Higher Education Governance Workshop

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• The word risk derives from the early Italian risicare which means “to dare”. In that sense risk is a choice rather than fate.

• -Peter L. Bernstein, Author of Against the Gods: The Remarkable Story of Risk
ERM as Board Responsibility

• Key Part of Fiduciary Responsibility
• Should be a Board Priority
• Work Closely with Management to Identify Risks
• Look at Risks Across Organizations not Silos
• Use Stress Testing as Tool for Determining Potential Outcomes
Key Steps In ERM

• Risk Identification

• Risk Assessment

• Risk Mitigation

• Report to the Board

Source: Risk Management; AGB and Janet Abraham
Risk Identification

• Led by the Senior Administrators

• Keep to no more than Twenty Risks Across the Institution

• Use Broad Categories to Start and then Drill Down on Specific Risks by Category
Risk Assessment

• Create Entity Related Heat Map
• Use two Dimensional Grid
  – One Dimension is Likelihood of Occurrence
    • Low – Medium – High
  – One Dimension is Impact of the Organization
    • Minor – Significant – Critical

• Look at Downside Risks
  - Impact of Downside Events

• Look at Upside Risks
  • The Risk of Not Achieving Objectives
Heat Map Example I

<table>
<thead>
<tr>
<th>Likelihood of Occurrence</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>1, 2, 5a</td>
</tr>
<tr>
<td>Medium</td>
<td>4a</td>
</tr>
<tr>
<td>Low</td>
<td>5b 3</td>
</tr>
<tr>
<td>Minor</td>
<td>Significant</td>
</tr>
<tr>
<td></td>
<td>Critical</td>
</tr>
</tbody>
</table>
Heat Map Example II

1. Enrollment
2. Regional competition
3. Information security
4. Management turnover
5. Liquidity
6. Health care costs
7. Legal/regulatory compliance
8. Governance
9. Potential for fraud/conflict of interest

Source: Risk Management; AGB and Janet Abraham
Stress Testing

- Helps to Understand Potential Downside
- Great Education Tool - Understand key Levers
- Particularly Helpful for Review of Finances
- Assume a Number of Factors go Wrong Simultaneously
- Using 2008/2009 Time Frame is a Good Starting point
Addressing Risks

• Highest Priorities are in the Upper Right Box
• Move Across to the Left and then Down
• Ignore anything the is Low Risk or Low Impact
• Update Risk Heat Map at Least Annually
Risk Mitigation

• Each Risk should have a Plan to Address

• Each Risk should be Assigned to Management Personnel

• Each Risk should be Assigned to a Committee

• A Board Report should be Developed and Reported at Least Annually
Appendix

University Risk Register

Source: Risk Management; AGB and Janet Abraham
Public Research University – Risk Register

1) Economic conditions and base funding
2) Enrollment growth
3) Human resources 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
Independent Research University – Risk Register

1) Effectiveness and efficiency of financial operations
2) Facilities renewal and optimization
3) Adequacy of human capital
4) Conflicts of interest
5) Disruption of operations
6) Fundraising sufficiency
7) Health and safety
8) Regulatory compliance
9) Sponsored research—volume uncertainty
10) Student success
Independent Comprehensive University – Risk Register

1) Academic quality (including faculty retirement planning)
2) Budgeting and forecasting
3) Community safety
4) Compliance risk
5) Decentralization
6) Deferred maintenance
7) Enrollment management/retention
8) Financial aid
9) Financial stability
10) Political and regulatory change
11) Branding
Public University System – Risk Register

1) Governance: System wide and institutional goals, roles and methods
2) Student enrollment
3) Government support
4) Liquidity, debt and reserves
5) Health care costs
6) Employee morale
7) Management turnover
8) Return on investment in new capital projects and programs
9) Legal/regulatory compliance
10) Information security
11) Disaster recovery and business continuity
12) Potential for fraud and conflicts of interest
Institutionally Related Foundation Risk Register

1) Changing state legislation and regulation
2) Fiduciary: Investment of endowment, financial reporting and disclosure requirements
3) Economic climate reduces donations
4) Failure to follow established procedures and policies separating foundation from university
5) Succession planning for leadership
6) IT and data security
7) Crisis response plans
8) Coordination and alignment with other groups supporting university (alumni association, boosters, etc.)