

V. REPORT OF THE UNIVERSITY PRESIDENT

Managing Risk and Compliance at the University of Washington

Earlier this year, President Emmert observed

“With the most recent example of compliance issues, we have again been reminded that we have not yet created the culture of compliance that we have discussed on many occasions. ...Clearly, the creation of a culture of compliance needs to be driven by our core values and commitment to doing things the right way, to being the best at all we do. ...we need to know that the manner in which we manage regulatory affairs is consistent with the best practices in existence.”

He then asked David Hodge and V’Ella Warren to co-chair a Strategic Risk Initiative Committee, which was charged to develop a framework for managing institution-wide risk and compliance issues. The Review Committee has completed its work and developed a set of recommendations which best serve the UW.

First, the Review Committee has recommended that the UW adopt an integrated approach to managing risk and compliance, commonly called Enterprise Risk Management (ERM). This model a) fosters an institution-wide perspective on compliance and risk, encouraging problem-solving and collaboration across the institution, b) ensures that regulatory management is consistent with best practices, and c) protects the UW’s decentralized, collaborative, entrepreneurial culture.

Second, the Review Committee has recommended the formation of a Presidential Advisory Committee to oversee and improve the UW’s culture of compliance. The Advisory Committee provides a central focus for early identification, education and debate on risks of strategic importance. Significant concerns will be targeted for action and tracked by the Advisory Committee.

Third, the Review Committee has recommended the formation of a Compliance Council, bringing together managers with compliance responsibilities and expertise to share information across the compliance stovepipes. The Council will advise the President’s Advisory Committee, identifying emerging compliance issues and ensuring that good information is available for the campus community, such as web and training resources. The Council will ensure safe, easy, and effective ways for interested parties to report problems, including a help line, web guidance, and an early intervention program.

Fourth, the Review Committee has identified possible operational improvements. These recommendations include maintaining a strong internal audit function, conducting formal risk assessments with selected groups and departments to advise an annual risk dialogue among senior leaders, adopting tools for self-assessment by campus units, and analyzing risk benchmarks and trends. The Advisory Committee will evaluate and implement these recommendations as appropriate.

For your information, the Executive Summary is attached. The full report is available at www.washington.edu/admin/finmgmt/erm.

Strategic Risk Initiative Review Committee 2005-2006

David Hodge, Dean, College of Arts and Sciences; Professor, Geography, **Co-chair**

V'Ella Warren, Vice President, Financial Management; Treasurer, Board of Regents, **Co-chair**

John Coulter, Executive Director, Health Sciences Administration; Associate Vice President for Medical Affairs

Eric Godfrey, Acting Vice President for Student Affairs, Student Affairs

G. Ross Heath, Professor, School of Oceanography

Weldon Ihrig, Executive Vice President, Office of the Executive Vice President

Jack Johnson, Division Chief, Attorney General's Office – UW Division; Senior Assistant Attorney General

Steve Lappenbusch, Representative, Graduate and Professional Student Senate (GPSS)

Mary Lidstrom, Vice Provost for Research, Office of the Provost

David Morgan, Finance & Budget Director, Associated Student of the University of Washington (ASUW)

Harlan Patterson, Vice Provost for Planning and Budgeting, Planning and Budgeting

Patricia Spakes, Chancellor, UW Tacoma

Brent Stewart, Chair, Faculty Senate on Research; Professor, Radiology and Medical Education, Radiology

Todd Turner, Athletic Director, Intercollegiate Athletics

Patricia Wahl, Dean and Professor of Biostatistics, School of Public Health & Community Medicine

Phyllis Wise, Provost, Office of the Provost

Nancy Woods, Dean, School of Nursing

Scott Woodward, Special Assistant to the President for External Affairs

EXECUTIVE SUMMARY

COLLABORATIVE ENTERPRISE RISK MANAGEMENT

February 13, 2006

Objective. The objective of this paper is to ensure that the University of Washington (UW) creates an exemplary compliance structure built on best practices, while protecting its decentralized, collaborative and entrepreneurial culture. The paper lays out a conceptual framework for thinking about risk management, followed by information on models used by other universities--- including four case studies. The paper then provides an evaluation of the UW's current situation. Finally, the paper presents the case that a collaborative, institution-wide model works the best, and proposes actions for implementing that approach.

Recommendations. The UW should create an integrated, university-wide enterprise risk management approach, led by a Presidential Advisory Committee of senior campus leaders. This Committee will identify and track significant risks and recommend corrective actions. An annual risk dialogue among senior leaders and Regents will be initiated by the Advisory Committee to share progress on risk mitigation initiatives. A Compliance Council will advise the Advisory Committee and stimulate communication on campus-wide compliance issues. A central compliance website should provide timely information to the campus community on emerging risk issues, links to individuals and hotlines for expressing concerns, and helpful information on best practices and institutional policies. A compliance helpline and web-contact service should provide a safe place to go with problems. An early intervention program is proposed to handle issues of grave institutional concern in an expedited manner. Tools to support self-assessment of risk should be made available to managers. The internal audit function should be staffed at levels appropriate to the UW's size, complexity, and mission. Data on key risks should be collected and analyzed; and used to develop metrics on critical factors contributing to risk.

Reputation. The UW is a decentralized yet collaborative entity with an energetic, entrepreneurial culture. The community members are committed to rigor, integrity, innovation, collegiality, inclusiveness and connectedness. "We should acknowledge that these values are important to the institution's continued excellence..."¹

The UW's excellence is reflected in the institution's reputation, "the bottom line" which links members to the community. Each individual contributes to that reputation and benefits from the contributions of others. The opposite can also be true. This shared reputation can slide into a downward spiral. When this happens, stakeholders lose confidence in the ability of the institution to serve as a good steward of the public trust. It is, therefore, in the interest of everyone in the UW community to minimize and manage risks that affect the quality and reputation of the University.

Conceptual Framework. There are two models which might serve as a framework for the UW. The first, and recommended approach, is enterprise risk management (ERM)² which views risk holistically rather than functionally, covers all risk types, and takes an institution-wide perspective. This approach integrates risk into the strategic deliberations of senior leaders and Board members. The second is a centralized compliance model, built on guidelines in federal law (the Federal Sentencing Guidelines). This approach, while institution-wide, focuses exclusively on compliance.

Although both models are university-wide approaches, they vary in a number of important aspects, including scope, objectives and benefits. Integrated compliance programs are concerned about compliance with law and regulation; ERM focuses broadly across all risks: compliance, finance, operations, and strategic. Integrated compliance programs seek to control all of the institution's compliance activities. ERM, on the other hand, integrates risk into an institution's strategic plans with the goal of achieving an appropriate balance of risk and return. Integrated compliance programs, if based on the Federal Sentencing Guidelines, provide potential protection from federal penalties. ERM does not necessarily provide that benefit, although it can if integrated compliance programs, such as the one emerging in UW Medicine, are sheltered under

¹ President Mark Emmert, "Emmert Launches Leadership Initiative," University Week, April 7, 2005.

² This approach is also called strategic risk management.

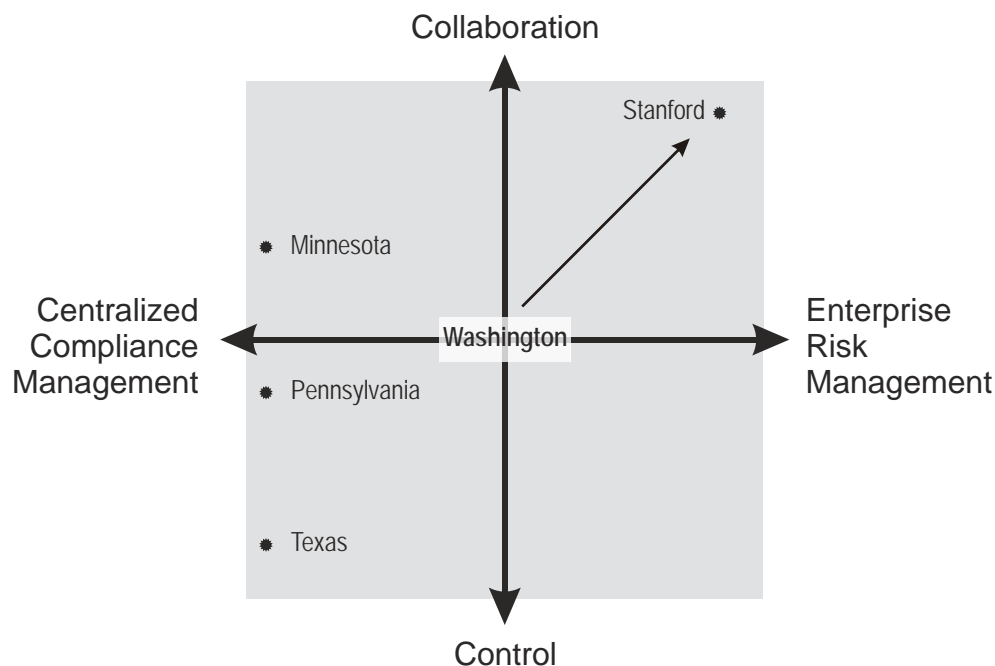
its umbrella. ERM benefits include improved communication on risk among the senior leaders and Regents which leads to more informed decisions, better allocation of resources, and stronger governance practices.³

Peer Universities. Peer universities select different approaches to compliance based on choices about philosophy, model and organization. This paper details the approaches of four benchmark universities: Stanford University, University of Texas System, University of Minnesota, and University of Pennsylvania.

Stanford University has used collaborative institution-wide risk management at its hospitals for some time. On September 12, 2005, after discussion at Board and senior leadership levels, Stanford decided to implement a similar approach university-wide. Stanford refers to its framework as enterprise risk management (ERM). *University of Texas System* takes a different point of view, having a rich, structured approach to compliance, which closely resembles a corporate compliance program. It is hierarchical and relies heavily on a substantial network of compliance officers. Without constant monitoring, UT System leadership and Board believe that the cultural pressures are too strong to prevent noncompliant behavior. At *the University of Minnesota*, there is a small institutional compliance office run by a lawyer and former litigator which provides collaborative support to faculty and administrators on compliance. No monitoring is done. *The University of Pennsylvania* developed its compliance program in response to a string of problems. Finding no comprehensive higher education models, Penn turned to corporate best practices for guidance, adopting a structured program with a central focus. Since that time, the approach has become more collaborative.

While Stanford is the only institution which describes its approach as enterprise risk management, the other three universities have elements of this approach. Minnesota has had a series of broad-ranging risk discussions with its Board. Both Texas and Minnesota have Compliance Councils, which bring together leaders to assess risk and share information across compliance silos. Penn is considering reconstituting its Compliance Advisory Board.

Approaches to Compliance



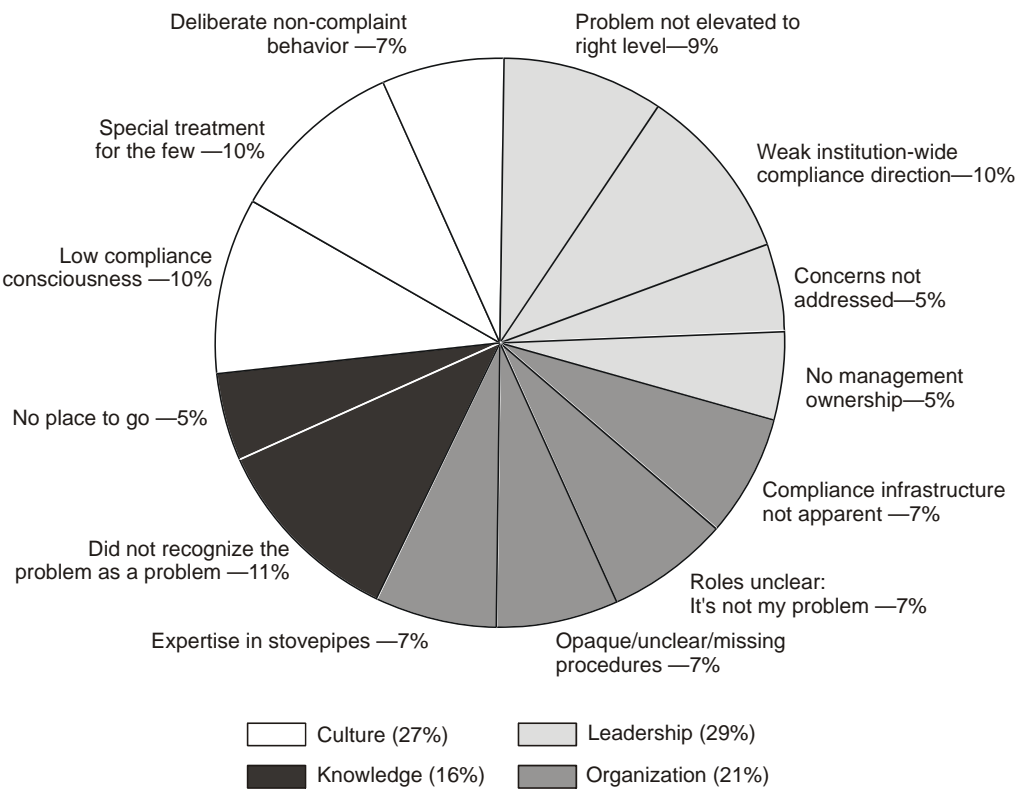
³ Risk and Insurance Management Society, Inc (RIMS) and Marsh, Inc. *Excellence in Risk Management: A Qualitative Survey of Enterprise Risk Management Programs*, April 2005.

University of Washington. Like Stanford and Minnesota, the UW has developed a collaborative, decentralized approach to management, including management of compliance and risk. The UW proactively identifies and manages specific risks; as is typical for this approach, responsibility for these specific risks is distributed among the institution’s organizational silos. These separate efforts are done well. “Mistakes” are corrected; procedures, business rules and processes are re-engineered to reduce the likelihood of “risky business.” The central audit and risk management staffs work across these institutional silos, providing independent advice and expertise to campus administrators.

However, the UW does not formally integrate risk and compliance into its strategic conversations at the university-wide level, there is little, if any “cross-silo” communication, and there is no dedicated audit or compliance committee of the Board of Regents to provide oversight, unlike the universities described above.

Lessons Learned. An analysis of seven recent UW compliance problems was undertaken. That study revealed persistent patterns, coming from thirteen root causes, which can be classified into one of four categories: leadership, organization, knowledge and culture. A successful institutional risk structure must address the systematic problems revealed in this analysis.

Root Causes for Noncompliance at the UW



A Collaborative Enterprise Risk Management for the UW. In evaluating the framework proposed below, three guiding principles are advanced as criteria: the successful proposal must (1) foster an institution-wide perspective, (2) ensure that regulatory management is consistent with best practices, and (3) protect UW’s decentralized, collaborative, entrepreneurial culture. The proposal should also address systematic problems inherent in the UW’s present risk structure.

Recommendation #1: Integrate key risks into the decision-making deliberations of senior leaders and Regents.

- 1a. Charter a Presidential Advisory Committee of senior leaders to oversee and focus attention on efforts to improve the UW's culture of integrity and compliance. This Committee will
- Engage in a risk mapping process at least annually, developing and tracking plans to address issues with “high impact” and “high likelihood.”
 - Initiate an annual risk dialogue with President's Cabinet, Board of Deans, Faculty Senate, and other key bodies for the purpose of sharing major risks (UW Risk Map), seeking feedback, and reporting on progress (UW Risk Plan and Risk Dashboard).
 - Analyze events of unethical or noncompliant behavior, recommending changes in policy, organization, or information to prevent repetition.
 - Coordinate with other initiatives (such as Leadership, Culture and Values and Undergraduate Student Experience) to strengthen the leadership and culture of integrity and compliance. Possible common work might include a UW Code of Conduct.
 - Update the Board of Regents periodically.

Recommendation #2: Create an integrated, institution-wide approach to compliance:

- 2a. Designate the Director of Audit as the central person responsible for coordinating compliance awareness across campuses, with the title of Director of Audits and Compliance.
- 2b. Establish a Compliance Council chaired by the Director of Audit and Compliance, which will
- Identify and prioritize current and emerging compliance issues, recommending appropriate actions to the issue owner and/or senior leaders.
 - Identify issue owners and establish a matrix of responsible parties for each risk area (UW Risk Matrix).
 - Support and advise the President's Advisory Committee (see #1 above) as subject matter experts on compliance.
 - Ensure that all senior administrators are educated and aware of compliance and risk issues.

Recommendation #3: Ensure that good information is available for campus community.

- 3a. Introduce a brief electronic newsletter on emerging issues.
- 3b. Establish a website on key compliance issues. Include newsletters, hotlinks to related websites, the UW Risk Map(s), the UW Risk Plan, and the UW Risk Matrix.
- 3c. Include training, communication, policies and expected behavior in action plans for key risks.
- 3d. Share information among the stovepipes through the Compliance Council.

Recommendation #4: Create a safe way for interested parties to report problems.

- 4a. Contract with an outside party to manage an anonymous hotline (phone and web).
- 4b. Set up a website with information on where to take problems.
- 4c. Introduce an early intervention program.

Recommendation #5: Minimize surprises by identifying emerging compliance and risk issues.

- 5a. Provide an automated tool for self-assessment to campus leaders.⁴
- 5b. Monitor the effectiveness of the Compliance Council, hotline, website and early intervention program in minimizing surprises.

⁴ Seattle Cancer Care Alliance has licensed a tool developed by the University of Minnesota.

Recommendation #6: Maintain strong audit team with ability to proactively identify problems and collaboratively recommend solutions to appropriate decision-makers.

6a. Benchmark the UW audit function against peer universities to advise resource allocation decisions.

Recommendation #7: Check progress on compliance and risk initiatives.

7a. Develop and analyze data for key risks.

7b. Develop metrics for senior leadership (risk dashboard).

Conclusion. In his charge letter of April 22, 2005, President Mark Emmert stated that...“the creation of a culture of compliance needs to be driven by our core values and commitment to doing things the right way, to being the best at all we do.” He went on to say that at the same time...“we need to know that the manner in which we manage regulatory affairs is consistent with the best practices in existence.”

The objective of this paper is to address that challenge, ensuring that the UW creates an excellent compliance model based on best practices, while protecting its decentralized, collaborative, and entrepreneurial culture. The paper presents a conceptual framework for thinking about institution-wide risk management. That framework is followed by information on approaches used by other research universities, featuring vignettes from Stanford University, University of Texas, University of Minnesota, and University of Pennsylvania. Then the UW’s current situation is described, including lessons learned from recent UW problems. That analysis reveals persistent patterns and suggests that the root causes of noncompliance at the UW can be classified into one of four categories: leadership, organization, knowledge, and culture. Finally, the paper has proposes a collaborative, institution-wide risk management model and lays out recommendations for implementing that proposal.

These proposed changes are not intended to replace what already works across the university. Rather they are intended to augment the existing organization with thoughtful direction, collaboration, and communication on strategic risks. This proposal identifies opportunities to strengthen the existing UW efforts by providing a central focus (President’s Advisory Committee and Compliance Council), access to good information (websites, newsletters, hotlines, Compliance Council discussions), simple but effective tools (risk maps and plans, metrics, self-assessment approaches), and opportunities for leaders and subject matter experts to deliberate on risk, integrity and compliance issues.

At its core, the UW community is bound together by the shared reputation of the institution. Each member of the community contributes to that reputation and benefits from the contributions of others. Faculty, staff and students work hard to achieve preeminence in their fields, and in the process set the highest standards of intellectual rigor for themselves and their colleagues. It is that excellence which is reflected in the UW’s reputation. Outcomes that reveal noncompliant activities diminish the regard with which the institution is held, obscuring the excellence of the work being done.

Critical to future success is the energetic, entrepreneurial culture of the UW, which is both decentralized and collaborative. Yet for that decentralized model to be sustainable, mechanisms must be created to develop, reinforce, and refresh common goals and values. Commenting on that important balance between commonality and individuality, Provost Phyllis Wise noted that ...“distributed leadership requires shared values and a sense of community.”¹⁵ The actions proposed in this paper engage the UW community in sharpening its common viewpoint and approaches to risk management, and in the process, strengthening the culture of compliance at the UW.

Provost Wise has stated: “We want to incorporate the strengths of the people here, making a community that is stronger than the sum of individual effort.”ⁱⁱ This proposal is offered with the belief that its recommendations will contribute to that synergy, strengthening the UW’s community, reputation, and leadership. It is offered with the hope of preventing damaging, noncompliant events from distracting faculty, students and staff from ...“our special work”—...“the biggest, most complicated, most challenging questions and problems of the 21st century.”ⁱⁱⁱ

2/13/2006

⁵ *Leadership, Culture and Values Initiative: A Report to the UW Community, 2005*

⁶ *LCV Initiative: A Report to the UW Community, 2005*

ⁱⁱⁱ Emmert, Mark (President, University of Washington), Address to the University Community, November, 2004.