



ERM: Lessons Learned and Tools Used from One University's Nearly 10-Year Implementation Journey

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Objectives

- Overview of ERM
 - Understand the key elements and benefits of an ERM program
- ERM at Texas A&M University
 - Implementation journey
 - Risk assessment process
 - Tools used
 - Challenges looking forward

About Texas A&M University

- Texas' first public institution of higher learning - opened Oct. 4, 1876 (Land, Sea, and Space-grant federal designations)
- Main campus located in College Station, Texas with over 50,000 students, 2,600 faculty, and 4,800 employees
 - Other locations: Galveston, TX; Qatar; Costa Rica; Italy; Mexico
- Over 850 student-led organizations
- Conduct research valued at over \$700 million annually
- Large campus
 - 5,100 + acres
 - 600 + buildings and housing for 10,000 students
 - golf course and an airport
 - 5 utility plants and 2 waste water treatment facilities
- Mergers and outsourcing
 - Health Science Center (July 2013): college of medicine, dentistry, nursing, pharmacy; Law School
 - Outsourcing loss of 1,115 employees

ERM Definition (COSO)

A process, affected by an entity's board of directors, management, and other personnel,

applied in strategy setting **across the enterprise**,

designed to **identify potential events (risks)** that may affect the entity and to **manage risk** to be within the entity's risk appetite (tolerance)

to provide reasonable assurance regarding the **achievement of the entity's objectives**.

COSO Eight ERM Components

- Interrelated/integrated with management processes
 - **Internal environment** (tone, philosophy, executive mgmt. commitment)
 - **Objective setting** (objectives align with mission and are within risk appetite)
 - **Event identification** (risks are identified from internal and external events)
 - **Risk assessment** (likelihood and impact analyzed)
 - **Risk response** (processes in place to manage, mitigating strategies to avoid, accept, reduce, transfer, share)
 - **Control activities** (policies and procedures to ensure risk response are effectively carried out)
 - **Information and communication** (relevant, effective, and timely)
 - **Monitoring** (on going management activities and separate evaluations)

NACUBO's Eight Key Elements

- Includes support from the top and involvement of personnel at all levels
 - **Senior management commitment**
 - **Risk management owner** (designate chief risk officer responsible to implement the ERM program)
 - **ERM framework/process and common language**
 - **Communication** (entity's objectives clearly defined and communicated throughout the organization-risks impact achievement of objectives)
 - **Risk management process in place** (ability to assess risks and take timely corrective action to mitigate risks)
 - **Monitoring** (Internal Audit involved; include also management, unit heads, Compliance Program personnel, etc.)
 - **Human resources processes** (establish accountability)
 - **Effective training** (able to mobilize staff)

Benefits of ERM (COSO)

- **Aligning risk appetite and strategy** – Management considers the unit's risk appetite in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks.
- **Enhancing risk response decisions** – Enterprise risk management provides the standards to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance.
- **Reducing operational surprises and losses** – Universities gain improved capability to identify potential events and establish responses, reducing surprises and associated costs/losses.
- **Identifying and managing multiple and cross-enterprise risks** – Every enterprise faces a myriad of risks affecting different parts of the organization. Enterprise risk management facilitates effective response to the interrelated impacts, and integrated responses to multiple risks.
- **Seizing opportunities** – By considering a full range of potential events, management is positioned to identify and proactively realize opportunities.
- **Improving deployment of capital** – Using risk information allows management to effectively assess capital needs and enhance capital allocation.

TAMU Realized ERM Benefits

- Value added process
 - Involve participants in identifying and managing risks
active as part of the solution
 - Increase participant's exposure to other areas
enhances knowledge of operations
 - Increase risk consciousness in decision making
provides new perspective
 - Focus resources and efforts on high risk areas
breaks down barriers and demonstrates priorities that are used

TAMU's ERM Early Beginning

- In 1999, Management Advisory Services was established
 - to assist management and respond to requests for objective consulting services
- In 2004, University Risk and Compliance was established
 - incorporated management advisory services with two new initiatives
 - Enterprise Risk Management
 - University Compliance

ERM Drivers

- Management (CEOs, Provost, CFOs)
- Board Regents
- Audit Committees
- Auditors (Internal and External)
- Significant Events



Texas A&M University's ERM Implementation Plan

- Introduce ERM concepts to campus personnel
 - Presentations to units, training/conferences, meetings with unit heads and executive management
- Perform risk assessments
 - University-wide risk assessment
 - Tier I areas reporting to the President and other major functional areas (required)
 - Tier II units reporting to Tier I areas as requested
 - Tier III and beyond provided tools and training for on-going self-assessments as requested

ERM at Texas A&M University

- Top down approach focusing on the University-wide Risk Assessment
 - First performed in 2004, updated 2006, 2009, 2011, and 2013
 - Participants selected to provide wide university perspective
 - Main actions
 - Identify major risks facing the University
 - Identify the mitigating activities for the top risks, including the accountable responsible person for the mitigating activities
 - Review of significant mitigating activities (2008, 2010 and 2012)
 - Walk-through performed on a sample of mitigating activities

ERM Governance

- System Policy 03.01 (Aug. 2008, updated June 2010)
- President's Memorandum (Sept. 2009)
- Internal audit report on ERM (Sept. 2010) and follow-up audit (Feb. 2012)
- Standard Administrative Procedure 03.01.01.M0.01 (March 2011)

Common Risk Language

- Risk

Any event or action that adversely impacts the organization's ability to achieve its objectives (compliance, strategic, operational, reputational, financial, technology, fraud, etc.)

- Mitigating activities/strategies

Actions, procedures, and processes used to manage and monitor risks (limit, avoid, accept, transfer, share)

- Risk ranking

Prioritize and rank (high, medium, low)

- Impact (consequences)
- Probability of occurrence (likelihood of happening)

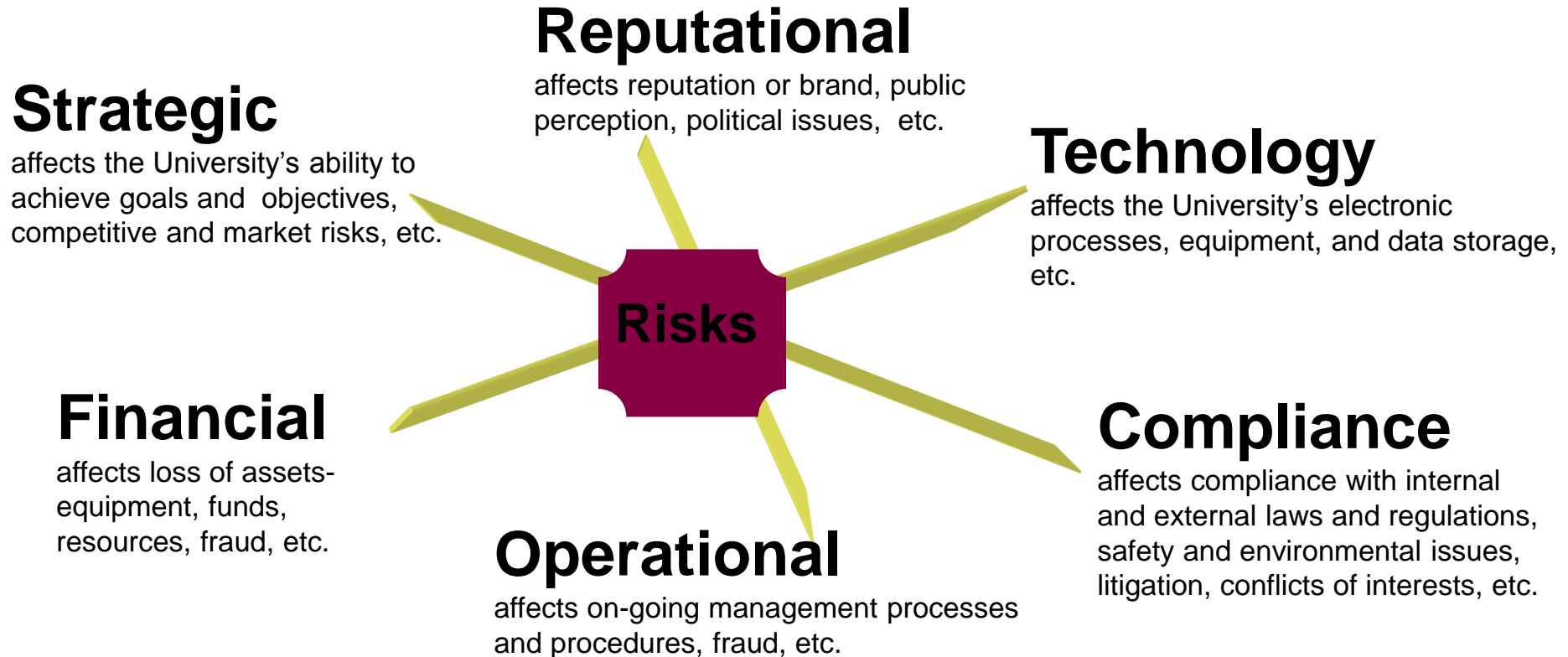
- Risk assessment

Process used to identify, prioritize, and document risks, mitigating strategies, monitoring processes, and any gaps

- Risk tolerance/appetite (conservative - moderate)

Risks Categories

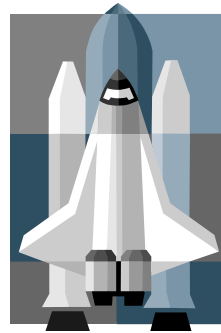
Risk: Any event or action that adversely impacts the organization's ability to achieve its objectives



Ranking the Risks

Impact

Effect on achieving objectives, the consequences



High

show-stopper/loss of program, significant wide spread injuries, death, large loss (%/\$ of budget, rev, ex), criminal penalty, liability

Medium

inefficient and moderate loss, significant extra/rework, fines, moderate/minor injury

Low

little to no effect, warning, extra work, reprimand, small limited loss

Probability

Likelihood that the risk will happen



High

will happen frequently, occurs often, on-going event, predictable, one-time event that may recur

Medium

will happen infrequently, sometimes occurs, unpredictable

Low

will seldom happen, infrequent, rarely happens, has not happened

Risk Assessment Steps

- Review mission and strategic plan/goals/objectives
Identify major activities and functions
- Identify and rank risks
Prioritize considering impact and probability
- Identify and document mitigating activities
Evidence of activity occurring and designated accountable person/position
- Review monitoring and executive reporting processes
Supervisory reviews, managerial oversight, communication flows, and other assurances gained by management that risks are effectively managed
- Follow-up: Assess effectiveness of mitigations
Perform a limited review/walk through-focusing on significant mitigating activities of highest ranked risks; review mitigations are adequate and working as planned

Facilitated Risk Assessments

- Meeting scheduled by Head of Unit (2-hours)
 - Attendees include direct reports and others
 - May need two meetings
 - Prep work before meeting/homework afterwards
- Two person team - facilitator and scribe
- Equipment
 - Computer and projectors
 - Handouts (list of risks, ranking criteria, prior footprints)
 - Anonymous voting equipment
 - Results posted immediately, can add to or edit risks or re-vote based on discussion, ability to vote or abstain
- Risk footprint and mitigation worksheets provided after meeting

Risk Assessment Tools

- Facilitated sessions
- Excel spreadsheets
 - Color coded, easy to use, linked w/macros
 - Free (developed by David B. Crawford, UTS)
 - Available on URC website:

<http://universityrisk.tamu.edu/>

- Voting software and touch pad equipment
 - Anonymous ranking of impact and probability
- Data management software for entity-wide data

ACTIVITIES	RISKS						
	1	2	3	4	5	6	7
Research Finance & Administration	Noncompliance with policies, rules, laws	Untimely reporting	Not rewarding academic excellence	Lack of coordinated research admin.	Unfunded mandates		Not following protocols
Research Development, Programs & Facilitation	Decrease in State support	Lack of research management information	Ineffective metrics for evaluating programs and personnel	Lack of seed/incentive funding	Lack of industrial funding/partnerships		

Risks ranked considering both their impact and probability:
 Impact - the consequence(s) of the risk occurring (H=High, M=Medium, L=Low)
 Probability - the likelihood of the risk occurring (H=High, M=Medium, L=Low)

■ = HH, HM
■ = HL, MH
■ = MM, ML, LH
■ = LM, LL

	Risks						Evidence of Control Activity
	Noncompliance with policies, rules, laws	Untimely reporting	Not rewarding academic excellence	Lack of a coordinated research admin. structure	Unfunded mandates	Not following protocol	
Research Finance & Administration							
M							
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Budgetary control	x	x		x	x		Budget analysis (budget vs. actual). Analysts review documented by signature and date.

Challenges Looking Forward

- Maintaining momentum
 - Organization and/or leadership changes
- Keeping University-wide and unit risk assessments current and up-to-date
- Providing effective communications regarding University-wide risks and mitigations (e.g., responsible person and oversight)
- Enhancing monitoring (resources to perform walk-throughs for university-wide and unit assessments)

Questions?



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