



County Technical Assistance Service  
INSTITUTE for PUBLIC SERVICE

April 26, 2024

---

# Risk Management

---

Dear Reader:

The following document was created from the CTAS website ([ctas.tennessee.edu](http://ctas.tennessee.edu)). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

The University of Tennessee  
County Technical Assistance Service  
226 Anne Dallas Dudley Boulevard, Suite 400  
Nashville, Tennessee 37219  
615.532.3555 phone  
615.532.3699 fax  
[www.ctas.tennessee.edu](http://www.ctas.tennessee.edu)

<b>Risk Management .....</b>	<b>. 3</b>
<b>Preventing Losses Saves Money .....</b>	<b>. 3</b>
<b>Policy Statement .....</b>	<b>. 3</b>
<b>Program Administration .....</b>	<b>. 4</b>
<b>Elements of Risk Management .....</b>	<b>. 4</b>

## Risk Management

Reference Number: CTAS-760

Risk management for county governments is essentially the same as it is for business or industry, even though the risks may be different. The purpose of risk management can be simply stated: Planning for the negative consequences of any decision, process or action. An effective risk management program is based on this simple concept. A shorthand way of thinking of these negative consequences is to think of them as losses. Preventing losses should be the concern of everyone in county government, from the highest elected official to every worker earning an hourly wage.

## Preventing Losses Saves Money

Reference Number: CTAS-761

The function of a county government risk management program is two-fold. First, the program organizes the process of preventing losses. Some losses such as tornado damage cannot be prevented. Some losses occur because normal control measures fail. The second part of the risk management function, therefore, is to reduce the severity of losses that do happen. Risk management, as a critical component of any sound organization, can save money so that county commissioners can allow budget adjustments and keep tax increases low. A working program allows county mayors, county commissioners, and other officials, as well as general county employees, to provide better essential services, and to improve the overall performance of county government in the eyes of the public it serves.

## Policy Statement

Reference Number: CTAS-762

The primary role of county mayors and county commissioners in risk management is to develop the county's policy in handling risks. This policy should be stated in a written policy statement which will serve as a guide with clear and unambiguous direction to the persons in charge of implementing the risk management program, which functions under the terms of this written document. An understanding of several factors is necessary in order to formulate this policy statement.

First, county officials must understand the overall goal of a risk management program. As a component of any sound management plan, the goal of risk management is to protect the financial integrity of the county. Officials must understand that eventually, after starting a risk management program, all officials and county employees will have to do things that they haven't done before. They will have to stop doing things that they are accustomed to doing. Funds will be spent and accounted for in different ways, and relationships among local government officials and employees will be altered. They must decide and understand what will be the underlying principles and standards of an operating program in their particular county. Without a strong commitment from top county officials and perhaps from other influential persons in the county, such as long time employees, the program will most likely fail.

With these understandings in mind, county officials should express their support in a written document to be formally adopted by resolution. This document is usually called the risk management policy statement. In the policy statement, any new practices and any changes in lines of authority can be clearly set forth. The policy statement should include all the objectives of the program and the methods to be used in attaining the objectives. Important detailed procedures may be outlined. For example, the way an employee accident is reported and the way a claim against the county is to be handled may be explained. The statement should detail the overall insurance program of the county, including loss control and safety programs to be implemented and the type of records to be kept. Finally, the policy statement should adopt a procedure for reporting on the activities of the program and a way for the program to be assessed.

As an alternative to the development of a formal, detailed policy statement the county commission may formulate and adopt a brief statement and then turn the entire matter over to the county mayor to work out the details and report back to the commission for final approval. A committee can be formed to draft a policy statement. The county mayor can then appoint an employee to be temporary risk manager with the authority to learn risk management concepts, formulate a policy with localized needs in mind and produce a draft for consideration. A provisional policy statement can be adopted with the understanding it will be modified within a predetermined time limit. The advice of trusted insurance agents and brokers, local government attorneys, private company risk managers and other persons knowledgeable about local conditions and problems can be solicited on the best approach to develop the all-important policy statement.

## Program Administration

Reference Number: CTAS-763

While the county mayor and county commissioners are coming to grips with the problem of establishing a policy and formalizing a statement, they should decide who will administer the program. In larger, well-financed counties, the ideal administrator is an experienced, knowledgeable, and full-time risk manager. For smaller counties, an alternative method may be necessary.

One such alternative consists of formulating a joint powers agreement among the county government and any or all of the small municipalities within the county. Under the agreement, the services of a risk management-consulting firm could be obtained or a single risk manager could be hired for all the jurisdictions. A serious drawback of this method is that a considerable amount of time must be devoted to establishing the scheme. Officials must decide how such a person would be paid and what amount of his or her time would be necessary for each jurisdiction.

Another option is to use an existing employee to perform this function. The job of an employee already performing one or two risk management tasks can be expanded to include the full range of risk management functions, or an employee with the necessary skills and understanding may be trained for the position. For example, the county executive can identify an employee exceptionally good at purchasing insurance or in handling insurance claims. With some additional training, that person's duties can be expanded to include safety programs, then department inspection, then loss analysis, and so on. Through a well-planned course of study and self-training, in conjunction with salary increases and other incentives, such an employee can do well. Any person trained on-the-job must be carefully evaluated, and this type of risk manager would be no exception.

Officials must remember that an employee who gains a position of expanded responsibility or who is upgraded to the role of risk manager needs the requisite complementary increase in authority, in addition to salary boosts. The salary increase is necessary because this type of employee is more likely than most to leave employment once experience is obtained in the risk management field.

Successful risk management consultants generally disapprove of the committee approach to risk management. This approach involves imposing additional burdens on such officials as the county attorney, county executive, administrative heads and major staff employees as a group. They act as a committee, meeting and working out the details of program administration. Usually, each committee person assumes the responsibility for a single part of the program. These officials and employees normally are associated with any risk management program, but their working as a committee unfortunately results in a disjointed and unfocused effort. Although in the end the committee approach may be the only feasible one for a county, it should be avoided if possible. If not possible, then it should be temporary.

## Elements of Risk Management

Reference Number: CTAS-764

The general responsibilities of a county risk manager include identifying and evaluating loss exposures, developing risk control programs, and deciding how best to fund risks. Risk management experts think of a full-scale risk management system as a system with four elements:

1. Risk identification
2. Risk evaluation
3. Risk control, and
4. Risk financing

Using the four-element approach is a step-by-step process. The risk manager first must Identify a Potential Loss before it can be evaluated.

Evaluation, the second step, is necessary to know how to control the expected loss. To evaluate a potential loss, the risk manager must know what the loss is, determine its severity, and calculate its probable frequency of occurrence.

The third element, Risk Control, is the one most often recognized by county officials. It is subdivided into "loss prevention" and "loss reduction." County officials will avoid much disappointment by admitting in advance and declaring in the policy statement that a risk manager rarely can completely prevent a loss in a given area. A sound risk management program of loss prevention can, however, decrease the frequency of loss in that area. When a loss does occur, the measures taken under the program will reduce the cost or severity of the loss.

The two-fold goal of the Risk Control element of a program is to-

- decrease the frequency of losses and
- reduce their severity once they occur.

Finally, to finance the loss in the proper manner -- after identifying it, evaluating it, and using such control measures as safety programs, inspections, and disaster training -- the risk manager must cover the risk with insurance or with a combination of insurance and risk retention methods.

Of the four elements of a risk management program, the policy-making role of county mayors and county commissioners is greatest in Risk Financing, which is simply arranging a method of paying for losses. No matter how successfully a manager handles loss exposures, the county will always need some type of risk financing program. No loss prevention program is 100% effective so when losses occur, they need to be paid. On the other hand, risk financing can only be effective if efforts have been made to identify, evaluate, and control losses.

The two major categories of risk financing are *retention* and *transfer*. All risk financing techniques are one or a combination of both. Risk retention includes-

- all self-insurance programs
- deductibles
- uninsured losses

and any other method in which the county assumes all or part of a loss.

Risk is transferred through a contract in which one organization agrees to pay for the losses of another organization in exchange for a premium. Insurance is the most common form of risk transfer. County executives and county commissioners must make the final determination of what forms of Risk Financing to use.

---

**Source URL:** <https://www.ctas.tennessee.edu/eli/risk-management>