

Sustainably Managing Risk: The Business Official's Role beyond Internal Controls

ACBO 2016 Fall Conference

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CA

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ACBO 2016 Fall Conference

The Shifting Sands of a CBO

- **Session Description:** *Managing risk at a college is not solely the responsibility of the Risk Manager, but includes the Board, CBO, Fiscal Services and IT. Many Enterprise Risk Management (ERM) programs have been initiated only to diminish and disappear in a few short years. Based on field tested practices this session will focus on specific strategies for developing a sustainable ERM program that adds value to your community college district*

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Presenters

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Learning Objectives

1. Understand the value of ERM and how to promote its value throughout the organization and how it can improve internal controls.
2. Learn that sustainable risk management is achieved by embedding incremental changes into existing processes.
3. Understand that ERM must be accompanied by an ongoing and meaningful change management process.
4. Developing a risk culture is an essential component for achieving value and performance improvement from an ERM program.

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Agenda

- Purpose and Value of ERM
- Implementation Challenges and Barriers
- Risk Culture
- Applying ERM in Your District

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PURPOSE AND VALUE OF ERM

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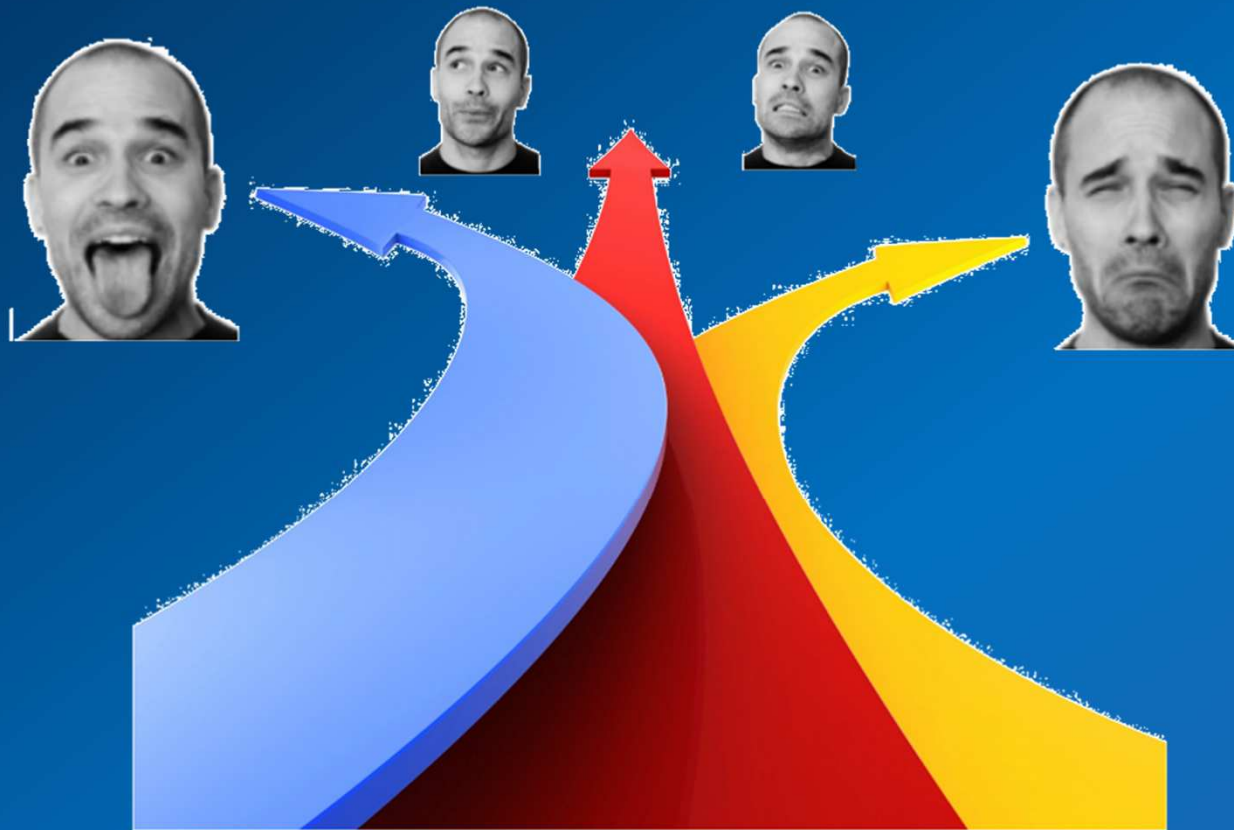


The Future is Inherently
Unknowable

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RISK The chance of DEVIATION from OBJECTIVE



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Risks Occur on a Continuum



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Risk Management - A Need for Balance

Taking managed risk

– Taking on too much risk

Avoiding problems

– Avoiding everything, resulting in total stagnation

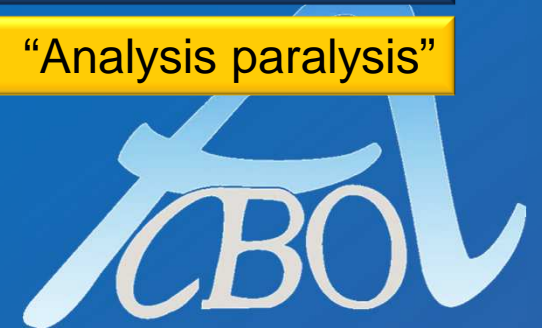
Effective risk culture

– Missed opportunities and productivity gaps

Collaborative decision-making

– “Analysis paralysis”

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What's the Difference?

Risk management involves taking actions to **reduce** the uncertainty, **prepare** for the consequences and to make sure that the organization can **leverage** risk to its best advantage

ERM is a **process**, effected by an entity's **board of trustees**, **executive management**, and other personnel, applied in **strategy** setting and **across the District**, designed to identify potential events that may affect the **entity**, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the **achievement of entity objectives**

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What's at Stake?

- Effective Management risk oversight with Board concurrence
- Protection of the strategy and assets
- Performance, quality and productivity
- Efficient allocation of risk mitigation resources
- Detection and avoidance of risk
- Collaboration across business units

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ERM Goals

- Increase overall effectiveness & accountability
- Bridge silos between departments, committees, etc.
- Visibility for the discipline of Risk Management
- Assure greater business continuity
- Improve compliance with laws and regulations
- Enhance employee empowerment/pride
- Reinforcement of cultural identity for “doing the right thing”

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Characteristics of an Effective ERM Process

Successful implementation of ERM requires the following:

- President/Chancellor participation and support
- An ERM Leadership Team with vision who commands respect
- Infrastructure to support the ERM process, including:
 - Policy
 - Risk assessment methodology
 - Common risk language (customized risk model) – understood by the organization
 - Defined roles and responsibilities
 - Tools to facilitate monitoring, updating and reporting
- Framework to organize ERM activities, provide discipline and consistency
- Well defined linkage to other management activities, e.g. strategic planning, budgeting, etc.
- Appropriate Board oversight of risk strategy and ERM process

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IMPLEMENTATION CHALLENGES AND BARRIERS

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Symptoms of UN-Sustainable Risk Management

- Leadership lethargy
- Vague vision and message
- Insufficient follow-through
- Workforce complacency or resistance
- No demonstrated impact of performance
- A non-credible ERM leader
- Preference for risk silos

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Framework Implementation Missteps



- Assume that relevance of ERM is obvious
- Framework disconnected to the unique characteristics of the organization
- Little consideration of existing culture
- Risk assessment deficiencies
- Failure to embed whenever possible

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Pillars of Sustainable Enterprise Risk Management



Strategy – Incorporate formal, evidence-based risk analysis



Organization – Roles, accountability, and structure reflecting three lines of defense



Change Management – Reinforce vision with tools and integrate existing resources and processes



Culture – Model risk management priorities in communications, planning and management



Crowe Horwath Sustainable
Risk Management Framework

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Sustainable Integration of Risk Management



Assess – Systematic prioritization of risk



Respond – Consistent approach to risk mitigation



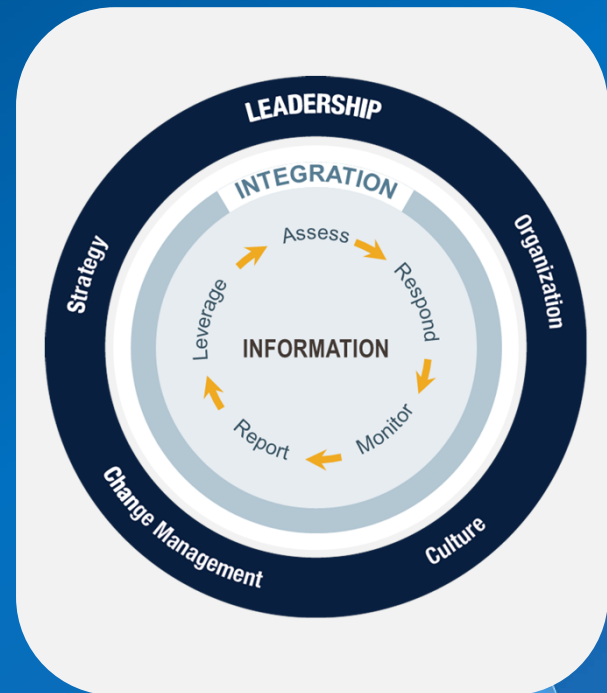
Monitor – Timely and relevant risk indicators



Report – Applicable information for decisions and oversight



Leverage – Learn and enhance



Crowe Horwath Sustainable
Risk Management Framework

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RISK CULTURE

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The Risk Culture Effect

When the speed with which a risk is identified, and the time available to respond is restricted, the way in which the organization responds to risk will vary

When the velocity of the event allows; process, policies and practice drive the decision

When response time is not available, **culture** influences the response

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Indicators of a Weak Risk Culture

- Inconsistency between words and actions
- Failure to sustain efforts over time
- Inconsistent consideration of risks in decision-making
- Perception that nothing will be done about reported risks
- Managers do not value risk management
- Inadequate resources toward risk prevention or mitigation
- Complacency
- Fear that identifying risks may result in retribution
- Fear that taking risk may result in retribution

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Enabling Risk Culture

- Understand the organization's culture
- Adapt framework initiatives to the culture
- Lead by example
- Embed Risk Management
- Communicate
- Manage change
- Embrace collaboration

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Eliminating Blame Improves Performance

- Collaborative risk management
- Identification of emerging risks
- Empowered and proactive behaviors
- Reduced cost of mitigation
- Early detection



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RISK ASSESSMENT

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Linkage to Goals

- To educate all students to the highest academic standards.
- To lead, govern and manage our college in ways that advance the education of our students and inspire the public's confidence.
- To build a confident, committed and supportive urban community for raising the achievement of students.

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Linkage to Strategy



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Risk Assessment Deficiencies

- Incomplete information
- Inconsistent risk language
- Irrelevant criteria
- Lack of consideration of risk interrelationships



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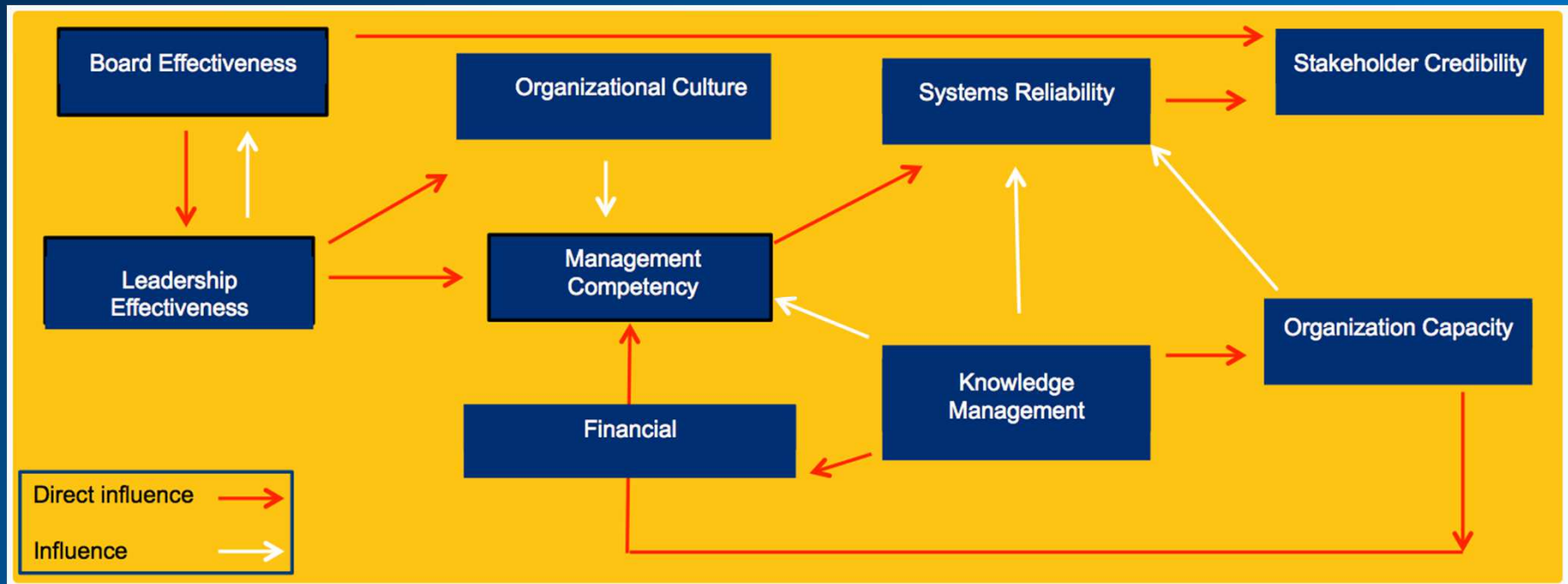
District Risks

- Catastrophic risk
- Non-tort litigation risk
- Compliance risk
- Reputational risk
- Emerging/shifting risk
- Systemic causes of incidents
- Financial risk
- Operational risk
- Human capital risk
- Liability, Negligence

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Interrelationships Enhance Perspective on Priorities



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What ERM Looks Like Back Home

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ERM Governance Hierarchy and Roles

<ul style="list-style-type: none"> • Strategy • Agree to Risk Appetite • Approves Corporate Governance Framework 	<h2>College Board</h2>	<ul style="list-style-type: none"> • Receives report on ERM process from Audit Committee • Review Risks and risk management strategies
<ul style="list-style-type: none"> • Overall Responsibility for Risk • Responsible for Governance Framework • Discusses Risk with the Board 	<h2>Chancellor / President</h2>	<ul style="list-style-type: none"> • Establishes Ethics/Tone at the top • Approve risk appetite/tolerance
<p style="text-align: center;"><u>District Leaders</u></p> <ul style="list-style-type: none"> • Own risk management responsibilities • Develop risk strategy • Assign individual risk owners • Agrees to risk management techniques • Take ERM process direction from Risk ERM Leadership Team 	<p style="text-align: center;"><u>ERM Leadership Team</u></p> <ul style="list-style-type: none"> • Executive ERM Leadership • Provide ERM process leadership <ul style="list-style-type: none"> -risk language -measurement approach -risk strategy approach -monitoring requirements • Reports to the CEO • Educates College Leaders • Determines monitoring requirements 	<p style="text-align: center;"><u>Internal Audit</u></p> <ul style="list-style-type: none"> • Monitoring and feedback • Training and support • Audit the ERM process • Reports to Audit Committee
<ul style="list-style-type: none"> • Key risk owners: <ul style="list-style-type: none"> -Treasury -Financial -Operation(s) -HR -Legal -Compliance -Supply chain -IT 	<p style="text-align: center;"><u>Individual Risk Owners/Risk Champions</u></p> <ul style="list-style-type: none"> • Develops individual risk strategies • Assesses and monitors risk • Quantifies risk level 	<ul style="list-style-type: none"> • Identifies and implements controls to manage risks • Reports to each Leader on individual risks

