Risk Identification and Analysis: A Guide for Small Public Entities

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Foreword

The primary purpose of this resource is to provide small public entities with a user-friendly process to identify and analyze their risks on an enterprise wide basis. The author has included forms and potential loss and impact summaries that may help make the risk identification and analysis process more easily manageable. Users should not feel bound to use the process and the forms exactly as described in this resource. The process described and the forms included are only suggestions. Every public entity has different risks and organizational issues, and users may need to modify the process or the forms to meet their unique needs.

A secondary purpose of this resource is to provide a platform for an ongoing series of articles addressing the risks inherent in various public entity operations. These will be published on PERI’s web site (www.riskinstitute.org) and will also be published by PERI partner organizations that participate in preparation of the articles.

The author gratefully acknowledges the assistance of the following risk professionals who reviewed project drafts and offered extremely helpful comments: Wayne Faddis, Director of Insurance Programs for the Virginia Association of Counties Insurance Programs; Melanie Herman, Executive Director of the Nonprofit Risk Management Center; Elizabeth Puddington, Retired Executive Director of the New Hampshire School Boards Insurance Trust; and Harold Pumford, Executive Director of the Association of Governmental Risk Pools. To the extent this resource is helpful, it is because they helped point the way. The author alone, of course, is responsible for any inadequacies.

The author also thanks Kelly Briner and Jeffrey Cole of McNeary Insurance Consulting in Richmond, Virginia for their technical assistance.

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Why Is Risk Important?

As used in this guide, the term risk refers to a possible loss or other adverse event that has the potential to interfere with a public entity’s financial stability or ability to fulfill its mission. By identifying risks and implementing an action plan to address them, public entities can protect their financial stability and their ability to provide services. Because risk is inherent in most productive activities, even the most conscientious efforts cannot eliminate all risk; they can, however, help public entities avoid or reduce the impact of risk on their operations. By including risk in its strategic planning process, a public entity can also plan safely to expand into service areas that it might otherwise avoid.

Public entities are vulnerable to many risks beyond the common, insurable risks associated with accidental losses such as property damage, auto accidents, and workers’ compensation. Public entities must also anticipate risks to their revenue stream, tax base, and bond rating, to name just a few. The expanded view of risk that takes into account this full range of exposures goes by many names (enterprise, holistic, integrated, or strategic), but the name is not important as long as the fundamental goal—the broadest possible view of the risks that the entity faces—is realized.

An organization that adopts this broader perspective can better assess, evaluate, and assign priorities to risks, and then select the best short- and long-term approaches for managing those risks. Managed properly, some risks may actually present opportunities. Imagine, for example, a local government that relies heavily on tax revenues from commercial office space. The development of new office space in nearby areas—which may have the potential to draw businesses into other jurisdictions—constitutes a “nontraditional” risk. By identifying the risk and taking steps to mitigate it—through redevelopment and business recruitment efforts, for example—the government may discover a competitive opportunity, increase its desirability as a business location, and ultimately increase its tax revenues.

A public entity can implement an effective program to address risk regardless of whether it has a designated risk manager: especially in small organizations, risk-related job functions are often allocated among several employees who also have other responsibilities. What’s more important than having a designated risk manager is ensuring that risk considerations are thoroughly integrated into every level of the organization’s culture and operations. Every staff member, from top to bottom, should understand the entity’s risks and his or her role in preventing and controlling potential losses.

How Can Public Entities Identify and Address Risk?

Public entities face a wide range of risks, many of which arise from legally mandated activities. It is difficult for an entity of any size to identify the full spectrum of risks, but small entities face particular challenges. Because they experience few actual losses, small entities cannot rely on loss history to identify risks—in particular, the risk of rare but catastrophic losses, which can be devastating to their financial position.

The purpose of this guide is to provide small public entities with a user-friendly approach to identifying risks and developing an action plan to address them. Because every public entity has different needs and circumstances, all the approaches described in this guide, and all sample forms, should be modified as necessary.
Reducing the Impact of Risk on Operations: A Nine-Step Process

The sections that follow describe nine basic steps that can be used to establish and sustain a broad-based risk program.

Step 1: Establish Risk As a Priority for Every Employee

A risk program is more likely to succeed if it is based on a policy statement endorsed by the governing body or chief executive officer. A strong policy statement would (1) define risk as a priority for all employees, (2) empower a risk team to identify risks and develop a plan to address them, and (3) require the participation of all operational departments. Although the policy statement should be distributed throughout the organization, it is particularly important to communicate risk policy to department heads or others who will be asked to contribute resources (primarily, employee time). Attachment 1, in Appendix A, is a sample risk policy statement.

Step 2: Designate a Risk Team Leader

Once the policy statement has been endorsed and distributed, a risk team leader is designated to bear primary responsibility for the risk program. If the organization has a risk manager, he or she will probably be the team leader. If there is no risk manager, the team leader can be an employee who has good organizational and communication skills, as well as some knowledge of—or interest in—risk. Most important, the team leader must have, or be able to develop, the vision to look beyond insurable risks and identify other risks to the organization’s financial stability or ability to deliver services.

The risk team leader determines the scope and goals of the project (within any parameters set by the governing board or upper management); develops an analytical framework for the project; recruits the members of the risk team; and coordinates the team’s activities to create, implement, and monitor a risk action plan. The action plan will probably include recommendations that require approval by a higher authority, and the team leader is also responsible for obtaining this approval. Because the risk team is a permanent part of the public entity’s operations, the team leader must be available to continue in this position after the initial risk action plan is developed. In addition to maintaining the risk team and coordinating its ongoing activities, the team leader is responsible for periodically reporting to upper management or the governing body on the team’s progress.

The team leader’s first tasks are to define the scope and goals of the project (described in Step 3) and to develop an analytical framework for the project (described in Step 4). Once these tasks are complete, the team leader will have the information needed to guide the recruitment of team members.

Step 3: Define the Scope and Goals of the Risk Team’s Activities

The team leader defines the scope and goals of the risk team’s initial activities, then documents them in writing for distribution to management and the members of the risk team. The scope depends on whether the team’s initial review of risks is entity-wide or limited to specific operations. The goals are the expected results of the review; in many cases, the goal is likely to be the
creation of a risk action plan. The advantage of an entity-wide approach is that it allows the most serious risks to be identified and assigned priority for intervention. However, a public entity that is establishing a risk team for the first time may prefer to limit the scope of its initial review to one operational area, in order to work out any “kinks” in the process before undertaking an entity-wide review of risk.

**Step 4: Establish an Analytical Framework**

The purpose of the analytical framework is to capture the organization’s (or operation’s) risks and their potential impact as fully as possible without detailing all the potential losses that may result. Because it identifies specific areas in which the knowledge of team members will be particularly useful, the analytical framework can help the team leader choose potential team members. For example, if natural hazards are a major source of risk, the team leader will want to recruit at least one team member who is familiar with the potential impact of natural hazards. Once the team is up and running, the framework helps team members identify the entity’s risks and the potential impact of any resulting losses.

The analytical framework shown in Attachment 2 is set up in a grid format that relates each broad area of risk to its potential impact on the organization’s ability to achieve its mission. The team analyzes each broad area of risk (identified in the leftmost vertical column) to evaluate its applicability to the organization and its potential impact on operations (identified in the row along the top of the grid). The framework addresses broad areas of risk and impact, rather than specific types of potential loss, because its purpose is to help team members identify the particular risks and potential impacts that are most likely to affect the organization, rather than to require them to work through an exhaustive list that is unlikely to accurately reflect the entity’s risks.

The framework shown in Attachment 2 is included primarily to illustrate what an analytical framework might look like, and how potential risks and impacts relate to one another, rather than to serve as a working tool. It includes risk areas and potential areas of impact that are common to many types of public entities, and it can be modified to fit the needs of a particular organization. Other forms (with more space for writing) are provided for team members to use in the later stages of identification and analysis. However, Attachment 2 can be used to record final conclusions, or in any other way that the team finds useful.

**Step 5: Recruit Team Members**

The team leader recruits only as many team members as are needed to provide a broad overview of the entity’s risks. Initial team membership will depend on the scope of the project; if the initial review is entity-wide, a group of knowledgeable employees can conduct the analysis for the entity as a whole, using contributions from individual operations as needed. If the initial review is limited to a single area of operation, the team will include members from that area of operation, supplemented by expertise from other departments (such as finance and human resources) as needed. The team leader may also look outside the entity’s work force for expertise that may be available on a volunteer basis.

Team members need not be risk experts or even have close familiarity with the organization’s loss history. As noted earlier, small public entities may not yet have experienced losses or disruptions to which they have a very real exposure. To supplement their knowledge, team members may gather information from other sources, such as professional organizations, publications, other staff members, and colleagues in other public entities. The risk team may
also appoint subcommittees to research and report on specific topics, such as school security, law enforcement liability, and risks to the revenue stream. A team member’s most important attribute is not an exhaustive knowledge of past losses but an inclusive vision that encompasses all risks that may damage the organization’s financial stability or ability to deliver services. The accompanying sidebar offers several examples of “nontraditional”—that is, uninsurable—risks.

The team leader should make initial contact with potential members in person or by telephone, then send those interested a written invitation to participate. The invitation should include a summary that (1) describes the team’s responsibilities, including the scope and goals of the initial project; (2) identifies the anticipated frequency and length of team meetings, the expected time commitment outside of meetings, and the types of decisions the team members will make; and (3) describes term limits, if any. Two additional items may encourage participation: a copy of the risk policy statement and, if the governing body or chief executive officer agrees, a letter of support for the initial activities of the team.

Team members’ reliability and commitment are crucial to success. Staff members who agree to join the team should be asked to sign and return a cover memo indicating that they have reviewed the summary of activities and responsibilities and that they agree to attend team meetings regularly. A team member who is occasionally unable to attend a meeting—or who leaves the entity’s employment permanently or for an extended time—must designate an informed alternative representative. Because it is essential that team members have the ability to identify and assess the less traditional types of risk, busy managers who join the team must resist the temptation to delegate the task to less experienced staff.

Although one of the initial goals of the risk team is the development of a risk action plan, it is important for team members to understand that their responsibilities do not end with the development of the plan. Once created, the team becomes a permanent institution that monitors implementation of the risk action plan, keeps track of changes in the public entity’s activities, and modifies the plan to reflect changes in risk areas or strategies. Membership in the team may change, of course, but the combined backgrounds of members must continue to reflect a broad view of the risks faced by the organization. To ensure the team’s continued involvement, the action plan must include a mechanism for quarterly or semiannual review of the organization’s loss experience and the identification and analysis of any new or discontinued risks.

### Step 6: Identify and Evaluate Risks

The first collective tasks of the assembled risk team are (1) to identify, as fully as possible within the scope of its initial activities, the range of risks to which the public entity is exposed; (2) to estimate

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**Uninsurable Risks**

Public entities are vulnerable to many uninsurable risks, which the risk team must be able to identify. For example, the organization’s dependence on a limited number of vendors for critical supplies is a source of risk because lack of supplies may interfere with service delivery. If a public works department is unable to obtain salt, chemicals, or equipment to treat snow-covered roads, the local government will, at the very least, face a public relations problem. If local firms experience significant or extended loss of business, the local government may lose tax revenues as well. Similarly, a police department charged with responsibility for maintaining order following a natural disaster might need access to specific supplies or equipment. If the supplies or equipment cannot be obtained, then the community may be at greater risk of harm. This is not an insurable risk, but it is a risk that police can reduce by anticipating the department’s needs and making contingency arrangements in advance.

Another example is the impact of inadequate maintenance on an entity’s ability to use its premises for their intended purpose. For instance, if maintenance problems render school buildings uninhabitable and schools cannot open on time, the school system may have a serious public relations problem on its hands—and worse, may lose state education aid. If such problems persist or are recurrent, residents who can afford the financial disruption may simply leave the jurisdiction, eroding its tax base—and potentially limiting its future ability to pass bond referenda for school upgrades.
the anticipated frequency and severity of losses arising from these risks; and (3) to begin identifying strategies to address these risks. The frequency and severity worksheet shown in Attachment 3, which is derived directly from the analytical framework, includes a separate page for each risk category and provides team members with a standard format to record their individual observations about the frequency and severity of losses arising from each risk category. (Before the team begins its work, the team leader must revise the frequency and severity worksheet to reflect the risk and impact categories used in the analytical framework he or she created in Step 4.)

### Identify Risks and Possible Losses

The risk and loss identification process can be conducted in several ways. No single approach will best serve the needs of all users, and public entities should adapt these approaches or to create their own.

One approach is to assemble the team members at an initial meeting, review the analytical framework (Attachment 2) and the frequency and severity worksheets (Attachment 3) together, and assign team members the task of researching and completing the frequency and severity worksheets for the risk categories in which they have the greatest expertise. (If team members have access to computers, the team leader should provide them with electronic versions of the analytical framework and the frequency and severity worksheets so that these forms can be completed on the team members’ computers, rather than by hand.) After team members have followed up in their assigned areas, the team can meet to discuss the results.

An alternative approach is to distribute the analytical framework and a full set of frequency and severity worksheets (preferably electronic) to each team member to complete before the first meeting. When the team members meet for the first time, they discuss each risk area and its potential impact on the organization.

Yet a third approach is for the team leader to assign each team member an operational area for which he or she is responsible. After orienting the team members on how to supervise the process, the team leader provides the team members with copies of the analytical framework and the frequency and severity worksheets (again, preferably electronic) for each operational area. The worksheets are completed by representatives (either team members or not) from each area. Although the representatives focus primarily on their own operational areas, they may also comment on risks and possible losses in other areas of operation. Once the worksheets are complete, the team leader gathers together the entire risk team to discuss all identified risks and possible losses, whatever the source.

Team members should receive clear written instructions on how to complete the worksheets (those included in the sample can be adapted). The instructions should advise team members (or other users) that they are not expected to be knowledgeable about all the areas of risk addressed on the worksheets but should identify any risks and potential losses of which they are aware, even if those risks do not arise from their own area of operations.

For public entities that need help identifying potential risks, Appendix C offers summary lists of potential losses and some of their possible effects, categorized by the broad areas of risk identified in the model analytical framework. It is important to note, however, that no such compilation, however detailed, can be regarded as definitive; moreover, any list will identify areas of risk that do not apply to the user. Appendix C is included only as a tool to help organizations begin the analytical process.
Estimate the Frequency and Severity of Losses

To make best use of the frequency and severity worksheet, it is essential for team members to understand how to estimate the frequency and severity of losses arising from the risks they identify. Frequency refers to how often a loss can be expected to occur; severity refers to the amount of damage the loss may cause if it does occur. Such estimates are important because they form the basis for the organization’s evaluation of the potential loss from a given risk. Mathematical precision is not required. Although it may be useful to investigate, for example, the extent of possible liability losses or the number of motor vehicle accidents employees have each year, frequency and severity estimates are recorded only as “high” or “low.”

Whether the frequency and severity of potential losses are categorized as high or low depends on the size, resources, and operations of the public entity. A major urban jurisdiction with several thousand employees may not consider two or three employee auto accidents per year “frequent,” but this may be an intolerable frequency for a rural jurisdiction with three employees. Similarly, for a large urban school district with a significant budget and tax base, an uninsured $10,000 loss may not be considered severe, whereas a small rural school district with a limited budget may find it impossible to sustain such a loss without curtailing services. The key to assessing frequency and severity is to determine how (1) the financial impact of losses or events or (2) the direct loss of resources (such as buildings, equipment, or computers) may affect the organization’s financial stability or ability to deliver services.

Frequency: Estimating frequency is relatively straightforward for losses that occur on a regular basis, but is more complex for losses that occur infrequently. For losses that occur regularly, the organization’s loss history may provide some guidance; however, team members must understand that loss history cannot replace a critical analysis of the entity’s operations. For example, if a local government’s employees now drive twice as many miles per year as they did in the past, the number of motor vehicle accidents experienced by employees in previous years will not accurately reflect the number of accidents likely to occur in the future. Thus, even for losses that occur with some regularity, the team must carefully consider any changes in operations that may have increased or decreased risk exposure.

For less frequently occurring losses, team members must look beyond the organization’s loss history to identify potential types of losses that have not yet occurred. Many tools and resources are available to assist with this process. In addition to brainstorming and creating “what if” scenarios, team members can identify potential risks by attending educational sessions, talking with colleagues in similar public entities; reading publications or contacting associations that serve particular operational areas; talking with the loss-control departments of their risk pool or insurance carrier; and talking to their insurance representative or outside risk management consultant. Another useful tool is benchmarking, or comparing the entity’s exposures and resulting losses to the actual loss experience of the entity’s risk pool, the Public Risk Database Project Data Warehouse™, or to the experience of similar jurisdictions.

Severity: “Severity” includes, but goes beyond, the actual dollar loss associated with an event. In assigning high or low severity to a given risk, several variables need to be considered: the dollar value of the expected loss, the amount of loss the organization can sustain without having to curtail operations, the governing board’s tolerance for risk, and the potential impact of a major loss on the community that the entity serves.
Team members have many useful sources of information to help them estimate the dollar value of losses likely to result from a given event; in addition to the sources listed as helpful in estimating frequency, the team can use public records. For the purpose of categorizing severity of losses as “high” or “low,” precise amounts may not even be necessary. As with loss frequency, if loss history is used to estimate loss amounts, the risk team must keep in mind that future losses may differ markedly from past losses for many reasons, ranging from changes in the value of damaged property to changes in the legal environment in which a personal-injury suit must be litigated. Severity estimates should focus on the value of potential losses within the current environment.

**Ability to Absorb Losses:** The risk team must also evaluate the organization’s ability to financially absorb losses. Team members who represent individual operational areas can estimate the capacity of those operations to sustain losses without impairing services. By working with financial staff, the team leader can develop guidelines on the organization’s overall ability to absorb losses without damage to its financial stability or capacity to deliver services. One useful benchmark may be the size of the entity’s contingency fund; if correctly set, this figure will give team members some guidance on the extent of cumulative losses that the organization can sustain.

**Risk Tolerance:** Another important variable is the risk tolerance of the governing board. A risk should be considered more severe when members of the governing board are uncomfortable with potential losses.

**Impact on Community:** Finally, it is important for team members to understand that potential losses can be severe even if they do not directly affect a public entity’s assets or cause it to incur liability. For example, a natural, technological, or civil disaster may have relatively little direct impact on a local government but cause severe damage to the community it serves. If a flood occurs and the local government owns no property in the floodplain, the government may not suffer direct damage, but flooding is nevertheless a major concern for two reasons: first, because the government may incur substantial unexpected costs providing emergency services to the community; and second, because the government depends on tax revenues from residents, which may be significantly reduced if businesses close or residents relocate in the aftermath of the disaster.

**Identify Potential Strategies**

Team members (or other users) should use the “Comments and Potential Strategies” column of the frequency and severity worksheet to record comments and suggestions on how to avoid, reduce, control, or transfer losses. Team members need not have technical knowledge in order to complete this section of the form; they need only provide practical recommendations on the most important questions in dealing with risk: how can losses be prevented, and how can damage be reduced? The suggestions of team members and of those with whom they consult will be very important when the team begins to consider how to address the organization’s most significant risks. The accompanying sidebar, which lists the four principal strategies for dealing with risk, may help the team develop potential strategies.
The Four Principal Risk Strategies

**Avoidance:** Risk avoidance involves eliminating the risk-producing activity entirely (or never beginning it). Although avoidance is highly effective, it is often impractical or undesirable, either because the public entity is legally required to engage in the activity or because the activity is so beneficial to the community that it cannot be discontinued.

**Reduction:** Risk reduction strategies reduce the frequency or severity of the losses resulting from a risk, usually by changing operations in order to reduce the likelihood of a loss, reduce the resulting damages, or both. An example of a risk reduction strategy is the preparation, before a loss occurs, of contingency plans to expedite recovery from the loss.

**Control:** After a loss has occurred, risk control strategies keep the resulting damages to a minimum. Examples include the effective administration of third-party claims and the use of previously established contingency plans to reinstate discontinued services as quickly as possible.

**Transfer:** Risk transfer strategies turn over the responsibility of performing a risky activity to another party, such as an independent contractor, and assign responsibility for any losses to that contractor. (When used as a risk financing method, such strategies transfer the liability for losses to another party, such as an insurance carrier.)

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1 Contractual risk transfer assigns risk to a specific party to a contract as part of a larger business transaction. This strategy is often used to assign to a contractor or vendor the risks of loss arising from its provision of goods or services. The justification for this transfer, which is usually accomplished through a combination of indemnity and hold-harmless provisions and insurance requirements, is that the contractor or vendor is in a better position than the public entity to reduce the frequency and severity of certain losses. When evaluating the option of transferring risks to the entity’s contractors and vendors, an organization should carefully consider the types of losses that might occur under its contracts, how to assign the risk for these losses, and what types of insurance will be required to support the assignment of those risks. The legal requirements that determine the enforceability of contractual risk transfer provisions differ among jurisdictions, and a detailed discussion of such provisions is beyond the scope of this resource. The local government’s legal counsel can advise on language that is enforceable in that jurisdiction.

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Reach Consensus

After the team members complete the frequency and severity worksheets, they meet to discuss the results. The purpose of this meeting (or series of meetings) is to develop consensus on the potential frequency and severity of losses associated with the organization’s risks. The team leader should provide a clear agenda for each meeting and actively moderate the discussion to keep it focused. Meetings should have firm beginning and ending times, and should not exceed the team members’ abilities to meet without losing their concentration or being called away by other responsibilities. If one meeting seems insufficient, the team leader may choose to defer discussion of the more critical or controversial risks to subsequent meetings in order to avoid excessive delay as the team members move through the worksheets for the first time. Deferral will also provide additional time for research if more information is needed about critical or controversial risks.

In some cases, the risk team may have difficulty reaching consensus on severity, especially if the organization has never experienced a similar loss or if the loss is one to which it is difficult to assign a dollar value. (For example, in the case of risks that may result in litigation by third parties, such as citizens or government agencies, it may be difficult to estimate the financial value of the losses.) When such issues arise, team members’ opinions may differ, and extensive discussion—to the point of frustration—may result. To avert a deadlock, the team leader (or another team member, if assigned) can research the potential monetary value of critical losses and report back to the team during a subsequent discussion.
In other cases, a team member can easily estimate the severity of a loss. For example, operations that use and maintain a physical asset can estimate the cost of repairing or replacing it; similarly, the cost of hiring contractors to provide services that the organization might be temporarily unable to provide can easily be estimated.

As the team reaches consensus on each loss category, the team leader (or a designated team member) lists the identified loss and the frequency and severity estimate under the appropriate risk category on a clean copy of the frequency and severity worksheet. The version of the completed worksheet that reflects the team’s consensus will assist the team leader in preparing a risk map, and can also serve as a key for users of the risk map.

**Step 7: Plot a Risk Map**

Using the information from the consensus version of the frequency and severity worksheet, the team leader plots a draft risk map. A risk map is a scattergram that segregates potential losses into categories according to their frequency and severity. A simple risk map may include only four categories: high frequency/high severity; high frequency/low severity; low frequency/low severity; and low frequency/high severity. A more complex approach could subdivide frequency and severity into high, medium, and low, for example. This risk map provides a visual guide to help the team assign priorities to risks for intervention.

On the risk map, which identifies each area of risk and its potential impacts, the team leader enters each risk/impact combination by its number and letter in the appropriate frequency/severity quadrant. (The sample risk map shown in Attachment 4 can be used as a model.) For example, the letter and number representing a risk/impact combination that is expected to produce high-frequency and high-severity losses would be placed in the upper right quadrant; the letter and number representing a risk/impact combination that is expected to produce low-frequency and low-severity losses would be placed in the lower left quadrant, and so on. The team leader then gives the draft copy of the risk map and the consensus version of the frequency and severity worksheet to each team member for review and comment, requesting responses by a certain date. After making revisions that take team members’ responses into account and reconciling any conflicts, the team leader develops a final version of the risk map and the frequency and severity worksheet.

**Step 8: Create an Action Plan**

Once the risk map is complete, the team leader gathers the team to review the results and create a comprehensive action plan to address high-priority risks—normally, those that produce high-frequency, high-severity losses and those that produce high-severity, low-frequency losses (which are potentially catastrophic but difficult to anticipate because they are so rare). Risks in the other quadrants are not ignored but may be assigned lower priority for intervention because their anticipated frequency and severity are lower.

**Assign Priority to Risks and Evaluate Risk Management Strategies**

The first step in the development of the action plan is to assign priority to risks for intervention. A risk management strategies comparison worksheet (such as the one shown in Attachment 5) can be used to record risks in order of priority. When assigning priority to risks, the team should consider the practical limitations on the organization’s ability to implement risk strategies and should assign highest priority to those risks that pose the greatest threat to financial stability or the ability to deliver services.
Once the risks have been assigned priority for intervention, the team develops and evaluates alternative strategies for addressing each risk. During this phase, the team must work closely with the operational departments that will implement the strategies: first, because supervisors and employees from those operational areas are often the best source of ideas on reducing risk; and second, because operations staff are much more likely to implement risk strategies if they were involved in developing them.

One way to obtain suggestions from each operational department is to assign team members to act as liaisons to specific operations. In this approach, each liaison meets with the operational head (or a designated representative) to discuss possible strategies for each of its high-priority risks. Once these meetings are complete, the risk team gathers to discuss and evaluate strategies for each risk area, with the benefit of suggestions from all affected operations. For especially critical or controversial areas, the operational head can be invited to participate in the team meeting.

As they consider each of the high-priority risks, the team members identify potential strategies, evaluate their anticipated costs and benefits and the time they will take to implement, and select the most promising strategy or strategies to recommend for implementation. All strategies are up for consideration: those identified by team members during the risk identification stage (and recorded by them on their individual frequency and severity worksheets), those identified by each operation, and any other ideas that arise during the discussion. Strategies that avoid or reduce the frequency or severity of losses are generally preferable to those that simply transfer the risk of financial loss to a third party (e.g., insurance). The first goal is to prevent or reduce the severity of losses.

The final decision in the process is to determine how to finance the risks of loss that cannot be cost-effectively avoided, reduced, controlled, or transferred to a contractor. Whether the risk team plays a direct role in the development of a risk financing plan (which is likely to include the purchase of insurance) depends on the public entity’s structure and allocation of responsibilities. Risk financing decisions are often made by an organization’s finance officer, risk manager, purchasing officer, or other senior official with substantial knowledge of risk financing alternatives. Even if the risk team does not directly participate in risk financing decision making, the team and the risk financing decision-maker should communicate on a regular basis. The team should report identified risks to the risk financing decision-maker, and the risk financing decision-maker should keep the risk team apprised of the organization’s risk financing plan. Neither can be fully effective without information from the other.

**Complete and Circulate the Action Plan**

The team documents its final recommendations in a risk action plan (Attachment 6 provides a sample format). To develop the action plan, the team members collaborate with representatives from individual operational areas to identify the best strategies for each high-priority risk, and to document the cost, schedule, responsible parties, and performance measurement criteria for each recommended strategy. The team leader prepares the final action plan and circulates it to team members with a request for comments. After resolving any conflicts, the team leader signs the plan, signifying that it represents the consensus of the risk team, and submits it to the appropriate management staff or governing body for approval.
Step 9: Implement and Monitor the Action Plan

Implementation of the action plan is ordinarily an ongoing process, and the team leader generally has primary responsibility for monitoring implementation and ensuring that the ongoing work of the team (and of operational areas) occurs in accordance with schedule. Like other aspects of this process, implementation of the risk action plan will differ for each public entity, depending on the organization’s structure and the scope of the strategies adopted, among other factors.

In most cases, the strategies that the team recommends will need to be approved by a higher level of authority. Implementation strategies that require additional funding may have to be deferred until the funds can be included in the budgeting process.

The risk team is responsible for monitoring the organization’s losses and for identifying and analyzing any changes in risk. Possible sources of information about such matters include loss-experience records, procurement records, payroll records, fiscal records, audits, budgets, financial statements, annual reports, contracts and agreements, and any other resource, such as the minutes of governing body meetings, that may alert the team to changes in risks.

The risk team should meet at least semiannually to keep abreast of these developments. To ensure that most team members will be available, the team leader should schedule meetings well in advance and send out reminders. At least annually, the team should submit a report to the governing body and upper management, noting any changes in risks or strategies and reporting on the losses for the previous year.

It is crucial that one person be responsible for ensuring not only that the risk team continues to exist but that it takes an active role in operations. If no one person is accountable for maintaining the continued vitality of the team, the action plan will rapidly become outdated, and the organization will find itself implementing strategies that no longer address its real needs. If the organization has a risk manager, he or she will normally be the team leader and will be the appropriate person for this responsibility. If not, then the responsibility for maintaining an active risk team should be formally assigned to the team leader (that is, included in that person’s job description and performance review) and quickly reassigned if he or she becomes unavailable.
Conclusion

Risk is a major concern for public entities of all sizes. No public entity should fail to address its risks because of a sense that it is too small or has insufficient resources. The process outlined in this guide can be adapted to fit the needs of any public entity: very small public entities may wish to scale back the activities; larger entities may wish to expand them. The process can be implemented in stages, beginning with areas of operation that historically produce the greatest risks, or can be implemented throughout the organization. What’s important is not how the process is undertaken but that it is undertaken and, once begun, is systematically continued. Public entities that successfully integrate risk concerns into their organizational structures and daily operations protect their ability to deliver services to citizens and strengthen their ability to fulfill their mission.

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1 For information on previous workers’ compensation claims or insured loss experience, one resource would be the government’s insurance carrier or third-party claims administrator. For information on risks that are insurable or excluded from coverage and on the limitations of current or proposed insurance coverage, a resource would be the government’s risk management consultant or insurance broker.

2 A complete discussion of risk financing is beyond the scope of this resource. Some additional general information is included in Appendix B.

3 The team leader may also consider circulating the draft plan to department heads who participated in the development process.