

WORKFORCE SOLUTIONS TEXOMA POLICIES & PROCEDURES

CHAPTER 7 - RISK ASSESSMENT

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7.1 GUIDELINES

7.1.1 GENERAL PROVISIONS

This policy describes the risk assessment process for the Workforce Solutions Texoma, its Subrecipients and Contractors/programs. It establishes common terminology and provides a process for ensuring coverage of major risk areas so that the most important issues are addressed first. Risk assessment is an integral part of accomplishing the mission of ensuring the highest degree of compliance by WST.

The Risk Assessment will help accomplish the following objectives:

- 1) To identify activities with the highest risk to the WST.
- 2) To identify any "red flags" and minimize serious problems from activities provided by WST and/or subrecipients/contractors.

A risk assessment for each major activity should be conducted annually by the WST Quality Assurance Manager, Fiscal Officer, and/or other Board staff through utilization of the below procedures/methodology. The Risk Assessment will be maintained in the Quality Assurance Manager's office.

7.1.2 DEFINITIONS

- 1) Risk is the change that something will happen that will adversely impact the success of achieving expected results.
- 2) Risk assessment is a thoughtful judgment that identifies high risk areas through consideration of the following factors:
 - a. Instability in the management environment
 - b. Ineffective or inefficient controls
 - c. Significant gaps between expected and actual results
 - d. Identification of risk and probability values

- 3) Enterprise Risk Management (ERM)

According to the Enterprise Risk Management (ERM) philosophy, an ERM helps an organization understand if it is on track, foresee and avoid problems, and slow down or stop when issues are encountered. In addition, an ERM program allows management to quickly respond to get the organization back on track and provides an infrastructure in which coordinated braking and steering through various activities occurs. Benefits of ERM include:

- a. Reduce the incidence of serious negative surprises.
- b. Quickly identify emerging risks and problem areas before they escalate and cause serious harm.
- c. Respond to expectations of regulators, stakeholders, and others.
- d. Make risk controls understandable.

The ERM provides an avenue to:

- a. inventory activities performed to achieve organizational objectives
- b. inventory risks (boundaries and obstacles) associated with activities

- c. assign a value to each risk to impact achievement of objectives and probability of occurrence without mitigation strategies
- d. produce a risk footprint
- e. monitor mitigation strategies used to manage each activity on the risk footprint
- f. assign monitored strategies to identified risks
- g. identify under-and over-controlled risks
- h. identify excess or unproductive mitigation strategies
- i. perform a real-time assessment of risk management efforts.

7.2 RISK ASSESSMENT PROCEDURES

7.2.1 Create a Risk Footprint

Using the Enterprise Risk Management (ERM) tools, at least three (3) Board staff will participate in activities designed to create a Risk Footprint that will identify risks associated with Board and Service Provider activities. The ERM tools consist of Excel spreadsheets that contain macros to link information gathered during the risk assessment procedure. Prior to beginning activities in 7.2 below, open the file Extended Blank RSAmacros 1002. At this time, a pop-up screen will open and "Enable" macros should be selected. This file should remain open during the entire Risk Footprint process. Further details on working with the ERM tools can be found in Attachment 1 – Procedure for Setting Up RSA With Macro

7.2.1.1 Brainstorm Activities

A list of Board and service provider activities will be created via a brainstorming process. Identified activities should reflect a comprehensive list of actions that Board and Service Provider performs in order to meet organizational goals and objectives. Activities will be documented on the ERM Brainstorming Activities Excel spreadsheet and transferred via macros to the Activities worksheet of the ExtendedRSA spreadsheet.

7.2.1.2 Consolidate Activities into Major Processes

Individual activities will be consolidated/collapsed into overall process groups using the Activities worksheet of the ExtendedRSA Excel spreadsheet. Using the same Activities worksheet, consolidated activities will then be prioritized.

7.2.1.3 Identify Consequences and Assign Impact Values

Using the Consequences and Parking Lot Excel spreadsheet, consequences will be identified. Consequences are penalties that the Board would suffer if a risk were to become a reality. There are a finite number of potential consequences that can be identified. Impact values will be assigned to each consequence. Impact values are identified as high, medium, or low. The identified impact value of any risk is the value of its highest potential consequence. The impact values of identified consequences will then be assigned to each identified activity – see 7.2.1.5 for details.

7.2.1.4 Brainstorm Risks for Each Process – Impact and Probability Values

Each consolidated activity, with its subgroup of activities, documented on the ExtendedRSA spreadsheet will be transferred to its own worksheet within the Extended RSA spreadsheet via Excel macros. Once this is accomplished, each individual activity within each major consolidated activity will be assigned both an impact and probability levels as well as consequences to the Board should the activity occur. In order to risk rank each activity, the following impact and probability definitions will be followed:

7.2.1.4.1 Impact – Impact is defined as the **effect** on achievement of goals and objectives. Impact rankings are as follows:

- High – extremely detrimental to the organization’s ability to perform
- Medium – inefficient and causes extra work for staff
- Low – no effect

7.2.1.4.2 Probability – Probability is defined as the **likelihood** of the risk occurring. Probability rankings are as follows:

- High – will happen frequently
- Medium – will happen infrequently
- Low – will seldom happen

Consequences will be also documented on each Activity/Risk worksheet. Consequences are those risks to the organization that are anticipated to occur should the activity occur. Consequences will be identified from the Consequences and parking Lot Excel spreadsheet developed in 7.2.1.3 above.

7.2.1.5 Construct the Risk Footprint

Once each activity in the consolidated activities has been assigned an impact and probability rating as well as a consequence, each activity will be identified with a combined Risk Ranking. Risk Rankings are as follows:

- a) High/High - HH
- b) High/Medium - HM
- c) High/Low - HL
- d) Medium/High – MH
- e) Medium/Medium – MM
- f) Medium/Low – ML
- g) Low/High – LH
- h) Low/Medium – LM
- i) Low/Low – LL

After combined Risk Rankings have been identified for all activities within each consolidated activity, move to the Risk Matrix worksheet contained within the ExtendedRSA spreadsheet. Click on the “Set Up Risk Matrix” box at the top of

the worksheet. Each activity and its combined risk ranking will be transferred via Excel macros to the Risk Matrix worksheet. Risk rankings will be identified on the Risk Footprint by combined risk rankings and assigned colors as follows:

Custom Sort List for Rated Risks	
HH	
HM	
HL	
MH	
MM	
ML	
LH	
LM	
LL	

7.2.2 MONITORING ACTIVITIES

The Risk Footprint is used for the following:

- a) Management can use the footprint to allocate resources to manage risks that can affect the achievement of goals and objectives.
- b) WST Monitoring department can use the footprint to provide governance and executive management with appropriate level of assurance on all identified risks.

7.2.2.1 Levels of Control

In order to develop a comprehensive monitoring plan based on the Risk Footprint, levels of control and evidence of control must be identified for all activities within each consolidated activity. The four levels of control are as follows:

7.2.2.1.1 Level 1 Controls - Execution Controls

- Embedded in day-to-day operations
- Policies and procedures
- Segregation of Duties
- Reconciliations/Comparisons
- Performed on every event/transaction
- Performed by the generators of the event/transaction
- Performed in 'real time', as the event/transaction is executed

7.2.2.1.2 Level 2 Controls - Supervisory Controls

- Re-application of operating controls
 - Supervisory Review
 - Quality Assurance
 - Self-Assessment
- Performed very soon after the generation of the event/transaction

- Performed by line management or staff positions who do not originate the event/transaction
- Performed on a sample of the total number of events/transactions

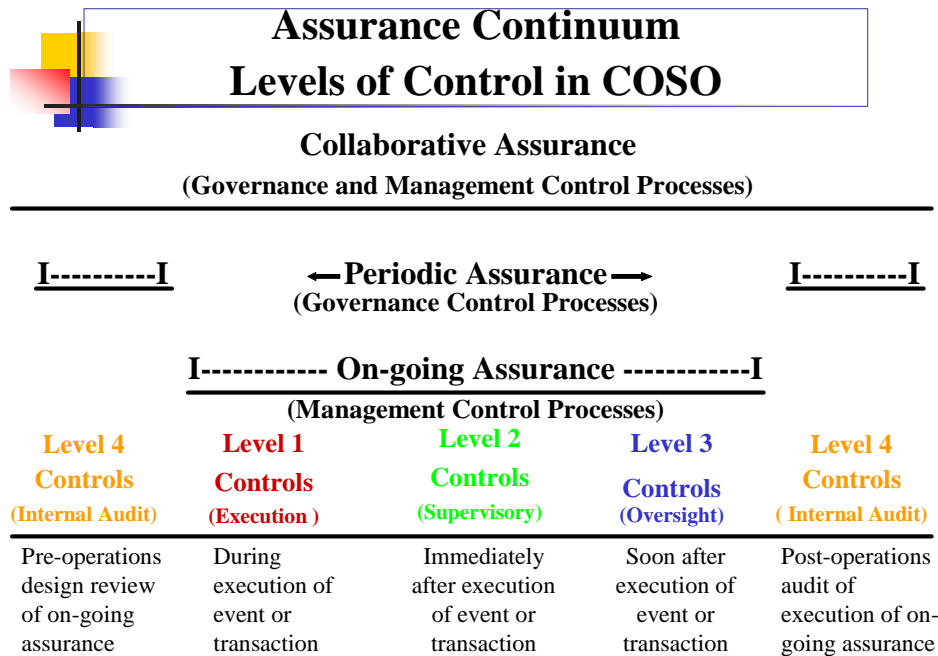
7.2.2.1.3 Level 3 Controls - Oversight Controls

- Exception reports, status reports, analytical reviews, variance analysis
- Performed by representatives of executive management
- Performed on information provided by supervisory management
- Performed within a short period (weeks/months) after the event/transaction is originated

7.2.2.1.4 Level 4 Controls - Internal Audit Controls

- Audit of the design of controls not the operation of controls
- Performed either before the event/transaction is originated or long after
- Performed by staff with no involvement in the operations
- Performed on individual events/transactions for discovery only

Enterprise Risk Management suggests the following Levels of Control for ongoing assurance/Management Control Processes:



7.2.3 Create a Control Footprint

Based on the information contained in the Risk Footprint, develop Levels of Control and Evidence of Control for each activity within each consolidated activity. This is accomplished on the Optimization Spreadsheet. A control

footprint matrix will be constructed for each consolidated activity on the risk footprint. The Risk Axis (horizontal axis) contains the prioritized risks taken electronically (via macros) from the risk footprint. The Control Axis (vertical axis) contains all the control steps that should be present. An "X" is placed in each cell on the matrix where a control step operates on a risk.

7.2.4 Create Monitoring Plans

WST will monitor to ensure there is documentation for each evidence of control identified in the Control Footprint. Thereafter, a monitoring plan will be developed for the following identified risk rankings:

- a) HH, HM – Perform extensive risk management and considerable risk management (all Levels of Control plus a traditional audit). Identified on Risk Footprint as Red.
- b) HL, MH – Manage and monitor these activities. Include all Levels of Control but no traditional audit. Identified on Risk Footprint as Yellow.
- c) MM, ML, LH – Monitor the Execution Controls and Supervisory Controls. Identified on Risk Footprint as Green.
- d) LM, LL – Accept these activities as having low risk. No controls or monitoring is necessary. Identified on Risk Footprint as Grey.

The monitoring plan will be used to check for compliance of the following levels of control:

- a) Each Level 3 control will be checked, then the associated Level 2 Control will be checked to validate they were performed.
- b) If WST is unable to validate the performance of a Level 3 or Level 2 control, a detailed check of transactions for the associated Level 1 control will be performed.
- c) If Level 3 and Level 2 controls are validated, WST will only perform discovery sampling of the "stand-alone" Level 1 controls.

7.2.5 ASSESSING ADDITIONAL RISK FACTORS

Additional information that can be included in the Board's Risk Assessment includes results from the Statewide Risk Assessment. Activities/categories rated as high or medium risk by the Statewide Risk Assessment may be incorporated into the Board's formal risk assessment, or may be included in the Board's monitoring activities. In addition, the Board's Risk Assessment can be amended throughout the year as activities, performance, funding, or contractual changes take place.

ATTACHMENT 1

PROCEDURE FOR SETTING UP RSA WITH MACROS

1. When you receive your diskette with the Blank RSA Workbook, **Copy the folder** to your working destination. RE-NAME the FOLDER to the name of the group with whom you are working.
 - a. Once copied to your hard drive, make sure the files are not marked "Read-Only."
 - b. Make sure your computer's security level will allow Macros to run. If the "Enable Macros" window does not pop-up when you open the Macros file, ask your IT support person to help you change the security level to allow macros to run.
2. **Open** the file [ExtendedBlankRSAmacros1002]. A pop-up screen should come up and you should select **Enable** the Macros. Although this file must remain open, you will not use it further.
3. **Open** the [5.1.03extendedRSA] workbook. Say "NO" to updating the links. **Type** in your Mission Statement or the name of your working unit on the **Mission** worksheet.
4. **Go To** the "Risk Matrix" worksheet. **Left Click** the "Set Up Matrix" tab. A window that says "Done" should pop up. If it pops up, GO TO STEP # 6. If a window that says "Done" does not pop-up: **Right Click** the "Set Up Matrix" tab which is located in the upper left corner of the page and continue with step # 5.
5. An "Assign Macros" box should pop up. If the name of the Macros or the location of the Macros does not match the Macros workbook name and location which you copied onto your computer, **Select** the "All Open Workbooks" tab at the bottom of the pop up box. (If the selection tab lists the correct name and location of the copied Macros workbook, **Select** that set of Macros.) A list of individual macros should then appear in the pop up window. When they do, **Left Click** on the "Setup Risk Matrix" and then **Left Click** on the "Assign" button, located on the right side of the pop up box.
6. You are now ready to use the workbook with the macros.
7. When you begin the RSA workshop, start with the [5.1.03 Brainstorming Activities] workbook, as outlined in the RSA PROCESS Example file.
8. After brainstorming your activities, GO BACK TO the [5.1.03extendedRSA] file and do the following: (1) consolidate the activities; (2) prioritize the consolidated activities [an Activity Sheet is automatically generated for each

activity in this column]; (3) brainstorm risks for each activity on its Activity Sheet and (4) assign the impact and probability for each risk.

9. GO TO the Risk Matrix worksheet and click on "Set Up Risk Matrix" button again. Your Risk Footprint will now set up and the "Done" window will pop up. You may format this page after you un-protect it on the Tools Menu or you may copy and paste it into the Formatted Risk Footprint workbook. (Instructions for the Formatted RF workbook are on page 2 of that file.)

NOTE: Keep each Risk Assessment (including a copy of the macros) in its own FOLDER or disk.