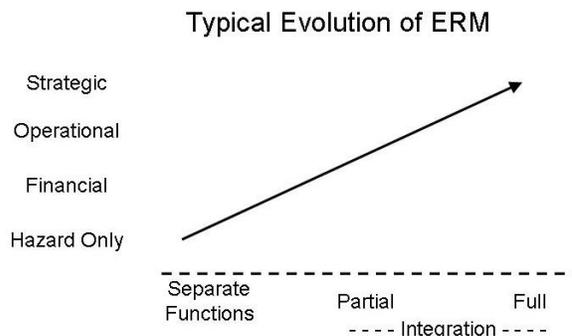


Proposed Application of the Enterprise Risk Management Concept at the University of Washington

Enterprise Risk Management (ERM) is not a new concept, but it has not been fully implemented in many organizations, including institutions of higher education. In theory, the management of risk develops on a continuum, with early models addressing hazard risks (i.e. accidents) only and mitigation often being accomplished through the simple purchase of commercial insurance by an isolated purchaser. Over time, other risk types, such as operational and financial risks, are added to the model and cross-functional participation by more units is required as complex loss control strategies replace insurance as the chosen mitigation tool. Ultimately, strategic risks are added to the matrix and complete integration of information from all units of an organization becomes essential to the ERM discussion. This is the stage at which risk can finally be viewed as both an opportunity and a threat, and at which mitigation priorities can be linked clearly to the strategic objectives of the organization.



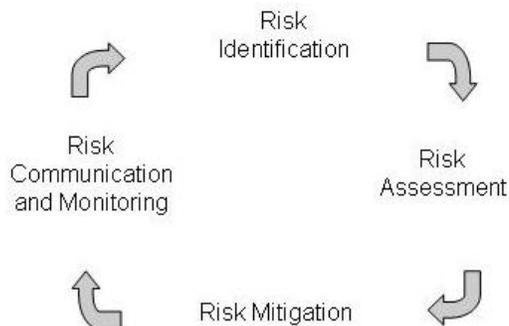
The University of Washington is in the middle of the continuum today. Although many operational units, committees and administrative bodies handle the risks faced in their own environments well, there is little cross-functional sharing of information. The opportunity aspect of risk is not therefore fully utilized by the University and risk mitigation priorities are not consistently driven by the institution's strategic objectives.



After researching the theory and practice of ERM, a group of UW administrators has developed a model tailored to UW's decentralized, entrepreneurial nature. It is proposed that oversight of all ERM activities be assumed by a President's Advisory Committee on Risk and Compliance Management, staffed by the Executive Director of Risk Management. This high-level group of senior leaders from the administration and faculty¹ would meet regularly to systematically evaluate the adequacy of the University's risk mitigation efforts in the areas of compliance, operations and finance, and to expeditiously elevate risk and compliance issues of strategic importance to the governance. It is intended that the work of this executive-level committee will advance a broad understanding of and commitment to compliance and risk mitigation.

¹ Potential members include: the Provost; two or more Deans; the Chancellor from either Tacoma or Bothell; two representatives of the Faculty Senate; the Executive Vice President; the Athletic Director; the vice provosts for Research, the Graduate School, and Planning and Budgeting; the vice presidents for External Affairs, Financial Management, Student Affairs; the Executive Director of Health Sciences Administration; the Division Chief of the Attorney General's Office; and representatives from ASUW and GPSS.

The model proposes that risk management (including the management of compliance activities) would occur most effectively in a cycle of risk identification, assessment, mitigation and monitoring/communication activities. In the **risk identification** stage, annual activities include interviews by Internal Audit with key units and leaders, review of loss events by the Office of Risk Management, and selection by the President’s Advisory Committee of 25 UW groups to participate in risk assessment sessions.



In the **risk assessment** stage, these 25 groups, which might be programs, operational units, standing committees or ad hoc groups with topical expertise, would meet in facilitated 3-hour sessions to brainstorm risks. The likelihood of occurrence and the financial impact of these risks would be assessed using voting software and plotted on a risk map. The group would then discuss whether the map truly represents the relativities of the identified risks. For purposes of UW-wide risk assessment, the relative financial impact would be defined, but for units which use the tool for their own risk assessments, the dollar impact may be modified or some other measure of impact used. The group leaves the risk assessment session with a completed risk map. The use of color signifies the level of management attention required in mitigation activities; red signifies executive-level attention, yellow signifies VP-level attention, green signifies Director/AVP-level attention and grey signifies operations-level attention.

Enterprise-wide Risk Map

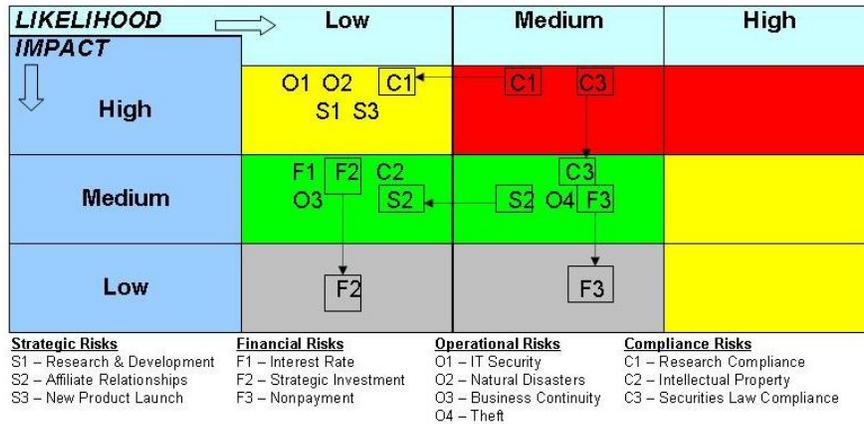
LIKELIHOOD IMPACT		LIKELIHOOD		
		Low	Medium	High
IMPACT	High	O1, O2 S1, S3	C1, C3	
	Medium	F1, F2, C2	S2, O4, F3	
	Low			

Strategic Risks S1 – Research & Development S2 – Affiliate Relationships S3 – New Product Launch	Financial Risks F1 – Interest Rate F2 – Strategic Investment F3 – Nonpayment	Operational Risks O1 – IT Security O2 – Natural Disasters O3 – Business Continuity O4 – Theft	Compliance Risks C1 – Research Compliance C2 – Intellectual Property C3 – Securities Law Compliance
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Risk mitigation planning would occur in the operational units. After being asked to validate the risk maps, the “risk owners” (being those managers with responsibilities as described above) would develop mitigation plans which could include purchase of insurance, other transfer of risk, avoidance, training, loss control or other methodologies. Management would then assess the effect of each mitigation plan and indicate the anticipated change in likelihood or impact of loss on a mitigated risk map. Finally, management would prioritize the

mitigation plans, implement the selected plans and periodically report on progress to the Office of Risk Management.

Enterprise-wide Risk Map with Mitigation



Risk monitoring and communication would occur in several ways. First, it is proposed that a Compliance Council be established to enable cross-functional education about the various laws, regulations and other requirements with which the UW must comply. The Director of Internal Audit would coordinate the work of this group of specialists², which would engage in an annual risk assessment and would escalate issues having critical UW-wide importance to the President’s Advisory Committee. Second, a helpline would be established through which complainants could report, anonymously, if they wish, issues of critical importance to the UW. Internal Audit would screen these reports and triage the complaints to the appropriate offices for response. Those complaints which present issues of vital concern to the UW would be referred for early mediation with the University Complaint Investigation and Resolution Office (UCIRO). Early mediation would allow for the complainant to be heard and for the parties to agree to a plan by which the UW could systematically investigate the issue without the complicating threat of litigation or publicity looming. Third, it is proposed that a group of experts in finance and budget³ be regularly convened to analyze and mitigate risks to the financial health of UW. The Office of Risk Management would maintain and evaluate metrics and reports from each of these groups concurrently with reports from management on the progress of selected mitigation plans. The synthesis of this information would be continuously refreshed as risk assessment sessions were completed and mitigation plans developed. The combined information would be presented to the President’s Advisory Committee for discussion and recommendations to the President, and for reporting to the Board of Regents as requested.

² Potential members include: two faculty members named by the President’s Advisory Committee; the Executive Director of Risk Management; an Assistant Attorney General; and representatives identified by the cognizant officers responsible for compliance in the areas of ADA/Equal Opportunity, animal subjects, donor gift restrictions, environmental health and safety, faculty and staff conflicts of interest, human resources, human subjects, information technology and security, international affairs, NCAA, patient billing, pre- and post-award research administration, privacy, research policy, scientific misconduct, student financial aid, tax and technology licensing/intellectual property.

³ Potential members include: the Vice Provost for Planning and Budgeting and representatives of his office; the Vice President of Financial Management and representatives of her office; and at least two campus administrators with financial management responsibilities.