

Welcome to Enterprise Risk Management for Nonprofits & Associations: Where Strategy Meets Risk

*Presented by: Gelman, Rosenberg & Freedman CPAs and
Lewis Baach Kaufmann Middlemiss PLLC*

The program will start promptly at **1:00 PM ET**

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- Technical questions about the survey can be addressed to Dominic Acosta at dacosta@grfcpa.com.

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Webinar Objectives

Learning Objective

To provide attendees with an understanding of enterprise risk management and emerging risks.

Instructional Delivery Methods

Group Internet-based

Recommended CPE

1.0 CPE Credit

Recommended Fields of Study

Risk Management

Prerequisites

None required

Advance Preparation

None

Program Level

Basic

Course Registration Requirements

None

Refund Policy

No fee is required to participate in this session.

Cancellation Policy

In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.

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Enterprise Risk Management for Nonprofits & Associations: Where Strategy Meets Risk

*Co-hosted by: Gelman, Rosenberg & Freedman CPAs and
Lewis Baach Kaufmann Middlemiss PLLC*

December 13, 2018

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Highlights & Objectives

- What is Enterprise Risk Management (ERM)?
- 2018 State of Nonprofit Risk Oversight
- How to Identify Risks to Your Mission/Objectives/Strategic Plan
- Top Forecasted Risks for 2019
- How to Assess the Overall Risk and Develop a Practical Response
- Best Practice Takeaways



What is Enterprise Risk Management (ERM)?

Traditional vs. Enterprise Risk Management (ERM)

Traditional Risk Management	Enterprise Risk Management
Insurable	Not necessarily covered by insurance
One-dimensional assessment (potential impact)	Multi-dimensional assessment
Manages risks one by one	Analyzes material risks and how they relate
Occurs within one business unit (siloed)	Spans the entire organization (holistic)
Reactive and sporadic	Proactive and continuous
Considers only downside (loss)	Considers both upside and downside
Focuses solely on loss prevention	Focuses on business goals, adding value, and more
Disjointed activities	Embedded in culture and mindset

<http://erminsightsbycarol.com/traditional-risk-management-erm-differences/>

A blurred background image showing a large crowd of people, likely at a conference or event, with a person in a dark suit standing in the center. The image is overlaid with a white border.

Polling Question #1

ERM Frameworks





2018 State of Nonprofit Risk Oversight

2018 State of Risk Oversight

Enterprise Risk Management Survey

Data was collected during the fall of 2017 through an online survey instrument electronically sent to members of the AICPA's Business and Industry group who serve in Chief Financial Officer or equivalent senior executive positions.

- 130 large organizations (those with revenues greater than \$1 billion)
- 138 publicly-traded companies
- 137 financial services entities
- 103 not-for-profit organizations

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

GELMAN, ROSENBERG
& **FREEDMAN** *Certified Public Accountants*



2018

THE STATE OF RISK OVERSIGHT

AN OVERVIEW OF ENTERPRISE RISK MANAGEMENT PRACTICES

9TH EDITION | MARCH 2018



Mark Beasley
Deloitte Professor of ERM
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Bruce Branson
Associate Director, ERM Initiative

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NC STATE Poole College of Management
Enterprise Risk Management Initiative

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Why is ERM on the Rise?

Percentage of Respondents Selecting “Mostly” or “Extensively”					
Factors “Mostly” or “Extensively” Leading to Increased Senior Executive Focus on Risk Management Activities	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Not-for-Profit Organizations 2017	Not-for-Profit Organizations 2018
Regular demands	34%	34%	43%	22%	24%
Unanticipated risk events affecting organization	36%	44%	44%	37%	37%
Emerging best practice expectations	36%	37%	39%	41%	53%
Emerging corporate governance requirements	31%	37%	44%	20%	24%
Board of Director requests	26%	40%	42%	25%	25%

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

Current State of ERM

Percentage of Respondents			
Description of the State of ERM Currently in Place	Full Sample	Not-for-Profit Organizations 2017	Not-for-Profit Organizations 2018
No enterprise-wide management process in place	17%	17%	9%
Currently investigating concept of enterprise-wide risk management, but have made no decisions yet	9%	11%	13%
No formal enterprise-wide risk management process in place, but have plans to implement one	9%	9%	11%
Partial enterprise-wide risk management process in place (i.e., some, but not all, risk areas addressed)	37%	44%	40%
Complete formal enterprise-wide risk management process in place	28%	19%	27%

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

Who is Responsible for Risk Oversight?

For about half of the organizations, the board has delegated risk oversight to a committee, with most delegating to the audit committee, risk committees are on the rise from the prior year.

Percentage of Respondents					
If board delegates formal responsibility of risk oversight to a subcommittee, which committee is responsible?	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Audit Committee	46%	56%	48%	31%	54%
Risk Committee	31%	24%	34%	51%	15%
Executive Committee	8%	4%	2%	6%	8%

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

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Polling Question #2

Strengthening Risk Management Infrastructure

- Higher percentages of organizations are appointing individuals to lead the organization's risk management process
- Even higher percentages of organizations are creating management-level risk committees
- Boards of Directors continue to delegate risk oversight to a board committee, which is most often the audit committee

http://www.aicpa.org/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa_erm_research_study_2017.pdf

Who Does the Chief Risk Representative Report to?

Percentage of Respondents					
To Whom Does the CRO Formally Report?	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Board of Directors or Committee of the Board	23%	11%	24%	25%	19%
Chief Executive Office or President	42%	40%	39%	59%	32%
Chief Financial Officer	20%	29%	22%	12%	23%

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

The State of Risk Oversight

An Overview of Enterprise Risk Management Practices

Summary of Key Observations

Managing risks in today's environment isn't getting easier

Demands for greater management focus on risks are increasing

Risk management practices in most organizations remain relatively immature

Organizations are formalizing their risk management leadership structures

Most struggle to integrate risk management with strategy

Organizations have some elements of risk management processes

Boards receive written reports annually about top risks, but the underlying process may not be robust

Opportunities exist for improvement in the nature of risk information being reported to senior management

Few organizations are linking risk management responsibilities to incentive compensation

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>



How to Identify Risks to Your Mission/Objectives/Strategic Plan

Determine Organization Context



Risk Identification Techniques

Objectives
Based

Past
Events

Internal
Analysis
and
Surveys

Process
Flow
Analysis

Scenario
Based

Current
Events

Facilitated
Workshop
and
Interviews

Risk Universe - Categories



A blurred background image showing a group of people in business attire sitting around a table in a meeting room. The text is overlaid on this image.

Top Forecasted Risks for 2019

Top Forecasted Risks for 2019

Digital
Transformation/Big
Data

Cyber Threats /
Privacy and
Information Security
Management

Culture/HR/Talent
Management

Fraud/Corruption

Regulatory
Changes/Scrutiny
Over Compliance

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Polling Question #3



How to Assess the Overall Risk and Develop a Practical Response

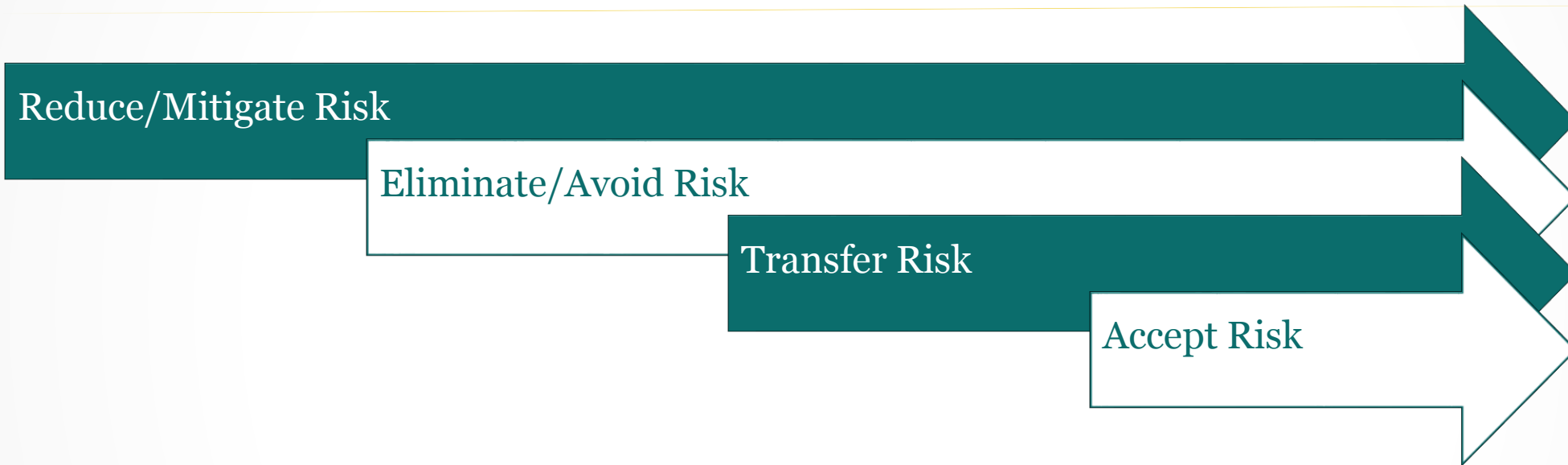
Example Likelihood and Impact Matrix

Likelihood and Impact Matrix					
Likelihood	Risk Ranking				
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5
	Impact				

Types of Risk Impact



Determine Risk Response



Risk Register Tracking Technique

Risk ID #	Title	Impact Description	Status	Strategic Objective	Risk Category	Impact 1=Lo, 5=Hi	Likelihood 1=Lo, 5=Hi	Risk Rank	Owner	Risk Response	Risk Response Summary	Date Closed	Closed Reason
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What Your Peers Are Doing

Percentage of Respondents					
	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Financial Services	Not-for-Profit Organizations
Percentage that maintain risk inventories at enterprise level	43%	58%	62%	58%	48%
Provides explicit guidelines to asses risk:	38%	61%	62%	46%	38%
• Probability	42%	63%	68%	51%	36%
• Impact					

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

What Your Peers Are Doing

Continued

Percentage of Respondents					
Frequency of Going Through Process to Update Key Risk Inventories	Full Sample	Largest Organizations (Revenues >\$1B)	Public Companies	Not-for-Profit Organizations 2017	Not-for-Profit Organizations 2018
Not at all	25%	11%	7%	29%	29%
Annually	36%	51%	41%	42%	45%
Semi-Annually	12%	12%	13%	13%	11%
Quarterly	19%	19%	30%	12%	11%
Monthly, Weekly or Daily	8%	7%	9%	4%	4%

<https://www.aicpa.org/content/dam/aicpa/interestareas/businessindustryandgovernment/resources/erm/downloadabledocuments/aicpa-erm-research-study-2018.pdf>

Monitor and Report

Management Handling Plans

Risk #		Risk Statement		Dates	
Cause		Status	Open		
Risk		Opened			
Impact		Approved			
		Closed			
Risk Classification		Handling Plan			
Executive Owner		Description of Task	Owner	Target	
Risk Manager					
Category Lvl. 1					
Category Lvl. 2					
Category Lvl. 3					
Handling Approach	Mitigate				
Inherent Risk Rating	Current	Target			
Impact Rating (1-5)					
Likelihood Rating (1-5)					
Risk Level ($\sqrt{I \times L}$)					
Interrelated Top 10 Enterprise Risks					

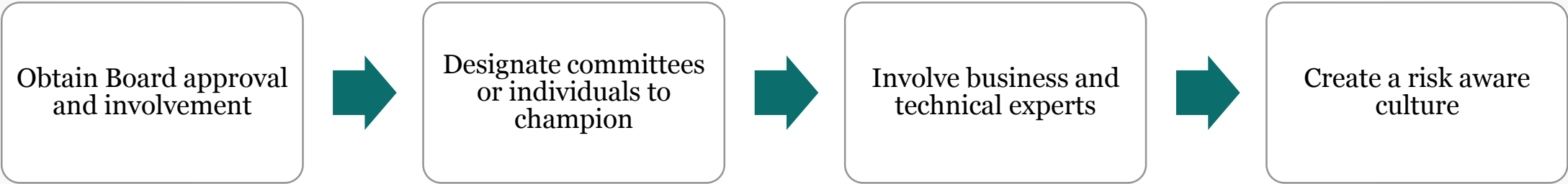
Independent Assurance





Best Practice Takeaways

Critical Success Factors



ERM Implementation and Maturity

Develop ERM
committee charter

Develop ERM policy,
procedures (ERM
playbook), risk
universe/register and
classification

Develop Board
reporting tools such
as heat maps and risk
reporting and
mitigation dashboard

ERM training for
stakeholders

Develop Procedures

Develop and document procedures for conducting risk assessments and develop templates and tools to facilitate and standardize the process

Who is responsible for initiating and conducting risk assessments

Who will participate

What steps will be followed

How disagreements will be handled and resolved

What approvals will be needed

How assessments will be documented

How documentation will be maintained

To whom reports will to be provided

Benefits of Enterprise Risk Management

- Increasing the range of opportunities
- Identifying and managing risk entity-wide
- Increasing positive outcomes and advantage while reducing negative surprises
- Reducing performance variability
- Improving resource deployment
- Enhancing enterprise resilience



Questions?

Join us again

February 1, 2019 | 8:30 am – 4:00 pm

Nonprofit Leaders Boot Camp (seminar)

More information and registration at <https://www.grfcpa.com/resources/events/>.

Get in Touch



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