

## Interview of Michael Somich Segment 1

### Topic: Importance of Board Support for ERM

Beasley: Hello. I am Mark Beasley, Deloitte Professor of Enterprise Risk Management and Director of NC State's ERM Initiative in the Poole College of Management. I am speaking with Mike Somich who is Executive Director of Internal Audits at Duke University. Mike has been instrumental in leading the enterprise risk management efforts at Duke, which includes Duke University, Duke Medical Centers and Duke Endowment.

Somich: You're very welcome, Mark.

Beasley: Let's just start at the top. How would you describe the level of engagement of the Duke University board of directors in risk oversight, in 2011?

Somich: Mark, I would consider, um, the board oversight of risk management at Duke to be very significant. Um, our audit committee charter calls for the audit committee to meet annually with the senior leadership, which would include our president, chancellor of the health system, the provost and the executive vice president of the university, and they present the strategic risks—the top ten strategic risks to the audit committee. Ah, they focus on one or two of them; they talk about what the mitigation strategies are in place for those risks, and they talk about how those risks have changed, from one year to the next.

Beasley: When you think about what you just described, it sounds like the board and senior executives are very focused on the strategic risk. What led to the success of being able to get the board that engaged in the strategic risk discussions?

Somich: Ah, the first time that they came and made the presentation to the audit committee, each of the four senior leaders talked about the major risks that they were responsible for, and a high level mitigation strategy. And on the audit committee was the retired vice president of finance from PepsiCo, and he said to the senior leadership, “That was a great presentation. We’re very glad that you’re engaged in managing these risks, but next year, I’d like you to come and present a heat map with the top ten strategic risks, who owns them and what your mitigation strategy is.” And that became the roadmap for us in future years.

Beasley: You noted that the audit committee is heavily involved. Is it the audit committee or the full board that sort of is driving this right now?

Somich: At this point, it’s, it’s—the audit committee manages it on an annual process but the full board is very interested in what we do. The audit committee would report out what the strategic risks were and hearing the presentation, and we were getting feedback that the full board wanted to understand what we were doing. So in 2009, we had a retreat and presented the strategic risks and got the board involved in assessing our risk management process, and where we place the

strategic risks. We have since, in 2011, had a similar type of presentation and then engaged them in the discussions of specific strategic risks.

Beasley: How frequently are these strategic risks being discussed at the board level? Is that every meeting, quarterly, or annually?

Somich: We try and in some way discuss a strategic risk at each meeting. So for instance, athletics is a strategic risk of the university. When athletics makes its presentation, part of the presentation is a discussion of the strategic risks.

Beasley: Have you seen a difference, in your view, as you observe the board's discussions? Do you sense a different kind of discussion going on at the board today than, say, three or four years ago?

Somich: Absolutely. We're in the process of making a very strategic decision at the last board meeting, and in advance of the board meeting, the vice chairman of the board specifically asks for, asked for an assessment of the specific risks related to that decision. And then specific risks on a strategic level of a broader type of decision that that would be part of.

Beasley: And let me ask one final question—to wrap up our conversation here: Has the kind of information provided to the board in advance changed? Has it added length, for example, to the board packet, or have you taken things out that typically would be presented in a board to put in this risk discussion?

Somich: I would say that the total package hasn't changed but the material that's in it is much different. It's background material to help them engage in a discussion, to use the talents that they have and the experience they have in a much more effective way.

Beasley: Thank you, Mike, for being here. For our audience, I'd like them to be aware of the fact that on our ERM Initiative website, we have several resources under our article section that are tied to boards of director and audit committee issues. So there's a searchable link where numerous articles about board and audit committee kind of dynamics are there for a resource, so I would encourage our audience to take advantage of that ERM Initiative website. So thank you Mike for being here.

Somich: You're well welcome, Mark.