East Carolina University | Board of Trustees

Audit Committee Meeting | July 17, 2014

Agenda

I.	Approval of April 24, 2014 Minutes	**Action**
II.	Internal Audit Report – Ms. Stacie Tronto	
	a. 2014-2015 Annual Engagement Plan	**Action**
	b. Management's Corrective Actions	Information
	c. Completion of ECSU MOU	Information
	d. Risk Assessment UNC GA MOU	Information
III.	Enterprise Risk Management Report – Mr. Tim Wiseman	Information
IV.	Health Sciences Compliance Report – Dr. Nicholas Benson and Dr. Ken DeVille	
	a. Chief Institutional Integrity Officer/Name Change	Information
	b. State of the Office	Information
	c. Staffing/Succession Planning	Information
	d. Provider Reviews	Information
	e. 2014 Compliance Workplan	Information
	f. Initiatives in Division of Health Sciences	Information
V.	Other Business	
VI.	Closed Session	

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Mark Copeland, Committee Chair
Agenda Item	I.
Item Description	Minutes of Ap;ril 24, 2014
Action Requested	Approval
Disposition	
Notes	

Back To Agenda

Minutes from ECU BOT Audit Committee
April 24, 2014
ECHI Conference Room B

Committee members present: Chair Mark Copeland, Carol Mabe, Terry Yeargan, Robert Brinkley

Others present: Chancellor Steve Ballard, Phyllis Horns, Donna Payne, Nicholas Benson, Tim Wiseman, Ken DeVille, Norma Epley, Hiromi Sanders, Mike Van Scott, Dan Sweat, Ron Mitchelson, Crystal Baity, Stacie Tronto, Wayne Poole

Mark Copeland, Chair of the Audit Committee, convened the meeting at 9:00AM. Mr. Copeland read the conflict of interest provisions as required by the State Government Ethics Act. Mr. Copeland asked if anyone would like to declare or report an actual or perceived conflict of interest. Hearing none, he asked for the approval of the minutes for the March 5, 2014 committee conference call.

Action Item: The minutes of the March 5, 2014 conference call were approved with no changes.

Donna Payne, University Counsel and Vice Chancellor for Legal Affairs, introduced Mr. Dan Sweat as the recently hired Health Sciences transactional attorney. She stated that he brings a great deal of healthcare experience to ECU.

- Ms. Payne asked the committee whether they desire periodic reports from the Office of University Counsel, or whether there is some other desirable channel by which the board wishes to provide feedback to her office, such as the Executive Committee. The committee agreed to pursue regular interaction between the Executive Committee and Ms. Payne.

Dr. Nicholas Benson, Vice Dean, BSOM and Associate Vice Chancellor for Healthcare Regulatory Affairs, updated the committee on **Health Sciences Compliance**

- Dr. Benson introduced Dr. Ken DeVille as the interim Chief Institutional Integrity Officer (CIIO) for the Health Sciences Division, and the interim HIPAA Privacy Officer. Dr. Benson hopes to have the permanent CIIO in place by July 1, and believes this is likely. There are currently two well-qualified finalists for the position. Dr. Benson reminded the committee that the search kicked off in November 2013, and that 20 applicants were interviewed during the first round of video/Skype interviews.
- Dr. Benson advised that there are also two well-qualified finalists for the Healthcare Regulatory Specialist position, which was vacated when Miraf Bisetegne departed in January. The final selection for this position will be delayed until the permanent CIIO is named, in order to allow that person input into the decision.
- Dr. Benson briefed the committee on the active shooter exercise that took place in January at one of the ECU Physicians clinic sites. This was the first time the Health Sciences Emergency Operations Center has been activated for such an event. With assistance from Environmental Health and Safety, and other agencies, the University continues to document lessons learned and fine-tune emergency plans. Mr. Yeargen commended the efforts of all personnel involved and stated that he observed a terror response exercise at RDU airport and is amazed at how quickly these situations become chaotic. In response to committee members' questions, Dr. Horns stated that the University has an exercise similar to this on a regular basis, and that approximately a year ago there was an exercise near the College of Nursing on the Health Sciences campus. Dr. Horns stated that Environmental Health and Safety and ECU PD have close communication with other Universities as well as local agencies to coordinate these events and identify best practices.
- Dr. Benson advised the committee that the federal government has delayed the implementation of the ICD-10 medical coding system until October 2015. He reminded the committee that the transition from ICD-9 to ICD-10 is a significant change and will be a challenge for ECU and all healthcare entities. ECU is continuing with the first phase of training – an effort to raise the comprehensiveness and specificity of provider documentation. The second phase of training will be delayed so that it will occur close to the implementation date. Dr. Benson stated that this should minimize any duplicative costs arising from the delay. "Dual coding" via both ICD-9 and ICD-10 nomenclatures, will begin in May 2014.

- Dr. Benson reminded the committee that several months ago, they requested information on which billing codes are entered by providers and which are determined by coders. Dr. Benson stated that all inpatient coding and Emergency Department coding is performed by professional coders. Outpatient coding is a “mix”, depending on the department/clinic. He stated that transitioning to the point where all coding is performed by professional coders would increase costs by about $700K per year.
- Dr. DeVille provided an update on provider coding reviews and other day to day operations in the BSOM Compliance office. He stated that efficiency of these operations has improved even with the vacancies in the office. The volume of physician coding reviews has increased from 2012 levels, and should increase another 30-50%. The focus will then shift to specific targeted areas, such as new providers and new service areas, this fall. Dr. DeVille stated that so far we have generally only seen small adjustments necessitated by external audits (such as the RAC audits). However, he stated that the number of external reviews has been relatively small, so these may not be a representative sample. He stated that the infrastructure of external audit/review organizations has been growing, and the number of external audits could increase as a result.

Tim Wiseman, Assistant VC for Enterprise Risk Management, provided the **ERM update**.

- Mr. Wiseman updated the committee on the activities of the ERM office, which included recent consultations such as working with Athletics, Internal Audit, Counsel, and others on the privatized camp model which Chancellor Ballard recently approved.
- Mr. Wiseman has met one on one with Deans and Directors as part of the current risk identification efforts, and has learned a great deal from these people. They are in a unique position, linked to both the administrative infrastructure of the University as well as the core academic mission.
- Mr. Wiseman presented a proposal to change the ERM assessment model to a two-year cycle. He stated that the process does not lend itself well to the 12-month box that we have been operating within to date. The proposal revises the process so that the full ERM Risk Survey would be administered every two years and other activities would occur on the “off” years to ensure that significant changes are captured and addressed. The committee agreed that this revised approach makes sense.
- Mr. Wiseman noted that we are approaching the 5-year anniversary of ECU’s ERM program, and he will prepare a whitepaper / progress review document in the coming months.

Stacie Tronto, Chief Audit Officer, provided the **Internal Audit update**.

- **Action Item**: Ms. Tronto presented, and the committee approved, a change to the FY 2014 engagement plan. The ITCS Logging and Monitoring review was removed and will be completed in a subsequent year. IA has already made recommendations related to the logging and monitoring processes during other audits, and ITCS is in the process of securing funding for the implementation of an enterprise-level tool.
- Ms. Tronto reviewed the Internal Audit dashboard as of 3/31/14 (for year ending June 30, 2014)
    - Completed 53% of the audit plan, with another 41% in progress (target=80%)
    - Management implementation of agreed-upon corrective actions are 100% complete (target=90%; increasing to 95% on July 1)
- Ms. Tronto updated the committee on the UNC system’s Internal Audit shared services efforts.
    - The UNC BOG approved $500K for use in acquiring and deploying specialized skill sets in each region of the state, to be used by small audit shops. These monies will have to be funded through the General Assembly.
    - The IA Advisory Team is developing a best practices manual and key performance indicators which are to be in place by July 1. ECU IA already tracks the proposed KPIs. The committee and the Chancellor expressed appreciation for ECU IA providing leadership for the UNC system

Back To Agenda

on these important initiatives, and encouraged IA to maintain the high level of service it has provided here at ECU.

- Ms. Tronto advised that the MOU to provide certain audit-related services to ECSU may need to be extended due to staffing changes at ECSU. She noted that the level of risk awareness is not as high at other schools as it is here at ECU, and that UNC-GA may soon move towards some type of shared services approach in the ERM arena as well. The committee discussed the relative maturity of ERM across the UNC system. Mr. Wiseman stated that he could contact his peers and seek information on this. Chancellor Ballard stated that ECU was on the cutting edge five years ago when we launched our program and the ECU is a leader in ERM.

Other Business – No other business was brought forward by anyone in attendance.

Closed Session – At 10:07AM, Ms. Mabe made a motion that the committee go into closed session in order to discuss items that are protected according to state statutes governing personnel information, criminal investigations, internal audit working papers, sensitive security information, and/or otherwise not considered a public record within the meaning of Chapter 132 of the North Carolina General Statutes.

The Committee returned to open session at 10:44AM.

There was no additional business to discuss, and the Audit Committee meeting was adjourned at 10:45AM.

-----*Respectfully submitted by Wayne Poole*

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	II.a.
Item Description	2014-2015 Annual Engagement Plan
Action Requested	Approval
Disposition	
Notes	

Back To Agenda

East Carolina University
Office of Internal Audit
Annual Engagement Plan
By Type
FY 2014-2015

Description	Budget Status	Budgeted Hours	%age of Total	Risk Ranking
Operational Audits:				
Human Resources	WIP	300	2%	High
Purchasing Port	WIP	150	1%	High
Pharmacy Services (Integrated)	WIP	1000	6%	High
Payroll/Kronos Implementation (Integrated)	BF	1000	6%	High
Construction Projects	BF	800	5%	High
Athletic Camps (New Model)	CYP	400	2%	High
Aramark Contract	CYP	400	2%	High
Parking and Transportation	CYP	400	2%	Med
Physical Therapy (Allied Health)	CYP	400	2%	Med
Total Operational Audit Hours		**4850**	**29%**	
Compliance Audits:				
NCAA Financial Aid	CYP	400	2%	High
Cash Counts	CYP	200	1%	Med
Total Compliance Audit Hours		**400**	**2%**	
Information Technology Audits:				
IT and Data Goverence	CYP	400	2%	High
2014 IT Disaster Recovery/Business Continuity Planning	CYP	240	1%	High
Review of Progress on PCI Gap Analysis	CYP	140	1%	High
Total Information Technology Audit Hours		**780**	**5%**	
Special Reviews:				
Special Reviews - Pending	CYP	1660	10%	NA
Special Reviews in Progress	WIP	350	2%	NA
Total Special Review Audit Hours		**2010**	**12%**	
Follow-Up Reviews:				
University Policy Manual (L08031)	CYP	20	0%	High
2nd Follow-Up HIPAA Security (A12035)	CYP	80	0%	High
2nd Follow-Up Clinical Trials (A12029)	CYP	40	0%	High
ITCS Firewall Controls (A14001)	CYP	140	1%	High
Airwatch and ISE Projects (A14045)	CYP	40	0%	High
Ryan White Grant (A13037)	CYP	120	1%	High
School of Dental Medicine CSLC	CYP	200	1%	High
University Sponsored Youth Programs (A13033)	CYP	200	1%	High
Athletics Operational (A13039)	CYP	120	1%	High
IGCC (L14008)	CYP	40	0%	High
BSOM Malpractice Insurance (L14027)	CYP	20	0%	High
ECU Physician Manual (A14016)	CYP	20	0%	Med
BSOM Hiring Decisions (L14012)	CYP	20	0%	Low
CSDI (L13038)	CYP	40	0%	Low
Total Follow-Up Review Audit Hours		**1100**	**7%**	

Budget Status:
BF = Brought Forward From Previous Year's Plan
AYP = Added to Current Year Plan
CYP = Current Year Plan
CYP-B = Current Year Plan (Budgeted under Special Reviews - Pending)
WIP = Work-In-Progress

East Carolina University
Office of Internal Audit
Annual Engagement Plan
By Type
FY 2014-2015

Description	Budget Status	Budgeted Hours	%age of Total	Risk Ranking
Other/Special Projects:				
Consultations	CYP	2200	13%	NA
Committees/Other Routine Tasks (ie. SBI Reports, Assist State Auditor)	CYP	500	3%	NA
Risk Assessment/Audit Planning 2015-2016	CYP	100	1%	NA
Total Other/Special Project Hours		**2800**	**17%**	
Total Direct Audit Hours		**11940**	**72%**	
Administration	CYP	1310	8%	NA
Leave	CYP	2728	16%	NA
Professional Development	CYP	662	4%	NA
Total Indirect Audit Hours:		**4700**	**28%**	
Grand Total Audit Hours		**16640**	**100%**	

Management Consults:
Diving and Water Safety

Chancellor/Date

ECU BOT Audit Committee Chair/Date

Budget Status:
BF = Brought Forward From Previous Year's Plan
AYP = Added to Current Year Plan
CYP = Current Year Plan
CYP-B = Current Year Plan (Budgeted under Special Reviews - Pending)
WIP = Work-In-Progress

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	II.b.
Item Description	Management's Corrective Actions
Action Requested	Information
Disposition	
Notes	

Back To Agenda

Management's Corrective Actions - FYE 2014

	Completed	Outstanding	% Complete	% Outstanding
Observations by Division:				
Academic Affairs	9	0	100%	0%
Administration and Finance	7	0	100%	0%
Athletics	0	0	0%	0%
Chancellor	9	0	100%	0%
Health Sciences	17	2	89%	11%
Research and Graduate Studies	2	1	67%	33%
Student Affairs	5	0	100%	0%
University Advancement	0	0	0%	0%
Total Observations	49	3		
Total Percentages	94%	6%		

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	II.c.
Item Description	Completion of ECSU MOU
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	II.d.
Item Description	Risk Assessment UNC GA MOU
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Mr. Tim Wiseman
Agenda Item	III
Item Description	Enterprise Risk Management Report
Action Requested	Information
Disposition	
Notes	

Back To Agenda

6/16/2014

INFORMATION PAPER

SUBJECT: Enterprise Risk Management (ERM) Update for the BOT-A Committee July 2014 Meeting

1. Purpose. To advise BOT-A committee members of significant ERM and Chief Risk Officer (CRO) activities from the past three months and those planned or anticipated for the next three months.

2. Action Recapitulation:

a. Significant ERM/CRO Activities from the Past Three Months:

- New Athletics Sports Camps Model and Manual Development
- BOT Panel Presentation – Institutional Integrity and Student Disciplinary Process
- Volunteers Policy Working Group Participation
- ANNOUNCE Listserv Posting Guidelines Revision and Monitoring Plan
- Re-Admissions Risk Case Reviews and University Behavioral Concerns Team Actions
- Quarterly ERM Committee Meeting (April)
- ERM Consultations and Inquiries – Various Departments (HCAS, OED, Others)
- ERM One-on-One Sessions with Deans and Select Directors
- ERM-Hosted "Risk Management Essentials – Minors on Campus" Webinar Training
- Hurricane and Severe Weather Workshops
- ERM Forms Development
- '14-'15 AY ERM Committee Appointments Made
- New Executive Council and ERM Committee Member Orientations

b. Significant ERM/CRO Activities Next Three Months:

- Launch of '13-'14 ERM Risk Survey (off-year "lite" version)
- Attend Federal/Governmental ERM Summit – George Mason University
- Attend and Present ECU's ERM Program Highlights at URMIA Conference
- Quarterly ERM Committee Meeting (August) – Financial Risks Theme
- Articulation of a Risk Philosophy for ECU
- Implementation of an Awards/Recognition Program for Contributions to Risk Management
- ERM @ ECU 5 Year "Anniversary" – White Paper/Implementation Progress Review
- "Risk Management Week" Observance (3-7 Nov) Planning
- ERM Consultations/Research/Inquiries – Various Departments

3. Other: Two recent survey-based ERM publications are included with this update for board member information.

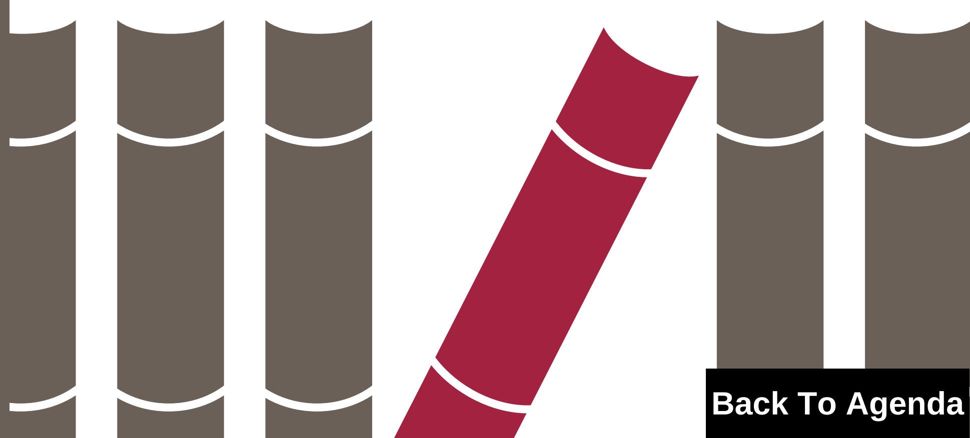
ACTION OFFICER: Tim Wiseman
Assistant Vice Chancellor for ERM/Chief Risk Officer
252-737-2803
Spilman Bldg, Room 214

Back To Agenda

A Wake-up Call:

Enterprise Risk Management at Colleges and Universities Today

A Survey by the Association of Governing Boards of Universities and Colleges and United Educators



AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

United Educators

Back To Agenda

About AGB

Since 1921, the Association of Governing Boards of Universities and Colleges (AGB) has had one mission: to strengthen and protect this country's unique form of institutional governance through its research, services, and advocacy. Serving more than 1,250 member boards, 1,900 institutions, and 36,000 individuals, AGB is the only national organization providing university and college presidents, board chairs, trustees, and board professionals of both public and private institutions and institutionally related foundations with resources that enhance their effectiveness.

About UE

United Educators Insurance (UE), a Reciprocal Risk Retention Group, is a licensed insurance company owned and governed by more than 1,200 member colleges, universities, independent schools, and public school districts throughout the United States. Members range from small private schools to multi-campus public universities. UE partners with its members to reduce risk through education-specific insurance coverage and risk management programs. UE's comprehensive suite of risk management resources includes blended learning programs designed to engage the entire campus community—faculty, staff, and students—in managing risk. For more information, visit www.ue.org.

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

United Educators

TABLE OF CONTENTS

Executive Summary 1

Survey Results 3

Recommended Practice 1: Make Risk Management an Institutional Priority 3

Recommended Practice 2: Implement a Sustained ERM Effort by Senior Administration 4

Recommended Practice 3: Engage the Governing Board in Risk Monitoring 6

Recommended Practice 4: Discuss Institutional Risks Frequently and Regularly 8

Recommended Practice 5: Share Information to Meet Obligations 9

Recommended Practice 6: Evaluate the Institution's Work on Institutional Risks 10

Best Practices 12

About the Survey 13

EXECUTIVE SUMMARY

After five years of change and upheaval, why is it that governing boards of colleges and universities continue to consider risk on a largely ad hoc basis? The findings from a recent survey, conducted by the Association of Governing Boards of Universities and Colleges (AGB) and United Educators (UE), indicate a modest increase in the use of risk assessment in high-level decision making over the past five years, but they also show that boards and administrators are not yet substantially committed to this process, which offers an approach for assessing threats and seizing opportunities.

The pace of change in higher education is unprecedented, and it's unlikely that the risk environment will cool off. In the last five years alone, colleges and universities have had to respond to the Great Recession (which has a continuing impact), increased government oversight and regulation (with more ahead), the rise of advocacy groups and student litigation related to sexual assault, increased public dissatisfaction with the cost and quality of higher education, and a tectonic shift in learning delivery—from the "sage on the stage" to the "doc on the laptop" as massive open online courses (MOOCs) were introduced and more institutions deployed online learning options. Headline news has heightened the scrutiny of boards and governance, as one board failed to address reports of suspected child abuse, another fired a president who was later reinstated due to public backlash, and still others fell short in meeting their responsibilities in this unparalleled time of change.

Now, more than ever, governing boards and senior leaders need to be attentive to risks. This is no time for complacency and the assumption that incidents with tragic financial or reputational impact "couldn't happen at our college or university." There is no choice: each institution and board needs a process by which it routinely identifies, evaluates, and plans for risks that have the greatest potential for reputational injury or obstruction of institutional mission. Risk offers opportunities to lead change, and institutions and boards need plans and processes in place that allow them to assess that risk and take advantage of those opportunities when they arise.

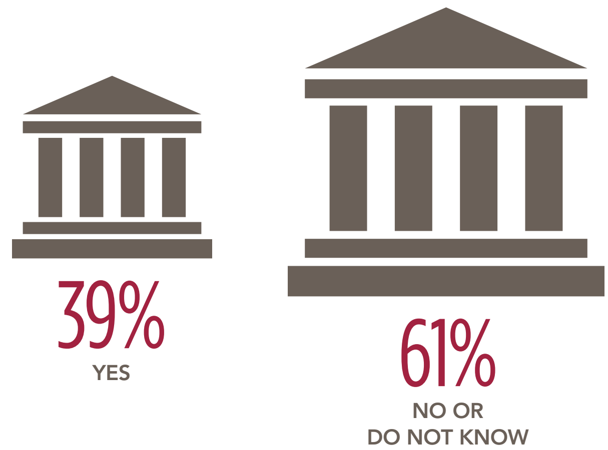
In 2008 and 2013, AGB and UE jointly surveyed higher education leaders to track the acceptance of, use of, and attitudes toward enterprise risk management (ERM) on college campuses. Unfortunately, a comparative analysis of survey results suggests that higher education is conflicted when it comes to ERM, despite having just come through a five-year period of momentous risks. In many cases, institutions are not following any formal risk assessment processes. Yet nearly half of survey respondents consider their institution's risk management practices to be above average or exemplary. Overall, while advancing ERM in important ways, higher education has lost ground or made no change to ERM practices on critical fronts. The following summary of key findings illustrates the conflicted state of ERM in higher education.

- While institutional focus on risk has grown (73 percent of respondents report that their institutions have increased their focus on institutional or enterprise risk compared to five years ago), risk appetite and tolerance are less likely to be considered in decision making. In 2013, 31 percent "strongly agreed" that risk appetite and tolerance are part of the institution's culture, down from 47 percent in 2008.

Back To Agenda

- ERM is a greater priority. In 2013, 45 percent of survey respondents “strongly agreed” that ERM is a priority at their institution compared to 2008 when only 41 percent “mostly agreed.” However, ERM processes are not firmly established in higher education. Only 39 percent of survey respondents reported that their institutions have conducted an ERM process in the last two years. More than 61 percent have not or don’t know if they have done so. Of those who did not conduct an ERM process in the last two years, 48 percent have no future plans to begin an ERM process any time soon.
- Governing boards are more often involved in risk discussions. The percentage of respondents reporting that the full board is engaged in risk discussions has increased since 2008, to 62 percent in 2013 (up from 47 percent), and discussions are occurring across a greater number of board committees. However, conflicting answers on the amount and quality of information boards receive about risk raise questions about the value of that information. While 60 percent of respondents reported that the risk information boards receive—particularly about financial risks—is adequate, only 39 percent strongly agreed that enough risk information is shared to fulfill their legal and fiduciary duties.
- Institutions are less likely to use an ad hoc approach to discussing institutional risks (44 percent in 2013, down from 51 percent in 2008). But, this “as needed” approach is still used at more than 40 percent of institutions, with crises on campus—their own or others—being the chief stimulus for risk discussions.

Percent of respondents who say their institution has conducted an ERM process in the last two years:



- Despite these weaknesses, when assessing their institution’s approach to managing major institutional risks, nearly half of all respondents (49 percent) rated their institutions “above average” or better. This is essentially unchanged from 2008 results.

The state of ERM in higher education leaves many institutions unprepared to address high-priority risks that may endanger the realization of strategic plans and institutional mission. The ongoing financial and competitive pressures on colleges and universities call for a more integrated and routine process, incorporating discussions of mission-critical risks and risk management into the strategic decision-making and resource-allocation processes of boards and senior administration. Identification, mitigation, and continued attention to both upside and downside risks can help institutions navigate the volatile environment, reduce vulnerability, and build a platform for ongoing success.

Back To Agenda

SURVEY RESULTS

This report summarizes the 2013 AGB-UE survey results, compares them to the 2008 results, and suggests recommended practices for creating a strong foundation for ERM. With this foundation in place, boards and administrators can get on the same page, focus on critical risks and opportunities, and engage in fruitful discussions.

ERM, as used by governing boards and senior administrators, combines traditional risk management, strategic planning, and internal controls. The goal of ERM is to move away from viewing risk in a silo, separate and distinct from the institution's overall mission. Instead, it encourages a more holistic view of risk by considering risks across the institution or enterprise as part of the strategic planning process. By adopting this approach, leadership can focus more broadly on the risks most likely to impede the institution from achieving its mission or strategic plan. A good practical definition of ERM from *Risk Management: An Accountability Guide for University and College Boards* (AGB Press, 2013) follows:

> Enterprise Risk Management (ERM) is a business process led by senior leadership that extends the concepts of risk management and includes:
>
> - Identifying risks across the entire enterprise;
> - Assessing the impact of risks to the operations and mission;
> - Developing and practicing response or mitigation plans; and
> - Monitoring the identified risks, holding the risk owner accountable, and consistently scanning for emerging risks.

Recommended Practice 1: Make Risk Management an Institutional Priority

Tone at the top matters. It is critical for successful institutional risk management that the governing board and senior administration demonstrate leadership through their actions. The two together must be invested in the process, with senior administration identifying and assessing risks and developing risk management plans, and the governing board monitoring progress on the most mission-critical risks identified by senior leaders. Regular updates on progress to the institution's community and stakeholders should not be neglected.

Gaining Ground

2013 survey results show that institutions increasingly cite ERM as a priority. In fact, when asked to rate agreement with the statement that "Oversight of institutional or enterprise-wide risk management is a priority at my institution":

- 45 percent of respondents "strongly agreed" with this statement.
- 42 percent "somewhat agreed."

Together, these responses are higher than the combined total from the 2008 survey by more than 7 percentage points.

Losing Ground

The 2013 survey results suggest that respondents have lost some confidence in their institution's use of risk appetite and tolerance in making strategic decisions. When asked whether risk appetite and tolerance are understood and are a part of the institution's decision-making culture:

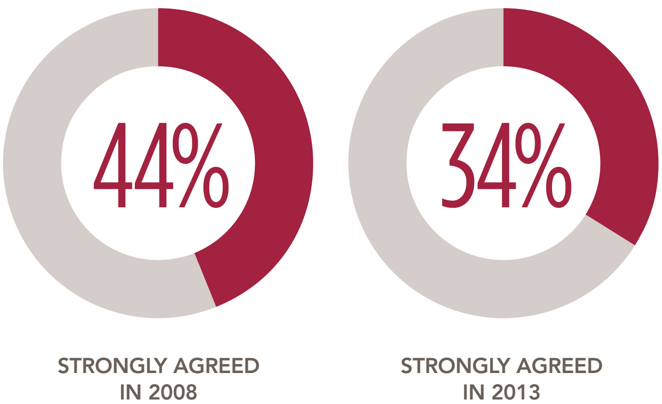
Back To Agenda

- Significantly fewer respondents (31 percent versus 47 percent in 2008) “strongly agreed” that this is the case.
- Greater numbers (52 percent, compared to 40 percent in 2008) only “somewhat agreed.”

Respondents are also increasingly less likely to use risk tolerance in guiding leadership decisions.

- Only one-third (34 percent) of 2013 respondents “strongly agreed” that the institution’s risk tolerance guides strategic and operational decisions by the governing board and senior leadership. This is a 10 percentage point decline from 2008.
- More respondents (49 percent, compared to 41 percent in 2008) “somewhat agreed” when considering this issue.

Institution uses risk tolerance in guiding leadership decisions:



The Takeaway

Although survey respondents report increasingly that oversight of institutional risk management is a priority, confidence about the use of specific practices has decreased. When asked to rate particular aspects of ERM—understanding risk appetite, making risk management part of the institutional culture, and using risk tolerance to guide decision making—respondents are less convinced that the necessary attitudes and practices pertinent to good ERM are in place.

More visible leadership support for, and communications about, the institution’s use of ERM is needed.

Recommended Practice 2: Implement a Sustained ERM Effort by Senior Administration

Leadership of the ERM process must be clear and real to ensure its success. Presidential leadership at the outset clearly signals that the institution is committed to ERM. Afterwards, ongoing leadership can be assigned to a member of the president’s cabinet.

Gaining Ground

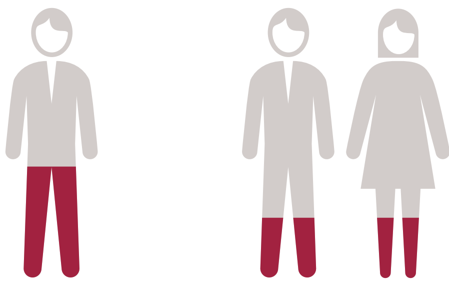
The 2013 results show that the financial/administration officer is typically assigned primary responsibility to lead the ERM process (41 percent of the time) for those institutions that have conducted an ERM process within the last two years. This is similar to results from the 2008 survey. A new question in the 2013 survey also found that leadership of the ERM process is frequently shared. Approximately 22 percent of respondents indicated that the ERM process is assigned to two or more administrators, such as:

- CFO, legal counsel, and provost
- Legal counsel, CFO, and internal audit
- Legal counsel and director of ERM
- Chancellor and former college president
- Risk management function or ERM task force/committee
- Vice president of human resources and risk manager

Notably, the 2013 survey shows a clear decline in assigning the president primary responsibility for ERM:

- Just over 10 percent of respondents reported that the president is responsible for ERM leadership, a 22 percentage point decline from 2008.

Primary responsibility for an enterprise risk management process is given to:



41%
CHIEF FINANCE AND ADMINISTRATIVE OFFICER

22%
TWO OR MORE SENIOR ADMINISTRATORS

- The chief risk officer and the chief compliance/ audit officer were identified as leading institutional ERM efforts by 10 percent and 12 percent of respondents, respectively.

Losing Ground

Those institutions implementing a sustained ERM effort continue to be in the minority.

- More than 61 percent of 2013 survey respondents (one percentage point higher than in 2008) reported that they either have not conducted an ERM process within the prior two years or don't know if one has been done. Nearly half (48 percent) of these respondents also reported that their institutions have no plans to begin an ERM process within the next 24 months.

- In 2013, 39 percent of respondents reported having conducted an ERM process in the last two years. In 2008, 36 percent had conducted an ERM process in the last two years.

The Takeaway

According to *Risk Management: An Accountability Guide for University and College Boards*, ERM has gained traction at colleges and universities as governing board members have brought their business experience to higher education boardrooms. However, the 2013 survey reveals that uneven implementation by institutional administrators is stalling efforts to fully advance ERM. For those institutions that are making progress, primary responsibility for the ERM process is typically assigned to the chief financial officer, which aligns with recommended practice. Increasingly, others assign ERM as a shared responsibility to two or more administrators, which is acceptable to the extent it increases capacity and can ensure that an ERM process is implemented. While the decline in assigning primary responsibility to the president is acceptable, the president must stay engaged enough to ensure progress and ongoing monitoring by the board of the five to 10 most critical risks.

The fact is that many institutions still are not advancing ERM. Approximately half of the survey respondents who report that their institutions have not implemented ERM in the last two years confirmed that they have no future plans to do so. Given the significant changes to higher education's risk climate over the last five years, response rates relating to the implementation of ERM are troubling; a four-year gap in conducting an ERM process leaves institutions vulnerable.

An effective institutional or ERM program, with the full support of the governing board, will increase the likelihood that a college, university, or system will achieve its plans.

For an institution to be poised for continued success, ERM must be part of the planning process. Administrators should establish a regular practice of identifying, assessing, and planning for mission-critical risks, and reporting their findings to the governing board. An annual review of high priority institutional risks is recommended.

Back To Agenda

Recommended Practice 3: Engage the Governing Board in Risk Monitoring

Once senior administrators have conducted an ERM process, governing boards need to engage them in discussions of the five to 10 risks that are most likely to significantly affect the institution's success. This practice allows the board to ask questions and evaluate the institution's preparedness to respond to issues and events that could derail the mission or strategic plan.

Gaining Ground

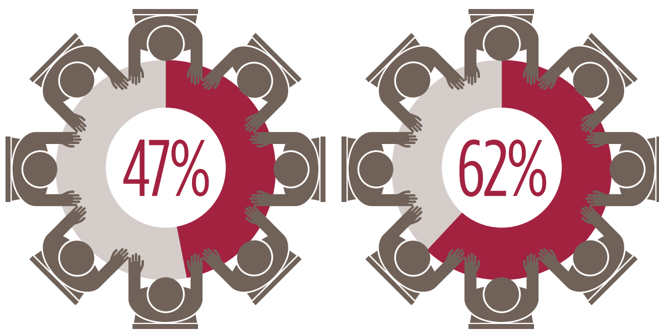
Discussions about institutional risks occur increasingly with the full board and across a broader range of board committees.

- In 2013, 62 percent of respondents reported having full board discussions of institutional risks, up from 47 percent in 2008.
- When risk management discussions occur in board committees, they are most commonly conducted by the audit committee (72 percent) and the finance committee (69 percent).
- Discussions are also occurring across a greater number of board committees, including the executive committee (59 percent), and committees on investments (44 percent), facilities (28 percent), academic affairs (22 percent), and student affairs (22 percent).

When asked about board attention to specific categories of risk, 95 percent of the respondents reported that the governing board discusses and evaluates financial risks. Other top risks addressed:

- Strategic, including reputational and political: 79 percent
- Operational, including legal and regulatory: 77 percent
- Board governance: 68 percent

Percentage of respondents having full board discussion on institutional risk:



IN 2008 | IN 2013

Back To Agenda

Losing Ground

Overall respondent certainty concerning the engagement of boards with senior administrators in discussions about institutional risks eroded some from 2008 to 2013.

- 34 percent of 2013 respondents, compared to 43 percent in 2008, "strongly agreed" with the proposition that board members and senior administrators actively engage in discussions about institutional risks.
- 22 percent disagreed or had no opinion about this same point, as compared to 16 percent in 2008.

The Takeaway

Survey results demonstrate that discussions about a wider range of institutional risks (not just financial) are permeating the entire board committee structure, a positive development. Board committees are taking more responsibility for overseeing those high priority risks that fall within their defined purview. The downward trend concerning active engagement between boards and administrators about institutional risks seems at odds with the greater committee engagement; however, this trend may indicate that the quality of candor and transparency in those discussions needs attention.

Boards must encourage senior administrators to be open and frank in their reports about institutional risks that threaten mission success. Moreover, board members should specifically discourage the administration from only bringing positive issues forward and invite discussion about difficult, complex, or "sacred cow" issues.

Addressing Crises and New Initiatives

Two questions added to the ERM survey for the first time provided some good news related to board-administration engagement. In response to questions framed more specifically around events and new programs or initiatives:

- 78 percent agreed that board members and senior leadership regularly consider and assess the likelihood and impact of expected and unexpected events.
- 72 percent agreed that administrators identify, assess, and report to the governing board the risks associated with new programs or initiatives.

Because institutions need to be poised both to address the unexpected and to explore new sources of revenue, attention to the risks in these areas is increasingly important.

Back To Agenda

Issues Generating Ad Hoc Discussion of Risks

The 2013 survey identified the following examples of issues that would prompt an as-needed discussion of an enterprise risk:

- Audit findings
- Business continuity planning
- Construction projects
- Crisis response drills
- Cyber security
- Enrollment declines
- Financial underperformance
- High profile event or initiative
- Legal and regulatory compliance
- New academic programs or majors
- Pending or threatened litigation, complaints to any campus office, whistleblower incidents
- Reputation and brand issues
- Research and healthcare compliance
- Staff reductions
- Student health and safety
- State budget cuts
- Tuition increases

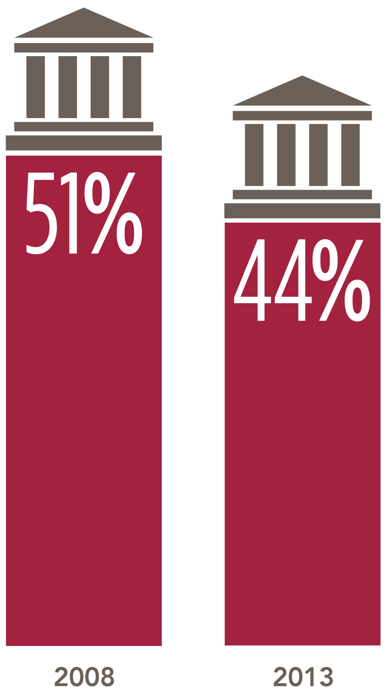
Recommended Practice 4: Discuss Institutional Risks Frequently and Regularly

Institutional or enterprise-wide risk management is not a project, but rather should be cultivated as a business process that governing boards and senior administrators use to fully examine risks that are most likely to steer the institution off course. By establishing a regular schedule for discussing risks identified by the administration's ERM process, the board ensures that the administration conducts and revisits the process and provides regular updates about critical risks.

Gaining Ground

Even though respondents report that board members and senior administrators most commonly discuss major risks identified by the ERM process on an as-needed basis, reliance on this ad hoc approach is decreasing. In 2013, 44 percent of respondents identified the use of an as-needed approach, down from 51 percent of the 2008 survey respondents.

Institutions that approach risk management on an "as-needed" basis:



Back To Agenda

Twenty-eight percent of respondents answered that board-administrator discussions about major risks identified by the ERM process occur every year (an increase of 4 percentage points over 2008).

Losing Ground

When asked about the frequency of board discussions of risks, greater numbers (22 percent of 2013 respondents, an increase of 8 percentage points over 2008), answered "none of the above," suggesting that discussions between board members and senior administrators about major risks do not occur at these institutions.

The Takeaway

By establishing ERM as a regularly repeated business process, leadership avoids the trap of trying to achieve a single "perfect" process or result, which can take years and sink the most promising ERM effort. Once established, the ERM process creates opportunities for boards and administrators to schedule regular discussions about major risks.

Given the current climate in higher education, leadership must develop strategies to ensure systematic and sustained attention to risks.

Recommended Practice 5: Share Information to Meet Obligations

Too often, board members are unaware of the risks inherent in higher education because they don't fully understand the enterprise. Many administrators, on the other hand, fail to assign appropriate significance to risks or lose sight of responsibility when risks are cross-functional or the institution has mitigation plans that are ineffective or not implemented. An ERM process allows governing boards and senior leaders to establish a culture within their institutions that embraces and prepares for risk.

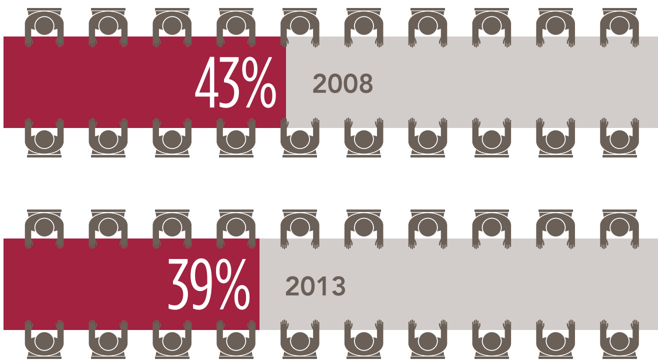
Board Information on Risk

In a new question included in the 2013 survey, the majority of respondents (59 percent) reported that the risk information the board receives is adequate. However, a sizable percentage of respondents pointed out areas for which the information the board receives is not adequate:

- Strategic risk (including reputational and political), cited by 29 percent
- Operational risk (including legal and regulatory), cited by 27 percent
- Board governance, cited by 20 percent

Financial risk is the area of least concern, with only 14 percent of respondents identifying concerns about inadequate information.

Percentage of respondents that strongly agree they are getting enough information about risk:



Losing Ground

When asked whether they are provided enough information about institutional risks to meet their legal and fiduciary responsibilities:

- 39 percent of respondents—board members and institutional administrators—"strongly agreed" that they are (compared to 43 percent in 2008).
- 43 percent "somewhat agreed" to the same question (compared to 32 percent in 2008).

The Takeaway

In 2013, survey respondents were generally satisfied with the information the board receives about institutional risk. However, when the adequacy of information sharing is tied to the specific goal of meeting legal and fiduciary obligations, respondents were less confident.

An ERM process should foster an exchange of information that ensures well-informed board members and administrators can meet their fiduciary and legal obligations to the institution.

Recommended Practice 6: Evaluate the Institution's Work on Institutional Risks

At the conclusion of an annual ERM process, it is important to solicit feedback and evaluate the institution's approach to managing major risks. By doing this, the board and senior administration can continue to make improvements to the process. Repeating and improving the process annually enables the board and senior leaders to continue to sweep the landscape for emerging risks.

Status Quo

When asked to rate their institution's approach to managing major risks:

- 5 percent of respondents deemed their approach "exemplary."
- 44 percent rated their institution's approach "above average."
- 41 percent rated their institution's approach "average."
- 9 percent rated their institution's approach "below average."
- 1 percent rated their institution's approach "poor."

These results mirror the 2008 responses to the same question, suggesting that the past five years have resulted in little change in respondent perceptions about their institution's approach to managing major risks despite declines reported in other questions in the survey.

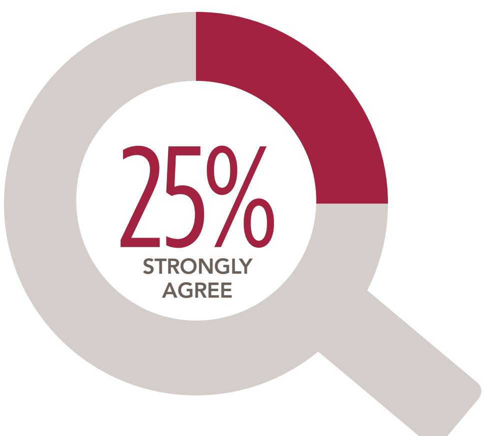
Back To Agenda

The Takeaway

Increased awareness of and focus on ERM over the last five years is undeniable. And, respondents seem well-satisfied with their institution's approach to managing risks, with nearly half (49 percent) describing their approach as exemplary or above average. However, as survey questions drill down into specific approaches and tasks required for successful ERM, the percentage of positive ratings either has not changed or has actually decreased since 2008.

Risk management, at its core, is a governance and management discipline, not an end but a means to the end, with the end being the accomplishment of the institution's mission. Boards and administrators need to take demonstrable action and advance ERM efforts at their institutions.

Institution is doing a good job identifying, assessing, and planning for institutional risk:



New Ratings on ERM Performance

A new question in 2013 focused specifically on whether the institution does a good job identifying, assessing, and planning for institutional risk. Only 25 percent "strongly agree" the institution is doing a good job, while a significant 57 percent "somewhat agree."

Another new question in the 2013 survey asked respondents whether their institution's focus on institutional or enterprise risk is greater, about the same, or less than it was five years ago. The vast majority (73 percent) reported that their institution focuses more on institutional risk compared to five years ago.

Back To Agenda

BEST PRACTICES

Demographic shifts, declining or stagnant state and federal government support, increased alternatives for students to pursue their degrees, and aging physical plants combine to significantly increase the risks all colleges and universities face. Research compiled in developing *Risk Management: An Accountability Guide for University and College Boards* recommends the following best practices for supporting the governing board's collaboration with senior administration to reduce risks and improve decision making and allocation of limited resources.

For Boards

1. **Role.** The board does not implement the ERM process, the administration does. The board's role is to remind the administrative team of this responsibility and hold them accountable.

2. **Accountability.** Ownership of risk by both the board committees and senior administration is critical to establish accountability and a sound process.

3. **Process.** Risk management is a process, not a project, and should be incorporated into the ongoing work of the full board and board committees.

4. **Question.** The board should join with senior administration to question "sacred cows" so they can be assessed and managed.

5. **Schedule.** Boards should move away from the "as needed" practice of identifying or discussing risks and incorporate discussions into annual schedules of committees and the full board.

For Presidents and Senior Administrators

1. **Borrow.** To start, use risk registers and lists developed by peer institutions, and interview senior leaders to verify applicability to your campus. Move deeper into the institution in future years.

2. **Prioritize.** Focus most of the process on prioritizing critical risks. Risk identification is merely a springboard into these more important aspects of the process.

3. **Focus.** Senior administrators should focus their energy on high-priority risks rather than on those that will have only a modest impact on the institution.

4. **Plan.** Follow through by developing and improving mitigation plans.

5. **Talk.** Be ready, willing, and able—on campus, in committees, and at board meetings—to talk about the tough issues. Avoid following the timeworn code of silence on the most critical risks.

6. **Practice.** Use crises at other institutions as a drill or practice to ask, "How would we respond if that happened here?"

7. **Lead.** The president should lead the ERM effort (if not throughout the entire process, at a minimum to get it started) and stay engaged throughout the deliberations. Ongoing responsibility for implementing ERM should belong to one or more members of the president's cabinet.

8. **Be accountable.** Each risk brought to the board must have an administration owner who is accountable.

9. **Know the subject matter.** Call upon subject matter experts from time to time to ensure that the administration is not missing important trends and developments in the risk identification process.

Back To Agenda

ABOUT THE SURVEY

The 2013 survey on higher education risk management was completed by 921 respondents, which represents a 55 percent increase over the number of 2008 survey respondents. The population was similar to that of the 2008 survey: 74 percent of the respondents serve independent institutions and 26 percent serve publics. Respondents included presidents, governing board members, chief financial officers, and other higher education leaders whose institutions belong to AGB and UE. Details about respondents are reported in Tables 1-5, including information about enrollment size and sector of institutions represented by the participants in the survey. The total number of responses for each survey item varies.

Table 1: Respondents by Position

	Percent
President	18.7%
Governing board member	11.4%
Provost/VP academic affairs	8.9%
Chief financial/ administration officer	24.5%
Legal counsel	9.8%
Risk manager	14.5%
Chief compliance/ audit officer	1.4%
Other	11.0%
TOTAL	**100%**

Table 2: Respondents by Sector

	Percent
Private	73.9%
Public	26.1%
TOTAL	**100%**

Table 3: Respondents by Carnegie Classification

	Percent
Associate	4.0%
Baccalaureate	27.3%
Masters	27.3%
Doctoral	29.1%
Specialized	2.1%
System*	5.3%
Other	5.0%
TOTAL	**100%**

*Some systems counted member institutions separately rather than as a single entity.

Percentages may not sum to 100% due to rounding.

A Wake-up Call:

Enterprise Risk Management at Colleges and Universities Today

A Survey by the Association of Governing Boards of Universities and Colleges and United Educators

ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

1133 20th Street, NW, Suite 300,
Washington, DC 20036
www.agb.org

Report on the Current State of Enterprise Risk Oversight:

Opportunities to Strengthen Integration with Strategy

5th Edition
June 2014

Mark Beasley
Deloitte Professor of ERM
Director, ERM Initiative

Bruce Branson
Associate Director,
ERM Initiative

Bonnie Hancock
Executive Director,
ERM Initiative

www.erm.ncsu.edu

Research Conducted by the ERM Initiative at North Carolina State University on behalf of the American Institute of CPAs Business, Industry & Government Team

Overview of Study

The complexity of the global business environment and the speed of change create uncertainties that businesses must navigate continually to not only survive, but grow. In the pursuit of value, executives know that they must take risks in a highly competitive global arena. The question is: What types of processes do organizations have in place to ensure that the board of directors and management understand and manage the risks they are taking?

To obtain a better understanding of the current state of enterprise risk oversight among entities of all types and sizes, we conducted this study in conjunction with the American Institute of Certified Public Accountants' (AICPA) Business, Industry, and Government Team. This is the fifth year that we have conducted similar research in partnership with the AICPA. Data was collected during the fall of 2013 through an online survey instrument electronically sent to members of the AICPA's Business and Industry group who serve in chief financial officer or equivalent senior executive positions. In total, we received 446 responses to our survey. This report summarizes our findings and provides a resource for benchmarking an organization's approach to risk oversight against current trends.

This year we observe that the maturity of enterprise-wide risk oversight processes appears to have leveled off with large organizations, public companies, and financial services organizations significantly more mature than other organizations in their enterprise-risk oversight processes. Most notably, organizations appear to be struggling to integrate their risk oversight and strategic planning processes. Significant opportunities remain for organizations to strengthen underlying processes for identifying and assessing key risks facing the entity especially as it relates to integrating risk oversight efforts with strategic planning activities.

The following Executive Summary highlights some of the key findings from this research. The remainder of the report provides more detailed information about other key findings and related implications for risk oversight.

Mark Beasley
Deloitte Professor of ERM
ERM Initiative

Bruce Branson
Associate Director
ERM Initiative

Bonnie Hancock
Executive Director
ERM Initiative

The ERM Initiative in the Poole College of Management at North Carolina State University provides thought leadership on enterprise risk management (ERM) and its integration with strategic planning and corporate governance, with a focus on helping boards of directors and senior executives gain strategic advantage by strengthening their oversight of all types of risks affecting the enterprise.

www.erm.ncsu.edu.

Key Findings

Nature and Extent of Risks Organizations Face

- Organizations continue to face an increasing volume and complexity of risks, and they report having been caught off-guard by operational surprises on a regular basis:
  - About 57% of respondents believe that the volume and complexity of risks have changed "extensively" or "mostly" in the last five years. This holds true for organizations of all sizes and types.
  - Almost two-thirds (62.8%) admit they were caught off guard by an operational surprise "somewhat" to "extensively" in the last five years. This was even higher for large organizations and public companies.

Adoption of an Enterprise-Wide Approach to Risk Oversight

- While the percentage of organizations that claim to have a "complete formal enterprise-risk management process in place" has increased since the first year of our study (2009), the increase in 2013 over 2012 was only slight, suggesting that notable strides in risk oversight maturity did not occur over the prior year.
  - In 2009, we found that only 8.8% of organizations we surveyed claimed to have complete ERM processes in place; by 2013, 24.6% made that claim. The fact that only a quarter of organizations surveyed have complete ERM processes in place suggests that there continues to be significant room for risk oversight improvement across most entities.
  - Not surprising, the largest organizations and public companies are much further along, with 55.8% and 52.0% of those organizations, respectively, claiming to have complete ERM processes in place. In contrast, just 13.0% of not-for-profit organizations made that claim.
- Despite that, almost half of all organizations in the survey have no ERM processes in place, which is surprising given that nearly 60% of organizations describe their risk culture as "strongly risk averse" or "risk averse" and over two-thirds of organizations surveyed have faced significant operational surprises.

Pressure for Improved Enterprise-Wide Risk Oversight

- For a majority (60.8%) of the organizations, the board of directors is asking "somewhat," "mostly," or "extensively" for increased senior executive involvement in risk oversight. Board expectations for greater senior executive involvement are much greater for the largest organizations (86.9%), public companies (78.1%), and financial services entities (72.6%).
- More than half (57.8%) of organizations experience "somewhat" to "extensive" pressure from external parties to provide more information about risks.

Back To Agenda

- Financial services organizations are especially experiencing these external pressures with 81.3% experiencing them "somewhat" to "extensively."
- Similarly, about two-thirds of the large organizations and public companies experience comparable levels of pressure from external parties.

- In addition to requests from the board of directors, the three most frequently cited factors for increasing executive involvement in risk oversight are regulator demands, emerging corporate governance requirements, and a desire to better anticipate unexpected risk events. Factors leading to an increased senior executive focus on risk management activities vary across types of organizations.
  - For the large organizations, the board is the most common factor whereas for financial services organizations and public companies it is their regulator(s).

Nature of Risk Oversight Processes

- While the percentage of organizations embracing ERM is on the rise, the level of risk management sophistication still remains fairly immature for most responding to our survey.
  - Only 20.1% of the organizations describe the level of their organization's risk management maturity as "mature" or "robust."
  - Even the large organizations, public companies, and financial services organizations have room for improvement, with less than half claiming to have "mature" or "robust" risk management oversight. Not-for-profit organizations have the least mature risk management oversight processes, with less 8.7% describing those processes as "mature" or "robust."
  - These results are interesting given the sample organizations also responded that the complexity and volume of risks facing them is high and there are significant calls for greater risk oversight coming from the board of directors and other key stakeholders. Reasons for this potential disconnect remain unclear.
  - Just under one-third (29.7%) of the organizations have a formal policy statement regarding its enterprise-wide risk management approach. Just over half of the large organizations, public companies, and financial services entities have formal risk management policy statements in place.

Risk Oversight Leadership

- Organizations are not that likely to formally designate an individual to serve as the Chief Risk Officer (CRO) or equivalent senior risk executive, with only 31% of all respondents indicating their organizations have made such designation.
  - In 2009, 17.8% reported they have that designation in place, so we are observing a positive trend in formally designating a CRO or equivalent.

Back To Agenda

  - Financial services entities are most likely to designate an individual as CRO or equivalent, with such appointments occurring in 53.1% of organizations surveyed.
  - In about half of organizations designating an individual as CRO or equivalent, the individual typically reports to the CEO/President.
- This year, we saw a slight decrease in the percentage of organizations that have a management-level risk committee or equivalent.
  - 43.0% of all organizations have that kind of committee in 2013 compared to 48.6% in 2012. This is up from the 2009 report (22%).
  - About two-thirds of the large organizations, public companies, and financial services organizations have internal risk management committees.
  - For most organizations with a risk management committee, the committee meets at least quarterly.

Techniques to Identify and Assess Risks

- Almost 40% of all organizations maintain inventories of risks at the enterprise level.
  - Only 19.6% claimed to do so in 2009 compared to 37.4% in 2013.
  - The largest organizations and public companies are much more likely to maintain inventories of risks at the enterprise level, with 72.1% and 65.8% doings so, respectively.
  - Surprisingly, only 44.3% of financial services entities maintain inventories of risks at the enterprise level.
  - Updates of risk inventories (if done at all) are typically done on an annual basis.
- Despite maintaining risk inventories, close to three-quarters of the organizations do not provide explicit guidelines or measures to business unit leaders on how to assess probability and impact of risks.

Communicating Information About Key Risks

- Just under half (45.1%) either have no structured process for identifying and reporting risk exposures to the board or they track risks by silos with minimal reporting of aggregate risk exposures to the board.
- The majority of organizations (66.3%) communicate key risks on an *ad hoc* basis at management meetings. Only 33.7% explicitly schedule agenda time to discuss key risks at management meetings.
- Large organizations, public companies and financial services organizations are much more likely to prepare written reports about risk information monthly, quarterly, or annually, with about two-thirds of those organizations doing so.
- There seems to be room for improvement in the nature of risk information being reported to senior executives. Almost half (44.1%) of our respondents admitted that they were "not

Back To Agenda

at all" or were "minimally" satisfied with the nature and extent of the reporting of key risk indicators to senior executives regarding top risk exposures.

Board of Director Involvement in Enterprise Risk Oversight

- Under half (41.4%) of the boards in the full sample have formally assigned risk oversight responsibilities to a board committee; however, board delegation to a committee is noticeably more common for the largest organizations, public companies, and financial services organizations where that occurs about two-thirds of the time.
  - If boards delegate risk oversight to a committee, most (54.9%) are assigning that task to the audit committee while 21.7% are delegating that to a risk committee. Delegation to the audit committee is most common for the largest organizations and public companies, with three-fourths of those organizations doing so.
- About 60% of the boards review and discuss in a specific meeting the top risk exposures facing the organization; however, the boards of the large organizations and public companies do that more often (in about three-fourths of those organizations).
- Over the years a growing percentage of organizations provide a report to the board of directors or one of its committees describing the entity's top risk exposures on at least an annual basis; however, the percent of organizations doing so slightly decreased to 47.5% in 2013.
  - Annual reporting of top risk exposures to the board happens in almost all of the largest companies (85.0%) and public companies (84.9%).
- While not-for-profits organizations tend to report fewer than 5 risks to the board, large organizations, public companies, and financial services organizations most commonly report between 10 and 19 risks.

Integration of Risk Oversight and Strategic Planning

- One of the more notable areas for improvement in risk oversight is the integration of risk management with strategic planning.
  - Less than 15% believe "mostly" or "extensively" that the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage.
  - Less than half (40.4%) of the organizations describe the extent as "mostly" or "extensively" that the board formally discusses the top risk exposures facing the organization when the board discusses the organization's strategic plan. This seems surprisingly low given the relationship between risk and return.
  - Over one-third (38.2%) of the organizations do no formal assessments of emerging strategic, market, or industry risks.
  - For those that attempt to assess strategic risks, most do so in a predominantly qualitative manner or by using a blend of qualitative and quantitative techniques.

Back To Agenda

  - About half of the organizations fail to meaningfully consider existing risk exposures when evaluating new strategic initiatives.
- Less than one-third have "mostly" or "extensively" articulated the organization's appetite for or tolerance of risks in the context of strategic planning.

Linkage of Risk Oversight and Compensation

- Most organizations do not include risk management activities as an explicit component in determining compensation in a meaningful way.

Barriers to Progress

- Barriers still exist that restrict progress in the effectiveness of an organization's risk management processes, with the most common being the belief that "risks are monitored in other ways besides ERM."
- Over one-third (37.6%) also noted "no requests to change our risk management approach" and "do not see benefits exceeding costs" in identifying barriers to progress.

Overview of Research Approach

This study was conducted by research faculty who lead the Enterprise Risk Management Initiative (the ERM Initiative) in the Poole College of Management at North Carolina State University (for more information about the ERM Initiative please see http://www.erm.ncsu.edu). The research was conducted in conjunction with the American Institute of Certified Public Accountants' (AICPA) Business, Industry, and Government Team. Data was collected during the fall of 2013 through an online survey instrument electronically sent to members of the AICPA's Business and Industry group who serve in chief financial officer or equivalent senior executive positions. In total, we received 446 partially or fully completed surveys.[1] This report summarizes our findings.

Description of Respondents

Respondents completed an online survey consisting of over 40 questions that sought information about various aspects of risk oversight within their organizations. Most of those questions were included in our four previous editions of the surveys conducted in 2009, 2010, 2011 and 2012 reports. This approach provides us an opportunity to observe any shifts in trends in light of more recent developments surrounding board and senior executive's roles in risk oversight.

Results are based on responses from 446 executives, mostly serving in financial leadership roles, representing a variety of industries and firm sizes.

Because the completion of the survey was voluntary, there is some potential for bias if those choosing to respond differ significantly from those who did not respond. Our study's results may be limited to the extent that such bias exists. Also, some respondents provided an answer to selected questions while they omitted others. Furthermore, there is a high concentration of respondents representing financial reporting roles. Possibly there are others leading the risk management effort within their organizations whose views are not captured in the responses we received. Despite these limitations, we believe the results reported herein provide useful insight about the current level of risk oversight maturity and sophistication and highlight many challenges associated with strengthening risk oversight in many different types of organizations.

A variety of executives serving in financial roles responded to our survey, with 46.1% having the title of chief financial officer (CFO), 16.2% serving as controller, and 8.8% leading internal

[1] Not all questions were completed by all 446 respondents. In some cases, the questions were not applicable based on their responses to other questions. In other cases, the respondents chose to skip a particular question.

Back To Agenda

audit. Other respondents included the chief risk officer (7.1%) and treasurer (2.0%), with the remainder representing numerous other executive positions.

Nature of Organizations Represented

A broad range of industries are represented by the respondents. Consistent with our 2012 survey, the four most common industries responding to the 2013 survey were finance, insurance, and real estate (31.0%), followed by services (16.1%) manufacturing (15.8%), and not-for-profit (14.8%). The mix of industries is generally consistent with the mix in all of our previous reports.

Industry (SIC Codes)	Percentage of Respondents
Finance, Insurance, Real Estate (SIC 60-67)	31.0%
Services (SIC 70-89)	16.1%
Manufacturing (SIC 20-39)	15.8%
Not-for-Profit (SIC N/A)	14.8%
Wholesale/Distribution (SIC 50-51)	5.5%
Construction (SIC 15-17)	5.2%
Mining (SIC 10-14)	3.9%
Retail (SIC 52-59)	1.9%
Transportation (SIC 40-49)	1.6%
All Other	4.2%

A variety of sizes of organizations are represented by the respondents to the survey. As shown in the table below, three-fourths (74.6%) of companies that provided data about their financial performance generated revenues up to $500 million in their most recent fiscal year. An additional 5.0% generated revenues between $500 million and $1 billion while 20.4% organizations providing revenue data earned revenues in excess of $1 billion. Almost all (95.5%) of the organizations are based in the United States.

Range of Revenues in Most Recent Fiscal Year	Percentage of Respondents
$0 < x ≤ $10 million	18.1%
$10 million < x ≤ $100 million	37.3%
$100 million < x ≤ $500 million	19.2%
$500 million < x ≤ $1 billion	5.0%
$1 billion < x ≤ $2 billion	5.7%
$2 billion < x ≤ $10 billion	10.7%
x > $10 billion	4.0%

Throughout this report, we highlight selected findings that are notably different for the 61 largest organizations in our sample, which represent those with revenues greater than $1

Back To Agenda

billion. Additionally, we also provide selected findings for the 73 publicly-traded companies, 96 financial services entities, and 46 not-for-profit organizations included in our sample.

Nature and Extent of Risks Organizations Face

Many argue that the volume and complexity of risks faced by organizations today continue to evolve at a rapid pace, creating huge challenges for management and boards in their oversight of the most important risks. To get a sense for the extent of risks faced by organizations represented by our respondents, we asked them to describe how the volume and complexity of risks have increased in the last five years. Just under 18% noted that the volume and complexity of risks have increased "extensively" over the past five years, with an additional 38.8% responding that the volume and complexity of risks have increased "mostly." Thus, on a combined basis, about 57% of respondents indicate that the volume and complexity of risks have changed "mostly" or "extensively" in the last five years, which is in line with what participants in prior years noted (62% in the 2012 report, 55% in the 2011 report, 64% in the 2010 report and 62% in the 2009 report). Only 1.1% responded that the volume and complexity of risks have not changed at all.

The majority of respondents believe the volume and complexity of risks have increased "mostly" or "extensively" in the past five years, and that finding is consistent across various types of organizations.

We separately analyzed responses to this question for various subgroups of respondents. The percentage of respondents from the largest organizations (those with revenues in excess of $1 billion) who believe the volume and complexity had increased "extensively" or "mostly" was higher at 61.6% than the full sample. Similarly, public company respondents also believe the volume and complexity has increased notably with 24.7% responding with "extensively" and 31.6% responding "mostly" for a combined percentage of 56.2%. Similar results were noted for financial services entities where 57.3% described the change in volume and complexity of risks as "mostly" or "extensively." In summary, most leaders, regardless of type of organization, continue to believe the risks they face are complex and numerous.

	Description of Response (Full Sample)				
Question	Not at All	Minimally	Somewhat	Mostly	Extensively
To what extent has the volume and complexity of risks increased over the past five years?	1.1%	7.8%	34.6%	38.8%	17.7%

Some risks have actually translated into significant operational surprises for the organizations represented in our survey. About 9.0% noted that they have been affected by an operational surprise "extensively" within the last five years and an additional 22.2% of respondents noted

Back To Agenda

that they have been affected "mostly" in that same time period. An additional 31.6% responded "somewhat" to this question. Collectively, this data indicates that the majority of organizations (62.8%) are being affected by real risk events that have emerged, consistent with what we found in our prior studies. Just under two-thirds of the financial services entities and the largest organizations in our sample responded with "somewhat," "mostly" or "extensively" to this question. While lower, non-profit-organizations also experienced operational surprises, with 58.6% responding at "somewhat" or higher. Interestingly, publicly traded entities responded with the lowest percentage of "operational surprises" with 52.1% of them responding at "somewhat" or higher.

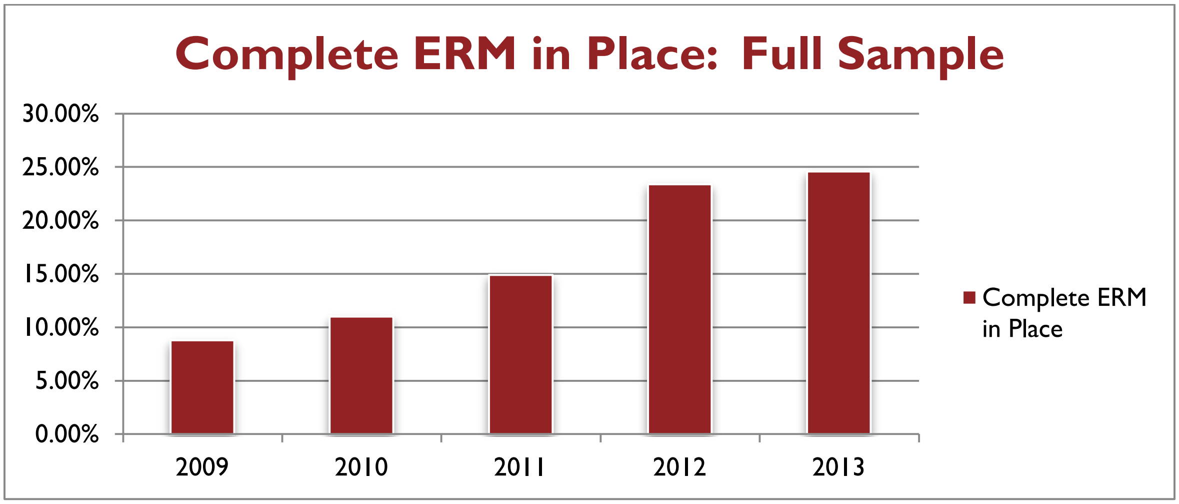
	Description of Response (Full Sample)				
Question	Not at All	Minimally	Somewhat	Mostly	Extensively
To what extent has your organization faced an operational surprise in the last five years?	7.8%	29.4%	31.6%	22.2%	9.0%

Relative to our earlier studies, we do not observe a notable reduction in the rate of operational surprises affecting organizations "mostly" or "extensively." The responses to questions about the nature and extent of risks organizations face indicate that executives are experiencing a noticeably high volume of risks that are also growing in complexity, which ultimately results in significant unanticipated operational issues. The reality that unexpected risks and uncertainties occur and continue to "surprise" organizational leaders suggests that opportunities to improve risk management techniques still exist for most organizations.

Adoption of an Enterprise-Wide Approach to Risk Oversight

There have been growing calls for more effective enterprise risk oversight at the board and senior management levels in recent years. Many corporate governance reform experts have called for the adoption of a holistic approach to risk management widely known as "enterprise risk management" or "ERM." ERM is different from traditional approaches that focus on risk oversight by managing silos or distinct pockets of risks. ERM emphasizes a top-down, enterprise-wide view of the inventory of key risk exposures potentially affecting an entity's ability to achieve its objectives. See Appendix A for more information about the concept of ERM.

For our 2013 study, one of the most notable findings is that the concept of ERM as a process to oversee enterprise-wide risks continues to be embraced by more organizations over time.



The above chart shows an increase from 2009 through 2013 in the percentage of organizations that claim they have a "complete formal enterprise-wide risk management process in place." In our 2009 report, only 8.8% of organizations claimed to have complete ERM processes in place; however, in 2013 the percentage is 24.6% for the full sample. Thus the adoption of ERM is steadily increasing over time, although there is significant opportunity for improvement in most organizations, given that three-fourths of organizations surveyed cannot yet claim they have "complete ERM in place."

Back To Agenda

The adoption of ERM is greatest for larger companies and public companies.

	Percentage of Respondents				
Description of the State of ERM Currently in Place	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
No enterprise-wide management process in place	27.0%	0.0%	5.5%	12.5%	23.9%
Currently investigating concept of enterprise-wide risk management, but have made no decisions yet	15.1%	4.9%	8.2%	14.6%	26.1%
No formal enterprise-wide risk management process in place, but have plans to implement one	7.8%	4.9%	5.5%	5.2%	13.1%
Partial enterprise-wide risk management process in place (i.e., some, but not all, risk areas addressed)	25.5%	34.4%	28.8%	25.0%	23.9%
Complete formal enterprise-wide risk management process in place	24.6%	55.8%	52.0%	42.7%	13.0%

As seen in the last row of the chart above, 55.8% of the largest companies in our sample and 52.0% of public companies in our sample claim to have complete formal enterprise-wide risk management processes in place. This is notably higher than in 2012 when 46.6% of the largest organizations and 45.6% of public companies reported they have complete, formal ERM processes in place. These findings suggest that ERM is growing in significance and importance, especially in the largest organizations and those that are public companies.

Back To Agenda

Despite these positive trends towards greater adoption of ERM, there is noticeable room for improvement. For the full sample, we found that just over one-fourth (27.0%) of the respondents have no enterprise-wide risk management process in place. An additional 15.1% of respondents without ERM processes in place indicated that they are currently investigating the concept, but have made no decisions to implement an ERM approach to risk oversight at this time. Thus, on a combined basis, over 40% of respondents have no formal enterprise-wide approach to risk oversight and are currently making no plans to consider this form of risk oversight.

The adoption of ERM is much further along for large organizations and public companies. Over half of large organizations and public companies claim to have complete, formal enterprise-wide risk management processes in place, while only 24.6% of the full sample is that far along.

The variation in results highlights that the level of ERM maturity can differ greatly across organizations of various sizes and types. While variations exist, the results also reveal that there are a substantial number of firms in all categories that have no ERM processes or are just beginning to investigate the need for those processes.

A majority of the respondents in the full sample indicated that their organization's risk culture is one that is either "strongly risk averse" (11.7%) or "risk averse" (46.9%). An additional 30.6% of our respondents indicated that they are in an organizational culture that is "risk neutral." Thus, it is somewhat surprising to see the overall lack of ERM maturity for the full sample given their description of organizational appetite for risk-taking.

The greater maturity in ERM processes for large organizations, public companies, and the financial services industry may be due to an even greater percentage of respondents who indicated their risk culture was "strongly risk averse" or "risk averse." Seventy percent of the largest organizations, 63.0% of the public companies, and 68.4% of the financial services companies indicated their risk culture is "strongly risk averse" or "risk averse." Perhaps the relatively lower appetite for risk taking in those organizations is one of the drivers for more advanced ERM processes as compared to the full sample.

Ironically, 67.4% of not-for-profit organizations express their risk culture as "strongly risk averse" or "risk averse;" however, those organizations appear to be the least mature in their enterprise-wide risk oversight processes.

Back To Agenda

Pressure for Improved Enterprise-Wide Risk Oversight

Our survey results indicate that board of director expectations for improving risk oversight in these organizations continues to be strong, especially for the largest organizations, public companies, and financial services entities. Respondents noted that for 11.1% of the organizations surveyed, the board of directors is asking senior executives to increase their involvement in risk oversight "extensively," another 25.4% of the organizations report "mostly," and an additional 24.3% have boards that are asking for increased oversight "somewhat." Board expectations for increased senior executive involvement in risk oversight is most dramatic for the largest organizations, public companies, and financial services organizations, as shown in the table below. Requests from the board of directors for increased risk oversight are a little less frequent for not-for-profit organizations.

	Percentage of Respondents				
Extent to which the board of directors is asking for increased senior executive involvement in risk oversight	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
"Extensively"	11.1%	16.4%	15.1%	14.7%	8.7%
"Mostly"	25.4%	47.5%	34.2%	35.8%	23.9%
"Somewhat"	24.3%	23.0%	28.8%	22.1%	26.1%
Combined	60.8%	86.9%	78.1%	72.6%	58.7%

These expectations are possibly being prompted by increasing external pressures now being placed on boards. In response to these expectations, boards and audit committees may be challenging senior executives about existing approaches to risk oversight and demanding more information about the organization's top risk exposures.

> ***Almost two-thirds of organizations experience "somewhat" to "extensive" pressure from external parties to be more transparent about their risk exposures.***

In addition, and perhaps due to the board's interest in strengthened risk oversight, the chief executive officer (CEO) is also calling for increased senior executive involvement in risk oversight. Over 40% of the respondents indicated that the CEO has asked "mostly" or "extensively" for increased management involvement in risk oversight, which is almost identical to what we saw in our 2012 and 2011 reports. An additional, 29.8% of our respondents indicated that the CEO has expressed "somewhat" of a request for increased senior management oversight of risks.

We also asked respondents to describe to what extent external factors (e.g., investors, rating agencies, emerging best practices) are creating pressure on senior executives to provide more information about risks affecting their organizations. As illustrated in the table below, while a small percentage (10.5%) of respondents described external pressure as “extensive,” an additional 18.2% indicated that external pressures were “mostly” and another 29.1% described that pressure as “somewhat.” Thus, on a combined basis well over a half (57.8%) of our respondents believe the external pressure to be more transparent about their risk exposures is “somewhat” to “extensive.” That result is down somewhat from the similar combined percentage of 64.3% noted in our 2012 report.

External pressures are notably stronger for financial services entities, likely from regulators who are becoming more vocal proponents of ERM in banks. These organizations perceived the external pressures to provide more information about risks facing the organization to be much greater than the overall sample of firms.

	Percentage of Respondents				
Extent that external parties are applying pressure on senior executives to provide more information about risks affecting the organization	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
“Extensively”	10.5%	20.0%	16.4%	22.9%	6.5%
“Mostly”	18.2%	21.7%	11.0%	31.3%	15.2%
“Somewhat”	29.1%	23.3%	32.9%	27.1%	21.7%
Combined	57.8%	65.0%	60.3%	81.3%	43.4%

Several other factors are prompting senior executives to consider changes in how they identify, assess, and manage risks. For the overall sample, respondents noted that regulator demands, emerging corporate governance requirements and a desire to better anticipate unexpected risk events are the three most frequently cited factors for increasing senior executive involvement. However, as illustrated by the table on the next page, regulator demands seem to be putting even greater pressure on senior executives in financial services organizations. In contrast, the strongest factor for increased risk oversight in the largest organizations and public companies is coming from the board of directors and the related emerging corporate governance requirements. Not-for-profit organizations are also experiencing pressure to increase senior executive focus on risk management activities, although to a lesser extent than other organizations.

Back To Agenda

Factors "Mostly" or "Extensively" Leading to Increased Senior Executive Focus on Risk Management Activities	Percentage of Respondents Selecting "Mostly" or "Extensively"				
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Regulator Demands	37.4%	36.1%	39.7%	61.0%	28.8%
Unanticipated risk events affecting organization	30.5%	31.2%	21.9%	27.7%	28.2%
Emerging best practice expectations	29.9%	27.8%	27.4%	44.2%	26.0%
Emerging corporate governance requirements	30.9%	49.1%	45.2%	50.5%	21.8%
Board of Director requests	27.3%	54.1%	47.9%	30.8%	23.9%

Board of director requests are driving improvements in risk oversight most for large organizations whereas regulator demands are having the greatest influence for change in financial services organizations.

Back To Agenda

Nature of Risk Oversight Processes

While the percentage of organizations adopting ERM is on the rise, the level of sophistication of underlying risk management processes still remains fairly immature for most responding to our survey. When asked to describe the level of maturity of their organization's approach to risk oversight, we found that 17.8% described their organization's level of functioning ERM processes as "very immature" and an additional 27.4% described their risk oversight as "developing." So, on a combined basis 45.2% self-describe the sophistication of their risk oversight as immature to developing (this is even slightly higher than 42.7% reported in our 2012 study). Only 3.2% responded that their organization's risk oversight was "robust," consistent with responses noted in all four of our prior reports.

What is the level of maturity of your organization's risk management oversight?	Very Immature	Developing	Evolving	Mature	Robust
Full Sample	17.8%	27.4%	34.7%	16.9%	3.2%
Largest Organizations	4.9%	13.1%	34.4%	42.7%	4.9%
Public Companies	5.5%	17.8%	32.9%	39.7%	4.1%
Financial Services	10.4%	26.1%	37.5%	22.9%	3.1%
Not-for-Profit Organizations	23.9%	28.3%	39.1%	6.5%	2.2%

In general, the largest organizations, public companies, and financial services entities believe their approach to ERM is more mature relative to the full sample. As shown in the table above, 20.1% of the full sample respondents describe their organization's approach to ERM as either "mature" or "robust." In contrast, 47.6% of the largest organizations, 43.8% of the public companies, and 26.0% of financial services entities indicate their ERM approaches are either "mature" or "robust." In contrast, only 8.7% of not-for-profit organizations believe their level of risk management oversight is "mature" or "robust."

Most organizations describe the level of ERM maturity as very immature to evolving. Few describe their processes as robust.

While the level of risk oversight maturity is higher for these subsets of organizations than the full sample and the numbers improved compared to previous years' results, it is important to note that a significant percentage of these subsets of organizations still do not describe their approaches to ERM as being "mature" or "robust." When you consider the results concerning the changing complexity and volume of risks facing most organizations, along with growing expectations for improved risk oversight, opportunities remain for all types of organizations to increase the level of their enterprise-wide risk management maturity.

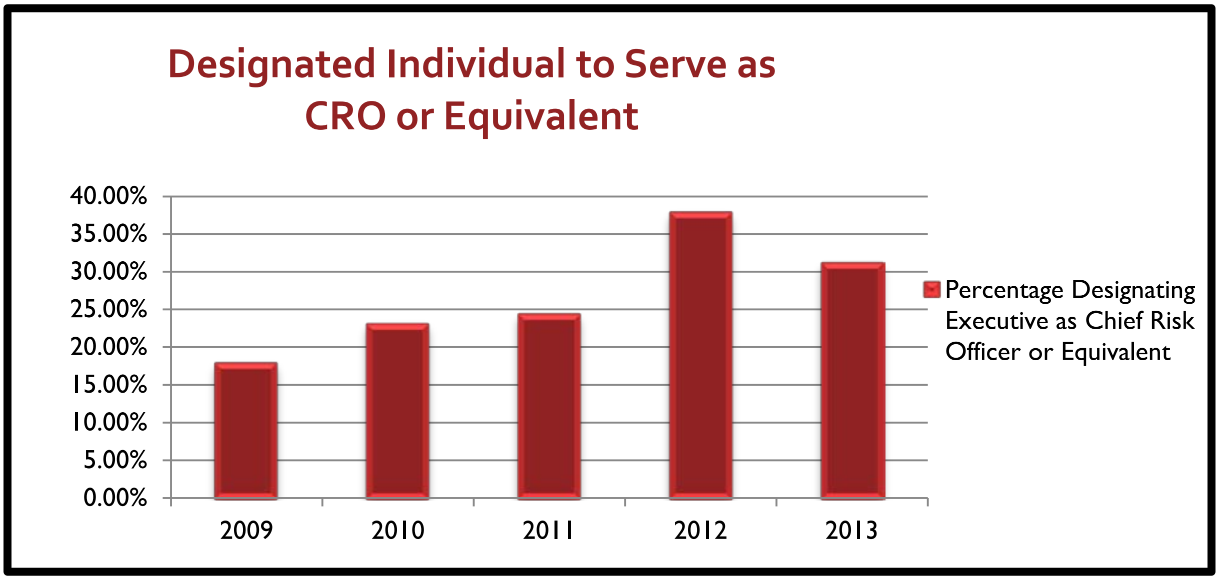
Most organizations in the full sample (70.3%) do not have a formal policy statement regarding its enterprise-wide approach to risk management. The presence of a formal policy is more common in the largest organizations (55.7%), public companies (50.7%), and financial services entities (51.6%). Not-for-profit organizations are least likely to have a formal policy in place.

	Percentage of Respondents				
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
Has formal policy statement regarding enterprise-wide approach to risk management	29.7%	55.7%	50.7%	51.6%	8.7%

Back To Agenda

Risk Oversight Leadership

While we observed some increase since our first year of the survey (2009) in the percentage of firms formally designating an individual to serve as the Chief Risk Officer (CRO) or equivalent senior risk executive, it appears that the trend does not continue to move upwards. As illustrated by the bar chart below, 31.0% of organizations responding indicated that they have made that kind of designation, compared to the 37.7% reported in 2012, 24.3% reported in 2011, 23.0% reported in 2010, and 17.8% reported in 2009.



Financial services organizations are more likely to have designated an individual to serve as CRO or equivalent, with more than half of those organizations doing so. A good number of the largest organizations and public companies have also pinpointed individuals to serve in those capacities.

Percentage of Respondents

	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
Percentage designating individual to serve as CRO or equivalent	31.0%	42.6%	45.2%	53.1%	17.4%

For firms with a chief risk officer position, the individual to whom the CRO most often reports is the CEO or President (49.5% of the instances for the full sample). Interestingly, for 26.2% of the organizations with a CRO position, the individual reports formally to the board of directors

Back To Agenda

or its audit committee while an additional 15.9% report to the chief financial officer. These lines of reporting are similar to what we noted in our prior year reports.

> ***Financial services entities are more likely to appoint individuals to serve as Chief Risk Officer (CRO) or equivalent than other organizations.***

When you examine the largest organizations, public companies, and financial services entities separately, there are some notable differences as shown in the table below. Direct reporting to the CEO and/or President is most common for financial services firms and not-for-profit organizations.

	Percentage of Respondents				
To Whom Does the CRO Formally Report?	**Full Sample**	**Largest Organizations (Revenues >$1B)**	**Public Companies**	**Financial Services**	**Not-for-Profit Organizations**
Board of Directors or Committee of the Board	**26.2%**	**19.2%**	**21.2%**	**31.4%**	**22.2%**
Chief Executive Officer or President	**49.5%**	**34.6%**	**39.4%**	**47.1%**	**77.8%**
Chief Financial Officer	**15.9%**	**26.9%**	**21.2%**	**11.8%**	**0.0%**

Similar to our observation that just under one-third of organizations are designating an executive to lead the risk oversight function (either as CRO or equivalent) in 2013, we also observed that a decreasing number of organizations have a management-level risk committee or equivalent. For 2013, 43.0% of the full sample has a risk committee as compared to 48.6% in 2012, 34.5% in 2011, 30% in 2010, and 22% in 2009.

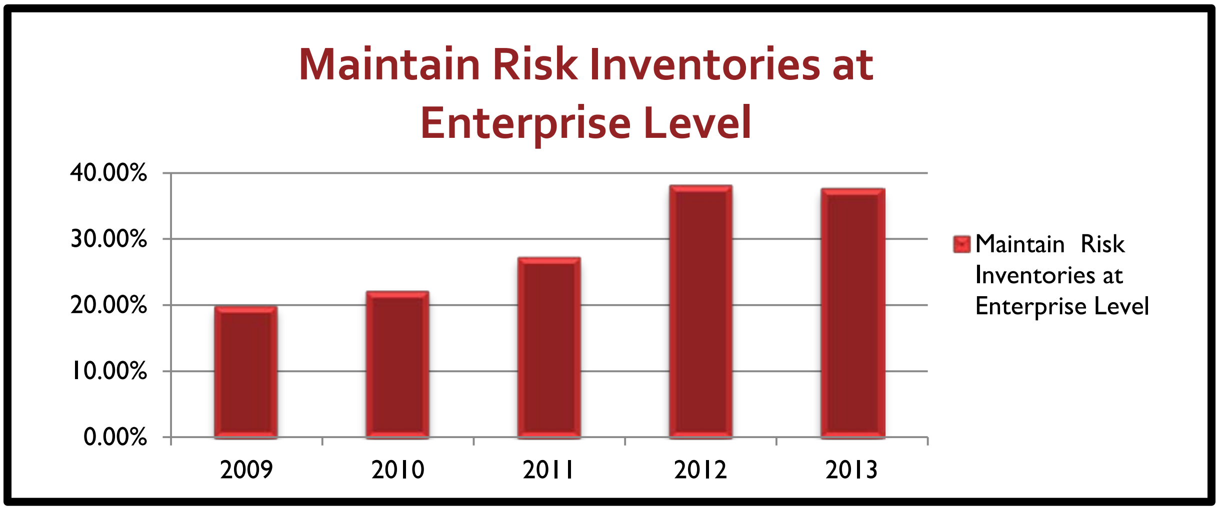
The presence of an internal risk committee was noticeably more likely to be present in the largest organizations, public companies, and financial services entities where 70.5%, 63.0%, and 63.2%, respectively, of those organizations had an internal risk committee. These findings are, again, somewhat lower than what we observed in our 2012 report where 80.2% of the largest organizations, 71.8% of public companies, and 73.8% of financial services organizations had management-level risk committees.

For the organizations with a formal executive risk oversight committee, those committees met most often (42.6% of the time) on a quarterly basis, with an additional 24.3% of the risk committees meeting monthly. These results did not differ notably for the subsets of largest organizations, public companies, or financial services entities.

The officer most likely to serve on the executive risk committee is the chief financial officer (CFO) who serves on 87.0% of the risk committees that exist among organizations represented in our survey. The CEO/President serves on 73.3% of the risk committees while the chief operating officer serves on 58.2% of the risk committees. In about half of the organizations surveyed, the general counsel and the internal audit officer also sit on the risk committee along with other executives from different positions.

Techniques to Identify and Assess Risks

The number of organizations that maintain inventories of risks at the enterprise level remained practically the same over the last year, as illustrated by the bar graph below. Despite that, the percentage has increased significantly when looking at the last five years. While only 19.6% of organizations did so in 2009, by 2013 just under 40% of organizations claim to be maintaining an inventory of risks at the enterprise level.



A greater percentage of large organizations, public companies, and financial services firms maintain risk inventories at the enterprise level as shown below. Fewer not-for-profit organizations do so.

	Percentage of Respondents				
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
Percentage that maintain risk inventories at enterprise level	37.4%	72.1%	65.8%	44.3%	26.1%

Just over half (53.8%) of the full sample has formally defined the meaning of the term "risk" for employees to use as they identify and assess key risks. When they do so, about half focus their definition on "downside" risks (threats to the organization) and about half focus on both the "upside" and "downside" of risk. A large majority of the full sample do not provide explicit guidelines or measures to business unit leaders on how to assess the probability and impact of a risk event (72.7% and 71.1%, respectively). We found similar results for not-for-profit organizations. However, consistent with 2012 about half of the largest organizations and public companies provide explicit guidelines or measures to business unit leaders for them to

Back To Agenda

use when assessing risk probabilities and impact. Among financial services, 37.9% and 41.7% provide guidelines for assessing risk probabilities and impact, respectively.

We also asked whether organizations go through a dedicated process to update their key risk inventories. As shown in the table below, there is substantial variation as to whether they go through an update process. But, when they do update their risk inventories, it is generally done annually, although a noticeable percentage of organizations update their risk inventories quarterly. Not-for-profit organizations are less likely to be going through a process to update their risk inventories.

Frequency of Going Through Process to Update Key Risk Inventories	Percentage of Respondents: Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Not at all	37.2%	9.8%	9.6%	20.8%	54.3%
Annually	37.5%	59.0%	52.1%	47.9%	39.1%
Semi-Annually	7.9%	11.5%	11.0%	6.3%	2.3%
Quarterly	12.1%	11.5%	21.9%	18.8%	4.3%
Monthly, Weekly, or Daily	5.3%	8.2%	5.4%	6.2%	0.0%

Almost three-fourths of the large organizations (70.5%) and public companies (71.2%) have a standardized process or template for identifying and assessing risks, while 55.2% of the financial services organizations have those kinds of procedures in place. In contrast, only 19.6% of not-for-profit organizations structure their risk identification and assessment processes in that manner.

Communicating Information On Key Risks

We asked respondents about their current stage of risk management processes and reporting procedures. Just under half (45.1%) either have no structured process for identifying and reporting top risk exposures to the board or they track risks by silos with minimal reporting of aggregate risk exposures to the board. An additional 28.4% describe their risk management processes as informal and unstructured with *ad hoc* reporting of aggregate risk exposures to the board.

Interestingly, however, just below 30% of the full sample believe their enterprise risk oversight processes are systematic, robust, and repeatable with regular reporting of top risk exposures to the board. This percentage is similar to the results reported in our 2012 report.

	Percentage of Respondents				
Percentage who describe their ERM implementation as	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
"Our process is systematic, robust, and repeatable with regular reporting of top risk exposures to the board."	26.6%	55.7%	57.5%	37.9%	15.2%

Thus, while a noticeable majority of organizations do not claim to have systematic, robust, and repeatable ERM processes with regular reporting to the board, the trends suggest that more organizations are moving in that direction over time. As demonstrated by the data in the table above, a noticeably higher percentage of large organizations, public companies, and financial services organizations believe they have a systematic, robust, and repeatable ERM process.

The majority of organizations communicate risk information to senior executives on an ad hoc basis versus scheduling agenda time to discuss risks at management meetings.

There is notable variation across organizations of different sizes and types in how key risks are communicated by business unit leaders to senior executives. According to the data in the table on the next page, the majority (66.3%) of organizations communicate key risks merely on an *ad hoc* basis at management meetings. Only 33.7% of the organizations surveyed scheduled agenda time to discuss key risks at management meetings. The percentage of organizations scheduling agenda discussions about risks at management meetings has been relatively flat over the last five years we have tracked this data point (33.7% in 2013, 33.3% in 2012, 32.9% in 2011, 29% in 2010 and 2009). The communication of key risks is more likely to be scheduled for discussion at

Back To Agenda

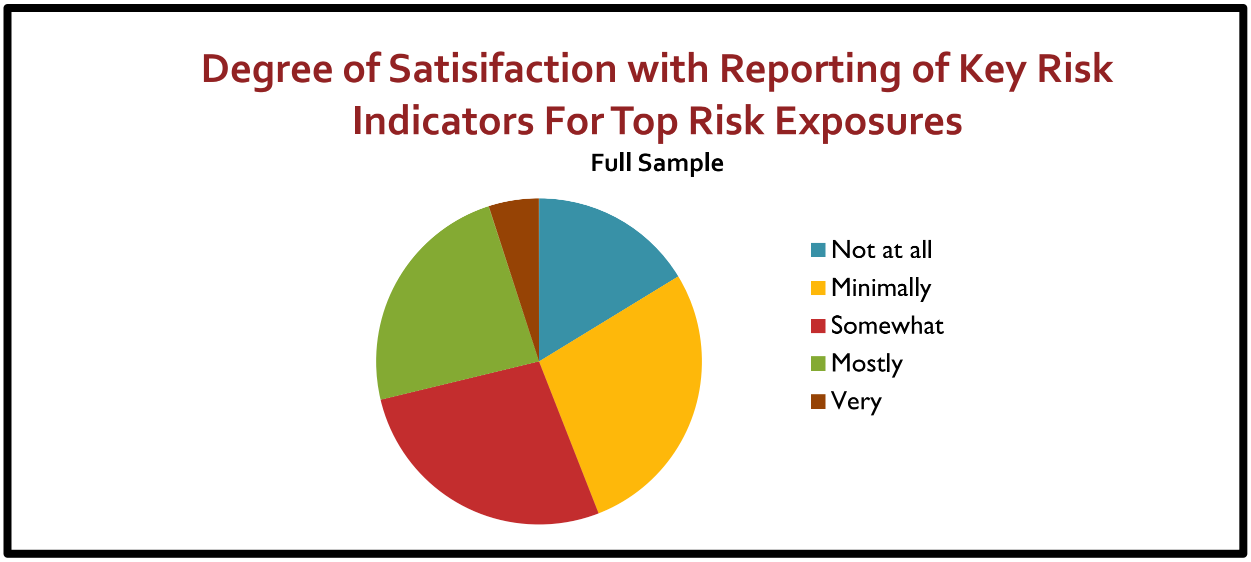
management meetings for the largest organizations or financial services organizations, as shown on the next page. Written reports prepared on a monthly, quarterly, or annual basis are most likely to be prepared by the largest organizations, public companies, and financial services organizations. The largest organizations are more likely to enter risk data into a risk management database at least quarterly.

	Percentage of Respondents				
How are risks communicated from business unit leaders to senior executives?	**Full Sample**	**Largest Organizations (Revenues >$1B)**	**Public Companies**	**Financial Services**	**Not-for-Profit Organizations**
Ad hoc discussions at management meetings	**66.3%**	**52.2%**	**55.7%**	**59.6%**	**80.0%**
Scheduled agenda discussion at management meetings	**33.7%**	**47.5%**	**42.9%**	**42.6%**	**26.7%**
Written reports prepared either monthly, quarterly, or annually	**36.5%**	**67.8%**	**71.4%**	**58.5%**	**15.6%**
Risk data is entered into a risk management database at least quarterly	**10.2%**	**18.7%**	**20.0%**	**12.9%**	**2.2%**

Note: Respondents could select more than one choice. Thus, the sum of the percentages exceeds 100%.

Overall, there seems to be room for improvement in the nature of risk information being reported to senior executives. Almost half (44.1%) of our respondents admitted that they were "not at all satisfied" or were "minimally" satisfied with the nature and extent of the reporting of key risk indicators to senior executives. Similar levels of dissatisfaction, 43.0% and 43.4%, were observed in our 2012 and 2011 reports, respectively. In contrast, only 28.8% are "mostly satisfied" or "very satisfied" with the nature and extent of reporting of key risk indicators to senior executives.

Back To Agenda



Results are very different, however, for the largest organizations where almost half (42.6%) of the respondents are mostly satisfied or very satisfied with the nature and extent of reporting of key risk indicators to senior executives regarding the entity's top risk exposures. Just over one-third of public companies and financial services organizations report those levels of satisfaction with this type of reporting. Levels of satisfaction are lowest for not-for-profits where 47.8% are not-at-all or only minimally satisfied with the nature and extent of their reporting of key risk indicators, which actually represents a noticeable improvement compared to 62.7% in 2012.

Over half of the respondents are dissatisfied with the nature and extent of reporting of key risk indicators to senior executives regarding the entity's top risk exposures.

For the subset of publicly traded companies, we asked about the extent to which the organization's public disclosures of risks in their Form 10-K filing had increased in the past five years. We found that almost one-third (29.6%) believed their disclosures had changed "mostly" while an additional 18.3% believed their disclosures had changed "extensively." We find these rates of change in disclosure noteworthy given that those same organizations indicated that the extent to which the volume and complexity of risks had increased over the past five years was "mostly" for 31.5% and "extensively" for 24.7%. Thus, the realization that the organization's risk profile has changed is also affecting its risk disclosures in the Form 10-K.

Back To Agenda

Board of Director Involvement in Enterprise Risk Oversight

Regulators and other corporate governance proponents have placed a number of expectations on boards for effective risk oversight. The New York Stock Exchange (NYSE) Governance Rules place responsibility for risk oversight on the audit committee, while credit rating agencies, such as Standard & Poor's, evaluate the engagement of the board in risk oversight as part of their credit rating assessments. The SEC requires boards of public companies to disclose in proxy statements to shareholders the board's role in risk oversight, and the Dodd-Frank legislation imposes requirements for boards of the largest financial institutions to create board-level risk committees. While many of these are targeted explicitly to public companies, expectations are gradually being recognized as best practices for board governance causing a trickle-down effect on all types of organizations, including not-for-profits.

To shed some insight into current practices, we asked respondents to provide information about how their organization's board of directors has delegated risk oversight to board level committees. We found that only 41.4% of the respondents in the full sample indicated that their boards have formally assigned risk oversight responsibility to a board committee. This is noticeably different from the largest organizations, public companies, and financial services organizations where 71.2%, 68.6%, and 63.8% respectively, of those organizations' boards have assigned to a board committee formal responsibility for overseeing management's risk assessment and risk management processes. For those boards that have assigned formal risk oversight to a committee, most (54.9%) are assigning that task to the audit committee. About a quarter of firms assign oversight to a risk committee. The largest organizations and public companies are most likely to assign that to the audit committee.

Just under half of the boards in the full sample have formally assigned risk oversight responsibilities to a board committee; however, board delegation to a committee is noticeably more common for the largest organizations, public companies, and financial services organizations.

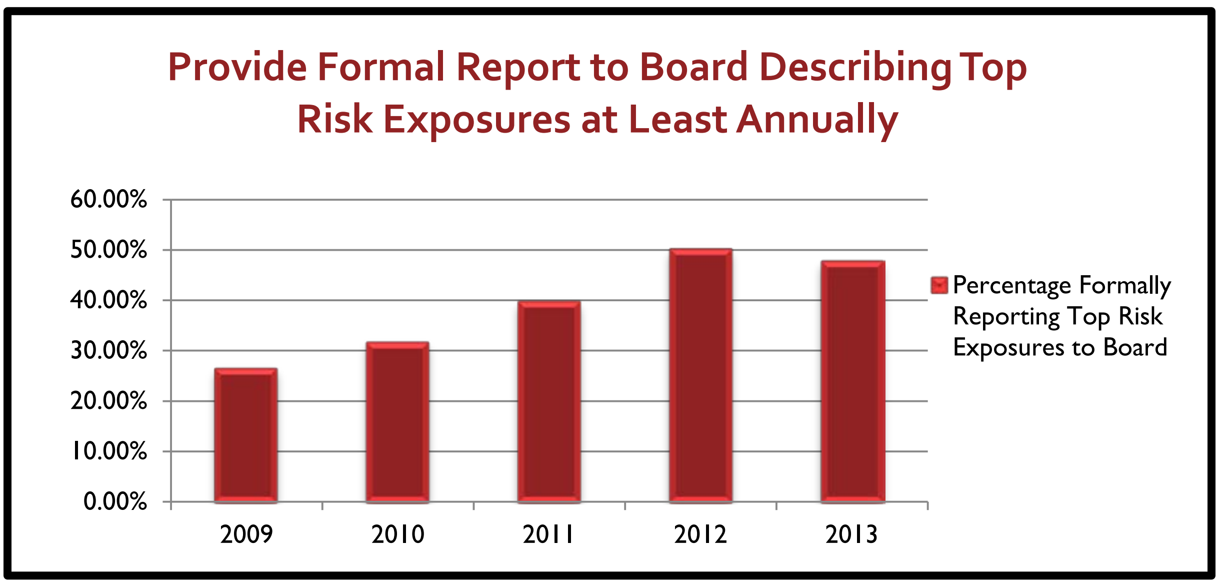
	Percentage of Respondents				
If board delegates formal responsibility of risk oversight to a subcommittee, which committee is responsible?	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Audit committee	54.9%	77.3%	74.5%	53.2%	47.1%
Risk committee	21.7%	18.2%	17.6%	29.0%	17.6%
Executive committee	15.4%	2.3%	2.0%	9.7%	23.5%

Back To Agenda

In light of these formal committee assignments for oversight of the enterprise's risk management processes, we asked to what extent the full board reviews and discusses in a specific meeting the top risk exposures facing the organizations. Surprisingly, just over half (57.4%) of those in the full sample indicate that the full board has those discussions on a formal basis. However, as shown by the table below, boards of the largest organizations, public companies and financial services organizations are much more likely to discuss in a specific meeting the top risk exposures facing the organization.

	Percentage of Respondents				
Percentage of organizations where the	**Full Sample**	**Largest Organizations (Revenues >$1B)**	**Public Companies**	**Financial Services**	**Not-for-Profit Organizations**
Board of Directors reviews and discusses in a specific meeting the top risk exposures facing the organization	57.4%	73.8%	76.7%	71.6%	34.8%

As illustrated by the graph below, just under half of the organizations provide a formal report at least annually to the board of directors or one of its committees describing the entity's top risk exposures. However, this number still represents a significant increase over the last five years. In 2009, we found that 26.3% of organizations provided that kind of information to the board at least annually. By 2013, that had risen to 47.5% of organizations surveyed.



As illustrated by the chart on the next page, an overwhelming percentage (85.0%) of large organizations and public companies (84.9%) formally report top risk exposures to the board of directors or one of its committees at least annually. This is in line with what we found in our

Back To Agenda

2012 study where 85.2% of large organizations and 79.2% of public companies provided those reports to the board. In 2013, just over two-thirds of financial services organizations formally report top risk exposures to the board; however just under one-third of not-for-profit organizations do so.

	Percentage of Respondents				
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-For-Profit Organizations
Percentage that formally report top risk exposures to the board at least annually	47.5%	85.0%	84.9%	68.1%	30.4%

We also asked about the number of risk exposures that are typically presented to the board or one of its committees. As illustrated in the table below, about half of the full sample and not-for-profit organizations report less than 5 risk exposures to the board. However, more than two-thirds of the large organizations, public companies, and financial services organizations formally report between 5 and 19 risks to the board.

	Percentage of Respondents				
Percentage of organizations reporting the following number of risk exposures to the board of directors or one of its committees:	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Less than 5 risks	50.3%	11.7%	13.7%	32.6%	65.9%
Between 5 and 9 risks	20.1%	23.3%	31.5%	23.9%	15.9%
Between 10 and 19 risks	23.1%	53.3%	46.6%	34.8%	11.4%
More than 20 risks	6.5%	11.7%	8.2%	8.7%	6.8%

In a separate question, we asked about the extent that the board formally discusses the top risk exposures facing the organization when the board discusses the organization's strategic plan. We found that only 40.4% indicated those discussions about top risk exposures in the context of strategic planning are "mostly" or "extensively." When we separately analyzed this for the largest organizations, public companies, and financial services entities, we did find that those boards were somewhat more likely to integrate their discussions of the top risk exposures as part of their discussion of the organization's strategic plan as documented in the table on the next page.

	Percentage of Respondents				
Extent to which top risk exposures are formally discussed by the Board of Directors when they discuss the organization's strategic plan	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
"Extensively"	12.0%	20.0%	18.1%	14.7%	10.9%
"Mostly"	28.4%	36.7%	30.6%	35.8%	19.6%
Combined	40.4%	56.7%	48.7%	50.5%	30.5%

Despite the higher percentages of boards that discuss risk exposures in the context of strategic planning for the largest organizations and public companies, the fact that almost half of those organizations are not having these kinds of discussions suggests that there is still room for improvement in how risk oversight efforts and strategic planning are integrated. Given the fundamental relationship between risk and return, it would seem that these kinds of discussions should occur in all organizations. Thus, there appears to be a continued disconnect between the oversight of risks and the design and execution of the organization's strategic plan.

Integration of Risk Oversight and Strategic Planning

The increasingly competitive nature of many industries nowadays highlights the importance of more explicit focus on the interrelationship of risk taking and strategy execution. We asked several questions to obtain information about the intersection of risk management and strategy in the organizations we surveyed.

We found that 38.2% of organizations in our full sample currently do no formal assessments of emerging strategic, market, or industry risks. The lack of these emerging risk assessments is greatest for not-for-profit organizations where we found that 52.2% of those organizations have no formal assessments of those types of risks. The largest organizations, public companies, and financial services organizations are much more likely to consider emerging strategic, market, and industry risks, where only 16.4%, 19.2%, and 20.0% of those organizations, respectively, have no formal assessments of these kinds of emerging risks.

Of those in the full sample that do attempt to assess strategic risks, most do so in a predominantly qualitative (26.2%) manner or by using a blend of qualitative and quantitative assessment tools (24.0%). This dominance of a qualitative approach holds true for the subgroups (largest organizations, public companies, and financial services entities) as well.

Over one-third of organizations in our survey do no formal assessments of strategic, market, or industry risks.

Similarly, 35.5% of those surveyed also fail to conduct any formal assessments of operational/supply chain related risks and 35.1% fail to formally assess reputational and political risks.

The risk areas with greater frequencies of formal assessment appear to be those related to financing/investing/financial reporting risks, information technology risks, and legal/regulatory risks. For financing/investing/financial reporting risks, 72.7% of respondents indicated that they do some form of assessment, with 42.6% indicating that their assessments of those risks are mostly quantitative. For the remaining categories, the percentages of respondents who formally assess information technology risks and legal/regulatory risks are a little higher than the percentage of respondents assessing strategic, operational/supply chain, and reputational/political risks. The assessments tend to be mostly qualitative assessments, not quantitative assessments. This is what we found in all of our previous reports as well.

Even though the majority of organizations appear to be fairly unstructured, casual, and somewhat *ad hoc* in how they identify, assess, and monitor key risk exposures, responses to several questions indicate a high level of confidence that risks are being strategically managed in an effective manner. We asked several questions to gain a sense for how risk exposures are integrated into an organization's strategy execution. Over half of our respondents believe that

Back To Agenda

existing risk exposures are considered "mostly" or "extensively" when evaluating possible new strategic initiatives and about one-third of the respondents believe that their organization has articulated its appetite for or tolerance of risks in the context of strategic planning "mostly" or "extensively." In addition, 36.0% of the respondents indicate that risk exposures are considered "mostly" or "extensively" when making capital allocations to functional units.

These results suggest that there is still opportunity for improvement in better integrating risk oversight with strategic planning. Given the importance of considering the relationship of risk and return, it would seem that all organizations should "extensively" consider existing risk exposures in the context of strategic planning. Similarly, more than two-thirds of organizations in our full sample have not articulated an appetite for risk-taking in the context of strategic planning. Without doing so, how do boards and senior executives know whether the extent of risk-taking in the pursuit of strategic objectives is within the bounds of acceptability for key stakeholders?

	Percentages		
Extent that	**"Mostly"**	**"Extensively"**	**Combined**
Existing risk exposures are considered when evaluating possible new strategic initiatives	**33.6%**	**16.8%**	**50.4%**
Organization has articulated its appetite for or tolerance of risks in the context of strategic planning	**24.5%**	**7.2%**	**31.7%**
Risk exposures are considered when making capital allocations to functional units	**24.7%**	**11.3%**	**36.0%**

Responses to the question about the extent respondents believe the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage provide insight about how risk management is viewed in those organizations. Almost two-thirds (65.1%) responded to that question by indicating "not at all" or "minimally." Interestingly, the assessment of the strategic value of the organization's risk management process was relatively low and not significantly different for the largest organizations, public companies, and financial services organizations. Thus, there may be a lack of understanding of how an effective ERM process can be informative to management as they execute their strategic plan, and/or the organization has not developed its process well enough to consider it a proprietary strategic tool.

Back To Agenda

	Not at All	Minimally	Somewhat	Mostly	Extensively
To what extent do you believe the organization's risk management process is a proprietary strategic tool that provides unique competitive advantage?	35.5%	29.6%	20.2%	10.0%	4.7%

Linkage of Risk Oversight and Compensation

The linkage between executive compensation and risk oversight is also receiving more attention. In fact, the SEC's proxy disclosure rules require public companies to provide information about the relation between compensation policies and risk management and risk-taking incentives that can affect the company's risks, if those compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the company. Shareholder activism and negative media attention are also creating more pressure for boards of directors to consider how existing compensation arrangements might contribute to excessive risk-taking on the part of management.

Emerging best practices are identifying ways in which boards can more explicitly embed risk oversight into management compensation structures. Ultimately, the goal is to link risk management capabilities to individual performance assessments so that the relationship between risk and return is more explicit. For enterprise-wide risk oversight to be sustainable for the long term, members of the management team must be incented to embrace this holistic approach to risk oversight. These incentives should be designed to encourage proactive management of risks under their areas of responsibility as well as to enhance timely and transparent sharing of risk knowledge.

We asked respondents about the extent to which risk management activities are an explicit component of determining management performance compensation. We found that in 32.4% of the organizations surveyed, risk management is "not at all" a component of the performance compensation and for another 30.4% the component is only "minimally" considered. Thus, in almost two-thirds of the organizations surveyed, the extent that risk management activities are an explicit component in determining management compensation is non-existent or minimal. The outcomes shown in the table on the next page actually represent a noticeable increase in some of the organization categories compared to the results from the 2012 survey. Many organizations are now less likely to consider risk management activities as a determinant for performance compensation.

To what extent are risk management activities an explicit component in determining management performance compensation?	Percentage of Respondents Selecting "Not-at-All" or "Minimally"				
	Full Sample	Largest Organizations (Revenues >$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Not at All	32.4%	24.6%	26.0%	23.2%	45.7%
Minimally	30.4%	31.1%	28.8%	23.2%	30.4%
Combined	62.8%	55.7%	54.8%	46.4%	76.1%

While the largest organizations, public companies, and financial services entities are more likely to factor risk management activities into performance compensation, about half of those subsets in our sample are "not at all" or only "minimally" doing so as illustrated by the table above. The increasing focus on compensation and risk-taking should lead more organizations over time to consider modifications to their compensation policies and procedures.

Most organizations do not include risk management activities as an explicit component in determining management compensation.

Back To Agenda

Barriers to Progress

While our analysis suggests that organizations have made advancements in how they identify, assess, and manage key risks, there is still plenty of room for improvement. In some ways it is encouraging to see the progress; however, given the significant global financial, economic, and political challenges that have been in play in recent years, it is discouraging not to see more organizations making progress in developing robust, systematic processes to oversee an entity's most significant risk exposures. There appear to be several perceived impediments that prevent management from taking the necessary actions to strengthen their approach to risk oversight.

We asked respondents whose organizations have not yet implemented an enterprise-wide risk management process to provide some perspective on that decision. While respondents could indicate more than one impediment, the most common response (in 51.8% of the cases) was that they believe "risks are monitored in other ways besides ERM." This strikes us as interesting and paradoxical, given the lack of risk oversight infrastructure highlighted by the data discussed in the prior pages of this report. It begs the question, *"so what processes are in place to help management and the board keep its eyes on emerging, strategic risks?"*

The next most common responses were "no requests to change our risk management approach" and "do not see benefits exceeding costs," noted by 37.6% and 28.4%, respectively, of respondents in the full sample. Twenty-seven percent of those same respondents also noted that there are "too many pressing needs" while 21.8% reported a belief that they had "no one to lead the effort."

These findings are similar to those reported in our earlier reports. So, there has been little change in the nature of barriers to embracing an ERM approach to risk oversight. Instead, there appears to be a strong confidence that existing risk management processes are adequate to address the risks that may arise, even though just under half of the full sample describe their risk oversight processes as very immature or minimally mature, and a large proportion of our respondents indicated an overall dissatisfaction with their current approach to the reporting of information to senior executives about top risk exposures.

Respondents provided more depth about some of the primary barriers. The table on the next page contains a summary of those that the respondents described as a "barrier" or "significant barrier." Competing priorities and a lack of sufficient resources appear to be the most common barriers to adopting an ERM approach to risk oversight. A lack of perceived value and a lack of visible ERM leadership among boards and senior executives also affect ERM implementation decisions. The ordering of these most common barriers is consistent with the ordering of results provided in our 2012, 2011, 2010, and 2009 reports. The results are also very similar for each of the subsets we examined (largest organizations, public companies only, and financial services). A higher percentage of not-for-profits (65.2%) related to the full sample noted that competing priorities are the primary barrier to their embrace of ERM.

	Percentage Believing Barrier is		
Description of Barrier	"Barrier"	"Significant Barrier"	Combined Percentage
Competing priorities	29.5%	21.5%	51.0%
Insufficient resources	27.6%	15.4%	43.0%
Lack of perceived value	24.9%	16.0%	40.9%
Perception ERM adds bureaucracy	17.7%	14.8%	32.5%
Lack of board or senior executive ERM leadership	16.2%	14.2%	30.4%
Legal or regulatory barriers	1.9%	1.3%	3.2%

Most organizations (66.4%) have not provided or only minimally provided training and guidance on risk management in the past two years for senior executives or key business unit leaders. This is similar for the largest organizations (54.1%), public companies (56.2%), and financial services (51.0%). Training is least likely to be provided in not-for-profit organizations (73.9% provided no or only minimal training and guidance). Thus, while improvements have been made in the manner in which organizations oversee their enterprise-wide risks, the lack of robustness in general may be due to a lack of understanding of the key components of an effective enterprise-wide approach to risk oversight that some basic training and education might provide.

Summary

While we do notice a trend towards more advanced enterprise-wide risk oversight from 2009 through 2013, there continue to be opportunities for improvement in the robustness of those processes. Organizations agree that the volume and complexity of risks they face continue to increase over time and they often encounter significant operational surprises. What we do observe is that the largest organizations, public companies, and financial services entities are more advanced in their risk oversight processes than the full sample of organizations. Thus, enterprise-wide risk management maturity does vary across different sizes and types of firms.

Results from all five years of our surveys continue to find that the approach to risk oversight in many organizations continues to be *ad hoc* and informal, with little recognized need for strengthened approaches to tracking and monitoring key risk exposures, especially emerging risks related to strategy. Even the large organizations, public companies, and financial services organizations admit that their risk management oversights are less than mature. The results from the survey suggest there may be a need for some entities to evaluate existing risk management processes in light of perceived increases in the volume and complexity of risks and operational surprises being experienced by management.

There may be opportunities to better connect risk oversight and strategic planning efforts. Almost half admitted that they were "not at all" or "minimally" satisfied with the nature and extent of reporting of key risk indicators to senior executives regarding top risk exposures.

There are a number of resources available to executives and boards to help them understand their responsibilities for risk oversight and effective tools and techniques to help them in those activities (see for example, the ERM Initiative's Web site – http://www.erm.ncsu.edu). As expectations for more effective enterprise-wide risk oversight continue to unfold, it will be interesting to continue to track changes in risk oversight procedures over time.

Back To Agenda

Appendix A: Description of Enterprise Risk Management (ERM)

An enterprise risk management (ERM) approach emphasizes a top-down view of the inventory of key risk exposures potentially affecting an enterprise's ability to achieve its objectives. Boards and senior executives seek to obtain knowledge of these risks with the goal of preserving and enhancing stakeholder value.

Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) ***Enterprise Risk Management – Integrated Framework*** defines ERM as follows:

> *"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."*
>
> COSO's ***Enterprise Risk Management – Integrated Framework*** (2004)

ERM is a formal process that is enterprise-wide and addresses risks in a portfolio manner, where interactions among risks are considered.

Because the term "ERM" is used often, but not necessarily consistently understood, we provided respondents (as we did for the 2009, 2010, 2011 and 2012 reports) COSO's definition of enterprise risk management.

Back To Agenda

Author Bios

All three authors serve in leadership positions within the Enterprise Risk Management (ERM) Initiative at NC State University (http://www.erm.ncsu.edu) The ERM Initiative provides thought leadership about ERM practices and their integration with strategy and corporate governance. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance.

Mark S. Beasley, CPA, Ph.D., is the Deloitte Professor of Enterprise Risk Management and Director of the ERM Initiative at NC State University. He specializes in the study of enterprise risk management, corporate governance, financial statement fraud, and the financial reporting process. He recently completed over seven years of service as a board member of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and has served on the International Corporate Governance Network and Yale University's Millstein Center on Corporate Governance's Task Force on Corporate Risk Oversight and has participated with The Conference Board's ERM Working Group. He earned his Ph.D. at Michigan State University.

Bruce C. Branson, Ph.D., is Professor of accounting and Associate Director of the ERM Initiative in the Poole College of Management at NC State University. His teaching and research is focused on enterprise risk management and financial reporting, and includes an interest in the use of derivative securities and other hedging strategies for risk reduction/risk sharing. He also has examined the use of various forecasting and simulation tools to form expectations used in financial statement audits and in earnings forecasting research. He earned his Ph.D. at Florida State University.

Bonnie V. Hancock, M.S., is the Executive Director of the ERM Initiative at NC State University where she also teaches graduate and undergraduate courses in the Poole College of Management. Her background includes various executive positions at Progress Energy where she has served as president of Progress Fuels (a Progress Energy subsidiary with more than $1 billion in assets), senior vice president of finance and information technology, vice president of strategy and vice president of accounting and controller. She currently serves on the following corporate boards: AgFirst Farm Credit Bank where she chairs the risk policy committee, Office of Mortgage Settlement Oversight where she chairs the audit committee, and Powell Industries, a publicly traded company based in Houston, Texas, where she serves on both the compensation and audit committees.

Contact us at: erm_initiative@ncsu.edu or 919.513.0901.

NC STATE UNIVERSITY POOLE COLLEGE OF MANAGEMENT ERM ENTERPRISE RISK MANAGEMENT

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	IV.a.
Item Description	Chief Institutional Integrity Officer/Name Change
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	IV.b.
Item Description	State of the Office
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	IV.c.
Item Description	Staffing/Succession Planning
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	IV.d.
Item Description	Provider Reviews
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	IV.e.
Item Description	2014 Compliance Workplan
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	IV.f.
Item Description	Initiatives in Division of Health Sciences
Action Requested	Information
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Mr. Mark Copeland
Agenda Item	V.
Item Description	Other Business
Action Requested	
Disposition	
Notes	

Back To Agenda

East Carolina University
Board of Trustees
July 17, 2014
Audit Committee

Session	Audit
Responsible Person	Ms. Stacie Tronto
Agenda Item	VI.
Item Description	Closed Session
Action Requested	
Disposition	
Notes	

Back To Agenda

ECU BOT AUDIT COMMITTEE

Motion for Closed Session

I move that we go into Closed Session:

1. **To prevent the disclosure of confidential information under N.C. General Statutes §126-22 to §126-30 (personnel information);**

2. **To plan, conduct or hear reports concerning investigations of alleged criminal conduct;**

3. **To prevent the disclosure of information that is privileged or confidential pursuant to law or not considered a public record within the meaning of Chapter 132 of the General Statutes, specifically:**

   to prevent the disclosure of confidential information under N.C. General Statutes § 116-40.7 (UNC Internal Audit information) and/or § 143-748 (all Internal Audit work papers for state agencies).

Back To Agenda