Introduction to Enterprise Risk Management at UVM
What is Enterprise Risk Management?

Enterprise risk management is a structured, consistent, and continuous process across the whole organization for identifying, assessing, deciding on responses to, and reporting on opportunities and threats that affect the achievement of its objectives.

-- Institute of Internal Auditors

- A tool to enhance management decision-making, corporate governance, and accountability
- Facilitates effective management of the uncertainty and associated risks and opportunities facing an organization
- Helps an organization “get to where it wants to go, and avoid pitfalls and surprises along the way” (COSO)
- A “systematic approach to a historically intuitive exercise” (Klein, Mandl, and Sencer)
Enterprise Risk Management:  
A Broad Approach to Risk

1. All organizations exist to achieve their objectives

2. Many internal and external factors affect those objectives, causing uncertainty about whether the organization will achieve them

3. The effect this uncertainty has on an organization’s objectives is “risk”
How ERM Differs from ‘Traditional’ Risk Management

- ERM takes an enterprise-wide approach -- considers the potential impact of all types of risks on all processes, activities, stakeholders, products and services
- ERM looks at both upside risk (opportunities) and downside risk (potential losses or damage)
- ERM assesses risk and opportunity in the context of strategic objectives
- ERM enhances existing strategic planning and budgeting processes—it’s not a stand-alone process
- ERM engages “risk owners” or subject matter experts to address and manage risks, with consulting and support
Benefits of ERM

- Supports the achievement of strategic objectives
- Enhances institutional decision-making
- Creates a “risk-aware” culture across the organization
- Reduces operational surprises and losses
- Prepares the organization to act on acceptable opportunities
- Assures greater business continuity
- Improves deployment of capital by aligning risk and resources with strategic objectives
- Bridges departmental silos; develops a center of excellence for managing risk; and draws on the expertise of highly skilled individual managers
Relationship Among Strategy, Risk, and Budget

1. Where do we want to go?
   - UNIVERSITY OF VERMONT Strategic Plan 2009-2013: Sustaining the Advance

2. How do we get there?
   - STRATEGIC INITIATIVES
     - Project 1
     - Project 2
     - Project 3

3. What uncertainties could help or hinder us?

4. How should we best allocate our resources?
   - BUDGET

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Why is UVM Implementing ERM?

- Deloitte & Touche external audit identified weaknesses in our internal control environment
- Follow-up external audit by PwC endorsed the proposed ERM initiative and noted it as “leading practice”
- Emerging best practice in higher education and private sector
- Bond-rating agencies now look for ERM when rating non-financial organizations
- UVM Board of Trustees supports taking an enterprise-level view of risk
- Managing risk supports strategic goals, lessens uncertainty, and helps maintain competitive advantage
  - Example: economic downturn and resulting financial challenges
ERM Best Practices

Best practices for ERM are still emerging, as ERM is relatively new, especially in higher education

- Obtain commitment, full engagement, and support of senior management and governing board -- set the “tone at the top”
- Tailor the ERM program to best meet the institution’s unique needs and environment, using a best practice model as a framework
- Articulate the institution’s approach to risk
- Establish a common institutional language for talking about risk
- Use cross-functional groups to create buy-in, awareness, and engagement, and to provide the broad perspective necessary for effective risk identification and assessment
- Integrate ERM into existing processes – don’t make it a separate layer or an add-on
- Build a “risk-aware culture” to increase awareness and consideration of risk in decision-making throughout the organization
- Integrate and retain the knowledge of specialist “silos” while taking an enterprise view
- Enhance internal controls around the areas of highest risk

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What Should an “ERM Program” Consist of?

**Principles**
- Provide the foundation and describe the qualities of effective risk management in an organization

**Framework**
- Manages the overall process and its full integration into the organization

**Risk Management Process**
- Focuses on individual or groups of risks, their identification, analysis, evaluation, and response
  - Context
  - Risk identification
  - Risk analysis
  - Risk evaluation
  - Risk response
  - Monitoring, review, continual improvement, and communication occur throughout
UVM’s ERM Framework

ERM Context

Institutional Strategy
- University mission and vision
- University strategic plan
- External and internal context

Institutional Governance
- Commitment, engagement, and sponsorship
- Roles and responsibilities
- Program oversight and management
- Risk decisions

ERM Culture
- ERM program goals and objectives
- ERM guiding principles
- UVM risk philosophy
- UVM risk tolerance
- Risk awareness
- Risk ownership
- Common language
- ERM policy and procedures

ERM Process

Risk assessment
- Risk identification
  - Risk analysis
  - Risk evaluation
  - Risk response

Communication, coordination & consultation
Change management
Education & training
Monitoring & reporting
Continuous improvement

Enabling activities
ERM Program Purpose & Goals

The purpose of UVM’s ERM program is to enhance the University’s ability to achieve its mission, vision, and strategic objectives and strengthen its competitive position by fostering an institution-wide culture of risk and opportunity awareness and by providing a structured, consistent, and continuous process for the early and proactive identification and reporting of material risks and opportunities to senior management and trustees.

In support of this overall purpose, UVM has established the following goals and objectives for ERM:

1. Create a culture of risk awareness where all employees understand and consider risk in decision-making.
   [Supporting objectives intentionally omitted]

2. Reduce operational surprises and losses.

3. Increase capacity to identify and seize opportunities by facilitating greater transparency and openness regarding risk.

4. Enhance institutional decision-making by providing senior management and trustees with timely and robust information that improves their understanding of enterprise-level risks and opportunities.
   [Supporting objectives intentionally omitted]

5. Improve the efficiency and effectiveness of institutional risk management efforts.
   [Supporting objectives intentionally omitted]
The Risk Management Process

1. **Context**
   Understand organizational objectives and the external and internal environment.

2. **Identification**
   Find, recognize, and describe risks.
   Write a “risk statement” that includes sources, events, causes and consequences.

3. **Analysis**
   Comprehend the nature of risk and determine the level of a risk.
   Determine the risk’s potential impact and likelihood.

4. **Evaluation**
   Compare the results of risk analysis with risk criteria to determine whether the risk is acceptable.
   Prioritize risks.

5. **Response**
   Modify the risk by mitigating, avoiding, transferring, or accepting the risk.

6. **Monitoring & Reporting**
   Continually check the status of a risk to identify change from the performance level required or expected.

7. **Communication & Consultation**
   Inform and engage in dialogue with stakeholders regarding the current state of risks and their management.

**Risk Assessment**

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The Risk Management Process at UVM

1. Context
   - President, other senior UVM officials establish UVM Strategic Plan
   - Deans, Vice Presidents, and other senior officials establish College, School, and Divisional plans

2. Identification
   - Risk Assurance Group (Risk Mgmt & Safety, Compliance & Privacy, Internal Audit, VPFA, General Counsel)
   - Senior UVM officials
   - Preliminary risk inventory

3. Analysis
   - Responsible Officials and designated participants, facilitated by ERMAC Co-Chairs

4. Evaluation
   - ERM Advisory Committee
   - President’s Advisory Committee on ERM
   - President’s Sr. Leadership and Deans’ Council
   - President

5. Response
   - Responsible Officials develop plan
   - PAC-ERM reviews plans
   - President approves plans
   - Responsible Officials implement plans
   - Risk response plans & budgets

6. Monitoring & Reporting
   - Responsible Officials and Risk Assurance Group monitor status of risk and risk response

7. Communication & Consultation
   - Quarterly ERM status reports and regular Compliance and Internal Audit reports to BoT Audit Committee
   - ERM annual report including risk portfolio, heat map, and status of priority risks to Audit Committee and Committee of the Whole