MINNESOTA STATE COLLEGES AND UNIVERSITIES

BOARD OF TRUSTEES
STUDY SESSION
OCTOBER 22, 2013
MCCORMICK ROOM
30 7TH STREET EAST
ST. PAUL, MN

Present: Chair Clarence Hightower and Trustees Margaret Anderson Kelliher, Duane Benson, Alexander Cirillo, Cheryl Dickson, Dawn Erlandson, Philip Krinkie, Alfredo Oliveira, Thomas Renier, Elise Ristau, Louise Sundin and Chancellor Steven Rosenstone

Absent: Trustees Ann Anaya, David Paskach, Maria Peluso, and Michael Vekich

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Convene
Chair Clarence Hightower convened the study session on Enterprise Risk Management at 3:00 p.m.

Enterprise Risk Management
Chancellor Steven Rosenstone recalled that this past May was the first time in almost two years that the board took up the topic of enterprise risk management (ERM). He added that a commitment was made for an annual study session on ERM. By scheduling the annual session in the fall rather than spring, any input from the Leadership Council's fall retreat can be included.

Chancellor Rosenstone referenced a slide presentation that was included in the meeting materials. The goals for this session are to:

- Review the system's enterprise risk management strategy
- Report on steps taken since the May 2013 meeting
- Provide annual board review of the identification, assessment, and management of top strategic and operational risks, and
- Receive feedback from the board.

Chancellor Rosenstone stated that board oversight of ERM is essential not only on the risks that have a high probability and high potential for consequences, but also on the management strategies that are ultimately employed.

Background and Responsibility
Risk is in every organization, every environment. Risk cannot be eliminated but the effective management of risk can create greater value, protect resources and reputation and increase an organization's ability to realize core objectives and responsibilities. Slide 5 cites Board Policy 5.16 which assigns the responsibility for managing risks as follows:

> "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 or risks or losses."

Chancellor Rosenstone explained there are two kinds of risks: strategic risks which are fundamental to achieving the core objectives as a set of colleges and universities, and operational risks which are risks to operations. Many of the strategic risks are related to our students, our educational programs, our ability to serve students well, and whether we have the right mix of programs. These risks are at the enterprise level.

At the study session in May, a category called "compliance" was listed under operational risks. It has been replaced with a category entitled "Academic and Student Affairs," as there are compliance requirements in Human Resources and Academic and Student Affairs. This session focused on risks that have a high probability and high impact and that are above the diagonal that is shown on Slide 8. The management strategy is to try to eliminate the risks that are below the diagonal.

Chancellor Rosenstone summarized the steps that have been taken since the May meeting. Periodic conversations are taking place with the cabinet and the topic was discussed with the Leadership Council at its retreat in September. Part of the responsibility as system officers is not to manage the risks that are campus level risks but to facilitate them by providing shared resources, such as the general counsel's office, auditor's office, or the finance and facilities division. For example, for safety on campuses, Associate Vice Chancellor for Facilities Brian Yolitz has programs which are made available to campuses to help them manage the risk. Also, it has been made very clear to the presidents that as part of their management plan they need to pay attention to both operational and strategic risks as these will be included in their annual performance reviews and goal setting.

Chancellor Rosenstone continued that very little has changed over the last four months on the risks that were identified in an environmental scan. The risks also overlap with those that were identified in the draft *Charting the Future* report that the board received at its meeting in June. Many of the management strategies suggested by the Strategic Workgroups are the same as those identified in Slides 11-13, which identify the top strategic risks and the accompanying management strategies. Before continuing to the operational risks, he paused for comments or questions.

Trustee Dawn Erlandson commented on item 6 on Slide 13, the ability to increase awareness and reputation of the system's colleges and universities. Trustee Erlandson added that many people have no idea of the kinds of students who do not take the ACT or the SAT tests and go to community colleges. She continued that the broader challenge is for higher education to inform the public about the differences in the kinds of colleges and the opportunities that they offer. Chancellor Rosenstone agreed adding that the risk is the system's ability to increase awareness and reputation of our colleges and universities to improve student recruitment and increase the investment in the schools. He added that Vice Chancellor Mike Dougherty's workplan includes a study session on marketing and branding in May.

Trustee Duane Benson inquired how the supply side's role directly and indirectly affects the system. Chancellor Rosenstone remarked that the work underway in collaboration with Education Commissioner Brenda Cassellius on the redesign of secondary and post-secondary education addresses the academic preparedness of our students. Commissioner Cassellius will provide an update on the project at the board meeting in November. Also, there is collaboration and work underway in the broader environment as evidenced by the Itasca Project and others in the business community.

Top Operational Risks
Chancellor Rosenstone asked each vice chancellor to review key operational risks in their areas.

Financial Risks
Vice Chancellor Laura King reviewed the financial dimensions of operational risks. They include enrollment performance and budget management. Federal and state financial support and MnSCU operational partnership with the state were risks that were added after the May study session on ERM. They were added because of the changes in the federal financial aid program and the system's dependency on the state's operational environment. Vice Chancellor King continued that the system integrity, accounting, payroll, student records, etc., intersects with IT and audit. Working with the Internal Auditing Office, there is a robust set of strategies to detect, monitor and intervene at the college and university level, when necessary. Almost everything in finance passes through the Finance and Facilities Committee and the Board of Trustees. For example, the annual review sessions with the individual colleges and universities, the audits and external reviewers.

Trustee Phil Krinkie noted that it is important to keep a close eye on two items: enrollment and enrollment expectations. He continued that the legislature freezing tuition created a certain amount of risk for the system. He asked: What will happen if there is no appropriation to hold down tuition in the next biennium? What will happen to students who entered our institutions with the idea that they could manage/ pay for their education going forward and suddenly they see an increase in tuition or decrease in state or federal financial aid? Will students have a false expectation as to their tuition costs. The issue of projecting enrollments is critical for the next biennium? Vice Chancellor King agreed that what happened this past legislative session with the tuition buy-down changed the risk equation because the system had been moving into a lower risk posture with the state. The tuition buy-down worked against the system because the state assumed some of our revenue outlook. Vice Chancellor King added that the strategic directions and initiatives in the Strategic Framework and in "Charting the Future" are all about increasing enrollment – improving academic programs, improving customized training programs, and helping students succeed.

Chancellor Rosenstone commented that there is modeling that will do a better job of helping the colleges and universities forecast future enrollments. There are macro conditions that drive enrollments such as the number of high school graduates, the unemployment rate, especially for the community colleges, and changes in family income.

Trustee Tom Renier followed-up to Vice Chancellor King's comment that the system has moved into a lower risk profile with the state. He continued that over the past decade the system has moved into a much higher risk profile with the state and that is the erosion of this board's ability to govern. To him, this is one of the most serious risks we face. Chancellor Rosenstone noted that there were some suggestions along those lines that General Counsel Gail Olson brought to our attention. Our focus is on our management strategies, not to create strategies for the board. There are some macro questions on the role of the board that other trustees have raised in the past.

Chair Hightower inquired if there is a bright line between operational integrity and system integrity. Vice Chancellor King replied that system integrity and technology integrity are inextricably linked. It is visible at the federal level on the rollout of the Affordable Care website. It is a system problem and an operational problem and the finance division has close relationships with the IT division.

Chair Clarence Hightower inquired where the risk of having the right mechanism such as the allocation framework fit. Vice Chancellor King responded that there is an operations risk if it is not working right and strategic risk if it is not driving the right behavior. The same could be said for tuition policy.

Human Resources Risks
Vice Chancellor Mark Carlson reported that employees attrition is a concern and it is monitored very closely. He added that 25 years ago only about 18 percent of our college and university presidents were over the age of 61; today that number is in excess of 49 percent. Like other segments of the population, we are an aging population in higher education. Several chief human resources officer positions are vacant and many experienced human resources professionals are retirement eligible. In addition, regulatory management, such as Americans with Disabilities (ADA), Fair Labor Standards Act (FLSA), Family Medical Leave Act (FMLA), Workers' Comp., etc., are complicated programs that require a great deal of training and skill. The same applies to non-discrimination. One of the more complicated areas requiring a highly skilled and knowledgeable staff is the administration of defined contribution pensions. Trustee Sundin added that losing so many leaders is also a national issue and that the same concerns were voiced at the annual conference of the Association of Community College Trustees.

Trustee Benson asked how much management time is spent on growing our own. Vice Chancellor Carlson replied that energies are spent on driving the leadership pipeline deeper into the organization. For instance, we are building a more robust supervisory training program. Moving people from the individual realm to the supervisory realm has been a struggle. The training program is designed to give them the tools to be successful. This structure and career ladder give employees an opportunity for greater and greater responsibilities. Trustee Benson followed up by asking if an effort is made to recruit our own students. Vice Chancellor John O'Brien commented that it is done on a daily basis when there are students that are rising stars. We are constantly encouraging our students to reach their highest potential and consider coming back to the system.

Trustee Margaret Anderson Kelliher inquired whether the payroll issue at Metropolitan State University would fall in the financial or human resources management strategy. Chancellor Rosenstone commented that the issue is a risk that needs to be managed at the campus level. He noted that kind of problem has occurred only at one campus and only once in the system in 18 years. He explained that the heart of the matter is the processing of campus input; the correct data needs to be input into the system at the campus level. Vice Chancellor Carlson and colleagues across the system have been bringing resources to the campus to address, assess and correct the problem.

Chair Hightower asked Vice Chancellor Carlson for a timeframe to know if these are the right strategies to address the risks in human resources. Vice Chancellor Carlson replied that a three-year work plan with metrics is in place to measure progress.

Technology Risks
Chancellor Rosenstone reminded that board that there is a study session on IT security immediately following this session. Interim Vice Chancellor McCoy commented that IT has four risks with high probability and high impact. He will cover three of them in this session, and the fourth one will be covered in depth during the next session on IT security.

Vice Chancellor McCoy reviewed system reliability, disaster recovery and business continuity as operational risks to core functions. "Poorly aligned solutions" are whether the technology solutions actually meet the intended use. To minimize the risk of poorly aligned solutions, IT needs to ensure that the best solutions are developed for stakeholders' needs. Chancellor McCoy noted that IT risk mitigation, including solution alignment, involves collaboration his colleagues in the other divisions. "System stability" has to do with the day-to-day use of IT resources. For system stability, a disciplined change management process is essential to success. The management strategies for system reliability are to develop redundancies and back-up technologies. For redundancy, the system is developing within the next month a system of record Integrated Statewide Records System (ISRS). It is also important that IT is engaged and at the table to develop solutions. The IT group is meeting with Gartner Inc. next week.

Chancellor Rosenstone noted that if IT systems fail, classes cannot be taught, student records cannot be processed, and data cannot be accessed. The importance of the stability of the IT system is critical to the entire operation of the enterprise.

Facilities Risks
Associate Vice Chancellor Brian Yolitz reviewed the operations risks in the facilities area. In terms of the facility and infrastructure reliability, we have just completed a facility assessment of the 27.8 million square feet of space on the campuses across the state. Assets are valued at $7.6 billion. Backlog and renewal demands over the next five years were assessed and integrated in the capital request. A review of the repair and replacement investment on campuses showed that individual campuses are asked to invest about $1.00 per square foot; they actually are investing about $1.35 on average per square foot. The board established guidelines in the 2014 capital bonding process that shaped the investment strategy which included demolition to take space off line.

Associate Vice Chancellor Yolitz noted that creative contract mechanisms allow the system to utilize some leased equipment to pay for infrastructure investments and then pay the debt service through the savings on energy bills. A guaranteed energy savings contract is already in place at Winona State University. The St. Cloud State University project is probably the largest in the state. It is at the forefront of what the Department of Commerce has put together for a guaranteed energy savings contract. Associate Vice Chancellor Yolitz added that they are looking at high cost, high consumption campuses for other opportunities.

In terms of contract integrity and compliance risks, design and construction staff recently released a job-order mechanism that allows campuses to execute general construction work. It allows campuses to forego some of the contracting work because it has been done for them upfront. The Facilities division also provides training, monitoring and auditing. Operations risks focus on keeping campuses safe and secure, and compliant, particularly in the area of the environmental management. The board adopted a policy to make sure that the system is in compliance with Minnesota Pollution Control Agency regulations. The companion system procedure addresses hazardous waste handling and prohibits campuses from accepting known hazardous waste. The policy and system procedure are an example of acting proactively to eliminate a type of risk.

Costs/expenses of energy were discussed. The system is at the forefront of state agencies in Minnesota B3 Benchmarking, which is a "*b*uildings, *b*enchmarks and *b*eyond" energy management system. Associate Vice Chancellor Yolitz noted that we have been asked to speak at a couple of

national forums such as the Society of College and University Planners (SCUP). In the area of emergency preparedness and response / continuous operations planning, we have emergency operations plans on campuses and in the system office. System office staff have worked with campuses to help them walk through situations such as campus lockdowns and shots fired.

Chair Hightower commented that he is aware of the Facilities Condition Index. He asked if there is a reliability quotient. Associate Vice Chancellor Yolitz replied that the FCIs are basic indicators of the facilities assessment, and the relationship of backlog to replacement values. Discussions take place with campus facility managers on how the actual systems are working on a particular campus. Trustee Sundin inquired if there was anything about going green in this category. Associate Vice Chancellor Yolitz replied that there are initiatives at the campus level; it is something we aspire to, but it does not rise to a risk level.

Trustee Dawn Erlandson inquired if there was a dashboard or list of risk factors for each college and university. Chancellor Rosenstone replied that the short answer is yes. He added that in his annual meetings in the spring with each president, he consults with members of the Cabinet on their assessments on a set of metrics, such as financial trends, overhead trends, enrollment trends, and reserve trends for the college or university. As a result, a set of management strategies are developed to assist presidents to be ahead of the curve on these trends.

Academic and Student Affairs
Chancellor Rosenstone commented that many of the strategic risks facing the system are the academic programs and services we are provide to students. Interim Vice Chancellor John O'Brien added that topics such as student success and accreditation, while not operational risks, span and animate the entire enterprise.

Vice Chancellor O'Brien reviewed the top operational risks. Student mental health is an increasing concern for faculty and staff. Changes in the student population have brought challenges and the management strategy is to work closely with all of our campuses providing leadership and pooled resources. Information is gathered and best practices are monitored and shared with the campuses. At its annual academic conference this month, Academic and Student Affairs will sponsor a suicide awareness session.

International education is an area that is a challenge for many of our colleges and universities. Vice Chancellor O'Brien explained that it is not a challenge for a large campus such as St. Cloud State University that deals with international education on a regular basis. Smaller campuses that do not deal with international education on a regular basis need support. At the system level, the strategy is to share information on liability risks and best practices. For example, templates of documents for study abroad programs are shared and a support network helps with challenges when they arise.

Title IX involves enforcing board policy. The management strategy is to ensure enforcement by working with designated campus Title IX officers and to provide periodic training and reviews.

Trustee Cheryl Dickson inquired whether mental health issues were also a risk for Human Resources. Vice Chancellor Carlson explained that the State of Minnesota has a robust employee assistance program. It is a well-used service throughout the executive and state branch. It is free of cost and covers all sorts of emergencies and high risk areas.

Trustee Anderson Kelliher commented that there is a movement at a legislative level to improve the reliability and safety of international programs. Vice Chancellor O'Brien commented that it has been his experience that the campuses are doing everything they can to provide support for international students.

Trustee Cirillo commented that most systems are vulnerable at the interfaces. He suggested for a future discussion to include a discussion and analysis on the interfaces that are most vulnerable. These sit below the diagonal and would rise to the above level if something happens.

Chancellor Rosenstone referenced the questions on the last slide and asked the trustees to keep them in mind. He invited an ongoing discussion with the board, and asked them to consider if these are the right questions.

Chair Hightower adjourned the study session at 4:10 p.m.

Ingeborg Chapin
Secretary to the Board