MANAGEMENT AND BUDGET

Procedure number #0102-01.2

Risk Assessment

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Authority: Minnesota Management and Budget, Internal Control and Accountability

OVERVIEW

Purpose Statement

This procedure helps applicable executive branch agencies conduct a comprehensive agency risk assessment. Risk assessment is the second component of the agency internal control system. This procedure, along with the *Agency Risk Assessment Worksheet*, 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.

- Review, edit, and update the *Agency Risk Assessment Plan*.

Applicability

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

- Executive branch agencies in the Governor's Cabinet;

- Level of appropriation and expenditures; and

- Level of inherent business risk and scope of authority.

See Appendix A for the list of agencies required to follow this procedure.

- Agencies included in Appendix A that have completed the *Agency Risk Assessment Worksheet* and have developed an *Agency Risk Assessment Plan* should use this procedure to annually update the worksheet and plan.

- Agencies new to formal risk assessment and included in Appendix A, or that need reference to a more technical procedure, should use the Initial Agency Risk Assessment Procedure to complete the initial *Agency Risk Assessment Worksheet* and develop an initial *Agency Risk Assessment Plan.*

PROCEDURE STEPS

Review, Modify, or Identify Agency Goals.

Step	Action	Responsible Party
1.	On the most current version of the *Agency Risk Assessment Worksheet,* review the "Agency Goals Template" tab. Review the Agency Goals, Source Citation, Individuals Responsible, Subject Matter Experts, Primary Business Process(es), and Primary and Secondary Agency Goal Categories for accuracy. Update any inaccurate and outdated information accordingly. *Example*: if the Individual Responsible (IR) has changed since the last update to the *Agency Risk Assessment Worksheet*, document the name of the current IR.	Agency management or designee
2.	Determine if any Agency Goals are missing. Review the agency authorizing statutes, applicable rules or regulations, agency mission statement, and if available, agency strategic plan to identify any goals to be included. For each new Agency Goal, complete all remaining columns on the 'Agency Goals Template'. Document additional Agency Goals based on changes to legislation, shifts in agency priorities or governor's priorities, expansion of the initial agency risk assessment process, or feedback from Internal Control & Accountability (ICA). *Identify any additions or changes on the worksheet by highlighting the entire row in any color.*	Agency management or designee
3.	Communicate the purpose of the *Agency Risk Assessment Worksheet* to each Individual Responsible (IR) to explain the risk assessment requirements for the Annual Internal Control System Certification, how to update the workshee*t*, and that some information on the 'Agency Goals Template' may be modified or new. Keep a 'master' copy and send each IR their own copy.	Agency management or designee

Review and Identify or Modify Business Processes.		
4.	Review all information on the 'Agency Goals Template' under your purview and update accordingly. Edit or identify and document a subject matter expert (SME) for all assigned agency goals and make edits to the remaining columns if necessary. *Identify any additions or changes on the worksheet by highlighting the entire row in any color.* Later in the procedure, the SME will review, modify, or identify and document business process(es) associated with each agency goal under their purview. The SME will also risk rank each business process using the 13 standard risk factors. Assigning a SME to agency goals helps ensure the most relevant information is gathered, as the SME has knowledge and understanding of the daily processes at an agency. The result of this procedure is risk mitigation projects completed on high risk business processes.	Individuals responsible
5.	Communicate the purpose of the *Agency Risk Assessment Worksheet* to each Subject Matter Expert (SME) to explain the risk assessment requirements, how to update the worksheet, and that some information on the 'Agency Goals Template' may be modified or new.	Individuals responsible

6.	Review all information on the 'Agency Goals Template' assigned to you and update accordingly. Edit or identify and document business process(es). *Identify any additions or changes on the worksheet by highlighting the entire row in any color.*
	
	    a. Review existing business process(es) tied to existing agency goals for accuracy and edit if changes are necessary,
	    b. Identify and document business process(es) for new agency goals.
		Subject matter experts

Review and Identify or Modify Risk Rankings.		
7.	For all agency goals and business process(es) under your purview, copy and paste any new or modified information from Columns A-F on the 'Agency Goals Template' to the 'Risk ID and Rank Template.' Complete the "SME Risk Ranking" using the 13 risk factors, which is the first step in identifying which business process(es) *have the most risk* in achieving each agency goal. This ranking reflects the amount of risk for each business process based on standard, pre-determined	Subject matter experts

	internal control risk factors known to increase risk, as well as SME judgment.
	
	    a. Review risk rankings in Columns G-S on existing business process(es) and edit if necessary, and;
	    b. Document risk factor rankings in Columns G-S for the new business process(es).
	        1 = Yes, the risk factor applies.
	        0 = No, the risk factor does not apply.
	
	    c. Use the provided 1 – 3 scale (1 = High Risk, 2 = Medium Risk, 3 = Low Risk) to identify a SME Risk Rank. Determine how many "Yes" responses a business process needs to be ranked "High Risk," "Medium Risk," or "Low Risk." Business processes with a high number of "Yes" responses to the standard risk factors could indicate higher risk. If there are a low number of "Yes" responses, consider the impact of the risk factor to determine the ranking.
	    d. Document "SME Risk Rank Rationale".
	
	Identify any additions or changes on the worksheet by highlighting the entire row in any color. All agencies must answer the 13 standard risk factors. However, agencies may add risk factor questions to target risks unique to agency specific business process(es) by inserting additional risk factor columns on the 'Risk ID and Rank Template.'	

Agency Management Review of High-Risk Processes.		

8.	Once all SME's Rankings are complete, combine all information from the 'Risk ID and Rank Template.' Review SME risk rankings and rationale and document the 'IR Risk Rank' and 'IR Risk Rank Rationale.' Individuals responsible and agency senior leadership set the final risk rankings. It is likely that risk rankings for some processes change from the initial SME rankings as senior leaders review business processes with an agency lens. *Identify any additions or changes on the worksheet by highlighting the entire row in any color.* Review the "Yes" responses provided by the SME for each business process. 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. These other factors can include, but are not limited to:	Individuals Responsible

	• the magnitude of the risk within 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 • recent 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	
9.	Consolidate all information from both the 'Risk ID and Rank Template' and the 'Agency Goals Template' into the agency master copy of the worksheet. *Identify any additions or changes on the worksheet by highlighting the entire row in any color.* Agency overall risk ranking is established by agency senior leadership when all business processes and risks are compared and balanced against each other, and then prioritized for inclusion in the *Agency Risk Assessment Plan*. If the agency makes changes to rankings, document the new "Agency Risk Rank" and "Agency Risk Rank Rationale" for the business processes on the 'Risk ID and Rank Template' in the master worksheet. Use guidance on other risk factors in step 8 of this procedure, if necessary. Determine if additional processes will be included or if any changes need to be made to existing processes on the *Agency Risk Assessment Plan*. The agency should document the rationale for excluding or removing any high-risk business processes from the plan.	Agency Management or designee

Agency Risk Assessment Plan

Update and Maintain the Agency Risk Assessment Plan.		
10.	Update the *Agency Risk Assessment Plan* for any new projects designated for inclusion or changes to existing projects already included. Continue to complete existing risk mitigation projects based on agency prioritization, resources, and other management decisions. Edit or complete all columns in the plan for new projects, and for existing projects update:	Agency management or designee

• Risk Mitigation Project – Estimated Completion Date • Risk Mitigation Project – Completion Date • Risks Identified • Controls Implemented • Corrective Action – Completion Date Agencies should aim for completion of risk mitigation projects in accordance with the schedule the agency specified. It is expected that agencies will make progress on scheduled risk mitigation projects each year and update the plan annually. Submit the *Agency Risk Assessment Plan*, by August 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*
- Form 0102-01F, *Internal Control System Certification*
- MMB Statewide Operating Procedure, 0102-01.1, *Control System Assessment*
- Form 0102-01.1F, *Control System Assessment Tool* (CSAT)
- Form 0102-01.2F, *Agency Risk Assessment Worksheet*
- Initial Agency Risk Assessment Procedure
- Appendix A – *List of Formal Risk Assessment Agencies*

Contact

Name: Josh Botnen, Director of Enterprise Internal Controls

Email: InternalControl.MMB@state.mn.us