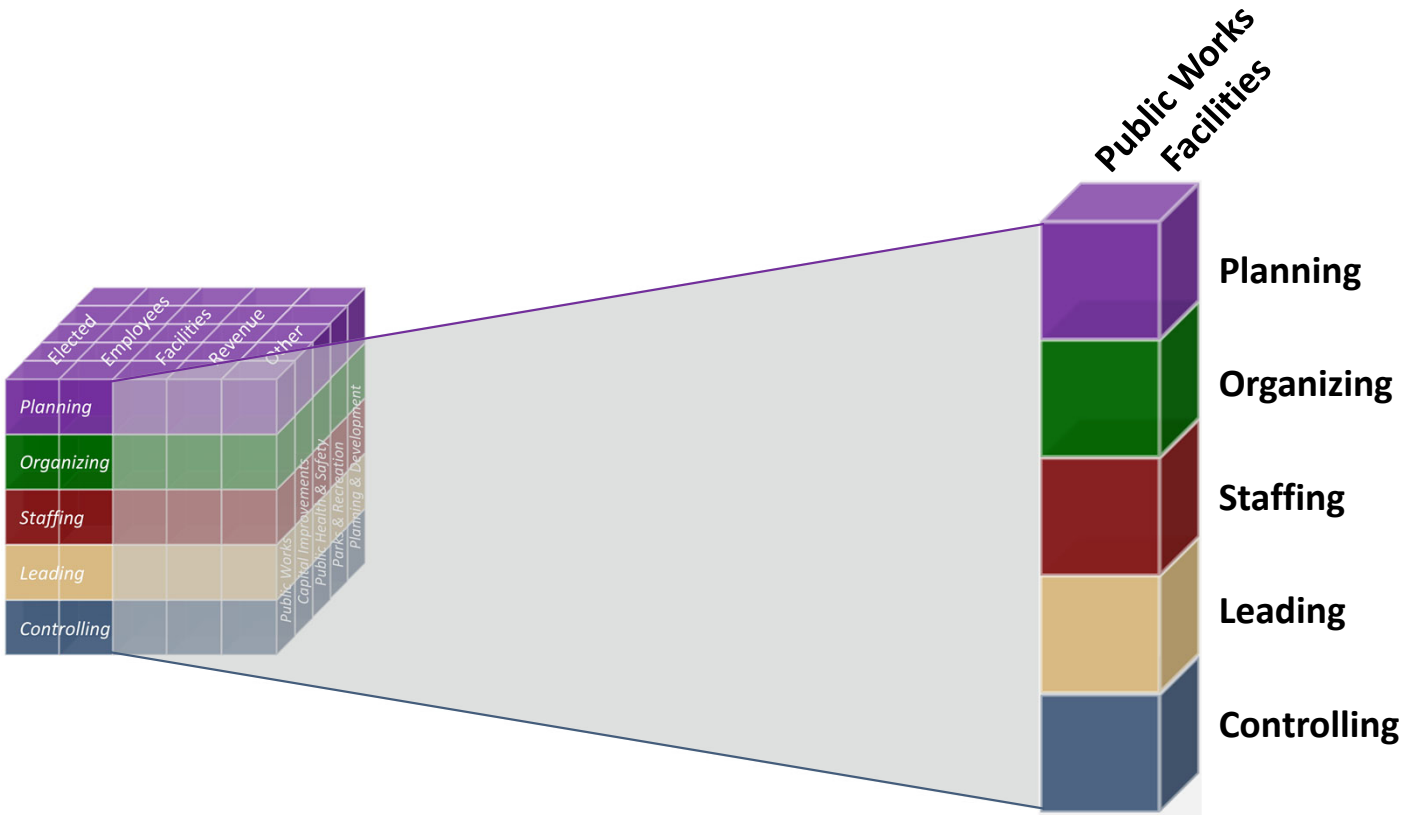
Municipal leaders must plan, organize, staff, lead, and control municipal services for the community

Available resources include elected leaders, employees, facilities, revenue, and (sometimes) other assistance

Municipal services are often managed as separate enterprises, but with aligned values and structure

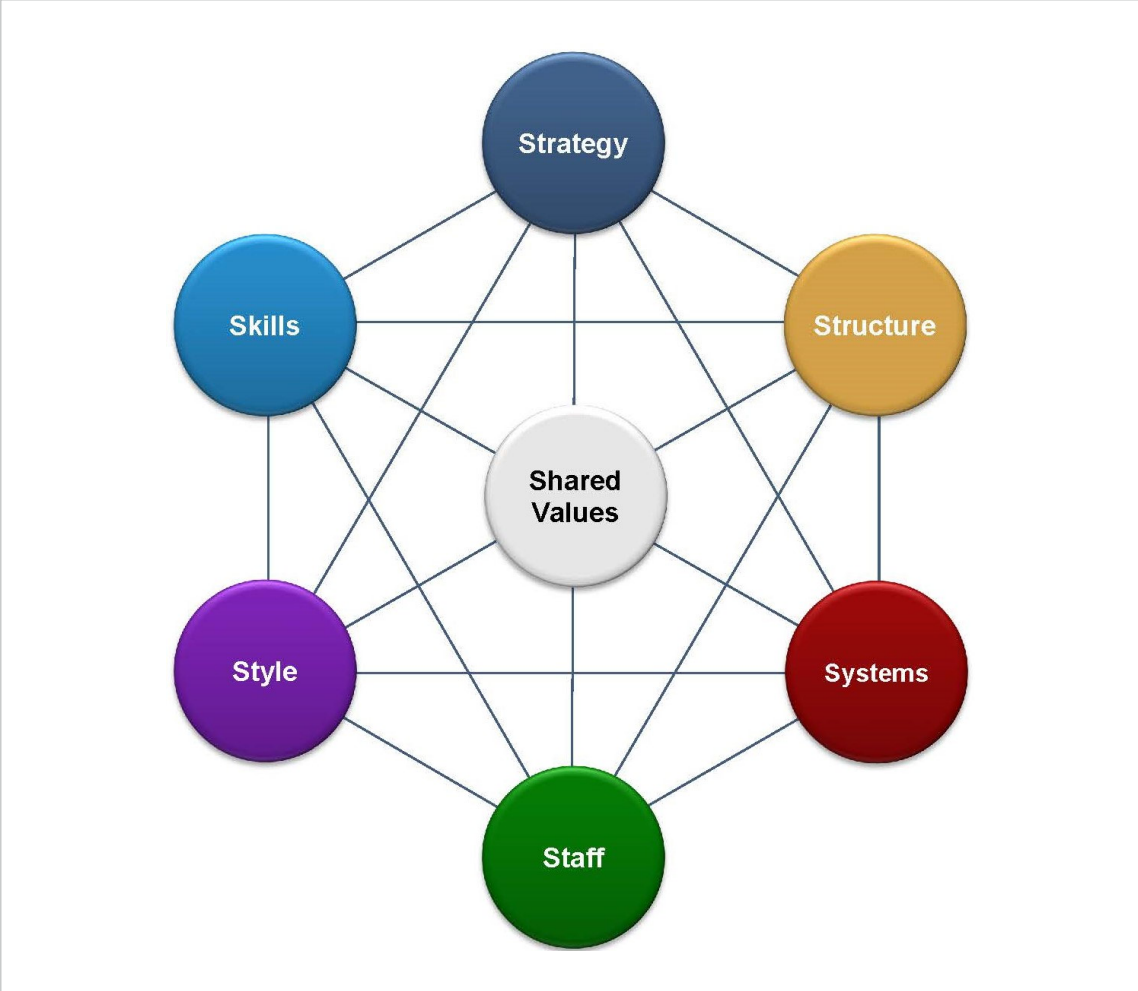


Example: Risk management is basis for how your municipality protects its facilities against loss

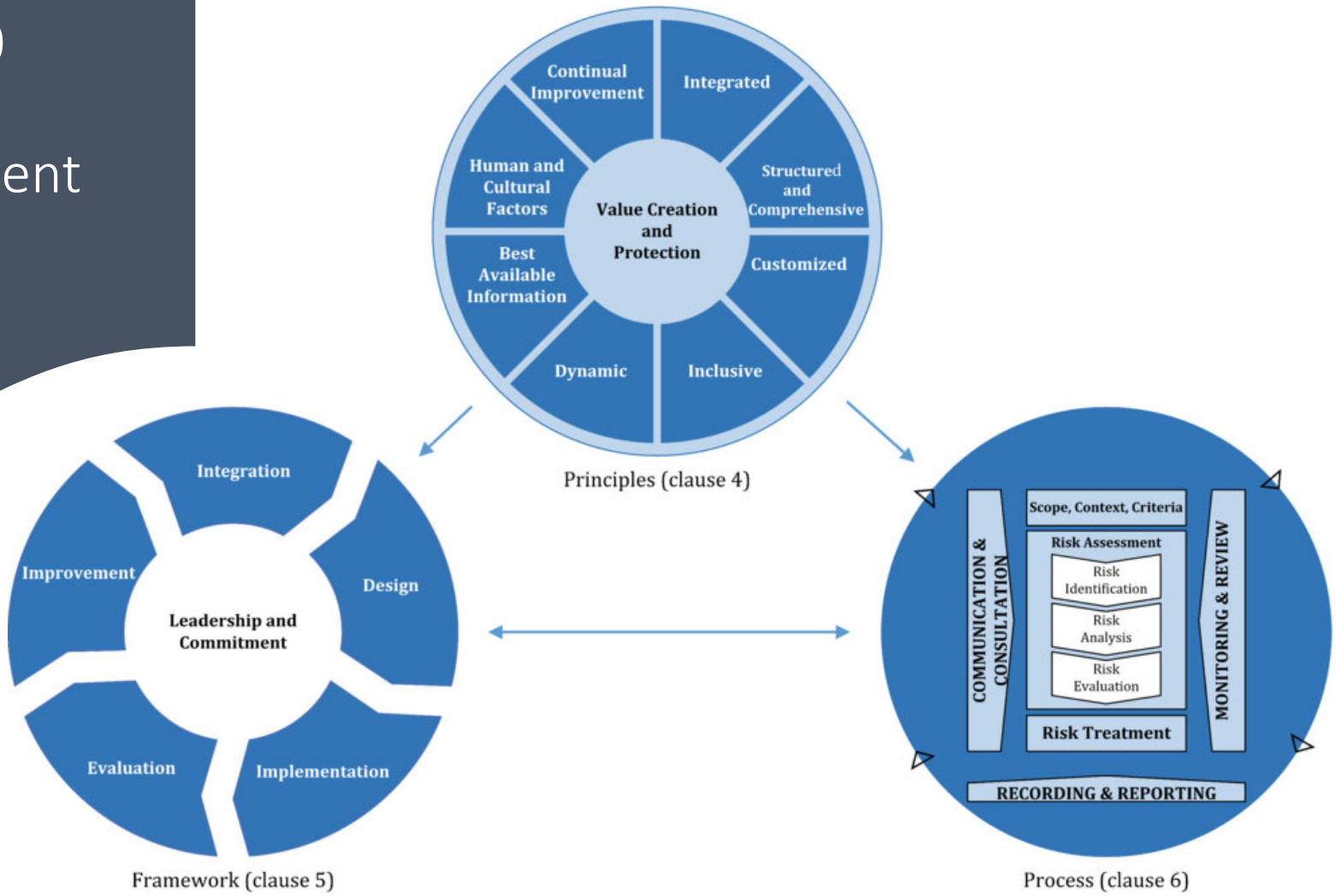


McKinsey 7S Framework

- Management model developed by business consultants Robert H. Waterman, Jr. and Tom Peters
- Organizational analysis tool to assess and monitor changes in any organization
- Theory is that all 7 elements need to align
- Changing one thing will impact the others
- Start with Shared Values

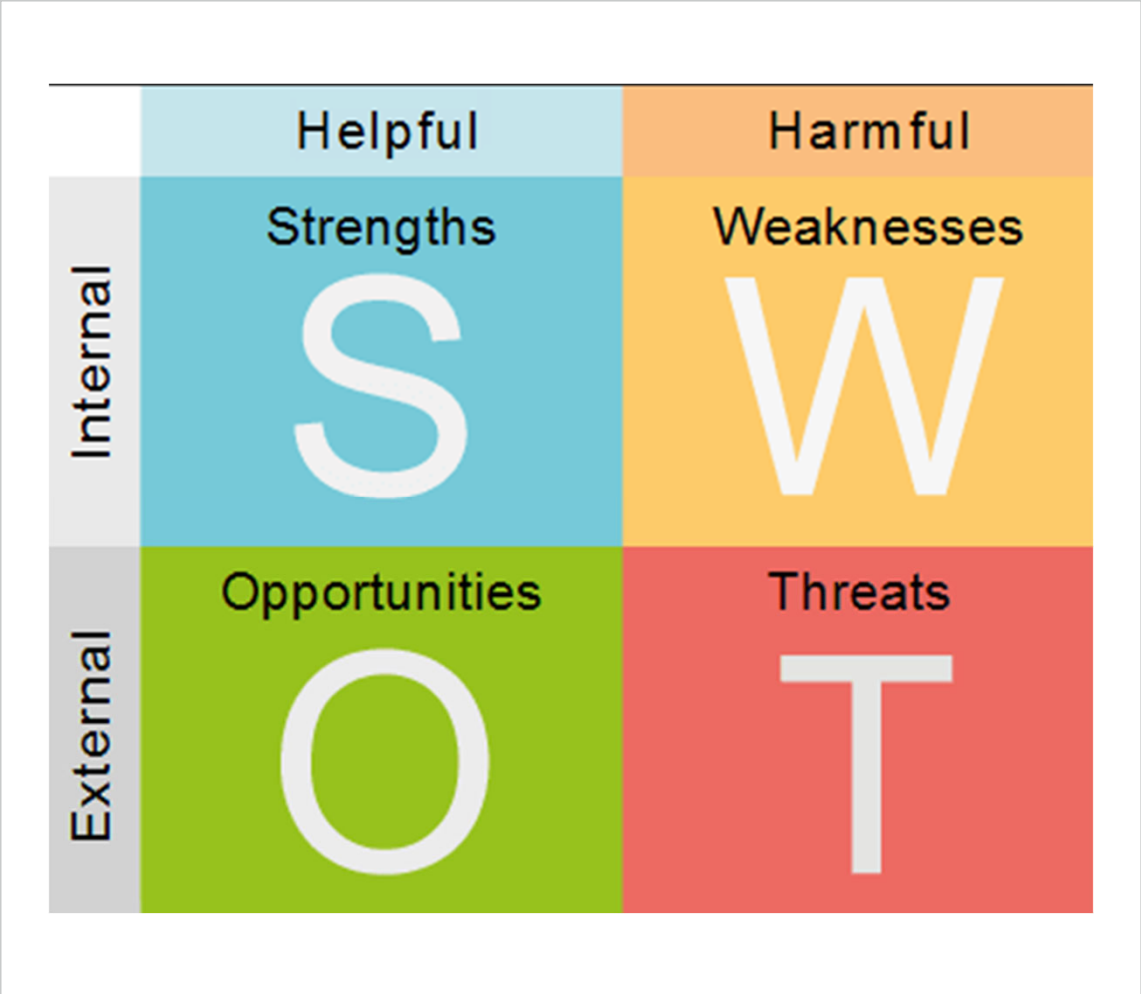


ISO 31000 Risk Management Standard



What is Risk Management?

- Best practice for successful businesses
- Risk management is an active process to identify, evaluate, analyze, monitor, and mitigate your risks
- Goal is to strategically and systematically accomplish your mission in the face of adversity
- Use risk management as you address your SWOT analysis and plan action steps to accomplish your mission

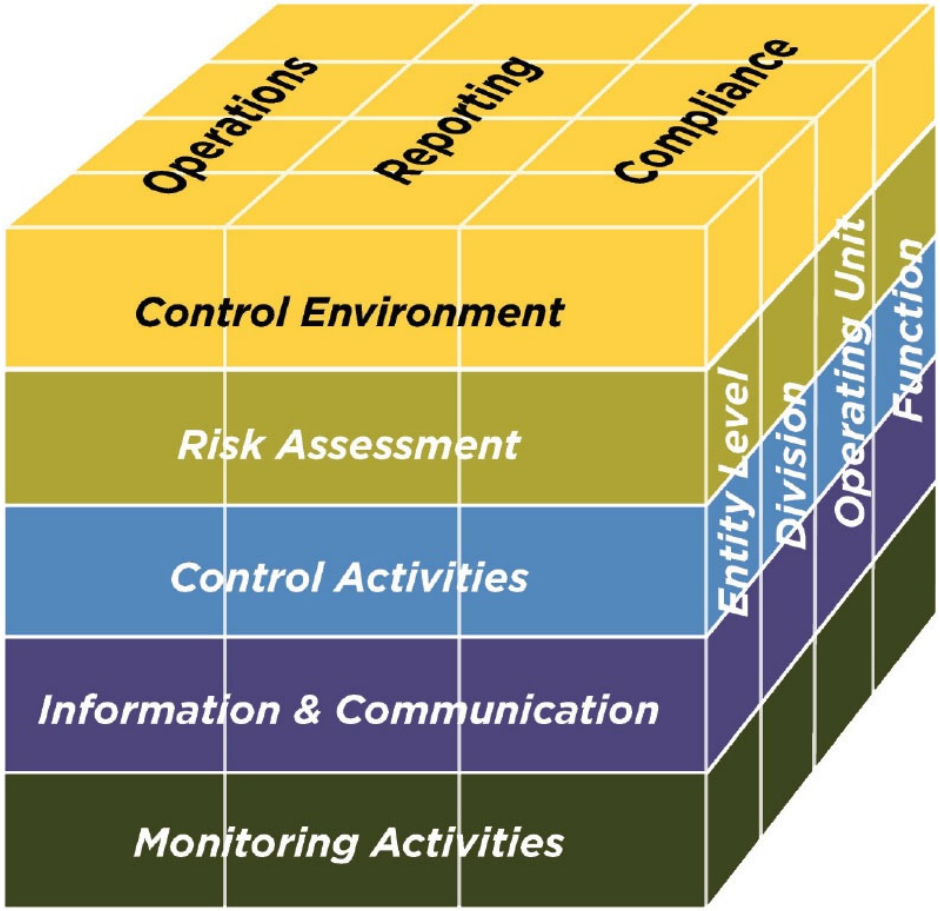


Why adopt a risk management approach?

- Enhances day-to-day and long-term management by focusing on what might wrong and dealing with it early
- Streamlines operations because employees who know standard operating procedures and policies are safer and more effective
- Improves financial management by limiting losses, lawsuits, and injuries and the huge costs associated with them
- Improves consistency and effectiveness of services for customers

What is different for municipalities?

- Sovereignty and municipal immunity no longer provide blanket protection for governments
- In the business world, risk managers are looking to maximize profits, not just avoid losses
- Municipalities cannot simply avoid risks by stopping services
- In the private world, successful risk management brings rewards commensurate with the risk
- In the public world, successful risk management looks a lot more like minimizing losses



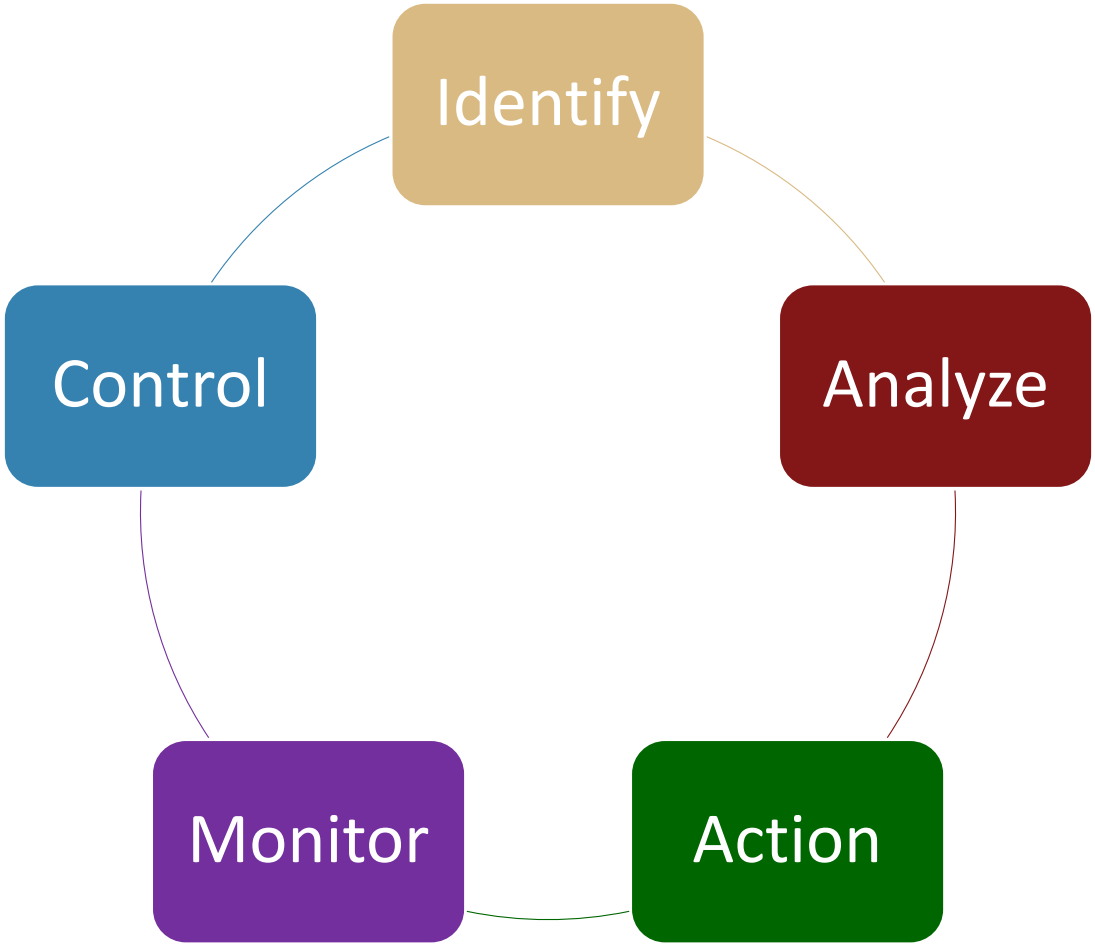
Internal Controls Are Key to Enterprise Risk Management

Wyoming Municipal Handbook recommends that municipalities use the COSO* Framework for internal controls

COSO 2013 Integrated Framework is most current version

**The Committee of Sponsoring Organizations of the Treadway Commission*

The Risk Management Process



What risks does your municipality face?

Internal Risks

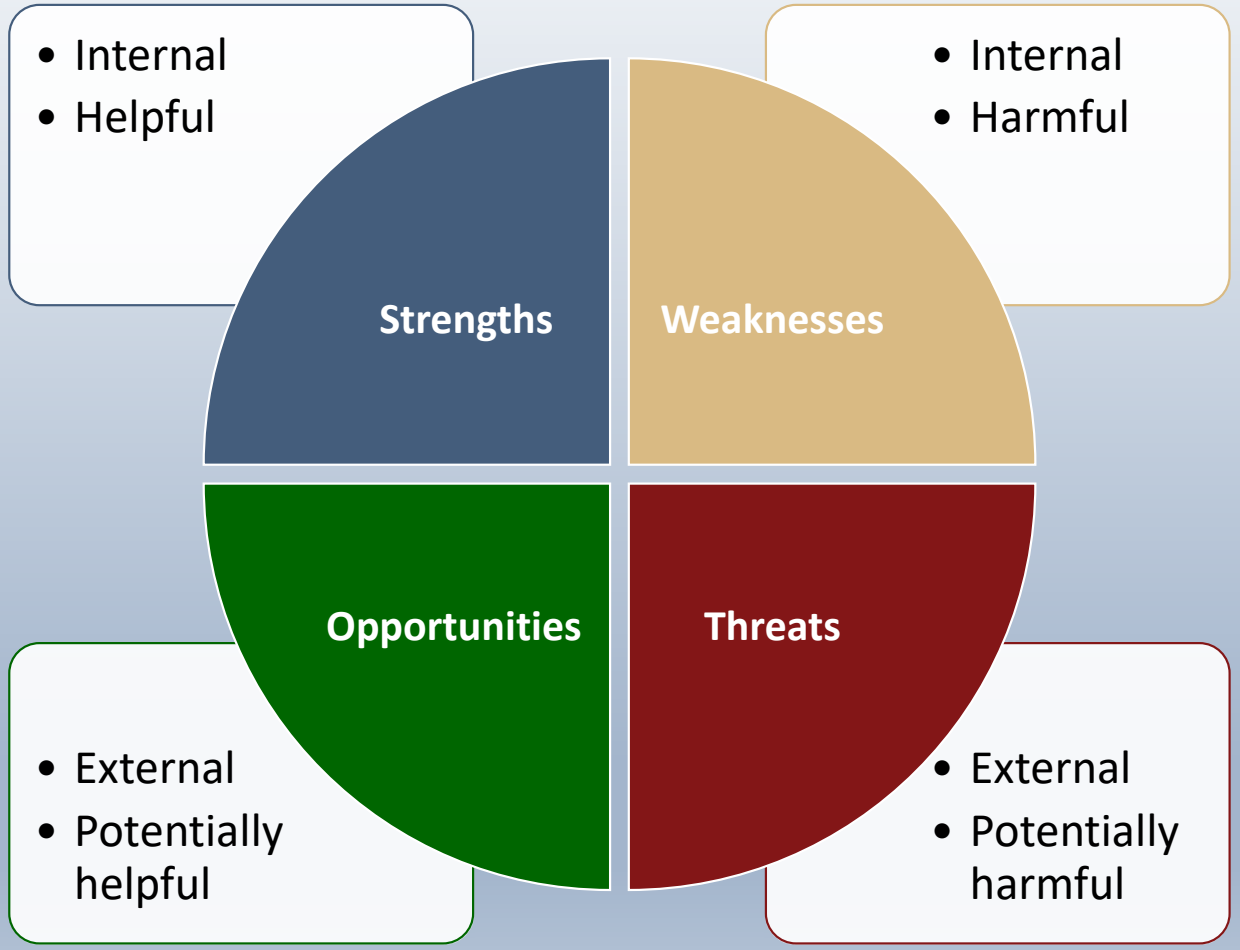
- Human risks
- Illness and death
- Theft and fraud
- Low employee morale
- Equipment/IT
- Maintenance
- Breakdowns
- Downtime
- Physical plan
- Injuries/damages caused by municipality
- Cash flow/finance

What risks does your municipality face?

External Risks

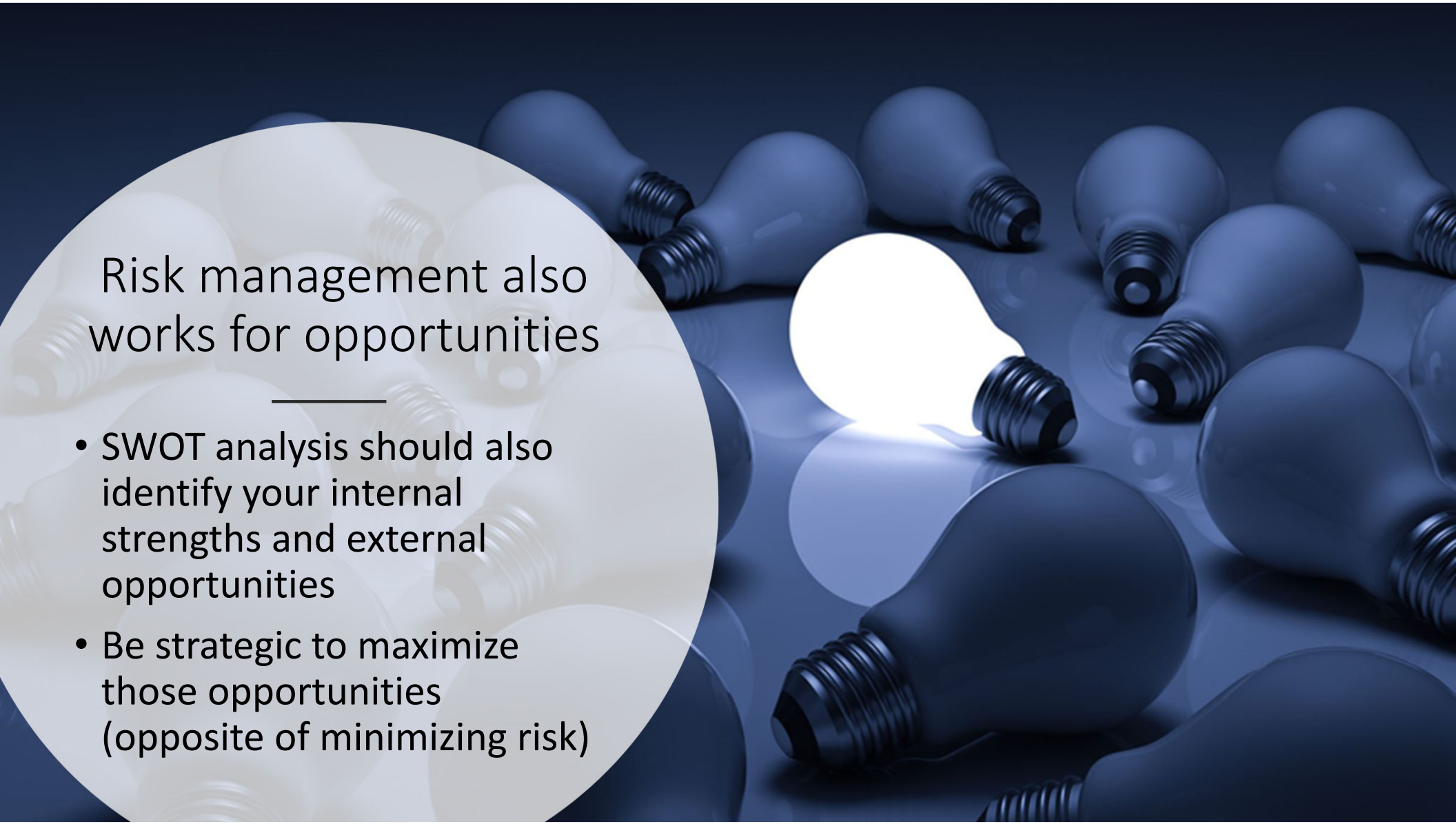
- Revenue
- Market changes
- Competition for workers
- Rent/inflation
- State/federal laws
- Weather & natural disasters
- Demographic changes
- Personal conflict
- Community activities/events
- Vendors

Risk Identification: SWOT Analysis



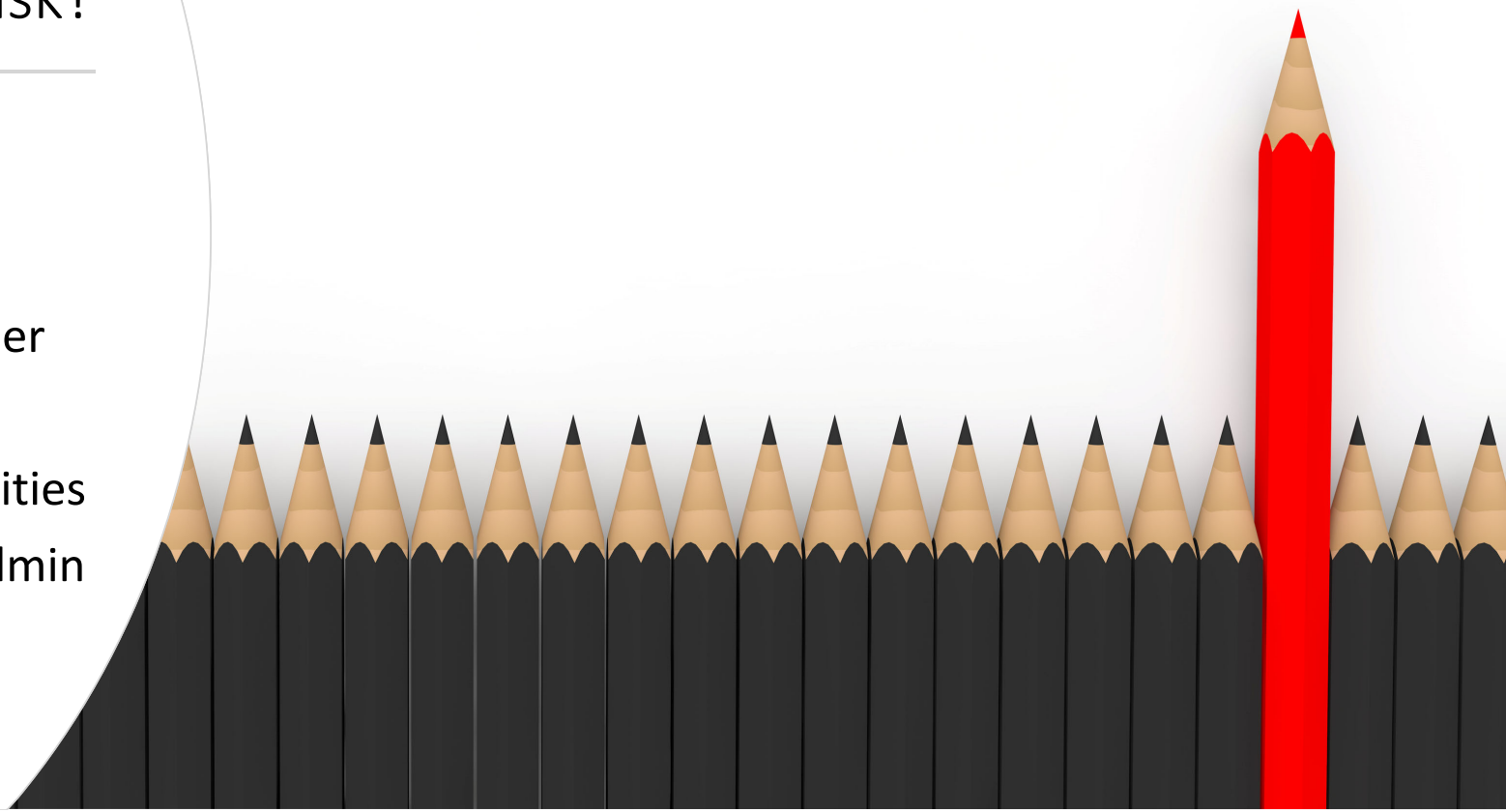
Risk management also works for opportunities

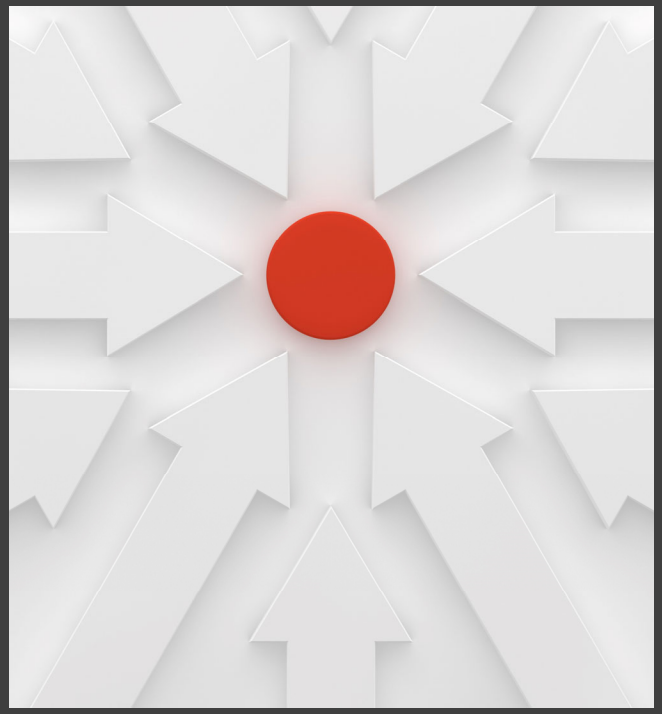
- SWOT analysis should also identify your internal strengths and external opportunities
- Be strategic to maximize those opportunities (opposite of minimizing risk)



Do you have any of the red flags of risk?

- Debt
- Reliance on any particular person, vendor, or stakeholder
- Cash flow problems
- Accounting irregularities
- Computer system admin irregularities
- Employee turnovers





Risk Management Process

Identification of risks

- Plan for risk
  - ✓Continuity
  - ✓Sustainability
  - ✓Set priorities
- Team approach, improve with outside perspective

Risk Evaluation

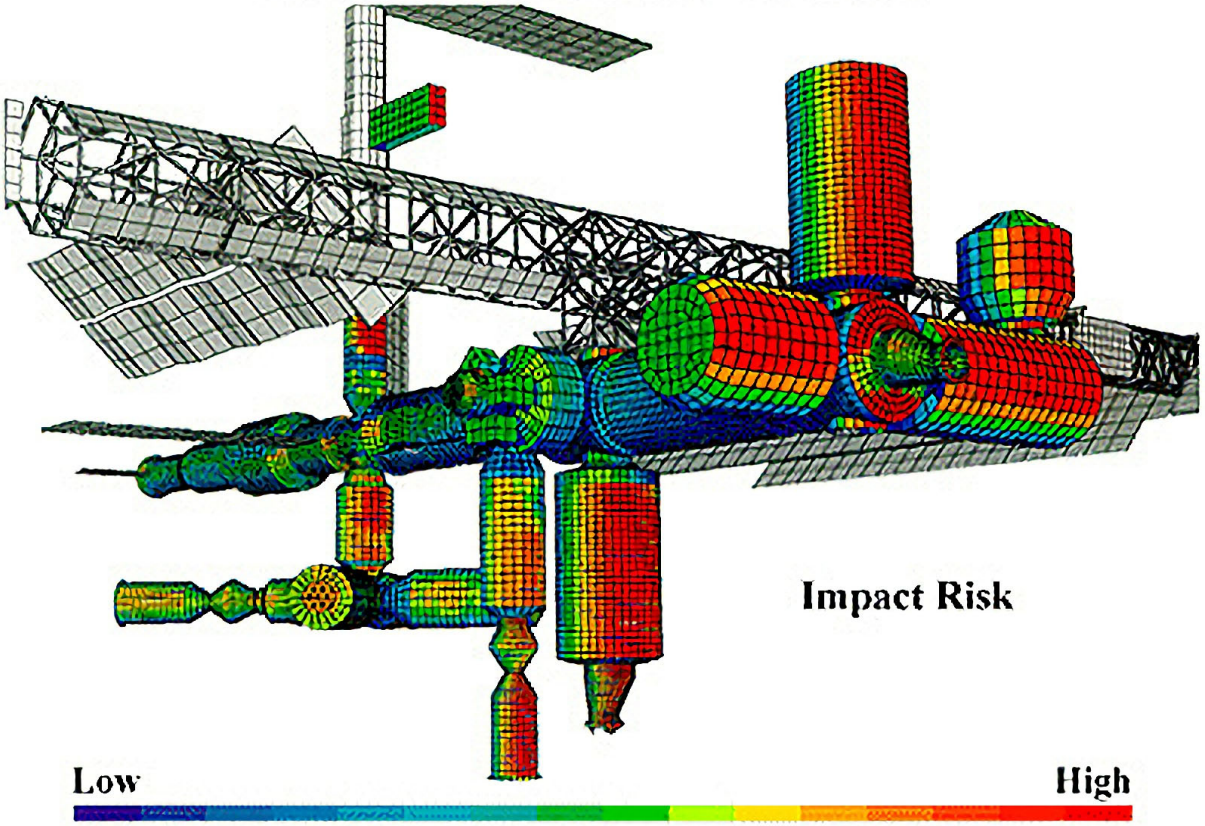
Once identified, risks must then be evaluated for their potential impact

- If the negligible threat you face is unlikely to happen, why worry?
- However, if the consequence of a particular incident might be catastrophic, then ANY exposure might be too much

		Consequence				
		Negligible 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Likelihood	5 Almost certain	Moderate 5	High 10	Extreme 15	Extreme 20	Extreme 25
	4 Likely	Moderate 4	High 8	High 12	Extreme 16	Extreme 20
	3 Possible	Low 3	Moderate 6	High 9	High 12	Extreme 15
	2 Unlikely	Low 2	Moderate 4	Moderate 6	High 8	High 10
	1 Rare	Low 1	Low 2	Low 3	Moderate 4	Moderate 5

International Space Station

Probability of No Impacts From a > 1 cm Ø Debris



Hazards

- Fire
- Explosion
- Natural hazards
- Hazardous materials spill or release
- Terrorism
- Workplace violence
- Pandemic disease
- Utility outage
- Mechanical breakdown
- Supplier failure
- Cyber attack

Probability & Magnitude

Hazard Identification

Assets at Risk

- People
- Property including buildings, critical infrastructure
- Supply chain
- Systems/equipment
- Information Technology
- Business operations
- Reputation of or confidence in entity
- Regulatory and contractual obligations
- Environment

Vulnerability

Vulnerability Assessment

Impacts

- Casualties
- Property damage
- Business interruption
- Loss of customers
- Financial loss
- Environmental contamination
- Loss of confidence in the organization
- Fines and penalties
- Lawsuits

Impact Analysis

Different ways to evaluate

Assessments can use whatever scale or scoring system that works for you

<u>Bottom line</u>:

- What could happen?
- How likely is it to happen?

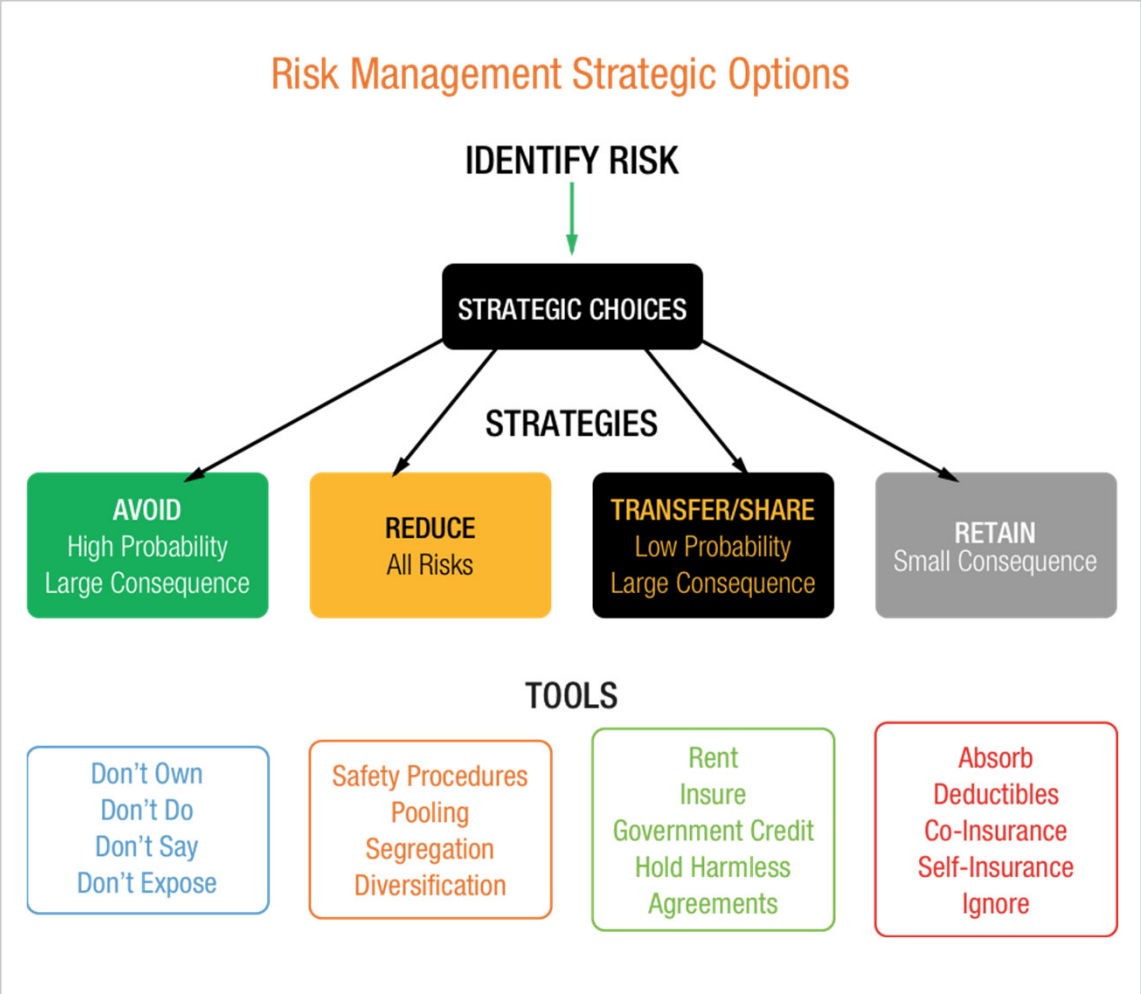
Once you evaluate the likelihood and potential severity of any identified risk, it becomes easier to narrow your options for addressing it

teamgantt

SCALE OF LIKELIHOOD	SCALE OF SEVERITY			
		ACCEPTABLE	TOLERABLE	GENERALLY UNACCEPTABLE
	NOT LIKELY	LOW	MEDIUM	MEDIUM
	POSSIBLE	LOW	MEDIUM	HIGH
	PROBABLE	MEDIUM	HIGH	HIGH

Risk Management Options/Choices

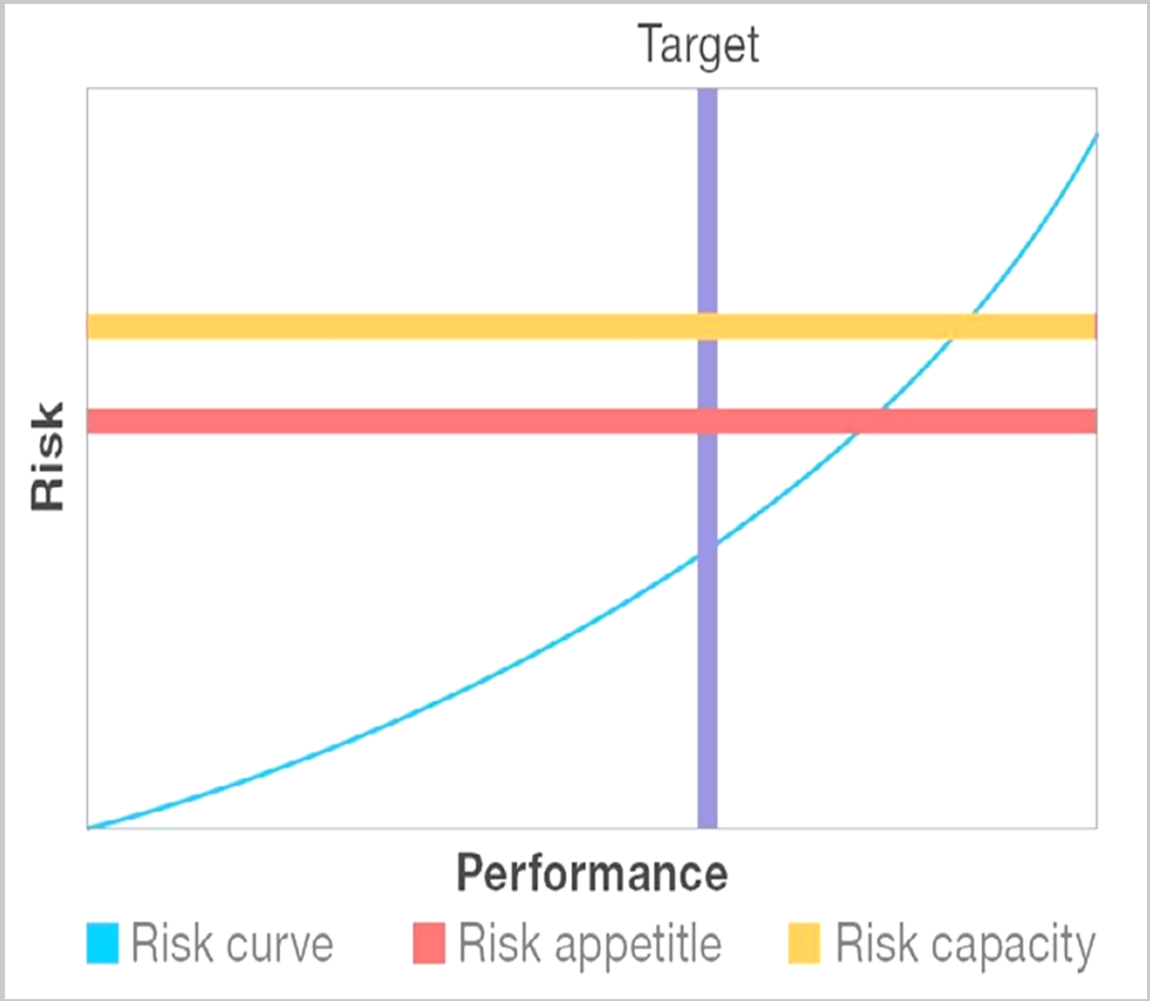
- Avoidance
- Reduction (mitigation)
- Transfer or share
- Accept or retain

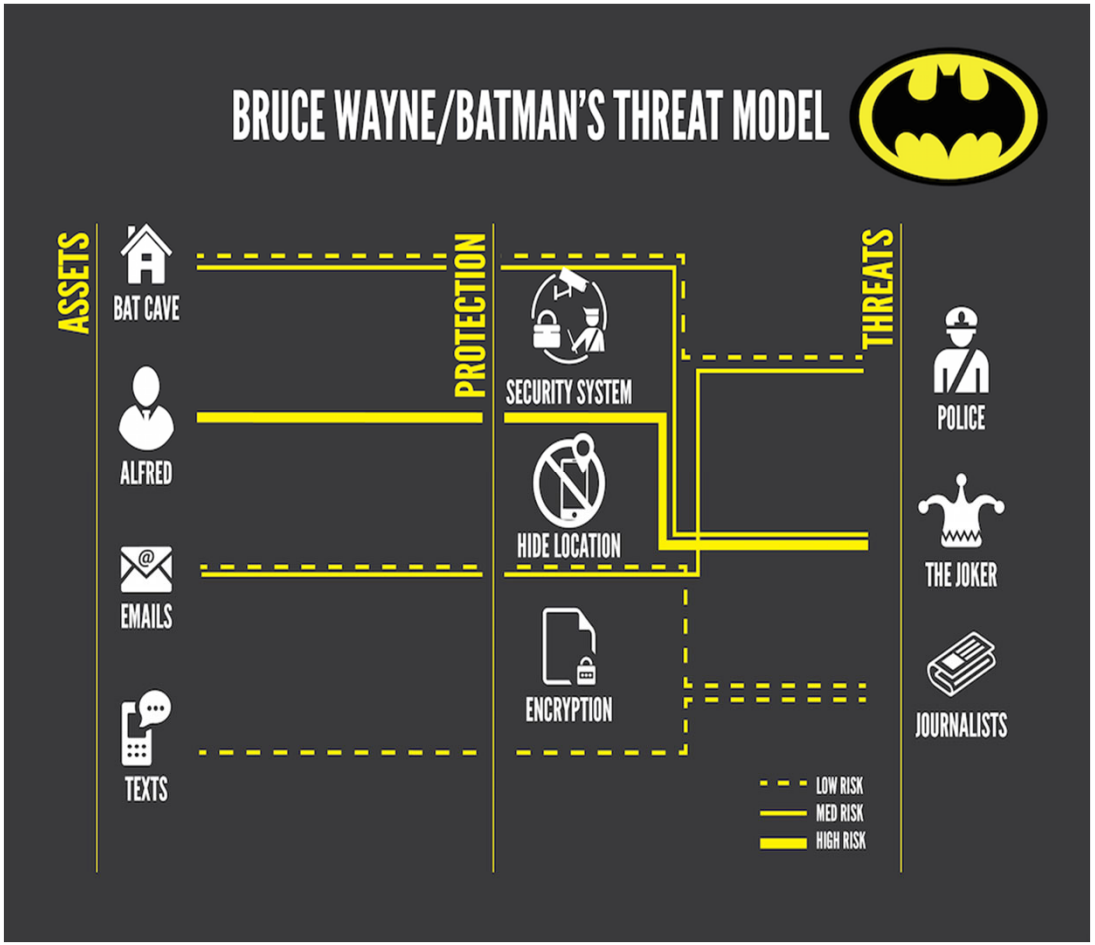


How do you make risk management decisions?

Leadership determines the organization's **Risk Profile** to guide how they will handle risk, including their:

- **Risk Appetite** – Willingness to take risks
- **Risk Capacity** – Ability to take risks
- **Risk Tolerance** – Defines limits or boundaries of the risks





Threat Model

- Risk management often is all about security
- Threat models combine these concepts to create a risk management plan
- Consider your assets, the threats they face, and what you are willing to do to protect them
- It really helps to map it out

Risk Management is broadly used for municipal operations

Many municipalities have purposefully developed effective risk management programs (and regularly update them), including:

- Preventative measures (training and workshops)
- Control measures (policies, SOPs, inspections)
- Risk transfer – insurance company or risk management pool or hybrid
  - ✓Property insurance (facilities and other assets)
  - ✓Liability insurance (negligence)
  - ✓Workers' compensation (employee hurt on job)
- Risk retention (self insurance)
- Risk avoidance (limited use for municipalities, who cannot really avoid providing services)

Risk management is critical for Accounting and Cash Control

- Risk of theft and fraud
- Separation of duties
- Accepting/processing payments (2 people for counting/logging)
- Preparing bank deposits
- Reconciling bank statements
- Require higher authority to make changes & undo transactions
- Conduct periodic and surprise audits (internal and external)

Risk Management is commonly used for Property & Facilities

- Managers should consider and discuss risk
- Provide a safe workplace (required)
- Monitor the premises
- Be alert to community changes
- Property insurance
- Liability insurance
- Contingency plans

Strategies: Predict and Prevent

Be proactive, don’t wait to react!

- Data analysis
- Trend analysis
- Best practices
- Targeted training for specific problems
- Safety/security/privacy audits
- Emergency response
- Surveillance/monitoring

Example of Risk Management Planning

Organization is dependent on high-speed printer/copier

- Breakdowns can cost time and money
- Maintenance (extra contract ?) can minimize losses
- Monitor usage/service

Examples of Risk Management Planning

Vendors

- Consider more than one supplier for products
- Shop around
- Maintain relationships
- Investigate supply chain risks

Risk management should be used for managing employees

- Pre-employment screening
- Use job descriptions and employee policies
- Conduct performance evaluations
- Managers should be engaged (e.g., evaluate employees' fitness for duty)
- Leadership should audit payroll, reward safety, keep salaries/benefits competitive

Risk Management at work

- Don’t have to be complicated, but everyone has a role
- Common sense works (e.g., save your work as you go and back up your files so you don’t waste time or lose work products)
- Proactive, not reactive
- Leaders and managers (and employees) come in a wide variety of skills, knowledge, abilities, and experience
- Risk mitigation methods like written policies and standard operating procedures bring stability and consistency
- Compliance risk assessment – policy and procedure review
- Training and retraining – discipline violations

Strategy: Create a positive risk culture

- Talk to your managers, employees, contractors, and partners about your risk management strategy
- Encourage safety as a habit
- Follow risk compliance standards and frameworks
- Eliminate manual processes and outdated practices

Strategies: Change Workplace Culture

- Emphasize health, safety and wellness as core values
- Encourage habits that improve workplace culture
- Provide training that raises awareness and reviews policies
- Create workplace safety advisory team
- Engage employees with newsletter/other communication
- Managed health care (chronic diseases)

Strategies: Work with Others

- Many municipalities have an Employee Assistance Program (EAP) to help employees with mental health, substance abuse, etc., by contracting with a 3rd party healthcare provider
- Many municipalities have a Drug Free Workplace policy, tested by 3rd party healthcare provider
- Several of Wyoming's largest local governments have created a liability pool (WARM)

- Risk management is best practice for successful organizations – it's all about choices
- Process to identify, evaluate, analyze, monitor, and mitigate risks
- Risk management connects SWOT to your strategic plan
- Management choices include avoidance, reduction (mitigation), transfer or share, or acceptance of risks
- Choices are guided by risk profiles, which identify risk appetite, risk capacity, and risk tolerance
- Loss prevention is most obvious use, but all municipal services and operations benefit from risk management

Risk Management Summary