

Council of Senior Business Administrators Winter Workshop

Performing a Risk Assessment

January 11, 2007

**Peggy Zapalac, Director of University Risk Management
<http://universityrisk.tamu.edu>**

What is Enterprise Risk Management (ERM)?

Definition of ERM: A process applied *across the enterprise*, designed to *identify potential events* that may affect the entity and *manage risk* to be within the entity's risk appetite in order to provide reasonable assurance regarding the *achievement of the entity's objectives*.

Enterprise Risk Management

- Risk management is an emerging priority for institutions of higher education.
- At Texas A&M University, management has been seriously engaged in risk management since 2003. By the nature of our mission, our activities are varied and include reputational, operational, strategic, compliance, and financial risks.
- The university must manage those risks on an on-going basis every day.

Enterprise Risk Management

- **TAMU benefits:**
 - Align risk appetite and strategy
 - Enhance risk response decisions
 - Identify and manage cross-enterprise risks
 - Provide integrated responses to multiple risks
 - Enhance capability to identify potential events and establish responses (reducing operational surprises and losses)
 - Identify events representing opportunity
 - Improve allocation of resources

Enterprise Risk Management

- **Employee benefits:**
 - Increase risk consciousness in decision making
 - Focus resources and efforts on key high risk areas
 - Enhance planning and problem solving skills
 - Understand how mitigating activities/controls affect risks
 - Be part of the solution and active in identifying and managing risks

Enterprise Risk Management

- Many departments and units across the campus have processes and procedures that manage risk for their specific areas of responsibility
- Enterprise risk management is a university-wide process and approach to risk management

Commitment to Enterprise Risk Management

- Senior management supports risk management activities and has embraced university-wide efforts to identify and manage risks. The University positioned itself organizationally by establishing an office for implementing and facilitating enterprise risk management.
- The University Risk and Compliance Office was formally established in April 2004.
 - Responsibilities include:
 - Implementing ERM
 - Coordinate related areas (EHS, UPD, Compliance Program, MAS, Rules/SAPs, Audit Liaison, Fraud Contact)

ERM Risk Drivers

- Events (bonfire, apartment fire, chemistry explosion)
- Increase scrutiny, public trust, and accountability
 - Legislature
 - Sponsors and donors (federal, state, private agencies)
 - Tax payers, students, and parents
 - Reorganizations – management/organizational changes
 - Internal Audit
 - Board of Regents (Audit Committee)

University-wide Risk Assessments

(Major Functional Areas)

- University-wide Group
- Provost
 - URC (EHSD, UPD)
 - Colleges (Asst. Deans)
 - Assessment
- Research
 - Research Compliance
- Student Affairs
- Athletics
- Athletic Compliance
- Facilities
- Finance (Controller)
 - Transportation Services
 - A/P
 - CSBA
- Communications and Marketing
- Governmental Affairs
- Diversity
- Development
- TAMU – Galveston
- TAMU – Qatar

Common Risk Language

– Risk

- Any event or action that adversely impacts the organization's ability to achieve its objectives (strategic, operational, reputational, financial, technology, compliance, etc.)

– Risk assessment

- The process used to identify and document risks, mitigating strategies, monitoring processes, and any gaps

– Mitigating activities/strategies

- Actions, procedures, and processes used to manage and monitor risks (limit, avoid, accept, transfer, share)

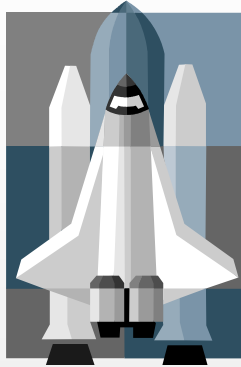
– Risk ranking

- Prioritized and rank (high, medium, low)
 - Consider potential impact (consequences)
 - Consider probability of occurrence (likelihood of happening)

Ranking the Risks

Impact

Effect on achieving objectives, the consequences



High

show-stopper, significant injury or death, large loss (>50% of budget), criminal penalty, loss of program, liability

Medium

inefficient and extra work, fines, minor injury, moderate loss

Low

little to no effect, warning, extra work, reprimand, limited loss

Probability

Likelihood that the risk will happen



High

will happen frequently, occurs often, on-going event, predictable, one-time event that recurs

Medium

will happen infrequently, sometimes occurs, unpredictable

Low

will seldom happen, infrequent, rarely happens, has not happened

Risk Assessment Steps

Review mission/strategic plan/goals/objectives

Identify Activities

Identify and Rank Risks

Identify Mitigating Activities

Review Monitoring Processes

Risk Assessment Tools

- Excel spreadsheets
 - Linked with macros
 - No cost (developed by David B. Crawford, UT)
- Optionpower voting software and touch pad equipment
 - Anonymous ranking of impact and probability

Risk Assessment Tools

Excel Worksheets - Activities



Set Up Activity Sheets

PRIORITIZED CONSOLIDATED ACTIVITIES

- 1 Research Development, Programs, and Facilitation
- 2 Research Finance and Administration
- 3 Graduate Studies
- 4 Executive Leadership
- 5 Research Center Management
- 6 Chief of Staff/Protocol and Outreach
- 7 Business Administration
- 8
- 9

Identify Risks

- Brainstorm risks associated with each major activity. For example:

Activity 1: Research Development,
Programs, and Facilitation

Risks: Failing to recruit, reward & retain faculty
Lack of industrial funding/partnerships
Lack of seed/incentive funding

Risk Assessment Tools

Excel Worksheets - Risks

Research Development, Programs & Facilitation	IMPACT	PROB.
Decrease in State support	h	h
Failing to evolve new mechanisms to manage new forms of research education	h	h
Failing to recruit, reward & retain faculty	h	h
Ineffective metrics for evaluating programs and personnel	h	h
Lack of industrial funding/partnerships	h	h
Lack of research management information	h	h
Lack of seed/incentive funding	h	h
Failing to understand the changing federal and private research agenda	h	m
Failure to manage cost-share risks (too conservative vs. too liberal)	h	l
Ineffective allocation of shared resource funding	m	h
Miscommunication/failure to understand vision goals	m	m
Financial risks related to tenants of research park	m	l

Risk Assessment Tools

Risk Footprint Example

ACTIVITIES	RISKS											
	1	2	3	4	5	7						
Research Finance & Administration	HH	Noncompliance with policies, rules, laws	HH	Untimely reporting	HH	Not rewarding academic excellence	HM	Lack of coordinated research admin.	HM	Unfunded mandates	HL	Not following protocols
Research Development, Programs & Facilitation	HH	Decrease in State support	HM	Lack of research management information	HM	Ineffective metrics for evaluating programs and personnel	HM	Lack of seed/incentive funding	MH	Lack of industrial funding/partnerships		

Risks ranked considering both their impact and probability:

Impact - the consequence(s) of the risk occurring (H=High, M=Medium, L=Low)

Probability - the likelihood of the risk occurring (H=High, M=Medium, L=Low)

- = HH, HM
- = HL, MH
- = MM, ML, LH
- = LM, LL

Mitigating Activities

- Mitigating activities include the organizational structure, policies, and procedures used to manage the risks
 - List the actions, controls, processes and procedures
 - Evaluate the mitigating activities/controls (gaps)
 - effectiveness and efficiency
 - over- or under-controlled (resource allocation)
 - functioning as intended
 - deficiencies in accountability

Risk Assessment Tools cont'd

Mitigating Activities Example

		Risks						
Research Finance & Administration		Noncompliance with policies, rules, laws	Untimely reporting	Not rewarding academic excellence	Lack of a coordinated research admin. structure	Unfunded mandates	Not following protocol	Evidence of Control Activity
Mitigating Activities	Training	x	x				x	Grant training for proposal development group, Research Foundation personnel, and dept staff. New faculty orientation. Online training.
	Marketing & communication to Legislators & Public			x		x		Presentation to legislature (Govt. Affairs/VPR/President). Publications/Website. Research road show - committee.
	Policies/Forms				x		x	Cost sharing, review procedures, signed approval documents.
	Signature authority - based on delegation	x	x		x		x	Signature sheets. Email notification for changes.
	PI certifications						x	Online training. Forms signed.
	Office of research compliance	x	x		x		x	Manager oversight and verbal communication with Sr. mgmt
	Budgetary control	x	x		x	x		Budget analysis (budget vs. actual). Analysis review documented by signature and date.

Monitoring

- Review monitoring processes to ensure critical mitigating activities are performed on a regular basis.
 - Review and update, if necessary, the accountable person responsible for the mitigating activity
 - Review that the mitigating activity is done effectively and efficiently and evaluate how management knows things are working as planned

University Risk and Compliance (URC) Resources

- Web-sites
 - <http://urc.tamu.edu>
 - Contact information
 - Link to “Risk Management”
 - <http://universityrisk.tamu.edu/>
 - Information about TAMU’s Risk Mgt. Program (ERM)
 - Risk Assessment Tools
 - Excel files and instructions
 - Risk dictionary
 - Presentations

Performing a Risk Assessment

Questions...