2020 EMBRACING TRANSFORMATION
FINANCIAL MANAGEMENT CONFERENCE

Managing Enterprise Risk in the New Hybrid World

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STRENGTHMATTERS®

Getting Started

- All participant lines are muted.
- You may use the **Chat** feature to ask questions.
- Please use the **Raise Hand** feature if you would like to speak.
  - The Raise Hand feature is located in the Participant panel.
- Any questions not answered during the presentation will be addressed at the end of the session.

Continuing Professional Education Requirements for CPAs

- **Polls are Required for CPEs**
  - If you are seeking CPE credits, please submit ALL polls and the conference evaluations.
- We use **Polls** and the **Zoom attendance record** to verify participation throughout the webinar.
  - **Participants must submit ALL polls** and **be logged in no later than 10 minutes after the scheduled session start time to receive a certificate.**
- You may request a certificate of completion via the conference evaluations.
  - Links to the evaluations are emailed to all registrants.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

AGENDA

- Introductions
- What is ERM and why does it matter?
- What is the definition of RISK and what are some key risks you should be aware of?
- Is there a simplified approach for implementing ERM?
- How do you get started?
- Questions and answers

What is ERM?

COSO Enterprise Risk Assessment – Integrating with Strategy and Performance (2017)

Enterprise Risk Assessment is *"the culture, capabilities, and practices, integrated with strategy-setting and performance, that organizations rely on to manage risk in creating, preserving, and realizing value."*

Why Does ERM Matter?

- The current environment, characterized by increasing volatility and complexity, illustrates the critical importance of risk management for organizations of all types.
  - Organizations need to be flexible, adaptable and think strategically about how to maximize opportunity while also mitigating risk.
  - Risk management helps to accelerate growth, enhance performance and provides a competitive advantage.
  - Implementing enterprise risk management helps to create trust and instill confidence in stakeholders.

What is the Value of ERM?

BETTER DECISION-MAKING = INCREASED VALUE

Insight	Performance	Culture	Strategy
• Reduces unexpected outcomes • Allows a structure to anticipate risks, opportunities, and changes in business environment • Enables early detection of disruptions to the markets that require modifications to strategy • Provides deeper analysis of alternative strategies	• Identifies opportunities for integration and efficiencies • Facilitates the acceleration of growth and performance • Reduces the variability of performance • Facilitates more effective use of resources	• Brings risk awareness to all employees • Emphasizes ownership and responsibility for risk management throughout the entity • Establishes top-level buy-in and "Tone at the Top" • Empowers employees responsible for the execution of strategy to be involved in the development of strategy	• Provides output/results for use in strategic planning and decision making • Provides comfort to stakeholders and investors with respect to the organization's risk management infrastructure • Provides a platform for identifying and pursuing existing and new opportunities • Proactive approach to setting, redefining and monitoring strategic objectives • Incorporates entity's risk appetite into strategic decision-making

Polling Question # 1

What is the Definition of Risk?

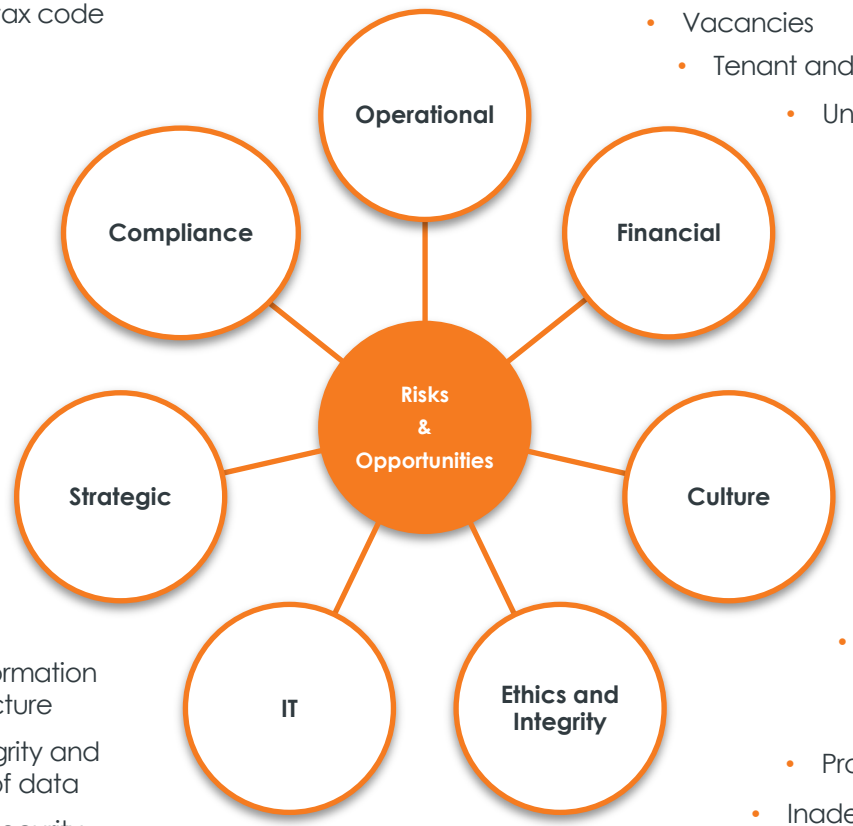
COSO Enterprise Risk Assessment – Integrating with Strategy and Performance (2017)

"Risk is the possibility that events will occur and affect the achievement of objectives"

Common types of risk categories:

- Strategic
- Operational
- Environmental, Social and Governance
- Financial
- Economic
- Reputational
- Technology
- Compliance

What are Some Risks to Consider?



- Loss of tax credits
- Changes in IRS tax code
- Statutory limitations
- Proposed legislation (i.e., Affordable Housing Credit Improvement Act of 2017)
- Changes in state credit-allocating agency procedures

- Quality of underwriting and asset management practices
- Vacancies
- Tenant and loan delinquencies
- Underperforming properties / foreclosure

- Falling housing tax credit prices/higher debt levels
- Changes in long-term interest rates

- Inability to keep up with the rising demand for affordable housing
- Out-of-date and unfocused organizational strategies

- Ineffective communication
- Lack of authority and accountability of employees

- Lack of effective information technology infrastructure
- Lack of integrity and availability of data
- Cybersecurity

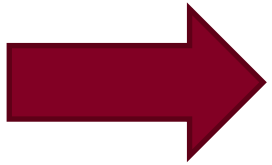
- Missed opportunities due to ineffectively managed change or resistance to change
- Properties not built to specifications
- Inadequately screened third party partners

Is There a Simplified Approach to Implementing ERM?

This is a standard ERM implementation approach – let's brainstorm how we can simplify this approach based on your organization's specific needs.

Step 1: Assess the "As Is" Risk Management Structure

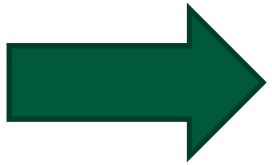
Action
• Understand business objectives and strategy as well as process for developing and refining strategic objectives
• Assess governance and oversight framework, including functions such as Legal and Compliance
• Assess adequacy of risk-related policies and procedures
• Assess use of technology and adequacy of management risk reporting including KRIs
• Assess adequacy of resources and skillsets available to support the identification of gaps and the ERM implementation
• Assess culture and maturity level of organization and knowledge of employees regarding risk concepts



Output
Gap List and recommendations related to adequacy of: • Governance structure, including executive sponsorship and Steering Committee • Defined policies, procedures, authorities, roles, and responsibilities • Management reporting, benchmarking, and other mechanisms for knowledge sharing • Skill sets, resource levels, project support, and technology required for implementation • Potential challenges and opportunities for successful implementation

Step 2: Identify Risks and Measure Appetite

Action
• Interview and survey key stakeholders to identify key risks
• Facilitate collaborative sessions to align on key risks and opportunities
• Identify emerging risks
• Define the organization's risk appetite/ tolerance
• Develop ratings of inherent risks based on impact and likelihood
• Identify key risk Indicators (KRIs) and perform benchmarking against similar organizations

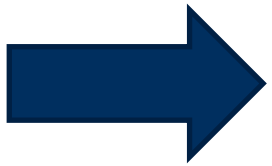


Output
• Identification of risks that can prevent achievement of key financial, strategic, operational, and compliance objectives
• Prioritized rankings of key and emerging inherent risks
• Improved insight and better understanding of "end-to-end" business processes, cross-functional issues, bottlenecks, and other impediments to success
• List of KRIs to assess and monitor key risks

Polling Question # 2

Step 3: Identify Risk Mitigation Strategies

Action
• Identify controls related to key risks and determine residual risk ratings
• Perform gap analysis between current and desired state
• Identify gaps requiring immediate management attention and remediation
• Develop “heat” maps to align and prioritize organizational effort
• Obtain management buy-in on recommendations and strategies
• Assign accountability for remediation activities



Output
• Alignment on key risks and strategies
• Defined actions and accountabilities to address risk gaps
• Opportunities to close the gaps between current and desired states
• Improved oversight, monitoring, compliance and reporting of risks

Step 4: Create ERM Rollout Plan

Action
• Establish accountability for risk oversight
• Agree upon ERM action items
• Recommend risk management strategies related to key gaps in existing risk management structure
• Identify responsible party(ies) for ERM implementation activities
• Establish timeline
• Establish project milestones

Output
• Detailed ERM rollout plan including items such as: – Oversight (board / committees) – Roles, responsibilities, and accountability (management) – KRIs and monitoring mechanisms – Communication and reporting Protocols – Training – Tools and technologies
• Agreed upon implementation dates
• Key project milestones
• Definition of deliverables

Step 5: Implementation

Action
• Project management
• Implement remediation actions
• Establish templates to assist in establishing risk management policy, job descriptions, etc.
• Design risk management reporting, custom dashboards, KRIs, early warning indicators, etc.
• Provide tools, techniques, methodologies, and “best practices”

Output
• Detailed project plan and project management expertise (PMO)
• Focused remediation plans
• Established robust governance model
• Customized management reporting system with industry-specific KPIs
• “Best-in-class” tools, techniques, and methodologies

How Do You Get Started?

- Some keys to successfully implementing ERM include:
  - Executive sponsorship and buy-in
  - Risk awareness culture
  - Input from all key stakeholders
  - Build and implement the program in smaller stages
  - Balance risk mitigation against cost requirements and resource availability
  - Prioritize implementation stage(s) and focus on most critical tasks first
  - Learn from others' experiences (both good and bad)
  - Develop realistic expectations of the time and effort necessary to develop a mature ERM process

  - *Any other suggestions?*

Polling Question # 3

Questions and Answers