



**A Risk Manager's  
and an  
Internal Auditor's View  
of  
Enterprise Risk Management**



# Introduction/Background

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## **IIA Research Foundation Global Survey on ERM:**

- **ERM – Found among larger organizations**
- **Still in its earliest stages – but few are ignoring it**
- **Of the respondents: 25% financial; 15% energy & mining; 13% manufacturing; 8% public sector; the rest: technology, healthcare, retail, service, transportation**

# Introduction/Background

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## **Motivators for Adopting ERM (Survey):**

- **Desire for an integrated framework**
- **Corporate governance guidelines**
- **Mandate from the board**
- **Competitive pressure**
- **The desire for earnings stability**

# Introduction/Background

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## **Barriers to Adopting ERM (Survey):**

- **Changing the organizational culture**
- **Benefits unclear**
- **Lack of process, language, understanding**
- **Turf issues (33%!)**
- **Lack of tools**

# Introduction/Background

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## **Key Concepts that Differentiate ERM & RM:**

- **Looks at both upside opportunities and downside risk**
- **A fully coordinated approach that looks at ALL risks**
- **Tied to strategic objectives**
- **Subject matter experts**

# Introduction/Background

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## What About the Definition of RISK??

- **“Business risk” is the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood. (COSO)**
- **ERM definition: “any threat or barrier that could prevent an organization from achieving its management objectives.”**
- **They encourage each entity to create its own definition of risk.**

# Introduction/Background

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## What About the Definition of RISK??

- “Planning for the **negative consequences** of any decision process or action by using whatever means feasible to **control the chance of financial loss.**” *Public Sector Risk Management Manual*
- “The process of planning, organizing, leading and controlling the activities of an organization in order to **minimize the adverse effects of accidental losses** on that organization at a reasonable cost.” ARM 54, Ins. Institutes of America

# **Risk Management is Now Top Priority**

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- **Risk Management is becoming significantly more sophisticated as risk events become more severe.**
- **Management must increase the priority of risk assessment and risk management.**
- **New tools, more sophisticated analyses, more flexibility, and broadened view of risk are required.**

# A New View



**“Because risk is inherent in most productive activities, even the most conscientious efforts cannot eliminate all risk...By including risk in its strategic planning process, a public entity can also plan safely to expand into service areas that it might otherwise avoid. Public entities are vulnerable to many risks beyond the common, insurable risks associated with accidental losses such as property damage, auto accidents, and workers’ compensation. Public entities must also anticipate risks to their revenue stream, tax base, and bond rating, to name just a few. The expanded view of risk that takes into account this full range of exposures goes by many names (enterprise, holistic, integrated, or strategic), but the name is not important as long as the fundamental goal-the broadest possible view of the risks that the entity faces-is realized”. -- Claire Lee Reiss, J.D., ARM**

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**Whaaat?**

**Internal Auditors Messing  
in Risk Management???**

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# About the Profession



**Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.**

**The IIA believes that an organization is best served by a fully resourced and professionally competent internal auditing staff that provides value-added services that are critical to the efficient and effective management of an organization.**

**According to the National Commission on Fraudulent Financial Reporting (Treadway Commission), every public corporation should have an internal audit function.**

# Where It All Started

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## **1973 – 1976 -- Watergate**

Illegal domestic political contributions and payments to foreign government officials.

## **1977 – *Foreign Corrupt Practices Act***

Sound internal control should provide an effective deterrent to illegal payments.

# 1985 - Treadway Commission

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## Treadway Commission

National Commission on Fraudulent Reporting

## Committee of Sponsoring Organizations (COSO)

The American Institute of Certified Public Accountants (AICPA), American Accounting Association (AAA), Financial Executives Institute (FEI), Institute of Internal Auditors (IIA), and Institute of Management Accountants (IMA)

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***GOAL:*** To identify the causal factors of fraudulent financial reporting and to make recommendations to reduce its incidence

# **Solution: *Strengthen Internal Control***

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**1988 – AICPA SAS 55** -- Increased independent auditors' responsibility.

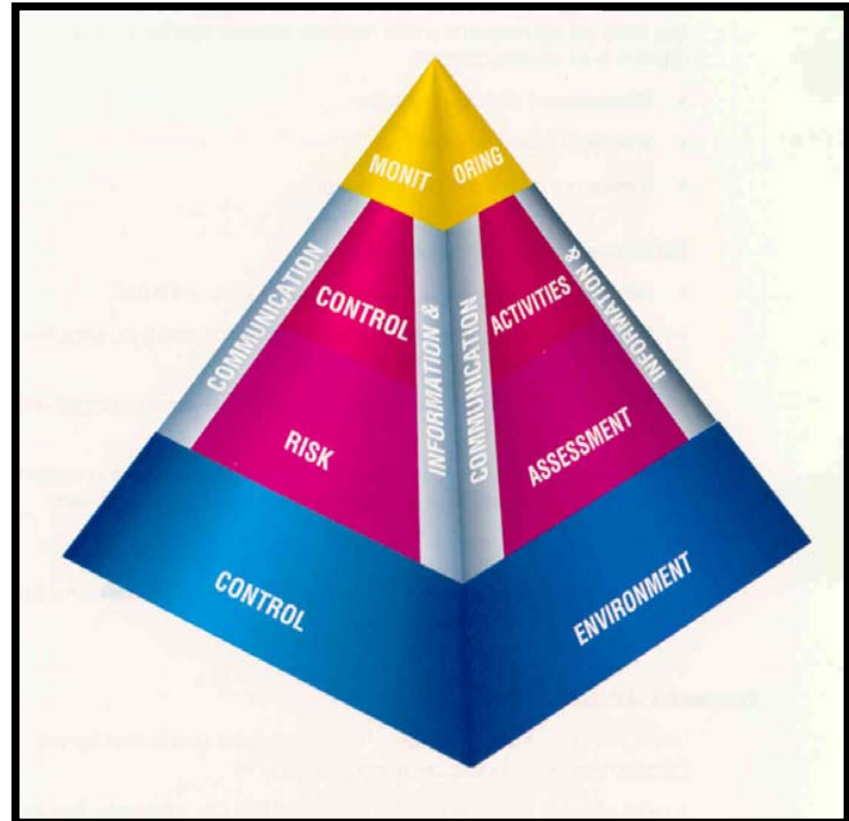
**1992 – COSO Issued the Report** -- *Internal Control – Integrated Framework*. Expanded definition of internal control and established management's responsibility for control.

**1995 – AICPA Issued SAS 78** -- amendment to SAS 55, recognized the definition of internal control contained in the COSO report, *Internal Control – Integrated Framework*.

# Two New Components Added

**Control Environment** sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for the model.

**Risk Assessment** is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.



# **COSO Came from Watergate**

## **Now We Have...**

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### **Emerging Issues (to name a few)**

- **Global Economy**
- **Technology**
- **Increase in fraudulent practices**
- **Terrorism**

**The Market and Enron, etc.**

# IIA Responds

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- 1. New definition of Internal Auditing**
- 2. New standards for the Professional Practice of Internal Auditing**
- 3. New practice Advisories – for example**
  - IA's role in the risk management process may range from auditing the risk management process...to facilitating or coordinating the (enterprise) risk management process

# IIA Definition of Internal Auditing

## Old:

Internal auditing is an independent appraisal function. The objective of internal auditing is to assist in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable costs.

## New:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

# On the Horizon...

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## **Sarbanes-Oxley Act (2002)**

**“Enterprise-wide risk management is a strategic management need...to identify, assess, monitor, and manage changes...that may impact risk exposure and opportunities...that can potentially create competitive advantage.”<sup>[1]</sup>**

## **COSO (2002)**

**Launch of new study to provide guidance on assessing and managing enterprise risks**

[1] PWC.2002. The Sarbanes-Oxley Act of 2002

# ERM: Definition

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**“A rigorous approach to assessing and addressing the risks from all sources that threaten the achievement of an organization’s strategic objectives. In addition, ERM identifies those risks that represent corresponding opportunities to exploit for competitive advantage.”**

*Tillinghast-Towers Perrin*

# ERM: Categories of Risks

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**Hazard:** Insurable risks (fire, public liability, etc.)

**Financial:** Interest rates, foreign exchange, commodity prices, market risk

**Operational:** Internal processes necessary to conduct business (QC)

**Strategic:** “Big Picture” decisions (mergers and acquisitions; new products)

# ERM: Insurable vs. Uninsurable Risks

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*Traditional RM: Focus is Almost Solely on Insurable Risks*  
**If risk cannot be transferred/financed (uninsurable),  
risk is borne by the organization and absorbed**

*ERM: Line Between Insurable and Uninsurable Risks is  
Blurred*

- **Exotic forms of risk transfer: ART and capital markets**
- **Discards the notion of uninsurability as outdated and an inefficient construct**

# Goals of ERM

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- **To create a risk-aware culture**
- **To formally bring risk into strategic decision making**
- **To develop a center of excellence for managing risk, drawing on the expertise of highly skilled individual managers.**

# MIRA

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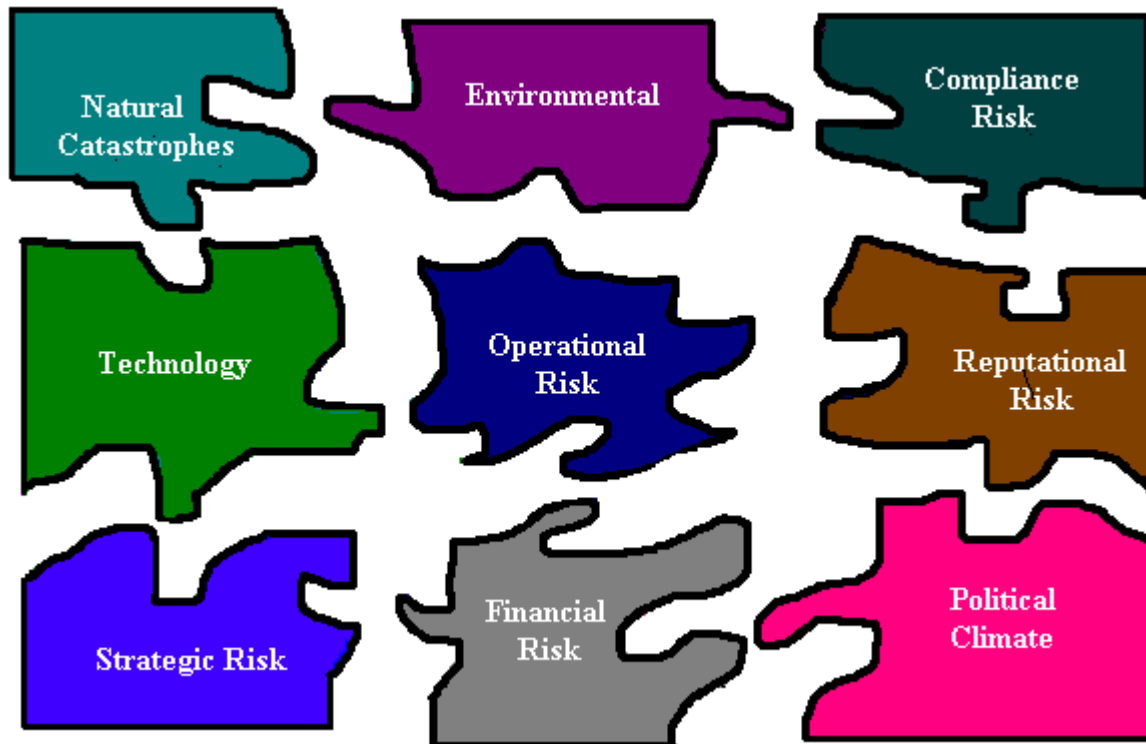


## Maricopa Integrated Risk Assessment

# Fragmentation: A Need for Cohesion

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## A Systematic Process for Identifying Maricopa's Key Risks



# Looking Back

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<b>Fall 1999</b>	<b>MRAP (now MIRA) presented to CEC</b>
<b>Nov 1999</b>	<b>Task force created</b>
<b>Dec 1999</b>	<b>High-level risk assessment of MCCCCD</b>
<b>Feb 2000</b>	<b>Risks prioritized/Critical risks identified</b>
<b>Mar 2000</b>	<b>Governing Board approves plan</b>
<b>Aug 2000</b>	<b>FAC Program/Service Review Pilot (PC)</b>
<b>Sep 2000</b>	<b>Maricopa ethics initiative launched</b>
<b>Feb – June 2001</b>	<b>Subteam worked on a common language</b>

# Looking Back

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<b>April 2001</b>	<b>FAC Program/Service Review Pilot – FP&amp;D</b>
<b>Summer 2001</b>	<b>MRAP named changed to MIRA</b>
<b>August 2001</b>	<b>Subteam members attended ERM Conference</b>
<b>October 2001</b>	<b>Subteam took a fresh look at MIRA</b>
<b>April 2002</b>	<b>MIRA update to MCCCCD leaders</b>
<b>Summer 2002</b>	<b>MIRA reassessed; steps needed to implement ERM identified</b>
<b>Fall 2002</b>	<b>Strategic Planning implemented</b>

# Looking Back

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**Fall 2002**

**MCCCD leaders promote the linking of strategic and financial planning activities**

**January 2003**

**RMAC established to assist Risk Manager in advancing risk management program**

**April 2003**

**Program and Service Review pilots incorporate risk assessment, action planning, and follow-up**

# Looking Forward

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|-------------------------|--|
| <b>Summer 2003</b>      | <b>Establish a cross-functional MIRA team of key experts</b>   |
| <b>Summer/Fall 2003</b> | <b>Develop a plan for building an ERM culture and capability</b>   |
| <b>Fall 2003</b>        | <b>Include enterprise-wide risk assessment, action planning and follow-up in MCCCCD strategic planning process</b> |
| <b>December 2003</b>    | <b>Develop a high-level risk profile for MCCCCD based on industry trends and history</b>                           |

# Task Force Representation

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- **Governing Board**
  - **Students**
  - **Faculty**
  - **Chancellors Executive Council**
  - **Deans of Instruction**
  - **Deans of Students**
  - **Administrative Services Deans**
  - **Instructional Services**
  - **College Safety Directors**
  - **College Business Services Managers**
- **College Fiscal Officers**
  - **Legal Services – Risk Management**
  - **Controller’s Office**
  - **Financial Planning and Budget**
  - **Purchasing**
  - **Internal Audit & Management Advisory Services**
  - **PSA, Crafts/M&O, MAT**

# **Critical Risks Identified by The Task Force**

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- **Unclear that fraud and other inappropriate behavior will not be tolerated. Consequences -- pro or con -- are not defined and clearly communicated. Consequences are not applied uniformly.**
- **Management does not periodically assess the effectiveness of the control environment within colleges, programs, departments and activities.**
- **Employees do not evaluate total cost of ownership or operation before a decision is made.**

# Action Plans for the Critical Risks

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- 1. Establish a standard that fraud and other inappropriate behavior will not be tolerated.**
- 2. Periodically assess the effectiveness of the control environment.**
- 3. Consider risks in a timely manner.**
- 4. Ensure actions are readily taken to mitigate identified risks, and establish overall strategies for managing critical risks.**
- 5. Evaluate total cost of ownership or operation prior to finalizing decisions.**

# **MCCCD Challenges to MIRA Implementation**

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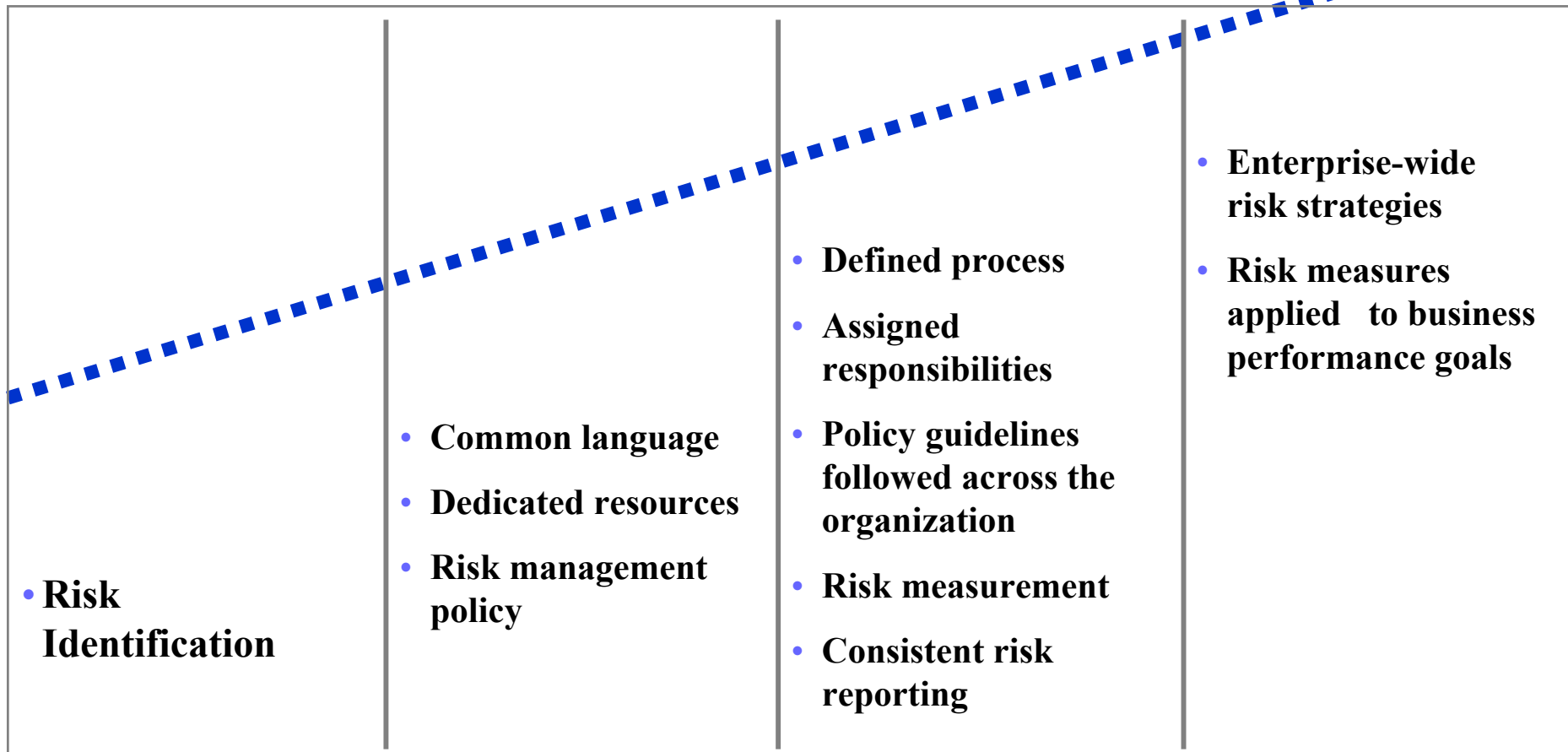
- 10. Our culture does not allow fast implementation.**
- 9. The support team or steering committee needs to be representative of MCCCD as a whole.**
- 8. Our traditional risk management program is not current.**
- 7. There is not a common “risk” language within Maricopa.**
- 6. There is a lack of dedicated staff to MIRA.**

# **MCCCD Challenges to MIRA Implementation**

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- 5. There is no accountability in place for employees to assess (or not assess) risks.**
- 4. Assessing risk is not an integral part of managers' day-to-day activities.**
- 3. There is an impression that risk management is a self-contained entity or function.**
- 2. There is no universal understanding of the value of MIRA.**
- 1. MIRA was created out of external mandates, not employee driven or demanded.**

# Recommended Incremental Steps



# Current Key Facilitators

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**Champion:** Dr. Rufus Glasper

**Drivers:** Ruth Unks and Dee Jacobs

**Support Team:** Director of Financial Services and  
Controller  
Director of Financial Planning and  
Budget  
District Auditor  
Director of Strategic Business  
Operations  
General Counsel

# **Implementation: MIRA Committee**

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- 1. Identify a working committee and chair**
- 2. Define the scope and responsibilities of the committee**

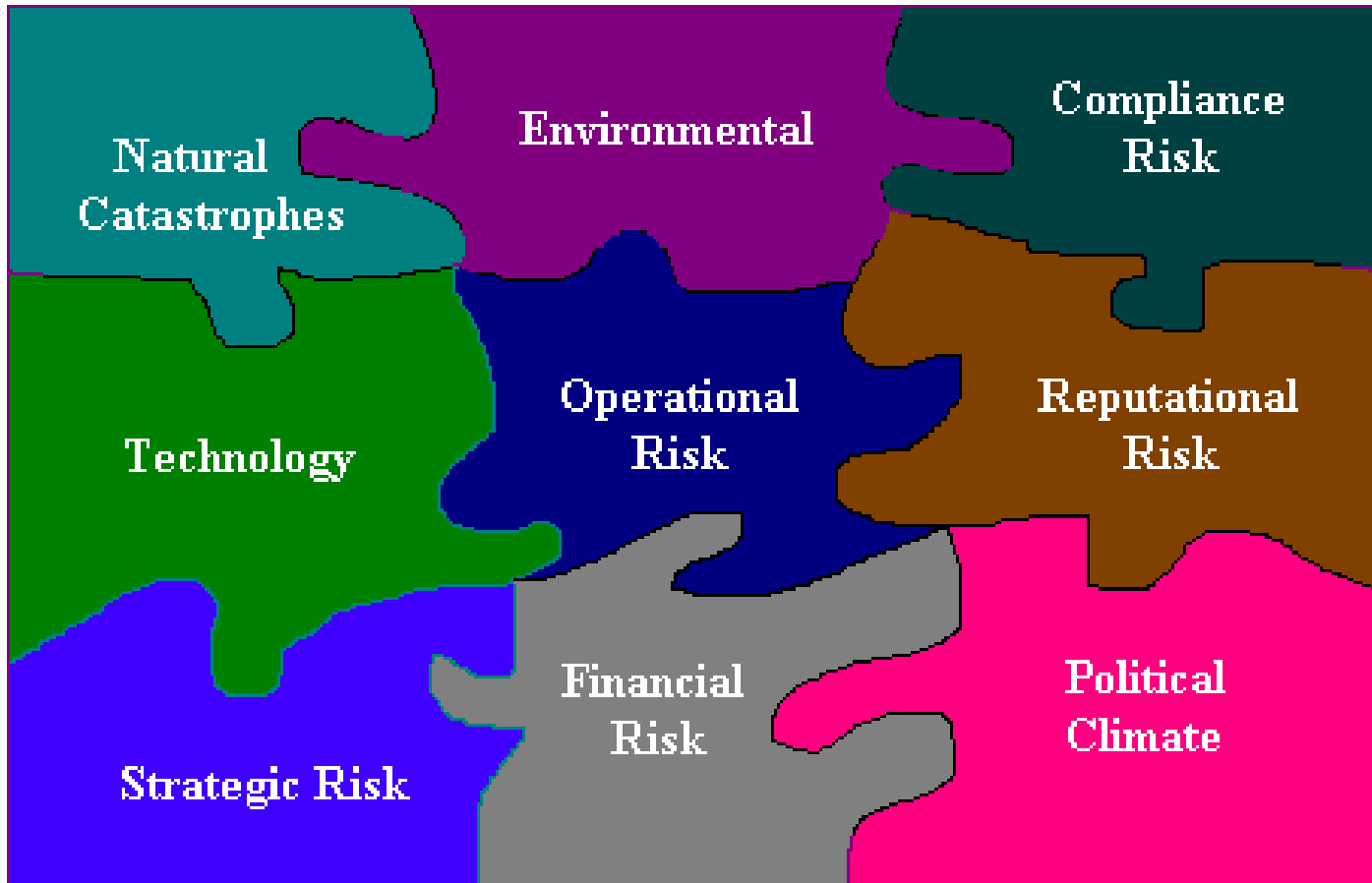
# **Implementation: MIRA Committee**

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## **3. Issues to be addressed by the committee:**

- **Risk identification, evaluation, prioritization**
- **Strategies for addressing risks**
- **Policy, guidelines**
- **Recommendation for funding, awareness, training, process, reporting**
- **Feedback and monitoring**

# Putting the Pieces Together for Cohesion and Effectiveness



# Going Forward



**“...the public sector is being required to innovate and to take the initiative on behalf of its citizens which is great news. But with innovation comes risk, and the only way to ensure innovation is successful is to manage that risk.”**

**SOLACE  
Chance or Choice**

# **Does ERM Apply to Public Entities?**

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# QUESTIONS



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