

Enterprise Risk Management For Non-Profit Organizations



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Presented by:
Mary Peter, Director of Enterprise Risk Management



CPAs & BUSINESS ADVISORS

»» Discussion Points

- Definition of Risk
- Evolution of Enterprise Risk Management
- A View of Risk from the Top
- ERM Simplified Steps
- Benefits of ERM

»»» Your Presenter

Mary Peter

Director of Enterprise Risk Management (ERM)
Eide Bailly LLP

mpeter@eidebailly.com

612-918-3662

866-585-9059



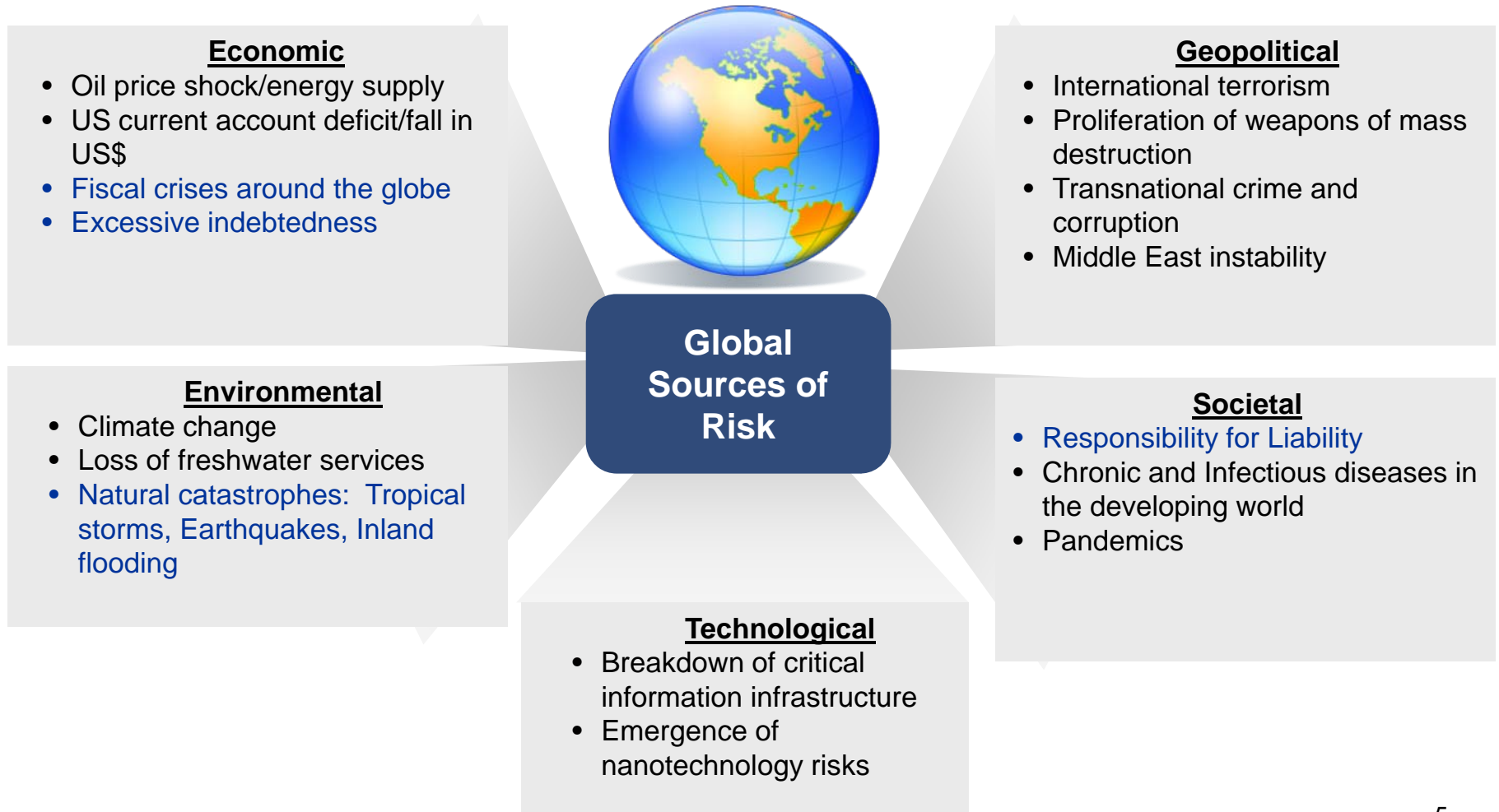


»»» Risk Defined

- Risk - the variability in expected outcomes, usually in reference to the possibility of negative results –
 - Is there an upside of risk? –
 - Consider the opportunity that risk can bring!

Environment of Risk – Worldwide View

Over time, multiple factors have created an environment flooded with risk.





World Events & Compliance Timeline

World Events

Savings & loan crisis

Enron collapse

9/11 terrorist attacks

SARS outbreak in China

**Bank of America lost
tapes containing personal
data**

Asian earthquake

1980

1985

1992

1999

2001

2002

2004



Compliance Initiatives

Treadway commission formed

**Treadway released COSO for
internal controls**

**AS/NZ ERM Framework first
released**

Sarbanes-Oxley law passed

**AS/NZ Framework re-released
COSO ERM Framework released**

**Basel II Accord – International
standard for banking
regulations**

World Events & Compliance Timeline (cont)

World Events

Compliance Initiatives



S&P: Evaluation of ERM for insurance and financial institutions

S&P announces: ERM will be included in credit review for all companies

COSO released 3 volumes on monitoring internal controls

ISO 31000 ERM Standard published in November, 2009

More regulatory actions to come?



Global Corporate Governance Models

INTERNATIONAL - Basel I & II; ISO 31000

- France**
- Vienot Com.
 - Mrini Report
 - Levy-Long Com.

- UK**
- Cadbury
 - Turnbull
 - Greenbury Rpt
 - BS 31100 RM

- All EU Countries**
- Directives on Governance

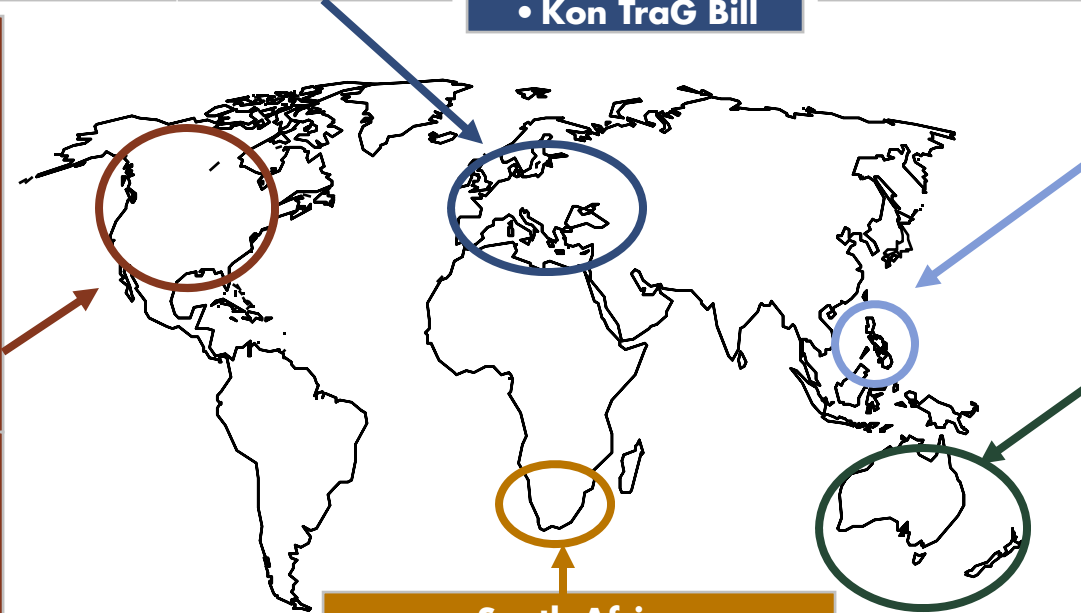
- Germany**
- Bill on The Control and Transparency of organizations
 - Kon TraG Bill

- Netherlands**
- Code Tabaksblatt

- Italy**
- Draghi Commission

- US**
- Business Round Table
 - NYSE listing Requirements
 - Blue Ribbon Commission
 - Sarbanes Oxley Act
 - COSO ERM Framework

- Canada**
- Toronto Stock Exchange Committee
 - Canadian Securities Committee
 - Allen committee Report
 - COCO

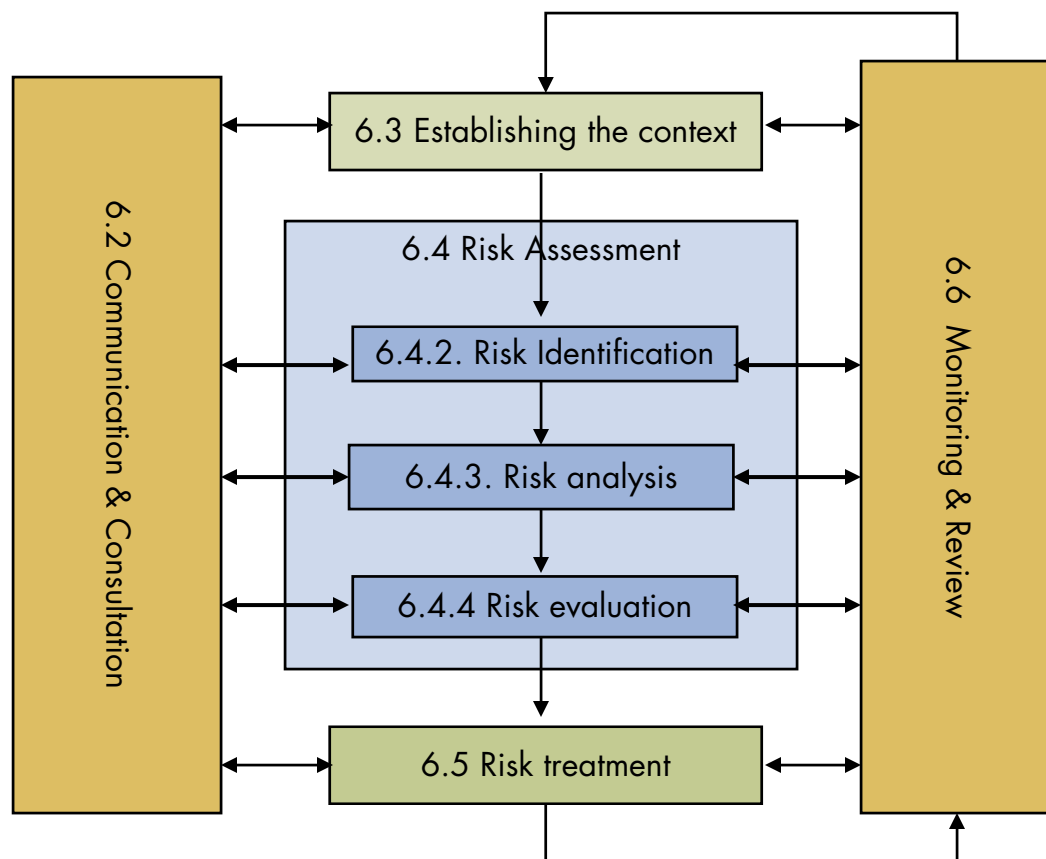


- Japan**
- Corporate Governance Forum of Japan
 - J-SOX

- Australia/New Zealand**
- AS/NZS 4360:2004
 - Stock Exchange Listing
 - New Accounting Standards
 - Best Practice Stmt Mgmt

- South Africa**
- Code of Best Practice
 - King Report I, II, III out soon
 - Stakeholder Communication
 - Public Finance Mgmt Act

ISO 31000 Risk Management Standard

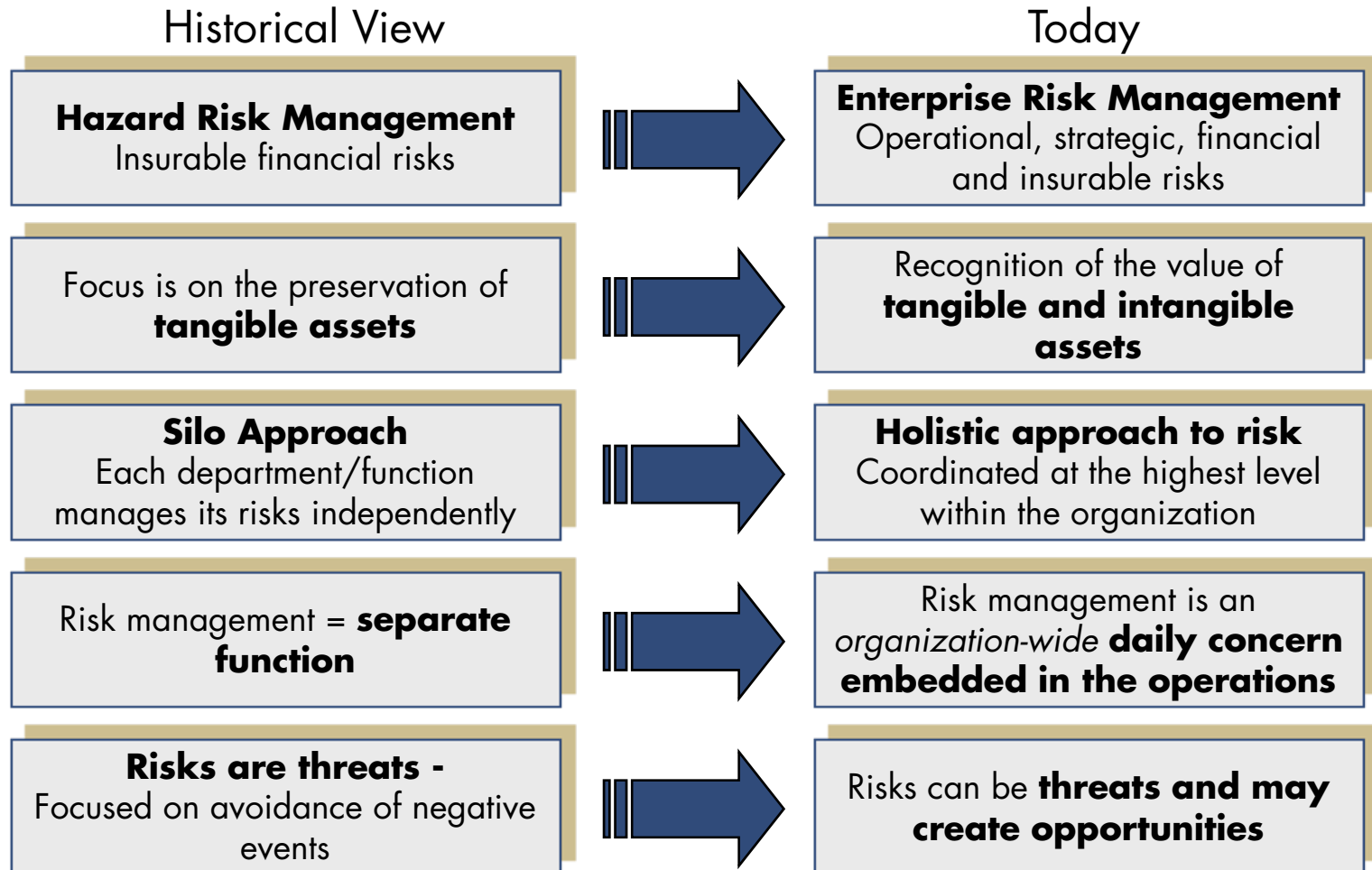


- First, establish the framework and support, then go through this process
- ISO process very similar to Aus/NZ ERM process
- Emphasis on continual activities – Monitoring & Review and Communication & Consultation
- Approved and released in 2009

Source: International Organization for Standardization

ERM Has Evolved

The perception of managing risk has changed and adapted to be more comprehensive



»»» Enterprise Risk Management (ERM) Defined

- An ***integrated approach*** to addressing all forms of risk to an organization
- A ***top-down assessment*** of risk and opportunity for the organization as a whole
- A process to ***align risk strategies*** to support further growth and protect existing assets
- A proactive approach to the ***increased visibility of how risk is managed*** in an organization
- ERM leads to ***informed decision-making*** and helps preserve and enhance value

It is different to every organization and industry

»» Motivation to Implement ERM

- *Regulatory pressures*
- Good business practice
- Competitive advantage
- Investment community pressure
- *Rating agency pressure*
- Recent catastrophe within the organization; or within their sector (i.e. dramatic reduction in government funding)

Note: Regulatory & rating agency pressure do not apply to non-profit sector

»»» Polling Question # 1

- Our motivation to implement ERM is:
 - A – Board members
 - B – Uncertain future of funding & revenue
 - C – Fraud
 - D – Good business practice
 - E – Unsure

Who is Driving ERM?

- **Board of Directors/Stakeholders** – Demand increased financial disclosure and transparency and evidence that management understands and manages risks
- **Regulators/Rating Agencies** – Seek assurance around compliance and risk assessment process
- **Credit and Rating Analysts** - Asking organizations to report risks in a forward-looking context
 - Non-profit sector not as concerned with rating agencies & analysts*
- **Peers** – Comparison with others drives practices
- **Competitors** – Push innovation, drive leadership



Boards are Responding

Boards are asking management to engage in new ERM practices and guidelines

Current ERM practices resulting in low value ERM

- Compliance Focused
- Large inventory of risks
- Extensive Risk Mapping
- Risk Mitigation to safeguard the organization
- ERM is separate from strategic and operational decision-making
- Seen as a necessary effort and delegated to lower level staff

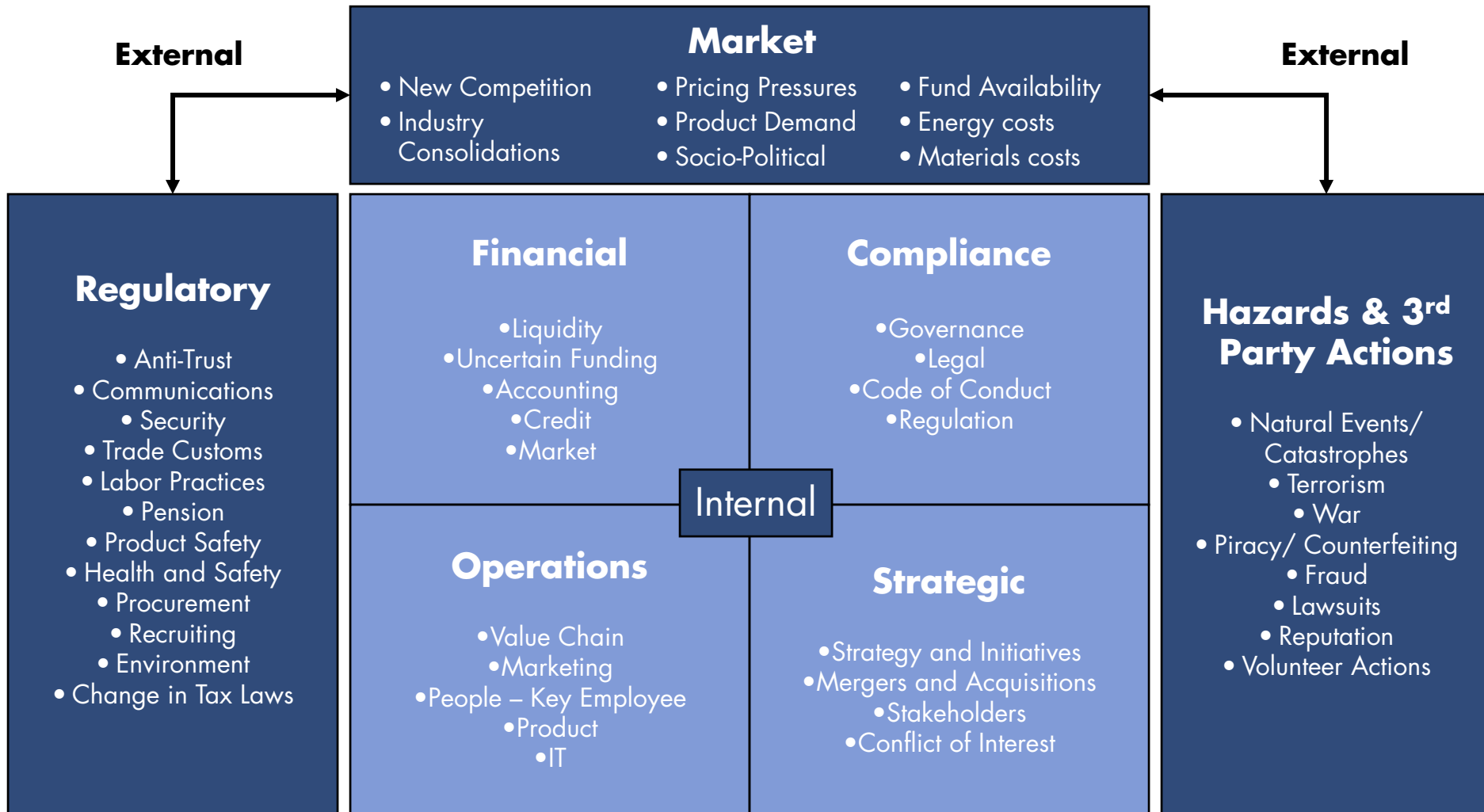


New ERM approach will ask management teams to be more strategic

- Value & Opportunity Focused
- Emphasis on a few key risks that drive disproportionate gains or losses
- Risk Optimization to maximize value of the organization
- ERM is a key part of strategic and operational decisions
- Top management is engaged and encourages everyone to practice risk management

Corporate Risk Universe – Non Profit

An organization that is aware of their risk universe is more adaptable and responsive



»»» Polling Question #2

- The most significant risk facing our organization today is:
 - A – Fraud
 - B – Uncertain funding
 - C – People
 - D – IT related
 - E – Other



Simplified ERM Approach – Six Steps

Step 1: Establish the ERM Foundation

- Align your risk appetite with your strategic plan.
- Develop long term objectives and short term milestones.

Step 2: Identify Risks

- Determine where, when and how events could prevent, degrade or delay the success of your organization.
- Utilize interviews, surveys, documentation review and facilitated workshops.

Step 3: Assess Risks

- Review the residual risk that remains.
- Consider interdependencies of risks.

Step 4: Evaluate Risks

- Maximize the opportunity of well-managed risks to create value for your organization.
- Amend risk response to better manage or mitigate risks and prioritize.
- Create a risk response strategy.

Step 5: Execute Risk Response Plans

- Define risk owners and consider a practical risk/reward approach.
- Finalize a communication plan and customize reporting.

Step 6: Monitor ERM

- Review the ERM program at regular intervals.
- Keep communication alive with a customized communication plan.

Risk Appetite SAMPLE – Impact

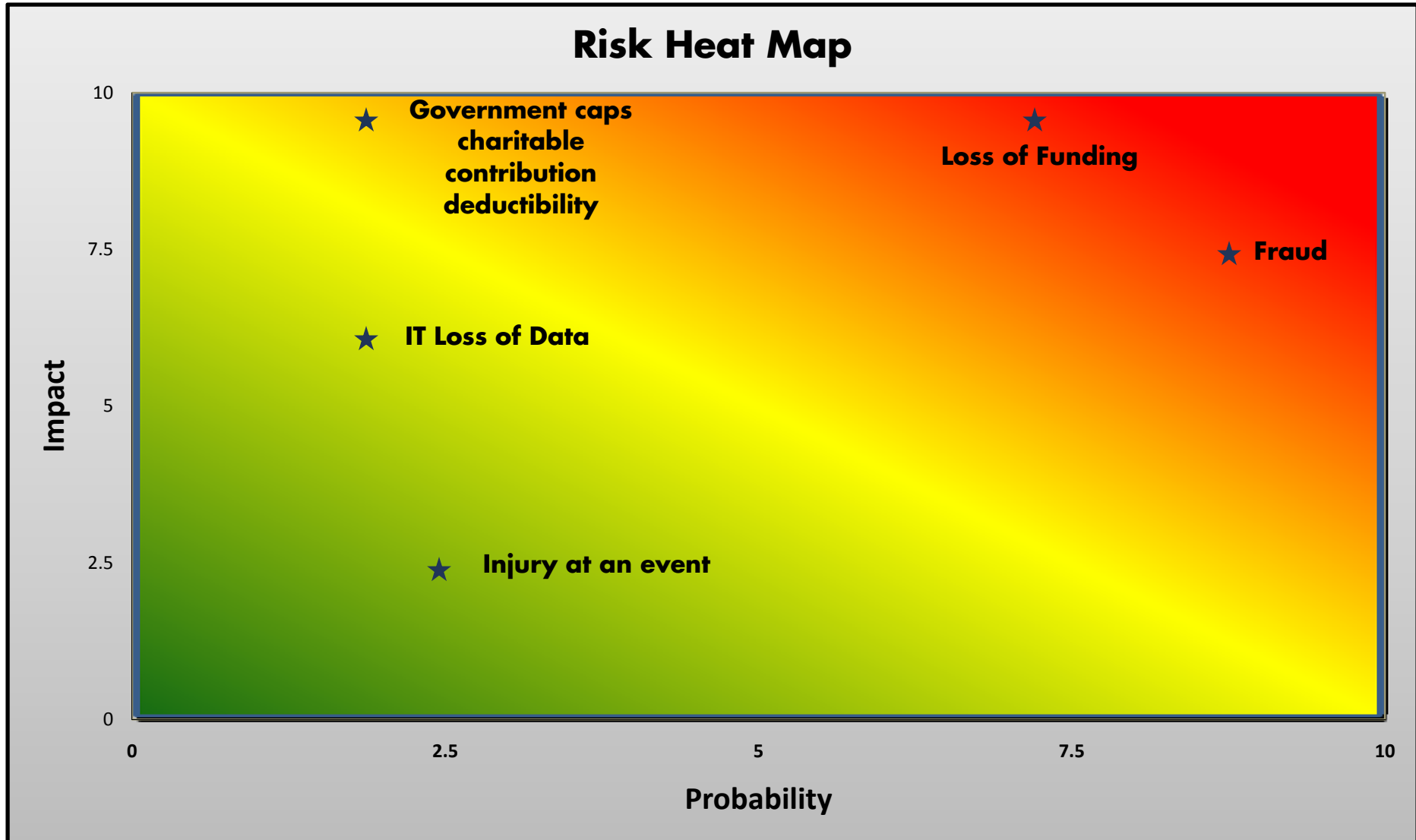
	Service Disruption	Financial Loss	Reputation	Failure to provide service or legal obligations	People
Threatening 4	Total failure of service	\$7,500,000	National publicity Resignation of Executive Officer	Multiple civil or criminal suits, litigation, claim or fine above X	Fatality of one or more affiliates or staff
Severe 3	Serious disruption to service	\$765,000 - \$7,500,000	National public or press interest	Litigation, claim or fine between \$x to \$x	Serious injury, permanent disablement of one or more staff
Moderate 2	Disruption to service	\$77,000 - \$765,000	Local public/press interest	Litigation, claim or fine between \$x to \$x	Major injury to individual
Immaterial 1	Some minor impact on service	\$7,700 - \$77,000	Contained within a department	Litigation, claim or fine between \$x to \$x	Minor injuries to several people

Probability Classification

Probability of an event occurring:

1. Low – The risk event may only occur in rare occasions
2. Moderate-Low – The risk event could occur at some time
3. Moderate-High – The risk event will probably occur at some time
4. High – The risk event is expected to occur most of the time

»»» Risk Reports - Heat Map



»»» Risk Response Strategies



»» Polling Question # 3

- The most common risk response we utilize is:
 - A – Avoid risk
 - B – Mitigate risk
 - C – Transfer risk to insurance
 - D – Enhance opportunity risk
 - E – Unsure

ERM Roles & Responsibilities

Role	Responsibilities
ERM Sponsors	<ul style="list-style-type: none"> ■ Executive sponsor of the ERM program ■ Option to include a board member in addition to an executive ■ Communication of the ERM program sets the 'tone at the top'
ERM Oversight Team	<ul style="list-style-type: none"> ■ Develops the methodology and approach ■ Reviews ERM related information for alignment with culture and mission ■ Works with ERM Team to provide customized ERM reports for and improved decision making purposes
ERM Project Team Leader	<ul style="list-style-type: none"> ■ Knowledgeable in their industry and how ERM will benefit the organization and its constituents ■ Assists in facilitating workshops to obtain inter related risk discussions ■ Able to identify ERM risks, including emerging risks with project team
ERM Project Team	<ul style="list-style-type: none"> ■ Cross-functional 'Working' Team will do risk identification, risk assessment and risk response planning ■ Assists in designing customized ERM program and outcomes; aligning them with organization's goals & objectives ■ Assists Project Team Lead in developing the ERM process, communications, and monitoring

»»» Successful ERM Programs have:

- ERM initiative ***driven*** by board of directors and executive management
- Common understanding of the organization's ***culture***
- Longer ***ERM goals and objectives*** set
- Short term, attainable ***milestones*** embedded in the process
- Appropriate ***cross-functional*** ERM team chosen with defined roles, responsibilities and communication protocols
- Organizational ***"Risk Appetite"*** and ***"Risk Tolerance"*** determined
- Common ***"Risk Language"*** communicated

»»» How will ERM Impact Organizations?

- Increased understanding of exposure of risk
- Uncovering opportunities
- Enhanced market perception
- More effective strategic planning
- Improved decision making
- Competitive advantage
- Regulatory rating changes?
- Credit rating impact?

»»» Benefits of ERM

The benefits of ERM are both external and internal to the organization

More Effective Strategic Planning

- More accurate financial forecasts and projections
- More informed and accurate budgetary planning
- More accurate resource planning

Increased Understanding of Exposure to Risk

- Reduced exposure to controllable events
- Response time improves when risks are anticipated
- Reduced disruptions to on-going operations

Improved Decision Making

- More informed and fact based decision making
- Improved future resource requirements planning
- Reduced wasteful spending on unnecessary expenditures

Enhanced Market Perception

- Enhanced perception of value by minimizing losses and maximizing opportunities
- Reduced "surprises"

Enhanced Internal Culture and Operations

- Improved productivity with awareness of risk exposure
- Increase strength of culture
- Increased awareness of operations for the Board

»»» Polling Question # 4

- To enhance our ERM program, the next step for our organization will be to:
 - A – Evaluate our ERM foundation
 - B – Identify risks using probability & impact
 - C – Review our risk response plans
 - D – Assess risks
 - E – Begin the ERM journey



Questions

Mary Peter

Director of Enterprise Risk Management

mpeter@eidebailly.com

952-918-3662

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www.eidebailly.com