I. Approval of November 19, 2015 Minutes  Action

II. ECU BOT Travel - Mr. Kel Normann
   A. Report of BOT Travel Expenses  Information
   B. Draft ECU BOT Travel Reimbursement Guidelines  Action

III. Office of Internal Audit – Mr. Wayne Poole
    A. Dashboard  Information
    B. Quality Assurance Review  Information

IV. Health Sciences Report - Dr. Ken DeVille  Information

V. NC State Ethics Commission Opinion Letters - Dr. Ken DeVille  Action

VI. Enterprise Risk Management - Mr. Tim Wiseman  Information

VII. Other Business

VIII. Closed Session
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<td>Agenda Item</td>
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<td>Approval of minutes – November 19, 2015</td>
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Minutes from ECU BOT Audit Committee  
November 19, 2015  
Mendenhall Student Center

The Audit Committee of the ECU Board of Trustees met in regular session on November 19, 2015 at 9:00am in the Mendenhall Student Center on the campus of East Carolina University. Committee members present included Kel Normann (Chair), Vern Davenport, Mark Copeland, and Terry Yeargan.

Other board members present included Board Chair Steve Jones, Kieran Shanahan, Deborah Davis, Max Joyner, Danny Scott, Leigh Fanning, Edwin Clark, and Mark Matulewicz (SGA).


Kel Normann, Chair of the Audit Committee, convened the meeting at 9:00AM. Mr. Normann asked for the approval of the minutes of the September 24, 2015 audit committee meeting.

**Action Item:** The minutes of the September 24, 2015 audit committee meeting were approved with no changes.

Mr. Normann read the conflict of interest provisions as required by the State Government Ethics Act. Mr. Normann asked if anyone would like to declare or report an actual or perceived conflict of interest. None were reported.

**North Carolina State Auditor**, the Honorable Beth Wood, presented remarks.

Ms. Wood stated that her office has issued an unqualified opinion on the University’s FY 2015 financial statements. The audit revealed no proposed adjustments and no deficiencies in internal controls over financial reporting. Ms. Wood stated that ECU has a phenomenal Financial Services team and that our Internal Audit function is well-respected for its leadership role within the UNC system.

Ms. Dee Bowling, Ms. Stephanie Coleman, and Ms. Robin Mayo presented information regarding Financial Services Compliance Management.

Ms. Bowling advised the committee that the University is operating in an increasingly regulated environment and has a large number of compliance responsibilities and risks.

Ms. Coleman presented a detailed overview of the Financial Services Compliance Management function. This unit is responsible for overseeing a number of compliance areas, including e-commerce, Payment Card Industry Data Security Standard (PCI-DSS) standards compliance, non-student and non-patient receivables (currently valued at $4.4M), tax compliance, post-bond issue compliance, and numerous other areas.

Ms. Mayo presented information on the University’s PCI compliance efforts. She stated that the University has been recognized by UNC-GA and by its external network penetration tester for its robust PCI compliance efforts, which are crucial to ensuring that the University protects cardholder data and retains the authorization by our bank to accept payments. Because of the volume and types of payments accepted, ECU must comply with the most stringent level of PCI standards. The University has invested over $315K in PCI compliance over the last two years, and anticipates another $100K investment in the next 12 months. PCI compliance is a partnership between Financial Services, Materials Management, ITCS, Internal Audit, and many others on campus. The University still has some gaps to address, and a projected remediation date of January 2016.

Mr. Davenport asked the status of ECU’s conversion to the new EMV payment card terminals. Ms. Mayo reported that approximately 99% of the terminals on campus have been converted. She reported that there are
also a couple of areas in which the software that processes payments needs to be upgraded to process the EMV transactions. These units are working with their software vendors on this.

Mr. Yeargan asked whether or not ECU benchmarks and compares practices with other schools. Ms. Mayo reported that the University does work with other schools in the state to compare practices, and that ECU, NCSU, and UNC-CH are far ahead of the other Universities in the PCI compliance area. She also stated that the University is able to benchmark and compare best practices with other Universities across the nation via email listservs and other means.

Mr. Tim Wiseman provided the Enterprise Risk Management (ERM) update. Mr. Wiseman presented an update on the enterprise risk management activity. Mr. Wiseman stated that ERM’s consulting role has expanded, both within and outside the University. For example, Mr. Wiseman, and personnel from HR, recently presented information on risks associated with volunteers at a national conference. Mr. Wiseman also consulted with UNC-Charlotte regarding that school’s ERM model.

Mr. Wiseman reported that the University Youth Programs Task Force has made progress towards developing and implementing standard processes for camps, clinics, and other youth programs on campus, as a result of recommendations made by Internal Audit. A workshop for faculty and staff who work with Youth Programs was held in October, and was well-attended and well-received. Next steps are publication of a formal regulation, launch of a new web site, and hiring of a new position to oversee these programs across the University.

Ms. Stacie Tronto provided the Internal Audit update. Ms. Tronto told the committee that Ken DeVille and Michelle Evans from Health Sciences Compliance had articles published in two recent healthcare compliance journals. This is an indicator of the expertise and professionalism of the staff on the University’s healthcare compliance team.

Ms. Tronto presented a revised Internal Audit Charter. The changes reflect the revised Institute of Internal Auditors (IIA) mission of Internal Audit, as well as the change in job title from Director to Chief Audit Officer.

Action Item: The committee unanimously approved the revised charter as written.

Ms. Tronto presented a revised BOT Audit Committee Charter. The changes reflect the change in job title from Director to Chief Audit Officer, and removed a “background” section which was deemed unnecessary.

Action Item: The committee unanimously approved the revised charter as written.

Ms. Tronto presented the Annual Report of Internal Audit Activities for the 2014-2015 fiscal year. She highlighted the following:

- The Internal Audit team completed 90% of the annual audit plan for the year (the target is 80%).
- The team provided shared services to UNC-Pembroke and Elizabeth City State University.
- University management made satisfactory progress on 100% of the corrective actions/recommendations for which Internal Audit completed a follow-up review during the year.
- Ms. Tronto stated that the Internal Audit activity is focusing heavily on the use of data analytics in order to make audits more effective and efficient.

Mr. Normann stated that the committee truly appreciates the efforts of the IA team and stated that Ms. Tronto is a tireless worker.
Ms. Norma Epley presented the Research Compliance update. Ms. Epley presented information on some significant proposed changes to the federal regulations related to the protection of human research subjects. ECU has been assigned to take the lead in coordinating the UNC system’s response to the proposed changes, which will be submitted in the next two weeks. The changes are vast, and even change the basic definition of human research, so that it includes research using unidentifiable bio-specimens. Ms. Epley stated that ECU has already made some changes to ensure compliance with the proposed regulation changes, and has plans for additional changes.

Ms. Epley provided background information on the University’s Institutional Review Board (IRB). This is a group comprised of physicians, nurses, scientists, non-scientists, legal experts, and others. Their role is to review all proposals for human subjects research to ensure that they follow appropriate ethical standards and that the research subjects’ interests are protected. Human subjects research endeavors cannot move forward without IRB approval.

Ms. Epley also reported that in the last five years, ECU has had no instances of serious or continuing non-compliance that had to be reported to the federal government.

Ms. Donna Payne presented an update on a State Ethics Matter. Ms. Payne advised that one additional BOT member conflict of interest evaluation letter has been received from the state. These evaluations are required by the State Ethics Act and are filed with the BOT minutes.

Other Business
Mr. Normann stated that over the last several weeks, he and Board Chair Jones have been discussing board member travel expenses. This came about because of a conversation about the budgeted expenses for the Chancellor search. Mr. Normann stated that there was a 2001 policy letter that addressed board member expenses, but that some members may not have been aware of it. He also stated that the expenses for board member travel have increased since fiscal year 2010, based on data that was provided by Internal Audit.

The committee engaged in a significant amount of discussion on board member travel. All committee members (and other board members present) expressed agreement on their role as stewards of the University and the need to ensure appropriate controls are in place. The committee members (and others present) also agreed on the need for the board members to be present and engaged, and they did not want to discourage the University from having board members from out of state. The members agreed that the Chancellor or designee and the Board Chair should have the authority to approve expenses for specific needs of the University that fall outside the normal board meetings. Ms. Davis added that if these occasions involved the travel of the Board Chair, then someone else, perhaps the Chair of the Audit Committee, should approve that travel. The other members agreed.

Action Item: The committee approved a motion to present a new document titled Operational Guidelines on Travel Reimbursement for Board of Trustees, for consideration by the full Board of Trustees. The committee proposed that this document become effective immediately, replacing the 2001 policy document, and that it be revised to include the requirement that board member expenses be reviewed by the Audit Committee at each meeting.
Minutes from ECU BOT Audit Committee
November 19, 2015
Mendenhall Student Center

There being no further business, the Audit Committee meeting was adjourned at 10:45 AM.

Respectfully submitted,
Wayne Poole
ECU Office of Internal Audit and Management Advisory Services
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<td>II.A.</td>
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<td>Item Description</td>
<td>Report of BOT Travel Expenses</td>
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<td>Item Description</td>
<td>Draft ECU BOT Travel Reimbursement Guidelines</td>
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Operational Guidelines
Travel Reimbursement for Board of Trustees
November 20, 2015

In general, East Carolina University (ECU) will reimburse reasonable and necessary travel expenses of members of the Board of Trustees in a manner similar to reimbursement practices applicable to ECU employees. Reimbursements will be made for ordinary and necessary travel expenses related to activities with an appropriate business purpose. Trustees are expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds.

ECU will reimburse board members for those travel expenses directly related to and necessary to participate in meetings at which official board business is conducted, plus Commencement. Approved meetings include any regular, special, or emergency meetings of the board or its committees, Commencement, or ECU committees of which the Trustee is a member.

Expenses incurred in conjunction with events not covered above are reimbursable only if participation is approved, in advance, by the Chair of the Board of Trustees and the Chancellor as official university business at which attendance of the board member serves an appropriate business purpose. If the Chair of the Board of Trustees is the trustee who is traveling, then the Chair of the Audit Committee will be the approver.

ECU will reimburse ordinary and necessary expenses for the following:

- Coach class airfare including baggage fees, but not fees for upgraded seats. Airfares can vary depending on distance and timing of reservation. Airfares must be made 15 days in advance of travel. If not made within 15 days, then ECU will only reimburse the amount equal to the amount for 15 day advance fare and BOT member will be responsible for anything over that amount.
- Standard hotel room. The number of reimbursable hotel days is one day for each day of the event for in-state travel and the same number of days plus one for out-of-state travel. For example, regular meetings of the Trustees occur on Thursday and Friday. In-state trustees will be reimbursed for up to two hotel days and out-of-state trustees will be reimbursed for up to three hotel days. Trustees should coordinate hotel accommodations through the Office of the Assistant Secretary to the Board of Trustees to ensure the use of negotiated university rates. If the hotel is no longer needed, cancellation of that room must be made in accordance with the cancellation policy of the hotel. If the cancellation is made outside of the hotel’s policy, the board member is responsible for the cancellation fee.
- Mileage for use of a personal vehicle at applicable IRS rates.
- Rental car (up to a midsize vehicle) including fuel, but not including add-ons such as roadside assistance, collision damage waiver, and similar.
- Parking
- Food, to the extent not otherwise provided. Reimbursement will be consistent with applicable NC travel reimbursement rates. Currently, $8.30 for breakfast, $10.90 for lunch, and $18.70 for dinner.

The division/department/unit requesting the board members’ attendance at an event is responsible for any expenses incurred by the board member. All travel should still be submitted to the Office of the Assistant Secretary for processing. Operationally, some expenses may be paid by state funds and other expenses may be paid by non-state sources, all in accordance with applicable budget guidelines. Eligible expenses will be approved only if they are a reasonable and prudent use of ECU funds.

Travel reimbursement requests (including receipts and documentation) should be submitted by the board member to the Office of the Assistant Secretary within 14 days of travel to allow for timely review, processing and approval in accordance with the university travel reimbursement process. A reimbursement request must be accompanied by appropriate original receipts and paid bills and be submitted in accordance with applicable reimbursement processes.
A report of board travel expenses must be presented at each Audit Committee meeting.
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<td>Office of Internal Audit – Dashbord</td>
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## Internal Audit Dashboard

### Completion of Audit Plan: Completed vs. Planned Audits

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<tr>
<th>Status of Audit Plan</th>
<th>Number of Audits</th>
<th>Percent of Total Plan</th>
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<tbody>
<tr>
<td>Completed</td>
<td>14</td>
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<tr>
<td>In Process</td>
<td>13</td>
<td>32%</td>
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<tr>
<td>Pending</td>
<td>14</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>41</strong></td>
<td><strong>100%</strong></td>
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</table>

**Goal = 80%**

### Staff Utilization: Direct vs. Indirect Hours

- Direct Hours: 71%
- Indirect Hours: 29%

**Goal = 75%**

### Consultations

<table>
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<tr>
<th>Consultations</th>
<th>Number</th>
<th>% of Audit Plan</th>
</tr>
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<tr>
<td></td>
<td>66</td>
<td>18%</td>
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### Management's Corrective Actions

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<tr>
<th>Observations by Division:</th>
<th>Completed</th>
<th>Outstanding</th>
<th>Complete</th>
<th>Outstanding</th>
<th>Pending</th>
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<tr>
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<td>Health Sciences</td>
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<td>33%</td>
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<td>Research and Graduate Studies</td>
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<td>Student Life</td>
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<td>0%</td>
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<tr>
<td>University Advancement</td>
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<td>NA</td>
<td>0</td>
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<tr>
<td><strong>Total Observations</strong></td>
<td><strong>9</strong></td>
<td><strong>3</strong></td>
<td><strong>75%</strong></td>
<td><strong>25%</strong></td>
<td><strong>77</strong></td>
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**Total Percentages**

**Goal = 95%**

As of 01/02/16
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<td>Office of Internal Audit – Quality Assurance Review</td>
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January 20, 2016

Dr. Steve Ballard
Chancellor

Mr. Kel Normann
Chair, Board of Trustees Audit Committee
East Carolina University
Greenville, North Carolina 27858

Re: Management Letter – Internal Audit Quality Assessment Review (J16009)

Dear Dr. Ballard and Mr. Normann:

As you know, the Office of Internal Audit and Management Advisory Services is in the process of undergoing our Quality Assessment Review (QAR), which is required every five years. This is our third assessment (prior assessments were completed in 2006 and 2011). For this cycle we chose, and the Audit Committee agreed, to follow the “Internal Self-Assessment with Independent Validation” model, since it is significantly more cost effective than the full external reviews that we have previously undergone. This management letter is submitted to you as a result of our internal self-assessment.

The principal objectives of the quality assessment are to assess the internal audit activity’s conformance to The Institute of Internal Auditors’ (IIA’s) International Standards for the Professional Practice of Internal Auditing (“Standards”), evaluate the internal audit activity’s effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of the University’s Board of Trustees and management), and identify opportunities to enhance its management and work processes, as well as its value to the University.

The scope of our internal assessment included the Office of Internal Audit’s
- Internal policies and procedures,
- Risk assessment and audit planning processes,
- Audit tools and methodologies,
- Engagement and staff management processes, and
- A representative sample of the internal audit activity’s workpapers and reports.

The external assessment team will be on site in March, 2016 to review our work, interview management and board members, review the results of surveys sent to key stakeholders, and to determine whether or not they agree with the conclusions of our internal self-assessment. We will share
the results of the external assessors’ review as soon as they are available.

**Overall Conformity Opinion**

It is our overall opinion that the Office of Internal Audit and Management Advisory Services generally conforms with the IIA Standards and Code of Ethics. For a detailed list of conformance with individual Standards, please see the attachment to this letter. Our internal quality assessment team identified opportunities for further improvement, which are provided below.

The IIA’s *Quality Assessment Manual* suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.”

- “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards.
- “Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Peer comparison information, and our observations related to noteworthy strengths and potential process improvement opportunities are detailed below.

**Peer Comparisons**

As part of our internal assessment process, we submitted data on our operations, staffing, and productivity to the IIA using the “GAIN” internal audit benchmarking tool. The IIA then provided a report showing how our team compares to other internal audit shops who have submitted the same data. The IIA GAIN benchmarking report compared our office to Internal Audit activities in the Education industry (14 organizations), Healthcare entities (21 organizations), and other internal audit Teams of 6-10 people (76 organizations) across all industries. Compared to these peer groups, the ECU Office of Internal Audit and Management Advisory Services:

1. Has relatively higher experience, more professional certifications among the team members, and lower staff turnover.
2. Has lower total annual costs per auditor.
3. Has a training budget that is larger than our peers (as a percentage of our total costs), even though the total annual costs per auditor are lower.
4. Has a strong staff size (measured by the organization’s revenues, expenses, and assets per auditor).
5. Is more productive compared to our peers in the 6-10 staff size category (measured by number of audits completed annually and by percentage of audit plan completion).

Observations and Recommendations for the Office of Internal Audit

Noteworthy Strength/Best Practice 1: Strong Reporting Relationships with Senior Management and Board of Trustees
Strong partnerships have been created between the Office of Internal Audit, the Audit Committee of the ECU Board of Trustees, and the Chancellor and Vice Chancellors. These relationships are vital to the success of the institution and its governance, risk management, and control. The CAO has direct and open access to the Audit Committee and has been called upon by the Board to provide insight into various areas of concern. The CAO has no impairments to the ability to provide direct and objective inputs and insight to all levels of management. The Audit Committee has been actively engaged in fulfilling the responsibilities identified in its charter.

Noteworthy Strength/Best Practice 2: Strong Collaboration with Other Risk, Assurance, and Compliance-Related Functions
The Office of Internal Audit is actively engaged with the University’s Enterprise Risk Management function, as well as with other compliance, assurance, and monitoring functions across the University. All of these areas report periodically to the Audit Committee of the ECU Board of Trustees, and these offices collaborate to ensure that the University’s highest risk areas are reviewed and addressed without duplication of effort.

Noteworthy Strength/Best Practice 3: Focus on Team Proficiency, Development, and Continuous Improvement
The CAO and the Internal Audit team are very proficient and have a strong focus on continuous development and improvement. The following specific examples were noted during our internal assessment:
- The CAO has developed and implemented a strong program of ongoing monitoring, and a set of benchmarks.
- The CAO has been very deliberate and forward-thinking with regard to identifying areas in which the IA team needed to enhance or develop specific competencies and skills in order to meet the needs of the University. Examples over the past several years include the
development of additional expertise in IT audit, healthcare, computer forensics, data analytics, and "soft skills."

- The team has a very strong focus on staff member proficiency, professional certifications, and continuing professional development. Six of the seven professional audit staff hold at least one relevant professional certification, and the seventh staff member is currently working towards the Certified Internal Auditor designation. Four team members hold multiple relevant certifications.

**Process Improvement Opportunity 1: Quality Assessment Reporting**

The Office of Internal Audit has implemented a strong ongoing review and monitoring program as required by the *Standards*, which includes regular internal reviews and external assessments. The ongoing internal review processes include the following:

- Engagement-level oversight by supervisors and the CAO.
- Monitoring of staff productivity ratios and audit plan completion.
- Frequent dialogue and feedback with management and the board of trustees.
- An annual review of the office’s internal procedures to confirm continued conformance with the *Standards* and identify opportunities to improve operations.

However, the results of the annual internal review of procedures have not been formally communicated with senior management and the board unless significant changes or concerns were noted. More intentional formal reporting of the results of our annual review would strengthen our compliance with the *Standards*.

*Standard* 1320 states: “The Chief Audit Executive must communicate the results of the quality assurance and improvement program to senior management and the board.”

**Recommendation:** Consistent with IIA Practice Advisory 1320-1, at least annually, the Chief Audit Officer should establish a means for communicating internal assessment results for both ongoing and periodic internal assessment efforts to the Chancellor and to the board.

**Plan of Action:** The CAO has already added an item to the office’s annual year-end checklist to ensure that a formal report of our self-assessment activities is provided to the Chancellor and to the ECU BOT Audit Committee. This letter serves as the formal report for the current fiscal year.
Process Improvement Opportunity 2: Evaluation of Ethics-Related Objectives, Programs, and Activities

The Office of Internal Audit has provided feedback to management on ethics-related matters through a number of engagements and consultations. The University currently has a number of codes for various units (such as the Division of Health Sciences, School of Dental Medicine, etc.) and ethics are addressed in the Faculty Manual. However, there is no University-wide code of ethics and some subsets of employees therefore may not be clearly and directly exposed to the University’s expectations in this area.

Standard 2110.A1 states: “The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.”

Recommendation: The Office of Internal Audit should collaborate with senior management and the board to determine if a review of the University’s overall ethics programs and activities warrants consideration in future annual risk-based audit plans.

Plan of Action: The CAO agrees and will consult with the board, senior management, and others during the risk-based audit planning process for next fiscal year. If warranted, a review of the University’s overall ethics programs and activities will be included on the annual audit plan for the fiscal year beginning July 1, 2016.

Conclusion

We appreciate the support extended to us by the University’s senior management and the ECU Board of Trustees. Without such strong support, we would be unable to conform to the Standards or provide meaningful insight and value to the University. Our partnership with you, and with the other compliance, risk, and monitoring offices at the University are vital to the continued success of our institution. We also would like to take this opportunity to publicly thank the outstanding professionals on the Internal Audit team. Their hard work, professionalism, and integrity are top-notch.

If you have any questions or concerns, please do not hesitate to contact us. We will communicate the results of the external assessment team’s review with you this spring. We look forward to working with you in future endeavors.
Respectfully submitted by:

Wayne Poole, MBA, CIA, CISA
Associate Director, Office of Internal Audit

Stacie Tronto, MBA, CISA, CIA, CFE
Chief Audit Officer

Atch: Summary of Conformance for Each Individual Standard

cc: Audit Committee – ECU Board of Trustees
    Dr. Chris Locklear – Chief of Staff
    Dr. Steve Duncan – Assistant Secretary to the ECU Board of Trustees
    Ms. Mary Schulken – Executive Director of Communications, Marketing, and Public Affairs
    Ms. Betsy Bowers – External Assessment Team Leader
    Ms. Suzanne Walker – External Assessment Team Member
    Ms. Dee Bowling – Interim Internal Control Officer
    Ms. Faye Steele – Specialist, Financial Services
    Mr. Tim Wiseman – Assistant Vice Chancellor, ERM
    Ms. Lynne Sanders – Vice President for Compliance and Audit Services, University of North Carolina
    Council of Internal Auditing
    Mr. Ray Whitby, Jr. – NC Office of the State Auditor
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<td>Information and discussion</td>
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</table>
November 13, 2015

Mr. Louis Bissette, Jr., Vice-Chair
UNC Board of Governors
PO Box 2688
Chapel Hills, NC 27515

Re: Evaluation of Statement of Economic Interest Filed By Mr. Mark Copeland
Trustee—East Carolina University

Dear Vice-Chair Bissette:

Our office is in receipt of Mr. Mark Copeland’s 2015 No Change Form and 2014 Statement of Economic Interest as a member of East Carolina University Board of Trustees (“the Trustees”). We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes (“N.C.G.S.”), also known as the State Government Ethics Act.

We did not find an actual conflict of interest, but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.

N.C.G.S. Chapter 116 provides for the development of a coordinated system of higher education known as the University of North Carolina, a public, multi-campus university governed by the Board of Governors (“the Board”). Each constituent institution of the University has a board of trustees that advises the chancellor of that institution and the Board. In addition, the Board has delegated to each board of trustees the power to adopt personnel policies and appoint, promote, and establish the compensation of the institution’s employees; establish and supervise the institution’s athletic program; determine student admission and graduation standards; approve campus capital construction projects, including the selection of architects and the approval of building sites; approve or recommend the acquisition and disposition of real property interests according to the property’s value; and manage the institution’s endowment and trust funds.

The State Government Ethics Act establishes ethical standards for certain public servants, including conflict of interest standards. N.C.G.S. §138A-31 prohibits public servants from using their positions for their financial benefit or for the benefit of a member of their extended family or a business with which they are associated. N.C.G.S. §138A-36(a) prohibits public servants from participating in certain official actions from which the public servant, his or her client(s), a member of the public servant’s extended family, or a business or non-profit with which the public servant or a member of the public servant’s immediate family is associated may receive a reasonably foreseeable financial benefit.
Mr. Copeland is the Managing Partner of Ernst & Young, LLP in Charlotte, NC. He is also on the Board of Directors for the ECU Foundation. In light of these interests, Mr. Copeland should exercise appropriate caution in the performance of his public duties should Ernst and Young or the ECU Foundation come before the Board for official action or otherwise seek to conduct business with the University.

In addition to the conflicts standards noted above, N.C.G.S. §138A-32 prohibits public servants from accepting gifts, directly or indirectly (1) from anyone in return for being influenced in the discharge of their official responsibilities, (2) from a lobbyist or lobbyist principal, or (3) from a person or entity which is doing or seeking to do business with the public servant’s agency, is regulated or controlled by the public servant’s agency, or has particular financial interests that may be affected by the public servant’s official actions. Exceptions to the gifts restrictions are set out in N.C.G.S. §138A-32(e).

Pursuant to N.C.G.S. 138A-15(c), when an actual or potential conflict of interest is cited by the Commission under N.C.G.S. 138A-24(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board’s chair as often as necessary to remind all members of the conflict and to help ensure compliance with the State Government Ethics Act.

Finally, the State Government Ethics Act mandates that all public servants attend an ethics and lobbying education presentation. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the State Government Ethics Act.

Sincerely,

Diana Latta
SEI Unit

cc: Mr. Mark Copeland
    Mr. Kenneth Deville, Ethics Liaison
    Chairman of the Board

Attachment: Ethics Education Flyer
November 13, 2015

Mr. Louis Bissette, Jr., Vice-Chair
UNC Board of Governors
PO Box 2688
Chapel Hills, NC 27515

Re: Evaluation of Statement of Economic Interest Filed By Mr. Robert B. Plybon
Trustee—East Carolina University

Dear Vice-Chair Bissette:

Our office is in receipt of Mr. Robert B. Plybon’s 2015 No Change Form and 2014 Statement of Economic Interest as a member of East Carolina University Board of Trustees (“the Trustees”). We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes (“N.C.G.S.”), also known as the State Government Ethics Act.

We did not find an actual conflict of interest, but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.

N.C.G.S. Chapter 116 provides for the development of a coordinated system of higher education known as the University of North Carolina, a public, multi-campus university governed by the Board of Governors (“the Board”). Each constituent institution of the University has a board of trustees that advises the chancellor of that institution and the Board. In addition, the Board has delegated to each board of trustees the power to adopt personnel policies and appoint, promote, and establish the compensation of the institution’s employees; establish and supervise the institution’s athletic program; determine student admission and graduation standards; approve campus capital construction projects, including the selection of architects and the approval of building sites; approve or recommend the acquisition and disposition of real property interests according to the property’s value; and manage the institution’s endowment and trust funds.

The State Government Ethics Act establishes ethical standards for certain public servants, including conflict of interest standards. N.C.G.S. §138A-31 prohibits public servants from using their positions for their financial benefit or for the benefit of a member of their extended family or a business with which they are associated. N.C.G.S. §138A-36(a) prohibits public servants from participating in certain official actions from which the public servant, his or her client(s), a member of the public servant’s extended family, or a business or non-profit with which the public servant or a member of the public servant’s immediate family is associated may receive a reasonably foreseeable financial benefit.
Mr. Plybon is the CEO of Plybon & Associates. He has disclosed that he and his spouse are on the Board for the ECU Foundation and that he and his wife received commissions and dividends from various companies, including several business in the insurance industry. Mr. Plybon should exercise appropriate caution in the performance of his public duties should issues regarding the ECU Foundation or entities in which he or his wife have a financial interest, come before the Board for official action or otherwise seek to conduct business with the University.

In addition to the conflicts standards noted above, N.C.G.S. §138A-32 prohibits public servants from accepting gifts, directly or indirectly (1) from anyone in return for being influenced in the discharge of their official responsibilities, (2) from a lobbyist or lobbyist principal, or (3) from a person or entity which is doing or seeking to do business with the public servant’s agency, is regulated or controlled by the public servant’s agency, or has particular financial interests that may be affected by the public servant’s official actions. Exceptions to the gifts restrictions are set out in N.C.G.S. §138A-32(e).

Pursuant to N.C.G.S. 138A-15(c), when an actual or potential conflict of interest is cited by the Commission under N.C.G.S. 138A-24(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board’s chair as often as necessary to remind all members of the conflict and to help ensure compliance with the State Government Ethics Act.

Finally, the State Government Ethics Act mandates that all public servants attend an ethics and lobbying education presentation. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the State Government Ethics Act.

Sincerely,

Diana Latta
SEI Unit

cc: Mr. Robert Plybon
    Mr. Kenneth Deville, Ethics Liaison
    Chairman of the Board

Attachment: Ethics Education Flyer
November 13, 2015

The Honorable Patrick L. McCrory
Governor of the State of North Carolina
20301 Mail Service Center
Raleigh, NC 27699-0301

Via Email

Re: Evaluation of Statement of Economic Interest Filed By Mr. Kieran J. Shanahan
Trustee—East Carolina University

Dear Governor McCrory:

Our office is in receipt of Mr. Kieran Shanahan’s 2015 Statement of Economic Interest as a member of East Carolina University Board of Trustees (“the Trustees”). We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 138A of the North Carolina General Statutes (“N.C.G.S.”), also known as the State Government Ethics Act.

We did not find an actual conflict of interest, but found the potential for a conflict of interest. The potential conflict identified does not prohibit service on this entity.

N.C.G.S. Chapter 116 provides for the development of a coordinated system of higher education known as the University of North Carolina, a public, multi-campus university governed by the Board of Governors (“the Board”). Each constituent institution of the University has a board of trustees that advises the chancellor of that institution and the Board. In addition, the Board has delegated to each board of trustees the power to adopt personnel policies and appoint, promote, and establish the compensation of the institution’s employees; establish and supervise the institution’s athletic program; determine student admission and graduation standards; approve campus capital construction projects, including the selection of architects and the approval of building sites; approve or recommend the acquisition and disposition of real property interests according to the property’s value; and manage the institution’s endowment and trust funds.

The State Government Ethics Act establishes ethical standards for certain public servants, including conflict of interest standards. N.C.G.S. §138A-31 prohibits public servants from using their positions for their financial benefit or for the benefit of a member of their extended family or a business with which they are associated. N.C.G.S. §138A-36(a) prohibits public servants from participating in certain official actions from which the public servant, his or her client(s), a member of the public servant’s extended family, or a business or non-profit with which the public servant or a member of the public servant’s immediate family is associated may receive a reasonably foreseeable financial benefit.
Mr. Shanahan has disclosed that he and/or his wife own a threshold amount of stock in numerous public and private companies that may provide services or market products to East Carolina University. Mr. Shanahan should exercise appropriate caution in the performance of his public duties should issues regarding the companies in which he has a financial interest come before East Carolina University Board of Trustees for official action or otherwise seek to conduct business with the University.

In addition to the conflicts standards noted above, N.C.G.S. §138A-32 prohibits public servants from accepting gifts, directly or indirectly (1) from anyone in return for being influenced in the discharge of their official responsibilities, (2) from a lobbyist or lobbyist principal, or (3) from a person or entity which is doing or seeking to do business with the public servant’s agency, is regulated or controlled by the public servant’s agency, or has particular financial interests that may be affected by the public servant’s official actions. Exceptions to the gifts restrictions are set out in N.C.G.S. §138A-32(e).

Pursuant to N.C.G.S. 138A-15(c), when an actual or potential conflict of interest is cited by the Commission under N.C.G.S. 138A-24(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board’s chair as often as necessary to remind all members of the conflict and to help ensure compliance with the State Government Ethics Act.

Finally, the State Government Ethics Act mandates that all public servants attend an ethics and lobbying education presentation. Please review the attached document for additional information concerning this requirement.

Please contact our office if you have any questions concerning our evaluation or the ethical standards governing public servants under the State Government Ethics Act.

Sincerely,

Diana Latta
SEI Unit

cc: Mr. Kieran J. Shanahan
    Mr. Thomas Shanahan, Ethics Liaison
    Chairman of the Board

Attachment: Ethics Education Flyer
<table>
<thead>
<tr>
<th>Session</th>
<th>Audit Committee</th>
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<tbody>
<tr>
<td>Responsible Person</td>
<td>Mr. Tim Wiseman</td>
</tr>
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<td>Agenda Item</td>
<td>VI.</td>
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<tr>
<td>Item Description</td>
<td>Enterprise Risk Management</td>
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<td>Action Requested</td>
<td>Information and discussion</td>
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<tr>
<td>Disposition</td>
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<td>Notes</td>
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SUBJECT: Enterprise Risk Management (ERM) Update for the BOT-A Committee February 2016 Meeting

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

2. Action Recapitulation:

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

      • University Youth Programs Task Force – Both Interim and Longer Term Actions
      • ECU Alternative Spring Break Risk Management Training
      • Exec Council Review of Top Risks and Risk Mgmt Plans
      • Quarterly Enterprise Risk Management Committee Meeting and Actions (Feb 17)
      • Taught ISO 31000 ERM Workshop Part 1, Seattle, WA (Jan)
      • Re-Admissions Risk Case Reviews and University Behavioral Concerns Team Actions
      • ERM Consultations and Inquiries – Various Departments
      • Drones/UAS Interim Policy Coordination
      • Assumed Military Programs Oversight Responsibility

   b. Significant ERM/CRO Activities Next Two Months:

      • Conduct ERM Interviews with Campus Leaders & Off-Year Assessments (Feb-Apr)
      • University Youth Programs Task Force – Both Interim and Longer Term Actions
      • Teach ISO 31000 ERM in Higher Ed Workshop Part II, Seattle, WA (Feb)
      • Teach ISO 31000 ERM in Higher Ed Workshops (Parts I & II), Raleigh (Apr & May)
      • Host ERM Webinar (April)
      • Quarterly Enterprise Risk Management Committee Meeting and Actions (May)
      • Present at PRIMA RM Conference, Atlanta, GA (June)
      • Draft ’16-’17 ERM Top Risk Survey
      • ERM Consultations/Research/Inquiries – Various Departments

3. Other: Article on ECU’s risk management procedures appeared in Nov 23rd edition of Business Insurance.

 ACTION OFFICER: Tim Wiseman
 Assistant Vice Chancellor for ERM & Military Programs
 Spilman Bldg, Room 214, 252-737-2803
Enterprise Risk Management Committee
Meeting Themes
(As of 1/12/2016—Subject to Change)

<table>
<thead>
<tr>
<th>ERMC</th>
<th>Date</th>
<th>Topic/Lead</th>
<th>Theme</th>
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<tr>
<td>1st Qtr.</td>
<td>Feb 17</td>
<td>Koali DR-BCP Tool Demo/ EH&amp;S</td>
<td>Operational</td>
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<td>2nd Qtr.</td>
<td>May 25</td>
<td>“Off Year” Risk Review &amp; Guest Speaker (Dr. Ballard)</td>
<td>Strategic</td>
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<td>3rd Qtr.</td>
<td>Jul 20</td>
<td>Risk Management and Internal Control Trends/ A&amp;F Division</td>
<td>Compliance</td>
</tr>
<tr>
<td>4th Qtr.</td>
<td>Oct 19</td>
<td>Risk Survey Launch &amp; Guest Speaker: BOT Member</td>
<td>Operational/ Strategic</td>
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Risk Categories: Strategic, Operational, Financial, Compliance, Reputational

Two Year ERM Activities Model

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary Activities</th>
<th>Focus</th>
</tr>
</thead>
</table>
| Even “On” Year (Example ‘14-’15) | Full ERM Risk Survey  
- Full Risk Prioritization Exercise  
- Reset  
- BOT & EC Presentations and Involvement  
- Risk Management Plans Creation (or Updates) | Engaging Key Sensors  
Assessment Process (Rigor and Detail)  
Risk Register Update  
Fresh Look at Current and Anticipated Risk Environment |
| Even “Off” Year (Example ‘15-’16) | Smaller Scale Re-Prioritization/Re-Validation Exercise  
- Departmental Workshops  
- Interviews and Sensing Sessions  
- Presentations to Other Key Committees/Groups | Risk Management Plans Update/ Adjustment  
“By Exception” Reviews  
Select Risk Management Project Work  
ERM “Maturity” Assessment(s)  
Education |
REPORTING KEY RISK INFORMATION TO THE BOARD OF DIRECTORS

Top Risk Executives Share Their Practices

2015

Bruce Branson
Associate Director
ERM Initiative
North Carolina State University
Introduction

Reporting Key Risk Information to the Board of Directors

*Top Risk Executives Share Their Practices*

One of the big challenges in an organization’s enterprise risk management (ERM) process is determining how to effectively and concisely communicate risk information identified by the ERM process to the organization’s board of directors. Given the complexity of the global business world today, distilling risk information down to that which is most pertinent for disclosure to the organization’s board of directors can be difficult. ERM leaders have to walk a fine line that avoids overwhelming the board with too much granular detail about risks without summarizing risks at such a high level that no one is able to really understand the underlying risk concern.

To obtain insight about board reporting practices used by a number of organizations, we surveyed chief risk officers and other executives leading enterprise risk management efforts at a number of major U.S. corporations serving on North Carolina State University’s ERM Initiative Advisory Board (all participating organizations are identified on the final page of this report). We asked our Advisory Board members about their organizations’ practices in regard to reporting enterprise-level key risk information to their boards of directors. We queried respondents as to whom they reported risk information, how often that information was updated and when these reports are made. We also asked who was responsible for leading the risk discussion with the board of directors and how this information was filtered, categorized and prioritized for reporting purposes.

We received extensive feedback and examples on the nature of that reporting, from its format to its length to the specific information included about individual key risks, to the nature of follow-up reporting. Finally, these executives shared the evolution of their risk reporting and their views on changes they foresee over the near term.

This thought paper summarizes our key findings.
REPORTING KEY RISK INFORMATION TO THE BOARD OF DIRECTORS

Who, What, When

More than half of the respondents reported that the full board of directors receives an update on their organization’s top risks at least annually. Two-thirds indicated that the audit committee of the board receives such a report, and one-third noted that they have a board risk committee that is regularly updated. Two mentioned additional committees (public policy and compliance and an ERM steering committee) as receiving regular reports on top risk exposures.

The reports, which are provided at least annually by most organizations, reflect a list or grouping of the top risks facing their organization. Nearly 50% of our respondents said reports are presented more frequently (quarterly or semi-annually), with none indicating a reporting frequency greater than quarterly. Numerous respondents stated that they reported to the risk and/or audit committees of the board more frequently (quarterly or semi-annually) in addition to an annual report provided to the full board.

No consistent pattern emerged regarding the timing of these reports. Several respondents noted the scheduling of risk reporting coincided with the planning cycle of the organization. That is, the reports were made concurrent with, or sometimes in preparation for, board discussion of strategic initiatives. Some indicated that the timing of risk reporting was linked to review of the Form 10K, either prior to filing with the Securities and Exchange Commission (SEC) or immediately afterward (as a start to the next reporting cycle). Some organizations designate a specific meeting of the board each year for risk reporting.

When the report of top risks is presented to the full board, respondents indicated the discussion is typically led by the ERM lead (Chief Risk Officer (CRO), VP of Strategic Planning, Chief Audit Executive (CAE), Internal Audit Director were common titles of the ERM lead). In some cases, the person responsible for ERM made the presentation to the audit or risk committee and then the chair of that committee was responsible for leading the discussion with the full board. In other responses, the CFO, CAE, and in a few cases, the CEO, were tasked with the actual presentation to the full board.

In terms of board meeting agenda time typically allocated to the discussion of top risks, there was interesting variation in responses — as little as 10 minutes in one case, 15 to 20 minutes in several cases, and most commonly, approximately 30 minutes. There were a few outliers as well; two hours was noted by one respondent, 90 minutes by another. Three more stated that the discussion was typically allocated about one hour.
Prioritizing & Categorizing Risks for Board Review

We observed some interesting variation in the number of “top” risks typically reported to the board — as low as three to five risks and up to as many as 35. Most responses were in the 10-to-15 risks range.

Reported risks are typically prioritized by combinations of likelihood and impact scores, and where more risks are enumerated, separation by tiers of risks is common. Top tier risks generally numbered in the 10 to 15 range, with tier two and tier three lists varying in number from 10 to 200. Numerous respondents indicated that only top-tier risks were presented to the full board, while lower-tier risks may be reported only to the audit committee or risk committee. This prioritization is most often presented graphically using a heat map or risk dashboard.

One respondent reported segregating risks into corporate risks, business unit risks and emerging risks, with priority given to corporate risks. Another specifically noted that multiple prioritized lists were presented based on the following factors:

- Financial Impact
- “Other” Impact
- Risk Management Maturity
- Risk Velocity

The next two pages include two examples of these report styles are provided. These examples represent two common report types that are frequently used in both “pre-read” materials provided to the board in advance and/or are used during board-level presentations to convey information in a succinct manner to the board or board committee.

Figure 1 represents a risk dashboard that includes information such as the risk definition, the risk owner (i.e., the individual responsible for developing and implementing risk responses), risk status and planned risk management mitigation activities. Each top risk is identified and is often supported by more detailed information available on a “drill-down” basis if more information is needed by the board to understand and assess each risk.

A heat map, as illustrated in Figure 2, on the other hand, combines in a single graphic the set of top tier risks facing the organization and visually communicates priority based on which quadrant of the heat map each key risk falls. Those risks in the upper right quadrant have been identified as the highest impact, highest likelihood risks and demand most attention. Heat maps are intuitively appealing and can be augmented by color and size of “risk bubbles” (as in the example) to communicate additional dimensions such as risk velocity and/or management’s assessment of preparedness.
### Figure 1: Risk Dashboard (Example)

<table>
<thead>
<tr>
<th>Key Enterprise Risk</th>
<th>Risk Owner</th>
<th>Risk Status Q4 20XX (Prior Period)</th>
<th>Risk Status Q1 20XX (Current Period)</th>
<th>Risk Status Rationale</th>
<th>Key Risk Management Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource Optimization</strong></td>
<td>JR</td>
<td><img src="#" alt="Yellow" /></td>
<td><img src="#" alt="Green" /></td>
<td>- Current resource capacity sufficient to execute current portfolio</td>
<td>- Prioritization of strategic initiatives to set groundwork for resource optimization - Implemented ERP - Etc.</td>
</tr>
<tr>
<td><strong>Risk Definition</strong></td>
<td></td>
<td></td>
<td></td>
<td>- Governance structure in place to manage prioritization of work</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- ERP Redesign implemented</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>- Etc.</td>
<td></td>
</tr>
<tr>
<td><strong>Medical Care Management</strong></td>
<td>TF</td>
<td><img src="#" alt="Yellow" /></td>
<td><img src="#" alt="Green" /></td>
<td>- &quot;Partnerships and Alignments&quot; initiatives are on track</td>
<td>- Development of Medical Management Annual Plan for 20XX - Medical Management initiatives underway to identify new opportunities - Etc.</td>
</tr>
<tr>
<td><strong>Risk Definition</strong></td>
<td></td>
<td></td>
<td></td>
<td>- &quot;Medical Expense Management&quot; strategies in development, targets set; new initiatives underway to identify additional opportunities</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Risk management effectiveness is also dependent upon constituent engagement (members, providers and physicians)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Etc.</td>
<td></td>
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</tbody>
</table>

**Risk Status Key:**

- **High:** risk management activities have not resulted in demonstrated improvement in the inherent risk exposure
- **Medium:** risk management activities have begun to demonstrate improvement in the
- **Low:** risk management activities have resulted in demonstrated improvement to adequately address or exceed inherent risk
When asked to what extent management summarizes the top risks by theme or category, several respondents indicated that the four categories of objectives included in COSO’s 2004 *Enterprise Risk Management – Integrated Framework* were explicitly used to organize the risks — strategic, operational, financial, compliance. Most others, however, have customized this approach and several examples of these are provided below.

Several contributors to this report talked about “risk themes” or categorization by organizational structure. One response specifically noted that they *do not* formally align risks to categories because, in their view, risks can span multiple categories, and there are also interdependencies between certain risks that may be overlooked or misunderstood by forcing a risk into a single category.
Here are two examples of risk categories used by different organizations.

**Example #1: Risk Categories:**

- Process Risks
- External Risks
- Information for Decision Makers

**Example #2: Risk Categories:**

- Operational
- Compliance
- Black Swan
- Strategic
- Operations
- Financial Reporting
- Legal & Compliance

**Content of Risk Presentation to Board**

Almost all respondents confirmed utilizing a combination of narrative discussion, bullet points and supporting graphic elements for presenting information to their boards. Narrative discussion included bullet points and one-page executive summaries of each of the “top 10” risks, in addition to descriptions of the organization’s ERM methodology, definitions of risks, outlines of the risk management approach and framework used by management, including aspects of its program and practices, risk culture, key controls or mitigating activities, mitigation progress and accountability for monitoring, among others.

Figure 3 (on the next page) provides an illustration of a high-level summary of progress towards specific goals that is used to communicate effectively to the board on the evolution of the enterprise risk management process. This type of summary can provide an easily understood “roadmap” for board members to gain confidence that the ERM process is continuing to develop and provide assurance that important elements are in place. The three items in the 20X3 column with an asterisk indicate that those activities are currently underway.
### Figure 3: Report On The Organization’s ERM Process (Example)

**Progress against Strategic Risk Management Improvement Plan**

<table>
<thead>
<tr>
<th>SET FOUNDATION (20X1)</th>
<th>BUILD CAPABILITIES (20X2)</th>
<th>EXPAND RISK MGMT ASSURANCE (20X3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Complete:</strong></td>
<td><strong>Complete:</strong></td>
<td><strong>Complete:</strong></td>
</tr>
<tr>
<td>• Establish risk management direction</td>
<td>• Risk MGMT Process gaps connected</td>
<td>• Risks integrated with strategic planning</td>
</tr>
<tr>
<td>• Gain executive commitment</td>
<td>• Regular reports to MGMT and Board</td>
<td>• Provide assurance that ERM processes are adequate and appropriate:</td>
</tr>
<tr>
<td>• Establish risk management framework</td>
<td>• Risk owners have clearly defined roles support, training on risk concepts</td>
<td>*Complete external assessment of ERM program</td>
</tr>
<tr>
<td>• Risk Management Charter and Policy</td>
<td>• Risk mitigation plans communicated via month operations reviews</td>
<td>*Complete Internal Audit of Risk Management process</td>
</tr>
<tr>
<td>• Develop templates for identifying, assessing, and monitoring risks</td>
<td>• Risk register for strong and tracking risk mitigation activities and progress</td>
<td>*Conduct benchmarking of ERM program</td>
</tr>
<tr>
<td>• Develop risk mitigation responses</td>
<td>• Uniform process defined and documented</td>
<td></td>
</tr>
<tr>
<td>• Risk management awareness training</td>
<td>• Mitigation and oversight applied</td>
<td></td>
</tr>
<tr>
<td>• Develop Black Swan Risk Process</td>
<td>• Documented accountabilities (RACI Chart)</td>
<td></td>
</tr>
<tr>
<td>• Risk management activities identified in the business planning calendar</td>
<td>• E-Room for risk sharing and training</td>
<td></td>
</tr>
<tr>
<td>• Agreed risk appetite/tolerance levels for raising issues with Board</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Board Pre-Read Materials
Respondents reported that no additional materials were typically provided to the board beyond the advance reading package. The typical length of that package varied quite a bit, with one respondent stating the pre-read was one to two pages, while another respondent was at the other extreme where 85 pages of material was provided. Most (fully two-thirds of the respondents) limited the length of the pre-read materials to 15 pages or less. One respondent noted that they had been furnishing approximately 55 pages of material but were changing their approach and, going forward, the pre-read would be 10 pages or less.

In terms of the number of risks addressed in their report, almost all respondents included only their top tier risks, which generally consisted of 10 to 15 individual risks. A few noted that they augment the top tier with any “black swan” risks they’ve identified or other significant emerging risks of note.

For those who prepare a more detailed pre-read (30 pages and up), it is typically organized as an executive summary with supporting appendices. For some, the pre-read is in the form of presentation slides while others provide a simple narrative report. One company organized their presentation according to its ERM organizational structure. Another arranged material in decreasing order of importance. Some respondents mentioned highlighting year-over-year changes. One respondent reported organizing their full-board presentation slide deck as follows:

- Purpose and Overview
- Key Success Drivers for the Organization
- Key Enterprise Risk Categories
- Significant Risk Drivers/Events
- Key Mitigation Strategies
- Dashboard Capturing the Key Risks, Exposure and Trajectory

Most respondents have developed templates or standardized profile slides/cards for reporting on an individual risk, to include such components as:

- Category
- Impact/Likelihood
- Velocity
- Owner
- Control/Mitigation Treatment and Progress
- Accountability for monitoring
Also mentioned were key risk indicators, identified risk drivers, subject matter experts and 10K reporting (i.e., Item 1A risk factors disclosed in the 10K). One respondent provided an example of a “dashboard template” that included the following:

- Risk definition
- Significance of risk
- Board oversight responsibility (e.g., committee with primary oversight)
- Monitoring responsibility (risk owner)
- Risk prevention activities
- Risk response
- Key Risk Indicators and KRI status

After presentations to the board regarding the top risks facing an organization, follow-ups or “deeper dives” are generally at the request of the board, prepared by the risk owner, management or internal audit and reported at the committee level. Items reported on included progress on executing risk mitigation strategies, significant near misses, limit violations and risk score impacts. One respondent stated that at each board meeting (five per year), detailed risk discussions were held at the committee level.

Figure 4 (begins on next page) provides two examples of pre-read documents provided by one organization to their board. These examples illustrate how a pre-read document can be used to help the board obtain a high level understanding of the current status of significant enterprise risks faced by the company and then serve as a basis for a conversation between the board and the risk discussion leader (VP and General Auditor in this example).
Figure 4: Pre-Read Documents (Example 1)

Topic: ERM – Strategic Risk Assessment of 20XX – 20XX Plan
Discussion Leader: Vice President and General Auditor
Purpose/Scope: Update the Board on key enterprise risks

Focus Area(s) (check all that apply):
X Strategy
X Risk
X Governance
_ Performance
_ Talent

Key Discussion Points:
- Enterprise Risk Management at Holding Company
- Key Success Drivers
- Significant Enterprise Risks

Required Action: Discussion only.

Pre-Read Information:

**Background**

Enterprise Risk Management (ERM) was introduced at Holding Company in 20XX, and a constant evolution of the process has taken place to strive for best practice. The following “best practices” are in place at Holding Company and across its operating companies:

- **Risk Governance**
  - Board oversight, including risks mapped to the Board or relevant Board Committee as appropriate
  - Holding Company Risk Committee

- **Enterprise-wide Risk Architecture**
  - Common risk language across entities
  - Common risk assessment framework
  - Consolidated reporting and analysis
  - Dynamic 24-month audit plan aligned with ERM
• Alignment of Strategy and Risk Appetite Management  
  o ERM embedded into Strategic and Operational planning processes  
  o Risk appetite embedded in decision making processes via Risk Authority Guidelines  
  o Initiative specific risk specific assessments performed on significant

**Purpose**
The purpose of this narrative is to apprise the Board of significant enterprise risks. Significant enterprise risks are those that pose a threat to Holding Company’s and its operating companies’ strategies, business models or viability. As a part of risk governance, and consistent with best practices, critical enterprise-wide risks, strategic risk categories and business performance risk have been mapped to the full Board for oversight. Other risk categories requiring specific expertise, or less significant risk categories, have been mapped to the relevant Board Committee for oversight. As information, the Governance Committee reviews Committee and Board risk oversight responsibilities at their May meeting.

As part of Holding Company’s annual strategic planning process, each operating company and Holding Company identify, assess, and mitigate (or make plans to mitigate) those significant risks which could jeopardize long-term goals. These risks are evaluated utilizing a 5 year time horizon. The results of this risk assessment follow.

**Key Enterprise Risks**
As defined earlier, our top enterprise risks are those that, based on the risk assessments performed in conjunction with the strategic plan, pose the greatest threats to Holding Company’s future plan. Each of these key risks poses a threat to one of the key drivers of Holding Company’s future success. All of these key risks have been identified, assessed, and mitigated in line with Holding Company’s risk appetite. All of these key risks are continually monitored and reviewed both within the operating companies and by the Risk Committee (comprised of the Holding Company Leadership Team) on an ongoing basis. Additionally, the Board and the relevant Board Committees are updated periodically on these risks, and any significant changes are highlighted as they occur.

Given the strategic importance of Strategic Initiative #1 to the future growth, a number of risks have been added this year for OpCo6. These risks cover several areas including competitive, business performance, retail programs, innovation, portfolio, key regulatory, political/other regulator and supply chain. OpCo6 risks are now assessed, along with all other OpCo strategic risks, on a semi-annual basis as part of the regular ERM update. In addition, a cross-functional team has been assembled to discuss and review specific Strategic Initiative #1 risks as the company moves from start-up to full commercialization of the product. The Internal Audit Department will work closely with Management to ensure the dynamic audit plan adequately reflects the changing risk environment for OpCo6.

Key drivers of Holding Company’s future success continue to be: volume and market share attainment; financial flexibility (critical to meeting challenges or taking advantage of opportunities in the
marketplace or M&A); competitive landscape, including competitive reactions; and high performing culture.

Overall, the risk profile for Holding Company and its operating companies continues to be moderate. A sustained, though stable, level of pricing and promotional activity continues to drive a competitive operating environment for OpCo1, OpCo2, and OpCo3. Key regulatory risk remains elevated. Legal risk at OpCo1 is negatively impacted by developments in the anonymous case. In addition, the financial risk profile for Holding Company has improved due to recent activities in the bond market and with the revolving credit facility. A discussion of each risk category follows.

- **Key Regulatory:** Although an external risk, the key regulatory risk category continues to be assessed as one of the highest enterprise risks to Holding Company’s future success. This risk category has been rated medium/high for several years and continues to be assessed at the same medium/high level. Supporting this risk at the medium/high level for 20XX and beyond are the strategic risks related to the implementation of the requirements of the key regulatory agency. The risk in this category was negatively impacted in March 20XX by the change in leadership at the key regulatory agency, foreshadowing a heightened regulatory risk for the industry. (Medium/High);

- **Business Performance:** The internal risk exists across all operating companies, and refers to risks associated with the marketplace performance of operating companies’ brands, competitive pricing promotions, cost and margin structure, industry dynamics or unfavorable economic conditions that could impair the ability to deliver operating plans. For OpCo1 and OpCo2, the challenging pricing environment, as well as continued down-trading and volume softness, keeps this risk at an elevated level. Significant investment is required by OpCo1 to remain competitive in the marketplace while at OpCo2, competitive activity remains strong in that brand’s geographies. At OpCo3, Brand1 is impacted by continued competitive investment. In addition, near-term support of strategic growth initiatives will require balancing investment with business results. (Medium/High);

- **Competitive / Retail Programs:** These external risk categories refer to risks arising from changes in the competitive and retail environment that could negatively impact brand success in the marketplace or drive an operating company’s retail programs to be less compelling to retailers. The risk in this category remains unchanged as competitors continue a high level of pricing and promotional activity on key competitive brands. (Medium/High);

- **Legal:** Also externally driven, the legal risk category refers to potential adverse outcomes in litigation and/or novel legal theories which could drive liquidity restraints, thereby limiting financial flexibility and potentially jeopardize the ability to respond to or take advantage of marketplace opportunities, M&A, or meet other extraordinary needs. (Medium);

- **Portfolio / Innovation:** These internal risk categories, although assessed separately to ensure appropriate focus and mitigation, are related in that innovation strategy is meant to identify, develop, and leverage innovations to fill projected gaps within Holding Company’s portfolio of brands and companies. For OpCo1, the risk in this category remains medium as there is continued pressure on Brand1 and Brand2 to deliver share and profit growth in a competitive environment.
Innovation remains medium, driven by the complexity of identifying, developing, and commercializing consumer relevant information in an uncertain regulatory environment. For OpCo6, product innovation in the short-term is vital to attaining the product cost modifications required for business case attainment. In addition, long-term innovation is essential to product evolution in response to changing consumer trends. The aggregate risk for Holding Company remains at medium. (Medium);

- **Reputation / Transforming Industry:** This is the risk that Holding Company and its operating companies are unable to gain traction in the debate about responsible solutions to the challenging external environment. (Medium);

- **High Performing Culture:** This internal risk category, overseen by the Compensation and Leadership Development Committee, exists across all operating companies and refers to the risks associated with the ineffective leadership which could result in a lack of direction, focus, motivation to perform, management credibility and trust throughout the firm, as well an inability to attract, retain and develop talent. Results of the recent Kenexa survey indicate a 15 point increase in the Employee Engagement Index for production associates at OpCo1. The risk in this category remains low. (Low).

Due to the importance of financial flexibility to the successful achievement of Holding Company’s strategic objectives, one other risk category, overseen by the Audit and Finance Committee, is worthy of note to the Board. Although a serious liquidity risk event has a low probability of occurrence, if the risk materializes, the impact could be substantial.

- **Liquidity:** Like the “legal” risk category above, liquidity risk is rated medium due to the potential impact to our business rather than the likelihood of its occurrence. The risk is well mitigated by a strong balance sheet and capital structure. (Medium)

**Summary**

Holding Company has a robust ERM process that enables risk to be identified and assessed, and requires the implementation of mitigation plans to ensure appropriate risk taking, aligned with the Company’s risk appetite, in pursuit of the achievement of strategic goals. The risk profile for Holding Company and its operating companies continues to be moderate. Concerns around Key Regulatory regulation, specifically driven by a change in leadership, contribute to an ongoing elevated regulatory risk environment. Legal risk at OpCo1 is negatively impacted by developments in the Anonymous case. At the Holding Company, the financial risk profile has improved due to recent activities in the bond market and with the revolving credit facility. In addition, a sustained though stable, level of pricing and promotional activity in 20XX continues to drive a competitive operating environment for OpCo1, OpCo2, and OpCo3.
Holding Company

Enterprise Risk Management (ERM) Update

Background
As part of the Enterprise Risk Management process, a semi-annual update for strategic risks was provided to the Holding Company Risk Committee in April and will be provided to the Audit & Finance Committee at the May A&FC meeting. The scorecard and dashboards are included behind this narrative in Agenda Item I of the book in BoardVantage. However, the drill-down will not work from this location; please follow instructions at the end of the narrative to drill down to the detailed risks.

Holding Company’s ERM process continues to function as intended and in support of Holding Company’s strategic objectives. Holding Company has a mature ERM process in risk governance, enterprise-wide risk architecture, and alignment of strategy and risk appetite management. The ERM risk universe provides risk assessment and analysis against strategic risks, business and financial performance risks, operational risks, and compliance and financial reporting risks and is driven by a robust ERM process which is embedded in the Holding Company culture.

Executive Summary
Overall, the risk profile for Holding Company and its operating companies continues to be moderate. Regulatory risk for Holding Company, OpCo1 and OpCo3 is increasing based upon the Key Regulatory risk. Management identified this risk in 20XX, however, recent events have increased the likelihood and velocity of realization. Competitive risk also continues to be elevated relative to net pricing. A sustained, though stable, high level of pricing and promotional activity in both product category 1 and product category 2 continues to drive a competitive operating environment for OpCo1 and OpCo2. However, Competitive and Business Performance risk for OpCo1 are decreasing in trajectory and overall exposure based upon the improved environment experienced over the last year. In addition, risks for OpCo4 continue to be developed, mitigated and tracked as Innovation 1 moves closer to additional expansion. At OpCo1, the risk profile is stable and progress continues on the key business initiatives relative to legislative outcomes, media coverage and public policy debate.

Significant Risk Assessment Update Results by Entity (detail omitted):

Holding Company

OpCo1

OpCo2

OpCo3 ..... through OpCo6
Summary
The risk profile for Holding Company and its operating companies continues to be moderate. Concerns around regulation, specifically driven by xxxx and xxxx contribute to an increasing and ongoing elevated regulatory risk environment. In addition, a sustained, though stable, high level of pricing and promotional activity result in a competitive operating environment for OpCo1 and OpCo2 although this is viewed as a decreasing risk for OpCo1 for this cycle. Finally, OpCo3 political/other regulatory risk is decreasing based on lower likelihood and impact that specific legislation puts OpCo3 at commercial risk.
Presentations at Board Meetings
Almost all respondents discussed utilizing visual formats in their presentation to the board, such as heat maps, dashboards, scorecards, charts and graphs, with heat maps explicitly mentioned by the majority. These were presented as supporting documentation in pre-reads and Power Point slide decks. Several examples of these presentation visuals are illustrated in Figures 5 – 8 that follow.

**Figure 5: Risk Scorecard (Example)**

<table>
<thead>
<tr>
<th>Risk Statement</th>
<th>Risk Owner</th>
<th>Risk Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Security: The potential risk of a data breach (internal or vendor) that results in a significant compromise of client data</td>
<td>Executive: Smith</td>
<td>Financial Impact: $100+ million</td>
</tr>
<tr>
<td></td>
<td>Primary: Jones</td>
<td>Reputation: Severe</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Likelihood: Possible</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Speed of Onset: Trend</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Objective: Reduce</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High</td>
</tr>
</tbody>
</table>

**Emerging Risks & Factors Influencing the Risk Trend**
Weaker protections in the US have resulted in escalating rates of reported breaches involving payment card data. Etc.

**Key Risk Response Activities**
Deployed new POS terminals eliminating client payment card data at point of sale. Etc.

**Key Risk Indicators**

<table>
<thead>
<tr>
<th>Metric / Description</th>
<th>Current Quarter</th>
<th>Prior(-1) Quarter</th>
<th>Prior(-2) Quarter</th>
<th>Prior(-3) Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td># of open high-risk findings in risk register</td>
<td>#</td>
<td>#</td>
<td>#</td>
<td>#</td>
</tr>
</tbody>
</table>

**Additional Comments / Related Risks**
An optional cybersecurity framework was issued by NIST in February 20XX; we will be conducting a mapping/gap exercise over the course of the coming year. Etc.
## Figure 6: Risk Dashboard (Example 1)

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Description</th>
<th>Risk Owner</th>
<th>Last Assessment Date</th>
<th>Near Term Risk (Ability to Deliver Plan)</th>
<th>Strategic Impact to Business Model</th>
<th>Failure Risk Trend (1 – 3 years)</th>
<th>Overall Future Assessment (1 – 3 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>Global Growth</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competition</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brand</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Financial</td>
<td>Finance</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Fin’l Svcs</td>
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<td>August 20XX</td>
<td></td>
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<tr>
<td>Operational</td>
<td>People</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Parts &amp; Accessories</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply Chain</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Information Technology</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td>Regulatory Compliance</td>
<td></td>
<td>August 20XX</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reputation</td>
<td></td>
<td>August 20XX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Figure 7: Risk Dashboard (Example 2)

Risk Dashboard

Food Borne Illness Risk: The risk that food or water that contains bacteria, parasites, viruses or toxins made by these germs is inadvertently served to a customer, which could result in fines, liability and reputational costs.

Oversight: Board of Directors Food Safety Committee

Monitoring: Risk Committee Branch/District Management

Risk Prevention:
- Training on safe food handling practices
- Refrigerator and cooler system maintenance
- Vendor selection process
- Inspection programs

Risk Response:
- Customer care line
- Media response plans
- Incident investigations

Ownership:
- Marketing
- Distribution
- Supply

Effectiveness of prevention and response:
- Low concern
- Moderate concern
- High concern

Key risk indicators (KRIs):
- Number of customer complaints
- % of new employees trained
- Average daily inspection results

Assurance:
- Internal Audit
- FDA
- Health Department

Food Borne Illness Risk: Supporting Documentation

Risk Prevention:
- Training on safe food handling practices: Currently the safe food handling practices training has been rolled out to one restaurant. The original deadline was to have all restaurants trained by Q2 20XX. A consulting group has been engaged to complete the training. Anticipated completion date in 4Q 20XX.
- Refrigerator and cooler system maintenance: Recent audit findings show that annual refrigerator and cooler maintenance is past due at 4 of our locations. Procedures are being reviewed and employees will be trained by February 20XX.

Risk Response:
- Incident Investigations: The current electronic solution for tracking food borne illness incidents has not been properly configured at all locations. Some locations are unable to use the system, resulting in poor trending and reporting.

KRIs (As of August):
- Number of new employees trained: 90% of new hires completed orientation in the month of August. The remaining 10% are scheduled to be trained in September. (Green = 100%, Yellow = 90%-99%, Red = < 90%).
- Average Daily Inspection Results: 25 Daily Inspection Reports were not completed or had missing information. The Inspection Manager will review the incomplete reports with the respective inspectors by year end 20XX. (Green = <5, Yellow = 6-20, Red = >20 reports)
### Strategic Risk Summary

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Exposure</th>
<th>May Changes</th>
<th>Trajectory</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Culture &amp; Structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Key Regulatory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political/Other Regulatory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Systems &amp; Infrastructure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
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<td>Competitive</td>
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<tr>
<td>Business Performance</td>
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<td>Retail Programs</td>
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<tr>
<td>Reputation/Transformation Agenda</td>
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<td></td>
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</tr>
</tbody>
</table>

#### Legend:
- **Red**: High
- **Orange**: Medium/High
- **Yellow**: Medium
- **Green**: Low
- **↑**: Significant Increase
- **↑**: Moderate Increase
- **→**: No Change
- **↓**: Decrease

Figure 8: Risk Summaries (Examples)
## Performance Risk Summary

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Exposure Dec</th>
<th>May Changes</th>
<th>Trajectory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial: Variable Rate</td>
<td></td>
<td></td>
<td>Holding</td>
</tr>
<tr>
<td>Financial: Fixed (refinancing) Rate</td>
<td></td>
<td></td>
<td>OpCo2</td>
</tr>
<tr>
<td>Financial: Corporate Cash Investment</td>
<td></td>
<td></td>
<td>OpCo3</td>
</tr>
<tr>
<td>Financial: Liquidity</td>
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<td></td>
<td>OpCo4</td>
</tr>
<tr>
<td>Financial: Pension Funding</td>
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<td></td>
<td>OpCo5</td>
</tr>
</tbody>
</table>

Legend:
- **High**
- **Medium/High**
- **Medium**
- **Low**

- Significantly Increased
- Increased
- No Change
- Decreased
- Decreased

Back To Agenda
### Financial, Legal & Regulatory Compliance & Ethical Environment

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Exposure Dec</th>
<th>Trajectory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal &amp; Regulatory Compliance</td>
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<td>Financial Accounting, Budgeting &amp; Reporting Compliance</td>
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<td>Ethical Environment</td>
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</tbody>
</table>

Legend:
- Significant Increase
- Moderate Increase
- No Change
- Decrease
- High
- Medium/High
- Medium
- Low

### Operational Risk Summary

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Risk Exposure Dec</th>
<th>Trajectory</th>
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</thead>
<tbody>
<tr>
<td>Product Failure</td>
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<td></td>
</tr>
<tr>
<td>Sourcing/Supply Chain</td>
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<td></td>
</tr>
<tr>
<td>Catastrophic Event</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information Processing / Technology / Management</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Legend:
- Significant Increase
- Moderate Increase
- No Change
- Decrease
- High
- Medium/High
- Medium
- Low
Ideas for Future Risk Reporting to Board

As one would predict given the nature of the firms participating in this survey, most respondents indicated that they have been working on ERM for some time. Fourteen years was the longest time explicitly reported. Others said 10 years, nine years, seven years, six years, and several at five years. Two stated that they had been engaged for around only two years and characterized their programs as not very mature.

No one claimed that they were done, but several used terms such as mature, advanced, comfortable, practical and effective. Several talked about continued evolution even though they had been at ERM in excess of five years. One response stated that they had transitioned from simply assessing risks to now having a solid understanding of how risks are managed in their organization. Another talked about the movement from qualitative to more quantitative risk assessment. One respondent commented that reports have become shorter over time, concentrating more on top operational and compliance risks and utilizing business unit and corporate dashboards for more effective risk reporting.

Most respondents noted that they have received positive feedback from senior leadership and the board. They reported their boards indicated satisfaction with the level of detail they were receiving and with the frequency of reporting. One comment indicated that their board was significantly more engaged in risk oversight than had been previously true.

When asked about anticipated changes to improve risk reporting, several items were mentioned. One organization is working on an expanded look at risk velocity, additional stress testing and further development and refining of key risk indicators. Another organization hopes to facilitate a shift in the board conversation to better focus on strategic risks. Two others also indicated a desire to focus more on emerging and strategic risks. One mentioned a renewed effort in refining risk appetite statements.

One respondent noted that they have just introduced a new risk dashboard format and have recently modified their heat maps, so no new changes are likely in the next few years. Another related a plan to roll out a common risk assessment methodology across business units and to develop and conduct more stress tests. One respondent did note that they were considering a change from an MS Office platform to a dedicated ERM software platform — though that software product was not identified.
Conclusions

This report provides a number of data points that may prove useful in benchmarking your organization’s current risk reporting practices against those followed by a number of large organizations with mature ERM programs. How often does your board receive (or request) information concerning the top risk exposures your organization faces? How effective are your current reports in communicating this information to the board? What can you change or adjust to better inform your board of these key risks? Thoughtful reflection on these questions may lead to an improved communications process for your organization that will benefit all stakeholders.

As ERM processes mature within an organization, meaningful, effective communication of enterprise-wide risk management objectives to the board of directors is critical to their success. As well, significant external pressures continue to build that has driven most boards of directors to more fully engage in risk oversight activities. This report hopefully provides helpful example illustrations of effective risk reporting tools and strategies that organizations with less mature ERM processes may incorporate to expand their board’s engagement with key risk exposures they face.
Participating Organizations

- The Coca-Cola Company
- Cree Inc.
- CSX Corporation
- Devon Energy Corporation
- Eli Lilly and Company
- Genworth Financial, Inc.
- Grant Thornton LLP
- H&R Block
- Harley-Davidson
- Hospital Corporation of America (HCA)
- Humana
- IBM
- Independent Health
- Independent Purchasing Cooperative (IPC) Inc.
- Lockheed Martin
- Pentagon Federal Credit Union
- Protiviti Inc.
- Provident Financial Services
- Reynolds American
- RTI International
- Southern Company
- Tesoro Corporation

The ERM Initiative thanks the participating organizations for providing their responses to our survey questions and for providing illustrative examples of the tools they use to effectively communicate key risk information to senior leadership and the board of directors of their organizations.
About ERM Initiative

The Enterprise Risk Management (ERM) Initiative in the Poole College of Management at North Carolina State University is pioneering thought-leadership about the emergent discipline of enterprise risk management, with a particular focus on the integration of ERM in strategy planning and governance. The ERM Initiative conducts outreach to business professionals through executive education and its internet portal (http://www.erm.ncsu.edu); research advancing knowledge and understanding of ERM issues; and undergraduate and graduate business education for the next generation of business executives. Faculty in the ERM Initiative frequently work with boards of directors and senior management teams helping them link ERM to strategy and governance.

Author Bio

Bruce C. Branson, is Professor of Accounting and Associate Director of the ERM Initiative in the Poole College of Management at North Carolina 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.

Contact the ERM Initiative at: erm_initiative@ncsu.edu or 919.513.0901.
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