Developing a risk management plan

NOT-SO-RISKY BUSINESS

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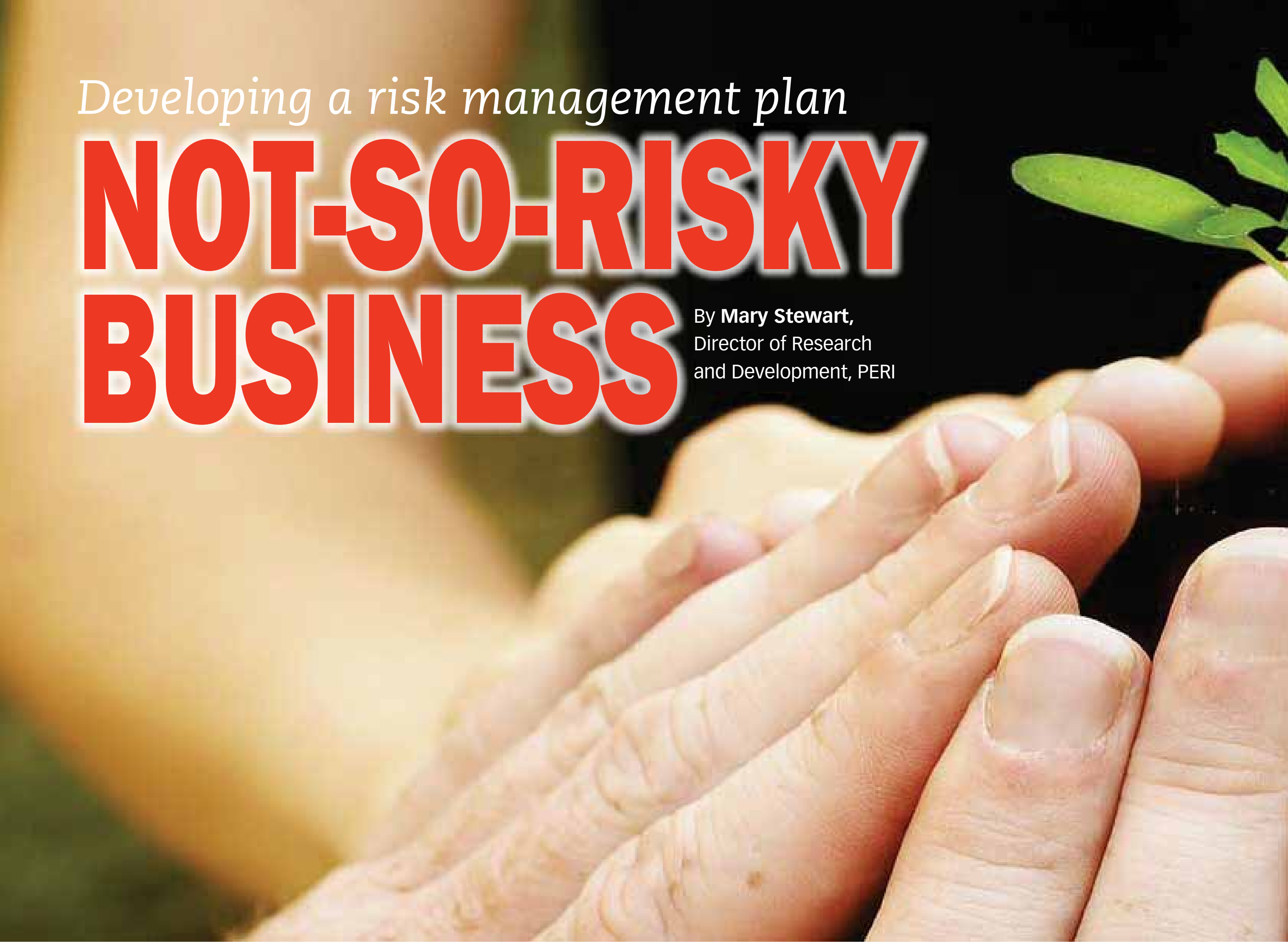


Many public entities emerge from their strategic planning sessions with "to do" lists that require a variety of operational activities. Most of these activities are not traditional "risk management," but they have a direct impact on the entity's risk profile and thus should be considered in the risk management program. A risk management plan that makes this connection can help ensure that the entity achieves its mission and goals throughout the year.

When developing a risk management plan, remember how a risk management plan differs from a risk management program. A risk management *program* is a *system* of policies, procedures, goals, relationships, accountability, activities, planning and reporting an entity uses to continually assess and control the effects of risk on its ability to achieve its purpose. A risk management *plan* is a *written* summary that documents the important components of an entity's risk management program. Strong risk management plans include material prepared specifically for the risk management program, but also incorporate material prepared by operational programs, for example crisis management, business continuity, and fleet management plans. A risk management plan provides an overview of the municipality's operations that increases efficiency and predictability of outcome by doing the following:

- Acting as an umbrella document that summarizes processes and assigns responsibilities
- Documenting working relationships
- Identifying and addressing gaps, flaws, conflicts and inconsistencies
- Expediting response to changes and emerging challenges
- Preserving institutional knowledge about the risk management program
- Establishing risk management performance measures
- Creating a mechanism for identifying and reporting goal and mission failures or other areas of concern
- Establishing a framework for evaluating and choosing risk

control and financing strategies and monitoring outcomes

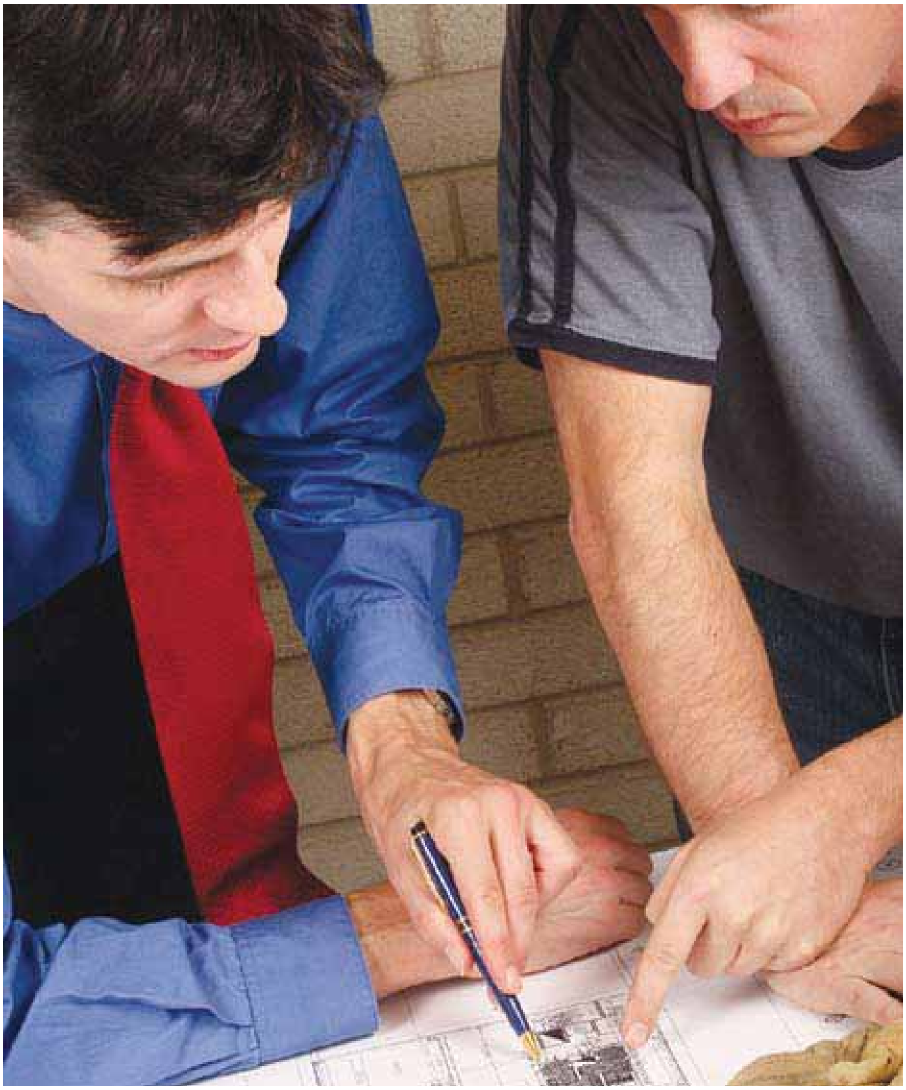
- Establishing a framework for training personnel
- Increasing risk awareness through better communication
- Establishing a framework for record-keeping
- Organizing information for audits

Good risk management plans are customized for the entity: no two plans should be identical. The process, however, for developing that customized risk management plan follows basic steps that will work for most entities. The following five-step process can help guide plan development.

Step One: Develop a risk management policy. A risk management policy is a brief written statement of an entity's broad risk management objectives. It does not usually discuss specific risk exposures or risk management approaches. The policy should be issued by the entity's highest ranking officials and communicated throughout the entity to promote a uniform understanding that risk management is a high priority. Common elements in risk management policies include a statement of the officials' support of risk management; a mandate that all operations cooperate with risk management and include risk management in planning efforts; confirmation that the safety and security of the public, the entity, its employees and its assets are priorities for the entity; and a requirement for periodic risk management reporting to the officials who issue the policy.

Step Two: Define the scope of covered activities; determine the entity's tolerance for risk. First define the scope of the activities that will be covered under the plan. Public entities can be very complex organizations, involving public-private partnerships and collaborations with other local governments. To ensure that all activities are addressed, identify covered activities in the plan.

Next, determine the level of uncertainty and losses that the entity can tolerate. Tolerance is determined both by the entity's financial capacity to respond to risk events and its leaders' subjective comfort with assuming risk. Tolerance may be greater if the entity has greater resources with



IN THE DETAILS A risk management policy is similar to an architectural drawing of a house – it may identify the owner and location and sketch the exterior, but it does not explain the details of each room or how to build it

which to address risk events or if its leaders are accustomed to hazardous activities. Mutual aid agreements and risk financing mechanisms such as insurance are examples of how additional resources can extend risk tolerance.

To make this step more concrete, think about settlements of lawsuits that would tax the entity's financial resources and events that would tax the entity's tangible resources. Annual events such as county fairs, carnivals, air shows, car rallies and marathons are examples of non-emergency events that require higher than normal resources.

The plan does not need to include a specific statement about risk tolerance. Ultimately, however, the entity's and leaders' risk tolerance will determine how the following steps proceed.

Step Three: Describe the procedure for identifying and analyzing risk, establishing priorities and adopting risk control and financing strategies. A risk management policy is similar to an architectural drawing of a house. It may identify the owner and the geographic location and sketch the exterior, but it does not explain the details of each room or how to build it. Just as the final blueprint for a house fills in these omitted details, step three fills in the details of the risk management plan by describing in more detail the procedure the entity will use to address risk.

The risk management process for most entities seeks to answer the following questions about each activity:

- What can go wrong? (Risk identification)
- If it does go wrong, what will be the consequences? Physical injury, civil disorder, property damage, judgments and legal expenses, adverse media attention or damage to the entity's reputation? (Risk analysis)
- Which potential losses have the greatest consequences and should be addressed first? (Identification of priorities)
- How will the entity control and finance the risk associated with the activity? (Risk control and financing)

Risk analysis estimates the likely frequency and severity of each type of loss. Frequency is how often the loss is expected to occur; severity is the estimated cost of each loss event. Together, frequency and severity estimate the cost of each loss exposure over a given time period, which helps the entity adopt priorities. *Risk control* determines how the entity will reduce the frequency and severity of risk events. *Risk financing* determines how the entity will pay for losses that occur despite its risk control efforts.

Although the questions are similar, entities will take different paths to find the answers. The risk management plan should describe this procedure in sufficient detail to ensure that it produces the expected outcomes and has continuity, but include sufficient flexibility to allow those responsible to shape it to fit their operations. Some elements to consider including are:

- Appointment of a risk coordinator to oversee the process (for larger entities this may be a professional risk manager)
- Appointment of risk management committees
- Assignment of responsibilities,

including broad involvement and accountability of operational heads

• Adoption of forms and criteria that guide the procedure, document the results and can be incorporated by reference into the plan to document the action plans for managing specific risks.

At the end of step three the entity has a procedure for managing risk. In step four, the entity uses that procedure to develop its plans for specific areas of risk.

Step Four: Develop risk action plans and incorporate existing risk control and financing plans; assign responsibilities. The previous three steps developed the blueprint for the risk management plan. Step four is where the "house" is actually built. The entity uses the procedures and forms developed in step three to identify, analyze, prioritize and develop action plans to control and finance its risks. These action plans become part of the entity's risk management plan. Other relevant plans may already exist, e.g. fleet management, building maintenance, building security, workers' compensation, self-insurance plans. Incorporate those existing plans into the risk management plan by reference, working with the appropriate parties to make necessary adjustments or additions.

Each risk action plan should also identify the responsible personnel; establish milestones and deadlines for completion of individual tasks; and have a back-up plan for assigned personnel and non-personnel resources. A critical component of any risk action plan is assignment of responsibility and accountability to specific job titles.

Step Five: Monitor and revise the plan. Step five keeps the risk management plan relevant. Public entities are constantly generating new risk exposures, and some risk control techniques do not work as well as expected. Include in the risk management plan a procedure for

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Developing a Risk Management Plan

A risk management plan is an analysis of risks and risk management strategies to help avoid potential losses. It serves as an "umbrella" over other documents created to address specific events or operations. This is a list of suggested steps to help develop a risk management plan:

Step 1: Develop a risk management policy.

Possible objectives

- Support risk management throughout the entity
- Protect the entity's resources and the public
- Meet social and humanitarian concerns
- Comply with legal requirements
- Ensure continuity of public service activities
- Hold all employees responsible and accountable for risk
- Periodic review by senior officials

Step 2: Define the scope of activities; determine the entity's tolerance for risk.

Sources of information

- Website
- Surveys and interviews
- Organization chart and job descriptions
- Operational tasks
- Entity budget and annual report
- Community Bulletins
- Performance measures
- Inspections
- Existing plans, policies and procedures, e.g. strategic, special events, emergency & disaster, and capital development plans
- Contracts
- Regional compacts and mutual aid agreements
- Regional and state reports
- Insurance policies and self-insurance plans

Operations to consider

- Administrative
- Animal control
- Attorney (city/county/state/commonwealth)
- Building inspection and permits
- Code enforcement
- Courts
- Contracting and purchasing
- Department of Motor Vehicles
- Elections
- Emergency management
- Environmental services
- Finance and treasury
- Governing body
- Information technology systems
- Land use planning
- Libraries
- Motor vehicle operation/fleet management
- Personnel/human resources
- Premises and public areas (public buildings, sidewalks, streets)
- Public health
- Public records
- Public safety (police, fire, sheriff, jail)

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REVIEW CONSTANTLY A monthly review of losses, inclusion of risk management in planning committees and a good risk management network within the entity can all help flag changes that warrant an update to the plan

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ongoing monitoring and adjustment of the plan. Beyond a systematic periodic review (consider doing one annually), build in mechanisms to alert the risk coordinator or other responsible party to interim changes. Such changes include new activities (risk management ideally begins when the activity is in the planning stages) and sudden increases in losses. A monthly review of losses, inclusion of risk management in planning committees and a good risk management network within the entity can all help flag changes that warrant an update to the plan.

Need help? The overwhelming majority of respondents created their plan without involving outside assistance, but if your municipality needs assistance developing a plan, email Mary Stewart at mstewart@riskinstitute.org or contact the Public Entity Risk Institute (PERI) at 703-352-1846. **(B)**

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- Parks, recreation and arts
- Refuse/solid waste
- Schools/education
- Social services/human services
- Special events
- Tax assessment and collection/revenue
- Transportation
- Volunteers

Step 3: Describe the procedure for identifying and analyzing risk, establishing priorities and adopting risk control and financing techniques.

Steps

- Risk identification
- Risk analysis
- Establishing priorities
- Adopting risk action plans and incorporating existing plans
- Monitoring and adjustment

Step 4: Develop risk action plans; incorporate existing risk control and financing plans; assign responsibilities.

Examples of risk action plan topics

- Claims management
- Crisis management and business continuity
- Internal controls
- Fleet management
- Personnel/human resources
- Risk communication
- Risk financing
- Risk management reporting
- Risk management training
- Security for government premises
- Special events
- Volunteers
- Workplace injury/workers' compensation
- Workplace safety

Examples of documents to incorporate by reference

- Legal regulations
- State guidelines
- Documents relating to topics addressed in risk action plans, including plans, policies, procedures and manuals
- Notification/communication trees

Assign responsibilities and accountabilities

- Operational/department heads
- Supervisors
- Line employees, within their job's authority
- Departments with specific risk related responsibilities that affect the entire entity, e.g. personnel, finance/purchasing, building and grounds, fleet management, risk coordinator or professional risk management staff, public safety, public/media relations
- Committees

Step 5: Monitor and revise the plan.

- Coordinate plan review
- Review feedback and incorporate changes in existing documents
- Go back to Step 1 for new activities and programs **(B)**