MINNESOTA STATE COLLEGES AND UNIVERSITIES
BOARD OF TRUSTEES

Agenda Item Summary Sheet

Committee: Finance and Facilities   **Date of Meeting:** March 15, 2011

Agenda Item: Enterprise Risk Management Strategy

☐ Proposed Policy Action   ☐ Approval Required by Policy   ☐ Other Approvals   ☐ Monitoring

☒ Information

Cite policy requirement, or explain why item is on the Board agenda:
The purpose of this report is to present the board an update on work done in enhancing the understanding and of the risk management strategies in place in the System. Current activities will be outlined and areas of new focus introduced.

Scheduled Presenter(s): Laura M. King, Vice Chancellor – Chief Financial Officer
Brian Yolitz, Associate Vice Chancellor Facilities
Keswic Joiner, Director, Risk Management

Outline of Key Points/Policy Issues: The Minnesota State Colleges and Universities is continuing efforts to establish a more formalized risk management strategy under the direction of the Compliance Oversight Committee. Risk management currently occurs at all levels of leadership and management within the system, from the front line campus employee through Board of Trustees deliberations and decision-making processes. Often times these processes are informal or ad hoc with a functional focus on risks associated with compliance. While individually sound in practice, they do not provide a systematic assessment of the risks associated with the system as an enterprise nor do they offer a framework for addressing risk within the system to improve the business of delivering higher education in Minnesota. The goal of the outlined program is to improve the structure and systematic nature of risk assessment and management at all levels of the organization.

Background Information: Groups, functions, and processes associated with risk management are already present within the system. Individual internal audit and compliance staff functions, information security and all-hazards campus staff assistance visits, and other risk management efforts must be integrated to eliminate overlaps and gaps in the existing collective processes and areas of focus. The goal is not to establish entirely new structures or staff, but to integrate and coordinate current processes towards better appreciation and a holistic approach towards risk management for the system.

INFORMATION ITEM
Enterprise Risk Management Strategy

Background
The purpose of this report is to update the Board of Trustees regarding the continuous improvement efforts in managing risks throughout the system. The Board's current expectations regarding risk management are contained in Board Policy 5.16, Risk Management and Insurance:

> *Part 2. Responsibilities: The chancellor for the office of the chancellor and the presidents for the colleges and universities are responsible for effectively managing risks in order to conserve and manage the assets of the office of the chancellor, colleges and universities and minimize the adverse impacts of risks or losses.*

Like all organizations, the Minnesota State Colleges and University system manages risks in its day-to-day operations. It has been doing so since it's inception. Risk management occurs at all levels of leadership and management within the system, from the front line worker in student services or the finance office through the various departments to the presidents at each of the colleges and universities. The Chancellor and staff manage risk as part of their leadership, as do various governance and oversight groups and committees within the system. The Board of Trustees incorporates risk management in their deliberations and decision-making processes. The goal of the outlined program is to improve the structure and systematic nature of risk assessment and management at all levels of the organization.

Often times these risk management processes are informal or ad hoc with a functional focus on risks associated with compliance. While individually sound in practice, they do not provide a systematic assessment of the risks associated with the system as an enterprise nor do they offer a framework for addressing risk within the system and improve the business of delivering higher education in Minnesota. They fall short of creating what the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines as enterprise risk management or ERM:

> *Enterprise Risk Management: a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify the potential events that may affect*

the entity, and manage risk to be with the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.   (COSO's Enterprise Risk Management – Integrated Framework – 2004)

The need for a more holistic approach to risk management has been gaining momentum. The push started with Sarbanes-Oxley Act requirements that called on U.S. publicly-traded corporations to utilize a control framework in their internal control assessments. The Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) have pushed for more top-down risk assessments. Standard and Poor's (S&P), is finalizing their criteria for factoring ERM into its ratings for non-financial companies and organizations. In addition, an International Standard for Risk Management (ISO 31000) was established in 2009 with supporting risk assessment techniques (ISO31010) and Risk Management Vocabulary (ISO Guide 73). System leadership desires to take advantage of the work and lessons of others in creating an ERM construct for assessing and addressing risks associated with the delivery of quality higher education in Minnesota.

Overview of Risk Management in the System

Every day, system leaders and employees make risk-based decisions in the management of the colleges and universities.

- Should we expand the number of employees that have purchasing cards?
- When it is snowing, how often should we remove the snow from walkways?
- How many employees should have access to key databases?

Furthermore, college and university presidents, and their cabinets, engage in risk assessment on a local level when developing institutional fiscal and strategic plans.

- Should we operate a campus bookstore or contract with an online vendor?
- What will be the effect of a program closure or service cutback?
- How much should we spend on redundant network connectivity?

At the system level, the Finance division, the Information Technology Services division, the Office of Internal Auditing, and the Office of General Counsel have engaged in risk assessment and mitigation activities that include:

- regular and repeated training programs available to the campuses concerning system policies, procedures and guidelines;
- cascading monitoring and reporting protocols that culminate in Board oversight in the Audit and Finance & Facilities Committees; and
- regular review of policy and procedures for refreshment and identification of new or emerging best practices and risks.

In addition, the Finance division also requires all colleges and universities to document and assess risk on their key financial internal control cycles. Internal controls are expected to provide reasonable, but not absolute assurances about their effectiveness.

Enterprise Risk Management

The system is continuing efforts to establish a more formalized risk management strategy. The work of the staff will be directed by the Compliance Oversight Committee. The committee was established several years ago by Chancellor McCormick and charged with the establishment and oversight of the risk management program. Progress to date has been concentrated in the area of legal compliance and development of improved procedures for higher risk activities including the use of the information technology systems, credit cards, international travel, financial aid administration and vehicle use. The goal of the continuing effort is to develop a structure that will expand the understanding of risk from the current traditional view to a comprehensive and holistic view that includes strategic, operational, financial, reputational, and compliance risks. This process will also provide a common language to deal with the risks that are shared across the system or that arise in corners of the organization. The ultimate objective is the creation of a thorough process that will identify risks that threaten the accomplishment of the system's mission and assist system leadership in determining how to best manage those risks.

Compliance Oversight Committee Membership
Vice Chancellor of Finance
Vice Chancellor of Academic and Student Affairs
Vice Chancellor of Human Resources
Vice Chancellor of Information Technology
General Counsel
Executive Director of Internal Auditing
Compliance Coordinator

As the process matures, the Office of the Chancellor will develop additional strategies to identify emerging risks. The program will include development of tools for campus use. The tools may include interview questions, surveys and a scoring model to identify the likelihood of the risks occurring and their potential impact; additional training opportunities, procedure and guidelines, audit techniques, monitoring and review protocols and other methods. The effort will build on current strategies and decision making processes and encourage use of existing data from on-going assessment activities. Campuses or divisions may be asked to pilot the tools.

In its most basic form, enterprise risk management involves a four-step process:

> **Step 1.** Identify risk (threats/obstacles). Ask: what can hinder the organization from achieving its objectives?

Step 2.   Assess the risks (Identify the probability, quantify the likelihood and impact of those obstacles; prioritize the risks so finite resources can be directed to key areas for maximum impact.

Step 3.   Address the risks through decisions to mitigate, transfer or accept.

Step 4.   Monitor change.

Risk management takes place at every level of the organization. Colleges, universities and the Office of the Chancellor will be encouraged to apply this four-step process to risk across broad categories:

Strategic	Risks to the organization's goals	Attraction and retention of key employees and /institutional alliances
Operational	Risks to processes	Communications, student activities, employment practices
Financial	Risks to assets and people	Loss of funding/tuition stability, curricula and program design, and claim reserve liability
Reputational	Public image and perception; branding	Campus security, illness/injury to students, faculty and staff, and visitors and contractors
Compliance	Laws and regulations	Loss associated with items of interest to regulators (cuts across all of the above categories)

Building on local efforts, a risk management working group, serving as a subset of the Compliance Oversight Committee will encourage enterprise-wide problem solving as well. While this process will take several years until it is fully integrated, as the use of coordinated risk assessment tools grows, divisions within the Office of the Chancellor, as well as the Office of Internal Auditing, will have increase capability to identify keys risks to address in annual work plans.

In the near term, the next phase of the process will consist of a series of discussions with key leaders. The Finance division, the Office of Internal Auditing, and the Office of General Counsel have been participating jointly in initial risk assessment meetings, and later the Office of Internal Auditing will conduct focused assessments of key topical areas. This cooperation should help reduce duplication of effort at the system level, and at the same time, promote a coordinated discussion of risk management. The initial risk assessment conversations will focus on developing a common vocabulary for discussing risk at individual institutions and throughout the system as well as an initial environmental scan of campus leadership concerns.

We must recognize the groups, functions, and processes already associated with risk management that are present within the system.   Understanding the important role internal audit and compliance staff functions, information security and all-hazards campus staff assistance visits, and many others play in risk management within the system is a key part of the program's design. It's equally important to understand where there are overlaps and gaps in the existing collective processes and areas of focus. Some roles will change to help meet the needs The goal should not be establish entirely new structures or staff, but to integrate and coordinate current processes and work in creating a better appreciation and approach towards risk management for the system.

As this work evolves and advances, policy and supporting procedure documents will need to be created to document the definitions, roles, responsibilities, and procedures of the framework and systematic practices of the MnSCU ERM methodology. The staff will periodically report to the Board on the effort and progress.

Date Presented to the Board of Trustees: March 16, 2011