

UAC

UNIVERSITY AUDIT & COMPLIANCE

# ENTERPRISE-WIDE RISK MANAGEMENT

## AGENDA

1. Definition of risk
2. Risk drivers in higher education today
3. Implementing an enterprise-wide risk management (ERM) program to effectively assess, manage, and monitor risk
4. How to proactively engage the campus community in a more informed dialogue regarding ERM

*I thought risk management was about buying “insurance.”*



## Risk

- Before risks can be effectively managed, we must agree on a common definition of risk that is clearly understood by the board, management, faculty, and staff.
- Replace old definitions of risk and risk management

## Risk

Old Language

## Risk

- Negative outcomes

## Risk Management

- Making sure that organization was adequately protected in the event of a catastrophe.

New Language

## Risk

- Any issue that affects organization's ability to meet its objectives

## Enterprise-wide Risk Management

- Encompasses all of the operational, financial, compliance, strategic, and reputation issues encountered in attempt to achieve objectives

## What is ERM?

### Enterprise Risk Management (ERM)

- Is a process through which management identifies significant threats that would prevent their organization from meeting stated goals and objectives
- Assigns specific responsibility and accountability for developing controls to mitigate risks
- Implements those controls
- Monitors the controls to verify they are working as intended

## What is ERM?

- ERM is about establishing the oversight, control and discipline to drive continuous improvement of an entity's risk management capabilities in a changing operating environment.
- ERM is a means to an end, not an end in itself.

## Benefits

Benefits of establishing a risk management program:

- Improved reputation
- More efficient operations
- Resource allocation – money directed to the right place, the areas of highest risk
- Campus sense of pride in a well-managed and disciplined institution
- Lower insurance costs

## More Benefits

ERM enhances the organization's ability to:

- Align appetite for risk with strategy
- Link growth, risk, and return
- Enhance risk response decisions
- Minimize operational surprises and losses
- Identify and manage cross-enterprise risks

## More Benefits

- Provide integrated responses to multiple risks
- Seize opportunities
- Deal effectively with potential future events that create uncertainty
- Respond in a manner that reduces the likelihood of downside outcomes and increases the upside.

## Limitations

- ERM is designed to provide reasonable assurance to an entity's management and board regarding the achievement of objectives.
- *Reasonable* assurance is not *absolute* assurance.
- Uncertainty and risk relate to the future, which no one can predict with precision.
- ERM can be an early warning system for potential high-risk events.

## Risk

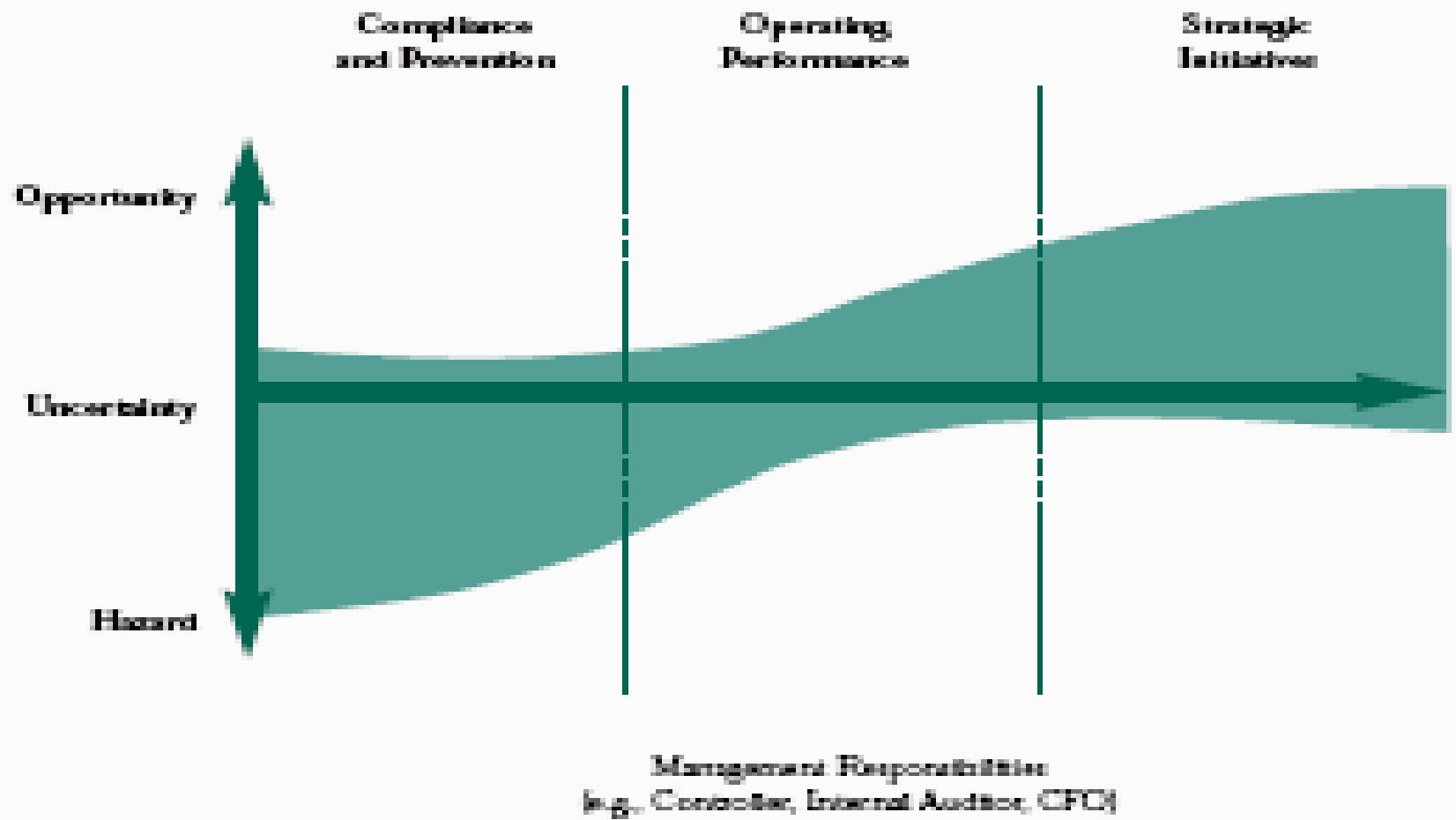
Five types of risk:

1. Strategic – goals of the organization
2. Financial – safeguarding assets
3. Operational – processes that achieve goals
4. Compliance – laws and regulations
5. Reputation – public image

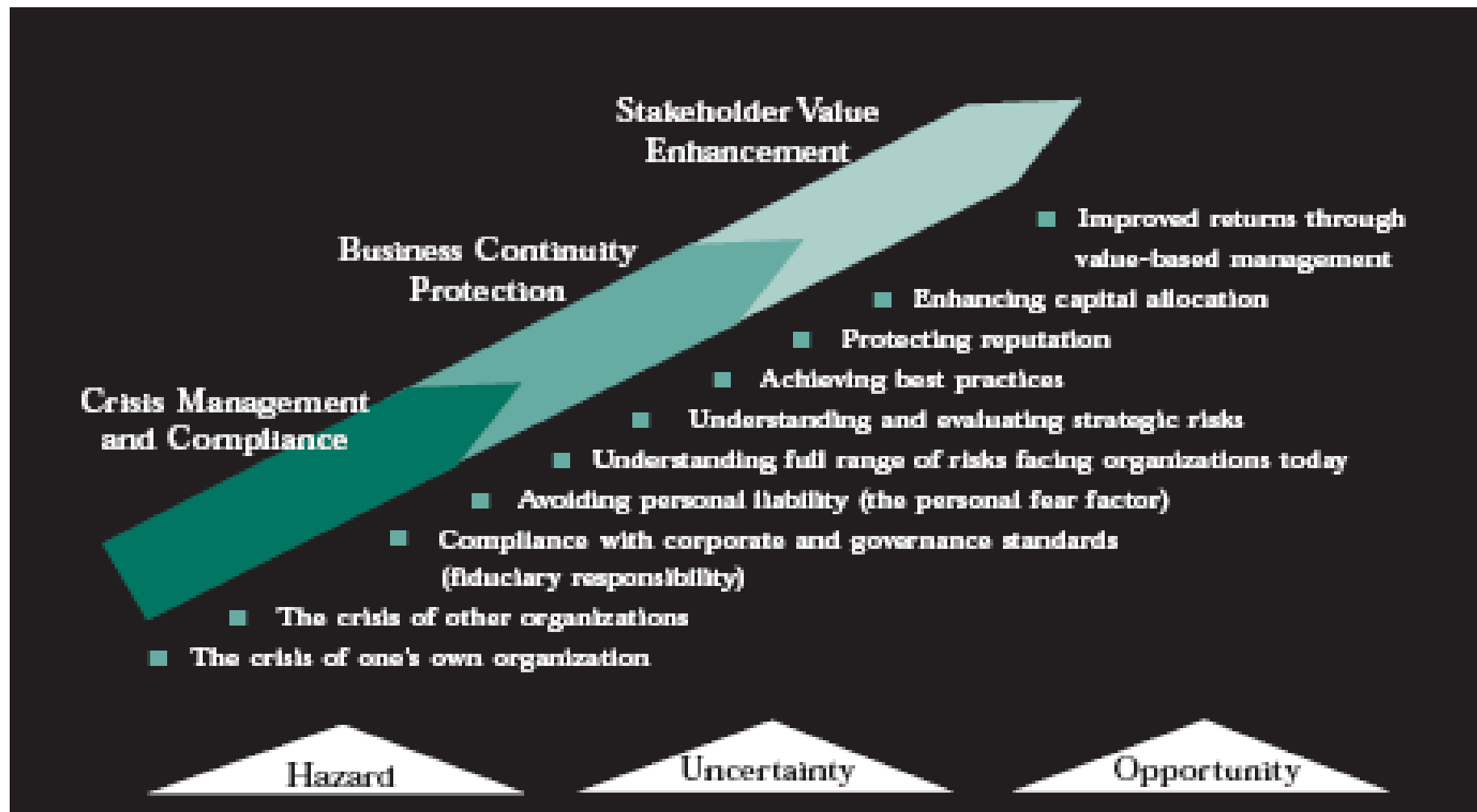
## Risk

- Risk continuum
  - Upside and downside potential—offense vs. defense
  - From managing hazards to uncertainty to seeing risk as an opportunity

# Risk



# Risk



## Risk

<u>Risk View</u>	<u>Function</u>	<u>Responsible</u>
Hazard	Crisis management & compliance	Controller, auditors, insurance risk manager
Uncertainty	Business continuity protection	CFO & line managers (operations)
Opportunity	Stakeholder value enhancement	Sr. management & planning staff

## Self Assessment 1:

- Where is USF on the Risk Continuum?
  - Ideally, an institution should be doing all of these—managing hazards, complying with laws and regulations, controlling uncertainties, and viewing risk as an opportunity to enhance value.

### Strategic Risk Drivers

Risk Driver	Stakeholders
Emerging delivery systems	Students, faculty
Inability of governance processes to support strategic objectives	Trustees, faculty
Excess physical capacity	Trustees, donors
Quality of academic programs	Students, faculty
Increasing customer expectations (e.g. financial aid, student life, access, capacity)	Students, parents

## Operational Risk Drivers

Risk Drivers	Stakeholders
New technologies	Trustees, exec. Mgt., staff
Reimbursement & financial issues facing medical centers	Dean of Medicine, regulators
Research and intellectual property	Research
Unionization	HR, staff, faculty
Decentralized responsibility	Staff, faculty, auditors

# Operational Risk Drivers

Risk Drivers	Stakeholders
Increased regulatory scrutiny & accountability	Trustees, internal audit, public
Human resource management	Unions, staff
Security, internet access, electronic records	Students, faculty, staff
Student behavior and community	Alumni, parents, students, faculty
Contracting and related processes	Attorneys
Endowment management	Trustees, alumni, donors

## Risk Drivers

### Self-Assessment 2:

- Are any of these risks affecting USF?
- Has USF considered its strategic and reputational risks?

## Approach to ERM

Today's organizations approach risk management in ways that can be categorized into five levels:

- I. See little value in proactive ERM
- II. General awareness about ERM and some conceptual appreciation for its value

## Approach to ERM

- III. Aware of ERM and have set up mechanisms to monitor risks
- IV. Have created a risk management position to review “hot” spots, assist in risk assessment within business units, and keep score
- V. ERM has fully evolved from a back office function to a CEO-level concern and is embedded in every part of the organization. Each business unit designs its own risk mitigation plan, tracks progress, and establishes training programs.

## Approach to ERM

### Self-Assessment 3:

- How would you categorize USF? As a Level I? II? III? IV? or V?

## Success Factors

## Eight Key Elements for Effective ERM:

1. Acceptance of a risk management framework and common language about risk
2. Senior management commitment
3. Risk management owner/champion
4. Communication

## Success Factors

5. Training
6. Reinforcement through HR mechanisms
7. Process
8. Monitoring by Internal Audit

# Engagement

## Challenges

- Marketing risk – has a negative connotation
- Measuring risk – difficult to quantify
- Identifying champions – need authority and credibility
- Culture – decentralized, slow to change, reactive
- Defining accountability – too often viewed as someone else's problem

# Engagement

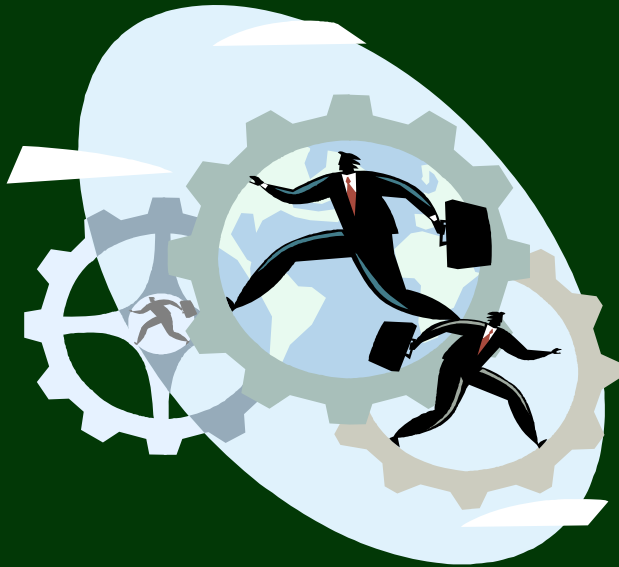
## Solutions

- Find new ways to talk about risk
- Develop a model with appropriate qualitative and quantitative outcomes and indicators
- Appeal to trustees' experience and find a champion on the board
- Find sponsors at the faculty/department level
- Tie risk to strategic objectives in the planning process

## Engagement

- Most colleges and universities focus primarily on financial and compliance risk and on building effective compliance programs.
- Risk Management impacts not just the numbers, but also brand, competitiveness, and strategy.
  - University of Pennsylvania example (University City)

- An organization is only as good as its weakest link or most ineffective process.
- USF must move from building controls on a process to building risk management into a process.



It's our choice...

Risk can be managed  
with *foresight* or

Damage can be  
managed with *hindsight*.

## Reference

- NACUBO's "Developing a Strategy to Manage Enterprisewide Risk in Higher Education."