

**ERM COMPONENTS: EVENT/RISK IDENTIFICATION, RISK ASSESSMENT, RISK RESPONSE, CONTROL ACTIVITIES****SECTION A: HEADER INFORMATION**

1. Insert name and email address information for individual completing form
2. Insert reporting year, state agency, division/section

**SECTION B: ERM Component 3 – Event (Risk) Identification**

1. Review Green Book\* Attributes 7.02-7.04, 8.02-8.05, 9.02-9.03
2. Risk # - Assign a number to each risk. It is recommended that a number scheme is designed that may correlate each risk to the section/office/division reporting the risk. Example:  
DOA\_AP\_001; BUD\_001; FISCAL\_001; HR\_001; IT\_001
3. Event (Risk) Identification
  - a. List risks which may impact the achievement of the agency's objectives listed on Form 2
    - i. In addition to day-to-day operational risks, management must consider risks related to the following categories:
      1. Fraud (Green Book\* Principle 8)
      2. Waste & Abuse (Green Book\* Attribute 8.03)
      3. Change (Green Book\* Principle 9)
      4. Errors
      5. Casualty losses
      6. Acts of God
      7. Service Organizations ( Green Book\* OV 4.01-4.03)
    - ii. Management should also address risks related to audit findings & recommendations. Financial/Compliance Audits may be found at <http://www.comptroller.tn.gov/sa/SASub.asp?SC=AG&F=>
  - b. Risk Register – Please refer to the Risk Register for a list of potential risks that may be applicable. This list provides possibilities for risk categories and examples of risks which could adversely affect an agency's ability to meet its objectives. This list is not intended to be all inclusive or applicable to all agencies.
4. Links to Objective #'s from Form 2
  - a. For each risk identified, list any agency objective numbers from Form 2 the risk could impact.
  - b. The same objective may be linked to more than one risk. Likewise, more than one objective could be linked to the same risk.

**SECTION C: ERM Component 4 & 5 - Risk Assessment (Inherent & Residual Risk Rating) & Risk Response**

1. Inherent Risk Assessment
  - a. Review Green Book\* Attributes 6.08-6.10, 7.03, 7.05-7.07, 8.06, 9.04-9.05
  - b. Assess identified risks to estimate their significance on achieving the agency's objectives by considering the magnitude of Impact and Likelihood of the risk prior to considering management's response to the risk.
    - i. Impact: Select from drop down box - High, Medium or Low
      1. High Impact – Very significant or catastrophic threat to the achievement of objectives. Immediate senior management attention would be necessary and the formulation of a working team may be necessary to resolve the underlying issues.



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2. Medium Impact – Material disruption to the achievement of objectives. Management involvement would be necessary to resolve if risk was to materialize.
  3. Low Impact – Minor disruption to the achievement of objectives. Routine procedures by department staff would be executed to address the issue.
- ii. Likelihood: Select from drop down box - High, Medium or Low
    1. High – Probable, frequently, happens constantly, great potential to happen, almost certain, practically guaranteed, definite possibility
    2. Medium – Possible, happens occasionally, intermittent, sporadic
    3. Low – Remote, happens rarely, not likely
2. Risk Response
    - a. Review Green Book\* Attributes 7.08 -7.09
    - b. Management should estimate the significance of each risk as a group or individual basis to determine the proper risk response.
    - c. Response: Select from the drop down box – Accept, Avoid, Reduce, Share
      - i. Accept – No action is taken to respond to the risk based on the insignificance of the risk, e.g. low impact, low likelihood. Do not need to complete Section D – Control Activities or Management Action Plan (MAP) tab.
      - ii. Avoid – Action is taken to stop the operational process or the part of the operational process causing the risk. Do not complete Section D – Control Activities. Complete MAP tab.
      - iii. Reduce – Action is taken to reduce the likelihood or magnitude of the risk. Complete Section D – Control Activities. Also, complete MAP tab if residual risk is above management’s established risk tolerance (see Form 2) or control activities are not operating effectively.
      - iv. Share – Action is taken to transfer or share risks across the entity or with external parties, such as insuring against losses. Complete Section D – Control Activities. Also, complete MAP tab if residual risk is above management’s established risk tolerance (see Form 2) or control activities are not operating effectively.
  3. Residual Risk Rating
    - a. Review Green Book\* Attribute 7.03. See also Attributes 6.08-6.09 and 7.08-7.09 for discussion on risk tolerance.
    - b. Assess identified risks to estimate their significance on achieving the agency’s objectives by considering the magnitude of Impact and Likelihood of the risk remaining after management’s response to the risk. Complete this section following the completion of Section D – Control Activities.
    - c. Impact, Likelihood - Select from the drop down box High, Medium, or Low

#### **SECTION D: ERM Component 6 - Control Activities**

1. Review Green Book\* Principles 10, 11, 12
2. Complete for risk responses of Reduce and Share
3. Control #
  - a. Assign a number to each control
  - b. May use a unique Control # scheme or series
  - c. Insert additional rows as needed



**4. Control Activities**

- a. List only one control per row
- b. Control wording should be specific, concise and testable.
- c. A control activity typically has four parts: control activity itself, timeliness, ownership and frequency.
  - i. In the Event (Risk) Identification & Control Activities column, include, if applicable, the
    1. Control Activity: What is being done?
    2. Timeliness: When does the activity need to be completed?
    3. Ownership: Who is performing the activity?
  - ii. In the Frequency column, state how often the control activity is performed. Examples: As needed, Hourly, Daily, Weekly, Monthly, Quarterly, Annually
- d. Control Effective Y/N
  - i. Review Green Book\* Attributes 12.04 -12.05; 16.06 – 16.09; 17.06
  - ii. Document and retain, for your agency's records, testing of control activities listed to include description and results of testing
  - iii. Based on testing, determine if each control is effective and fill in using Y(yes) or N (no)
  - iv. Complete Management Action Plan (MAP) tab for any of the following:
    1. Any risk response identified on Form 3 as "Avoid";
    2. Any control activities that are ineffective; and
    3. Any residual risk rating that is above management's established risk tolerance (see Form 2).

