

Interview of Michael Somich Segments 1-3
The Importance of Board Support for Enterprise Risk Management
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Interviewer: Mark Beasley, Deloitte Professor of ERM

Interviewee: Mike Somich, Executive Director, Internal Audits, Duke University

The Importance of Board Support for Enterprise Risk Management Part 1

Beasley: Mike, if you would, would you give us your name as you would like it to appear if we title it underneath you. First and last, spell both, and your title please.

Somich: Michael Somich, M-I-C-H-A-E-L, S-O-M-I-C-H. Executive Director of Internal Audits.

Beasley: Very good. Okay, you're on.

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 welcome, Mark.

The Importance of Board Support for Enterprise Risk Management Part 2

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. Thank you for being here. When you think about leading the risk oversight function, culture is king in a lot of cases. How would you describe the support and the engagement from the senior leadership team in this strengthening of risk oversight effort at Duke University?

Somich: They're very actively involved and engaged in the process. We started with involving the senior leadership in determining the strategic risks. And then when we made the decision to move, move it down to the vice president level and look at the operating risks, we pulled them all together to talk about what process we were going to follow and the president of the university came and kicked off the meeting, explaining why we were doing this, the strategic risks that we had, the benefits of this process, what he expected of them. And then he said, "And Mike will facilitate the rest of the process." So he gave me all of the support that I needed, ah, to effectively move this forward.

Beasley: So you have the support of the president. If you were to go around the leadership team across the university, who do you think they think is leading risk oversight at Duke?

Somich: They would probably say that I am, because I am the visible person who is facilitating the process. Clearly, as the executive director of internal audits, I don't own any of the risk,

but I work with people to understand what those risks are, what the mitigation strategies are, and then help them communicate that effectively within the organization.

Beasley: How frequently would you be interacting with the president about what's going on in the risk oversight process? Do you interact quarterly, monthly, or is it weekly?

Somich: It depends on what we're doing within a particular year. At the beginning of the year, he and I meet and we talk about what are the things that we want to accomplish in the risk management process this year? How are we going to develop it more fully? Um, in this year, 2011, where we, I would say, have engaged all levels of the organization in the risk management process, we are—he is aware of what I am doing on a monthly basis. We meet at least quarterly, reporting on operating risks and financial risks and compliance risks, so it's a fairly regularly communication.

Beasley: As you've rolled the risk oversight process out across more people at the university, how have you communicated the importance of ERM at other levels in the organization to ensure they know this is viewed as important by the leadership at the top?

Somich: Well, for instance, this year, we ran out—we looked at the academic risk. And each of the schools and colleges needed to prepare a heat map for their individual risks. They all report to the provost; he's one of the four senior leaders, so working with the provost, he sent an email out to all of the deans, saying, "This is what we are going to do. This is the process. Mike will be in contact with you to help you through the process," and that—again, support from the senior leaders set the tone for where we were going.

Beasley: Let me ask one more question before we wrap up here. If you were sitting in a different university or even a different organization—doesn't have to be a university—and you

didn't have the level of engagement that you have from the CEO or president's office, what would your advice be, or what would you do, or would you try to go very far with this without that kind of support?

Somich: I don't believe you can go very far without that support. The president or the CEO sets the tone for the organization, and if he walks the walk and talks the talk, other people will, as well.

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 welcome. Thank you, Mark.

The Importance of Board Support for Enterprise Risk Management Part 3

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. Mike, thank you for your time this afternoon, I'd like to really focus in on the role you are in as an executive director of internal audits for Duke University. What is the interface between the internal audit function at the university and the risk oversight function? How would you describe that?

Somich: Today it's facilitating function. We wrote into the audit committee charter that the audit committee owns the risk management process. So in helping senior leadership make their presentations, I began—I facilitated with them the definition of strategic risks and, ah, and the presentation. And since then, as we've continued to roll this out, the president has asked me to facilitate with operating leaders, financial leaders, IT, and so forth.

Beasley: How has the risk oversight process—your role in it—informed the internal audit sort of role and even scope?

Somich: Well, our—one of our objectives was always to base our audit plan on the risk profile of the university, and in 2011, we finally completed all aspects of the risk management process and have the analysis of operating risks and financial risks and strategic risks. So when we're doing our 2012 plan, it will be based completely on the risk assessments that have been performed by management.

Beasley: As you think about other internal audit sort of departments, functions, in a variety of organizations, if you were talking to a group of internal audit professionals, would you advise them to move down this sort of leadership role, facilitation role on risk oversight or would you encourage them maybe to not go there?

Somich: I would encourage them to go there. We had an audit committee chairman that used to begin every meeting by saying that the responsibilities of the committee and the office of internal audits is risk, compliance and controls. And there's an intersection between all three that makes the department effective and provides the most value to the, to the university.

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 welcome.