

# Enterprise Risk Management



Board of Trustees Oversight Discussion  
September 17, 2014

## 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 enterprise risk management strategy.
2. Review, provide feedback and oversight of the identification, assessment and management of the top strategic and operational risks.
3. Discuss board strategies for effective oversight of enterprise risk management.

# Part I: Background

- 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).

# 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.

# 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: members of the ERM team
    - colleges and universities: operations leaders

# 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.

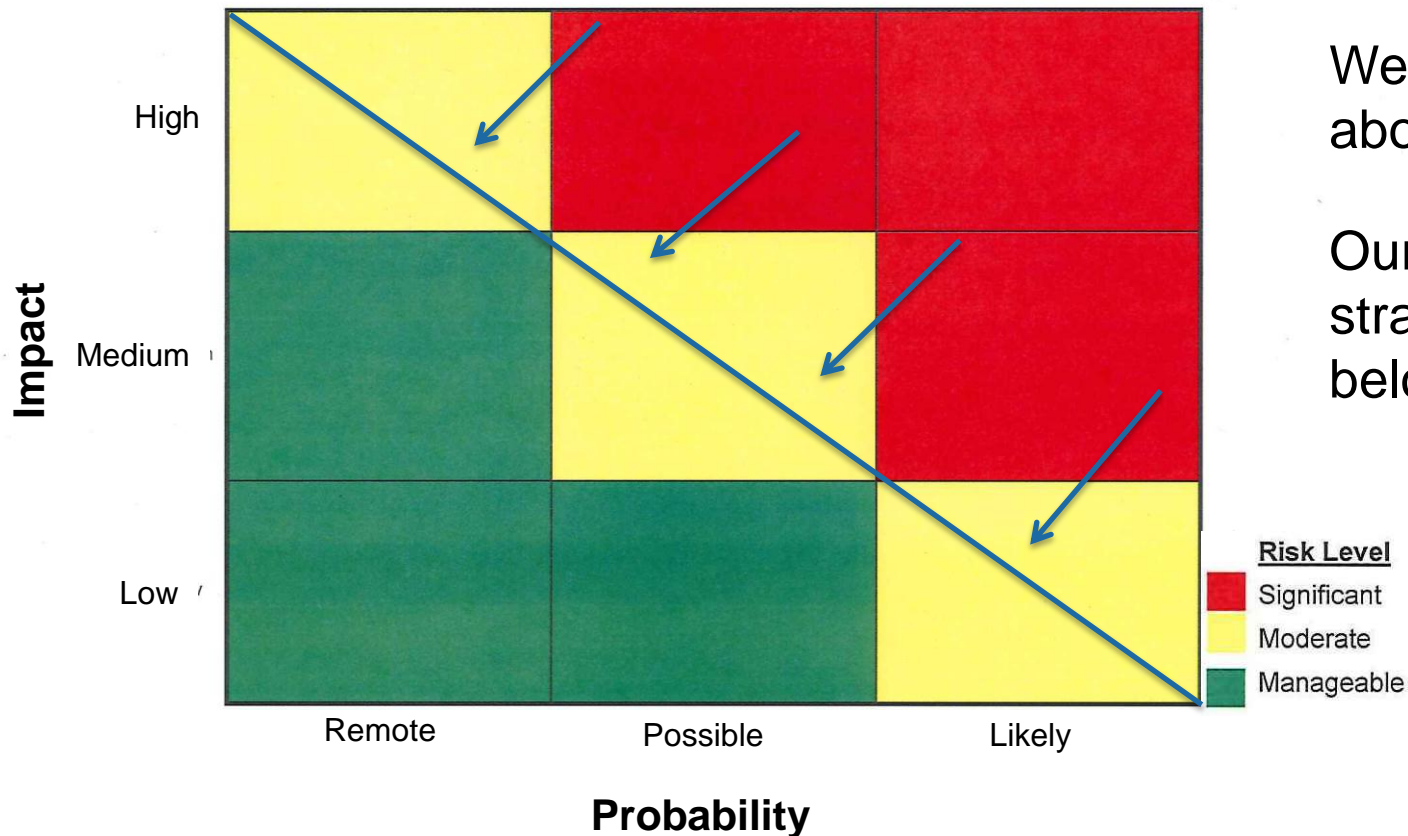
# How do we manage risks?

- Implementing the *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.
- At the campus level, members of the president’s cabinet (with engagement of 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.



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.

# 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 $\geq 2$ 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	<b>System Exec Team and Presidents</b>
Board involvement	Not clear	Not clear	Yes – compliance committee	Yes – audit committee	Yes – full board	No	No	<b>Yes – full board</b>
Strategic risks assessed?	List of risks, but strategic risks not specified	Yes	List of risks, but strategic risks not specified	No	Yes	No	No	<b>Yes</b>
Operational risks assessed?	List of risks, but operational not specified	Yes	Yes	Yes	Yes	No	No	<b>Yes</b>
A process to identify risks?	Yes	Yes	Yes	Yes	Yes	No	No	<b>Yes</b>
ERM reporting frequency	Every 18-24 months	Every 2 years	Not clear	Annually	No set period; ongoing	None	None	<b>Annually</b>

# Possible questions for board discussion

## Board Assessment of the ERM Effort

1. Do we have an effective management strategy that supports the identification, assessment, and management of risk? Are the right people engaged and accountable for the results?
2. Are there additional high probability / high impact risks that the board thinks we should address?
3. Are there suggestions for how we should better manage the high probability / high impact risks that we have identified?
4. Is the board satisfied that management is periodically monitoring changes in the environment to identify significant impacts on the assumptions and risk inherent in the strategy?
5. Do we have an effective “tone at the top” and “tone of the organization” with respect to ERM?
6. What should be our appetite for risk?

## Role of the Board in ERM Oversight

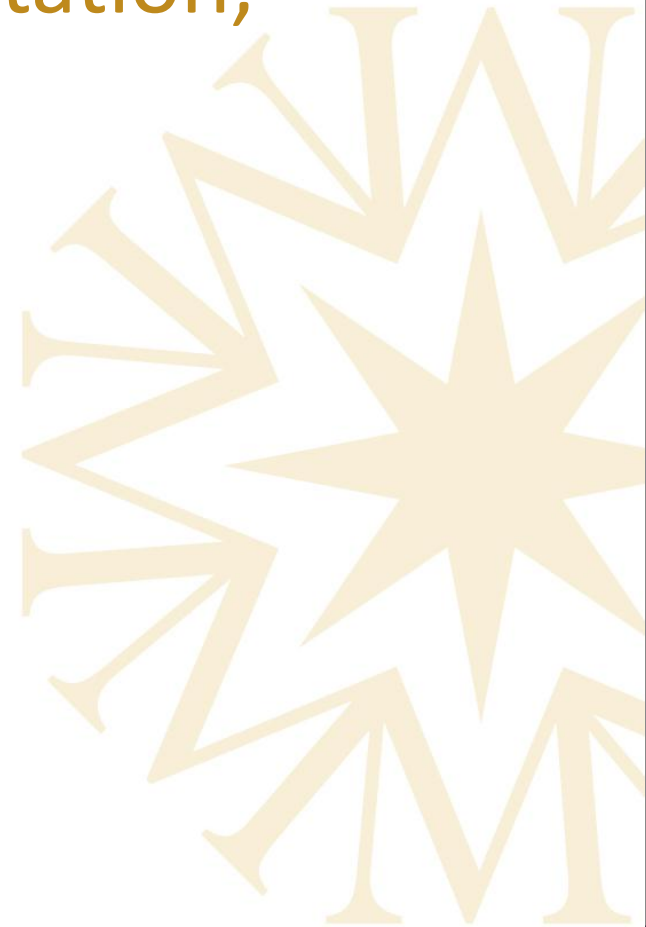
7. How should the board exercise its oversight of ERM? What is the role of full board and its committees? Who should play a leadership role? How should the board be appraised on a timely basis of significant changes in the enterprise’s risk profile?
8. Is the board satisfied that management involves the board with significant risk management and compliance issues on a timely basis?
9. What additional information does the board need to effectively oversee management’s ERM strategies?
10. Should the board develop a “risk statement” or “guiding principles?”

# Part II: Identification and management of risks



## Top Strategic Risks:

Threats to quality, value, reputation, revenue, and market share



# Top Strategic Risks

1. The need to effectively serve a larger number of students from diverse communities that have traditionally been underserved by higher education.
2. Increased competition from public and private colleges and universities as well as other organizations that certify competency.
3. A reduced pool of potential students due to fewer high school graduates and declining unemployment. Greater population growth in metropolitan areas than in other parts of the state.
4. Growing need to address access, affordability, and student debt.
5. Threats to the long-term financial sustainability of our colleges and universities stemming from changes in revenue streams; constraints on revenue growth; increasing costs; and the imbalance between current physical plant and enrollment outlooks.
6. New technologies for learning, course delivery, and collaboration that require culture change, new ways of working together, and significant investments in technology and training.
7. Changes in the nature of work that are changing the what graduates need to be prepared for jobs and careers. Ensuring our graduates meet Minnesota's future workforce needs and can demonstrate the foundational and technical capabilities they have mastered including cultural competence.
8. Increased external scrutiny from government and the public; increased federal and state regulation; growing link of funding to outcomes.
9. Low awareness and varied reputation (i.e., brand) of our colleges and universities and the system.
10. Apprehension (fear) of change blocks progress.

# Top strategic risks (1/5)

Risk	Risk Management Strategy
<p>1. The need to effectively serve a larger number of students from diverse communities that have traditionally been underserved by higher education.</p>	<ul style="list-style-type: none"> <li>• CTF: Diversity</li> <li>• CTF: Student success</li> <li>• Partnership with MDE to ensure that more students are prepared for and on track to post-secondary education</li> <li>• Redesign development education to reduce time to completion and improve student success</li> <li>• Statewide scholarship campaign</li> <li>• (Also see risk management strategies for #4 – addressing access, affordability, and student debt)</li> </ul>
<p>2. Increased competition from public and private colleges and universities as well other organizations that certify competency.</p>	<ul style="list-style-type: none"> <li>• CTF: Student success</li> <li>• CTF: Competency certification and credit for prior learning</li> <li>• Continually improve the quality of our academic programs and the education we provide students</li> <li>• Branding initiative to support a coordinated statewide marketing effort</li> <li>• Increase PSEO and concurrent enrollment opportunities</li> <li>• Partnership with MDE to ensure that more students are prepared for and on track to post-secondary education</li> </ul>



# Top strategic risks (2/5)

Risk	Risk Management Strategy
<p>3. A reduced pool of potential students due to fewer high school graduates and declining unemployment. Greater population growth in metropolitan areas than in other parts of the state.</p>	<ul style="list-style-type: none"><li>• CTF: Academic planning and collaboration</li><li>• CTF: Comprehensive workplace solutions</li><li>• Improved economic and demographic forecasting</li><li>• Partnership with MDE to ensure that more students are prepared for and on track to post-secondary education</li><li>• Plan to meet the baccalaureate needs of the TC metro</li><li>• Academic plans, facilities plans, and resource allocations that align with changing student demand</li><li>• Branding initiative to support a coordinated statewide marketing effort and increase awareness of our quality cost advantage</li></ul>
<p>4. Growing need to address access, affordability, and student debt.</p>	<ul style="list-style-type: none"><li>• CTF: Student success</li><li>• CTF: Academic planning and collaboration</li><li>• CTF: System incentives and rewards</li><li>• CTF: Education technology</li><li>• Control of tuition and fees; monitoring of debt</li><li>• Financial literacy programs for students</li><li>• State grant program for part-time students</li><li>• Statewide scholarship campaign</li><li>• Continuous improvement in student transfer</li><li>• Reductions in administrative and institutional costs</li></ul>

# Top strategic risks (3/5)

Risk	Risk Management Strategy
<p>5. Threats to the long-term financial sustainability of our colleges and universities stemming from changes in revenue streams; constraints on revenue growth; increasing costs; and the imbalance between current physical plant and enrollment outlooks.</p>	<ul style="list-style-type: none"> <li>• CTF: System incentives and rewards</li> <li>• CTF: Academic planning and collaboration</li> <li>• CTF: Comprehensive workplace solutions</li> <li>• Long-term academic, enrollment, and financial plans.</li> <li>• Performance metrics that monitor costs, revenues, and financial risk and drive accountability</li> <li>• Branding initiative to support a coordinated statewide marketing effort</li> <li>• Increase private fundraising</li> <li>• Campus Service Cooperative</li> </ul>
<p>6. New technologies for learning, course delivery, and collaboration that require culture change, new ways of working together, and significant investments in technology and training.</p>	<ul style="list-style-type: none"> <li>• CTF: Education technology</li> <li>• CTF: Information technology systems design</li> <li>• Campus Service Cooperative</li> <li>• Systemwide IT delivery strategy</li> </ul>

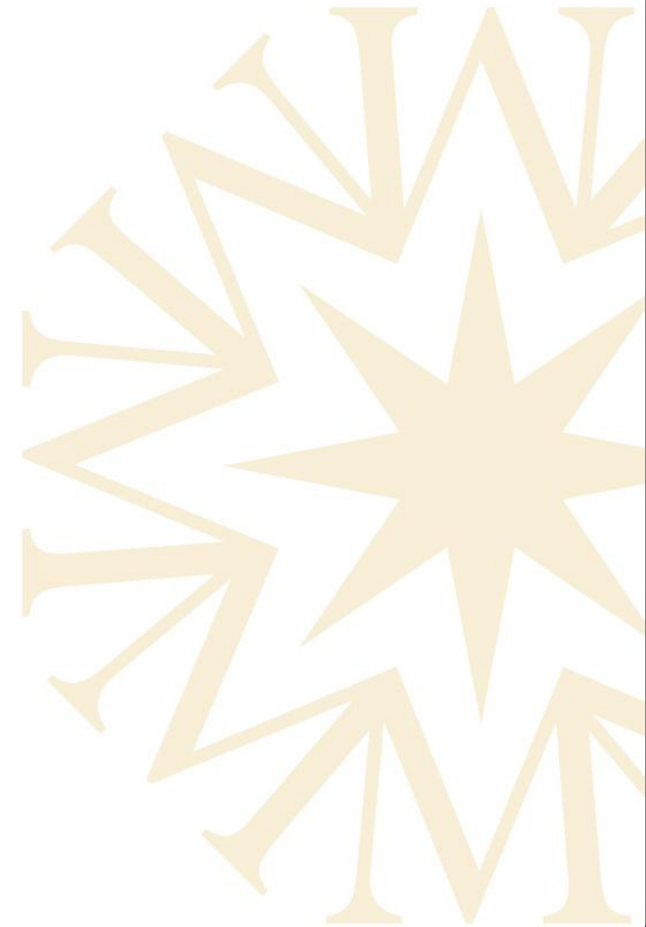
# Top strategic risks (4/5)

Risk	Risk Management Strategy
<p>7. Changes in the nature of work that are changing what graduates need to be prepared for jobs and careers. Ensuring our graduates meet Minnesota's future workforce needs and can demonstrate the foundational and technical capabilities they have mastered including cultural competence.</p>	<ul style="list-style-type: none"> <li>• CTF: Competency certification and credit for prior learning</li> <li>• CTF: Comprehensive workplace solutions</li> <li>• Statewide workforce listening sessions and ongoing business advisory councils</li> <li>• Itasca Project workforce alignment team</li> <li>• Learning outcomes for all programs</li> <li>• Multi-state learning outcomes collaborative</li> </ul>
<p>8. Increased external scrutiny from government and the public; increased federal and state regulation; growing link of funding to outcomes.</p>	<ul style="list-style-type: none"> <li>• CTF: System incentives and rewards</li> <li>• CTF: Student success</li> <li>• CTF: Competency certification and credit for prior learning</li> <li>• Drive performance via institutional performance metrics</li> <li>• Continuous improvement in student transfer processes and outcomes</li> <li>• Train and educate staff on compliance</li> <li>• Improved proactivity and transparency in communications</li> </ul>

# Top strategic risks (5/5)

Risk	Risk Management Strategy
9. Low awareness and reputation (i.e., brand) of our colleges and universities and the system.	<ul style="list-style-type: none"><li>• Branding initiative to support a coordinated statewide marketing effort</li><li>• Coordinated, grassroots communications strategies</li><li>• Improved proactivity and transparency in communication</li><li>• Development of a standard crisis communication plan</li></ul>
10. Apprehension (fear) of change blocks progress.	<ul style="list-style-type: none"><li>• Communication about the changes and challenges facing higher education and our colleges and universities</li><li>• Campus-level engagement of students, faculty, and staff with the <i>Charting the Future</i> implementation teams</li></ul>

# Top Operational Risks



# Top operational risks: Financial

Risk	Risk Management Strategy
<ul style="list-style-type: none"> <li>• Enrollment performance</li> </ul>	<ul style="list-style-type: none"> <li>• Short-term forecast monitoring</li> <li>• Expanded long-term demographic and economic forecasting</li> <li>• Improved forecasting tools</li> <li>• Support student recruitment and increase retention</li> </ul>
<ul style="list-style-type: none"> <li>• College/university budget forecasting and execution</li> </ul>	<ul style="list-style-type: none"> <li>• Annual review sessions</li> <li>• Close exception monitoring</li> <li>• Expanded stress testing</li> </ul>
<ul style="list-style-type: none"> <li>• Federal and state financial support and MnSCU operational partnership with the state</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor state resources and federal grant programs (e.g., Pell, Perkins, TRIO)</li> <li>• Maintain strong partnerships with state administrative leaders</li> </ul>
<ul style="list-style-type: none"> <li>• Operational integrity</li> </ul>	<ul style="list-style-type: none"> <li>• Audits and monitoring</li> <li>• Training</li> </ul>
<ul style="list-style-type: none"> <li>• System integrity (accounting, payroll, student records, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Audits and monitoring</li> <li>• Training</li> <li>• External reviewers</li> </ul>

# Top operational risks: Human resources

Risk	Risk Management Strategy
<ul style="list-style-type: none"> <li>Talent development and retention to mitigate the potential loss of 40% or more of our workforce within five years</li> </ul>	<ul style="list-style-type: none"> <li>Develop a robust leadership pipeline</li> <li>Create performance management tools effective at identifying top performers early</li> <li>Ensure robust recruitment and retention of a strong and diverse workforce</li> <li>Build systemwide HR capacity to manage turnover-related issues</li> </ul>
<ul style="list-style-type: none"> <li>Regulatory management (ADA, ACA, FLSA, FMLA, Workers' Comp., etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Build systemwide HR compliance capacity</li> <li>Design a system audit process to ensure accurate compliance.</li> <li>Move towards shared services model</li> <li>Training, education, and growth opportunities</li> </ul>
<ul style="list-style-type: none"> <li>Defined contribution pension administration</li> </ul>	<ul style="list-style-type: none"> <li>Develop a comprehensive election database</li> <li>Create onboarding education and training tools</li> <li>Negotiate with insurer for additional services</li> </ul>

# Top operational risks: Technology

Risk	Risk Management Strategy
<ul style="list-style-type: none"> <li>• System reliability, disaster recovery, and business continuity</li> </ul>	<ul style="list-style-type: none"> <li>• Improved testing and training</li> <li>• Redundancy / high availability / operational continuity</li> </ul>
<ul style="list-style-type: none"> <li>• Security and information management</li> </ul>	<ul style="list-style-type: none"> <li>• Data classification</li> <li>• Data governance</li> <li>• Role based security</li> <li>• Identity management</li> <li>• Policy, procedure, guidelines</li> <li>• Training and education</li> <li>• Vulnerability management</li> <li>• Risk and control assessments</li> <li>• Asset management</li> </ul>
<ul style="list-style-type: none"> <li>• Poorly aligned / aging solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Governance</li> <li>• Common business practices</li> <li>• Application and technology life cycle management</li> <li>• Align technology with business practices</li> </ul>
<ul style="list-style-type: none"> <li>• System reliability / stability</li> </ul>	<ul style="list-style-type: none"> <li>• Disciplined change management processes</li> <li>• Capacity management</li> <li>• Improve testing and training</li> <li>• Application and server monitoring</li> <li>• Staff succession planning</li> </ul>



# Top operational risks: Facilities

Risk	Risk Management Strategy
<ul style="list-style-type: none"> <li>Facility and infrastructure reliability</li> </ul>	<ul style="list-style-type: none"> <li>Annual facility assessments</li> <li>Facility design standards / sustainable building guidelines</li> <li>Repair and replacement goals; investment guidelines; mothball; demolition</li> </ul>
<ul style="list-style-type: none"> <li>Contract integrity and compliance</li> </ul>	<ul style="list-style-type: none"> <li>Master contracts/coordinated and consolidated methods</li> <li>Training, monitoring, auditing</li> </ul>
<ul style="list-style-type: none"> <li>Operations – safe, secure, compliant</li> </ul>	<ul style="list-style-type: none"> <li>Policy framework</li> <li>Communication, training, and education</li> <li>Regional and system collaboration</li> </ul>
<ul style="list-style-type: none"> <li>Costs/expenses: energy, supplies and materials, disposal</li> </ul>	<ul style="list-style-type: none"> <li>Physical plant systems preventative maintenance</li> <li>Strategic sourcing, master contracts</li> <li>Benchmarking and re-commissioning</li> <li>Campus Service Cooperative</li> </ul>
<ul style="list-style-type: none"> <li>Emergency preparedness and response / continuous operations planning</li> </ul>	<ul style="list-style-type: none"> <li>Board policy and system procedures</li> <li>System office and campus plans</li> <li>Education periodic review; training exercises and scenarios</li> </ul>

# Top operational risks: Academic and Student Affairs

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

# Part III: Board Discussion

## Board Assessment of the ERM Effort

1. Do we have an effective management strategy that supports the identification, assessment, and management of risk? Are the right people engaged and accountable for the results?
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## 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.