Caltrans 2023 Risk Assessment Process Instructions

Office of Enterprise Risk Management

Division of Risk and Strategic Management

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## Overview

The Office of Enterprise Risk Management (ERM) is facilitating the 2023 Organizational Risk Assessments to identify, analyze, evaluate, and rank opportunities and threats to Caltrans.

Assessments are conducted with ERM-facilitated, multiple hour meetings—with Caltrans leaders of Districts, Programs, and Headquarters Divisions and Offices—to discuss the risks they have identified, analyzed, evaluated, and provided to the ERM team. The initial assessment will be completed through extensive pre-work completed by participants and their staff using these instructions.

## Value of the Assessment

It is important to Caltrans that we analyze the opportunities (a risk with potential positive outcomes) and threats (a risk with potential negative outcomes) that may affect the organization’s ability to achieve its vision, mission, and goals. This assessment provides Caltrans’ leadership the ability to prioritize and develop responses to risks that may impact the achievement of the 2020-2024 Strategic Plan goals.

Caltrans will use the enterprise risks identified to report the most critical risks in the **2023 State Leadership Accountability Act** **Report** to the Department of Finance.

In addition, this information will be a foundational part of our ongoing **Enterprise Risk Management** program as we continue to prioritize enterprise-level risks and encourage a coordinated statewide response strategy.

These opportunities and threats will also be evaluated to identify the highest rated risks for risk response through Risk Management Monitoring at the highest levels of the organization.

## The Pre-work

Before the leaders of your functional unit (District, Program, Office, Division, etc.) and the ERM team meet to discuss opportunities and threats that you view facing Caltrans, **you need to meet with your subordinate teams to identify these risks**. While there will be less time in our scheduled meeting to “brainstorm” risks, much of the meeting will be devoted to discussing opportunities and threats that you have already identified. This pre-work is essential for a successful meeting for many reasons.

Because the participants of the risk assessment meetings with ERM are nearly all management, **it is especially important for those managers to involve their staff in risk identification before the meeting with ERM**:

* Your staff need to have a voice in this process. They have valuable perspectives on the department’s risks.
* The pre-work is an opportunity to involve rank-and-file staff in Caltrans’ Enterprise Risk Management work while promoting buy-in through participation.
* Brainstorming between high-level leaders is an excellent opportunity but may not be the most efficient use of time. This pre-work allows for the best use of the time together discussing and confirming details on risks already identified; thus, allowing for the meeting time to complete the assessment and reducing follow-ups.

Please complete the pre-work risk register using Microsoft Teams no later than one week before your scheduled risk assessment meeting. **If your risk register has not or cannot be completed on time, please contact us to let us know. Depending on availability of time, the meeting may be rescheduled.**

### Steps

1. Qualify that this assessment is to identify and rank **enterprise risks only** (followingthe criteria below).
2. Review the accompanying 2021 Organizational Risk Register for your (District/Program, etc.). This will provide you with important context, and you may want to include updated versions of some of those risks in this year’s risk assessment.
3. Work with your staff to identify opportunities and threats based on the 9 data-points outlined in the [Assessment Framework](#_The_Data_We’re) section.
4. Remember to identify Caltrans’ risks outside your functional area: other functions of Caltrans, teams you interact with, resources and needs, HQ/Districts—look at Caltrans’ organizational chart for ideas. Think about weaknesses that you are aware of in Caltrans’ *internal controls*—policies, practices, equipment, etc. that try to help good things happen and help keep bad things from happening.
5. **Record any non-enterprise risks in a separate register for risk response planning by you and your team(s)**. Following our Risk Assessment, the ERM team is available to help you with addressing those risks.
6. Record and save identified enterprise risks in Microsoft Teams, and the risk register provided.
7. Please notify your area’s designated single point of contact at least one week in advance that your inputs into your areas Organizational Risk Register entries are complete. Be prepared to participate and collaborate in the risk assessment process during the meeting.

### Enterprise risk

In order to qualify as an **enterprise risk**, it must meet one or more of the following qualifications:

* Has the potential to have a high impact on the Department’s mission, vision, or goals.
* Is systemic and requires a statewide coordination of treatment response.
* Be proven untreatable by existing program or district management policies and resources.

A risk should also:

* Have uncertainty built into it and potential solutions, not simply an unresolvable problem or irritation.
* Have a Caltrans-centric scope—something that Caltrans can address or respond to, not requiring substantive change by the legislature, unions, state civil service limitations, etc.

### Strategic risk

While most enterprise risks are operational—they focus on doing what we do today but better, faster, cheaper, etc.—we are especially interested in **strategic risks**, which focus on major changes to our business made necessary because of ever-changing circumstances. Consider how changes in technology, culture, laws, policy, politics, demographics, physical environmental changes, etc. generate risks for Caltrans and drive us to adapt.

If you have any questions, please contact the following ERM team member:

For Districts 1-9, please contact Lee Beebe at [lee.beebe@dot.ca.gov](mailto:lee.beebe@dot.ca.gov) or 279-234-2436

For Districts 10-12, Administration, Finance, and Legislative Affairs, please contact Nate Lyday at [nathaniel.lyday@dot.ca.gov](mailto:nathaniel.lyday@dot.ca.gov) or 279-234-2646

For Sustainability, Information Technology, MOSE, Planning and Modal, Project Delivery, Office of Civil Rights, Public Affairs, Legal, please contact Steven Newcomb at [steven.newcomb@dot.ca.gov](mailto:steven.newcomb@dot.ca.gov) or 279-234-2341 <mailto:>

Issue Vs. Risk

Issue:

An event that has occurred and is currently ongoing.

* Present Tense: *“This is happening.” “This is a problem.” “This is a benefit.”*
* An issue is often a risk that has materialized.
* An issue may cause risks, which should be reported.

Risk: An event that has a probability of occurring. It has not occurred and may or not emerge over time.

* Future Tense: *“It may happen.” “It may become a threat.” “It may become an opportunity.”*
* A risk may become a future issue.

Note: **An issue becomes a risk again if it stops occurring but has a likelihood of reoccurring.**

* If something has occurred in the past and can possibly occur again, it should be reported as a risk.
* If something has a pattern of reoccurring, but is not presently happening, it should be reported as a risk.

## Assessment Framework

The opportunities and threats to Caltrans are identified as enterprise risks.

### Ten Criteria to Establish Enterprise Risks

1. Context

When identifying opportunities and threats, it is important to capture the context in which they exist. This helps non-experts better understand the risks (opportunities and threats), and helps experts align their views of the risk together. Examples of context include:

* The purpose of the activity, change, decision, or group the risks relate to
* Current controls such as laws, policies, contracts, etc.
* The physical, social, and economic environment
* Assets, liabilities, mandates, and limitations

The total context of an opportunity or threat is too large to capture here, but the most important pieces of context can be captured in short phrases, single words, or small sentences, such as: “activity’s goal is compile list of assets needing repair”, or “DP-004, DP-011, and DP-035”, or “specifically required by SB 1”, or “poor morale”, or “related skillset in high demand”.

2. Risk Statement

From your perspective, identify the enterprise-level, strategic opportunities and threats that Caltrans faces. The risk statement is the core piece of information for both opportunities and threats—a basic statement of a potential cause and effect relationship, as explained more below.

A risk statement can be written in a two-part “if-then” structure, with a strong element of uncertainty and the root cause implied but not outwardly stated. For example: *“If a fire occurs, then the house could burn down.”*

It would then be important to expand upon the root cause in the context column of the risk register.

A risk statement can also contain three components in a similar format, following the structure: “As a result of <cause>, if <risk> occurs, then it could lead to <effect>.”

Definition Example

The ‘cause’ is the root cause. The dog is allowed to run freely in the house, and it often knocks over the space heater.

The ‘risk’ is the uncertain event. A fire

The ‘effect’ is the potential impact. The house burning down.

“*As a result of the dog being allowed to run freely in the house, the space heater often gets knocked over. If a fire occurs because of this, then the house could burn down.*” This statement can be a long phrase or multiple sentences, if necessary, but it should be clear and concise.

Risk statements must be based in root causes. Also, if they are phrased with potential risk response actions in mind (and documented in a risk register), that will support their use for the development of the Goals, Strategies, Performance Measures, and Action Steps of Caltrans’ 2020 Strategic Plan. Such phrasing also makes easier the creation of risk response actions to address the risk.

* Examples
  + NO: “If Caltrans does not take a take a leadership role in innovation…”
  + YES: “If Caltrans does not put systems in place to drive innovative activities…”
  + NO: “If Caltrans does not address homeless encampments in the right of way…”
  + YES: “If Caltrans does not make a plan and set policy regarding encampments in the right of way…”

Avoid words and phrases that are ambiguous. Avoid themes that outline best practices of existing activities. Avoid passive themes.

Examples:

* Become a leader…
* Take a leadership role…
* Better address…
* Change the way we…
* Enhance…
* Promote…
* Encourage…

3. Identify as an Opportunity or Threat

An opportunity is a risk with potential positive results; one that could help us better achieve our intended outcomes. A threat is a risk with potential negative results; one that could hinder our pursuit of our mission. Double check each proposed risk statement to see that it clearly matches how you’ve identified it here.

Many risks can be phrased either way, since there are threats inherent in not taking advantage of an opportunity, and opportunities to remove or mitigate a threat. However, most risks have a more natural fit as opportunity or threat.

If a situation has both threats and opportunities (as is common), feel free to write multiple statements.

4-6. Scoring Likelihood, Impact, and Velocity [5-point scale]

* The **likelihood** score relates to how probable an event is while in its current state without removing or adding any controls or making any other kind of response.
* The **impact** scores measure the severity of the outcome, consequence, or result that would occur from said event, whether positive or negative.
* The **velocity** score measures how soon the event in question may occur, including measuring how rapidly decisions regarding this risk ought to be made.

Each of these scores is measured on a simple 5-point scale, with 1 referring to the least- and 5 referring to the most-likely/impactful/rapidly approaching.

For ***opportunities***, we are measuring how likely it is that the opportunity will occur/be realized and how positively its realization will help Caltrans’ ability to accomplish its goals.

For ***threats*** we are measuring how likely it is that the threat will occur and how negatively that will hinder Caltrans’ ability to achieve its goals. It is vital to repeatedly tie this scoring back to Caltrans’ scope and goals because many folks will naturally shift to their functional unit’s scope and goals.

DORSM has included guidance tables that may help while assigning scores, attached.

7. Existing Controls

Controls are processes, procedures, tools, laws, policies, rules, equipment, positions, etc. that are already used to control risk, ensure compliance, and help operations run more smoothly. In short, they are actions taken to help make sure the right things happen and keep the wrong things from happening.

* Please provide a clear description of the current controls, and how those controls manage your risk. This can be done in a simple, bullet-like format, such as,

“internal policy of bi-weekly inspections – provides accountability, allows early detection of errors/damage”

or “X software – standardizes data organization for these projects for use statewide, enables data sharing”

* Do you believe that the current controls are enough or is there something more that needs to be done?

8. Ideas for Response Actions (or actions currently planned)

Potential ideas about what could be done to pursue, share, or leverage opportunities; avoid, transfer, or mitigate threats; or whether the best response is to monitor the risk to determine if a response is appropriate. These general categories of response should spur conversation, but we need more specific ideas and people/resources that we can leverage to help investigate the suggested responses.

Please provide a description of what you might do, and how these actions could influence the risk.

9. Risk Owner This is the name of the individual contact person responsible for addressing the identified risk. This is the responsible party. (Risk response or mitigation actions may have their more specific owners, but this is the owner of the risk in general.)

## Detailed Meeting Agenda

In the meetings, we plan to:

* Briefly review the purposes behind the risk assessments and our identifying threats and opportunities, including the ways we’ll use the information as an input for the 2023 State Leadership Accountability Act Report, the Strategic Plan, an enterprise risk register, and other risk management, innovative, and internal controls-related activities.
* Recap that this meeting focuses on enterprise risks and offer to schedule another meeting to analyze and evaluate the identified non-enterprise opportunities and threats.
* Review the opportunities and threats that participants and their staff have identified and assessed, discussing whether they are enterprise, or District/Program level, how well the statement captures the risk, and the accuracy of the other data (scores, controls, etc.) in search of group consensus.
* Summarize Assessment, answer questions and reiterate Next Steps

## Enterprise Risk Management (ERM) Glossary

**Affinity Study**: analysis that focuses on finding the best groupings of risks based on their commonalities

**Analysis**: studying a risk’s potential root causes and assessing—through use of a scale—the likelihood, impact, and velocity of the risk

**Assessment**: the part of risk management that includes identifying risks; analyzing them via likelihood, impact, and velocity; and then prioritizing which risks will be addressed first or with the most resources

**Context**: the combination of (a) the physical, social, and economic environment with (b) your assets, liabilities, mandates, limitations, (c) goals/strategic plan components, and (d) current controls, such as laws, policies, equipment, contracts, etc.

**Controls**: the processes, procedures, tools, laws, policies, rules, equipment, positions, etc. that are already used to control risk, ensure compliance, and help operations run more smoothly

**District/Program Risks**: a risk that can primarily be addressed in the scope of one District or Program

**Enterprise Risks:** a risk that meets one or more of the following qualifications:

* Has the potential to have a high impact on the Department’s mission, vision, or goals.
* Is systemic and requires a statewide coordination of treatment response.
* Be proven untreatable by existing program or district management policies and resources.

**Identification**: identifying a risk by precisely stating the potential cause and effect as specifically as possible

**Impact**: the effect, outcome, or consequence of a risk event if it did occur

**Issue**: a factor or situation that involves certainty but can still be analyzed and treated alongside risks

**Likelihood**: the probability, possibility, or potential that a given risk event could happen

**Opportunity**: a risk that has potentially positive outcomes

**Prioritization**: determining which risks to focus resources toward to influence the likelihood, impact, or velocity

**Response/Treatment/Mitigation**: an action intended to influence a risks likelihood, impact, or velocity

**Risk**: the effect of uncertainty on objectives

**Risk Management**: the strategic use of culture, capabilities, and practices by which organizations manage risk as they create and preserve value

**Scope**: the result of combining your goals, assets, and limitations (or goals, strengths, and weaknesses)

**Threat**: a risk that has potentially negative outcomes

**Validation**: the gathering and presentation of evidence to support risk rankings of likelihood, impact, & velocity

**Velocity**: the speed at which a risk event—if it did happen—would occur, or the speed at which decisions about the risk would need to be made to influence its occurrence