

Enterprise Risk Management



Board of Trustees Oversight Discussion
September 15, 2015

Minnesota State Colleges and Universities

The Minnesota State Colleges and Universities system is an Equal Opportunity employer and educator.



Suggested goals for the board session

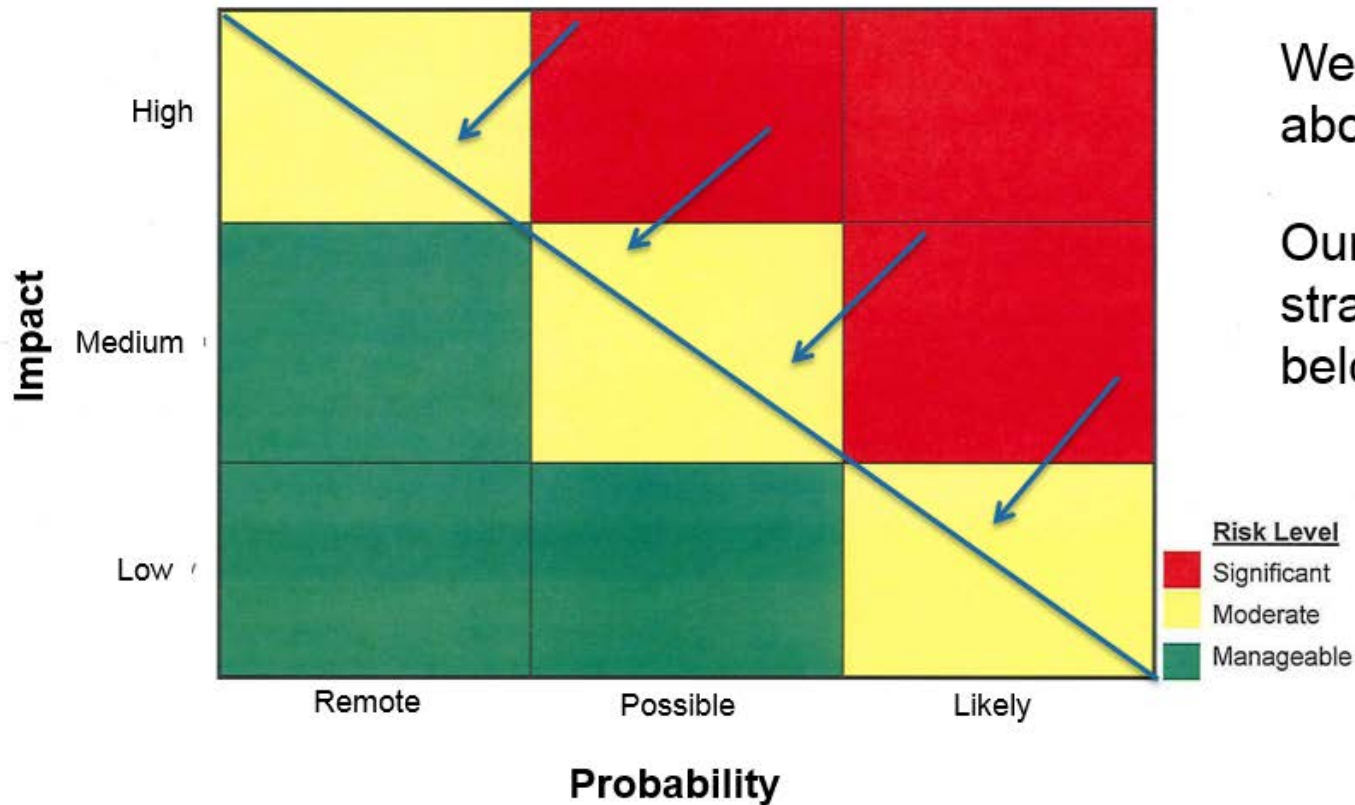
1. Review, provide feedback and oversight of the identification, assessment, and management of the top strategic and operational risks.
2. Possible board approaches to oversight of the administration's management of strategic and operational risks.
3. Potential board policy on enterprise risk management.

Enterprise risk management

- **What is risk?** Issues and uncertainties that impact our ability to realize our mission as articulated in the Strategic Framework.
- **What is enterprise risk management?**
 - *ERM is a structured, organization-wide approach to monitor, identify, assess, and manage issues and uncertainties that threaten fulfillment of our mission.*
 - *ERM is an inherent and critical component of leadership's long-term strategy development and execution as well as board oversight.*

We focus on risks that have a high probability of occurring *and* high impact

Impact / Probability Matrix



We focus on risks above the diagonal.

Our management strategy drives risks below the diagonal.

Background (in the appendix)

- Overview of risk
- Who is responsible for risk management?
- Two classes of risks: strategic and operational
- How do we identify and assess risks?
- How do we manage risks?
- How does MnSCU ERM compare nationally and to other systems of higher education?
- Suggested readings

1. Review, offer feedback and provide oversight of the identification, assessment and management of the top strategic and operational risks.

- Are there additional high probability / high impact risks that the board thinks the administration should address?
- Are there suggestions for additional strategies to better manage the high probability / high impact risks we have identified?
- Are there other potential “disrupters” we should consider?

Strategic Risks

Operational Risks

Financial

Human
Resources

Technology

Facilities

Academic
and Student
Affairs

Top strategic risks (major threats to quality, value, reputation, resources, and the ability to fulfill our core mission)

1. Readiness and ability of our colleges and universities to ensure the success of the **changing kinds of students** we serve – students who are much more diverse, with greater financial need, and gaps in academic preparation
2. **Enrollment** challenged by declining number of high school graduates, declining unemployment, and increased competition
3. **Long-term financial sustainability** of our colleges and universities stemming from revenue not keeping pace with costs
4. **Potential disruptive innovations:**
 - a. **technology based learning**
 - b. **certification of competencies** by higher education institutions and other entities
5. **Affordability and student debt** in an era of limited state resources
6. **New technologies** for learning, course delivery, and administration that require culture change, new ways of working together, and *significant* investments to replace **outdated legacy systems**
7. **Low awareness and varied reputation** (i.e., brand) of our colleges and universities and the system
8. **Capacity and ability to lead and support change:** agility, fatigue, fear of change, change management expertise, workload

Top strategic risks (1/4)

Risk	Risk Management Strategy
<p>1. Readiness and ability of our colleges and universities to ensure the success of the changing kinds of students we serve – students who are much more diverse, with much greater financial need, and gaps in academic preparation</p>	<ul style="list-style-type: none"> • <u>CTF Work Plan</u> <ul style="list-style-type: none"> ○ Improve curriculum alignment and student transfer (1.1.1) ○ Strengthen academic advising and access to student support information; remove policy barriers (1.1.2 thru 1.1.6) ○ Develop campus diversity plans; diversity mapping; improve recruitment and retention of diverse faculty and staff; provide professional development (1.3.1 thru 1.3.4) ○ Scholarship campaign (3.1.1) ○ Open Educational Resources (OERS) (3.1.2) • Continue to partner with MDE to ensure that more students are prepared for and on track to post-secondary education • Increase PSEO and concurrent enrollment opportunities • Redesign developmental education to reduce time to completion and improve student success
<p>2. Enrollment challenged by declining number of high school graduates, declining unemployment, and increased competition</p>	<ul style="list-style-type: none"> • All <u>CTF Work Plan</u> items in #1 above • Continually improve the quality of our academic programs and the education we provide students • Increase PSEO and concurrent enrollment opportunities • Continue to partner with MDE to ensure that more students are prepared for and on track to post-secondary education • Twin Cities metro baccalaureate plan • Continue to advance the branding initiative to support a coordinated statewide marketing and recruitment effort

Top strategic risks (3/4)

Risk	Risk Management Strategy
<p>5. Affordability and student debt in an era of limited state resources</p>	<ul style="list-style-type: none"> • See all management strategies in response to Risk #1 above • Continue to control tuition and fees and monitor debt • Continue to deploy financial literacy programs for students as well as family financial planning and education • Continue to reduce administrative and institutional costs • Continue to monitor and control instructional costs • Continue to advance the Campus Service Cooperative
<p>6. New technologies for learning, course delivery, and administration that require culture change, new ways of working together, and <i>significant</i> investments to replace outdated legacy systems</p>	<ul style="list-style-type: none"> • <u>CTF Work Plan</u> <ul style="list-style-type: none"> ○ Develop a more powerful, quality online education strategy (1.2.1) ○ Ensure all students have access to technology (1.2.2) ○ Increase exploration of emerging technologies and professional development (1.2.3) ○ Align student and employee identification practices across the system (3.2.3) ○ Replace or re-engineer ISRS (3.2.4); invest in a new ERP for the system • See management of top technology operational risks

Top strategic risks (4/4)

Risk	Risk Management Strategy
<p>7. Low awareness and varied reputation (i.e., brand) of our colleges and universities and the system</p>	<ul style="list-style-type: none">• Continue to advance the branding initiative to support a coordinated statewide marketing and recruitment effort• Continue to employ coordinated, grassroots communications strategies• Continue to improve proactivity and transparency in communication• Development of a standard crisis communication plan
<p>8. Capacity and ability to lead and support change: agility, fatigue, fear of change, change management expertise, workload</p>	<ul style="list-style-type: none">• Continue to communicate about the changes and challenges facing higher education and our colleges and universities• Engage students, faculty, and staff in campus-based <i>Charting the Future</i> discussions and implementation• Increase professional development around change management and leadership

Top operational risks: Financial

Risk	Risk Management Strategy
<ul style="list-style-type: none">• Enrollment	<ul style="list-style-type: none">• Expand long-term demographic and economic forecasting• Support student recruitment and increase retention• Increase marketing and communication strategies
<ul style="list-style-type: none">• Financial sustainability of colleges and universities	<ul style="list-style-type: none">• Multi year modeling with stress testing• Develop long-term strategies for revenue growth (e.g., enrollments, retention, customized training, fundraising)• More effective management of the curriculum• Grow partnerships and collaborations among colleges and universities; shared services• Facilities rightsizing
<ul style="list-style-type: none">• Federal and state financial support for students	<ul style="list-style-type: none">• Encourage federal and state investments in students (e.g., state grant program, Pell, Perkins, TRIO).

Top operational risks: Human Resources

Risk	Risk Management Strategy
<ul style="list-style-type: none">• Talent recruitment, retention and development to address anticipated high turnover in key leadership and staff positions over the next five years	<ul style="list-style-type: none">• Develop a comprehensive system-wide recruitment strategy• Deploy performance management and succession planning tools effective at identifying and developing high performers early• Ensure robust recruitment and retention of a highly skilled and diverse workforce• Build systemwide HR capacity to manage turnover-related issues• Continue to prioritize talent development (eg., Luoma Academy; Executive Leadership Program; new and continuing employee training and leadership development)
<ul style="list-style-type: none">• Regulatory management (ADA, ACA, FLSA, FMLA, Workers' Comp., etc.)	<ul style="list-style-type: none">• Build systemwide HR compliance capacity• Design a systemwide audit process to ensure accurate compliance• Continue to move toward a systemwide HR transactional service model

Top operational risks: Technology

Risk	Risk Management Strategy
<ul style="list-style-type: none">Information security and information management	<ul style="list-style-type: none">Create and maintain a robust set of policies and procedures that clearly convey expectations for safeguarding and managing data/information resourcesTechnology risk and control assessmentsSecurity program that aligns with the organization's strategic needs and risk tolerancesEvaluation of information technology practices that meet or exceed policy / procedure and adopted technology frameworks
<ul style="list-style-type: none">Poorly aligned / aging solutions that are <i>not sustainable</i> in their current form and/or hamper the organization's ability to act operationally and strategically to meet current and future needs	<ul style="list-style-type: none">Pursue strategies to replace/re-tool core IT infrastructure and applicationsPursue common business practices in advance of technology changesActively manage the change associated with technology replacement and business practice adjustment

Top operational risks: Facilities

Risk	Risk Management Strategy
<ul style="list-style-type: none">• Facility and infrastructure reliability	<ul style="list-style-type: none">• Partner with state for sufficient financial assistance• Set and meet repair and replacement goals; investment guidelines;• Pursue mothball, out-lease, and demolition opportunities
<ul style="list-style-type: none">• Safe, secure, compliant operations	<ul style="list-style-type: none">• Communication, training, education, and auditing• Master contracts/coordinated and consolidated methods• Regional and system collaboration• System office and campus plans• Periodic review, training exercises, and scenarios
<ul style="list-style-type: none">• Increasing costs/expenses: energy, supplies and materials, disposal	<ul style="list-style-type: none">• Physical plant systems preventative maintenance• Competitive bidding• Strategic sourcing, master contracts• Benchmarking and re-commissioning• Campus Service Cooperative

Top operational risks: Academic and Student Affairs

Risk	Risk Management Strategy
Also See Strategic Risks; IT Risks	
<ul style="list-style-type: none"> Title IV and state financial aid programs 	<ul style="list-style-type: none"> Board policy System-wide coordination of campus financial aid compliance Monitoring and reviews Training
<ul style="list-style-type: none"> Growing population of students at risk 	<ul style="list-style-type: none"> Develop and share approaches to support students at risk (e.g., academic progress; behavior health; etc.) Support campus-level initiatives by sharing best practices and providing training
<ul style="list-style-type: none"> Title IX 	<ul style="list-style-type: none"> Board policy Designated campus Title IX officers Provide training, other resources Periodic reviews

2. Possible board approaches to oversight of the administration's management of strategic and operational risks

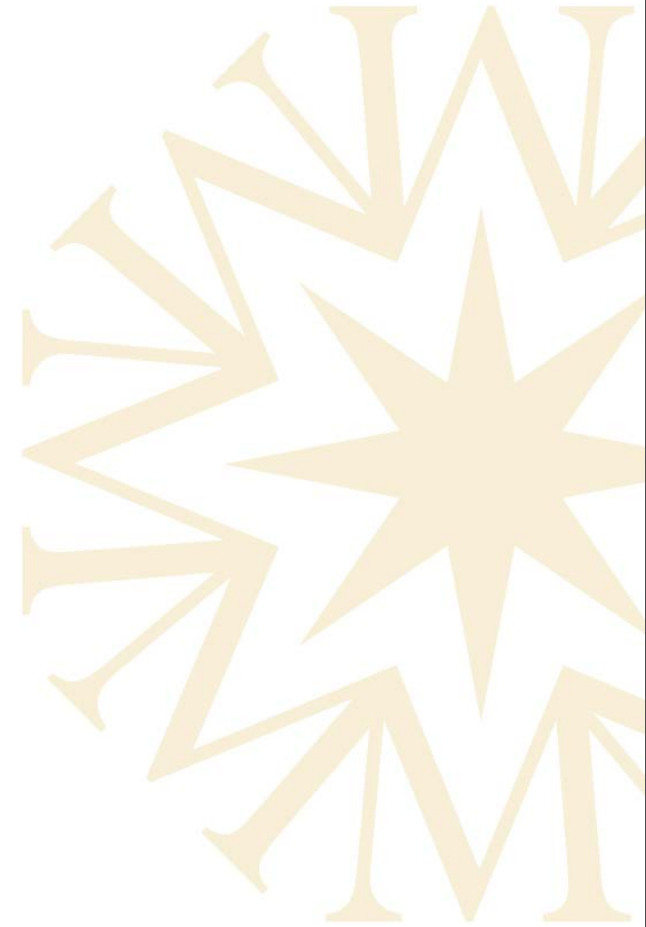
- How should the board exercise its oversight of ERM?
- What is the role of the full board and its committees?
- In previous discussions the board has indicated that ERM is a topic for the full board; should individual board committees be responsible for the ongoing monitoring of the administration's management of specific risks during the year?
- How should the board be appraised on a timely basis of significant changes in the enterprise's risk profile?
- What additional information does the board need to effectively oversee the administration's management of enterprise risks?

3. Potential board policy on enterprise risk management

Possible elements of a board policy

- Definitions of risk and ERM
- Purpose and objectives of ERM
- Risk strategy (statement of the way the organization thinks about risk)
- Risk appetite (level and nature of risk that is acceptable; will vary by area: e.g., health and safety vs. financial vs. compliance; etc.)
- Risk architecture (management's ERM roles and responsibilities)
- Risk landscape (areas encompassed by ERM: e.g., finance, facilities, technology, health and safety, reputation, etc.)
- Risk assessment, management, and monitoring (organization's procedures for identifying, assessing, managing risks, and monitoring ERM work)
- ERM education and training
- Board oversight (reporting and oversight protocols)

Appendix



Risk

- Every organization operates in an inherently risky environment.
- Risks cannot be eliminated, but effectively managing risk can create greater value, protect resources and reputation, and increase our ability to realize our core objectives and responsibilities.
- Some appetite for risk is healthy. Risk is key to innovation and high returns on investment. “All successful organizations take risks, and the most promising opportunities often involve heightened risk” (AGB, 2009).

Who is responsible for risk management?

- Board Policy 5.16: “The **chancellor** for the system office and the **presidents** for the colleges and universities are responsible for effectively managing risks in order to conserve and manage the assets of the system office, colleges and universities and minimize the adverse impacts of risks or losses.”
- The assessment and management of risk is **everyone’s responsibility** – it occurs at all levels of leadership and management from front-line campus employees to oversight by the board. Every day, leaders and employees across the system make risk-based decisions.
- The system-level ERM effort is led by the **ERM team** (chancellor, vice chancellors, director of internal audit, general counsel, chief of staff, associate vice chancellor for facilities, government relations and communications officer).
- The **president and his/her cabinet** lead campus-level ERM efforts.
- The **Board of Trustees** oversees the ERM effort.

Two classes of risks

- **Strategic risks: threats to the realization of our core objectives**
 - *E.g., quality of graduates; reputation; revenue streams*
 - *Primary responsibility to monitor, identify, assess and manage risks:*
 - systemwide: chancellor and members of the ERM team
 - colleges and universities: presidents and their leadership teams
- **Operational risks: threats to assets, people, and compliance with laws and regulations**
 - *E.g., integrity of financial system; emergency preparedness; network security*
 - *Primary responsibility to monitor, identify, assess, and manage risks:*
 - systemwide: chancellor and members of the ERM team
 - colleges and universities: presidents and their leadership teams

How do we identify and assess risks?

- At the system level, the ERM team (with engagement of staff at both the system and campus level) continuously scans the internal and external environment to identify and assess risks. The team pays particular attention to the “intersections.”
- Annually, presidents are asked to identify the top risks facing their college/university and to describe the strategies they are using to manage those risks.
- Risk identification and assessment are included in annual performance reviews and goal setting for the chancellor, presidents, and chancellor’s cabinet.
- The Leadership Council periodically reviews and discusses ERM.

How do we manage risks?

- Implementing our *Charting the Future* recommendations is critical to managing our top strategic risks.
- “Tone at the top” and “tone of the organization” are also critical to managing strategic and operational risks at both the system and campus levels.
- At the system level, individual members of the ERM team (with engagement of system and campus staff) lead the development and implementation of strategies to manage risks and monitor progress.
- System, college, and university strategic and fiscal plans are also strategies to manage risk. System-level leaders and presidents incorporate risk management in their strategic plans and annual work plans.

How do we compare nationally?*

	<u>National</u>	<u>MnSCU</u>
Institution has conducted an ERM process in the last two years	39%	Yes
Institution uses risk tolerance in guiding leadership decisions	34%	Yes
Primary responsibility for ERM is led by ≥ 2 senior administrators	22%	Yes
The full board discusses institutional risks	62%	Yes
ERM approached on an ongoing rather than “as needed” basis	54%	Yes
Getting enough information about risk	39%	?
Institution is doing a good job identifying, assessing, and planning for institutional risk	25%	?

*A *Wake-up Call: Enterprise Risk Management at Colleges and Universities Today*, Association of Governing Boards of Universities and Colleges and United Educators, 2014. Results from a 2013 AGB survey of public and private college and university presidents, governing boards, provosts, CFOs, legal counsels, risk managers, and chief compliance/audit officers.

How do we compare to other systems?

	U of Wisc. System	U of CA System	U of Texas System	Tenn Board of Regents	U of Georgia System	SUNY System	U System of Md	MnSCU
Who is responsible for ERM?	Staff from 4 units	Office of Risk Services	Systemwide compliance staff	Internal Audit	Exec Director of Risk Mgmt	No ERM system in place	No ERM system in place	System Exec Team and Presidents
Board involvement	Not clear	Not clear	Yes – compliance committee	Yes – audit committee	Yes – full board	No	No	Yes – full board
Strategic risks assessed?	List of risks, but strategic risks not specified	Yes	List of risks, but strategic risks not specified	No	Yes	No	No	Yes
Operational risks assessed?	List of risks, but operational not specified	Yes	Yes	Yes	Yes	No	No	Yes
A process to identify risks?	Yes	Yes	Yes	Yes	Yes	No	No	Yes
ERM reporting frequency	Every 18-24 months	Every 2 years	Not clear	Annually	No set period; ongoing	None	None	Annually

For further reading:

A Wake-up Call: Enterprise Risk Management at Colleges and Universities Today, Association of Governing Boards of Universities and Colleges and United Educators, 2014.

“Negative Outlook for US Higher Education Continues Even as Green Shoots of Stability Emerge,” Moody’s Investors Service, July 11, 2014.

Janice M. Abraham, *Risk Management: An Accountability Guide for University and College Boards*, AGB Press, 2013.

“The Five Lines of Defense – A Shareholder’s Perspective,” *Board Perspectives: Risk Oversight*, Issue 51, Protiviti, 2013.

“Exploring Risk Appetite and Risk Tolerance,” Risk and Insurance management Society, Inc., 2012



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