King County

Enterprise Risk Management Performance Measures King County 2013/2014 Biennial Budget Proviso Report

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Executive Summary

This report is King County's response to a budget proviso in Ordinance 17695, the 2014 King County Budget Ordinance.

This proviso response explains the Office of Risk Management (ORM) plan to satisfy the Council's stated need for performance measures and reporting requirements for the Enterprise Risk Management (ERM) program in Council Ordinance 17696, Section 22, Proviso P1. This report includes:

1. The language of Council Ordinance 17696, Section 22, Proviso P1 for reference.
2. Background and purpose of ERM for King County
3. ERM Program performance measures, including:
   a. The responsibilities and performance measures of the ERM Program Manager;
   b. The purpose and performance measures of the ERM Work Group; and
   c. Performance Measures Regarding Collaboration with Business Units
4. ERM Program reporting requirements

Proviso

For reference, the proviso in Council Ordinance 17696, Section 22, Proviso P1, is excerpted below.

Of this appropriation, $100,000 shall not be expended or encumbered until the executive transmits a report on performance measures for enterprise risk management, a draft ordinance that would enact reporting requirements and a proposed motion that acknowledges receipt of the report and the draft ordinance, and the motion is passed by the council. Enterprise risk management is an approach that integrates risk management across an organization and is described in the June 25, 2013, performance audit of the office of risk management. The motion shall reference the proviso's ordinance, ordinance section, proviso number and subject matter in both the title and body of the motion.

The report shall describe the office of risk management's performance measures for enterprise risk management and proposed reporting requirements. The draft ordinance shall also set forth proposed reporting requirements, including, at a minimum, the results of enterprise risk management efforts in the risk management annual report that is required by K.C.C. 2.21.030. The draft ordinance shall be developed in consultation with council staff.

The executive must file the report, motion and draft ordinance required by this proviso by May 30, 2014 in the form of a paper original and an electronic copy with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of staff and the lead staff to the government accountability and oversight committee or its successor.

Background and Purpose of ERM for King County

This report responds to a proviso in the 2014 King County Budget Ordinance requiring an explanation of performance measures for enterprise risk management, a draft ordinance to codify the enterprise risk management reporting obligations of the Risk Manager, and proposed motion to acknowledge receipt of the report. The proviso response is due by May 30, 2014.

The proviso enables compliance with a principal recommendation of the County Auditor's June 2013 Performance Audit of ORM. The audit included two recommendations related to ERM:

1. Design a framework to address the fundamental organizational management and performance components of ERM consistent with the international standard for enterprise risk management; and
2. Develop a plan to implement ERM based upon the framework.

ERM integrates risk management systems into the organization's culture and processes. The international standard which describes the principles, framework, and process of ERM is known as ISO 31000.

The audit made these recommendations with the expectation that an integrated approach to managing King County's risks would result in improved proactive risk identification, assessment, and treatment. These efforts are expected to decrease the impact of high-cost, low-frequency claims, which would enable King County to address new and unique challenges in the areas of operational, reputational, strategic, compliance, and financial risk; and to preserve its assets in the public interest.

ORM and the County Executive concurred with the audit findings and recommendations related to ERM. The timeline for implementation of the audit recommendations varies, with the majority to be completed throughout 2014 and 2015. Successful implementation of the audit recommendations will mark the first milestone in achieving long-term savings and cost reductions for King County through improved risk treatment. Thereafter, ERM will continue to be a part of King County's decision making process.

ERM Program Performance Measures

The King County ERM program is facilitated by ORM through the ERM Program Manager. It has two primary objectives:

1. Collaborate with business units to proactively identify and assess high-priority risks, and improve controls regarding those risks through documented action plans; and
2. Provide business units with relevant quantitative and qualitative information regarding operational, financial, strategic, and compliance risks to support decision making and action planning.

ERM Program Manager Responsibilities and Performance Measures

The ERM Program Manager is responsible for performing the tasks, producing the deliverables, and achieving the milestones for the ERM Program as outlined in the performance measures listed below.

These performance measures support the first objective of successful collaboration with business units to proactively identify and assess high-priority risks, and improve controls regarding those risks through documented action plans:

1. Successfully lead, facilitate, and guide the ERM Work Group; and
2. Successfully collaborate with management within business units which own high-priority risks, measured by the responsiveness of business units and the completion of documentation; and
3. Where business unit implementation of risk treatment varies from ERM Work Group recommendations, document and analyze the variance and its results for their effectiveness and opportunities to improve ERM Work Group recommendations and process; and
4. Create and implement a maturity model to qualitatively characterize business unit adoption of ERM principles, framework, and processes and recommend improvements; and
5. Participate in Strategic Innovation Plan (SIP) development and collaboration with the Performance Management Action Team; and
6. Create and adhere to schedules for the following activities:
    a. Periodic monitoring, review, and improvement of King County's implementation of the ERM framework; and
    b. Ongoing implementation of ERM through all County departments and agencies

These performance measures support the second objective of providing business units with relevant quantitative and qualitative information regarding operational, financial, strategic, and compliance risks to support decision making and action planning:

1. Create, implement, and maintain data-driven analytic tools to improve the accessibility and usefulness of operational, financial, strategic, and compliance data across business units; and
2. Create, implement, and maintain risk assessment tools to qualitatively identify and prioritize risks, evaluate controls, and recommend actions to improve the controls associated with those risks; and
3. Based upon achievement in the other ERM Program performance measures, identify and quantify the long-term benefits of ERM. The following are examples of the expected long-term outcomes of a successful ERM Program which would be captured in this performance measure:
    a. Changes in the anticipated likelihood and adverse impacts of future risk-related incidents to the public as well as King County personnel and assets; and
    b. Changes in the frequency of claims and severity of losses experienced by King County; and

c. Changes in King County's total cost of risk; and
d. Enable reductions in self-insured retention by demonstrating improved performance to reinsurers

ERM Work Group Purpose and Performance Measures

The ERM Work Group will be created to organize the County's ERM efforts in a methodical, intentional, and structured manner. The ERM Work Group will be composed of risk owners (senior managers and/or their designees) from agencies within the County selected by ORM for implementation of the ERM Program in addition to other factors such as loss history, potential for future risk-related incidents, and leadership interest in facilitating ERM implementation.

The ERM Work Group will conduct periodic meetings and other activities such as surveys or focus groups to identify risks, assess and prioritize them, evaluate the controls associated with those risks, and seek ways to improve those controls in collaboration with risk owners at the business unit level.

The creation and activities of the ERM Work Group are primary deliverables of the ERM program. Its success will be quantified by the following measures:

1. Successful involvement of the ERM Work Group members as active and engaged participants in the process of risk identification, analysis, evaluation, and treatment; and
2. Successful completion of a risk register document to proactively identify and prioritize risks to King County operations, reputation, strategic interests, financial performance and stability, and preservation of assets in the public interest; and
3. Periodic documented updates and revisions to the risk register document based on new information and the resolution of prior recommendations; and
4. The risks selected by the ERM Work Group for further analysis and recommendations are aligned with areas of risk where King County has experienced or has the potential to experience high severity losses; and
5. The process of analysis and evaluation used by the ERM Work Group is compatible with the Lean processes and philosophy adopted by King County; and
6. Documented recommendations from the ERM Work Group to business units, the ERM Program Manager, and ORM are specific, measurable, achievable, relevant, and time-bound; and
7. The ERM Work Group membership, methodology of analysis, meeting schedule, deliverables, and deadlines are clearly defined in its guiding documentation.

Performance Measures Regarding Collaboration with Business Units

The ERM Work Group efforts to identify and assess risks will create an intentional, analytic approach to existing risks and potential new risks. However, the success of the ERM Work Group and the ERM Program rely on the adoption of the ERM principles, framework, and process at the business unit level. The quality of these efforts will be evaluated by the following measures:

1. Business units with high priority risks are successfully engaged in the process of evaluating their risk control efforts and prioritizing improvements to those efforts; and
2. Documentation of decisions related to high-priority risks reflects accountable, practical, data-driven methods rather than organic, "default" decisions; and
3. Business unit adoption of ERM principles is characterized using a maturity model; and
4. Business unit implementations of ERM Work Group recommendations (or variance from those recommendations at the risk owners' direction) are documented; and
5. Evaluations of risk treatment effectiveness and related improvements are documented.

ERM Program Reporting Requirements

The Risk Manager's annual report will include a section on ERM which summarizes the activity and results of King County's ERM program. This section of the report will describe the activities undertaken by ORM, the ERM Work Group, business units, and the ERM Program Manager with a specific focus on efforts to improve business unit performance vis-à-vis identified high-priority risks. These results will be characterized using quantified data, descriptions, examples, and other information related to the ongoing implementation and iterative improvement of the ERM Program.

Activities to achieve the performance measures outlined in this report will be described in term of how they satisfy the two primary objectives of the ERM Program:

1. Collaborate with business units to proactively identify, assess, and improve controls regarding high-priority risks with documented action plans; and
2. Provide business units with relevant quantitative and qualitative information regarding operational, financial, strategic, and compliance risks to support decision making and action planning.

The principles, framework, and process of ERM are iterative and include a methodology to ensure continuous improvement through monitoring and review. The ERM Program will generate documentation and reports which will be used within ORM, the ERM Work Group, and business units to analyze, monitor, and improve the implementation of ERM across King County. These reports and documents will inform the Risk Manager's annual report, but will be included only to demonstrate and describe ERM Program activities with appropriate examples.