

TRANSCRIPT: DFA Risk Appetite Statements and Risk Assessment Tools

<p>Title page: DFA Risk Appetite Statements and Risk Assessment Tools</p>	<p>This course is intended to introduce you to the Division of Finance and Administration's or DFA's Risk Appetite Statements and Risk Assessment Tools.</p>
<p>Page 1: Thank you</p>	<p>Thank you for dedicating your time to learn more about this topic. This is an introduction to risk appetite and risk assessment tools to assist leadership, management and employees in their efforts to make appropriate and sound judgments and to encourage decision making at the appropriate level of the institution.</p> <p>This course will take approximately fifteen minutes to complete.</p>
<p>Page 2: Definitions</p>	<p>The following section defines some of the key terms related to this topic.</p>
<p>Page 3: What does 'risk' mean?</p>	<p>Let's start by defining the term "risk". Risk is the effect of uncertainty on objectives.</p> <p>Organizations, including universities, operate in an uncertain world and all exist to achieve goals and objectives. Many internal and external factors can come into play that may affect an organization's ability to accomplish their objectives, and these factors can cause uncertainty about whether the organization will do so. As we all know, there is the chance that things will not go according to plan. Risk is the possibility that these factors or events will occur and affect the achievement of objectives. Risks can represent a positive deviation or a negative deviation from what is expected. A positive deviation is also known as an opportunity and a negative deviation is what we traditionally consider a risk. The management of risk at all levels is central to the livelihood and success of an organization.</p>
<p>Page 4: What does 'risk appetite' mean?</p>	<p>Next, let's define "risk appetite". Risk appetite is the amount of risk an organization is willing to accept in pursuit of its strategic objectives.</p> <p>Organizations must embrace risk and opportunity to accomplish their goals. The key is to understand how much risk the organization is willing to accept. This concept is known as risk appetite and to be effective the concept has to be integrated into both strategic planning and day-to-day decision</p>

	<p>making. Decision makers at all levels must know how much risk is acceptable as they consider ways of accomplishing the objectives, both for the organization and for their division, department or unit. When the risk appetite is well understood, organizations are able to balance risks and opportunities in a corresponding fashion.</p>
<p>Page 5: Risk Appetite</p>	<p>Risk Appetite is an integral part of Enterprise Risk Management:</p> <ul style="list-style-type: none"> - it is strategic. It is important to understand that risk and strategy are intertwined. One truly does not exist without the other and they need to be considered together. - Risk appetite influences the organizational culture and operating style - Risk appetite guides resource allocation. This may include financial or capital resources, personnel resources, or material resources. - it influences the organization’s attitudes toward risk and communicates the attitudes of leadership as relates to risk - Finally, risk appetite guides an organization’s infrastructure, supporting its activities related to identifying, assessing, responding to, and monitoring risks.
<p>Page 6: What is a ‘risk appetite statement’?</p>	<p>Next, let’s define what we mean by a risk appetite statement.</p> <p>A risk appetite statement is a written articulation of an organization’s risk appetite, which is the amount and type of risk that an organization is willing to take in order to meet its strategic objectives. It is meant to guide managers and employees in their daily roles, and serves to establish a consistent view of the risk parameters that the organization operations within. It also establishes boundaries for activities and helps in making decisions as to if further risk controls or mitigation strategies are required.</p>
<p>Page 7: What is a ‘risk assessment’?</p>	<p>A risk assessment is a process that includes identifying, analyzing, and evaluating risk. It is important to define the objective at the onset, prior to beginning the risk assessment. Three separate processes make up a <i>Risk Assessment</i>: risk identification, risk analysis, and risk evaluation.</p> <p><i>Risk identification</i> is a process that is used to find, recognize, and describe the risks that could affect the achievement of objectives.</p> <p><i>Risk analysis</i> is a process that is used to understand the nature, sources, and causes of the risks identified and to estimate the</p>

	<p>level of risk. It is also used to study the impact, likelihood, and consequences and to examine the existing controls.</p> <p><i>Risk evaluation</i> is a process that is used to compare risk analysis results with risk criteria in order to determine whether or not a specified level of risk is acceptable or tolerable.</p> <p>The process is intended to be systematic, iterative, and collaborative. And at all stages of a risk assessment, it is vital to communicate with and involve internal and external stakeholders where required.</p>
<p>Page 8: DFA Risk Appetite Statements</p>	<p>The following section describes the DFA Risk Appetite Statements.</p>
<p>Page 9: Six key risk categories</p>	<p>Six key risk categories were used in the development of the DFA Risk Appetite Statements.</p> <p>These risk categories are consistent with those used for the university's enterprise risk management program. Risks can fall in one or many of these different risk categories. As you use some of the tools, you'll be asked which risk category or categories the risk falls within.</p> <p>The key risk categories are as follows: strategic risk, reputational risk, financial risk, compliance risk, operational risk, and life safety risk.</p> <p>Please take a moment to read the definitions for each of these risk categories.</p>
<p>Page 10: DFA Risk Appetite Statements</p>	<p>The DFA Risk Appetite Statements are developed in the context of the enterprise risk management model and the COSO internal control structure adopted by the university. COSO refers to the Committee of Sponsoring Organizations of the Treadway Commission. This committee published an internal control framework that has become global recognized as a way to help businesses assess risk and better control their activities in moving toward accomplishing objectives.</p> <p>The DFA Risk Appetite Statements are tied to OSU's strategic objectives and designed to enable the achievement of both strategic and operational objectives.</p> <p>They are also tied to the risk categories that we reviewed in a prior slide.</p>

	<p>Lastly, they intended to provide clarity of the types of risks DFA is willing to assume and the attitudes of senior administration to DFA’s risks.</p> <p>Within the statements, we use two terms – avoid and considerable – to measure the degree of risk. There are many different measures that can be used. Some organizations use a sliding scale of low, medium, high and some use broad statements. While the term avoid is obvious, considerable is not as clear. In this context, considerable is meant to mean a balanced and informed approach taking on a moderate to high degree of risk.</p>
<p>Slide 11: Strategic Risk</p>	<p>Now, let’s turn to the DFA Risk Appetite Statements. The statements have been written in the context of the key risk categories that we just reviewed.</p> <p>The first is Strategic Risk. We have three risk appetite statements, which are as follows:</p> <ul style="list-style-type: none"> • DFA has a considerable appetite for proactive integration and advancement of inclusive excellence. • DFA has a considerable appetite for innovative, integrated and secure services and systems that both increase responsiveness and support continuous improvement in support of the university mission. • DFA has a considerable appetite for proactive forecasting, and planning, before resource allocation decisions.
<p>Slide 12: Reputational Risk</p>	<p>The DFA Risk Appetite Statements that fall under the Reputational Risk are:</p> <ul style="list-style-type: none"> • DFA has considerable appetite for activities that improve university success and will be viewed as national best practices. • DFA seeks to avoid negative press to the university that will question the university’s integrity and credibility.
<p>Slide 13: Financial Risk</p>	<p>Next as relates to Financial Risk, the DFA Risk Appetite Statements are:</p> <ul style="list-style-type: none"> • DFA has a considerable appetite related to balancing administrative costs and potential losses. • DFA has a considerable appetite for generating and pursuing new revenue streams. • DFA seeks to avoid inadvertent and overt fraud, collusion or theft. • DFA seeks to avoid outcomes that have a significant negative impact on funding from external sources.

Slide 14: Compliance Risk	<p>Compliance Risk is our next risk category and the DFA Risk Appetite Statements are:</p> <ul style="list-style-type: none"> • DFA has a considerable appetite to create broad policies supported by guidance and training that reinforce compliance of legal, statutory, regulatory and financial requirements. • DFA seeks to avoid actions that may place the university in non-compliance with legal, statutory, regulatory and financial requirements.
Slide 15: Operational Risk	<p>Compliance Risk is our next risk category and the DFA Risk Appetite Statements are:</p> <ul style="list-style-type: none"> • DFA has a considerable appetite to create broad policies supported by guidance and training that reinforce compliance of legal, statutory, regulatory and financial requirements. • DFA seeks to avoid actions that may place the university in non-compliance with legal, statutory, regulatory and financial requirements.
Slide 16: Life Safety Risk	<p>And the final DFA Risk Appetite Statements are related to Life Safety Risk:</p> <ul style="list-style-type: none"> • DFA has considerable appetite for opportunities that enhance health, safety, and well-being. • DFA seeks to avoid behavior or misconduct threatening the safety, physical and mental health, and well-being of its employees, students or visitors. <p>It is important to know as you apply these risk appetite statements that one or two or many may apply.</p>
Slide 17: Risk Assessment Tools	<p>The following section provides information on the Risk Assessment Tools.</p>
Slide 18: Risk Assessment Tools	<p>To operationalize the DFA Risk Appetite Statements, four risk assessment tools have been developed. Please follow the weblink to access each of these tools along with instructions. The next several slides will describe how to use the different tools. Please review each tool and then use the one that you feel most comfortable with for the decision at hand. It is not necessary to use all of the tools, and you may find some tools work better than others based on the risks being assessed.</p>
Slide 19: Risk Assessment Questionnaire	<p>The first tool is the Risk Assessment Questionnaire. This questionnaire guides you through a series of questions to prompt your thinking through the risk assessment process. This tool works well for time critical decisions.</p>

	<p>Each of the tools will begin with the purpose and the objective. It is critical to indicate the objective prior to embarking on a risk assessment.</p>
<p>Slide 20: Risk Assessment Form</p>	<p>The Risk Assessment Form is the next tool.</p> <p>The form allows you to address the Risk Categories in your risk assessment, and to further detail the impact and likelihood for each risk via a rating mechanism. The form helps guide you through your risk reduction and control measures, prompting one to think if the risk is under- or over-controlled and which management strategy was used. The form also prompts a target completion date, and person responsible for delivering on the next steps.</p> <p>As you turn to the second page, you'll find instructions on how to use the Risk Assessment Form, as well as a description of the key risk categories that we've previously reviewed and management strategies.</p> <p>The management strategies or treatments describe what you are doing to the risk. Four are listed: mitigate, transfer, avoid and accept. Mitigation is a measure or set of measures taken to reduce or eliminate identified risks. Transfer is a strategy to transfer the risk through insurance and noninsurance techniques to shift the financial consequences of the loss to another party. Avoidance involves ceasing or never undertaking an activity so the possibility of future loss occurring is eliminated. Acceptance, also known as retention, involves acknowledging the risk and making a conscious decision to accept it.</p>
<p>Slide 21: Risk Assessment Spreadsheet</p>	<p>The risk assessment spreadsheet has four tabs. The first has instructions and tips. The second is the risk assessment tab, the third tab is a heat map and the final tab is the risk register. The questions under the Risk Assessment tab will look familiar to those of the other risk assessment tools.</p> <p>You will identify the risk and briefly describe it. Indicate how the risk is currently being managed and any concerns. Analyze the risk and rate the impact and likelihood. Next, you will evaluate and determine which risks need further action. You'll again indicate the management strategy. Finally, you'll assign who is going to take action and the timeframe.</p> <p>All of this information will pull into the Heat Map. And typically, the risks in the top right quadrant of the Heat Map are the highest priority.</p>

	<p>The Risk Register is the final tab, and allows the person responsible to track updates and status, as well as the final completion date of when all actions have been taken. After actions have been implemented, you will re-analyze, and re-rate the impact and likelihood of this happening with additional risk controls in place. The risk register will show a comparison of the scores between the first and second risk assessment, which is helpful as it shows the progress made to reduce the risk by the control measures implemented.</p>
Slide 22: Pocket Card	<p>The last risk assessment tool is the pocket card. The pocket card is something that can be shared with employees, and particularly those who do not typically access the computer when they are making decisions. In other words, there may be times when the other risk assessment tools are not as readily accessible when a decision needs to be pushed forward and made, and thus having this quick reference guide to assist in the steps to making a risk-informed decision may be helpful.</p>
Slide 23: Thank you	<p>Managing risk can assist organizations in setting strategy, achieving objectives, and making informed decisions. It is critical to manage risk when decisions are being made, rather than after the fact. The risk assessment tools can assist in this process. Thank you for your time and attention throughout this course. Should you have any follow up questions or concerns, please contact risk@oregonstate.edu.</p>