The College of New Jersey
Enterprise Risk Management and Higher Education
For Discussion Purposes Only
January 2012
Agenda

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• Basic program components
• Recent trends in higher education risk management

Why ERM

Profile of an effective ERM program
• Achieving ERM objectives – Where to start
• Sample project approach and expected outputs
• Example ERM program outputs
• Illustrative implementation road map
• Sample risk profile – higher education
Introduction
Basic program components

- Enterprise risk management (ERM) is the coordinated set of activities that an organization employs to promote the proactive management of risk.
- ERM programs have taken on a variety of forms and maturity levels but fundamentals should include:
  - Multifunctional responsibility for identification and mitigation of risk conditions.
  - Ability to evaluate and assess potential impact and likelihood of wide range of risk conditions – including operational, strategic, compliance, reporting and reputational.
  - Ability to understand risk conditions and to set organizational tolerance levels (accept, mitigate, reduce, share).
  - Executive level sponsorship and involvement.
- Extent of programs often depends on:
  - Organizational and industry requirements.
  - Existing resource and skill levels.
  - Overall degree of organizational interest (against other competing priorities).
Recent trends in higher education risk management

- Increased focus on avoiding highly publicized events including the misuse of federal grants, compromised privacy, inappropriate billings for medical services, research abuse, etc.

- More recognition from wider array of stakeholders (President, Provost, Board and employees) on importance and benefits of ERM

- Regulators and stakeholders have taken notice of the topic of risk management and expectations continue to grow
  - Some new legislation (California Nonprofit Integrity Act, IRS Form 990-T) designed to promote increased transparency into university activities including spending
  - Rating agency interest in extent of university risk management (in regard to bond issuances)

- Movement towards formalizing and/or expanding existing compliance and other risk management activities
Recent trends in higher education risk management

- Internal Audit objectives often in alignment with risk management principles and, therefore, in unique position to help contribute to risk management activities
- ERM programs being built upon the foundation of other compliance program(s) and risk management activities
Why ERM
Linking organizational objectives to ERM - examples

When designed properly, an ERM program can be another mechanism for helping to monitor and advance other college objectives

- **Strategic objectives**
  - Secure resources needed to achieve mission
  - Promote inter-disciplinary and collaborative learning, teaching and research
  - Create an environment that promotes a culturally diverse campus community

- **Operational objectives**
  - Achieve a targeted enrollment of “x” students for 2011/2012 academic year
  - Decrease tuition discount rate by “x%” for 2011/2012 academic year
  - Implement complete Enterprise Resource Planning (ERP) tool.
Linking organizational objectives to ERM - examples

When designed properly, an ERM program can be another mechanism for helping to monitor and advance other college objectives

• Reporting objectives
  - Provide board with meaningful data to assess institution’s performance on a timely basis

• Compliance objectives
  - File grant reports with federal sponsors in a timely manner
  - Maintain a complete list of federal laws and monitor compliance across the organization
  - Develop a detailed policy for pre-award and post-award activities
Profile of an effective ERM program
Achieving ERM objectives – Where to start

- The definition, design and preparation for implementation of a sustainable ERM program starts with:
  - Developing a customized risk profile for TCNJ
  - Identifying and categorizing risks according to TCNJ’s strategic, operational, reporting, compliance and reputational objectives
  - Determining the most significant risks facing the College
  - Assessing whether to include ERM during strategic planning or episodic assessment
  - Assessing risk management capabilities and maturity levels within TCNJ
  - Developing a prioritized action plan to improve specific risk management practices and concerns
  - Assisting in the implementation of actions needed to improve risk management practices, and
  - Providing a framework for managing enterprise risk
Achieving ERM objectives – Where to start

Evaluating the college’s objectives, capabilities and interests at the onset can help to establish a vision for the ERM program and can help make the right foundational decisions up front.

Leading ERM programs in the Higher Education sector include the following attributes:

• Program sponsored by executive management and College Board of Trustees
• Roles, responsibilities and activities carefully thought out and formalized in program charter
• Engaged management group including President and functional leadership (i.e. Executive Risk Committee)
• Periodic and thorough risk assessment to evaluate issues specific to higher education including endowments, A133 and sponsored research compliance, public relations, construction and facilities management, etc.
• Periodic program comparison to peers and best practices
Achieving ERM objectives – Where to start

Leading ERM programs in the Higher Education sector include the following attributes:

- Clear assignment of risk ownership (functional, multi-functional, risk committee, executive management)
- On-going monitoring of risk and pro-active mitigation and risk strategy discussions
- Periodic follow-up of risk events, mitigation strategies and actions taken
- Utilization of other compliance and risk management activities, such as Office of General Counsel, Chief Compliance or Risk Officer, Internal Audit, etc.
Sample project approach and expected outputs
A typical approach to define and achieve short-term ERM objectives would entail the following steps . . .

Understand Current Risk Management Practices

- Read current risk management documentation.
- Conduct management interviews based on risk profile or conduct workshops.
- Obtain understanding of current risk management strategies, processes and infrastructure including governance structure, risk culture, roles and responsibilities, etc.
- Create comprehensive, enterprise-wide risk profile for organization

Benchmark

- Perform “gap” analysis of current capabilities and practices versus agreed evaluation framework.
- Evaluate “gap” analysis against leading practices for ERM programs.
- Based on results of assessment, outline opportunities to enhance the effectiveness and efficiency of current risk management practice using leading practices as the baseline.

Confirm with Management

- Utilize standard risk management framework (e.g., COSO ERM framework) to serve as basis of evaluation.
- Discuss standard framework with management and customize as necessary to suit TCNJ risk management objectives.
- Obtain management decision on scope of assessment (universities, colleges) and specific interviewees.

Develop Implementation Plan

- Discuss findings with management and facilitate agreement on priorities.
- Discuss potential approaches for realizing identified opportunities.
- Facilitate agreement among management of next steps, both short and long-term.
- Develop implementation plan and execute

. . . and yield the following outputs:
Example ERM program outputs
Output 1: Risk profile

• External Risk Profile: The purpose is to provide an external view of the risk profile of TCNJ compared to other organizations in the sector and to help facilitate a discussion on the strategic and tactical uses of risk management across the College by using known or otherwise publicly available information.

• Internal Risk Profile: Updated based on management interviews or from workshops to provide a comprehensive analysis.

• A risk profile for TCNJ would be grouped into two views: See illustrative samples

  1. Quantitative Analysis - highlights the shareholder valuation creation strength of TCNJ relative to its peers and the performance of its key segments on a risk-adjusted basis.

  2. Qualitative Review - highlights the preliminary risk profile of TCNJ at the strategic, reporting, operational, and regulatory dimensions.

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Definitions</th>
<th>Categories</th>
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<tbody>
<tr>
<td>Business and Strategic Risks</td>
<td>Risks related to college factors such as macro-economic forces and other external conditions, and the university’s strategic response.</td>
<td>[B1] Strategic Planning</td>
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<td>[B2] Institutional Structuring (multi-campus, international, etc.)</td>
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<td>[B3] Affiliates and Related Organizations</td>
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<td>[B4] Investments / Endowments</td>
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<td>[B5] Construction and Facilities</td>
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<tr>
<td>Reporting Risks</td>
<td>Risks related to financial and operational performance including future return on investment and internal and external reporting integrity</td>
<td>[F1] Economic Factors</td>
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<tr>
<td></td>
<td></td>
<td>[F2] Financial Operations</td>
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<td></td>
<td></td>
<td>[F3] Budgeting / Planning</td>
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<td></td>
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<td>[F4] Revenue (tuition, medical billings)</td>
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<td>[F5] Institutional reporting (i.e. NCAA, A133 and sponsored research)</td>
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<td>Operational Risks</td>
<td>Risks of loss resulting from inadequate or failed internal processes, people, and systems. Most of these risks are managed by central support units and executed locally by individual schools/departments.</td>
<td>[O1] IT Systems/Security</td>
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<td>[O2] Student Education</td>
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<td>[O3] Student and Staff Services</td>
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<td>[O5] Human Resources</td>
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<td></td>
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<td>[O6] Internal Controls and Fraud</td>
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<tr>
<td>Regulatory Compliance Risks</td>
<td>Risks of a regulatory environment that are managed by each business line and affect the ability to meet compliance requirements. Includes overall reputation in the marketplace.</td>
<td>[R1] Regulatory and Environmental</td>
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<tr>
<td></td>
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<td>[R2] Privacy</td>
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<tr>
<td></td>
<td></td>
<td>[R3] Public Relations</td>
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<tr>
<td></td>
<td></td>
<td>[R4] Legal and Compliance</td>
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</tbody>
</table>
Output 2: Gap analysis and recommendations

An assessment of TCNJ practices against leading industry practice for each element of evaluation in pre-defined ERM framework including identification of gaps and prioritized recommendations. This step involves assessment of the risk management practices and capabilities, including the organizational structure, roles, and responsibilities; current risk mitigation and transfer practices, risk limits, and controls; risk measures, analytics, and reporting; and available tools and methodologies. This assessment will provide the foundation for the formulation of an ERM program and implementation plan for the College.

### Illustrative Evaluation Template

<table>
<thead>
<tr>
<th>Element</th>
<th>Leading Practice</th>
<th>Observations</th>
<th>Management Rating</th>
</tr>
</thead>
</table>
| Use of Risk Information | • The College has a comprehensive risk profile that is updated at least annually.  
• Review of risk profile is an agenda item of each Executive Committee meeting; risk profile is reported to Board on an annual basis in connection with strategic planning.  
• Risk response plans, budgets, forecasts, etc, are updated as necessary to reflect changes in risk profile.  
• Risk information is explicitly considered within all major corporate decisions including M&A, capital investments, major contractual arrangements, new product launch, etc. | • The College does not have a comprehensive risk profile.  
• Risks are discussed at Executive and Management Committee levels on an ad hoc basis, typically associated with the occurrence of a discrete risk event.  
• Focus of risk discussions primarily on recovery versus proactive management.  
• Certain risks (compliance, financial control) are reported to Board as part of normal audit cycle.  
• Other risks are reported and discussed on an ad hoc basis or as necessary.  
• Risk is implicitly considered in most major corporate decisions; however, there is not sufficient actionable information to enable more explicit consideration of risk factors. | ![Rating](#) |
| Recommendations | • Management should develop a comprehensive risk profile using standard definitions and metrics.  
• Profile should be updated on a regular basis and serve as a regular agenda item at all management and board meetings.  
• The risk profile should be explicitly considered when developing and evaluating strategic plans. | ![Rating](#) |
Output 3: ERM Framework

Utilizing a COSO standard ERM methodology, a framework that addresses the specific needs of the College and covers all key ERM components would be developed. ERM framework description will include the requisite components that are suited to TCNJ’s various schools and support functions.

Event Identification – Internal and external events affecting achievement of an entity’s objectives must be identified, distinguishing between risks and opportunities. Opportunities are channeled back to management’s strategy or objective-setting processes.

Risk Assessment – Risks are analyzed, considering likelihood and impact, as a basis for determining how they should be managed. Risks are assessed on an inherent and a residual basis.

Risk Response – Management selects risk responses – avoiding, accepting, reducing, or sharing risk – developing a set of actions to align risks with the entity’s risk tolerances and risk appetite.

<table>
<thead>
<tr>
<th>Areas</th>
<th>Key components</th>
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<tbody>
<tr>
<td>Standards and Policies</td>
<td>• Risk appetite based on tolerance for objective achievement</td>
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<td></td>
<td>• Consistent terminology and classification structures</td>
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<td></td>
<td>• Organization-wide risk management policies and standards</td>
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<tr>
<td>Governance and Organization</td>
<td>• Executive Board / senior management communication</td>
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<td>• Enterprise risk committee to address relevant risk types at the headquarters and chapter levels</td>
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<td></td>
<td>• Defined roles, responsibilities, and accountabilities for risk management</td>
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<td>ERM Processes and Procedures</td>
<td>• Long-term risk rating methods across all business lines</td>
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<td>• Short-term measures should rely on risk control matrices, risk qualitative self assessments, and key risk indicators</td>
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<td>• Enterprise risk reports with drill-down capabilities</td>
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<tr>
<td>Tools, Data, and Systems</td>
<td>• Tool capabilities should meet risk management and control needs</td>
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<td></td>
<td>• Standards for data quality, integrity, completeness and timeliness should be developed</td>
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<td></td>
<td>• Applications should perform detection, measurement, escalation, and analysis of risks and rewards</td>
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</table>
Output 4: Implementation plan

The final step of implementation focuses on developing an implementation plan for ERM deployment across the entire College. The implementation plan will outline the key activities for integrating and implementing the target risk reporting and oversight framework. The plan will include estimated timeframes, resources, and costs covering organizational, processes, and technology considerations.

Project Workstreams Templates

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>Current Challenge</th>
<th>Recommendation</th>
<th>Expected Benefits</th>
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<table>
<thead>
<tr>
<th>KEY STEPS AND ACTIVITIES</th>
<th>ERM</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key steps and activities - Design: Definitions, developments, preparing the ground for implementation...</td>
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<tr>
<td>Key steps and activities - Implementation: Roll-out systems, procedures, processes, launch messages...</td>
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</table>

Key considerations: Some hints on what to look out for in order to obtain better results

Project Timing and Resources
Implementation roadmap will help TCNJ to identify quick wins and path forward

Proposed Initiatives

Organization and Governance
1. Board/President/senior management oversight
2. Centralized risk function led by risk committee with credibility, stature and clear reporting relationship to President/Board
3. Clear definition of roles and responsibilities
4. Clear college-wide understanding of ERM objectives and responsibilities
5. Regular review of big and/or complex transactions/events

Risk Management Process
6. Increased awareness of risk management and inclusion of active risk management consideration into daily activities
7. Consistent processes for identifying, monitoring and measuring risks
8. Systematic procedures to anticipate and respond to emerging risks
9. Monitoring of model governance and usage

Resources and Infrastructure
10. Corporate units are organized by risk type and include risk analytics, capital, and infrastructure functions
11. Training and talent management strategy to ensure sufficient skills and resources
12. Models and data feeding-infrastructure
Sample output of risk map
(Risks and rankings below are purely illustrative)