STATEWIDE CONFERENCE

Trustees

of Massachusetts Public
Higher Education

Session Handouts

Risk Management: A Campus Primer

September 23, 2014 Trustees Conference

Contents

Risk Management: A Campus Primer

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2014 Massachusetts Statewide Trustee Conference

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

AGENDA

Risks are everywhere but only through proper identification and assessment can they be managed. Come hear about and discuss the financial, strategic, operational and board governance risks that face every institution. This activity-based session will engage your thoughts around potential risks and how leadership teams can address them, including a case study on sexual violence.

AGB ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

2013 ERM Survey Conducted by AGB and UE

- 921 respondents

- 74% private, 26% public

- 27% BA, 27% MA, 29% Doc, 5% System, 4% AA, 2% Special, 5% Other

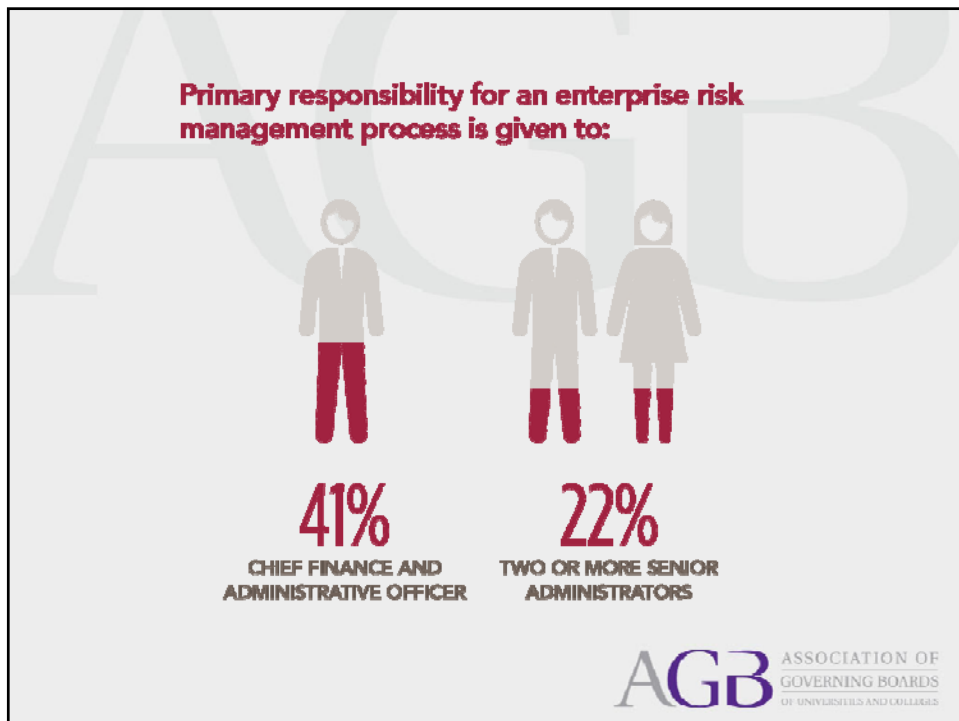- 25% CFO, 19% President, 15% Risk Manager, 11% Trustee, 10% Counsel, 9% CAO, 1% Compliance, 11% Other

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Percentage of respondents who say their institution has conducted an ERM process in the last two years:
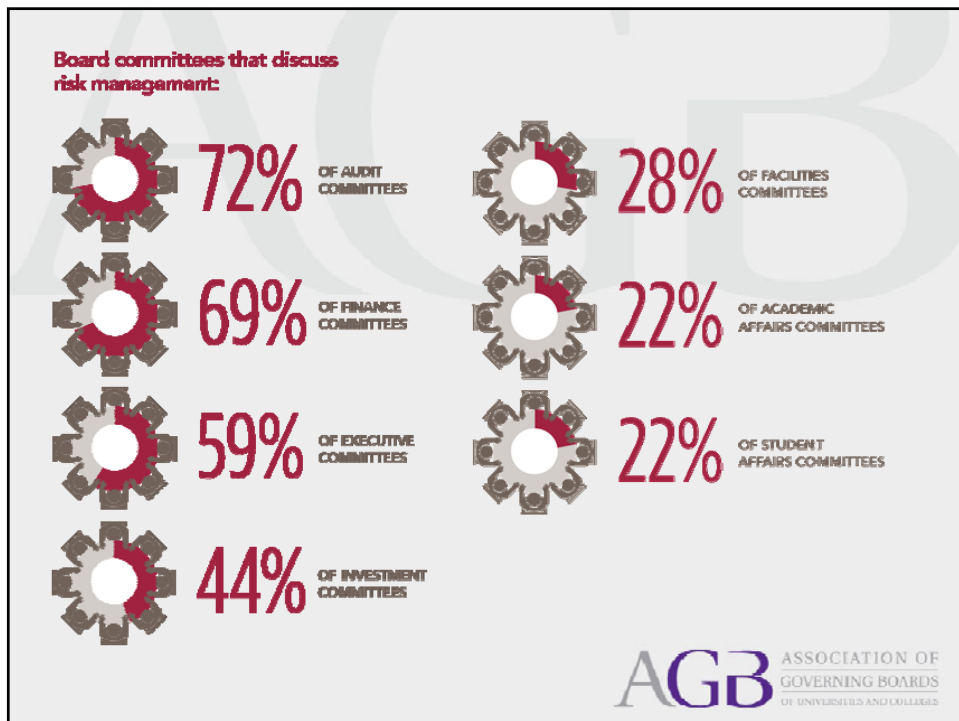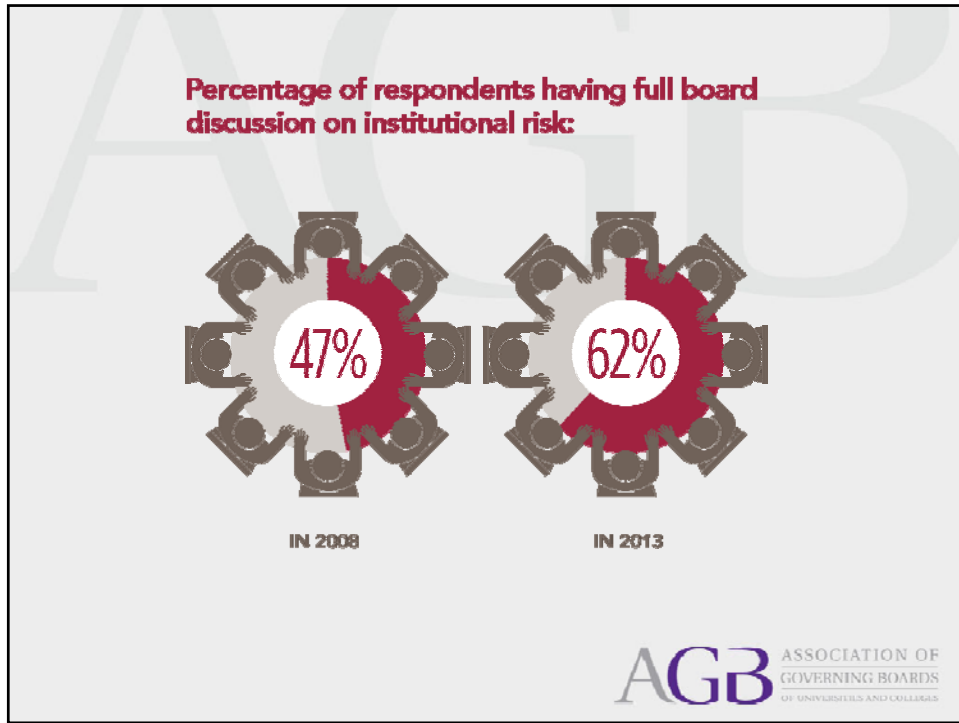
39% YES

61% NO OR DO NOT KNOW

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Institution uses risk tolerance in guiding leadership decisions:

44% STRONGLY AGREED IN 2008

34% STRONGLY AGREED IN 2013

Primary responsibility for an enterprise risk management process is given to:

41% CHIEF FINANCE AND ADMINISTRATIVE OFFICER

22% TWO OR MORE SENIOR ADMINISTRATORS

Percentage of respondents having full board discussion on institutional risk:

47% IN 2008

62% IN 2013

Board committees that discuss risk management:

72% OF AUDIT COMMITTEES

69% OF FINANCE COMMITTEES

59% OF EXECUTIVE COMMITTEES

44% OF INVESTMENT COMMITTEES

28% OF FACILITIES COMMITTEES

22% OF ACADEMIC AFFAIRS COMMITTEES

22% OF STUDENT AFFAIRS COMMITTEES

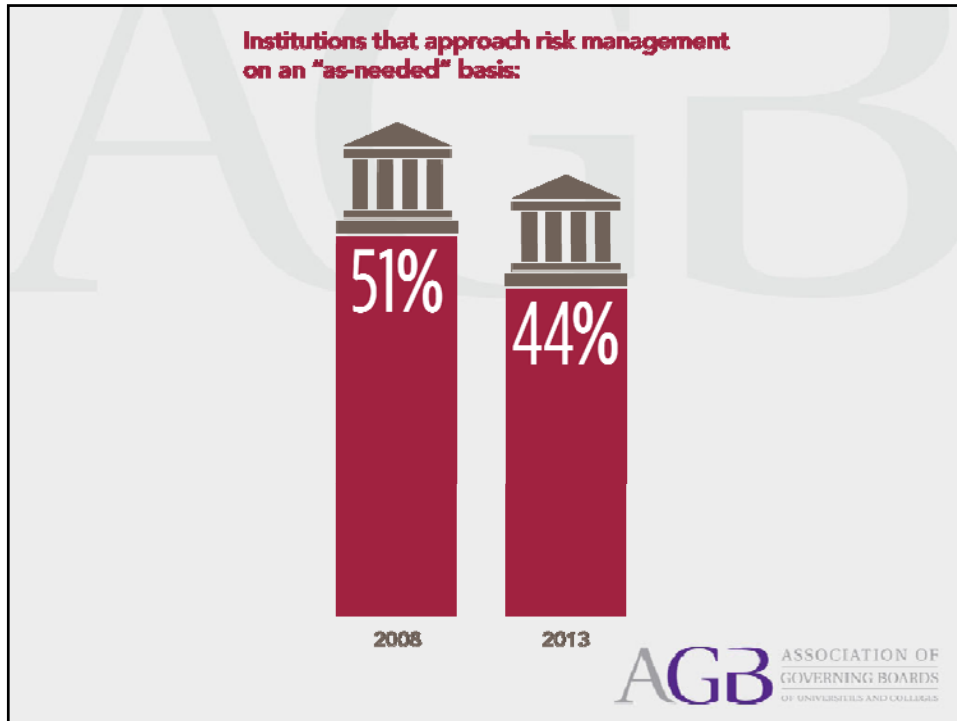**Institutions that approach risk management on an "as-needed" basis:**
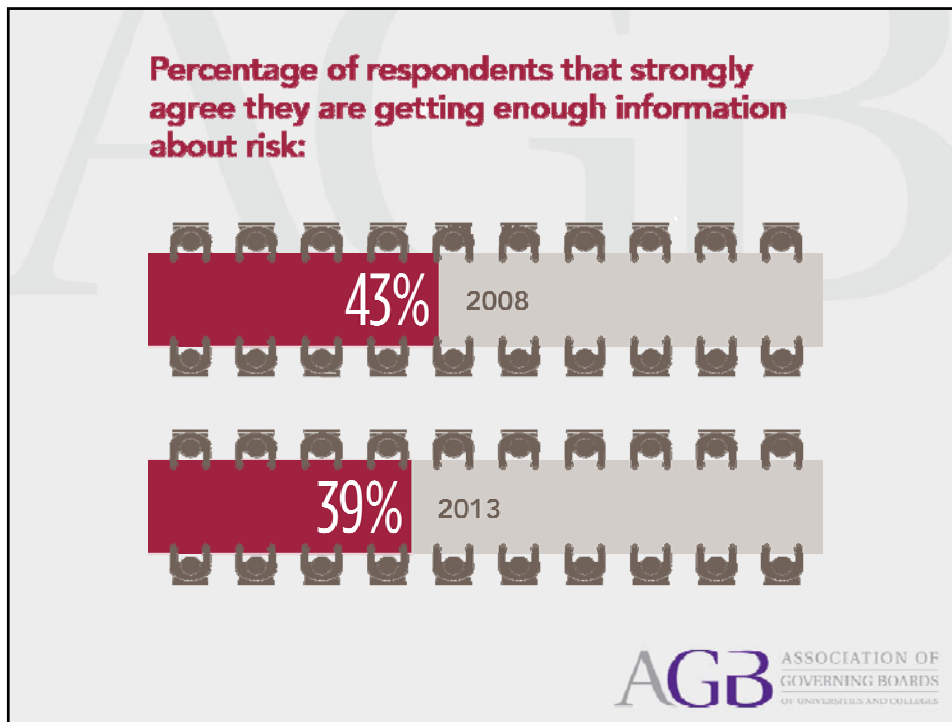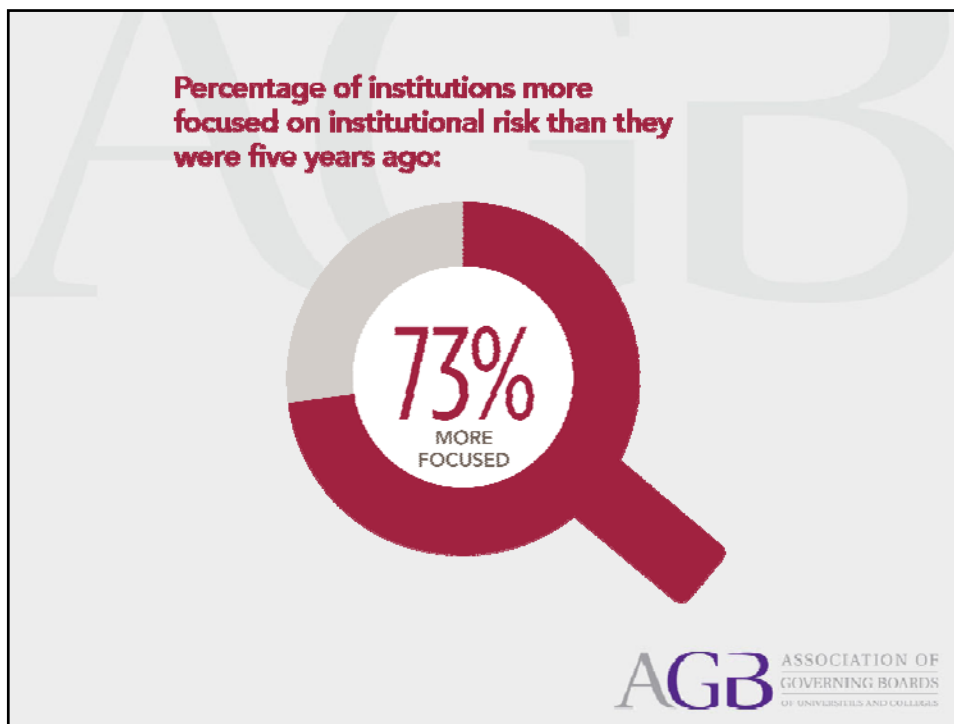
51% — 2008
44% — 2013

Issues Prompting Ad Hoc Discussion of Risks:

- Audit findings
- Business continuity planning
- Construction projects
- Crisis response drills
- Cyber security
- Enrollment declines
- Financial underperformance
- High profile event
- Legal/regulatory compliance
- New academic programs
- Litigation
- Reputation issue
- Research/healthcare
- Staff reduction
- Student health/safety
- State budget cuts
- Tuition increases

Percentage of respondents that strongly agree they are getting enough information about risk:

43% 2008

39% 2013

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Information not adequate

- 29% Strategic risks (including reputational and political)

- 27% Operational risks (including legal and regulatory

- 20% Board governance

- 14% Financial risk

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Percentage of institutions more focused on institutional risk than they were five years ago:

73% MORE FOCUSED

Institution is doing a good job identifying, assessing, and planning for institutional risk:

25% STRONGLY AGREE

Best Practices for Boards

1. Role of board and administration

2. Accountability of board, committees, and administration

3. Process is ongoing

4. Question scared cows

5. Schedule ERM, not as needed

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Best Practices for Presidents and Senior Administrators

1. Borrow
2. Prioritize
3. Focus
4. Plan
5. Talk

6. Practice
7. Lead
8. Be accountable
9. Know the subject matter

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Borrow (p. 12, *Risk Management)*

Public Research University Risk Register:
1. Economic conditions and base funding
2. Enrollment growth
3. HR process and leadership
4. IT infrastructure
5. Physical infrastructure
6. Progressive faculty renewal
7. Relationships with key supporters
8. Reputation
9. Research growth, complexity
10. Safety and security

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Borrow (p. 129, *Risk Management)*

Board Governance Risk Areas

	Urgency Rating				Person to Address (If rated "1")
	1	2	3	NA	
Board member independence					
Board performance assessment					
CEO compensation and assessment					
Conflict of interest oversight					
Governance policies					
IRS Form 990					
Participation					
Additional Board Governance Risk Areas:					

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Borrow (p. 132, *Risk Management)*

Academic Affairs

	Urgency Rating				Person to Address (If rated "1")
	1	2	3	NA	
Academic freedom					
Academic quality					
Accreditation					
Distance learning					
Faculty conflict of interest					
Graduation rates/student learning outcomes					
Grievance procedures					
Joint programs					
Promotion and tenure					
Recruitment/competition					
Additional Academic Affairs Risk Areas:					

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Prioritize—what are the critical risks?

Focus—spend time where it matters most

Plan—mitigate risks and continue to improve

Talk—in board committees, at board meetings, on campus, especially about the tough topics. Ask leaders, "What keeps you up at night?"

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Practice

- Use campus drills to test plans, procedures, and equipment.

- Include the board; determine how and when to inform them.

- Learn from the unfortunate experiences of others.

- Ask, "What if it happened to us?" (think Katrina, Penn State, VA Tech, American U)

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Lead

- The board has a responsibility to make sure ERM happens.

- The president has the responsibility to lead.

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Be Accountable

- Who will support the work of each board committee?

- Clarify board/administration relationships for risk issues brought before the board. Who owns it?

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Know the Subject Matter

- Bring in experts periodically

- Recent example from Salem State University, Board Chair Pam Scott

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Case Study Discussion

Your institution is the center of your community. It is well respected, provides leadership and financial support of important community programs and has a long and storied history. As the Board Chair, the President has advised you that there have been several recent reports of sexual assaults on campus. Only one student has come forward and filed a police report.

What do you do? What should you know? What are the risks associated with your actions?

(8 minutes at tables, then report)

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Resources at agb.org

- Risk Management: An Accountability Guide for University and College Boards ($49 members)
- A Wake-up Call: Enterprise Risk Management at Colleges and Universities Today (free)
- Risk Management videos on AGBU (free)
- AGB Statements: Sexual Misconduct, Athletics, Conflict of Interest, Accountability, etc. (free)

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Risk Management at Salem State University

Pamela C. Scott
Chair, Board of Trustees

September 23, 2014
Statewide Conference – Trustees of
Massachusetts Public Higher Education

Risk Management

- ➢ Background
    - ▪ Board Discussion
    - ▪ Expand Audit Committee
    - ▪ Bylaw Change-2012
    - ▪ Link to Strategic Plan
- ➢ External Assessment
- ➢ Administration
- ➢ Priorities
- ➢ 2014 - Areas Addressed
- ➢ External Resources
- ➢ Expansion Plans
- ➢ Conclusions

2

University Wide Internal Control Committee Recommendations for Strategic Plan

Goal 4.G. - Establish a comprehensive program of risk management

1. **Engage an independent third party to conduct a comprehensive university wide risk assessment including recommendations for remediation in areas where the University is vulnerable** to waste, fraud, abuse, theft, data breach, new and emerging threats etc. (as has been successfully implemented with Emergency Preparedness, Payment Card Industry (PCI) compliance, Independent Financial Audits etc.).

2. **Develop and train specific members of the Internal Control committee and other key personnel** to be subject matter experts in areas of risk avoidance, management and transfer including fraud prevention and detection, sensitive employee and student related social issues, data security information and breach management, student (e.g. F.E.R.P.A.) and employee records management, accident management, workers comp., emerging risks and threats etc. in an effort to enhance in house expertise in these areas.

3. **Continue supporting and building the expertise developed to date of key staff resources within the university in Emergency Preparedness, Data Management, PCI compliance and protection of Personal Information (PI).**

4. Empower/Charter a risk mitigation/internal audit type sub-committee of the Internal Control Committee under the direction of the Director of Risk Management. This group's mission would be to:

    ➢ Follow-up and assist in resolving specific issues identified as a result of third party assessments
    ➢ Conduct ongoing reviews/tests to assure departments' internal controls are in place, effective and operating as documented in existing Risk Assessment Internal Control Plans
    ➢ Identify areas of exposure for the University and make recommendations for resolution
    ➢ Advocate and solicit technical assistance and support for departments where areas of need may exist
    ➢ Work with other risk related university committees and departments

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5. **Conduct on-going, regularly scheduled, employee training and education at all levels of the university concerning their rights and responsibilities for risk management,** protecting personal information fraud awareness and prevention and generally safeguarding the assets of the University e.g. 'Red Flag' procedures.

6. Promote employee learning and awareness of and compliance with key statutes, regulations and policies promulgated by standard setting, oversight bodies and government agencies regarding PI, internal financial controls, fraud, disaster recovery etc. including but not limited to:

    ➢ Commonwealth of Mass. Office of the State Comptroller Internal Control Legislation Chapter 647 of the Acts of 1989 - An Act Relative to Improving Internal Controls Within State Agencies
    ➢ Executive Order 504 Regarding the Security and Confidentiality of Personal Information (PII).
    ➢ Data Protection Regulation 201 CMR 17.00 per the Commonwealth of Massachusetts Office of Consumer Affairs and Business Regulation
    ➢ Security Breach Notifications per Commonwealth of Massachusetts General Law 93H
    ➢ PCI Attestation of Compliance by vendors
    ➢ Federal Trade Commission 'Red Flag 'Procedures

7. Promote University wide 'risk awareness' by engaging guest speakers for the University Community who are experts in various areas of risk management and issues noted under #2 at least annually as a means to reach all employees.
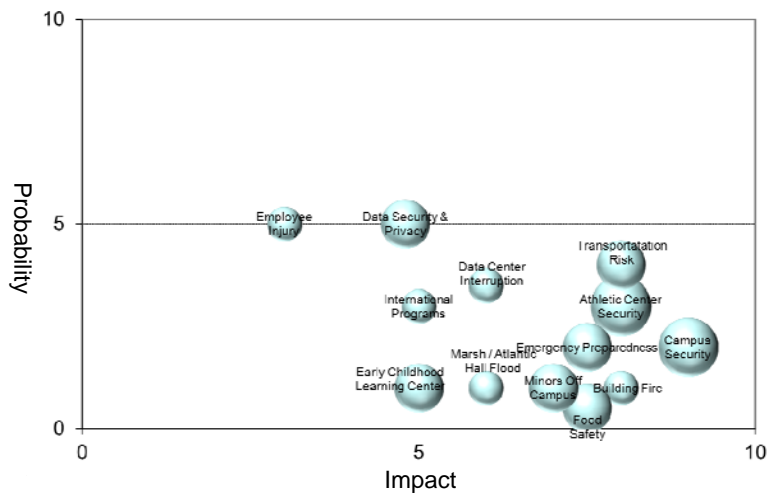
Salem State University Campus Risk Assessment

Conducted by Marsh Risk Consulting, March, 2013

➢ Review of Campus Policy and Procedures, Guidelines

➢ Interviews with over 35 Campus Administrators

➢ Survey of facilities

➢ Score – Probability X Impact X Volatility

5

Salem State University Risk Map

6

Administration

➤ Risk Management assigned to EVP - Administration
➤ Considerable effort to review areas in the Marsh report, engage others
   formally, create awareness of the broad scope of risks
➤ Provide regular updates to the Audit and Risk Management Committee
➤ Today's summary reflects infrastructure, process and mitigation progress
➤ New Senior administrative staff in place FY14

7

Priorities

➤ Address each area highlighted in the Marsh report
➤ Strengthen established internal control procedures
➤ Take action steps consistent with the Strategic Plan goals
➤ Establish foundation for annual enterprise wide risk reporting
   for university administration, board review and state compliance

8

Internal Control Committee

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➢ The university's internal financial control systems and procedures are tested and reviewed annually by an independent auditing/public accounting firm as part of its annual independent financial audit in accordance with Generally Accepted Auditing Standards (GAAS).

➢ Salem State University annually convenes an Internal Control Committee. The chairperson and members of the committee are appointed by the president and represent a cross section of key functional areas within the university.

➢ The goal of the committee is to conduct a risk assessment of each department with both the risks and the control plan/procedures to mitigate those risks identified.

➢ Committee members are matched to the areas of the university for which they are best suited to assure a risk assessment is conducted and the supporting document is produced.

FY2014 University Wide Internal Control Committee				
Role	**Name**	**Department**	**Title**	**Risk Assessment Document Coverage Responsibilities**
Chair		Financial Services	Director	Internal Control Officer, Financial Quality Assurance QA, Audit Oversight
Member		Marketing & Communications	Director	Marketing & Communications
Member		Human Resources & Equal Opportunity	Associate Director	Human Resources & Equal Opportunity
Member		Purchasing & Materials Management	Director	Vendor Management, Purchasing, Materials Management
Member		Admin. & Recorder	Administrative Assistant II	Document Management, Administration
Member		Public Safety & Facilities	Director	Public Safety & Facilities
Member		Athletics	Associate Director	Athletics
Member		Information Technology Services	Deputy CIO	All ITS Services and Customer Support
Member		Registrar's Office	Director	Enrollment Management including Admissions, Registrar, Financial Aid, Bursar
Member		Sponsored Programs & Research Administration	Associate Director	Sponsored Programs and Research Administration
Member		Institutional Advancement	Executive Assistant	Institutional Advancement
Member		Student Life	Assistant Dean	Student Life
Member		Financial Services	Director	Cash Management, AP, Payroll, General Accounting, Budget

Internal Control Committee

Within the Internal Control risk assessment, each committee member is to:
1. Assess potential risk in their area(s)/departments of the university assigned
2. Document or have documented assessments of exposure to risk
3. Reference procedures needed to be taken to mitigate specific risks
4. Receive assurance that detailed procedures within their areas/departments assigned are
   - documented
   - communicated
   - practiced
   - evaluated
   - monitored
   - updated as needed
5. Submit an update to the Internal Control risk assessment document
6. Each area's risk assessment document is returned to Financial Services and integrated into the university-wide risk assessment document

2014 Areas Addressed

- University Wide Strategic Planning
- University Wide Risk Assessment by external party
- Payment Card Industry standards (PCI) Compliance Review
- Data and Systems Security ('Securing the Human')
- Emergency and Disaster Planning and Management Training
- Sexual Harassment Awareness Training
- State Ethics Commission Conflict of Interest Laws Training bi-annual implementation
- University Wide Internal Control Committee Risk Assessment and Internal Control procedures updates to comply with MGL Chapter 647
- Establishment of a Director of Risk Management
- Exiting Employee Procedures
- Automated Asset Management System
- Annual Independent Financial Audit
- Developed and initiated Occupational Fraud Awareness & Prevention staff training
- Monthly fraud awareness facts in 'What's New at SSU' University wide newsletter similar to the OSC 'Weekly E-Updates'
- Run, Hide, Fight Public Safety Video

FY14 University Wide Risk Assessment - Excerpts

Area	Source	Risk Driver	Category	Goal	Risk	Existing Controls	Desired Controls
FINFAC	PUR	Operational	Financial	Vendor management.	Proper segregation of duties exists whereby vendor set up and maintenance is separated from the disbursement (AP).	Only the Purchasing Department will enter and maintain vendors. No other department can do this function.	Segregation of duties between Purchasing and AP.
ACADAFF	GRAD	Strategic	Acad/Student Life Concerns	Increase the diversity of graduate students	Losing students to other schools with more diverse student and faculty populations	Review existing diversity efforts of current graduate programs	Develop program specific diversity recruitment strategies; increase diversity of graduate faculty; establish 4+1 programs
FAC	FAC	Compliance	Facilities, Health & Safety Issues	Have required oil spill plan	Legal action, fines, environmental damage	Oil spill plan in place requires updating	Plan is being updated. Triumvirate Environment is working on this.
FAC	FAC	Compliance	Facilities, Health & Safety Issues	Minimize work related accidents	Legal action, fines, loss of productivity, Workers' Comp	Online OSHA training program in place	OSHA approved training program - All training is being done in house.

External Resources

➢ As this work has developed over the past two years, we have engaged the help of professionals in the field of Risk Management including independent consultants, large specialists like Marsh Risk Consulting and most recently, Bold Planning, our new partner on a Continuity of Operations Plan (COOP)

➢ These firms have worked with our administrative staff under the leadership of our Director of Risk Management to help us understand the scope of risks across campus, how we should organize staff and processes and introduce available tools to mitigate and monitor risks as well as provide detailed reporting

➢ We have also looked to AGB as a resource of best practices in risk management generally and specifically in higher education

14

Continuity of Operations Plan

COOP: Your extra set of car keys

A COOP should clearly define the steps an organization would / could take during times of disruption to ensure they can continue their operations

➢ What type of events could cause a disruption?

➢ Where could/would we go?

➢ How would we communicate and what would we say?

➢ What do we do and what functions are most important?

➢ What equipment and resources are needed to complete our functions?

Major Sections of a COOP

➢ COOP Contacts and Teams – People and groups responsible for planning, relocation, support and other continuity functions

➢ Orders of Succession – Designating primary positions within an organization and the individuals who possess the skills and experience to assume their responsibilities

➢ Primary and Alternate Facilities – Locations where an organization operates and identified locations to move as required

➢ Mission Essential Functions – The essential functions that an organization is expected to perform to be considered operational

➢ Vital Records/Resources – The "things" an organization relies upon to complete its essential functions

➢ Communication – How do you communicate the information/status with your personnel

The Planning System

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➢ Web-based software designed to lead staff through the development of a COOP plan with no previous training or experience

➢ Developed specifically to address the requirements of COOP planning and constantly updated to meet new requirements and recommendations issued by the Department of Homeland Security and FEMA

➢ The BOLD planning system is in use by over 4,000 organizations of all types and sizes across the country

17

Expansion Plans

- Reorganize Senior Administrative staff under new leadership
- Assistant Vice President, Risk Management & Public Safety
  responsible for :
  - Campus Police
  - Information Security
  - Internal Audit*
  - Legal*
- Plans to convene risk management team for monthly updates
- Expect to add more supporting staff

*Under development

19

Conclusions

- Necessity for Board Oversight
- Senior Administrative responsibility
- Campus wide team addressing multiple risks – focused assignments
- Data gathering, reporting of findings, actions
- Compliance with state reporting
- Education, best practices, building expertise
- Use of external resources in execution
- Comprehensive Board updates/ discussion at least annually

20

A Wake-up Call:
Enterprise Risk Management at Colleges and Universities Today

A Survey by the Association of Governing Boards
of Universities and Colleges and
United Educators

About AGB

Since 1921, the Association of Governing Boards of Universities and Colleges (AGB) has had one mission: to strengthen and protect this country's unique form of institutional governance through its research, services, and advocacy. Serving more than 1,250 member boards, 1,900 institutions, and 36,000 individuals, AGB is the only national organization providing university and college presidents, board chairs, trustees, and board professionals of both public and private institutions and institutionally related foundations with resources that enhance their effectiveness.

About UE

United Educators Insurance (UE), a Reciprocal Risk Retention Group, is a licensed insurance company owned and governed by more than 1,200 member colleges, universities, independent schools, and public school districts throughout the United States. Members range from small private schools to multi-campus public universities. UE partners with its members to reduce risk through education-specific insurance coverage and risk management programs. UE's comprehensive suite of risk management resources includes blended learning programs designed to engage the entire campus community—faculty, staff, and students—in managing risk. For more information, visit www.ue.org.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

After five years of change and upheaval, why is it that governing boards of colleges and universities continue to consider risk on a largely ad hoc basis? The findings from a recent survey, conducted by the Association of Governing Boards of Universities and Colleges (AGB) and United Educators (UE), indicate a modest increase in the use of risk assessment in high-level decision making over the past five years, but they also show that boards and administrators are not yet substantially committed to this process, which offers an approach for assessing threats and seizing opportunities.

The pace of change in higher education is unprecedented, and it's unlikely that the risk environment will cool off. In the last five years alone, colleges and universities have had to respond to the Great Recession (which has a continuing impact), increased government oversight and regulation (with more ahead), the rise of advocacy groups and student litigation related to sexual assault, increased public dissatisfaction with the cost and quality of higher education, and a tectonic shift in learning delivery—from the "sage on the stage" to the "doc on the laptop" as massive open online courses (MOOCs) were introduced and more institutions deployed online learning options. Headline news has heightened the scrutiny of boards and governance, as one board failed to address reports of suspected child abuse, another fired a president who was later reinstated due to public backlash, and still others fell short in meeting their responsibilities in this unparalleled time of change.

Now, more than ever, governing boards and senior leaders need to be attentive to risks. This is no time for complacency and the assumption that incidents with tragic financial or reputational impact "couldn't happen at our college or university." There is no choice:

each institution and board needs a process by which it routinely identifies, evaluates, and plans for risks that have the greatest potential for reputational injury or obstruction of institutional mission. Risk offers opportunities to lead change, and institutions and boards need plans and processes in place that allow them to assess that risk and take advantage of those opportunities when they arise.

In 2008 and 2013, AGB and UE jointly surveyed higher education leaders to track the acceptance of, use of, and attitudes toward enterprise risk management (ERM) on college campuses. Unfortunately, a comparative analysis of survey results suggests that higher education is conflicted when it comes to ERM, despite having just come through a five-year period of momentous risks. In many cases, institutions are not following any formal risk assessment processes. Yet nearly half of survey respondents consider their institution's risk management practices to be above average or exemplary. Overall, while advancing ERM in important ways, higher education has lost ground or made no change to ERM practices on critical fronts. The following summary of key findings illustrates the conflicted state of ERM in higher education.

- While institutional focus on risk has grown (73 percent of respondents report that their institutions have increased their focus on institutional or enterprise risk compared to five years ago), risk appetite and tolerance are less likely to be considered in decision making. In 2013, 31 percent "strongly agreed" that risk appetite and tolerance are part of the institution's culture, down from 47 percent in 2008.

- ERM is a greater priority. In 2013, 45 percent of survey respondents "strongly agreed" that ERM is a priority at their institution compared to 2008 when only 41 percent "mostly agreed." However, ERM processes are not firmly established in higher education. Only 39 percent of survey respondents reported that their institutions have conducted an ERM process in the last two years. More than 61 percent have not or don't know if they have done so. Of those who did not conduct an ERM process in the last two years, 48 percent have no future plans to begin an ERM process any time soon.

- Governing boards are more often involved in risk discussions. The percentage of respondents reporting that the full board is engaged in risk discussions has increased since 2008, to 62 percent in 2013 (up from 47 percent), and discussions are occurring across a greater number of board committees. However, conflicting answers on the amount and quality of information boards receive about risk raise questions about the value of that information. While 60 percent of respondents reported that the risk information boards receive—particularly about financial risks—is adequate, only 39 percent strongly agreed that enough risk information is shared to fulfill their legal and fiduciary duties.

- Institutions are less likely to use an ad hoc approach to discussing institutional risks (44 percent in 2013, down from 51 percent in 2008). But, this "as needed" approach is still used at more than 40 percent of institutions, with crises on campus—their own or others—being the chief stimulus for risk discussions.

Percent of respondents who say their institution has conducted an ERM process in the last two years:

39%
YES

61%
NO OR
DO NOT KNOW

- Despite these weaknesses, when assessing their institution's approach to managing major institutional risks, nearly half of all respondents (49 percent) rated their institutions "above average" or better. This is essentially unchanged from 2008 results.

The state of ERM in higher education leaves many institutions unprepared to address high-priority risks that may endanger the realization of strategic plans and institutional mission. The ongoing financial and competitive pressures on colleges and universities call for a more integrated and routine process, incorporating discussions of mission-critical risks and risk management into the strategic decision-making and resource-allocation processes of boards and senior administration. Identification, mitigation, and continued attention to both upside and downside risks can help institutions navigate the volatile environment, reduce vulnerability, and build a platform for ongoing success.

SURVEY RESULTS

This report summarizes the 2013 AGB-UE survey results, compares them to the 2008 results, and suggests recommended practices for creating a strong foundation for ERM. With this foundation in place, boards and administrators can get on the same page, focus on critical risks and opportunities, and engage in fruitful discussions.

ERM, as used by governing boards and senior administrators, combines traditional risk management, strategic planning, and internal controls. The goal of ERM is to move away from viewing risk in a silo, separate and distinct from the institution's overall mission. Instead, it encourages a more holistic view of risk by considering risks across the institution or enterprise as part of the strategic planning process. By adopting this approach, leadership can focus more broadly on the risks most likely to impede the institution from achieving its mission or strategic plan. A good practical definition of ERM from *Risk Management: An Accountability Guide for University and College Boards* (AGB Press, 2013) follows:

> Enterprise Risk Management (ERM) is a business process led by senior leadership that extends the concepts of risk management and includes:
>
> - Identifying risks across the entire enterprise;
> - Assessing the impact of risks to the operations and mission;
> - Developing and practicing response or mitigation plans; and
> - Monitoring the identified risks, holding the risk owner accountable, and consistently scanning for emerging risks.

Recommended Practice 1: Make Risk Management an Institutional Priority

Tone at the top matters. It is critical for successful institutional risk management that the governing board and senior administration demonstrate leadership through their actions. The two together must be invested in the process, with senior administration identifying and assessing risks and developing risk management plans, and the governing board monitoring progress on the most mission-critical risks identified by senior leaders. Regular updates on progress to the institution's community and stakeholders should not be neglected.

Gaining Ground

2013 survey results show that institutions increasingly cite ERM as a priority. In fact, when asked to rate agreement with the statement that "Oversight of institutional or enterprise-wide risk management is a priority at my institution":

- 45 percent of respondents "strongly agreed" with this statement.
- 42 percent "somewhat agreed."

Together, these responses are higher than the combined total from the 2008 survey by more than 7 percentage points.

Losing Ground

The 2013 survey results suggest that respondents have lost some confidence in their institution's use of risk appetite and tolerance in making strategic decisions. When asked whether risk appetite and tolerance are understood and are a part of the institution's decision-making culture:

- Significantly fewer respondents (31 percent versus 47 percent in 2008) "strongly agreed" that this is the case.

- Greater numbers (52 percent, compared to 40 percent in 2008) only "somewhat agreed."

Respondents are also increasingly less likely to use risk tolerance in guiding leadership decisions.

- Only one-third (34 percent) of 2013 respondents "strongly agreed" that the institution's risk tolerance guides strategic and operational decisions by the governing board and senior leadership. This is a 10 percentage point decline from 2008.

- More respondents (49 percent, compared to 41 percent in 2008) "somewhat agreed" when considering this issue.

Institution uses risk tolerance in guiding leadership decisions:

44%

STRONGLY AGREED
IN 2008

34%

STRONGLY AGREED
IN 2013
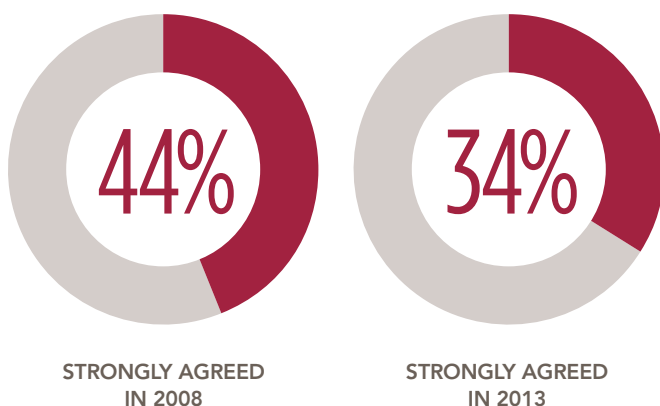
The Takeaway

Although survey respondents report increasingly that oversight of institutional risk management is a priority, confidence about the use of specific practices has decreased. When asked to rate particular aspects of ERM—understanding risk appetite, making risk man-

agement part of the institutional culture, and using risk tolerance to guide decision making—respondents are less convinced that the necessary attitudes and practices pertinent to good ERM are in place.

More visible leadership support for, and communications about, the institution's use of ERM is needed.

Recommended Practice 2: Implement a Sustained ERM Effort by Senior Administration

Leadership of the ERM process must be clear and real to ensure its success. Presidential leadership at the outset clearly signals that the institution is committed to ERM. Afterwards, ongoing leadership can be assigned to a member of the president's cabinet.

Gaining Ground

The 2013 results show that the financial/administration officer is typically assigned primary responsibility to lead the ERM process (41 percent of the time) for those institutions that have conducted an ERM process within the last two years. This is similar to results from the 2008 survey. A new question in the 2013 survey also found that leadership of the ERM process is frequently shared. Approximately 22 percent of respondents indicated that the ERM process is assigned to two or more administrators, such as:

- CFO, legal counsel, and provost
- Legal counsel, CFO, and internal audit
- Legal counsel and director of ERM
- Chancellor and former college president
- Risk management function or ERM task force/committee
- Vice president of human resources and risk manager

Notably, the 2013 survey shows a clear decline in assigning the president primary responsibility for ERM:

- Just over 10 percent of respondents reported that the president is responsible for ERM leadership, a 22 percentage point decline from 2008.

Primary responsibility for an enterprise risk management process is given to:

41%
CHIEF FINANCE AND
ADMINISTRATIVE OFFICER

22%
TWO OR MORE SENIOR
ADMINISTRATORS

- The chief risk officer and the chief compliance/ audit officer were identified as leading institutional ERM efforts by 10 percent and 12 percent of respondents, respectively.

Losing Ground

Those institutions implementing a sustained ERM effort continue to be in the minority.

- More than 61 percent of 2013 survey respondents (one percentage point higher than in 2008) reported that they either have not conducted an ERM process within the prior two years or don't know if one has been done. Nearly half (48 percent) of these respondents also reported that their institutions have no plans to begin an ERM process within the next 24 months.

- In 2013, 39 percent of respondents reported having conducted an ERM process in the last two years. In 2008, 36 percent had conducted an ERM process in the last two years.

The Takeaway

According to *Risk Management: An Accountability Guide for University and College Boards*, ERM has gained traction at colleges and universities as governing board members have brought their business experience to higher education boardrooms. However, the 2013 survey reveals that uneven implementation by institutional administrators is stalling efforts to fully advance ERM. For those institutions that are making progress, primary responsibility for the ERM process is typically assigned to the chief financial officer, which aligns with recommended practice. Increasingly, others assign ERM as a shared responsibility to two or more administrators, which is acceptable to the extent it increases capacity and can ensure that an ERM process is implemented. While the decline in assigning primary responsibility to the president is acceptable, the president must stay engaged enough to ensure progress and ongoing monitoring by the board of the five to 10 most critical risks.

The fact is that many institutions still are not advancing ERM. Approximately half of the survey respondents who report that their institutions have not implemented ERM in the last two years confirmed that they have no future plans to do so. Given the significant changes to higher education's risk climate over the last five years, response rates relating to the implementation of ERM are troubling; a four-year gap in conducting an ERM process leaves institutions vulnerable.

An effective institutional or ERM program, with the full support of the governing board, will increase the likelihood that a college, university, or system will achieve its plans.

For an institution to be poised for continued success, ERM must be part of the planning process. Administrators should establish a regular practice of identifying, assessing, and planning for mission-critical risks, and reporting their findings to the governing board. An annual review of high priority institutional risks is recommended.

Recommended Practice 3: Engage the Governing Board in Risk Monitoring

Once senior administrators have conducted an ERM process, governing boards need to engage them in discussions of the five to 10 risks that are most likely to significantly affect the institution's success. This practice allows the board to ask questions and evaluate the institution's preparedness to respond to issues and events that could derail the mission or strategic plan.
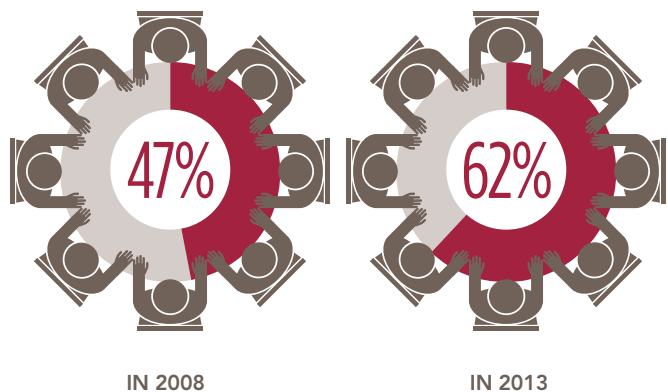
Gaining Ground

Discussions about institutional risks occur increasingly with the full board and across a broader range of board committees.

- In 2013, 62 percent of respondents reported having full board discussions of institutional risks, up from 47 percent in 2008.

- When risk management discussions occur in board committees, they are most commonly conducted by the audit committee (72 percent) and the finance committee (69 percent).

- Discussions are also occurring across a greater number of board committees, including the executive committee (59 percent), and committees on investments (44 percent), facilities (28 percent), academic affairs (22 percent), and student affairs (22 percent).

When asked about board attention to specific categories of risk, 95 percent of the respondents reported that the governing board discusses and evaluates financial risks. Other top risks addressed:

- Strategic, including reputational and political: 79 percent

- Operational, including legal and regulatory: 77 percent

- Board governance: 68 percent

Percentage of respondents having full board discussion on institutional risk:

47%

IN 2008

62%

IN 2013

Losing Ground

Overall respondent certainty concerning the engagement of boards with senior administrators in discussions about institutional risks eroded some from 2008 to 2013.

- 34 percent of 2013 respondents, compared to 43 percent in 2008, "strongly agreed" with the proposition that board members and senior administrators actively engage in discussions about institutional risks.

- 22 percent disagreed or had no opinion about this same point, as compared to 16 percent in 2008.

The Takeaway

Survey results demonstrate that discussions about a wider range of institutional risks (not just financial) are permeating the entire board committee structure, a positive development. Board committees are taking more responsibility for overseeing those high priority risks that fall within their defined purview. The downward trend concerning active engagement between boards and administrators about institutional risks seems at odds with the greater committee engagement; however, this trend may indicate that the quality of candor and transparency in those discussions needs attention.

Boards must encourage senior administrators to be open and frank in their reports about institutional risks that threaten mission success. Moreover, board members should specifically discourage the administration from only bringing positive issues forward and invite discussion about difficult, complex, or "sacred cow" issues.

Addressing Crises and New Initiatives

Two questions added to the ERM survey for the first time provided some good news related to board-administration engagement. In response to questions framed more specifically around events and new programs or initiatives:

- 78 percent agreed that board members and senior leadership regularly consider and assess the likelihood and impact of expected and unexpected events.

- 72 percent agreed that administrators identify, assess, and report to the governing board the risks associated with new programs or initiatives.

Because institutions need to be poised both to address the unexpected and to explore new sources of revenue, attention to the risks in these areas is increasingly important.

Issues Generating Ad Hoc Discussion of Risks

The 2013 survey identified the following examples of issues that would prompt an as-needed discussion of an enterprise risk:

- Audit findings
- Business continuity planning
- Construction projects
- Crisis response drills
- Cyber security
- Enrollment declines
- Financial underperformance
- High profile event or initiative
- Legal and regulatory compliance
- New academic programs or majors
- Pending or threatened litigation, complaints to any campus office, whistleblower incidents
- Reputation and brand issues
- Research and healthcare compliance
- Staff reductions
- Student health and safety
- State budget cuts
- Tuition increases

Recommended Practice 4: Discuss Institutional Risks Frequently and Regularly

Institutional or enterprise-wide risk management is not a project, but rather should be cultivated as a business process that governing boards and senior administrators use to fully examine risks that are most likely to steer the institution off course. By establishing a regular schedule for discussing risks identified by the administration's ERM process, the board ensures that the administration conducts and revisits the process and provides regular updates about critical risks.

Gaining Ground

Even though respondents report that board members and senior administrators most commonly discuss major risks identified by the ERM process on an as-needed basis, reliance on this ad hoc approach is decreasing. In 2013, 44 percent of respondents identified the use of an as-needed approach, down from 51 percent of the 2008 survey respondents.

Institutions that approach risk management on an "as-needed" basis:

51% — 2008

44% — 2013
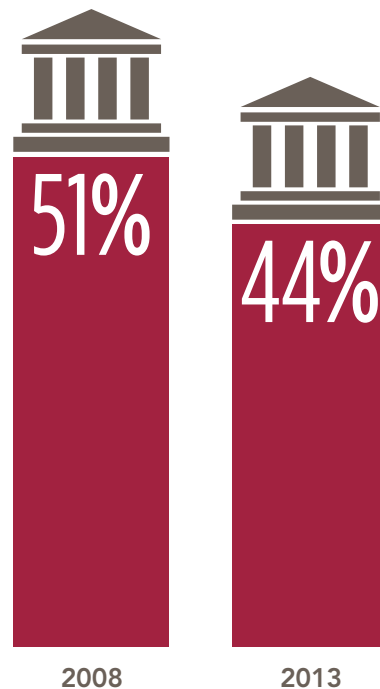
Twenty-eight percent of respondents answered that board-ad-ministrator discussions about major risks identified by the ERM process occur every year (an increase of 4 percentage points over 2008).

Losing Ground

When asked about the frequency of board discussions of risks, greater numbers (22 percent of 2013 respondents, an increase of 8 percentage points over 2008), answered "none of the above," suggesting that discussions between board members and senior administrators about major risks do not occur at these institutions.

The Takeaway

By establishing ERM as a regularly repeated business process, leadership avoids the trap of trying to achieve a single "perfect" process or result, which can take years and sink the most prom-ising ERM effort. Once established, the ERM process creates opportunities for boards and administrators to schedule regular discussions about major risks.

Given the current climate in higher education, leadership must develop strategies to ensure systematic and sustained attention to risks.

Recommended Practice 5: Share Information to Meet Obligations

Too often, board members are unaware of the risks inherent in higher education because they don't fully understand the enterprise. Many administrators, on the other hand, fail to assign appropriate significance to risks or lose sight of respon-sibility when risks are cross-functional or the institution has mitigation plans that are ineffective or not implemented. An ERM process allows governing boards and senior leaders to establish a culture within their institutions that embraces and prepares for risk.

Board Information on Risk

In a new question included in the 2013 survey, the majority of respon-dents (59 percent) reported that the risk information the board receives is adequate. However, a sizable per-centage of respondents pointed out areas for which the information the board receives is not adequate:

- Strategic risk (including reputational and political), cited by 29 percent

- Operational risk (including legal and regulatory), cited by 27 percent

- Board governance, cited by 20 percent

Financial risk is the area of least concern, with only 14 percent of re-spondents identifying concerns about inadequate information.

Percentage of respondents that strongly agree they are getting enough information about risk:

43% 2008

39% 2013
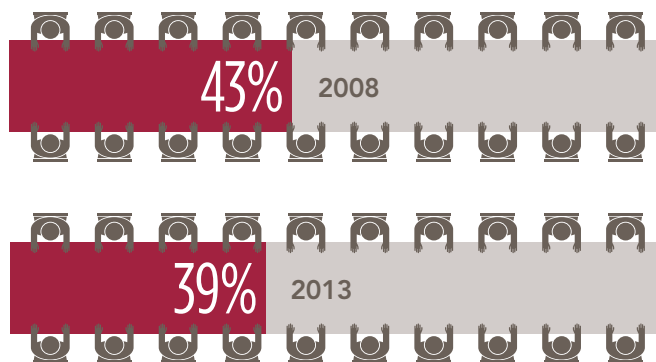
Losing Ground

When asked whether they are provided enough information about institutional risks to meet their legal and fiduciary responsibilities:

- 39 percent of respondents—board members and institutional administrators—"strongly agreed" that they are (compared to 43 percent in 2008).

- 43 percent "somewhat agreed" to the same question (compared to 32 percent in 2008).

The Takeaway

In 2013, survey respondents were generally satisfied with the information the board receives about institutional risk. However, when the adequacy of information sharing is tied to the specific goal of meeting legal and fiduciary obligations, respondents were less confident.

An ERM process should foster an exchange of information that ensures well-informed board members and administrators can meet their fiduciary and legal obligations to the institution.

Recommended Practice 6: Evaluate the Institution's Work on Institutional Risks

At the conclusion of an annual ERM process, it is important to solicit feedback and evaluate the institution's approach to managing major risks. By doing this, the board and senior administration can continue to make improvements to the process. Repeating and improving the process annually enables the board and senior leaders to continue to sweep the landscape for emerging risks.

Status Quo

When asked to rate their institution's approach to managing major risks:

- 5 percent of respondents deemed their approach "exemplary."

- 44 percent rated their institution's approach "above average."

- 41 percent rated their institution's approach "average."

- 9 percent rated their institution's approach "below average."

- 1 percent rated their institution's approach "poor."

These results mirror the 2008 responses to the same question, suggesting that the past five years have resulted in little change in respondent perceptions about their institution's approach to managing major risks despite declines reported in other questions in the survey.

The Takeaway

Increased awareness of and focus on ERM over the last five years is undeniable. And, respondents seem well-satisfied with their institution's approach to managing risks, with nearly half (49 percent) describing their approach as exemplary or above average. However, as survey questions drill down into specific approaches and tasks required for successful ERM, the percentage of positive ratings either has not changed or has actually decreased since 2008.

Risk management, at its core, is a governance and management discipline, not an end but a means to the end, with the end being the accomplishment of the institution's mission. Boards and administrators need to take demonstrable action and advance ERM efforts at their institutions.

Institution is doing a good job identifying, assessing, and planning for institutional risk:

25%
STRONGLY
AGREE
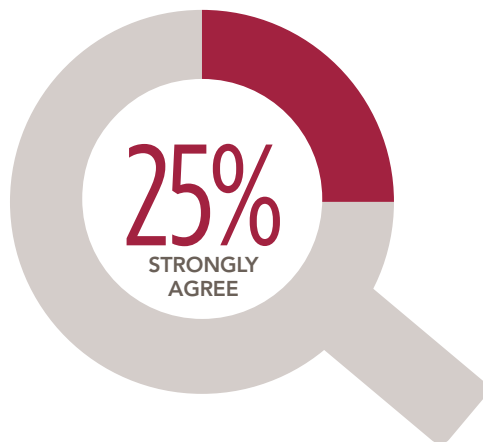
New Ratings on ERM Performance

A new question in 2013 focused specifically on whether the institution does a good job identifying, assessing, and planning for institutional risk. Only 25 percent "strongly agree" the institution is doing a good job, while a significant 57 percent "somewhat agree."

Another new question in the 2013 survey asked respondents whether their institution's focus on institutional or enterprise risk is greater, about the same, or less than it was five years ago. The vast majority (73 percent) reported that their institution focuses more on institutional risk compared to five years ago.

BEST PRACTICES

Demographic shifts, declining or stagnant state and federal government support, increased alternatives for students to pursue their degrees, and aging physical plants combine to significantly increase the risks all colleges and universities face. Research compiled in developing *Risk Management: An Accountability Guide for University and College Boards* recommends the following best practices for supporting the governing board's collaboration with senior administration to reduce risks and improve decision making and allocation of limited resources.

For Boards

1. **Role.** The board does not implement the ERM process, the administration does. The board's role is to remind the administrative team of this responsibility and hold them accountable.

2. **Accountability.** Ownership of risk by both the board committees and senior administration is critical to establish accountability and a sound process.

3. **Process.** Risk management is a process, not a project, and should be incorporated into the ongoing work of the full board and board committees.

4. **Question.** The board should join with senior administration to question "sacred cows" so they can be assessed and managed.

5. **Schedule.** Boards should move away from the "as needed" practice of identifying or discussing risks and incorporate discussions into annual schedules of committees and the full board.

For Presidents and Senior Administrators

1. **Borrow.** To start, use risk registers and lists developed by peer institutions, and interview senior leaders to verify applicability to your campus. Move deeper into the institution in future years.

2. **Prioritize.** Focus most of the process on prioritizing critical risks. Risk identification is merely a springboard into these more important aspects of the process.

3. **Focus.** Senior administrators should focus their energy on high-priority risks rather than on those that will have only a modest impact on the institution.

4. **Plan.** Follow through by developing and improving mitigation plans.

5. **Talk.** Be ready, willing, and able—on campus, in committees, and at board meetings—to talk about the tough issues. Avoid following the timeworn code of silence on the most critical risks.

6. **Practice.** Use crises at other institutions as a drill or practice to ask, "How would we respond if that happened here?"

7. **Lead.** The president should lead the ERM effort (if not throughout the entire process, at a minimum to get it started) and stay engaged throughout the deliberations. Ongoing responsibility for implementing ERM should belong to one or more members of the president's cabinet.

8. **Be accountable.** Each risk brought to the board must have an administration owner who is accountable.

9. **Know the subject matter.** Call upon subject matter experts from time to time to ensure that the administration is not missing important trends and developments in the risk identification process.

ABOUT THE SURVEY

The 2013 survey on higher education risk management was completed by 921 respondents, which represents a 55 percent increase over the number of 2008 survey respondents. The population was similar to that of the 2008 survey: 74 percent of the respondents serve independent institutions and 26 percent serve publics. Respondents included presidents, governing board members, chief financial officers, and other higher education leaders whose institutions belong to AGB and UE. Details about respondents are reported in Tables 1-5, including information about enrollment size and sector of institutions represented by the participants in the survey. The total number of responses for each survey item varies.

Table 1: Respondents by Position

	Percent
President	18.7%
Governing board member	11.4%
Provost/VP academic affairs	8.9%
Chief financial/ administration officer	24.5%
Legal counsel	9.8%
Risk manager	14.5%
Chief compliance/ audit officer	1.4%
Other	11.0%
TOTAL	**100%**

Table 2: Respondents by Sector

	Percent
Private	73.9%
Public	26.1%
TOTAL	**100%**

Table 3: Respondents by Carnegie Classification

	Percent
Associate	4.0%
Baccalaureate	27.3%
Masters	27.3%
Doctoral	29.1%
Specialized	2.1%
System*	5.3%
Other	5.0%
TOTAL	**100%**

*Some systems counted member institutions separately rather than as a single entity.

Percentages may not sum to 100% due to rounding.

A Wake-up Call:

Enterprise Risk
Management at Colleges
and Universities Today

A Survey by the Association of
Governing Boards of Universities
and Colleges and United Educators

Notes