



UNIVERSITY BUSINESS EXECUTIVE ROUNDTABLE

A Practical Approach to Institutional Risk Management

Getting Risk Right in an Era of Constrained Administrative Resources

University Business Executive Roundtable

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University Business Executive Roundtable

A Practical Approach to Institutional Risk Management (25260)

Getting Risk Right in an Era of Constrained Administrative Resources



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About the University Business Executive Roundtable

Serving University Finance and Administration Leaders

Our Parent Firm: The Advisory Board Company

Founded in 1979 to serve hospitals and health systems, The Advisory Board Company is one of the nation’s largest research and consulting firms serving nonprofit, mission-driven organizations. With a staff of over 1,800 worldwide, including 1,150 in Washington, D.C., we serve executives at about 3,100 member organizations in more than two dozen countries, publishing 50 major studies and 15,400 customized research briefs yearly on progressive management practices.

Our Work in Higher Education: The Education Advisory Board

Encouraged by leaders of academic medical centers that our model and experience serving nonprofit institutions might prove valuable to colleges and universities, the Advisory Board launched our higher education practice in 2007. We are honored to report over 700 college and university executives now belong to one of our Education Advisory Board memberships.



RESEARCH AND INSIGHTS

Business Affairs

The University Business Executive Roundtable provides research and support for college and university chief business officers in improving administrative efficiency and lowering costs.

Academic Affairs

The University Leadership Council provides strategy advice and research for provosts, deans, and other academic leaders on elevating performance in teaching, research, and academic governance.

Student Affairs

The Student Affairs Leadership Council provides research for student affairs executives on innovative practices for improving student engagement and perfecting the student experience.

Continuing, Online, and Professional Education

The COE Forum provides breakthrough practices and market intelligence to help colleges and universities develop and grow continuing, professional, and online education programs.



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The University Spend Collaborative provides business intelligence, price comparison database, and consulting to assist chief procurement officers in reducing spend on purchased goods and services.

Student Success Collaborative

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Supporting Members in Best Practice Implementation

Beyond This Publication

We see this publication as only the beginning of our work to assist members in developing a practical approach to institutional risk management. Recognizing that ideas seldom speak for themselves, our ambition is to work actively with Roundtable members to decide which practices are most relevant for your organization, to accelerate consensus among key constituencies, and to save implementation time.

For additional information about any of the services below—or for an electronic version of this publication—please visit our website (<http://www.educationadvisoryboard.com/uber>), email your organization’s dedicated advisor, or email researchedu@advisory.com with “Institutional Risk Management Request” in the subject line.



Implementation Road Map and Tools

Throughout our profiles of best practices, this symbol will alert the reader to a few of the many corresponding tools and templates available in the “Implementation Toolkit Resource Center.” These tools, along with additional online resources, are available on our website at www.educationadvisoryboard.com/uber.



Recorded and Private-Label Webinar Sessions

Our website includes recordings of three hour-long webinars walking through the practices highlighted in this publication. Many of our members convene their teams to listen to recordings together; Roundtable experts are also available to conduct private webinars with your team.



Unlimited Expert Troubleshooting

Members may contact the consultants and analysts who worked on any report to discuss the research, troubleshoot obstacles to implementation, or run deep on unique issues.



Custom Research Inquiries

In addition to the research available in this publication, our custom research staff is also available to answer questions of particular interest to your campus. Projects typically include literature searches, profiles of peer practitioners, and vendor analyses.



Unlimited Access to Online Resources

Deriving Value from Your Membership



University Business Executive Roundtable members have full and unlimited access to the range of supplemental materials and implementation guidance on our website (<http://www.educationadvisoryboard/uber/>).

Website resources include:



Institutional Risk Management Online Resource Center

- Draws upon the Roundtable's work with colleges and universities across North America
- Suite of tools to assist with the implementation of institutional risk management



Best Practice Research Publications and Resource Centers

Access completed best practice research publications and related implementation toolkits. Example studies include:

- *Developing a Data-Driven University*
- *Disciplining University Spend*
- *Maximizing Space Utilization*
- *Reinventing IT Services*



Over 250+ Custom Research Briefs

Wondering what questions other institutions are posing to the Roundtable? Example projects include:

- *Risk Management Within Study Abroad Programs*
- *Responding to Off-Campus Students in Crisis*
- *Emergency Alert Systems—Technologies and Broadcast Protocols*
- *State Department Travel Warnings and Institutional Study Abroad Policies*
- *Structuring Effective University Compliance Organizations*



Webinar Registration and Archive

Register for upcoming sessions or listen to archives. Many of our members convene their teams to listen to recordings and brainstorm ideas. Some titles include:

- *Promise and Perils of Innovation*
- *Operationalizing Strategic Initiatives*
- *A Practical Approach to Institutional Risk Management*



A Unique Approach

Research Identifying Best Practices

Beyond Averages: Over 100,000 Interviews Across the Firm

Education Advisory Board research focuses on answering one question: “How have successful organizations anywhere—whether in higher education or not—solved the pressing problems facing our members?” To that end, our analysts and consultants are dedicated to finding the most progressive and successful practices, never simply reporting what peer colleges and universities are doing. While relying on member surveys that solicit “best” practice ideas might be easier, this method cannot surface truly breakthrough ideas. Across the firm, our staff completes more than 100,000 in-depth interviews each year, probing for innovative new ideas, tactics, and strategies worthy of member time and attention.

HOW WE DO A STUDY

Literature Review and Expert Interviews



A massive literature review and extensive interviews with all relevant experts, in and out of sector, provide a deeper understanding of root cause problems and help identify potential new ideas.

Exhaustive Screening for Best Practices



Interviews are conducted with hundreds of colleges and universities to isolate the few dozen that have pioneered truly innovative practices and can show demonstrable results.

In-Depth Case Study Research



Multi-day interviews and onsite are completed with exemplar institutions to understand in detail how the practices work and the implementation requirements, benefits, and potential drawbacks.

Rigorous Analysis and Advice

The research team spends several months synthesizing the research and preparing detailed recommendations to guide members in how to implement the practices and strategies uncovered in the research.



Advisors to Our Work

The Roundtable would like to express its deep gratitude to the individuals and organizations that shared their insights, analysis, and time with us. The research team would especially like to recognize the following individuals for being particularly generous with their time and expertise.

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Top Lessons from the Study

Institutional Risk Management Garnering Attention, but Skepticism Persists

1. Motivated in part by highly publicized corporate risk failures, boards are pressuring colleges and universities to undertake institutional risk management with increased frequency. Feelings of being under-engaged and uninformed about key institutional risks have only compounded the board's need for action and, as such, institutional risk management has become the "point of the spear" for targeted discussions with university executives about key "business model" risks. Additionally, a widening risk profile stemming from increased operational complexity and entrepreneurial activities undertaken in pursuit of quality, prestige, and revenue have forced colleges to the risk drawing board.
2. Unfortunately for many colleges, the reality of a widening risk profile comes at the same moment when universities are unable to absorb the fallout of a significant risk failure. Coping with a weakening balance sheet caused by slowing net tuition growth, declining state appropriations, and slumping investment returns, universities are unable to absorb the financial blow of a risk failure. Similarly, an erosion of goodwill reserves among colleges' funding community as questions continue to arise about the value of higher education and whether colleges are effective stewards of public resources has reduced colleges' ability to absorb the reputational blow of a risk failure.
3. While increased board pressure and the reality of a widening risk profile are valid reasons to move institutional risk management from the backstage to the spotlight, university executives remain skeptical. Having looked at peers to the left and right, most university executives are faced with a wasteland of horror stories: universities spending 18 to 24 months on risk identification and assessment resulting in an overwhelming hundred-fold risk register—more risks than can be realistically addressed in a reasonable time period.

Inflated and Conflated Risk Discussions

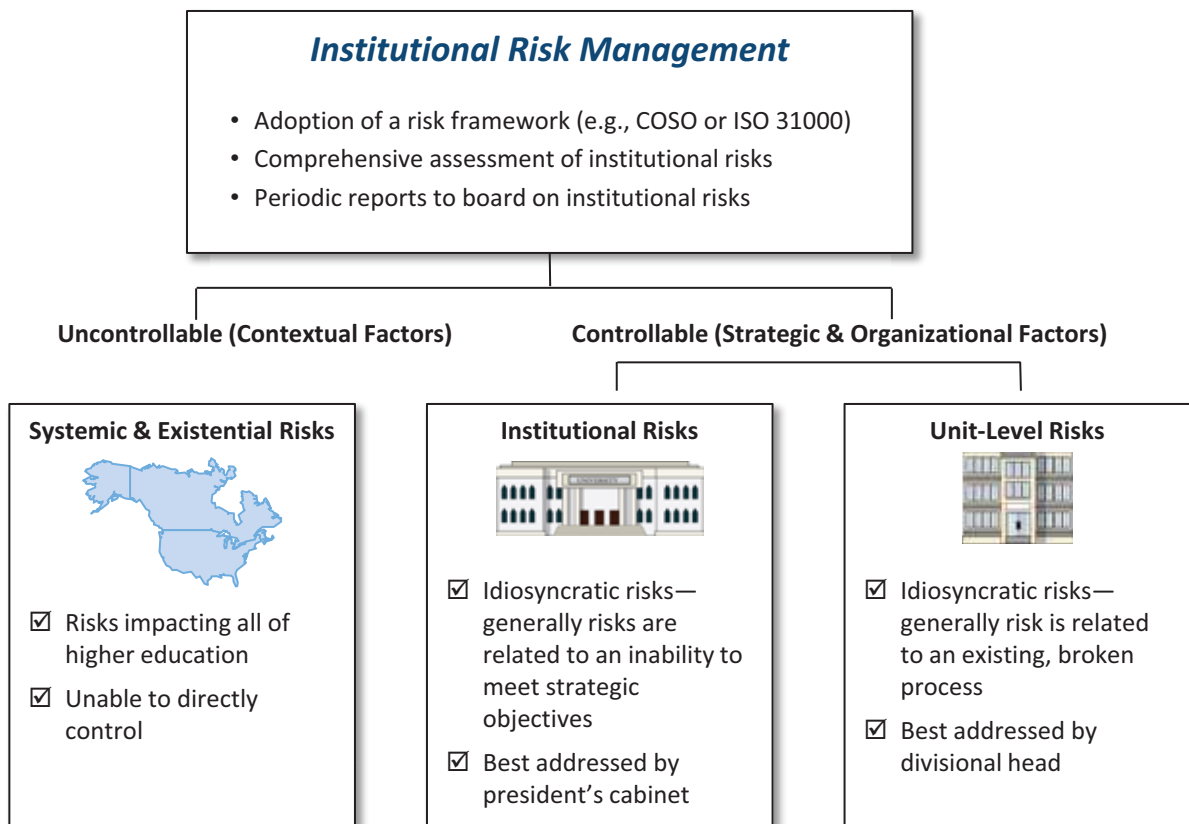
4. The culprit of universities' inflated risk registers is an ill-defined, over-reaching, and undifferentiated strategic plan. While mature private sector organizations leverage well-defined, concise strategic plans to establish clear parameters and boundaries around risk identification discussions (ensuring that the finite list of strategic objectives results in a finite list of risks), the lack of concise strategic objectives forces universities to take a bottom-up approach whereby risk committee members are asked "what keeps you up at night?" A broad question posed to a broad risk committee traps universities in the vicious cycle of risk identification and assessment, leaving little energy for progress on risk treatment.



Top Lessons from the Study (cont.)

Inflated and Conflated Risk Discussions (cont.)

5. The bottom-up approach to risk identification not only results in an inflated risk register, but also conflated risks. Based on our review of risk registers, the Roundtable identified three risk “altitudes”—systemic and existential, institutional, and unit-level—which are often conflated in risk discussions.



6. By sensitizing campus constituents to the varying risk altitudes, exemplar organizations avoid a negative net present value (NPV) project by establishing clear parameters on the risk categories of highest interest to senior administrators and the board (thereby avoiding a hopelessly large and essentially meaningless risk register). In addition to creating a meaningful and realistic risk register, business executives spotlight the need for differing management approaches and board engagement strategies for each risk altitude.



Top Lessons from the Study (cont.)

A Practical Approach to Institutional Risk Management

Comprehension of the varying risk altitudes creates a baseline environment to implement institutional risk management with minimal disruption. Based on over 120 conversations with chief business officers, risk managers, and their consultancies, the Roundtable has identified five additional strategies to avoid scope creep and ensure demonstrable progress on risk treatment.

7. **Structuring Ownership and Managing Board Oversight:** To avoid risk register scope creep, exemplar institutions are bypassing the monolithic risk committee in favor of more substantive conversations with key senior administrators on risks inhibiting the realization of agreed-upon strategic objectives. Risk from the (concise) risk register are subsequently mapped to relevant board committees satisfying board concerns of under-engagement in risk management.
8. **Fast-Cycling Risk Identification:** In addition to limiting risk identification discussions to key senior administrators, exemplar institutions fast-cycle risk identification by leveraging peer-sourced risk registers, supplementing them with robust discussions with external experts. Key government and economic experts provide valuable insight on external developments with the greatest risk implications to the university.
9. **Assessing and Prioritizing Risks:** To winnow the initial risk register in a manner deemed fair by campus constituents, exemplar institutions move beyond traditional “impact” and “likelihood” metrics. Employing a multidimensional “impact” metric stems campus debates about varying risk impacts and gives credence to financial, asset, and mission impact. Additionally, a targeted “likelihood” and “impact” survey ensures that senior administrators and frontline staff assess only metrics that they are most familiar with, avoiding skewed results from personal biases.
10. **Increasing Campus Risk Awareness:** Beyond the threshold challenge of identifying and assessing risks, the widely voiced university executive goal of “getting faculty and academic administrators to own risk management” faces many philosophical and practical obstacles. At most institutions, a vocal minority of faculty perceive risk assessment as a fundamentally bureaucratic exercise. Exemplar institutions respond to faculty concerns by embedding risk resources in existing workflows with the objective of being unobtrusive and self-sustaining over time.
11. **Instilling Accountability and Incenting Action:** To ensure progress against risk treatment plans, exemplar institutions leverage a mix of carrots and sticks to garner the attention of administrators. Presidential risk hearings ensure that steady progress is made against risk treatment plans, while risk-based resource allocations bypass the perception that institutional risk management is simply a one-time, bureaucratic effort with inconsequential impact and ensures that resources are allocated to the highest-priority systemic and institutional risks.



The Risk Management Imperative

Overview of Institutional Risk Management in Higher Education

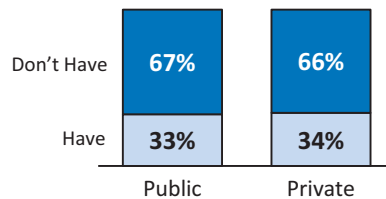


Boards Pushing Risk Initiatives Forward

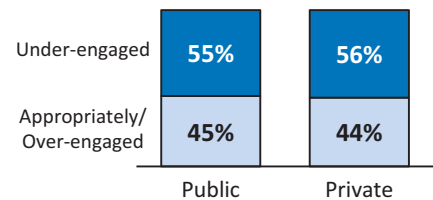
Motivated in part by highly publicized corporate disasters, boards are pressuring colleges and universities to undertake a comprehensive risk assessment with increasing frequency. Feelings of under-engagement and a sense of being uninformed about key institutional risks have only compounded the board's desire for action and, as such, institutional risk management has become the "point of the spear" for targeted discussions with senior administrators about university "business model" risks.

CBO's Feeling Pressure from Boards to Undertake Institutional Risk Management Initiatives

Few Colleges Have Formal Risk Management Process



Boards Are Under-Engaged in Risk Management Process



Universities Implementing Institutional Risk Management in Response to Board Pressure

ITHACA



UNIVERSITY OF ALBERTA



Brandeis

Georgia Institute of Technology

Augustana College

Source: Schwartz, Merrill P., The Biggest Risk Is Not Assessing Risk at All, Association of Governing Boards (Trusteeship, Jan/Feb 2012); 2011 AGB Survey of Higher Education Governance; Education Advisory Board interviews and analysis.



More International, Student-Related Risks

In addition to a call for action by the board, colleges and universities are coping with the reality of a widening risk profile stemming from internal and external circumstances.

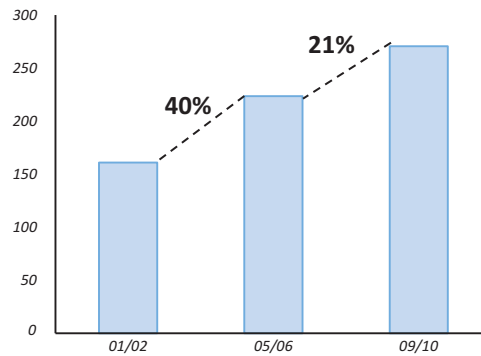
The uptick in student-related international activities has increased the overall operational complexity of many colleges, which in turn has contributed to a widening risk profile. Not only are students going farther afield, but study-abroad risks are moving beyond traditional medical, alcohol, and behavioral risks and now encompass civil unrest risks (e.g., Egypt's 2011 political revolution), natural disaster evacuations (e.g., Japan's 2011 tsunami and nuclear meltdown), and entanglement with local authorities (e.g., the Amanda Knox trial in Italy).

Additionally, colleges are recruiting more international students and coping with the risk implications, including increased scrutiny by regulators over recruitment tactics and adherence to admissions criteria.

Uptick in Student-Led International Activities Contributes to Increased Operational Complexity

Study Abroad

US Students Abroad (in thousands),
2001/02-2009/10



Risk Exposure

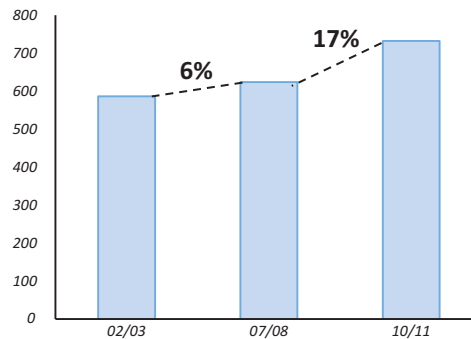
Students going farther afield – Argentina, South Africa, and India hit top 15 destinations since 2001



Risks moving beyond medical, alcohol, or behavioral incidents--civil unrest (Egypt/Mexico); natural disaster evacuation (Japan); entanglement with local authorities (Italy)

International Students

International Students in U.S. (in thousands),
2002/03-2010/11



Risk Exposure

Students coming from farther afield--South Korea, Saudi Arabia, Vietnam, and Nepal hit top 15 origin countries since 2001



Scrutiny of non-compliant recruitment tactics



The Risks of Going Global

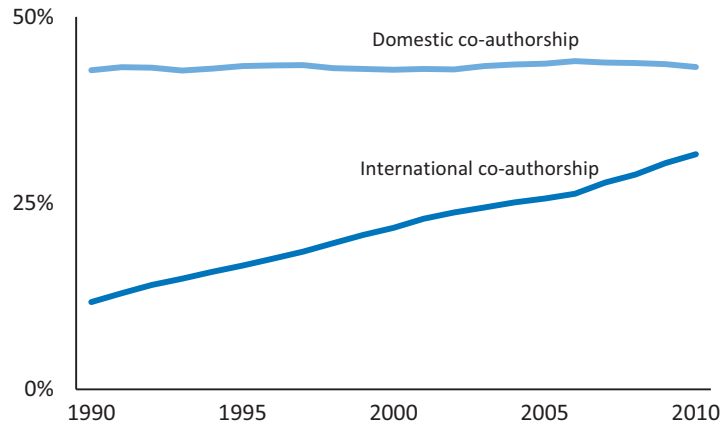
As students continue to push international risk boundaries, so do faculty as international research collaborations continue to increase. International administrative issues create a particular challenge for universities because they involve highly specialized, low-volume activities that existing units are not equipped to handle, increasing the university's overall risk of regulatory noncompliance.

International collaborations are also moving beyond journal co-authorships to include full-fledged research facilities and branch campuses. As universities become business owners and employers in other countries, they are exposed to the complexities of international business regulation and, as a result, absorb the financial and reputational risks of their foreign-affiliated campus.

Uptick in Faculty-Led International Activities Contributes to Increased Operational Complexity

International Research

Growth in US International Co-authorship, 1990-2010

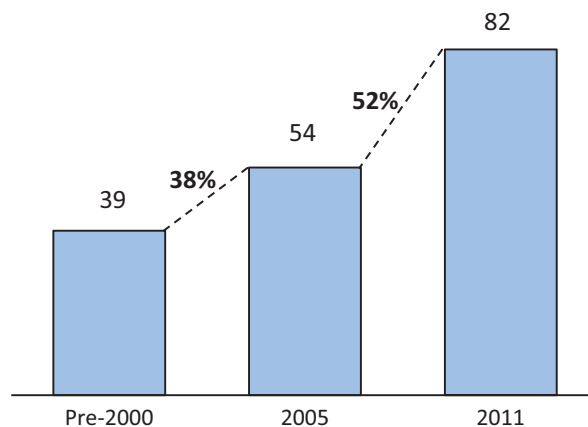


Risk Exposure

- Regulatory Compliance
- Complex Transactions

International Partnerships

Number of International Branch Campuses Established by US or Canadian Universities¹



Risk Exposure

- Reputational Risk
- Financial Risk

Source: National Science Foundation, Science and Engineering Indicators 2012, Figure 5-25, available at <http://www.nsf.gov/statistics/seind12/c5/c5s4.htm> (accessed March 05, 2012); The Observatory of Borderless Higher Education, *International Branch Campuses Data and Development* (January 2012); Chronicle of Higher Education, *American Colleges' Missteps Raise Questions About Overseas Partnerships*, February 19, 2012; Education Advisory Board interviews and analysis.

1 Any branch campus with an "unclear" open date was assumed to open prior to 2000.

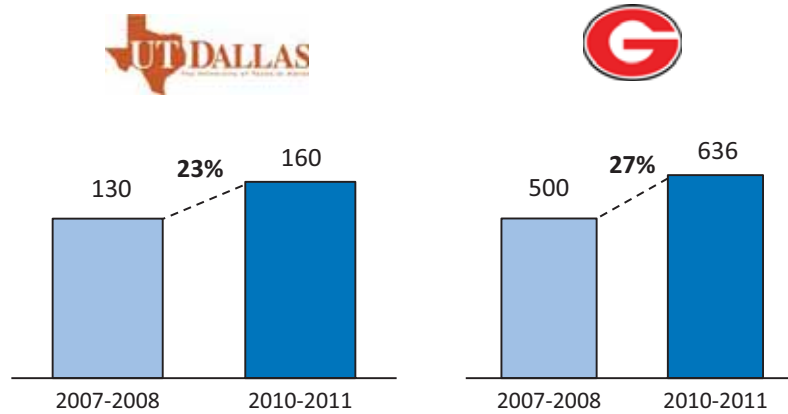


Student Clubs Go Extreme

The proliferation of student-affiliated organizations—intended to increase overall student satisfaction—exacerbates operational complexity challenges for colleges and universities, widening the overall risk profile. Additionally, emerging student organizations go beyond traditional chess, debate, or math clubs and include extreme activities such as jousting, parachuting, base jumping, paintball, and parkour.

Proliferation of Student Organizations Contributes to Widening Risk Profile, Including Some Noticeably Dangerous Activities

Number of Student Organizations, 2007/2008-2010/2011



Emerging Student Organizations



Jousting Club



Parachuting Club



Base Jumping Club



Paintball Club



Parkour Club



Source: University of Texas at Dallas Student Affairs Annual Report at www.utdalas.edu/studentaffairs/annual (access February 29, 2012); University of Georgia Division of Student Affairs Annual Reports at <http://studentaffairs.uga.edu/about/divreports.htm> (accessed February 29, 2012); Education Advisory Board interviews and analysis.



Going It Alone

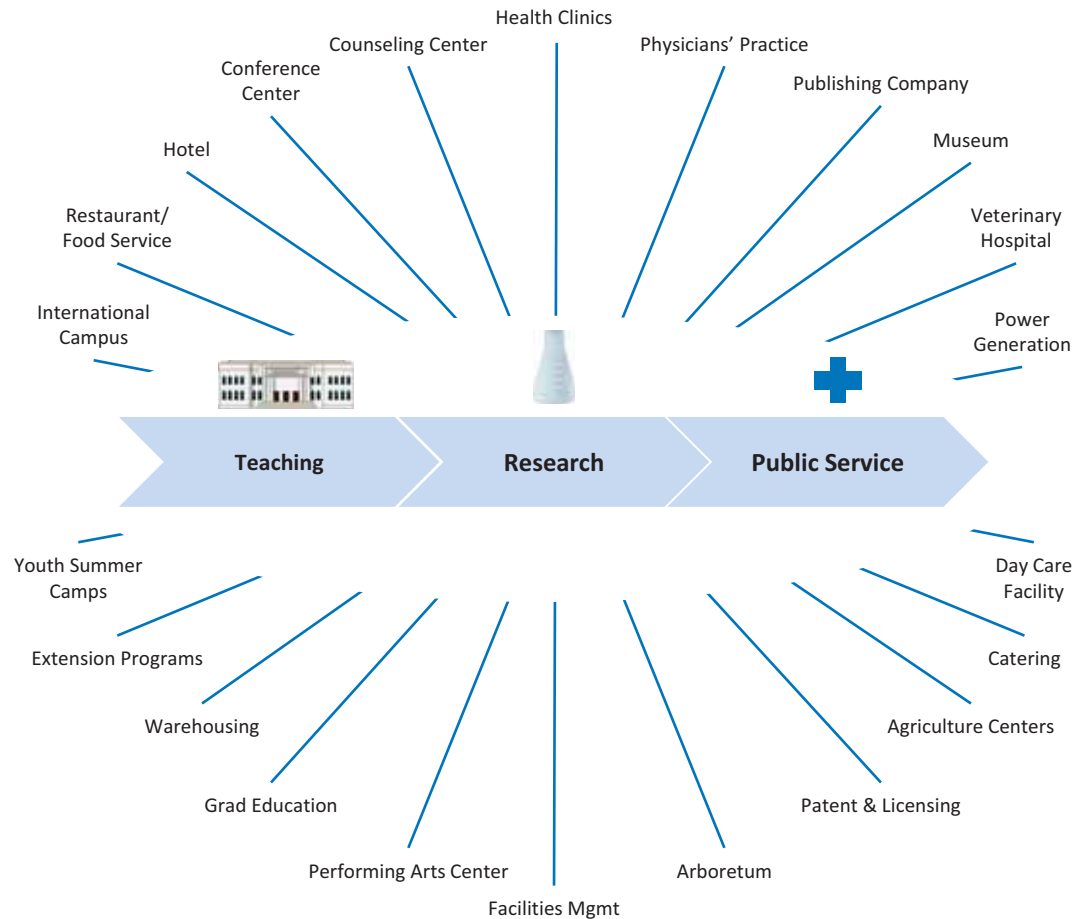
To further complicate matters, not only are institutions gradually increasing the scope of existing activities, but many are also launching new “business” lines, in hopes of pursuing further prestige, quality, and revenue for their institutions, thereby negating any benefits associated with contractual risk transfer.

As the community’s employer of choice, many colleges do not have the option of outsourcing new ventures. However, as colleges continue to launch entrepreneurial ventures (e.g., continuing and online education programs, extension programs, and new auxiliary services), they retain the legal, financial, and operational risks of each new venture.

Therefore, not only are colleges and universities seeing an increase in their risk profile from existing activities (e.g., study abroad, international research, and student organizations), but the launch of new ventures is adding new layers to the institution’s risk profile.

“Insourced” Activities Negate Outsourcing Benefits of Contractual Risk Transfer

Sample “Business” Lines Owned and/or Managed by Universities



In the absence of outsourcing, university negates benefits of contractual risk transfer and retains risk from all business lines



Increasing Regulations

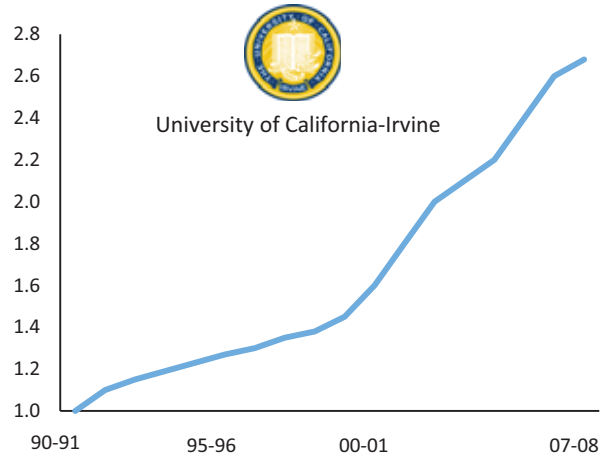
Increases in regulations put colleges and universities in jeopardy of noncompliance.

Most, if not all, colleges have experienced an increase in federal, state, provincial, and local regulations, and a recent survey of college and university presidents indicates that there's no reprieve in sight.

Increased Regulations Increase Risk of Noncompliance

Increase in Regulations...

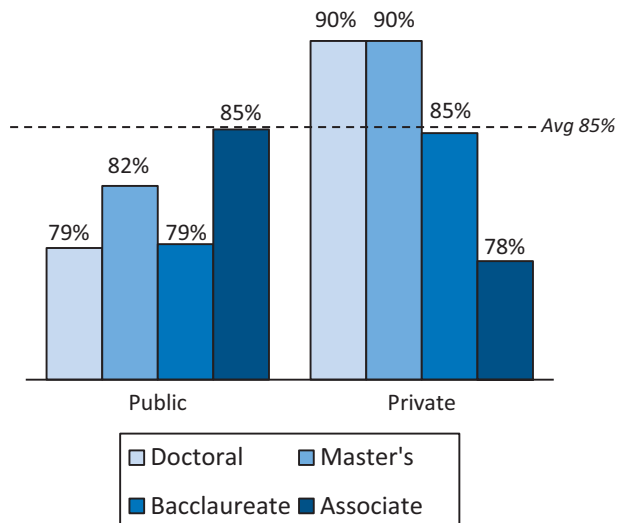
Number of Regulations, Cumulative Change from 90/91-07/08 (base= 1.0)



...With No End in Sight

Percentage of Presidents Who Strongly Agree or Agree That Federal Government Is Likely to Significantly Increase Its Regulations

n = 1,002



Source: University of California Irvine, Presentation to the Board of Regents, http://www.abs.uci.edu/regents_presentation/images/regents22008.pdf (accessed February 28, 2012); Inside Higher Ed, *The 2012 Inside Higher Ed Survey of College University Presidents*, March 2012; Education Advisory Board interviews and analysis.



With “Friends” Like These

More troubling than the increase in regulations is the increased enforcement by regulatory agencies of existing regulations, especially pertaining to international activities. For example, the Department of Homeland Security recently expanded their Office of Academic Engagement expressly for the purpose of reviewing universities’ international activities.

This increased regulation, however, has not been limited to international programs. There has also been a slight uptick in the enforcement of domestic activities, which is primarily attributable to the injection of federal stimulus funds into regulatory agencies. These funds have allowed for the expansion of regulatory staff and enforcement activities.

The increase in regulation, coupled with the spike in activity from enforcement agencies, further contributes to the widening risk profile of the average university.

Not Only Are Regulations Increasing, but So Is Enforcement

Federal Agencies Increasing Regulation Enforcement

International Activity Enforcement	
	In March 2012, Department of Homeland Security created an Office of Academic Engagement with plans to triple number of investigative agents focused on international students and university-based homeland-security research
	State Department increases enforcement of export control violations, and universities are targeted in enforcement

Increase in enforcement is primarily related to universities’ international activities

Domestic Activity Enforcement	
	Department of Justice received \$22.2M of additional funding in 2010 to strengthen civil rights enforcement
	Equal Employment Opportunity Commission received \$23M of additional funding in 2010 to add staff to emphasize enforcement

Source: Fischer, Karin, *New Committee Will Advise Homeland-Security Chief on Student Issues*, The Chronicle of Higher Education, March 1, 2012; Cherry, Elizabeth et al, *An Evolutionary Approach to Employment Disputes*, Presentation to the University Risk Management and Insurance Association (Sept 2011); Education Advisory Board interviews and analysis.

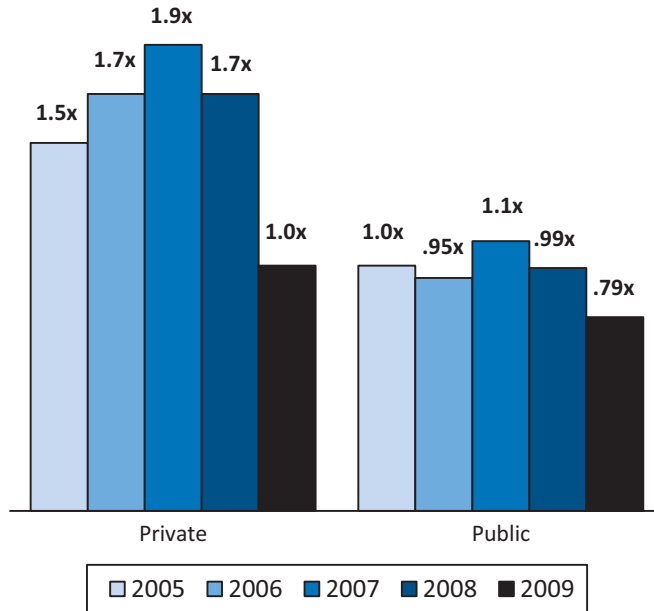


Unable to Absorb the (Financial) Blow of a Risk Failure

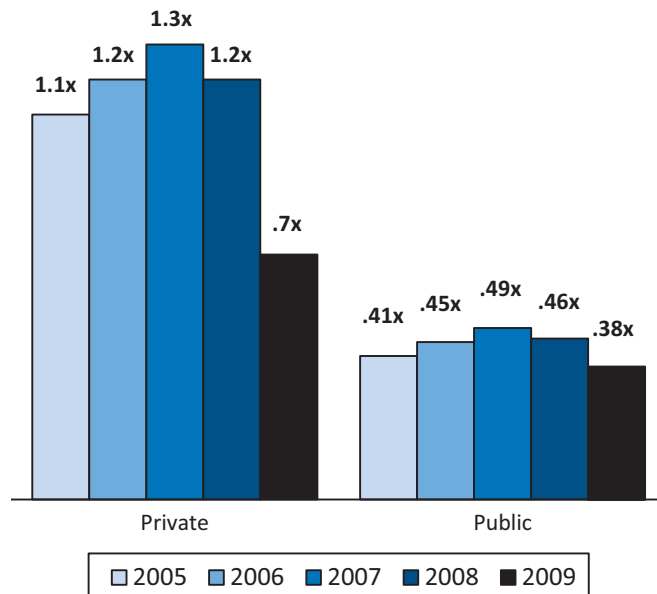
Unfortunately for many colleges, the reality of a widening risk profile comes at the same time when universities are coping with weakening balance sheets stemming from slowing net tuition growth, declining state appropriations, and slumping investment returns. As a result, universities are unable to absorb the financial blow of a risk failure.

Public and Private Universities See Decline In "Balance Sheet" Strength

Expendable Financial Resources to Debt, 2005-2009



Expendable Financial Resources to Operations, 2005-2009



Source: Moody's 2011 Outlook for U.S. Higher Education (January 4, 2011); Education Advisory Board interviews and analysis.



Unwilling to Absorb the Reputational Blow

Similarly, as questions continue to arise about the value of higher education and whether colleges are good stewards of resources, many institutions are seeing an erosion of goodwill among their funding community, leaving many institutions unwilling to take the bet that they can absorb the reputational blow of a risk failure.

Facing increased scrutiny from their funding community — whether it be public policy makers questioning use of taxpayer resources or Occupy College student protestors lamenting burdensome student debt — many institutions are trying to stay out of the limelight, especially those caused by a significant risk failure on campus.

Universities Viewed as Poor Stewards of Resources and Undeserving of Sympathy

Higher Ed’s Funding Community Showing Little Tolerance and Sympathy

Public Policy Makers



Courtesy of National Security Archive

Senator Chuck Grassley, Iowa

“[Colleges and universities] are supposed to help instead of hoarding assets at the taxpayers expense.”

Business Community



Courtesy of Huffington Post

Bill Gross, PIMCO Co-Founder

“College is...overpriced and mismanaged—with very little value created despite the bump in earnings power that universities use as their raise d’ être in our modern world of money.”

Students



Courtesy of Fox News

Occupy College Protestor, NYU

“NYU lacks any sort of fiscal transparency...we don’t know exactly how they’re planning to fund [the real estate expansion], but we can only assume that [student] debt is key.”

Case-in-Point

Pennsylvania Legislature Shows Little Sympathy to Penn State



Courtesy of Pennsylvania State Senate

Pennsylvania State Senator Mike Stack



Dear President Erickson,

“As Minority Chairman of the Senate Banking and Insurance Committee, my concern is in regards to the ability of the University to handle the financial strain of the civil litigation onslaught that is surely coming.

Since the Commonwealth of Pennsylvania helps fund a portion of the annual budget for PSU, I would like to be clear in my opinion that ***in no way should taxpayer funds be used to offset the payouts of these lawsuits.***”

December 1, 2011

Source: William Gross, “School Daze, School Daze, Good Old Golden Rule Days,” *Investment Outlook* (July 2011); Senator Chuck Grassley, “Grassley: College Tuition Hikes Come Despite Tax-favored Asset Hoarding” (December 8, 2011); NYU Local, *Occupy Student Debt Campaign Protested NYU 2031 Yesterday*, February 22, 2012; Education Advisory Board interviews and analysis.



Risk as the “Point of the Spear” for Cost Savings

While responding to board inquiries and coping with a widening risk profile are the two most cited reasons for launching an institutional risk management initiative, a few institutions are utilizing institutional risk management as the “point of the spear” for difficult cost-savings initiatives. Having taken notice of the newsworthy cost-saving stories from the University of California’s risk initiatives, some campuses are hoping to replicate similar efforts and achieve similar success.

Progressive Universities Leverage Institutional Risk Management for Efficiency and Effectiveness Initiatives

University of California System’s Cost-Saving Risk Management Initiatives



Workers’ Comp Claims

- UC System’s nationally recognized and awarded Be Smart About Safety Program implemented in 2005
- Workers’ comp claims reduced by 34% from ‘05-’06 to ‘09-’10



Cost of Borrowing

- S&P recognizes strength of UC’s ERM program noting it as a “credit strength”
- Estimated savings from interest expense is \$10M/year for each 0.1% decrease in debt interest rate



IT Consolidation

- UC system leverages cyber security risk as the catalyst to make progress on consolidation of decentralized servers
- UC Berkeley migrates 30% of decentralized servers to central servers; energy savings a cost-saving by-product

Source: University of California System, Enterprise Risk Management Bulletin #8 (March 2010), available at http://www.ucop.edu/riskmgt/erm/documents/bulletin_10.pdf; Education Advisory Board interviews and analysis.



Administrative Resource Intensity Is the (Real) Non-starter

If board inquiries, a widening risk profile, and the lure of cost savings all push colleges to launch institutional risk management initiatives, then it is important to ask why many institutions have yet to make progress.

Many universities are reluctant to undertake enterprise risk management (ERM) because of its administrative intensity, which has only become more pronounced after the Great Recession. When looking at their peers, many university administrators are confronted with a wasteland of horror stories of universities spending 18 to 24 months on risk identification and assessment, only to come up with a risk register of 200 to 500 risks. Of course, this concerns the average senior administrator who wonders, “Can our university actually begin tackling that many risks?”

In addition to the arduous process of risk identification, there are many other steps that a university must tackle, including developing an appropriate governance structure, defining board engagement, and developing risk treatment plans—just a few pieces of the taxing puzzle. In short, this type of administrative intensity is what makes ERM a non-starter on most campuses.

CBOs Concerned About High Administrative Intensity of ERM

Average University’s ERM Implementation

	Year One	Year Two	Year Three
Governance	Form committee of 25-50 representatives	Clarify Board roles and involvement	Provide annual updates to Audit Committee and/or Board
Risk Identification	<ul style="list-style-type: none"> Surveys, interviews and questionnaires conducted to identify risks Develop risk register of 200-500 risks 		
Risk Assessment & Prioritization	<ul style="list-style-type: none"> All risks ranked by likelihood and impact (100-150 campus constituents) Manage campus debates on what constitutes a “priority” 		
Risk Treatment			<ul style="list-style-type: none"> Designate risk owners Develop risk treatment plans Begin rollout of plans
Monitoring & Evaluation			<ul style="list-style-type: none"> Review progress of risk treatment plans Adjust assessment metrics



Comprehensive, but Unrealistic

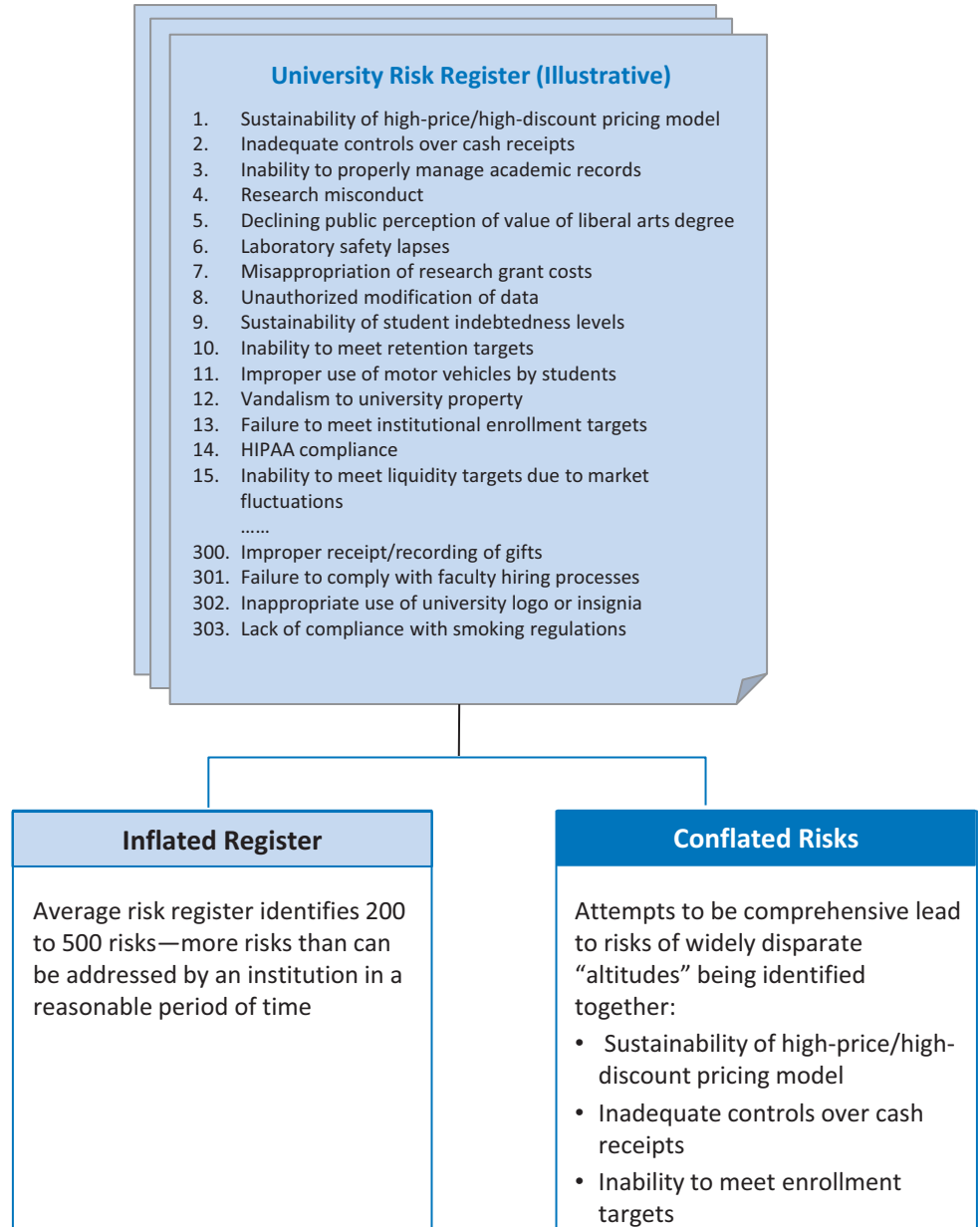
After hearing anecdotes of colleges and universities developing risk registers that contain hundreds of risks, the Roundtable set out to collect and comb through existing risk registers. It became clear that while universities were being true to their charge of conducting a comprehensive risk assessment—a stem-to-stern audit of every risk facing the institution—the risk registers were comprehensive but unrealistic.

Two key insights emerged from our analysis. First, the risk registers were inflated; the average university risk register contained hundreds of risks, more risks than a university could possibly address within a reasonable period of time.

Second, and more interestingly, was that the risks listed on the average risk register were conflated—that is, the risks were of widely disparate altitudes. For example, large, systemic risks (e.g., sustainability of high-price/high-discount pricing model) and small, operational risks (e.g., inadequate controls over cash receipts) would appear side-by-side on the same risk register.

University Attempts to Be “Comprehensive” Lead to Unrealistic Results

Pitfalls of Average University Risk Register





Private Sector: Positioned for a Positive NPV Project

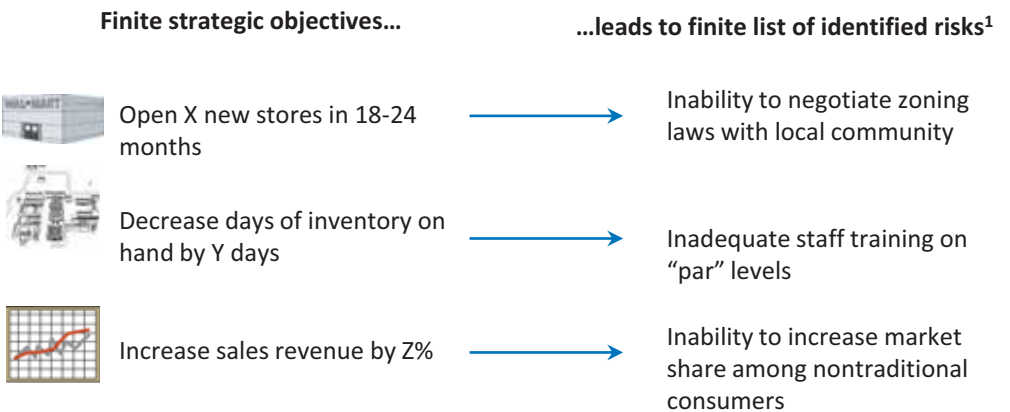
While the average university risk register contains hundreds of risks, mature private sector risk organizations generally have dozens of risks identified on their initial risk registers.

One of the main reasons mature private sector organizations have concise risk registers is that they are able to establish clear parameters around risk identification. By leveraging their well-defined strategic plans, mature companies are able to turn a finite list of strategic objectives into finite list of identified risks.

Private Sector Able to Establish Clear Parameters Around Risk Identification Due to Finite Strategic Objectives

Progressive Company's Risk Identification Process

PROGRESSIVE COMPANY



¹ Risk listed are illustrative



Higher Education: Positioned for a Negative NPV Project

Higher education institutions do not have finite, well-defined strategic objectives. As discussed extensively in the Roundtable’s research on *Operationalizing Strategic Initiatives*, higher education institutions’ strategic plans are “all things to all people” and cannot be used to establish clear parameters around the risk identification process. Because of this reality, it is rare to see a college or university use its strategic plan to guide the risk identification process.

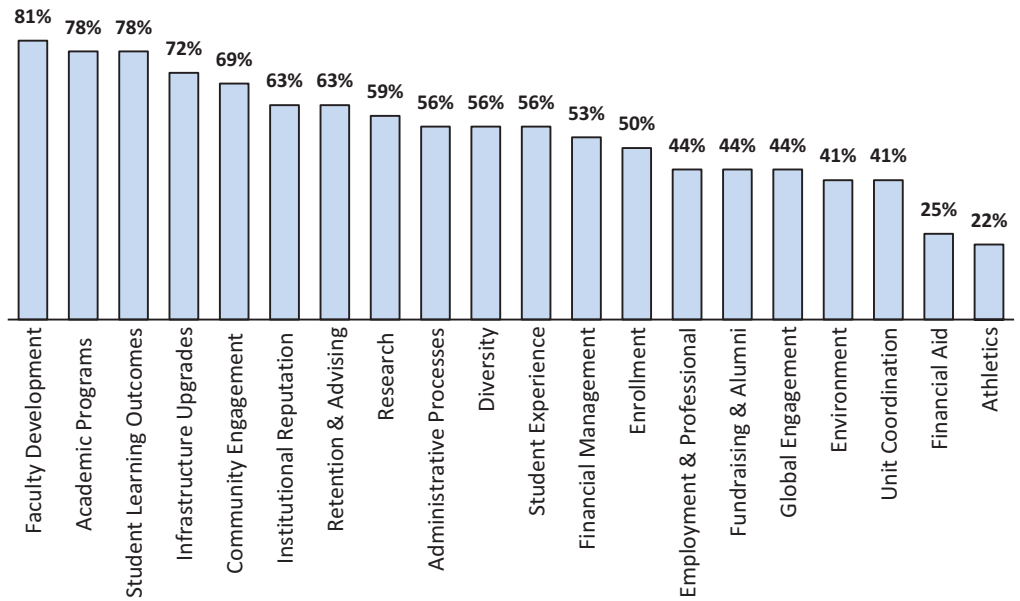
Because colleges cannot leverage their strategic plans to guide the risk identification process, most colleges instead undertake a “boil-the-ocean” approach to risk identification. A college will ask a broad audience a broad question such as, “What keeps you up at night?” which results in a panoply of identified risks.

Higher Ed Unable to Establish Clear Parameters Around Risk Identification Due to Infinite Strategic Objectives

Colleges’ and Universities’ Strategic Initiatives Span as Far as the Eye Can See

Based on Education Advisory Board Strategic Plan Audit

n = 32 strategic plans (SLA = 12; Ohio = 11; ACC = 9)¹



A “Boil-the-Ocean” Approach to Risk Identification

“What Keeps You Up at Night?”



Average large, research university typically has 25-50 representatives on risk committees, while smaller institutions have 10-15 representatives

To access our best-practice study on *Operationalizing Strategic Initiatives*, visit www.educationadvisoryboard.com/uber.

1 SLA = Small Liberal Arts College; Ohio = Higher Ed Institutions in Ohio; ACC = Atlantic Coast Conference



Different from Our Corporate Brethren

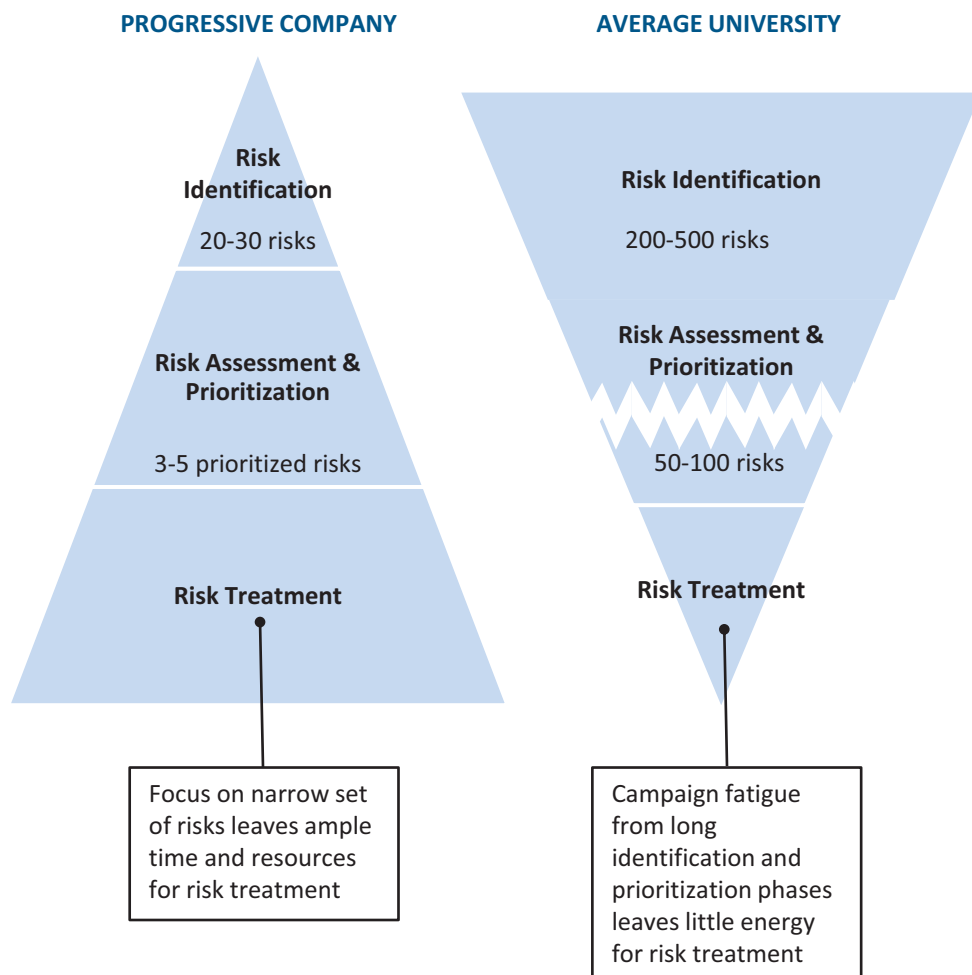
Because most universities take a bottom-up approach to risk identification, many get stuck in the vicious cycle of risk identification and assessment and have difficulty making it to risk treatment. This is what makes universities significantly different from their mature corporate brethren.

Private sector exemplars ground and link risk identification discussions to strategic objectives. By establishing clear parameters around risk identification, an organization is able to spend more time on risk treatment.

In higher education, the process is flipped on its head. Most colleges and universities spend a disproportionate amount of time on risk identification and assessment. Because so much time is spent on this part of the process—again, between 18 and 24 months—the campus usually suffers from campaign fatigue leaving little energy for risk treatment.

Private Sector More Focused on Risk Treatment than Identification

Effort Spent on Various Phases of Institutional Risk Management





Difficult to Assess and Prioritize

While the largest obstacle to translating institutional risk management from the private sector to higher education is primarily related to the difficulty in setting clear boundaries around risk identification, there are several other challenges that plague university administrators. The first relates to risk assessment and prioritization. University administrators are often plagued with managing biases in risk assessment, obtaining agreement on “impact,” considering the multiple “bottom lines” of higher education, and ensuring that risks are prioritized in light of the institution’s scarce administrative resources.

Doubts Arise Over Effectiveness of Risk Assessment and Prioritization Process

Common Assessment Challenges Plaguing Universities



Chief Business Officer

Moving Past Personal Biases

Are our assessments of risk likelihood and impact objective enough to be of any use?

Getting Agreement on Definitions of Impact

How do we get past squabbles over which university values are most important and get to actual prioritization of risks?

Rationalizing Resource Allocation

How do we ensure we’re allocating administrative resources to our areas of greatest need?



What Risk?

Addressing the issues around risk identification and assessment is only half the battle. Being aware of one's risk does little good for an institution unless it can engage the campus in treating those risks.

One of the first things an institution must do to engage the campus in risk treatment is raise the overall awareness of the risk implications of routine decisions. Faculty, staff, and academic administrators often undertake new activities with the best of intentions but fail to consider the full risk implications of such activities.

Local Units Fail to Understand Risk Implications of Decisions

Faculty Mean Well but Often Fail to Understand Risk Implications of Decisions

Field Excursions



- Lebanese professor coordinates study abroad trip to Lebanon, leveraging personal knowledge and network
- Professor and students must be extracted from country after Israel-Lebanon conflict breaks out in 2006

Recruiting Top Researchers



- Canadian university recruits star researcher, provides state-of-the-art lab and a \$0.5M professorship
- Fails to conduct adequate employee background check
- National Science and Engineering Research Council subsequently bars researcher from receiving grants indefinitely due to past plagiarism and \$150K of misappropriated funds

New Academic Programs



- College of Professional and Continuing Studies launches new program expecting to generate 40% contribution margin
- Actual contribution margin is 92%, failing to identify the risk that if courses are taught by FT faculty on overload, it would eliminate potential profit



Not Winning the War

Most institutions lack the necessary accountability and incentive structure to make progress on risk treatment plans. Even if institutions are able to raise awareness about the risk implications of well-intended decisions, the war will not be won until the campus is actively treating the risks on an ongoing basis.

The three common risk treatment obstacles institutions face are (1) lack of accountability mechanisms in treatment plans, (2) insufficient incentives to spur unit-level action, and (3) inability to reallocate resources across the organization to treat risks (especially large, institutional risks).

Administrators Struggle to Move Campus from Awareness to Action

Common Pitfalls That Stall Risk Treatment Efforts



Treatment Plans Lack Accountability

- Managers develop unachievable “pie in the sky” treatment plans without any checks for plausibility
- Lack of follow-up means treatment plans often sit on the shelf



Incentives Are Insufficient to Spur Unit-Level Action

- Incentives and support offered by administration are not attractive enough to persuade unit-level leaders that mitigation plans are worth the effort



Inability to Reallocate Resources to Institutional Risks

- Risk treatment efforts are not “costed out,” leaving administrators to guess how much funding is needed and where
- Inflexible budgeting model complicates reallocation between risk areas



Defining and De-averaging Institutional Risk Management



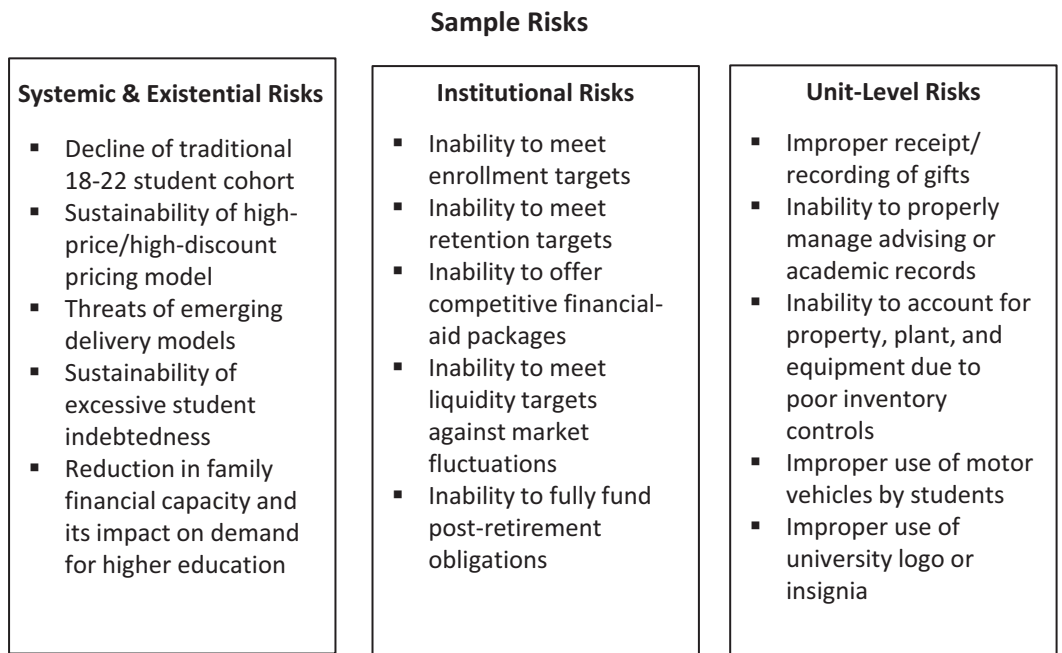
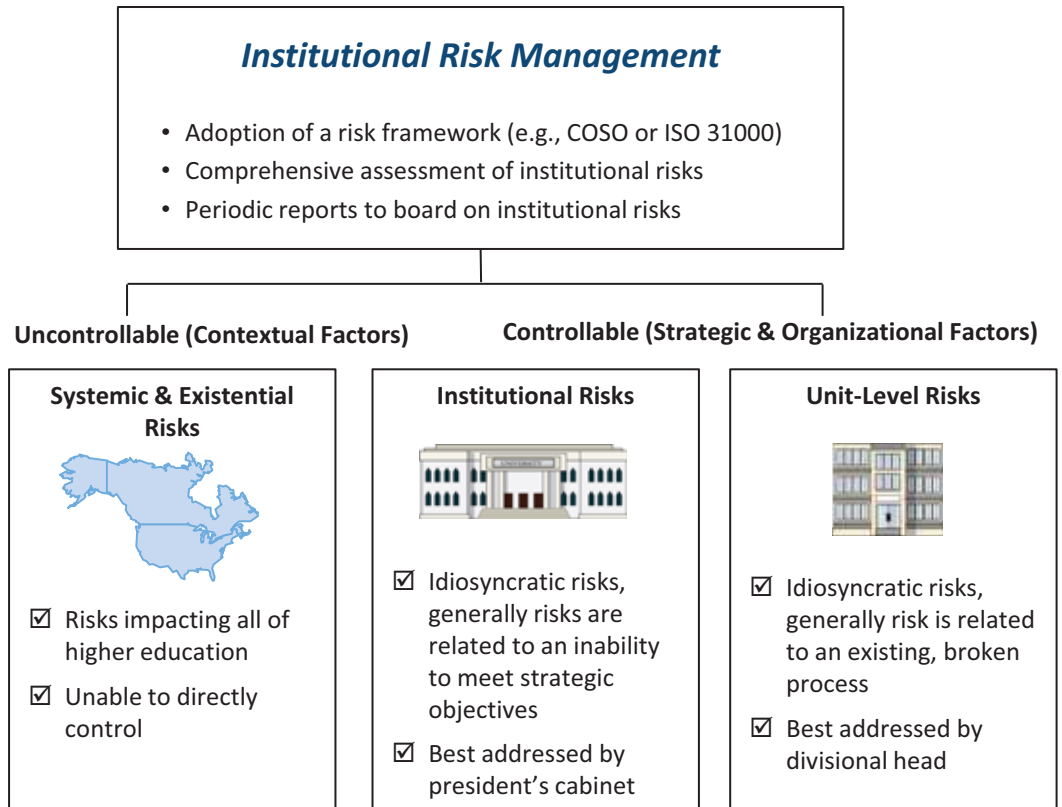
Clarifying Our Terms

Having identified the common challenges colleges and universities face in their deployment of institutional risk management, it is important to clarify some terms before discussing the best practices for addressing these challenges.

As previously mentioned, risk registers are often conflated — risks of varying altitudes are often included in the same risk register. On the right is an overview of the three risk “altitudes” identified by the Roundtable. The first category of risks are systemic and existential risks. These are uncontrollable risks that impact all of higher education and what many institutions refer to as “business model” risks.

Institutional risks, the second category, are idiosyncratic to an organization and are generally caused by the inability to fulfill an institutional objective. Unit-level risks, the third category, are also idiosyncratic to an organization but generally relate to an existing, broken process. Institutional risks are best addressed by the president’s cabinet whereas unit-level risks are best addressed by a unit head.

Our Working Definition of Institutional Risk Management





This Study's Focus: "De-averaging" ERM

A common sentiment heard by the Roundtable is that "ERM is like trying to eat an elephant, and I don't know where to begin." Our advice to members is to turn this daunting, monolithic initiative into a more manageable process by de-averaging the initiative into separate processes for systemic and existential, institutional, and unit-level risks.

The first benefit of de-averaging the initiative is that it helps avoid "risk paralysis" that takes place on most college campuses by creating a more palatable process. By segregating the risks into different processes, de-averaging provides an opportunity for key university executives (e.g., the president, provost, and chief business officer) to be clear about the risks that they are most interested in discussing and presenting to the board. De-averaging the initiative also sets boundaries for the risk identification process, allowing institutions to spend more time on risk treatment.

Reason #1 for De-averaging ERM Process: It Creates a Simpler, Manageable Process

Roundtable Research Identifies Method for Universities to Avoid a Negative NPV Project

Moving from an Inflated and Conflated Risk Initiative...

University Risk Register (Illustrative)

1. Sustainability of high-price/high-discount pricing model
2. HIPAA compliance
3. Research misconduct
4. Declining public perception of value of liberal arts degree
5. Laboratory safety lapses
6. Misappropriation of research grant costs
7. Unauthorized modification of data
8. Sustainability of student indebtedness levels
9. Inability to meet retention targets
10. Improper use of motor vehicles by students
11. Vandalism to university property
12. Failure to meet institutional enrollment targets
13. Inability to properly manage academic records
14. Inability to meet liquidity targets due to market fluctuations
-
300. Improper receipt /recording of gifts
301. Failure to comply with faculty hiring processes
302. Inappropriate use of university logo or insignia
303. Lack of compliance with smoking regulations

...to a Leaner and More Manageable Risk Initiative

Systemic & Existential Risks (>5%)

- Sustainability of high-price/high-discount pricing model
- Declining public perception of value of liberal arts degree
- Sustainability of student indebtedness levels

Institutional Risks (20%-30%)

- Failure to meet institutional enrollment targets
- Failure to meet retention targets
- Inability to meet liquidity targets due to market fluctuations
- Research misconduct

Unit-Level Risks (65%-75%)

- HIPAA compliance
- Laboratory safety lapses
- Misappropriation of research grant costs
- Unauthorized modification of data
- Improper use of motor vehicles by students
- Vandalism to university property
- Improper receipt/recording of gifts



Different Risks, Different Management Approaches

The second advantage of de-averaging institutional risk management is that it spotlights the different management approaches required for different risks.

Reason #2 for De-Averaging ERM Process: Different Risks Require Different Management Approaches

Taking a Page from Robert Kaplan's Risk Dimensions

	Systemic & Existential Risks	Institutional Risks	Unit-Level Risks
Risk Type	External, uncontrollable	Strategy execution	Primarily operational, compliance, and financial risk
Measurability	Low: Difficult to measure or estimate likelihood	Medium: Can estimate probability and impact	High: Can measure probability and impact
Risk Assessment Approaches	Risk envisionment scenarios; mental models	Risk maps with nominal scales	Control self assessment; diagnostic controls; operational loss databases
Risk Treatment Objective	Reduce impact should risk occur	Reduce likelihood and impact in a cost-efficient manner	Drive incidence of occurrence to zero
Risk Treatment Approaches	Scenario analysis; contingency planning	Risk reviews at strategy meetings; key risk indicator scorecards	Internal controls; establish policies/procedures; internal audit

Source: Kaplan, Robert S. and Anette Mikes, *Managing the Multiple Dimensions of Risk: Part I of a Two-Part Series*, Harvard Business Publishing; Education Advisory Board interviews and analysis.



Different Risks, Different Board Engagement Level

The third advantage of de-averaging institutional risk management is that it spotlights how different risks require different levels of board engagement.

Systemic and existential risks, for instance, are the risks that garner the highest level of board interest. Generally, boards want to roll up their sleeves and actively engage in discussions to identify and assess each possible systemic and existential risk. For institutional risks, board engagement is more tempered, with members primarily interested in knowing that the university has properly identified and assessed all institutional risks. Finally, for unit-level risks, board engagement is quite low, with board members simply wanting to know that administrators have processes in place to manage such risks.

Reason #3 for De-averaging ERM Process: Different Risks Require Different Board-Level Attention

Board Engagement Level by Risk Category

Risk Category	Sample Risks	Board Engagement
Systemic & Existential Risks (>5%)	<ul style="list-style-type: none"> Sustainability of high-price/high-discount pricing model Declining public perception of value of liberal arts degree Sustainability of student indebtedness levels 	High: Board wants to be actively engaged in identification and assessment of these risks
Institutional Risks (20%-30%)	<ul style="list-style-type: none"> Failure to meet institutional enrollment targets Failure to meet retention targets Inability to meet liquidity targets due to market fluctuations Research misconduct 	Medium: Board wants periodic updates to ensure proper assessment of risks and progress on risk treatment plans
Unit-Level Risks (65%-75%)	<ul style="list-style-type: none"> HIPAA compliance Laboratory safety lapses Misappropriation of research grant costs Unauthorized modification of data Improper use of motor vehicles by students Vandalism to university property Improper receipt/recording of gifts 	Low: Board wants to know management is managing these risks



Best Practices for a Practical Approach to Institutional Risk Management



A Practical Approach to Institutional Risk Management

Our best practices for implementing institutional risk management in a practical fashion are the product of over 120 conversations with chief business officers, risk managers, and their consultancies. Each of the best practices will be addressed in more detail in the following pages.

The Roundtable is thankful to each organization profiled in the study for sharing their best practices and lessons learned.

Getting Risk Right in an Era of Constrained Resources

I Structuring Ownership and Managing Board Oversight

- Practice #1: Targeted Risk Governance
- Practice #2: Role-Defining Board Charter

II Fast-Cycling Risk Identification

- Practice #3: Peer-Sourced Risk Register
- Practice #4: Independent Risk Identification Forum
- Practice #5: IT and Fixed Asset Interdependency Audit

III Assessing and Prioritizing Risks

- Practice #6: Multidimensional Impact Assessment
- Practice #7: Targeted Likelihood and Impact Assessment
- Practice #8: Risk Velocity Assessment

IV Increasing Campus Risk Awareness

- Practice #9: Academic-Friendly Risk Assessments
- Practice #10: Syndicated Risk Assessment & Treatment Worksheets
- Practice #11: Locally Embedded Risk Resources
- Practice #12: Risk Expert Directory
- Practice #13: Compliance Matrix Program

V Instilling Accountability and Incenting Action

- Practice #14: Key Risk Hearings
- Practice #15: Risk-Based Resource Allocation
- Practice #16: Control-Based Cyber Insurance

Profiled Institutions



Washington and Lee University



Emory University



University of Alberta



Southern Methodist University



Private Sector



Yale University



University of California System



Brown University



Texas A&M University



Duke University



University of Ottawa



University of North Carolina at Greensboro



I. Structuring Ownership and Managing Board Oversight

What's the governance structure we should deploy, and how should we manage board involvement in the process?

- Practice #1: Targeted Risk Governance
- Practice #2: Role-Defining Board Charter



Practice #1: Targeted Risk Governance

Typical University Challenge

Most institutions have one risk management committee with representatives addressing everything from strategic risks to operational and compliance risks. The committee's sweeping mandate coupled with wide disparities in the backgrounds of members leads to an unnecessarily slow vetting process and wasted time for both executives and frontline staff.

Best Practitioner Approach



Compilation of Institutions

Location: N/A

Progressive institutions opt for targeted risk discussions with key senior administrators to avoid a risk register that contains hundreds of "unit-level" risks.

Key Animating Principle

Risk discussions grounded in the university's strategic pillars ensures that initial risk identification discussions unearth systemic and institutional-level risks.



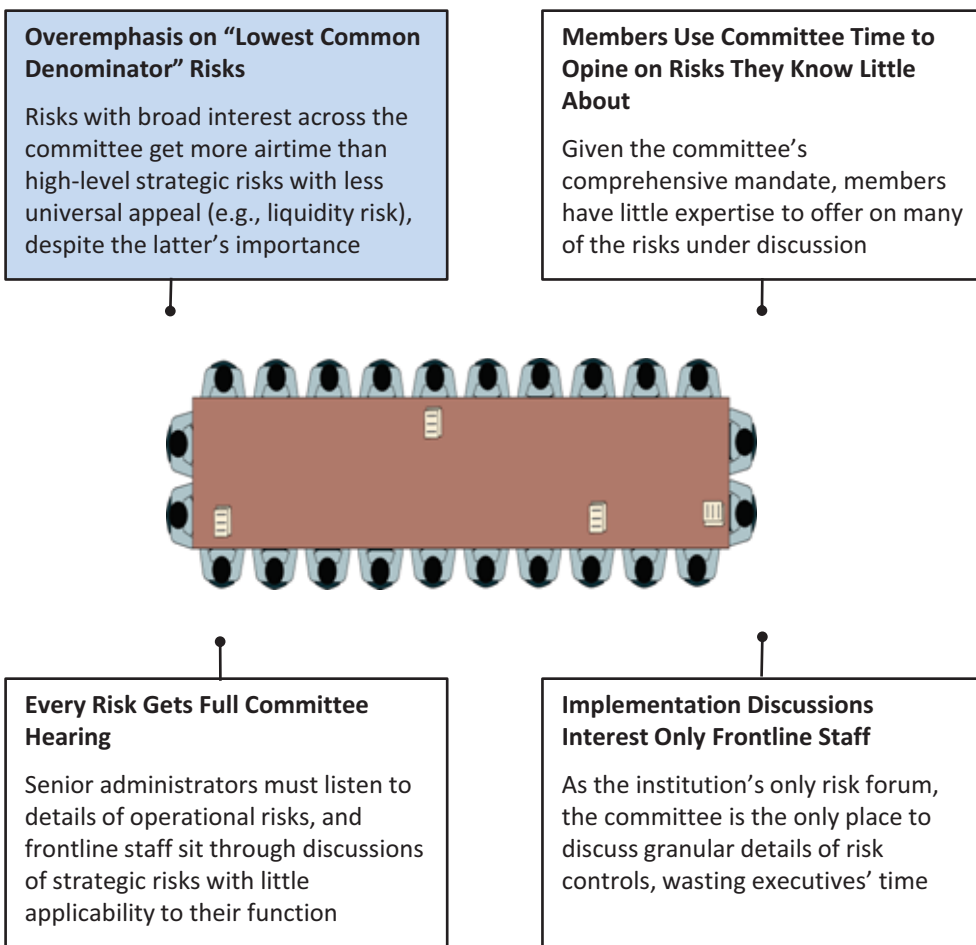
The Monolithic Risk Committee

One of the common pathologies bemoaned by university administrators is the monolithic risk committee. The average university launches institutional risk management by forming a large risk committee that includes individuals such as the chief business officer, facilities director, and campus life director (to name just a few). This type of governance structure can result in four “pain points,” as pictured here.

One of the largest “pain points” of the monolithic risk committee is the overemphasis on “lowest common denominator” risks. A disproportionate amount of time is spent discussing risks that impact most units even though they may not be the most important risks. Risks that fail to meet the lowest common denominator test, such as liquidity risk, often end up buried in committee discussions.

Pathologies of the Traditional (and Slow) Risk Committee

Common Pain Points



Not All Risks Merit Full Committee Attention

Sample Risks from College and University Risk Registers

- Use of extension cords at large campus events
- Failed exterior lighting on campus buildings
- Failure to properly process cash receipts for parking citations
- Loss of student exam results















Bypassing the Monolithic Risk Committee

Instead of opting for the traditional risk committee to spearhead risk discussions, progressive institutions opt for targeted discussions with key university executives. By limiting initial risk discussions to key senior administrators and grounding discussions in the university's strategic objectives, progressive institutions are able to bypass the unrealistic and unhelpful hundred-point risk register and start with a list of 30-40 key risks to the institution which helps jump start the ERM initiative.

Progressive Universities Trade Off Monolithic Risk Committee for Targeted Risk Discussions with Senior Administrators

Participants of Initial Risk Discussions

 Chancellor	 VC, Human Resources	 VC, Research
 VC and Provost	 VC, Advancement	 VC, Student Affairs
 VC, Finance and Administration	 VC, Medical Affairs	 VC, Communications
 VC, General Counsel	 VC, Information Technology	 VC, External Affairs

Risk Discussion Overview

Targeted Interviews...

- Initial risk discussions limited to President's/Chancellor's Cabinet (10-12 individuals)
- Individual interviews are conducted by risk officer
- Interviews are one hour in length

...Grounded in Strategic Objectives

- Risk discussions are limited to identifying key risks to strategic objectives¹
 - *Strategic Objective:* Increase 4-year graduation rate from 70% to 75%
 - *Risk:* Insufficient Gen Ed Courses to Meet Student Demand
- Risk identification is not limited to participant's functional area



Initial risk register consists of 30-40 risks

¹ Progressive institutions recommend limiting list of strategic objectives to ~15. Otherwise, it becomes difficult to limit risk discussion to one hour of participant's time



Practice #2: Role-Defining Board Charter

Typical University Challenge

Chief business officers are challenged to identify appropriate risk management roles and responsibilities of the board versus management.

Best Practitioner Approach



Emory University
Location: Atlanta, Georgia

Progressive institutions clearly delineate in board committee charters that oversight of the risk management process is the board's responsibility, while actual management of risks remains in the hands of management.

Key Animating Principle

Clearly written charter delineates board responsibilities and management responsibilities.



Questions (and Concerns) on Both Sides of the Aisle

When it comes to delineating the roles and responsibilities of management and the board, questions and concerns exist on both sides of the aisle.

On one hand, chief business officers struggle with appropriately identifying the board's responsibilities and obligations.

On the other hand, board members also wonder what their duties and obligations are once they've been informed of a risk, and if there's any possibility that they could be held legally responsible. (The latter question is especially of concern to colleges and universities that have voluntarily adopted portions of Sarbanes-Oxley).

Both CBOs and Board Members Have Questions Over Board's Involvement

Common Questions



CBO's Questions

- *What are the board's responsibilities in the risk management process?*
- *When should I alert the board of a risk, or a potential adverse event?*
- *How much information should I be sharing with them?*
- *What level of input should I seek from the board?*



Board's Questions

- *What are my duties and obligations once I've been informed of a risk?*
- *Could I be held legally responsible for an adverse event once I've been informed of a risk?*



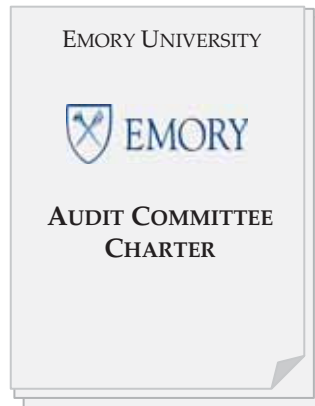
Clearly Delineating Responsibilities Before It's Too Late

To address the questions and concerns of the board and key university administrators, Emory revised its Audit Committee Charter to clearly delineate the responsibilities of management versus the Audit Committee.

Emory's revised Audit Committee Charter clearly spells out management's responsibilities: to manage risk, to determine when to involve the board, and to keep the Audit Committee informed of the top risks. The Audit Committee Charter also clarifies what the Audit Committee's responsibility is: to satisfy itself that management has an effective process for identifying and managing risks.

Emory's Audit Committee Charter Delineates Management and Board Responsibilities

Emory's Revised Audit Committee Charter



Management Responsibilities

1 Management Manages Risk
"Management is responsible for monitoring and managing risks."

2 Management Determines When to Involve Board
"Management will exercise its professional judgment in determining when to bring risks to board attention, which may be as risks evolve..."

3 Management Informs Audit Committee of Top Risks
"Management will provide the Audit Committee with a regular update on the ERM process including a ranked risk listing."

Audit Committee Responsibilities

4 Audit Committee Oversees Risk Management Process
"Audit Committee should review the [risk] listing and satisfy itself that management has an effective approach to identifying and managing risks."



Keeping the Board Informed of Risks

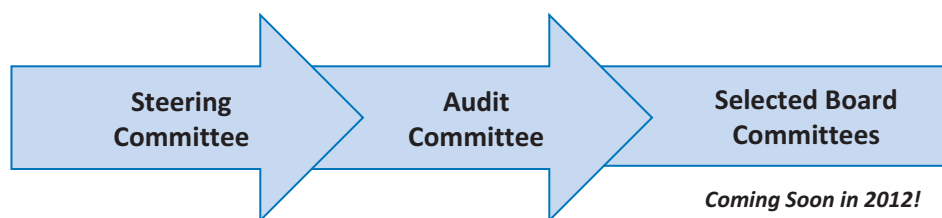
After revising the Audit Committee Charter and completing its risk identification and assessment process, Emory engages in three steps to keep the board informed of key risks.

First, the University ERM Steering Committee selects 50 key risks to report to the ERM University Executive Committee. The University Executive Committee approves the list of risks and sends it to the board's Audit Committee for review. Each of the 50 key risks is assigned to a risk owner on the Audit Committee.

Secondly, the Audit Committee reviews the 50 key risks annually.

Finally, in response to the argument that ERM should not be limited to the Audit Committee, Emory will—in 2012—begin to develop a formal mechanism to engage additional board committees. Emory's innovative approach to map each of the 50 key risks to a board committee ensures that formal mechanisms are in place to expand awareness in ERM beyond the Audit Committee.

Emory's Three-Step Process to Inform Its Board of Top Risks



- Steering Committee selects 50 key risks to report to Executive and Audit Committees and to monitor throughout the year
- Key risks are assigned to risk management process owners
- Steering and Executive Committees evaluate feasibility of risk mitigation plans



- Audit Committee reviews risks annually (beginning of fiscal year)
- More periodic updates can be provided at Audit Committee's request



- Each of the key risks is mapped to a board committee
- Individual meetings will be held with board committee to brief them on risk mitigation efforts



II. Fast-Cycling Risk Identification

How do we accelerate the risk identification process?

- Practice #3: Peer-Sourced Risk Register
- Practice #4: Independent Risk Identification Forum
- Practice #5: IT and Fixed Asset Interdependency Audit



Practice #3: Peer-Sourced Risk Register

Typical University Challenge

Many institutions spend months or even years conducting an exhaustive (and exhausting) risk identification process on their campus, only to come up with an unwieldy and overly detailed risk register. This is a very time-consuming approach and generally does not uncover any new risks that CBOs were not already aware of.

By the end of the process, the campus suffers from campaign fatigue, having spent significant time on risk identification, leaving little momentum for risk treatment.

Best Practitioner Approach



uOttawa

University of Ottawa
Location: Ottawa, Ontario

Progressive institutions fast-cycle the risk identification process by leveraging risk registers from peer institutions. The peer-sourced risk register is used as an initial straw man with campus representatives, with the objective of winnowing out risks that are not applicable to the institution and adding in risks not included in the straw man that are applicable to the institution.

Key Animating Principle

Risk registers pulled from peer institutions help engender trust and legitimacy among campus representatives about the initial straw man.



Don't Try This at Home

One of the Roundtable's most surprising findings is that although institutions may conduct hundreds of interviews with campus constituents and generate hundreds of risks through interviews (or questionnaires), few institutions feel it surfaces any new or insightful risks. Senior administrators often feel that the top 10 to 15 risks reported to the board after a lengthy risk identification process could have been short-cycled through a one-day brainstorming session with key senior administrators.

Traditional Risk Identification Efforts Require Lots of Time but Lead to Few Insights

Traditional Risk Identification Process



Hundreds of Interviews...

- Institution spends 18-24 months interviewing executives, directors, and frontline managers, asking, "what keeps you up at night?"



...Surfacing Hundreds of Risks...

- Lack of risk thresholds result in identification of risks of low magnitude (i.e., everything but the kitchen sink is identified as a risk) creating risk register inflation
- Institution surfaces 200-500 risks at institution- and unit-level



...But Little Value Added

Great Effort, Small Gain

"We spent approximately 18 months conducting risk interviews and surveys with over 100 campus employees. While the process raised awareness among campus constituents about the prevalence of risks beyond their silos, it didn't surface any new institutional level risks—nothing that our president, provost, and I couldn't have identified on our own."

*Associate Vice Chancellor
Public Research University*



Do Try This at Home

The University of Ottawa fast-cycled its risk identification process by creating a peer-sourced risk register that consisted of the top 30 risks from two peer institutions.

A peer-sourced risk register can be used as a straw man for campus representatives, with the objective of cutting risks that are not applicable and adding risks idiosyncratic to the institution.

Peer-Sourced Risk Register Fast Cycles Risk Identification, Leaving More Time for Risk Treatment

Creating a Risk Register Straw Man...



...And Vetting with Stakeholders



Peer-sourced risk register is used as a straw man for risk committee with an emphasis on identifying:

- Are there risks that aren't applicable to our campus?
- Are there risks that are idiosyncratic to our institution and not reflected in the initial straw man?



To help speed the risk identification process, the Roundtable developed a peer-sourced register utilizing the risk registers reviewed during our research. The risk register straw man is included in the appendix.



Practice #4: Independent Risk Identification Forum

Typical University Challenge

Institutions rely on internal stakeholders to identify institutional risks, often missing or miscalculating key external risks not readily identifiable from within the four walls of the campus (e.g., liquidity risk before the financial meltdown).

Best Practitioner Approach



University of Alberta
Location: Edmonton, Alberta

The University of Alberta holds an annual expert forum to review institutional strategy and risks. The experts, mostly from outside the university, bring a fresh set of eyes and unbiased perspective to key areas of university risk, in particular identifying important external developments that could affect the university.

Key Animating Principle

The combination of expertise and outsider status means the forum can render both well-informed and frank assessments of top external risks to the institution.



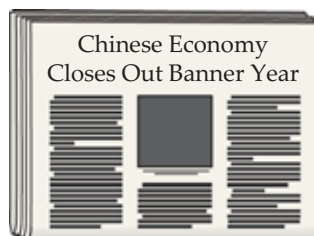
Noise versus News

Even having fast-cycled the risk identification process by leveraging a peer-sourced risk register, doubts as to whether every major risk has been identified still exist; an institution's risk register is only as good as its peers' ability to identify risks.

Instead of having risk committees spend countless hours identifying "known unknown" risks that were not included on a peer-sourced risk register, a greater-value-added exercise would be to have independent experts review and vet the list, and to use their expertise to identify external developments with institutional risk implications.

Campus Leaders Face Tough Task of Evaluating Risk Implications of External Developments

No Shortage of Headlines...



...But Questions Remain

Critical Questions for the Institution

- ? **What's just hype**, and which external developments have the potential to significantly affect us (negatively or positively)?
- ? What are the big **shifts in the industry** that aren't making the headlines?
- ? What are the major external **threats to the success of our new programs**?
- ? Can we trust the **economic and demographic assumptions** we're making in our short- and long-term planning processes?



Getting the Inside Scoop on Outside Trends

To help understand the risk implications of external developments, the University of Alberta's risk management department formed an independent risk identification forum to get the inside scoop on outside trends.

The annual forum is composed of six to eight members. Pictured on the right are the experts from the University of Alberta's 2011 risk expert forum. There are three categories of experts that attend each annual forum: economic experts, government affairs experts, and private sector experts.

The primary role of the economic experts is to share information on macroeconomic trends that could impact the university and provide assurance on the reasonableness of financial risks. The government affairs experts help explain the implications of recent or upcoming changes on national or provincial higher education policy. Finally, the private sector experts generally opine on business trends impacting the province and university. The private sector experts rotate each year based on institutional objectives (e.g., if the university is interested in increasing collaborations with China, the selected private sector experts have an expertise on China affairs).

Expert Forum Provides Insight into Risks Beyond the Campus' Four Walls

University of Alberta's 2011 Independent Risk Identification Forum



Economic Experts



Craig Wright
Chief Economist
Royal Bank of
Canada



Leo de Bever
CEO
Alberta Investment
Management
Corporation

Role

- Verify investment and interest income assumptions in budget
- Share information on macroeconomic trends globally and in the province

Government Affairs Experts



David Trick
Former Assistant Deputy
Minister for
Postsecondary Education,
Ontario

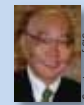


Roger Gibbins
President and CEO
Canada West
Foundation¹

Role

- Verify provincial funding and regulatory assumptions
- Describe implications of latest changes to national and provincial higher education policy

Private Sector Experts



Felix Chee
Chief Representative,
China Investment
Corp., Toronto Office



Gordon Houlden
Director
University of Alberta
China Institute

Role

- Opine on business trends (e.g., oil and gas price levels) affecting the province and university
- Help build awareness in the business community of university activities

Private Sector Experts Rotate Year to Year Based on Institutional Objectives

¹ The Canada West Foundation is a non-partisan think tank dedicated to researching and voicing issues of concern to western Canadians.



Recruiting a Risk Expert

Recognizing the difficulty of recruiting risk experts to one's campus, pictured on the right is the University of Alberta's "off-the-cuff" advice to forming a blue-ribbon independent expert forum.

Approximately 20 to 25 invitations are sent to experts each year with the expectation that half will accept and two-thirds of these will attend. The University of Alberta does not offer an honorarium, but it does reimburse travel and out-of-pocket expenses.

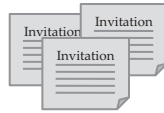
The invitations are sent from the desks of various senior leaders across the campus, ranging from the president to the chief development officer, taking into account the prominence of the expert and previously existing relationships.

Finally, the forum is conducted over one day, which limits experts' time commitment.

University of Alberta's "How to" Guide on Recruiting Risk Experts

Getting Them There

Cast a Wide Net



- 20 to 25 invitations issued, with expectation that half will accept and two-thirds will attend
- No honoraria are offered
- Compensation is limited to travel reimbursement and out-of-pocket expenses

Leverage Institution's Senior Leadership



- Depending on the prominence of the expert or existing relationships with campus personnel, the invitation may be issued by:
- Provost
 - VP for Finance and Administration
 - Chief Development Officer
 - President

Limit Participants' Time Obligation



Forum requires only one day of participants' time, limiting time away from office



Win-Win-Win Value Proposition

At the University of Alberta, the independent expert forum has yielded multiple benefits. Not only has the expert forum achieved its initial goal of identifying the “known unknowns,” but it has also helped the university validate its risk assumptions, particularly related to financial risks.

Finally, the independent expert forum helps instill confidence about the validity of the risks among the board and internal stakeholders. The board, faculty and staff are assured that the risks have been vetted by external stakeholders.

Independent Risk Forum Unearths New Risks, Validates Assumptions, and Engenders Confidence

1 Surfacing the “Known Unknowns”

New Risks (Illustrative)

- Changes in adult student demographics** could hurt enrollment in online courses
- Changes to provincial support** could help some research areas while cutting funds for others

2 Validating Risk Assumptions

Budget Drivers

- Interest Rates & Investment Income Impact
- Construction Labor Shortage & Capital Cost Impact
- Oil Prices & Provincial Appropriation Impact

3 Instilling Confidence at Unit and Board Level Through Expert Vetting

Faculty Association

Staff Administrators

Board of Governors



Practice #5: IT and Fixed Asset Interdependency Audit

Typical University Challenge

Few institutions have the ability to identify interdependencies between buildings or IT systems in case of an adverse event, leading to an inability to prioritize responses after a major event and a longer and more expensive recovery.

Best Practitioner Approach



SMU

Southern Methodist University

Location: Dallas, Texas

Southern Methodist University conducted a business impact analysis of their IT and fixed assets, identifying interdependencies and predicting institutional costs of a major risk failure.

Key Animating Principle

Institution-wide, centrally led approach means administrators can identify interdependent risks and are armed with sufficient information to rationally prioritize post-event responses.



Not Enough Spots in the Life Boat

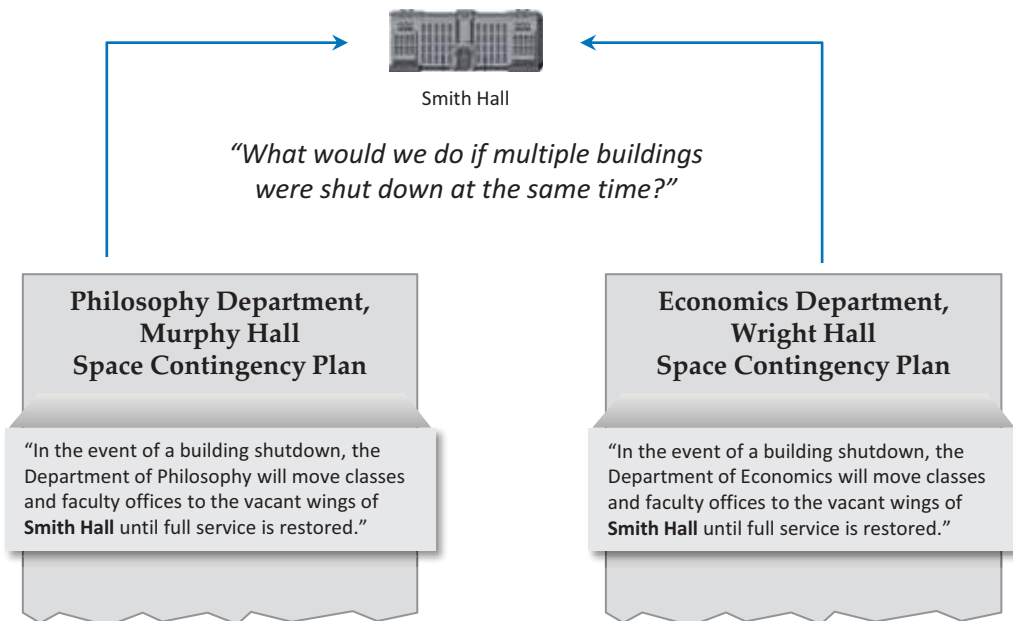
Identifying fixed asset risks requires more than asking campus constituents: “What fixed asset risks keep you up at night?” While many universities have developed space contingency plans at the department or college level, most universities lack a coordinating mechanism to identify conflicts between such plans.

For example, multiple academic or administrative units often designate the same building as their backup space in case current facilities become unusable (e.g., from flood or storm damage). However, in the event that multiple facilities across campus shut down, the backup plans conflict, leaving the institution scrambling to improvise a solution (which is often quite expensive or disruptive). In addition, as the recession has significantly dampened new building construction (while enrollment has continued to grow), administrators have far less flexibility with which to handle a sudden, unplanned need for temporary space.

Seemingly Sound Preparedness Plans for Fixed Assets

Have Potential to Clash

Illustrative Space Contingency Plans



Campus Space Crunch Adds New Urgency to An Old Problem

“Coordinating contingency plans for space usage has always been an issue in higher ed. What’s different now is that, due to the growing ‘space crunch,’ campuses have less and less free space available to use in a pinch.”

*Risk Manager
Private University*



Who Gets “Rebooted” First?

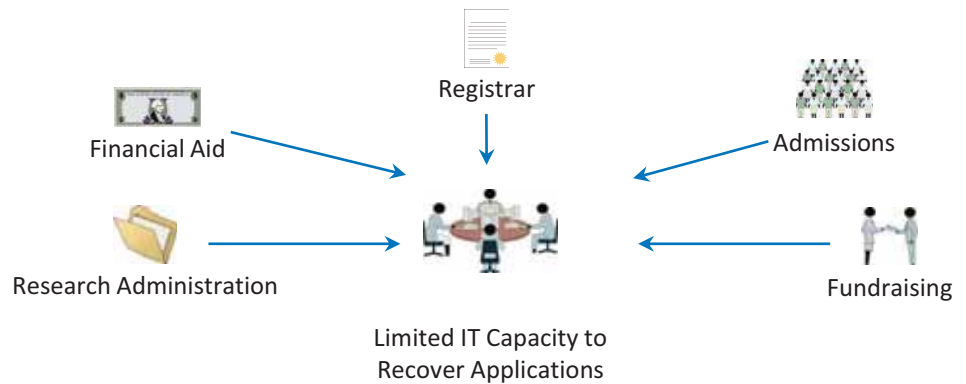
While IT solutions for most core administrative functions have been commonplace in higher education for about two decades, recent years have seen the development of centralized, interlocking systems that require continuous functionality to keep the institution running.

These IT systems face an array of internal and external threats, including damage to physical infrastructure, disruptions from security breaches, and power loss. Often, multiple systems can be adversely affected by a single event, leaving the institution’s IT leaders fielding numerous pleas for repairs and reset assistance, all seemingly urgent. The typical institution is not prepared to prioritize these demands and is forced to rely on intuition, anecdotal evidence, or other similarly subjective methods, potentially resulting in large performance and financial losses, as well as widespread campus discontent.

When Information Technology Vulnerabilities Aren’t Quantified, Campus Leaders Can’t Prioritize Recovery Efforts

Illustrative Units Experiencing IT Disruption

“What would we do if multiple business applications went down at the same time?”



Not measured at most institutions:

- **Operational and service impact** on key functions if an application is down for 48 hours or more
- **Per hour or per day cost** to the institution for an outage of each business application
- **“High impact periods”** during the year in which outages would have greater negative effect on certain functions (e.g., admissions in January)



Business Impact Analysis: A Three-Step Approach

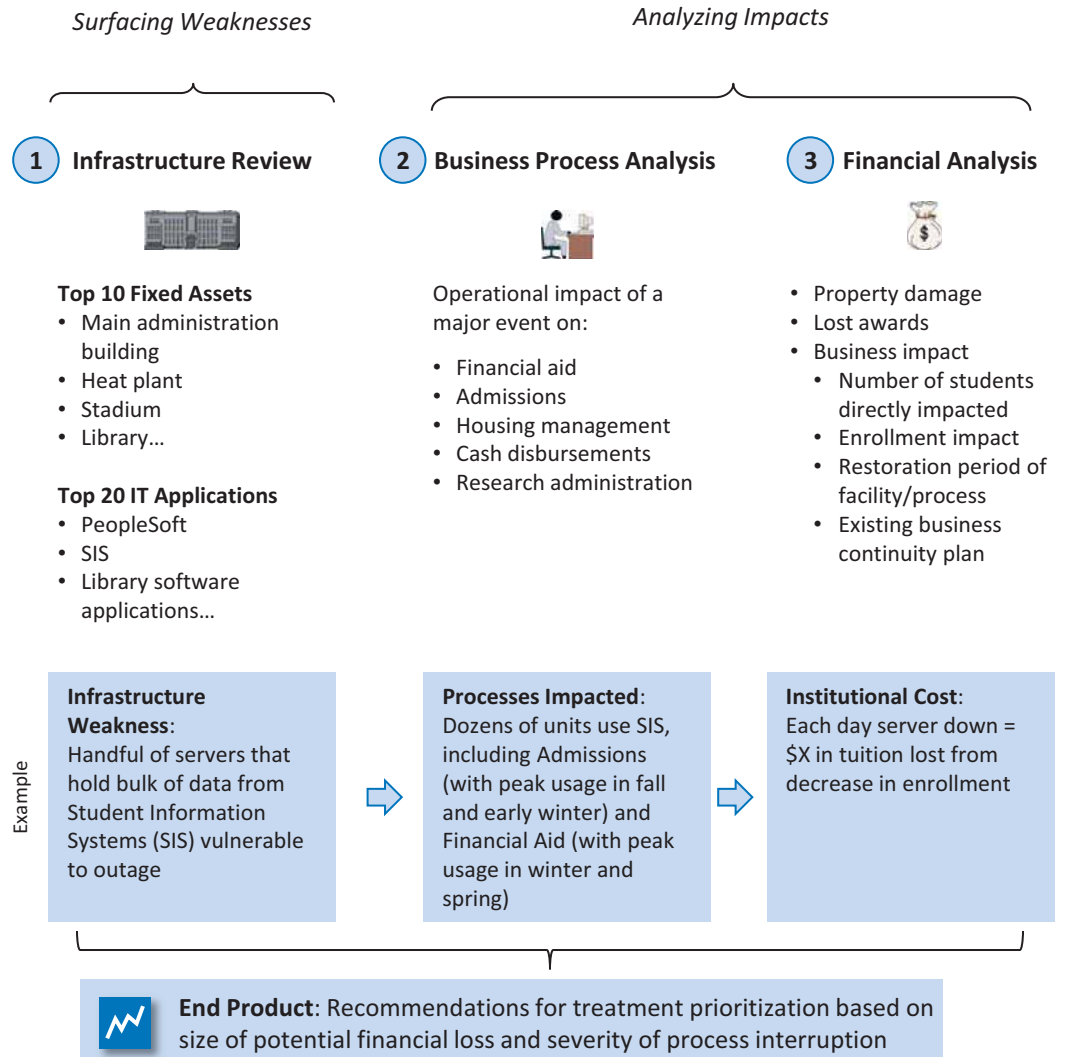
Progressive institutions conduct a business impact analysis to identify the consequences of adverse events on the campus's IT or fixed assets, measuring 1) impacts to business processes on campus and 2) estimated financial costs from each of the potential threats.

To perform the analysis, institutions use the existing institutional risk register and identify all risks that could potentially threaten campus facilities or IT functionality. Next, the executive risk committee (cabinet-level) estimates the various business impacts of each risk, with each member responsible for estimating impacts within his or her division. The members consult with unit-level experts as needed for operational-level detail.

In this way, the analysis moves beyond a simple inventory of potential threats toward a more complete understanding of a risk event's consequences for critical university functions.

Spotlighting the "First Recovery" Needs of Critical IT and Fixed Assets

Three Key Ingredients of a Business Impact Analysis



Note: Example is illustrative only.



Centrally Led Audit Identifies Conflicts and True Costs

After conducting a business impact analysis, Southern Methodist University possessed a trove of information and data on potential risk scenarios and on how each would interrupt key business processes. This information served to facilitate a rational discussion around how best to respond to each event, based on which units needed help the most and/or the fastest ways to minimize negative effects on the institution as a whole.

Having robust, data-driven contingency priorities in place before an adverse event can mean the difference between a fairly smooth, low-cost recovery and a haphazard, drawn-out, expensive, and contentious one.

Business Impact Analysis Allows Rational Discussion Beforehand and Avoids Scramble Later

Business Impact Analysis Yields Valuable Insights

Risk Category	Risk Sub-Category	Cost and Business Impact Assessment (Illustrative)		University Decision (Illustrative)
Physical Plant and Facilities	Physical Plant	Student Housing: •\$,\$\$\$ to restore power •XXX students in affected dorm	Research Labs: •\$,\$\$\$ to restore power •\$\$\$\$,\$\$\$ in lost research data •X years of lost effort	Student housing receives backup power priority when classes are in session during hot-weather months; Sensitive research labs always receive continuous power
	Space Usage	School of Engineering: •\$,\$\$\$ in research awards lost from bldg shutdown •XX research collaborations impacted from shutdown	College of Humanities and Sciences: •\$,\$\$\$ in research awards lost from bldg shutdown •XX research collaborations impacted from shutdown	University negotiates on behalf of specialized lab and engineering buildings for contingency space at other nearby campuses; Humanities and sciences units are responsible for developing their own plans
Information Technology	Business Applications	Admissions Software: •\$,\$\$\$ to recover •XX accepted students lost, by season	Financial Aid Software: •\$,\$\$\$ to recover •XX accepted students lost, by season	Admissions receives top recovery priority in fall and early winter months; Financial Aid receives priority in winter and spring



Result: University decision makers have needed information to intelligently reconcile conflicting priorities



Provider Profiles¹



FM Global, a worldwide insurance and loss control services firm, offers Business Impact Analyses as part of their insurance package with some clients, including universities and colleges.



Business Continuity Consultants International provides analysis and advice on risk reduction and recovery planning around business continuity issues, including IT.

¹ These providers were utilized by Southern Methodist University and are included for informational purposes. Education Advisory Board does not endorse any providers.



III. Assessing and Prioritizing Risks

With lean administrative resources, how do we prioritize the risks that need the most attention?

- Practice #6: Multidimensional Impact Assessment
- Practice #7: Targeted Likelihood and Impact Assessment
- Practice #8: Risk Velocity Assessment



Practice #6: Multidimensional Impact Assessment

Typical University Challenge

Institutions find it difficult to obtain agreement on how to define low-, medium-, and high-impact risks, considering the multiple “bottom lines” higher education has compared to the private sector.

Best Practitioner Approach



BROWN

Brown University

Location: Providence, Rhode Island

As part of its risk assessment process, Brown University moved past the one-dimensional “impact” analysis and developed three impact metrics – human, asset, and mission impact. This allows the risk committee to evaluate each risk along each impact dimension.

Key Animating Principle

Clear definitions of various institutional impacts (e.g., human, asset, and mission) alleviates committee debates over “what’s most important to the institution?”

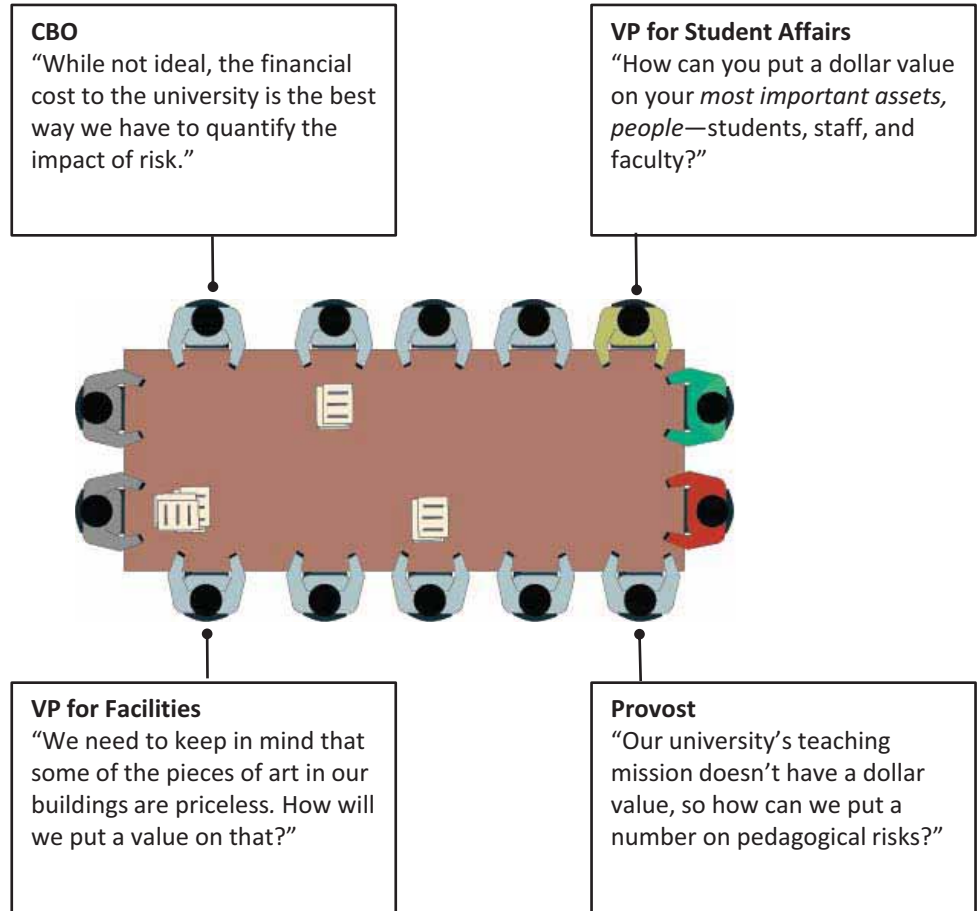


A Difference of Opinion

At most colleges and universities, the traditional method used to assess risk is to determine the likelihood and impact of each risk failure. While it might be feasible for private sector companies to assess the impact of each risk using a common financial definition—whether it be net income, earnings per share, or market share—it is not as simple for colleges and universities. As multi-bottom line organizations, colleges and universities have to consider not only financial impact, but also impact to mission and community goodwill. Therefore, it becomes difficult to develop a standard definition for “impact” that can be used to analyze each identified risk in risk prioritization discussions.

Unlike Private Sector, Higher Ed Has Multiple Bottom Lines

Fierce Debates Over What’s a “Priority” in Risk Discussions

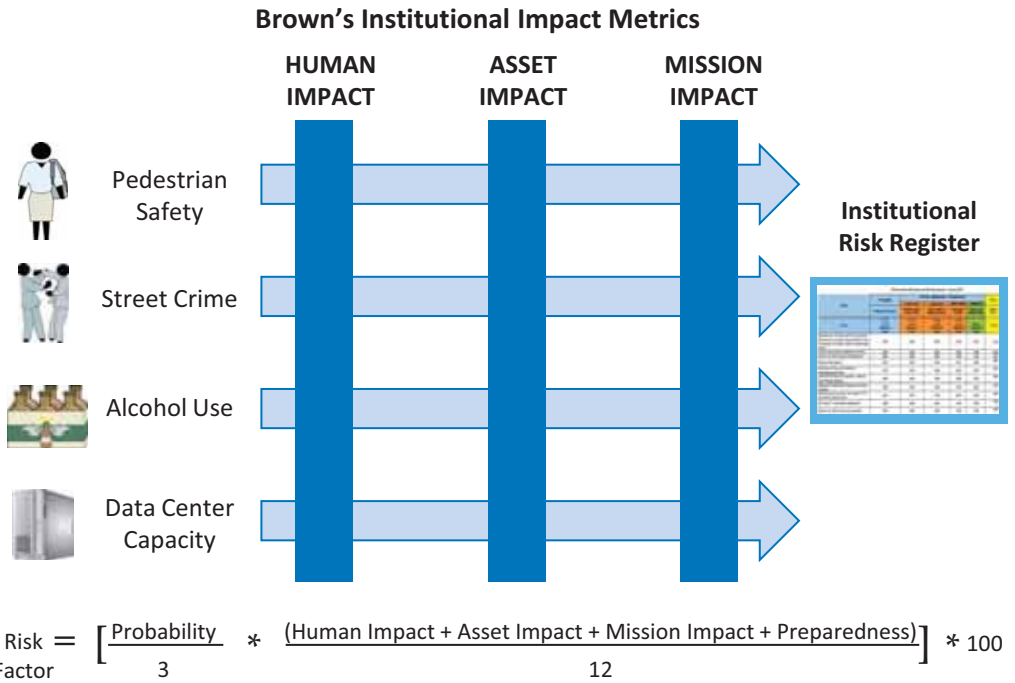




Assessing Risks Based on Various Impacts

Recognizing that “impact” can have multiple definitions, Brown University gives credence to each form of impact by assessing risks based on various characteristics. Each risk is assessed based on human impact, asset impact (i.e., physical asset or financial impact), and mission impact.

Brown’s Risk Prioritization Gives Weight (and Credence) to Different-in-Kind Impacts



In addition to giving credence to different forms of impact, Brown also provides a common definition for each impact metric to avoid confusion and provide a common language for all stakeholders.

Clarifying “Impact” by Providing a Common Definition

Brown’s Risk Assessment Definitions

Human Impact	Asset Impact	Mission Impact
Possibility of injury, illness, or death to Brown community members, visitors, or guests	Physical and/or financial losses and damages to campus facilities, infrastructure, reputation, and/or balance sheet	The disruption of and/or adverse impact of University operations, including the essential mission of research and teaching
0 = Not Applicable 1 = Injuries are treatable with first aid 2 = Injuries/illnesses treatable with medical care, injuries do not result in permanent disability or disfigurement 3 = Injuries lead to permanent disability, disfigurement, and/or death	0 = Not Applicable 1 = Isolated, minimal damage or loss, or none at all 2 = Sporadic damage or loss to building and facilities and/or other assets, including reputational damage 3 = Widespread, critical financial loss and/or damage to buildings, infrastructure, and/or other assets, including reputational damage	0 = Not Applicable 1 = No disruption or adverse impact to University operations 2 = Faculty, students, staff temporarily unable to carry out University operations 3 = Significant damage to campus and/or loss of other essential facilities or people requiring temporary or permanent suspension of normal daily University operations



Practice #7: Targeted Likelihood and Impact Assessment

Typical University Challenge

Senior administrators on risk committees tend to underestimate likelihood of risks, while frontline staff tend to overestimate impact, burying important operational risks while elevating unit-level concerns.

Best Practitioner Approach



Yale University
Location: New Haven, Connecticut

Yale University asks frontline managers and staff to assess the likelihood of risk failures while senior administrators separately assess the institutional impact of those same risks.

Key Animating Principle

Staff are asked only to assess the aspect of risk with which they are most familiar.



No One's an Expert in Everything

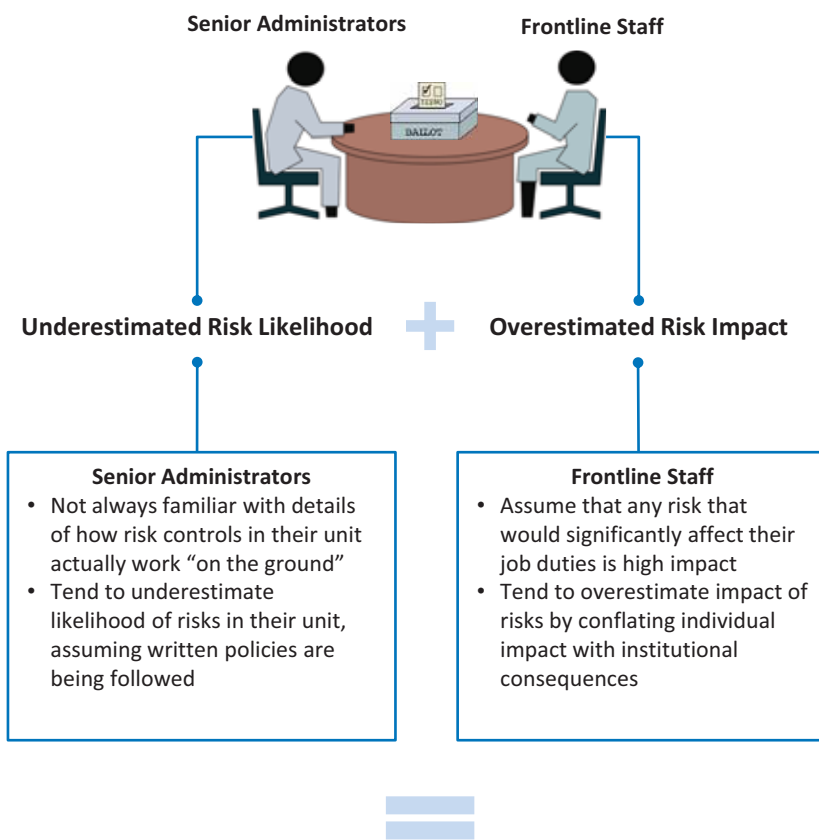
Recognizing that no one is an expert in everything and that personal biases may skew assessment results, colleges and universities face multiple challenges in the risk assessment process.

On one hand, when senior administrators opine on the likelihood of risks—especially unit-level risks—they often underestimate the likelihood of risks due to unfamiliarity with the operational details of each risk. They assume that written policies and procedures are being followed or might be unaware of weaknesses in internal controls. On the other hand, frontline staff have a tendency to overestimate risk impact, often conflating individual impact with institutional impact.

Therefore, in the initial risk prioritization process, many colleges and universities experience a clustering of low likelihood and high impact risks on their heat map.

Biases in Traditional Risk Assessment Skew Results

Pitfalls of Average Risk Assessment Process



Risk Clustering

	Low	<i>Impact</i>	High
High			
Low			

Bias Towards Low Likelihood, High Impact Events

- Potential to miss important risks or overemphasize minor threats
- Hard to begin mitigation initiatives, not knowing in what areas to focus investment



Different Eyes for Different Risk Components

To address potential complications with risk assessment, Yale University utilizes a targeted likelihood and impact assessment methodology. The targeted likelihood and impact assessment ensures that senior administrators and frontline staff address only what they know best.

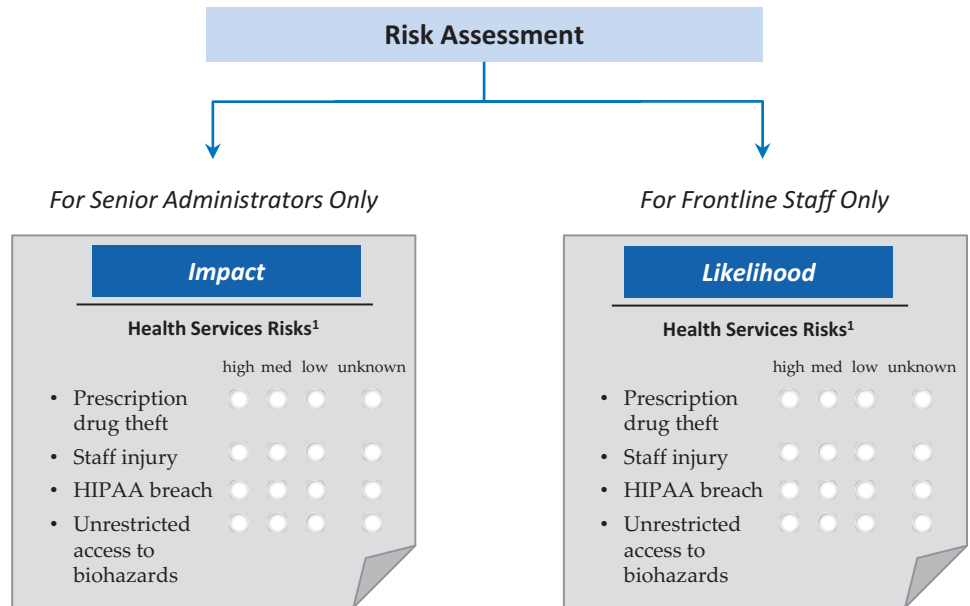
For (most of) the risks identified at Yale University, assessment is handled through a targeted process. Frontline staff receive a risk assessment survey asking them to opine only on the *likelihood* of the risks in their functional area, recognizing they have most familiarity with weaknesses in internal controls. Senior administrators are asked to assess the same set of risks but with a focus on institutional *impact*.

Senior Administrators and Frontline Staff Assess Only What They Know Best

Yale's Triaged Risk Assessment Survey



Yale University



Developing the Risk Likelihood Survey

A Deeper Dive into the Assessment Process

Survey Development Tips from Yale



Yale University

Improve Outcomes

- Survey-takers evaluate risks in their area only (10 total areas across the university)
- Survey includes an “I don’t know” option so survey-takers aren’t forced to make up answers

Limit Time Responsibility

- Survey-takers evaluate 40 risks or fewer

Increase Participation

- Area leaders (not Risk Management) send survey to all employees in their area
- Survey avoids use of first-person to assure survey-takers that they are not evaluating themselves

Identify Gaps in Risk Perspectives

- Individuals remain anonymous, but results can be analyzed by job type, including management, clerical, and student

1 Risks listed are for illustration purposes only.



Priorities Set Aright

By creating a targeted likelihood and impact assessment process, Yale is able to ensure that its prioritized list of risks is set appropriately. As pictured on the right, a targeted assessment model can help an institution set risk priorities aright. Under the old assessment methodology, senior administrators may have attributed a low likelihood to the risk of prescription drug theft assuming that cabinet and lab locking policies were being followed. However, by using a targeted assessment approach, frontline staff are able to assign a higher likelihood score recognizing that valuable cancer treatment drugs are not being properly safeguarded. Therefore, this risk moves up on the risk register for the health services group.

In addition to correcting for risk likelihood, the targeted assessment process also corrects risk impact assessments. Under the old assessment model, frontline staff would have assigned high impact to the risk of staff injury by conflating personal impact with institutional impact. However, senior administrators—having more insight into worker’s compensation claims—are able to analyze claims data and assign a more precise institutional impact score.

Targeted Assessment Model Re-orders Risk Register

Benefits of Targeted Assessment

Correcting Risk Likelihood Measurements

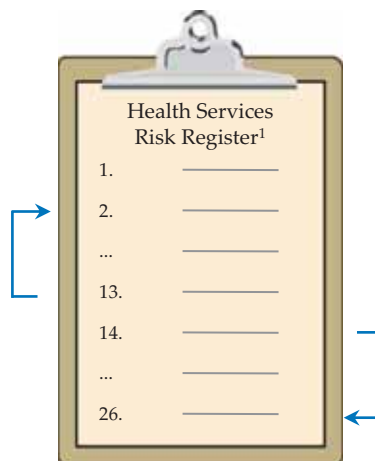


Prescription Drug Theft¹

What Senior Administrators Miss:
Assume cabinet and lab locking policies are being followed

What Survey Reveals:
Frontline staff know that valuable cancer treatment drugs are not properly safeguarded

Position After Reprioritization:
Moves up
(Higher likelihood score)



Correcting Risk Impact Measurements



Staff Injury¹

What Frontline Staff Miss:
Staff are dissatisfied with new, larger bio waste receptacles, and conflate personal impact with institutional impact

What Survey Reveals:
Senior administrators know workers’ comp claims have remained stable since introduction of new receptacles

Position After Reprioritization:
Moves down
(Lower impact score)

- **What Moves Down:** Risks that impact the satisfaction or safety of frontline employees but don’t require enterprise-level attention
- **What Moves Up:** Risks for which senior administrators underestimate likelihood because they assumed proper safeguards and controls were in place

¹ Risks listed are for illustration purposes only.



Practice #8: Risk Velocity Assessment

Typical University Challenge

Colleges and universities overinvest in mitigating risk items which may naturally decrease over time, or miss risks that will likely trend up in the future.

Best Practitioner Approach



Private Sector
Location: N/A

Private sector corporations include “risk velocity” in their risk prioritization, which asks risk administrators to estimate those risks that have the highest speed of onset.

Key Animating Principle

Risk velocity factors are applied to a finite period, generally two to five years.



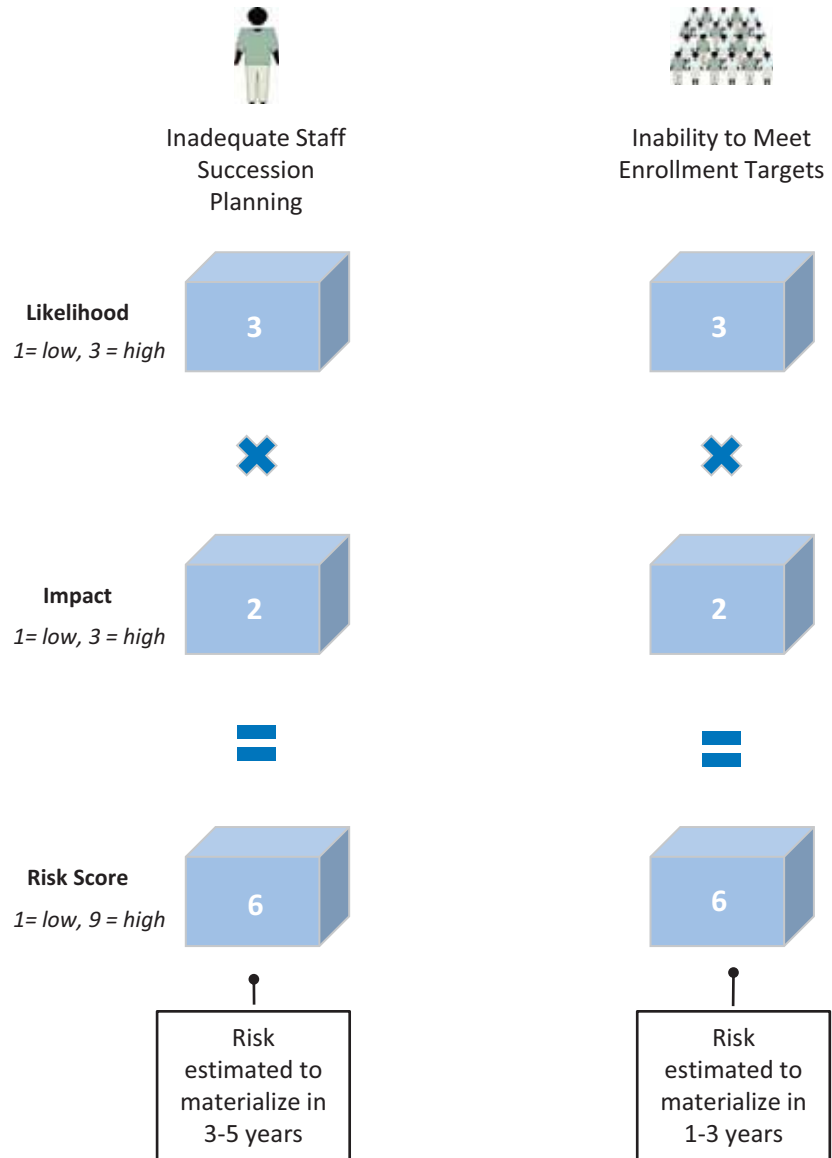
When Everything Seems a Priority

The average university generally uses two assessment metrics: likelihood and impact. Unfortunately, this can result in every risk seeming like a priority.

Looking at the graphic presented here, assume that a campus has identified two risks: (1) inadequate staff succession planning and (2) the inability to meet enrollment targets. Assuming the campus assigns high likelihood scores and medium impact scores to both risks, both risks receive the same overall risk score. By limiting assessment to likelihood and impact, however, they ignore the timing of the risks: one may have a faster onset than the other. The outcome of the traditional assessment method is that the institution splits its scarce administrative resources between both risks.

Universities' Traditional Assessment Method Fails to Account for Risk Velocity

Average University's Risk Assessment Metrics



Outcome: Risks receive same risk score and institution forced to deploy scarce administrative resources to both risks.



Spotlighting Urgency

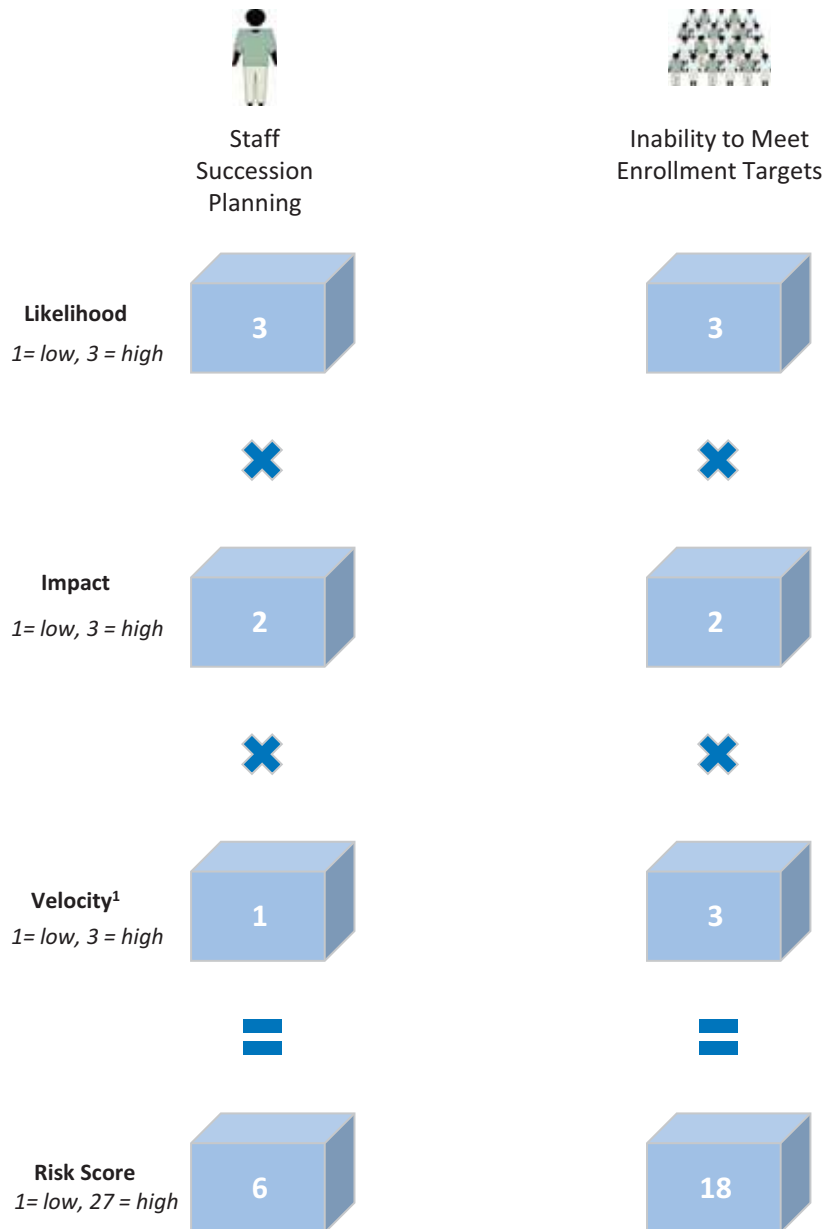
To spotlight the risks that are most urgent and, therefore, to rationalize the deployment of scarce administrative resources toward risk treatment, universities should include “risk velocity” as a risk assessment metric.

Risk velocity measures the speed of onset of a risk. In short, it answers the question: “How quickly do we expect the risk to manifest itself on our campus?”

By incorporating risk velocity into the assessment process, the most urgent risks receive the most attention—in this case, the inability to meet enrollment targets. For colleges and universities with scarce administrative resources, the Roundtable highly recommends utilizing risk velocity to help inform the deployment of scarce resources.

Risk Velocity Helps Identify Risks That Need Immediate Attention

Progressive University’s Risk Assessment Metrics



Outcome: Institution focuses scarce administrative resources on enrollment target risk.

¹ Risk velocity is defined as speed of onset.



IV. Increasing Campus Risk Awareness

How do we ensure that local units are aware of risk implications of their decisions?

- Practice #9: Academic-Friendly Risk Assessment
- Practice #10: Syndicated Risk Assessment and Treatment Worksheets
- Practice #11: Locally Embedded Risk Resources
- Practice #12: Risk Expert Directory
- Practice #13: Compliance Matrix Program



Practice #9: Academic-Friendly Risk Assessments

Typical University Challenge

Unit-level faculty, deans, and administrators often perceive risk measurement efforts as simply a method to kill their initiatives. As such, these stakeholders quickly become disenfranchised from participating in risk management initiatives.

Best Practitioner Approach



University of North Carolina at Greensboro
Location: Greensboro, North Carolina

To modify the perception of risk management as simply an “initiative killer,” the University of North Carolina at Greensboro created a reverse side to their risk matrix for “opportunity” likelihood and impact to complement the risk likelihood and impact. This gives academic administrators and faculty the chance to communicate to senior administrators what opportunities would be missed if they did not undertake the initiative. This approach helped academic administrators come on board with the idea of completing their own risk assessments.

Key Animating Principle

Simple, intuitive approach allows academic administrators to make a fuller “business case” for their initiatives, rather than focusing exclusively on downsides.



Different Perspectives

Many colleges find it difficult to engage local units in risk assessment as risk management is often seen as an “initiative killer.” When risk managers ask local units for a balanced and objective risk assessment, academic administrators see only a process that serves as an obstacle to their beloved and important programs.

Idea of “Risk Management” Encounters Entrenched Faculty Skepticism

Perceptions of Risk Assessments

What Risk Management Asks For...



Balanced Risk Assessment

- Risk manager wants detailed risk assessments of departmental initiatives
- Assessments will be used to determine which units might need assistance in treating their risk exposure

What Faculty Hear...



Risk Manager



Faculty

- “Risk Management is just out to rain on my parade and kill my prized program!”
- “Listing out my risks will only help their case.”
- “We’ll miss out on big opportunities if this project is shut down. Risk Management doesn’t understand this!”
- “So, I’d better not do a risk assessment or, if I do, I’ll just intentionally underestimate risks.”



Both Sides of the Coin


By listening to faculty and academic administrators, risk managers at the University of North Carolina at Greensboro were able to create a risk assessment template that incorporates both viewpoints. While most risk assessments ask local units to list only potential risks, UNC Greensboro also allows faculty and academic administrators to identify the potential benefits to the institution.

On the right is the Department of Kinesiology’s abbreviated risk assessment, which assesses the implications of acquiring a women’s sport journal. On the left side of the assessment are items typically included on a risk assessment, such as compliance, legal, and financial risks. On the right side of the assessment is a list of the potential benefits, including new external revenue streams from journal subscriptions and reputational enhancement from being associated with an academic journal about women in sports.




By incorporating faculty feedback, UNC Greensboro was able to assuage campus concerns over completing risk assessments.

UNCG’s Assessments Allow Faculty to Showcase Upsides While Also Encouraging Risk Identification

UNCG’s Academic-Friendly Risk Assessment



Program Risk Assessment: Acquiring Women’s Sports Journal

Potential Risks to the Institution	Potential Benefits to the Institution
<ul style="list-style-type: none">  <i>Compliance:</i> Journal enterprise violates state’s Umstead Act¹  <i>Legal:</i> Copyright infringement against UNCG  <i>Financial:</i> Unable to accept credit cards for subscriptions 	<ul style="list-style-type: none"> ✓ New External Revenue Stream: Subscriptions fund graduate student to manage and edit journal ✓ Reputational Enhancement: UNCG name associated with only academic journal related to women in sports

Campus Fears Assuaged

“Faculty were telling us that it’s not really fair to just show the risks of their programs. Adding an assessment of opportunities assured them that anyone reviewing the assessment would also see the potential upsides on the same page.”

Bruce Griffin
Chief Risk Officer
University of North Carolina at Greensboro

¹ The Umstead Act is a North Carolina statute that prohibits the NC government from competing with private ventures of state residents.



Practice #10: Syndicated Risk Assessment and Treatment Worksheets

Typical University Challenge

Many decentralized units lack sufficient expertise to develop their own risk assessment and treatment templates. Units that try to develop their own risk assessment and treatment templates often end up duplicating similar efforts across campus.

Best Practitioner Approach

UNIVERSITY OF CALIFORNIA **University of California System**
Location: Oakland, California

The University of California System identified those risk assessment and treatment templates that were in high demand from campus units and developed “plug and play” Excel-based worksheets for each.

Key Animating Principle

Templates are written broadly enough to be used by a wide variety of units, avoiding unnecessary duplication of effort on the parts of both risk managers and unit leaders.



Similar, Unmet Need Across Campus

Recognizing that risk management is a scarce, public good on many campuses, but that local units' administrators are not risk experts and may not know how to conduct a comprehensive risk assessment, the average university campus faces the obstacles of triaging the scarce resources of risk management against the many assessment needs of local units.

Common Risk Questions Emerging Throughout the Institution



Different Missions



College of Engineering



College of Arts & Sciences



Library



Facilities



Student Affairs



Similar Challenges

- How do we assess risks in our current programs?
- How should we plan for risks related to launching new initiatives?
- What are the potential risks from different budget-reduction options?











Templatized, Do-It-Yourself Assessment Tool for Staff

Leveraging the fact that similar units face similar challenges when conducting risk assessments, the University of California System created syndicated risk assessment and treatment worksheets for the most common risk scenarios. The University of California System’s risk assessment library includes “plug and play” templates to help campuses evaluate risk implications of common risk scenarios such as budget reductions or launching new initiatives.

UC Provides Ready Access to High-Demand Risk Assessments

UC’s Risk Assessment Library



Tool Name	Description ¹
 1. Budget Changes Workbook	Consider risks and potential benefits of each budget reduction.
 2. New Initiative Risk Review Workbook	Consider the strategic, financial, operational, compliance, reporting, and reputational risks associated with a new initiative or project.
 3. Control Structure Assessment	Evaluate the effectiveness of current controls in light of risk appetite. Assess control structures for sufficiency given environment, resources, and bandwidth.
 4. Program Risk Review Workbook	Consider strategic, financial, operational, compliance, reporting, and reputational risks associated with an existing initiative or project. Estimate residual risk.
 5. Unit Risk Review Workbook	Consider factors affecting the risks faced by your Campus or Medical Center unit or location. Compare the benefits of current controls to the severity of risks.
 6. Higher Education Risk Assessment	Estimate impact and likelihood for each risk item from a strategic, financial, operational, compliance, reputational, and reporting risk perspective. Estimate the effectiveness of current controls and calculate the correlating residual risk.
 7. Higher Education Risk Assessment (Consolidated)	This consolidated version does not consider each risk in terms of its strategic, financial, operational, compliance, reputational and reporting impacts separately, but on a more general basis.
 8. Protected Health Information (PHI) Value Estimator	This tool helps PHI protectors understand the financial impact of a PHI breach so they can evaluate and recommend the appropriate investments necessary to mitigate the risk of a data breach. This helps reduce potential financial exposure while strengthening the organization’s reputation as a protector of the PHI entrusted to its care.



History Dept Chair



Student Affairs Director



Librarian



To access the University of California System’s risk assessment worksheets, please visit www.ucop.edu/riskmgt/erm/risk_assessment.html.

Assessment Key Characteristics

- Excel-based format easy for staff
- Assessment tools featured prominently on Risk Management website
- One template for each major assessment type addresses needs of multiple campus units

¹ Descriptions abridged



We're Here to Help

While the local units have the syndicated risk assessment and treatment worksheets at their fingertips, the University of California System Risk Services Office provides end-user support through various channels. End users can watch a webinar with detailed instruction on how to use each worksheet or refer to a list of campus "super users" to ask common questions. Additionally, the Risk Services Offices provides on-site consultation for campuses interested in facilitating a campus risk assessment workshop. And, finally, end users can attend an annual risk summit.

The syndicated risk assessment and treatment worksheets have proven quite popular on (and off) campus. Based on an analysis of UC's Risk Services website, "control self-assessment" is one of the top keyword searches. Additionally, given that the UC System has an internationally recognized ERM program, its risk resources are also popular with institutions beyond higher education.

Providing Support and Avoiding "Garbage In, Garbage Out"

Risk Support Services Available to Campus Users



Watch a webinar with detailed instructions on how to use the workbooks



Reach out to "super users" like controller or members of risk management committee

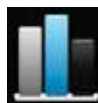


Attend annual risk summit (over 400 attendees)



Request a risk management representative to facilitate risk assessment discussion and completion

Risk Assessment Resources Prove Popular On (and Off) Campus



Top Keyword Searches on Risk Management Website

- ...
- 4. COSO
- 5. Liability Waiver
- 6. Control Self-Assessment



Selected Non-educational Organizations Visiting UC Risk Management Website in 2011

 US Army	 ConocoPhillips	 Boeing
 DuPont	 NASA	 FedEx
 IBM	 Saudi Aramco	 US Energy Dept



Practice #11: Locally Embedded Risk Resources

Typical University Challenge

Most institutions struggle to push risk management policies, forms, and other resources out to those who need them in the local units because users rarely check the Risk Management site first, and those who do cannot easily find relevant materials.

Best Practitioner Approach



Texas A&M University - College Station
Location: College Station, Texas

Progressive institutions embed risk-relevant information in the unit-level homepages that employees already access regularly.

Key Animating Principle

Targeting by unit helps the institution deliver valuable risk information directly to those who need it.

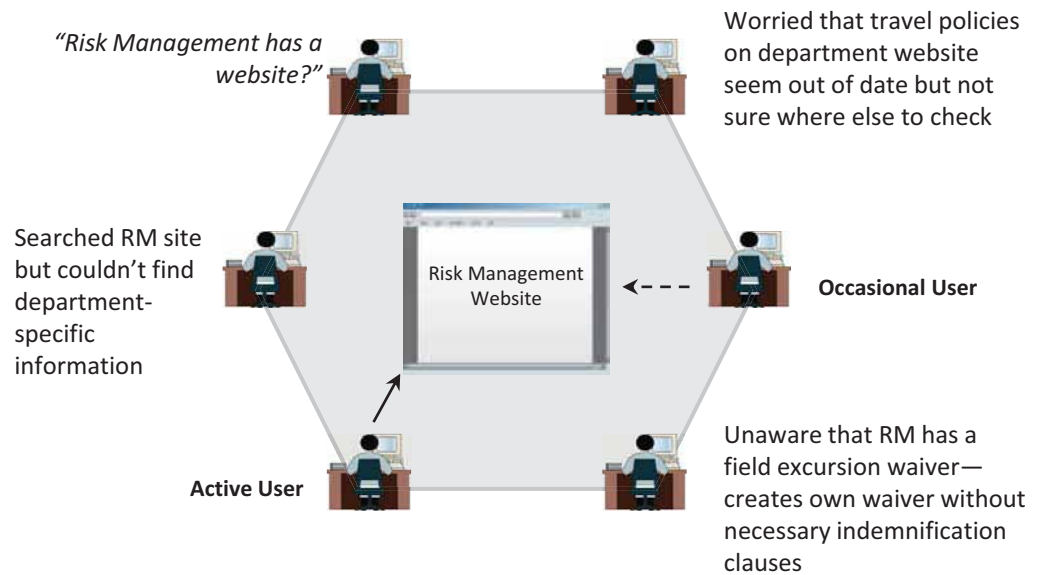


What Risk Resources?

A common theme that recurred in Roundtable conversations is that although the risk management department may develop the appropriate risk resources for local units—whether it be policies and procedures related to international travel or field excursion waiver forms—local users are often unaware that these resources exist. Campus constituents are left pondering, “What risk resources”? Although the risk management website may house these resources, it’s not the first place that users intuitively turn to.

Typical Users Rarely Visit Risk Management Site— If They’ve Even Heard of It

Typical Faculty and Staff Users Search in Vain for Risk Management Resources



Key Flaws:

- *Location:* Risk resources housed far from where typical users browse
- *Organization:* RM site often not organized to help users find department-specific resources

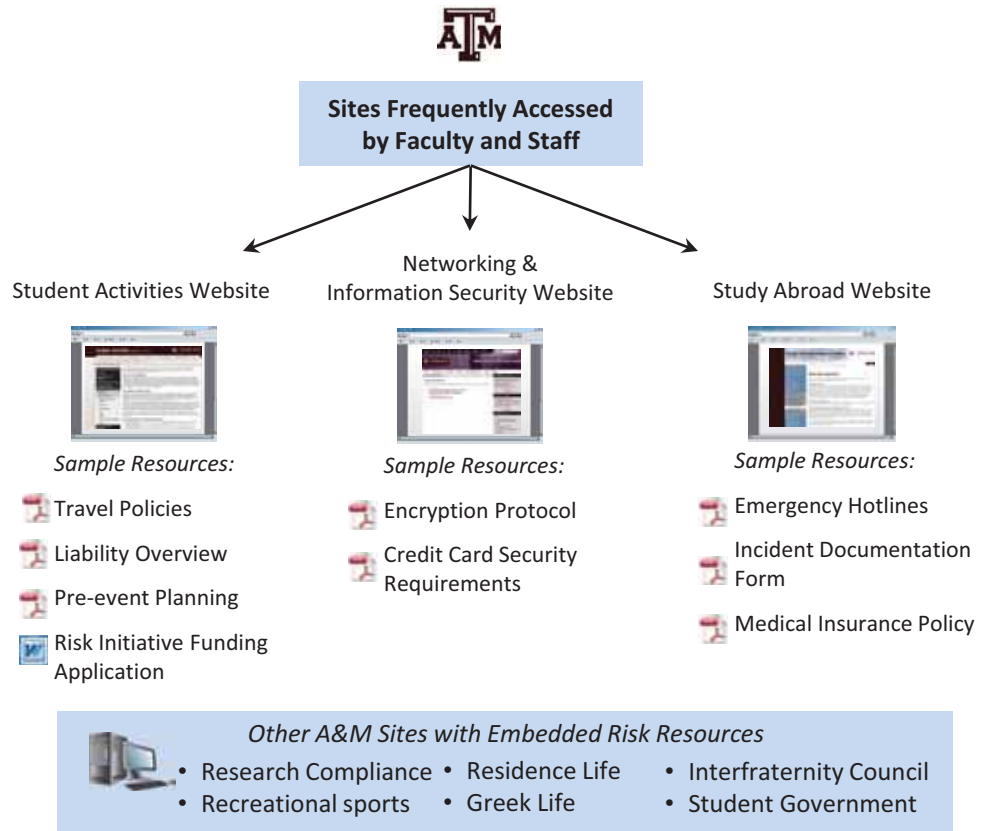


Where the People Go

At Texas A&M University, to raise the visibility of risk resources, risk management hosts risk resources on high-traffic websites that users often turn to first.

Instead of pushing all risk resources to high traffic websites, Texas A&M concentrated its efforts on those key risk areas where they wanted to make a concerted effort to increase awareness. The resources are embedded in high-traffic websites such as the student activities websites or the study abroad website.

Texas A&M Hosts Information on Sites Users Visit Most Texas A&M Approach: Host Risk Resources on High-Traffic Websites



When It's In Your Face, It's Hard to Ignore On Unit-Level Sites, Risk Management Materials Get Prime Acreage

Student Activities Education In Action **ATM TEXAS A&M UNIVERSITY**

Accounting & Business Services

Choral Activities

Class Center

Extended Orientation & Involvement

Leadership and Service Center

Student Organization Development & Administration

Recognition

Risk Management

Student Government Association

What is Risk Management?

Camps & Programs for Minors

Contracts

Event Planning

Forms

Liability

Organizational Development

Travel

Description of risk management's purpose and how it applies to this particular unit

Quick access to menu of popular materials

Risk management tab gets spot on high-traffic navigation bar

Source: Texas A&M University, Student Activities, Risk Management, <http://studentactivities.tamu.edu/risk> (accessed March 27, 2012); Education Advisory Board interviews and analysis.



Practice #12: Risk Expert Directory

Typical University Challenge

Because of mission proliferation, institutions face a long spectrum of operational risks. For most institutions, hiring risk experts to address each one is not financially feasible.

Best Practitioner Approach



Duke University

Location: Durham, North Carolina

Large, decentralized universities are likely to have subject matter experts buried in various units around campus. Duke University found these individuals (within the realm of international risk) and designated them as the “Single Points of Contact” on their Office of Global Strategy and Programs website for various key risk areas.

Key Animating Principle

By finding existing experts and spreading responsibilities across a large number of administrators, institutions largely avoid having to hire new experts to field important risk questions.



Who You Gonna Call?

Often faculty and staff need expert advice on risk issues that may fall beyond the area of expertise of the Risk Management department and can be better addressed by risk experts across campus. While there may be risk experts embedded in local units that can assist with such questions, it is often difficult for faculty and staff to identify the correct risk expert within the campus community.

Faculty and Staff in Need of Expert Advice on Thorny Risk Issues

Faculty and staff face an array of risk and compliance challenges...



...but don't know where to turn for help

Right Contact Person Is Unclear



"I spoke with one person on Monday and another on Thursday, and got two different answers! How do I know who's right?"

Right Contact Person Is Nonexistent



"There's no one on campus I can call about this! I'm running out of time so I'd better figure it out on my own."



Shining a Light on Risk Experts Across Campus

To shine a light on risk experts across campus, Duke University created a risk expert directory. Faculty and staff with questions about international activities can log on the university's Global Strategy and Program website and access the risk expert directory. The directory contains the contact information for designated risk experts across campus. Risk experts in central administration are content experts and can answer specific questions on an array of issues including banking abroad and export controls. In addition to the content experts in central administration, Duke also has liaisons across its international sites, schools, and programs. The liaisons provide specific, on-the-ground knowledge. For example, if the liaison in the Public Policy School is having difficulty wiring money to China, he or she can contact the liaison in the Engineering School to determine if that person is experiencing the same issue and how to resolve it.

Through the development of a risk expert directory, Duke is able to assist faculty and staff with a host of thorny risk inquiries with minimal additional investment.

Duke Identifies Areas of Need, Finds Employee Experts Willing to Help

Duke's Risk Expert Directory



Name, phone number, and email provided on website for each contact

Central Admin Points of Contact (17 content experts)

- Accounts Payable
- Banking Abroad
- Export Controls
- Financial Travel Policies
- Grant Compliance
- Human Resources
- Information Technology
- Internal Audit
- Insurance Coverage
- Legal
- Library
- News & Communications
- Payroll
- Purchasing Abroad
- Tax
- Travel Policy & Registration
- Visa Services

International Sites (4 Liaisons)

- Singapore
- Delhi
- Kunshan
- Moshi

Schools (10 Liaisons)

- Arts and Sciences
- Divinity
- Business
- Graduate School
- Law
- Medicine
- Environment
- Nursing
- Engineering
- Public Policy

Units and Programs (10 Liaisons)

- Development
- Duke Engage
- Health System
- Global Health Institute
- Genome and Sciences Policy
- International House
- Research Support
- Research Assistance (Medicine and Nursing)
- Global Education Office for Undergraduates
- Talent Identification Program

Only 6 new FTEs added out of 41 Single Points of Contact
(85% of SPCs are existing employees)



Practice #13: Compliance Matrix Program

Typical University Challenge

Most institutions struggle to keep abreast of ever-rising compliance requirements and lack a formal mechanism to raise local units' awareness of the compliance requirements applicable to their unit.

Best Practitioner Approach



Washington and Lee University
Location: Lexington, Virginia

As part of its suite of compliance initiatives, Washington and Lee University designates cabinet-level policy officers and unit-level compliance partners who maintain responsibility for compliance activities applicable to their units.

Key Animating Principle

Clearly delineating responsibilities over compliance activities assures university executives that key compliance requirements are being met by academic and administrative units.



Buried in Compliance

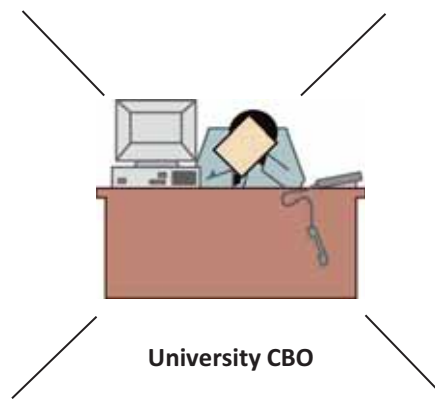
With ever-increasing compliance requirements, the average university chief business officer is often left wondering if local units are keeping up with compliance activities, or if they are even aware of the requirements at all. Without a formal mechanism (or office) to oversee compliance efforts, these compliance questions continue to vex the chief business officer.

Average University Executive Wonders if Local Units Are Keeping Abreast of Ever-Rising Compliance Requirements

CBOs Have a Plethora of Questions, but Nowhere to Turn

Have we responded and taken action to changes in Title IX regulations?

Is Financial Aid aware of the new federal regulations?



Is our university keeping up with Clery Act reporting requirements?

Is someone ensuring compliance with export control guidelines?



Shining a Light on Compliance Requirements

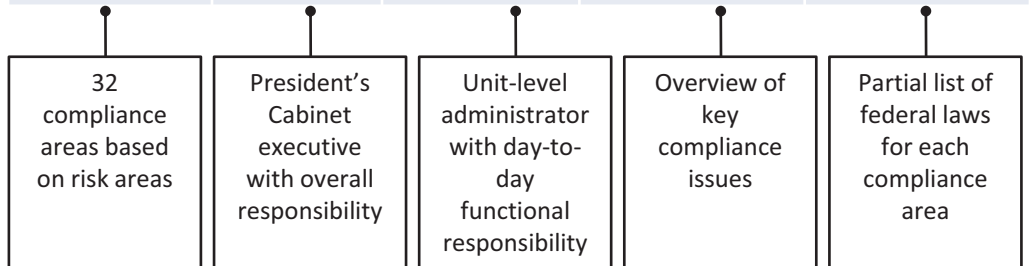
To keep the campus abreast of ever-rising compliance requirements, Washington and Lee University developed a full suite of compliance initiatives. At the core of the initiatives is the compliance matrix. The matrix delineates responsibility and oversight for key compliance activities. Each of the university's compliance areas is assigned to a cognizant policy officer and compliance partner. The cognizant policy officer is a member from the President's Cabinet and has overall responsibility for that compliance area. The compliance partner is generally a unit-level administrator assigned day-to-day responsibility of the compliance area.

The compliance matrix is enveloped by a suite of services offered by the Office of General Counsel. Compliance calendars provide an overview of federal reporting requirements by functional unit. Additionally, push notifications from the Office of General Counsel keep local units abreast of compliance modifications, while optional compliance worksheets are available to units to assess potential compliance gaps.

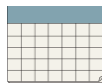
Washington and Lee Keeps Local Units Abreast of Compliance Requirements Through Compliance Matrix Program

Compliance Matrix

Compliance Area	Cognizant Policy Officer(s)	Compliance Partner	Representative Issues	Applicable Federal Laws
Athletics	Director of Athletics & Provost	Senior Asst to the President & Associate Athletic Director	Title IX/Gender Equity; Trainers; NCAA	Title IX; FERPA; Equity in Athletics Disclosure
Human Resources	Treasurer/VP for Finance & Administration	Executive Director of HR	Worker's Compensation; Employment Benefits & Leaves	Labor-Management Relations Act; Immigration and Nationality Act; Drug-Free Workplace Act



Full Suite of Compliance Services



Federal Compliance Calendars

- Calendars provide overview of federal notice and reporting requirements by month
- Compliance calendars are categorized by major units



Compliance Notifications

- General counsel provides notifications on compliance modifications
- Sample compliance resources:
 - Campus Legal Information Clearinghouse (CLIC)
 - NACUA
 - URMIA



Compliance Template Worksheets

- Optional compliance worksheets are available to units and Office of General Counsel to assess potential compliance gaps

See all of Washington and Lee's Compliance Resources at <http://www.wlu.edu/x38495.xml>

Source: Washington and Lee University Compliance Matrix available at http://www.wlu.edu/Documents/general_counsel/ComplianceMatrix.pdf (accessed July 23, 2012); Education Advisory Board interviews and analysis.



V. Instilling Accountability and Incenting Action

How do we create incentives so local unit will follow through on institutional risk treatments plans?

- Practice #14: Key Risk Hearings
- Practice #15: Risk-Based Resource Allocation
- Practice #16: Control-Based Cyber Insurance



Practice #14: Key Risk Hearings

Typical University Challenge

After risk treatment plans have been developed, central administration is unaware if progress is being made on risk treatment plans by risk owners.

Best Practitioner Approach



Emory University
Location: Atlanta, Georgia

To reinforce the importance that Emory places on risk mitigation, risk management process owners are required to submit an annual plan that summarizes their assessment activities and explains how they plan on managing each risk. Each process owner presents his or her risk plan to the ERM Executive Committee, which includes the president and cabinet. The Committee reviews the plausibility of risk mitigation efforts.

Key Animating Principle

Presidential review of risk treatment plans screens out weak risk treatment plans; emphasis is placed on realistic and actionable plans.



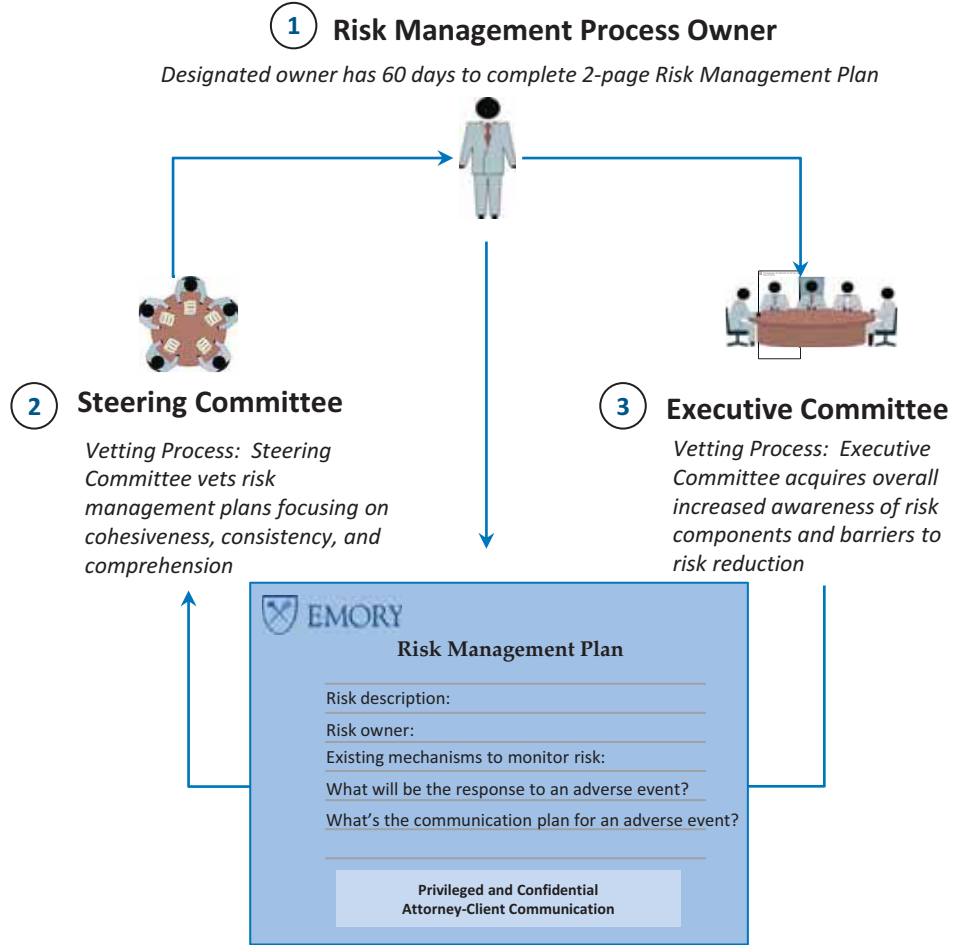
Instilling Accountability for Risk Management Plans

Risk management process owners are assigned to each of the top 50 risks. (Risk management process owners are individuals with sufficient familiarity with the identified risk and are best positioned to execute a comprehensive risk management plan.) The risk management process owners prepare a short, two-page risk management plan. Plans are reviewed by Emory's Steering Committee, which provides feedback to the risk management process owner. After revisions from the Steering Committee have been incorporated (if needed), the Executive Committee reviews the risk management plan at a series key risk hearing.

The Executive Committee conducts five three-hour risk hearings each year. Approximately 12 to 15 key risks are presented at each risk hearing. Risk management process owners are permitted to bring one PowerPoint slide providing an overview of the risk. They are given five minutes to present and five minutes for questions and answers by the Executive Committee.

The annual key risk hearings provide a predictable and highly visible forum to ensure that progress is being made on risk management plans.

Anatomy of Emory's Risk Hearings



Executive Committee Risk Hearing Template

EMORY Risk Management Plan

Risk Owners Get 1 Slide, 5 Minutes to Present, and 5 Minutes of Q&A

Overview

- Date _____
- Short Description of Risk _____
- Risk Management Process Owner _____

Platform Prioritization and Guidance

- Describe the Risk, Its Components, and Examples: _____
- Describe the Steps Currently in Place to Monitor or Control the Risk: _____
- Describe the Operational Response to an Adverse Occurrence: _____
- Describe the Communication Response to an Adverse Occurrence: _____



Practice #15: Risk-Based Resource Allocation

Typical University Challenge

During the risk identification process, many universities identify institutional risks that require significant resources to treat (e.g., protecting servers and systems from cyber breach). Unfortunately, few universities have the mechanisms to reallocate funds to treat these risks.

Best Practitioner Approach



University of Alberta
Location: Edmonton, Alberta

Progressive institutions that have taken risk management to its maturity integrate risk management with the budgeting process, rewarding units that undertake initiatives to reduce the overall institutional risk profile.

Key Animating Principles

The strategic planning process feeds into the risk management process, which, in turn, guides the resource planning process.

The strategic planning, risk management, and resource planning processes are overseen by the same department to ensure a closely coupled process.



Risk Management Moves Past Adolescence

At University of Alberta, institutional risk management is closely coupled to strategic planning and resource allocation—a feature that is prevalent in mature ERM organizations.

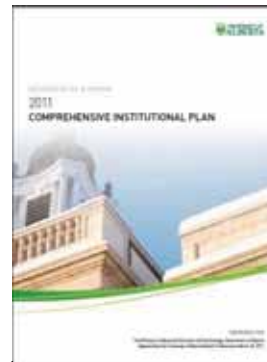
After identifying its strategic objectives, University of Alberta identifies the obstacles and risks of achieving its objectives. In addition to identifying risks, the university closes the loop by allocating resources to the treatment of each risk.

As shown here, the university's annual Comprehensive Institutional Plan provides an overview of the university's strategic objectives along with the associated risks, and finally the resources that can be allocated to treat each risk.

By linking institutional risk management to its strategic planning and resource allocation process, the university ensures that appropriate resources are identified to treat significant risks.

University of Alberta Takes Risk Management to Its Maturity

University of Alberta Follows in the Footsteps of Private Sector and Links Strategic Planning and Risk Management to Its Largest Incentive— Resource Planning



Strategic Objective

University of Alberta aims for international enrollment of 15% and 30% in the undergraduate and graduate student bodies, respectively, in response to declining participation rates of local 18 to 24-year-olds in post-secondary education.



Risk Management

University lacks an “international-friendly” web presence and lacks integration of application, acceptance, and payment process for international students.



Resource Planning

≈\$3.5M funds re-allocated to redesign university's web presence, including Office of Registrar's webpage, and to integrate a seamless application, acceptance, and payment process for international students.



Practice #16: Control-Based Cyber Insurance

Typical University Challenge

With cyber security a growing risk at higher education institutions, universities are grappling to handle data breaches happening at the unit level. Most units find it cost-prohibitive to develop robust cybersecurity controls and lack incentives to implement their own security measures.

Best Practitioner Approach

**UNIVERSITY
OF CALIFORNIA**

University of California System
Location: Oakland, CA

To stem data breaches, the University of California System created a control-based cyber-insurance program and used the insurance policy as a “carrot” to incent local units to implement cybersecurity controls.

Key Animating Principles

Academic and administrative units are incented to participate in the insurance program or risk paying for future cyber breaches out of their own budgets.

CIO uses insurance policy to begin discussions about migrating local servers to central servers for those units that cannot afford to implement cybersecurity controls.



Cybersecurity Controls Too Expensive for Most Units

Recognizing that cybersecurity risk is a top-rated risk at many higher education institutions, colleges and universities are confronted with the obstacle of incentivizing local units to implement necessary controls to stem data breaches. At most campuses, it's often too costly for local units to implement the full suite of cybersecurity controls.

As illustrated, there are a number of direct and indirect costs required to maintain adequate cybersecurity controls including laptop encryption costs and antivirus program costs. Additionally, as hackers are continually modifying their hacking approaches, it becomes time consuming and expensive for local units to implement updated security controls.

High Cost and Uncertain Return on Security Investments Combine to Stall Implementation Efforts at Unit-Level

A Litany of Unwelcome Costs in Lean Budget Times

Credit Card Transmission Protocols



- Time and effort to establish secure connection to institution's depository bank
- Ongoing requirements to comply with industry's Data Security Standards

Laptop Encryption



- Purchase from encryption software provider, approx. \$200/license
- Staff resources devoted to developing and enforcing standard procedures around encryption of computers and portable devices

Standardized Antivirus Protection



- Initial purchase and ongoing upgrade costs
- FTE time dedicated to installing, upgrading, and monitoring antivirus protections

Result: Most units prefer to take their chances on uncertain IT breach costs in the future, versus the certain, and significant, costs of security upgrades right now.



Data Breaches (Also) Too Expensive

While it may be expensive (and onerous) for local units to implement cybersecurity roles, colleges and universities are well aware that the cost of data breaches is also expensive.

With a host of “invisible” servers and other unprotected hardware located in local units, colleges and universities become vulnerable to the costs of cybersecurity breaches.

“Invisible” Servers and Mobile Devices Leave Universities Vulnerable to Costs of Cybersecurity Breaches

Sample University Data Breaches



Ohio State University

In December 2010, OSU discovered that names, SSNs, birth dates, and addresses of 760K community members were accessed on an unsecured server. Total costs incurred were \$4M.



Yale University

Computer file containing names and SSNs of 43K university members was migrated to an unsecured server. In fall 2011, Yale learned that the data was publicly viewable on Google for 10 months.



University of Wisconsin Milwaukee

Server used by multiple departments and containing research data and names and SSNs of 75K members was hacked.



Cornell University

University-owned laptop containing names and SSNs of 45K university members was stolen.



University of Hawaii

University faculty member inadvertently uploaded files to an unprotected server exposing names, SSNs, and academic performance of 40K students who attended from 1990-1998 and 2001.



Missouri State University

In Nov 2010, College of Education created list, including names and SSNs of 6K students, as part of its accreditation process. List was uploaded to unsecured server and not discovered until February 2011.

Source: *Security Week*, “The College Cyber Security Tight Rope: Higher Education Institutions Face Greater Risk” (April 2011); *eWeek.com*, “University Data Breaches Underscore Need for Employee Security Training” (March 2011); Education Advisory Board interviews and analysis.



Creating a Carrot to Incent Controls

While some institutions may opt to purchase cybersecurity insurance to help stem the costs of data breaches, the traditional cyber-insurance policy is unattainable for most. Traditional cyber-insurance policies underwrite assets, which require universities to provide an inventory of all hardware and software that will be insured. For the average decentralized university, it's difficult to complete the required inventory as there are often many "invisible" servers and hardware in local units. Additionally, even if an institution were able to furnish a completed inventory, it would be burdensome to obtain buy-in from the local units to complete required due diligence tests.

Faced with this reality, the University of California System developed a reverse-engineered cyber-insurance policy. Instead of underwriting assets, the higher-education friendly policy underwrites controls. The reverse-engineered cyber-insurance policy covers losses only if the university can demonstrate that it had in place the agreed-upon controls at the time of the data breach.

UC System Creates a Reverse-Engineered Cyber-Insurance Policy

Traditional Insurance Coverage Unattainable for Most Universities

Traditional Cyber-Insurance Policy (Underwrites Assets)



Onerous application requiring institution to provide a complete inventory of hardware and software



Due diligence tests (security testing, equipment protection) required by insurance companies

Creating a Carrot Within Reach of Most Colleges and Universities

Reverse-Engineered Cyber-Insurance Policy (Underwrites Controls)



Due to universities' inability to provide complete IT inventory, insurance underwriter agrees to forgo traditional underwriting process.



After a breach has occurred, forensics are conducted to determine if agreed-upon controls were in place at time of breach. If university meets all controls, university receives insurance coverage.



An Offer You Can't Refuse

By developing a control-based cyber-insurance policy, the University of California System has created a carrot that campus CIOs can utilize to incent cybersecurity control participation. The new control-based cyber-insurance policy provides local units with access to a generous and comprehensive policy, one that wasn't previously available to them. The generous coverage helps local units avoid the potential costs of data breaches (assuming they can demonstrate required controls were in place at the time of the breach).

For local units interested in being covered by the new cyber security policy, they have two options to participate. Units can either retain control of their servers and implement the agreed-upon controls or migrate local servers to the compliant central servers.

Reverse-Engineered Cyber Insurance Too Good to Pass Up by Local Units

What's in It for the Units?



Generous and Comprehensive Policy

Local units get access to cybersecurity insurance with generous coverage and a bundled policy covering:

- ✓ Property—physical loss of hardware or software
- ✓ Liability—negligent acts or omissions
- ✓ Cyber/privacy breach—damages and expenses caused by privacy or security breach



Cost Avoidance

Units receive a generous insurance policy protecting them from unbudgeted data breach payouts (forensic investigation, legal costs, etc.)

How Did the Units React?



Implement Controls

Many units that could afford the implementation costs chose to implement the 17 required cyber controls, including:

- Antivirus and malware prevention solutions
- Laptop encryption
- Incident reporting program



Migrate Servers

Units without sufficient resources to implement new controls began discussions to migrate data on local servers to central servers



Cybersecurity Never Looked So Appealing

By creating a one-of-a-kind control-based cyber-insurance policy, the UC System was able to create clear and distinct benefits for each constituency involved. Local academic units are able to stem unbudgeted financial losses from a data breach, central administration is able to make progress on server consolidation efforts, and the campus community is able to reap the benefits of reduced energy costs due to server consolidation.

A Win-Win-Win Risk Treatment Strategy

Benefits of UC's Reverse-Engineered Cyber Insurance Program



For Academic Units

- Academic units receive cyber insurance coverage, mitigating financial impact of uninsured data breach payouts on departmental budget



For Central Administration

- Units begin implementing cyber-security controls to be compliant with reverse-engineered cyber-insurance policy
- Other local units begin migrating servers to central servers, recognizing that they don't have resources to comply with the new insurance's controls—30% of local servers migrated to central servers at UC-Berkeley



For Community

- Consolidation of data servers results in reduced energy costs



Appendix

- I. Risk Register Straw Man
- II. Selected Bibliography



I. Risk Register Straw Man



Risk Register Straw Man

Overview and Methodology

In response to a common question received by the Roundtable—“How can we fast-cycle the risk identification process?”—we have compiled a risk register for higher education institutions to use as a starting point in their discussions. The composite risk register was developed by obtaining risk registers from 17 higher education institutions, totaling approximately 3,000 risks.

Clarifying Terms

The risks included below are separated into two categories: (1) institutional risks and (2) unit-level risks. A key finding in the Roundtable’s research is that most universities commingle risks of different “altitudes” in their ERM process. For example, the risk of a declining 18- to 21-year-old traditional student cohort is included in the same process as inability to meet enrollment targets, which is included in the same process as inadequate controls of cash receipts. As such, the Roundtable proposes that higher education institutions should separate the risks into different processes. Below is an overview of the three types of risk “altitudes” identified by the Roundtable and how the management approach for each risk altitude differs.

	Systemic and Existential Risks	Institutional Risks	Unit-Level Risks
Example	<ul style="list-style-type: none"> Sustainability of high-price/high-discount pricing model 	<ul style="list-style-type: none"> Inability to meet enrollment targets 	<ul style="list-style-type: none"> Inadequate controls over cash receipts
Risk Type	<ul style="list-style-type: none"> External, uncontrollable; impacts all of higher education 	<ul style="list-style-type: none"> Controllable and idiosyncratic risk Generally relates to inability to meet strategic objectives 	<ul style="list-style-type: none"> Controllable and idiosyncratic risks Generally relates to an existing and broken process
Measurability	<ul style="list-style-type: none"> Low—Difficult to measure of estimate likelihood 	<ul style="list-style-type: none"> Medium—Can estimate probability and impact 	<ul style="list-style-type: none"> High—Can measure probability and impact
Risk Assessment Approach	<ul style="list-style-type: none"> Risk environment scenarios Mental models 	<ul style="list-style-type: none"> Risk maps with nominal scales 	<ul style="list-style-type: none"> Control self -assessments
Risk Treatment Objective	<ul style="list-style-type: none"> Reduce impact should risk occur 	<ul style="list-style-type: none"> Reduce likelihood in a cost-efficient manner 	<ul style="list-style-type: none"> Drive incidence of occurrence to zero
Risk Treatment Methods	<ul style="list-style-type: none"> Scenario analysis Contingency planning 	<ul style="list-style-type: none"> Risk reviews at strategy meetings; key risk indicator scorecard 	<ul style="list-style-type: none"> Internal controls Establish policies and procedures Internal audit
Board Involvement	<ul style="list-style-type: none"> High—Board wants to be actively engaged in discussion 	<ul style="list-style-type: none"> Medium—Board prefers periodic updates by senior management 	<ul style="list-style-type: none"> Low—Board wants to know senior management has a risk management process in place



Risk Register Straw Man

Suggested Use of the Risk Register Straw Man

Cognizant of the different risk altitudes, the Roundtable's risk register separates institutional and unit-level risks. The list of institutional risks is meant to be as comprehensive as possible. As there may be thousands of unit-level risks, the list of unit-level risks in this straw man is *not* meant to be comprehensive, and instead suggests example risks. Additionally, as mentioned frequently through this study, the Roundtable does not recommend undertaking a risk identification exercise that results in a register with hundreds of risks.

Systemic and existential risks are not included in this analysis; for a deep dive on these risks, please see the Roundtable's associated best-practice study *Promise and Perils of Innovation: Competitive Challenges to the Traditional Higher Education Model* (which can be accessed at www.educationadvisoryboard.com/uber). Also, at the request of members, this risk register along with our overall best-practice study does not include so-called "black swan" events such as terrorist attacks, natural disasters, pandemics, and hostile intruders/active shooters. For such risks, we recommend institutions hold periodic long-tail risk summits for a deep-dive into these risks.

The Roundtable suggests that members utilize the risk register straw man as follows:

- The list of institutional risks should be vetted with the president's cabinet to identify which risks on the straw man are not applicable to the organization and which idiosyncratic campus risks should be added.
- The remaining risks should be assessed based on likelihood, impact, and risk velocity to come up with an overall risk score. (See the associated best practices on assessing risk in this study.)
- After each risk has been scored, pare down the final list to 25 to 50 risks.
- After the list of institutional risks has been finalized, it will be time to begin identifying unit-level risks. Instead of taking a bottom-up approach to identifying every possible unit-level risk (which may result in hundreds of risks), we recommend using the final list of institutional risks and identifying only the unit-level risks that pertain to the institutional risk. Said differently, it's best to cascade institutional risks down to unit-level risks.



Risk Register Straw Man

Academic Quality

Suggested Risk Owner(s): Provost

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to offer courses that meet students' demands ▪ Inability to ensure online education programs meet institutional academic standards ▪ Inability to recruit or retain sufficient faculty to meet desired student-to-faculty ratios ▪ Failure to maintain sufficient academic quality standards required for accreditation ▪ Inability to maintain desired levels of teaching quality ▪ Inability to adequately fund or reallocate resources to core of high-priority academic programs 	<ul style="list-style-type: none"> ▪ Improperly managed academic records ▪ Insufficient faculty support for changes in pedagogy and curriculum ▪ Lack of adequate library services and resources to support institutional needs ▪ Ineffective interdepartmental collaborations

Admissions and Enrollment

Suggested Risk Owner(s): VP of Admissions and/or Director of Financial Aid

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to offer competitive financial aid packages ▪ Inability to offer competitive tuition rates ▪ Inability to maintain existing levels of student access ▪ Inability to enroll a diverse student body ▪ Inability to meet application targets ▪ Inability to meet enrollment/yield targets ▪ Inability to maintain affordability due to increasing student fees 	<ul style="list-style-type: none"> ▪ Fraud in admission applications and materials ▪ Conflicting social media policies related to student recruitment ▪ Failure to monitor changing financial aid regulatory requirements ▪ Insufficient personnel/resources to maintain desired level of regional/national recruiting activities



Risk Register Straw Man

Administrative Service Delivery

Suggested Risk Owner(s): Chief Business Officer

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to meet desired levels of administrative service quality 	<ul style="list-style-type: none"> ▪ Staff not properly trained in new ERP system ▪ Failure to produce timely and accurate reports for campus administrators ▪ Cumbersome hiring procedures ▪ P-card system too time-consuming for faculty

Athletics

Suggested Risk Owner(s): Director of Athletics

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Failure to comply with NCAA regulations including athletic recruiting guidelines ▪ Failure to comply with Title IX regulations ▪ Inability to adequately protect student athlete health and safety 	<ul style="list-style-type: none"> ▪ Lapses in safety and insurance coverage for sports campus ▪ Inadequate fitness machine maintenance ▪ Insufficient first aid/emergency supplies for athletic team practices

Contracts

Suggested Risk Owner(s): General Counsel

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to anticipate and prevent legal issues associated with third-party collaborations ▪ Inability to anticipate and prevent undue institutional liability or risk exposure from third-party contracts 	<ul style="list-style-type: none"> ▪ Inadequate signature authority policy and procedures



Risk Register Straw Man

Fundraising/Endowment Management

Suggested Risk Owner(s): Chief Business Officer or Chief Development Officer

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Insufficient oversight of internal or external investment managers ▪ Inability to absorb significant loss in endowment or investment value ▪ Over-/under-engagement with key donors 	<ul style="list-style-type: none"> ▪ Improper receipt/recording of donor gifts ▪ Inadequate controls to prevent conflict of interest in investment decisions ▪ Significantly overoptimistic projections of endowment growth

Facilities and Fixed Assets

Suggested Risk Owner(s): Vice President of Facilities

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to ensure staff and student safety due to deteriorating buildings ▪ Inability to stem energy cost increases (either due to demand or supply factors) ▪ Inability to meet presidential sustainability targets ▪ Inability to provide sufficient space to meet teaching, research, and administrative needs ▪ Inability to expand campus facilities footprint due to municipal constraints 	<ul style="list-style-type: none"> ▪ Inadequate building security procedures (card access, key control) ▪ Inability to prevent safety lapses in campus construction projects ▪ Failure to implement and test resiliency and contingency plans for essential infrastructure (heat, hot water, electrical, water/sewer, HVAC) ▪ Unsafe surface conditions during inclement weather ▪ Poor response time to utility service failure ▪ Vandalism and damage to university property ▪ Inadequate inventory control of property, plant, and equipment ▪ Poor response time to equipment/facility malfunction ▪ Failure to comply with ADA requirements ▪ Workplace safety protocols inadequate or not followed ▪ Failure to maintain physical plant safety and comply with OSHA regulations ▪ Failure to maintain adequate levels of fire safety and preparedness



Risk Register Straw Man

Financial and Economic

Suggested Risk Owner(s): Chief Business Officer

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to detect or prevent conflicts of interest in financial transactions, agreements, or gifts to senior administrators ▪ Occupational fraud; deliberate misuse or misapplication of university’s resources or assets ▪ Inability to fund new strategic initiatives due to legacy budgeting model ▪ Inability to cope with unexpected revenue shortfall/budget reductions ▪ Failure of online degree programs to meet financial targets ▪ Inability to manage/absorb rising health care costs ▪ Inability to adequately fund all desired programs due to fund diffusion across multiple objectives ▪ Declining institutional financial flexibility due to reduction in financial reserves ▪ Inability to meet liquidity targets against market fluctuations ▪ Failure to control growth in debt burden ▪ Inability to meet debt covenant requirements ▪ Inability to ensure accuracy or completeness of external financial reporting ▪ Inability to fund progress on deferred maintenance queue ▪ Inability to manage or react to fluctuations in currency exchange rates 	<ul style="list-style-type: none"> ▪ Insufficient oversight over third-party vendors ▪ Inadequate controls over decentralized cash receipts ▪ Ineffective management of self-insurance program and costs ▪ Failure of institution’s pension plan to comply with ERISA ▪ Failure to comply with state’s debt management regulations ▪ Inability to ensure program-level financial sustainability ▪ Failure to comply with IRS rules and tax reporting requirements



Risk Register Straw Man

Human Resources

Suggested Risk Owner(s): Vice President of HR and/or General Counsel

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Failure to prevent significant lawsuits and claims relating to professional liability, discrimination, or equal opportunity noncompliance ▪ Inability to recruit and retain top faculty, staff, and senior administrators ▪ Inability to meet targets in staff and faculty diversity ▪ Inability to offer a competitive benefits package ▪ Inability to retain faculty and staff due to employee dissatisfaction ▪ Failure to secure favorable collective bargaining outcomes 	<ul style="list-style-type: none"> ▪ Failure to prevent inappropriate alcohol or drug use by employees ▪ Incidences of sexual harassment or misconduct by faculty or staff ▪ Inadequate procedures or controls for new faculty and staff background checks ▪ Failure to comply with overtime and minimum wage regulations (FLSA) ▪ Failure to implement rigorous background checks for new faculty and staff ▪ Failure to establish adequate mediation/resolution channels for employee conflicts ▪ Failure to prevent workplace violence or harassment ▪ Arduous promotion and/or tenure policies

Information Technology

Suggested Risk Owner(s): Vice President of HR and/or General Counsel

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to prevent unauthorized modification of data ▪ Failure to recover from system loss or extended downtime in a timely manner ▪ Inability to ensure physical infrastructure security ▪ Inability to maintain or replace obsolete systems/technology in timely manner ▪ Inability to grow IT resources and data center capacity to meet campus needs ▪ Inability to provide accurate and timely updates of core information systems to administrative areas ▪ Inability to deliver satisfactory user support ▪ Failure to comply with information security and privacy regulations ▪ Inability to complete mission-critical IT projects in a timely manner 	<ul style="list-style-type: none"> ▪ Unencrypted data on stolen devices ▪ Inadequate identity management systems ▪ Inadequate protections against virus or spyware infestations ▪ Sensitive data on server not managed by central IT ▪ Inadequate data storage and backup policies ▪ Inadequate controls of security of electronic commerce on campus (including credit cards)



Risk Register Straw Man

Public Safety

Suggested Risk Owner(s): Director of Public Safety; Director of Environmental Health and Safety; Director of Risk Management

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Failure to implement and test adequate emergency preparedness measures and post-event contingency plans ▪ Inability to ensure safety of faculty and students working and volunteering off-campus ▪ Inability to ensure safety of faculty and students working, studying, and volunteering overseas ▪ Failure to prevent significant lawsuits and claims relating to workers' compensation ▪ Excessive force by campus policy that may result in severe injury and/or death 	<ul style="list-style-type: none"> ▪ Inability to protect against threats to safety and security of employees and students due to serious or petty street crime ▪ Inability to maintain pedestrian, bicycle, and motorist safety on campus ▪ Improper use of campus-owned motor vehicles by faculty, staff, or students ▪ Failure to comply with Clery act requirements ▪ Inability to properly control hazardous material on campus ▪ Ineffective crowd management/public event controls

Research and Grants

Suggested Risk Owner(s): Vice President of Research; Director of Pre-/Post-Award Office

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to detect or prevent major breaches in research integrity and ethics ▪ Inability to detect or prevent conflicts of interest stemming from third-party contracts ▪ Failure to comply with applicable human/animal subject regulations ▪ Inability to prevent intellectual property infringement ▪ Export control violations 	<ul style="list-style-type: none"> ▪ Inaccurate/incomplete effort reports ▪ Inability to obtain audit report or audit certification from sub-recipients ▪ Inability to obtain reasonable assurance that sub-recipient achieved performance goals ▪ Inability to prevent research data loss or contamination ▪ Failure to comply with sponsoring agency regulations and funding conditions ▪ Inability to produce accounting and reporting materials that meet external parties' needs ▪ Failure to ensure that grant funds are used in accordance with grant requirements ▪ Inability to detect or prevent noncompliant cost transfers ▪ Inability to control or prevent lapses in lab safety



Risk Register Straw Man

Student Life

Suggested Risk Owner(s): Vice President of Student Affairs

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to ensure that student mental health challenges are adequately addressed ▪ Inability to recruit or retain students due to student dissatisfaction with campus experience ▪ Failure to adequately serve and promote student groups 	<ul style="list-style-type: none"> ▪ Inability to prevent illegal alcohol and drug use by students ▪ Failure to adequately prevent/control student hazing activities ▪ Failure to ensure health standards of campus dining services ▪ Failure to comply with FERPA requirements ▪ Failure to adequately prevent or respond to incidences of sexual harassment or misconduct by students

Student Success

Suggested Risk Owner(s): Provost

Institutional Risks	Example Unit-Level Risks
<ul style="list-style-type: none"> ▪ Inability to meet retention targets ▪ Inability to retain/graduate students due to lack of early warning systems ▪ Inability to retain/graduate students due to inadequate academic/advising support 	<ul style="list-style-type: none"> ▪ Inability of academic conduct/disciplinary procedures to detect and resolve misconduct ▪ Inadequate numbers of advisors to meet student needs ▪ Poor/outdated tracking of student progress to degree ▪ Insufficient class sections to meet student demand for required courses



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