

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of March 28, 2012

ENDORSEMENT OF ENTERPRISE RISK MANAGEMENT PROGRAM

RECOMMENDATION

The President recommends that the Committee on Finance recommend that the Regents endorse the Enterprise Risk Management Program, which is consistent with best practices as reflected in the common standards of the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management Framework and International Organization for Standardization 31000 Risk Management Standards.

BACKGROUND

Enterprise Risk Management (ERM) is defined by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission as “a process, effected by an entity's board of directors, management and other personnel, applied in strategy-setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

ERM assists management and the Regents in making better, more risk-informed, strategic decisions. Because management is accountable to the Regents, the Regents’ focus on effective risk oversight is critical to setting the tone and culture towards effective risk management through strategy setting, formulating high-level objectives, and approving broad-based resource allocations. The President remains responsible for risk management including:

- Setting the risk appetite
- Imposing risk management processes
- Management assurance on risks
- Taking decisions on risk responses
- Implementing risk responses on management’s behalf
- Accountability for risk management

President Yudof strongly supports the University of California’s robust ERM program. Through delegation of authority the President has charged the implementation of ERM to the Chief Financial Officer, with delegation to the Chief Risk Officer.

Chief Risk Officer Grace Crickette assumed her position in December 2004 and developed the ERM program and structure in collaboration with the campuses. The program has been adopted by the campuses and has been implemented with progressive development of all requisite elements of an effective ERM program. Since its inception, the program has effectively helped the University reduce its cost of risk, improve cost of borrowing, preserve the institution's reputation, and support the mission of the University. The program has been recognized by the American Productivity and Quality Center (APQC) as a best practice ERM program.

The Regents recognize that UC must ensure that its ERM Program identifies top financial and non-financial risks, and informs the Regents in a timely manner of these risks along with appropriate responses for management of such risks. The Regents' formal endorsement of ERM will strengthen the program, ensuring sustainability, and will be in keeping with best practices as reflected in the common standards of the COSO ERM Framework and ISO 31000 Risk Management Standards.

The University began a systemwide Enterprise Risk Management (ERM) Program in 2005 after hiring a Chief Risk Officer. The program, while a "grass-roots" effort rather than a top-down mandate, has been highly successful. Some highlights include:

- APQC (the American Productivity and Quality Center)¹, the leading non-profit organization focused on quality improvement and benchmarking, selected the University of California as one of the top 5 Best-Practice Organization in Enterprise Risk Management out of over 300 global organizations.
- UC was the first non-financial institution to receive credit agency acknowledgement of its enterprise risk management program: "*The UC has implemented a system-wide enterprise risk management information system, which, in our opinion, is a credit strength.*" — *Standard & Poor's RatingsDirect on the Global Credit Portal, September 9, 2010*
- UC has been able to drive down its cost of risk to \$13.43 per \$1,000 of operating budget, which represents a cost avoidance savings of \$493 million since fiscal year 2003-04.
- The UC Office of Risk Services is known as a center of excellence for ERM. During 2010, the Risk Services website was visited by more than 128,000 unique visitors, including institutions of higher education and Fortune 100 companies, from more than 200 countries. The department has become a center of excellence and has assisted numerous organizations with their ERM programs, including private and public institutions of higher education, government agencies, and corporations of varying sizes both domestically and internationally.

Given the University's success with ERM and the worldwide attention being given to the importance of organizations having a robust and sustainable ERM program, the President recommends that the Regents formally endorse the ERM Program.

¹ <http://www.apqc.org/>