RISK ASSESSMENT:
Prioritizing with Limited Resources

- Demonstrated Commitment from Senior Management
- Clear, Accessible Code of Conduct and Compliance Policies and Procedures
- Independent and Powerful Oversight Executives
- Appropriate Risk Assessment
- Regular Training and Continuing Education
- Appropriate Disciplinary Procedures and Incentive Rewards
- Third Party Due Diligence
- Confidential Reporting and Internal Investigations
- Periodic Testing and Review

HALLMARKS OF EFFECTIVE FCPA COMPLIANCE PROGRAM:
---DEPARTMENT OF JUSTICE AND SECURITIES EXCHANGE COMMISSION
Senior leaders must provide strong, explicit and visible support for its corporate compliance policies and must enforce compliance policies.

Written policies are important but other venues are critical too (in-person meetings, emails, telephone calls, incentives/bonuses, etc.).

Senior executives should be responsible for the implementation and oversight of compliance and report directly to independent bodies.

Policies should be clear and in writing.

Compliance teams need adequate funding and stature.

Effective process for internal reporting of violations and conducting investigations.

Incentives and Discipline are important.

Third party vendors must be sensitized to company’s expectation for compliance.

DEPARTMENT OF JUSTICE BENCHMARKS

--ASSISTANT ATTORNEY GENERAL LESLIE R. CALDWELL “COMPLIANCE WEEK CONFERENCE” MAY 19, 2015

Surveys

Internal Audit Interviews

External review/audits/complaints

Walking the halls

Water cooler conversations

Traditional Hawaiian methods

TRADITIONAL RISK ASSESSMENT METHODS
MORE FORMAL TRADITIONAL INTELLIGENCE GATHERING METHODS

Management/Board

Senior Leaders

Staff Members

..................OR................
TRADITIONAL RISK ASSESSMENT

BUT DOES “TRADITIONAL” WORK WITH LIMITED RESOURCES?

IS “TRADITIONAL” THE BEST WAY TO GET AT THE TRUE RISK” OR THE “RISK APPETITE”?

IS “TRADITIONAL” THE WAY TO MAKE AN ORGANIZATION “RISK RESPONSIVE”?
CHANGING THE PARADIGM:
“INTELLIGENCE” SHOULD BE FIRST STEP

CHANGING THE PARADIGM....
Establishing a culture of information sharing, exploration, questioning...

TRUE RISK INTELLIGENCE REQUIRES....

### WHAT IS A RISK INTELLIGENT ORGANIZATION?

<table>
<thead>
<tr>
<th>Initial</th>
<th>Fragmented</th>
<th>Top down</th>
<th>Integrated</th>
<th>Risk intelligent</th>
</tr>
</thead>
</table>

- Risk discussion embedded in strategic planning, capital allocation, etc.
- Early warning system to notify management to risks above established thresholds
- Linkage to performance measures and incentives
- Risk management activities coordinated across business areas
- Risk analysis tools developed and communicated
- Enterprise risk monitoring, measuring, and reporting
- Scenario planning
- Opportunity risks identified and exploited
- Ongoing risk assessment processes
TRADITIONAL RISK ASSESSMENTS

- Too many issues
- No method for prioritizing
- No priority
- Competing resources
- “My” risk is more important than “Your” risk mentality

CHALLENGE WITH TRADITIONAL RISK ASSESSMENT
THINKING HOLISTICALLY “INTELLIGENTLY”....

BUT REMEMBER: INFORMATION GATHERING IS OFTEN RANDOM AND UNPLANNED....
Risk Sensing Process

- Collect feedback from variety of constituents
- Conduct interviews via Internal Audit or surveys
- Update prior year priorities and incorporate items emerging from current round of feedback
- Updated risk register
- Update Risk Intelligence of the Organization

CHANGING THE RISK ASSESSMENT PROCESS: SOME FRAMING QUESTIONS

- What are the trends and driving forces affecting our organization in the next 5-10 years (technological, social, economic, political, environmental) – map them based on timeframe
  - What are the factors affecting our specific hospital/clinic?
  - What do we not know?
  - What is outside our control?
- What risks emerge based on these driving forces?
- What potential scenarios result?
  - How do the identified scenarios impact our current risk intelligence models, risk priorities for our hospital/clinic and decisions
DYNAMIC INTELLIGENCE GATHERING

THE FOUR PRIORITIES FOR RISK INTELLIGENCE

- Dynamic and changing risk landscape
- Partnership with Risk Services & Internal Audit
- Identifying & Prioritizing Key Compliance Risks
- Alignment with Hospital Initiatives & Management Directives
- Share and discuss risks
- Ask questions
- Allow leaders to not be experts
- Lead by example
- Look for warning signs—they do not always come from the obvious
- Bring intelligence to the table in concerted effort
- Brainstorm

**PROCESS: BECOME INTELLIGENCE “SAVYY”**

<table>
<thead>
<tr>
<th>Group</th>
<th>Role</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Intelligence Oversight Committee</td>
<td>Risk governance</td>
<td>Oversight (Foster a Risk Intelligent culture, discuss enterprise risks, meet with internal audit)</td>
</tr>
<tr>
<td>Compliance</td>
<td>Risk Infrastructure and management</td>
<td>Providing common risk infrastructure (Define the risk appetite, evaluate proposed strategies against risk appetite)</td>
</tr>
<tr>
<td>Risk Intelligence Working Group</td>
<td>Risk ownership</td>
<td>Risk process (identifying, measuring, monitoring, and reporting on specific risks, led by the business units and functions)</td>
</tr>
</tbody>
</table>

Deloitte
“...is more than understanding the rudiments of probability theory and human psychology. It is also about being able to make judgments when the data are not available, when the situation is very complex, or when there isn’t time to calculate the risks.”


HAVING RISK INTELLIGENCE
OUTCOME: APPLYING RISK INTELLIGENCE TO COMPLIANCE PLAN

Under Risk Intelligence--Compliance Officer = Master Coordinator
Example of Campus Roles & Responsibilities
LESSONS LEARNED

- Risk intelligence leads to consideration of more perspectives
- Allows more deliberate thought about risk priorities and allocation of resources
- Leads to better “real risk” discussions
- Accommodates both the art and science aspects of risk sensing
- Leaders are more fully engaged—not just an exercise
- Allows for dynamic change as necessary
- More process driven rather than product driven

QUESTIONS?

David Lane, Ph.D., CHC, CPT
Systemwide Deputy Compliance Officer
The University of California
David.Lane@ucop.edu