MMB Statewide Operating Procedure

Risk Assessment

Minnesota Management and Budget, Internal Control and Accountability

Number: 0102-01.2
Issued: 02/01/2018
Last Updated: 02/01/2019

Purpose Statement

This procedure helps applicable executive branch agencies conduct a comprehensive agency risk assessment. Risk assessment is the second component of your agency internal control system. With this procedure, and by using the Agency Risk Assessment Worksheet, you will:

- Define and categorize agency goals.
- Identify and assign individuals responsible for overseeing and executing defined agency goals.
- Identify and document the primary business processes used to achieve agency goals.
- Identify and analyze risk to primary business processes used to achieve agency goals.
- Rank and prioritize risk to agency business processes (consider the potential for fraud when identifying, analyzing, and responding to risks.)
- Complete an agency management review of business processes.
- Develop, implement, and maintain the Agency Risk Assessment Plan.

Applicability

The requirement to conduct risk assessment applies to all executive agencies. However, Minnesota Management and Budget (MMB) identifies the agencies required to use this procedure based on the consideration of:

- Inclusion in the Governor’s Cabinet;
- Level of appropriation and expenditures; and
- Level of inherent business risk and scope of authority.

**Procedure Steps**

**Agency Risk Assessment**

**Define and Categorize Agency Goals.**

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Responsible Party</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>On the <em>Agency Risk Assessment Worksheet</em>, “Agency Goals Template” tab, complete cells B3 – B7 for agency name, agency head (commissioner or executive director), fiscal year, date last updated, and agency mission statement. Save the worksheet. Definitions and explanations are located on the header of each tab on the <em>Agency Risk Assessment Worksheet</em>. To review and keep the comment box open or to hide comment box, right click on cell where comment box is located, and select, “Show/Hide Comments.”</td>
<td>Agency management or designee</td>
</tr>
</tbody>
</table>
| 2.   | Review the agency authorizing statute, applicable rules or regulations, agency mission statement, and if available, agency strategic plan to identify agency goals. Benefits to identifying and documenting agency goals include: developing an inventory of all agency statutory goals in one document with who is responsible, establishing a baseline to identify and document key business processes, and building the foundation for eventual risk assessment projects. Document agency goals on the tab “Agency Goals Template”:
  a. Type your agency goals in Column B (Agency Goals).
  b. Type the citations to the statutes, applicable rules, or regulations for your agency goals in Column C (Source Citation).
  c. Number your agency goals chronologically in Column A (Goal Number). Each agency goal will have a unique goal number to keep track for easy reference. | Agency management or designee         |
3. On the “Agency Goals Template,” categorize the documented agency goals in Column G (Primary Agency Goal Category) and Column H (Secondary Agency Goal Category) by selecting between the three internal control categories, and one subcategory: operations, compliance, reporting, and safeguarding.

<table>
<thead>
<tr>
<th>Identify and Assign Individuals Responsible for Agency Goals.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. For each documented agency goal, identify the individual responsible (IR) to oversee the agency goal and document the name and/or position title in Column D (Individual Responsible) on the “Agency Goals Template.” Individuals responsible are typically at a senior leadership level. Each senior leader will examine the goals unique to their area and decide rankings.</td>
</tr>
<tr>
<td>5. Communicate the purpose of the Agency Risk Assessment Worksheet to each individual responsible (phone, meeting, group training, email) to explain risk assessment and the use of the worksheet. Use the optional “Agency Goal Assignment Email Template,” if necessary, to send each individual responsible a copy of the Agency Risk Assessment Worksheet. Request each individual responsible identify and document a subject matter expert (SME) for each agency goal on the tab “Agency Goals Template” in Column E (Subject Matter Expert.)</td>
</tr>
<tr>
<td>6. Identify and document a subject matter expert for all assigned agency goals where your name is identified in Column D. Assigning a SME for goals helps ensure the gathering of the best and most relevant information possible.</td>
</tr>
</tbody>
</table>

Identify and Document Business Processes to Achieve Agency Goals.
### Identify and Analyze Risk to Business Process(es) to Achieve Agency Goals

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td>Communicate the purpose of the <em>Agency Risk Assessment Worksheet</em> to each subject matter expert (phone, meeting, group training, email) to explain risk assessment and the use of the worksheet. Use the optional “Agency Subject Matter Expert Assignment Email Template,” if necessary, to send each subject matter expert a copy of the <em>Agency Risk Assessment Worksheet</em>. Request each subject matter expert identify and document the business process(es) for each agency goal assigned on the tab “Risk ID and Rank Template,” as described in step 12 of this procedure.</td>
<td>Individuals responsible</td>
</tr>
<tr>
<td>8.</td>
<td>Open the <em>Agency Risk Assessment Worksheet</em> and save. Each subject matter expert will complete a worksheet and submit back to their individual responsible.</td>
<td>Subject matter experts</td>
</tr>
</tbody>
</table>
| 9.   | Open the tab “Risk ID and Rank Template:”  
In cell B1: Type in the name of the individual responsible and subject matter expert.                                                                                                                   | Subject matter experts |
| 10.  | On the tab “Agency Goals Template,” identify agency goals with your name in Column E (Subject Matter Expert) and copy information in Columns A, B, C, D, and E for each agency goal assigned to you.                                           | Subject matter experts |
| 11.  | On the tab “Risk ID and Rank Template,” paste in the information from Columns A, B, C, D, and E.                                                                                                               | Subject matter experts |
| 12.  | On the “Risk ID and Rank Template” tab, identify and document the business process(es) used to achieve your assigned agency goals. Each goal may have multiple business processes. Only list one business process per box and duplicate the additional goal information from columns A - E. If a business process exists and is not written or documented in the agency, type “no written process,” in Column F. Business processes are important to allow for easier risk assessment. | Subject matter experts |
### Subject matter experts

| 13. | Identify which business process(es) have the most risk in achieving each agency goal. Answer risk factor questions 1 – 13 for each business process on the tab “Risk ID and Rank Template:” |

- a. 1 = Yes, the risk factors applies.
- b. 0 = No, the risk factors does not apply.

At a minimum all agencies must answer the risk factor questions in Columns G – S (13 factors). However, agencies may add risk factor questions to target risks unique to agency specific business process(es) by inserting additional risk factor columns, after Column S, as needed. NOTE: column letters beyond “S” referred to in this procedure will change if additional risk factors are added. | Subject matter experts |

### Rank and Prioritize Risk to Business Process(es)

| 14. | Consider the responses to the risk factor questions in Columns G – S. Generally, business processes with a high number of “Yes” responses to the risk factor questions could indicate higher risk than business processes with a low number of “Yes” responses to the risk factor questions. Column T automatically calculates “Total Yes Responses.” Use the provided 1 – 3 scale (1 = High Risk, 2 = Medium Risk, 3 = Low Risk) to identify a subject matter expert (SME) risk rank in Column U. The “SME Risk Rank” reflects the amount of risk for the business process based on standard pre-determined internal control risk factors known to increase risk, as well as SME judgment. Adjust the ranking scale used to determine how many “Yes” responses a business process needs to be ranked, “High Risk,” “Medium Risk,” or “Low Risk.” |

Subject matter experts |

| 15. | Use Column V to document “SME Risk Rank Rationale” if applicable. Save and email your completed Agency Risk Assessment Worksheet back to the assigned individual responsible. |

Subject matter experts |

### Agency Management Review of High Risk Processes
16. Review the “Risk ID and Rank Template” for each completed worksheet returned by each SME.

Individuals responsible and agency senior leadership set the final risk rankings. It is likely, and expected, that risk rankings will change from the initial SME rankings as senior leaders review business processes with an agency lens.

   a. Consider and review the “Yes” responses provided by the subject matter expert in Columns G – S for each business process. The total number of “Yes” responses are in Column T.
   b. If needed, adjust the ranking scale used to determine how many “Yes” responses a business process needs to be ranked, “High Risk,” “Medium Risk,” or “Low Risk.” The ranking may also be adjusted to consider other relevant factors that contribute to a higher or lower risk rank for a business process. These other factors can include, but are not limited to:
      - the magnitude of the business process (i.e. how many people would be affected or the severity of a problem such as a health or safety issue)
      - the likelihood of something going wrong
      - if there are known problems with the process such as significant underfunding or understaffing
      - significant audit findings or known internal control weaknesses within the process
      - how well the process is designed to prevent problems
      - if there are good performance measures around the process to determine how well it is working
      - a known lack of accountability or oversight
      - if the business process is a high priority for the agency
      - if the public places a significant amount of trust in the process
   c. Identify and document the “IR Risk Rank” in Column W on the “Risk ID and Rank Template.” Use Column X to document “IR Risk Rank Rationale” if applicable.
   d. Email the completed “Risk ID and Rank Template” back to agency management or the designee who is collecting all completed worksheets.
17. Collect each completed “Risk ID and Rank Template” from each individual responsible. Consolidate all information from Columns A – X by copying column information for each completed “Risk ID and Rank Template” tab, and then pasting the information into the agency master worksheet “Risk ID and Rank Template” tab.

Agency management or designee

18. Agency overall risk ranking is established during the agency senior leadership discussion when all business processes are compared and balanced against each other, and then prioritized for inclusion in the Agency Risk Assessment Plan. Discuss and finalize the “Agency Risk Rank” for the business processes on the “Risk ID and Rank Template” tab in the master worksheet. Sort the business processes to categorize “high,” “medium,” and “low” risk on Column W, “IR Risk Rank.”

Identify and document an “Agency Risk Rank” for all business process(es). Consider the “IR Risk Rank” and “IR Risk Rank Rationale” on the “Risk ID and Rank Template.” Use the provided 1 – 3 scale (1 = High Risk, 2 = Medium Risk, 3 = Low Risk) to document an “Agency Risk Rank” in Column Y, and “Agency Risk Rank Rationale” in Column Z, if applicable. Adjust the risk ranks if necessary for certain processes using the guidance in step 16.

Document “yes” or “no” in Column AA, “Include on Agency Risk Assessment Plan.” The processes designated with “yes” will be included in the Agency Risk Assessment Plan. The agency should document the rationale for excluding any high risk business processes from the risk assessment plan.

Agency management or designee

### Agency Risk Assessment Plan Development

**Develop, implement, and maintain the Agency Risk Assessment Plan.**
19. On the *Agency Risk Assessment Worksheet*, tab “Agency Risk Assessment Plan,” complete cells B3-B7 for agency name, agency head (commissioner or executive director), year of submission, date last updated, and agency mission statement. Save the worksheet.

Complete cell B8 by inserting the agency name in the red brackets for “Insert agency name.” By completing cell B8, the agency confirms use of the *Standards for Internal Control in the Federal Government*, aka “the Green Book” as the agency internal control framework, and acknowledges the level of reasonable assurance by any internal control system.

Complete cell B9 by inserting the agency name in the red brackets for “Insert agency name.” By completing cell B9, the agency confirms the agency risk assessment process included “Green Book” standards and use of this statewide operating procedure.

20. On the master copy of the “Risk ID and Rank Template” (from step 18), copy information from Columns A-F, and Y for all processes with a “yes” documented in Column AA. Paste the information to the “Agency Risk Assessment Plan” tab, into Columns A-G.

Plan new agency risk assessment projects based on agency prioritization, resources, and other management decisions. Use the “Agency Risk Assessment Plan” tab to edit Columns H “Risk Assessment Project Estimated Completion Date.” Agencies with only a few items on the plan should aim for completion of risk assessment projects within the next year. Agencies with many items on the plan may consider a multi-year plan. It is expected that agencies will make progress on scheduled risk assessment projects each year and update the risk assessment plan annually.

21. Submit the *Agency Risk Assessment Plan*, by July 31, as part of the Annual Internal Control System Certification.

### Related Policies, Procedures, and Resources

- *Standards for Internal Control in the Federal Government*, (Green Book)
- MMB Statewide Operating Policy, 0102-01, *Internal Control System*
- MMB Statewide Operating Procedure, 0102-01.1, *Control Environment*
- *2019 MMB Control Environment Self-Assessment Tool (CESAT),* 0102-01.1F
- MMB Statewide Operating Procedure, 0102-01.3, *Risk Assessment Projects*
- Form 0102-01.2F, *Agency Risk Assessment Worksheet*

**Contact**

**Name:** Amy Jorgenson, Director of Enterprise Internal Controls

**Email:** [InternalControl.MMB@state.mn.us](mailto:InternalControl.MMB@state.mn.us)

**Phone:** 651-201-8115