Minnesota Management & Budget
Statewide Operating Procedure

Minnesota Management and Budget, Internal Control & Accountability
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Risk Assessment

Objective

To assist executive agencies with creating and maintaining a comprehensive risk assessment program. Applicable agencies must develop a risk assessment plan that identifies the specific business process risk assessments that will be performed with relevant control activities identified, documented, and evaluated. The plan must be sufficient in scope, carried out as designed, and periodically updated to support the agency head's annual internal control system certification, pursuant to Minnesota Statute Section 16A.057, Subdivision 8 (https://www.revisor.mn.gov/statutes/?id=16A.057).

Risk assessment is the second component of the *Standards for Internal Control in the Federal Government*, also known as the *Green Book*. Risk assessment is vital to an effective internal control system as it helps management identify and manage (reduce) potential events that could occur, from both internal and external sources, that prevent the organization from achieving its objectives. The Green Book lists four principles that must occur to meet the risk assessment internal control standard. These principles are:

- Management should define objectives clearly to enable the identification of risks and define risk tolerances.
- Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
- Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities is the third component of the Green Book. Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks identified through risk assessment. The Green Book lists three principles that must occur to meet the control activities internal control standard. These principles are:

- Management should design control activities to achieve objectives and respond to risks.
- Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
- Management should implement control activities through policies.

The risk assessment and control activities components operate in unison, and for purposes of this procedure, should be analyzed and evaluated together.

This procedure is applicable to all cabinet level agencies and other agencies as determined via Step 1 of the Risk Assessment Plan Development and Update section on the following page.

General Procedures

Risk Assessment Plan Development and Update

Step	Action	Responsible Party	Timeline
1.	Determine which executive branch agencies are subject to the risk assessment requirement based upon the following considerations: • Cabinet level agencies (regardless of size) • Appropriations and/or expenditures > $10,000,000 (based on FY12 – FY13 biennium) • Agency's level of inherent business risk and scope of authority	Minnesota Management and Budget (MMB) Internal Control & Accountability Unit	Completed February 2013. MMB will re-evaluate as needed
2.	Notify executive branch agencies of their ongoing responsibilities to develop, maintain, and execute a risk assessment plan.	MMB Commissioner	Annually
3.	With input from applicable staff, conduct a high level, but comprehensive, review of the most significant, high profile, business processes within the organization (for a definition of a business process refer to *Risk Assessment Plan: Business Process Definitions* in the "Related Resource" section below). Consider: • Processes audited as material to the financial information presented in the *Comprehensive Annual Financial Report* (CAFR) • Federal programs identified as major in the *Financial and Compliance Report on Federally Assisted Programs* • Processes relating to the organization's primary sources of funding and major expenditures • Other processes critical to achieving the organization's primary mission and objectives Using qualitative and quantitative factors, further refine the list of business processes to those that inherently pose the greatest risks and threats to achievement of the organization's mission and objectives. (Refer to the "Related Resource" section below for the *Risk Assessment Plan: Business Process Prioritizing Factors*.) Determine which business processes or sub-processes will be included in the organization's risk assessment plan.	Agency Head/Agency Management	Annually
4.	Document your decisions (i.e., the criteria, rationale, and reasoning) for why some processes/sub-processes are included in the risk assessment plan and why other processes/sub-processes are not. Ensure this information is readily available for inspection by internal and external auditors, or other applicable third parties.	Agency Head/Agency Management	Annually

Step	Action	Responsible Party	Timeline
5.	Create or update (whichever is applicable) the formal agency-specific risk assessment plan. The plan must include the most significant, high-profile, processes, and/or sub-processes, sufficient to support the agency head's annual certification of the agency's internal control system, pursuant to M.S. 16A.057, Subd. 8. At minimum, the plan must include the following: - The name and brief description of each process included in the plan; - A breakdown of complex and/or large processes into manageable sub-process risk assessments; - A tentative timeline for completion, or update, of each risk assessment project included in the plan. Consider risk levels, ease/complexity of area(s) to be assessed, and business process staff familiarity and experience performing risk assessments when determining the timing and sequence of the risk assessment schedule;	Agency Head/Agency Management	Annually by July 31
6.	Assign responsibility to a senior level manager for ensuring the risk assessment plan is implemented. Specifically, that individual risk assessment projects: - Are performed within the timeframes specified in the plan; - Are sufficiently documented; - Results and corrective action plans for control gaps/weaknesses are communicated to management; - Are periodically reviewed and updated; and, - Documentation is readily accessible for third party (e.g., auditor) review.	Agency Head/Agency Management	Annually

Risk Assessment Plan Implementation

Step	Action	Responsible Party	Timeline
1.	Perform and document risk assessment projects as outlined in the risk assessment plan. This step includes the following phases for each individual risk assessment project to be performed: • Coordinating the risk assessment project; • Documenting the business process; • Identifying risks; • Prioritizing risks; • Identifying and evaluating control activities; • Creating action plans to address control gaps and redundancies; and, • Communicating results to management (and oversight bodies, if applicable). (NOTE: For additional information about each of these risk assessment phases, review the "Conducting a Risk Assessment" section of the *Guide to Risk Assessment and Control Activities* referenced in the "Related Resources" section below.)	Agency staff as assigned	Ongoing
2.	Monitor to ensure that control weaknesses and gaps identified during each risk assessment project is addressed and mitigation status is periodically communicated to management	Agency Management	Ongoing

Ongoing Risk Assessment Review and Update

Step	Action	Responsible Party	Timeline
1.	Determine if changes to the internal and external business environment require updates to the completed risk assessment(s), pursuant to the risk assessment plan. To guide this determination, complete the *Ongoing Change Indicators for Completed Risk Assessments Questionnaire* for each business process included in the agency's risk assessment plan. (Refer to the "Related Resources" section below for the questionnaire.) Communicate results to management. Maintain all completed questionnaires and documentation. Ensure these records are readily available for review by internal and external auditors, or other applicable third parties.	Agency Head/Agency Management/ Agency Staff	Annually, at a minimum

Step	Action	Responsible Party	Timeline
2.	For all risk assessments completed pursuant to the risk assessment plan, periodically verify that risk assessment documentation remains accurate, that control activities continue to operate as intended and as described in the risk assessment documentation, and that control activities are effectively mitigating the applicable risks. (NOTE: For additional information, review the "Sustainable Risk Assessments" section of the *Guide to Risk Assessment and Control Activities* referenced in the "Related Resources" section below.)	Agency staff as assigned	Minimum of every three years from the date risk assessment was initially completed or from the date of last revision / update
3.	Based upon the results from steps 1 and 2, or if other significant change events have occurred, update/revise the risk assessment documentation accordingly.	Agency Head/Agency Management	On-going

Annual Certification

Step	Action	Responsible Party	Timeline
1.	Certify to the status of the risk assessment plan implementation, mitigation of identified control weaknesses/gaps, and ongoing review/update of completed risk assessment documentation via the annual agency head internal control system certification process, pursuant to Minn. Stat. Section 16A.057, Subd. 8.	Agency Head	Annually by July 31

Forms

Internal Control System Certification Form
(http://mn.gov/mmb/internalcontrol/executivebranchagencyrequirements/annualinternalcontrolsystemcertification/)

Ongoing Change Indicators for Completed Risk Assessments Questionnaire
(http://mn.gov/mmb/images/2014%2520RA%2520Ongoing%2520Change%2520Indicators%2520Wksht.docx)

Related Policies and Procedures

MMB Statewide Operating Policy 0102-01 Internal Control System (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-internal-control-policy.pdf)

Related Resources

Risk Assessment Plan: Business Process Definitions
(http://mn.gov/mmb/images/2014%2520RA%2520Business%2520Process%2520Definitions.docx)

[Risk Assessment Plan: Business Process Prioritizing Factors](http://mn.gov/mmb/images/2014%2520RA%2520Business%2520Process%2520Prioritizing%2520Factors.docx)
(http://mn.gov/mmb/images/2014%2520RA%2520Business%2520Process%2520Prioritizing%2520Factor
s.docx)

[Risk Assessment and Control Activities Webpage](http://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/riskassessment/) – Includes the *Guide to Risk Assessment and Control Activities*, risk assessment examples, and questionaires, among other resources.
(http://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/riskassessment/)

[Guide to Risk Assessment and Control Activities](http://mn.gov/mmb/images/2014%2520Risk%2520Assessment%2520Guide.docx) – This document discusses the theory and rationale for completing risk assessments, and includes detailed instructions for developing a risk assessment plan, completing individual risk assessment projects, and for periodically updating risk assessment plans and individual risk assessment project documentation.
(http://mn.gov/mmb/images/2014%2520Risk%2520Assessment%2520Guide.docx)