

### **Enterprise Risk Management**

### **Presentation to the Board of Trustees**

July 22, 2010



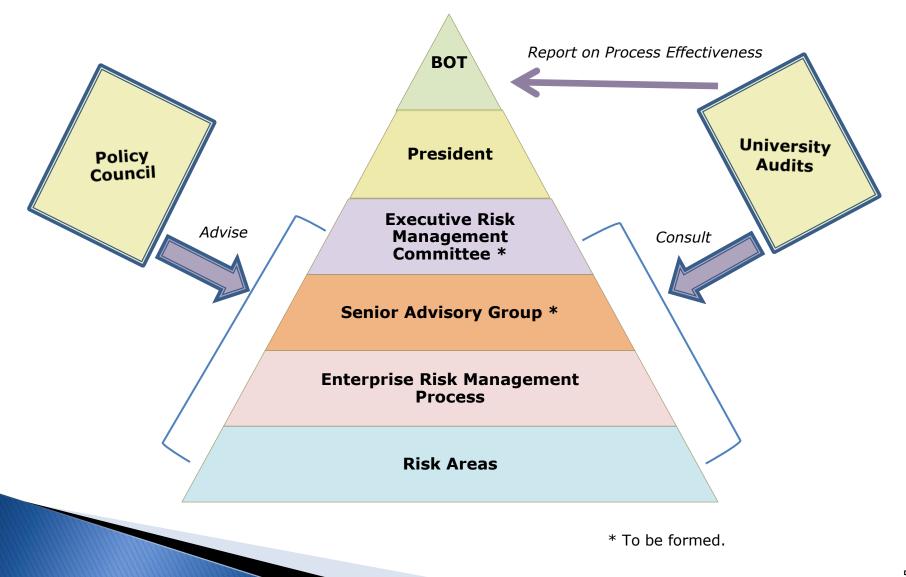
- Risk is any issue that impacts an organization's ability to meet its goals and objectives
- Enterprise Risk Management (ERM)
  - Establishes a systematic process of understanding, evaluating and fostering action on significant risks
  - Promotes an environment of ownership and accountability of significant risks and the response to those risks
  - Considers internal, external and cross-entity risks
  - Provides a foundation for superior planning and budgeting

# **ERM at the University of Illinois**

- Vision: Create a risk-aware culture that educates its members on risk management, allowing the University to identify risks and make plans to avoid material impact on finances and operations while encouraging the acceptance of manageable risks
  - A portfolio approach to managing risks that may span multiple University units
  - Strategic risk support & oversight
  - Aligns strategy and appetite for risk
  - Structures identification of risk mitigation options

	Integrated			Risk Intelligent
Initial	Fragmented	Top Down	Integrated	
Ad hoc/chaotic Depends on hdividual heroics, rapabilities and verbal visdom	<ul> <li>Risk defined differently in different parts of the organization</li> <li>Risk managed in silos</li> <li>Limited focus on the linkage between risks</li> <li>Limited alignment of risk to strategies</li> <li>Disparate monitoring &amp; reporting functions</li> </ul>	<ul> <li>Identify risk universe</li> <li>Common risk assessment / response</li> <li>Organization- wide risk assessment, action plans implemented in response to high priority risks</li> <li>Communication of top strategic risks to senior leadership</li> </ul>	<ul> <li>Risk management activities coordinated across business areas</li> <li>Risk analysis tools developed and communicated</li> <li>Enterprise risk monitoring, measuring and reporting</li> <li>Scenario planning</li> <li>Opportunity risks identified and exploited</li> </ul>	<ul> <li>Risk discussion embedded in strategic planning, capital allocation, etc.</li> <li>Early warning system to notify board and management of risks above established thresholds</li> <li>Linkage to performance measures and incentives</li> <li>Risk modeling</li> </ul>

### **Multi-Tiered Risk Governance**



### **Stakeholder Roles**

Board of Trustees	<ul> <li>Set tone / environment for risk management</li> <li>Approve risk process, risk policies and risk appetite levels</li> </ul>
Senior Management	<ul> <li>Provide risk direction</li> <li>Ensure strategic, operational, financial and compliance risks are effectively managed</li> </ul>
Executive Risk Management Committee (ERMC)	<ul> <li>Maintain oversight of the risk management process</li> <li>Approve risk strategies</li> </ul>
Senior Advisory Group (SAG)	<ul> <li>Act collectively, but as subject matter experts</li> <li>Advise Executive Risk Management Committee</li> </ul>
Office of Enterprise Risk Management	<ul> <li>Coordinate risk assessment, development of mitigation strategies and risk reporting</li> <li>Coordinate activities of ERMC and SAG</li> </ul>
University Audits	<ul> <li>Provide independent advice and consulting</li> <li>Evaluate effectiveness and contribute to improvement of risk management processes</li> </ul>

### **Proposed Committee Membership**

Executive Risk Management Committee * Risk Policy & Strategy * Voting Responsibility					
≻ CFO - Chair	Provost - UIUC > Provost - UIC > Provost - UIS > University Counsel				
<u>Senior Advisory Group</u> * Advises Executive Committee * Non-voting responsibility * May be expanded as necessary to reflect specific risk areas					
Campus:	<ul> <li>UIUC Campus Team</li> <li>UIC Campus Team</li> <li>UIS Campus Team</li> <li>Each campus determines its appropriate mix of academic, administrative and other stakeholders as team members.</li> </ul>				
UIC Medical Center:	<ul> <li>Hospital Chief Medical Officer</li> <li>CFO - College of Medicine</li> </ul>				
University–Wide:	<ul> <li>Sr. Assoc. VP Bus &amp; Finance</li> <li>Associate VP Capital Programs and Real Estate Services</li> <li>Assoc VP Planning &amp; Budgeting</li> <li>Assist VP Treasury Operations</li> <li>Chair University Technology Management Team</li> </ul>				

### **Governance & Reporting**

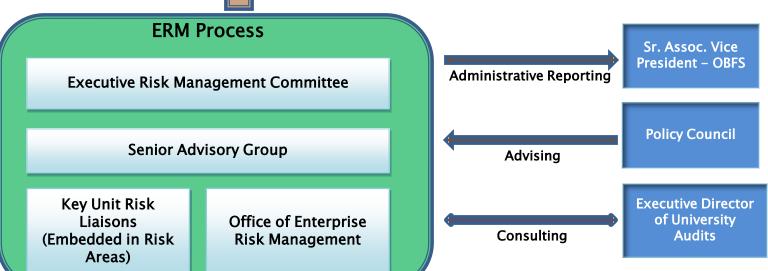
### University of Illinois Board of Trustees

#### President

Vice President / Chief Financial Officer

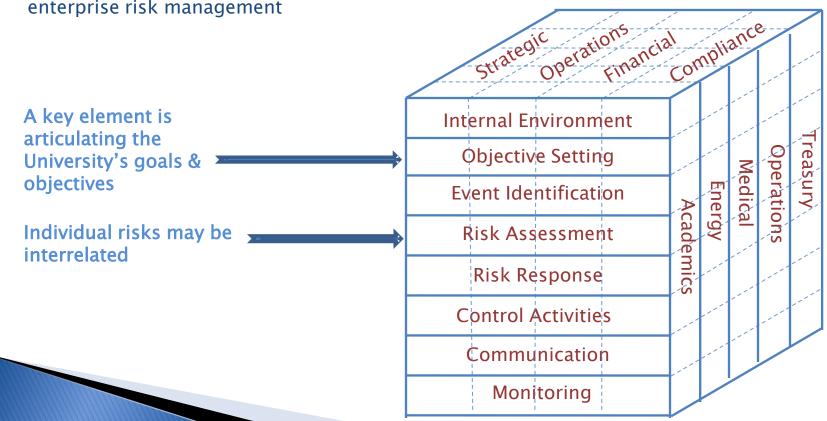


### **Risk Information**

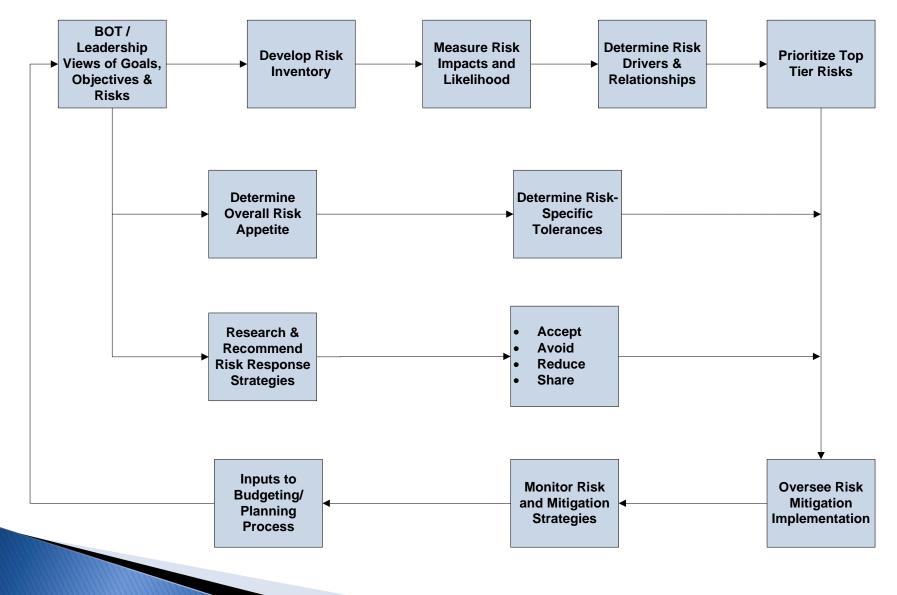


# **A Portfolio View of Risk**

- ERM at the University is based on the widely employed framework developed by the *Committee Of Sponsoring Organizations of the Treadway Commission* (COSO)
- This COSO ERM framework defines essential components, suggests a common language, and provides clear direction and guidance for enterprise risk management



### **ERM Process Flow**



# **Status of ERM Implementation**

- Completed:
  - Office of Enterprise Risk Management formed November 2009
  - Process design and implementation well underway
  - 20 one-on-one interviews with the President Ikenberry and Policy Council conducted April – July 2010 / preliminary report to Policy Council in August
  - Championed Derivatives Use Policy
- Next Steps:
  - Conduct interviews with members of the Board of Trustees to determine views on key risks and risk appetite
  - Implement Executive Risk Management Committee and Senior Advisory Group
  - Finalize summary of highest risk issues (in terms of impact and likelihood) based on the collective view of the Board and senior leadership
  - Assign ownership of top risks