Salem | STATE UNIVERSITY

SUBJECT: Risk Management and Audit Committee Meeting Report for March 30, 2022

In accordance with the General Laws of the Commonwealth of Massachusetts, Chapter 30A and amended by Executive Order No. _ , issued March 13, 2020, suspending parts of the Open Meeting Law to allow public remote participation and participation by the public body remotely the Risk Management and Audit Committee of the Board of Trustees met remotely on Wednesday, March 30, 2022. All votes taken during this meeting were by roll call vote.

Present for the Committee: Trustees Contreras (chair), Butts (vice chair), Maldonado and Mattera; President Keenan (ex-officio), Vice President House (committee co-liaison), Associate Vice President Labonte (committee co-liaison), Vice President and General Counsel Colucci and staff associate Beaulieu.

Trustee Contreras, committee chair, called the meeting to order at 5:02 pm.

Risk Assessment Process (Attachment A)
Discussion took place on how Risk Management has evolved. The university is looking to create a new path forward using an Enterprise Risk Management model. The current process lacks a more holistic look. The new model should link to the Strategic Plan currently in planning stages and be more meaningful to the trustees and university. A risk report was filed with the Commonwealth as required.

COVID mitigation efforts update
The university is in its second week of mask flexible. Early data on COVID positivity looks good. KN95 masks are available and rapid tests are being distributed. The following areas still require masks: public transportation, health care, testing and large-scale events. It is anticipated that pre-COVID conditions will return in the fall 2022.

FY21 Uniform Guidance report status update
Auditors are still working on the FY21 Uniform Guidance report. It is hoped that the report will be available at the next Risk Management and Audit Committee meeting scheduled for May 25.

Auditors for FY22 (Attachment B)
Per compliance of the RMA charter the appointment of the auditors to perform the FY2022 audit was provided. It was noted that the committee and full board approved a three-year appointment of the auditors, O’Connor & Drew previously.

There were no questions or comments on other informational items provided in the meeting packet that had been distributed prior to the meeting including:

Risk Assessment background information (Attachment C)
Risk Management and Audit Committee work plan for FY2022 (Attachment D)

There being no other business a motion was made to adjourn.

Trustee Butts **MOVED** that the Risk Management and Audit Committee meeting adjourn **SECONDED** by Trustee Contreras.

Voting in the affirmative: Butts, Contreras, Maldonado, Mattera
Voting against: None

The meeting adjourned at 5:26 pm.

Prepared by D. Beaulieu, staff associate, finance and facilities

Enterprise Risk Management- A Path Forward

March 30, 2022
Gene Labonte
Associate Vice President for Public Safety and Risk Management

Current Risk Assessment

- Compliance with Chapter 647- Commonwealth's Internal Control law.
- Risk Assessment conducted by sub-committee of the university Internal Controls Committee. (Bottom – Up Process)
- Committee works across various departments to identify risks and assess likelihood and impact.

Enterprise Risk Management (ERM)

- ERM- The commitment to managing risk as an integral component of an entity's operations in order to maximize opportunities and minimize setbacks to the entity's strategies and objectives. (ISO 3100 sample definition)
- ERM links the effects of risk to overall institutional strategy- Link to strategic plan

ERM

- Effective ERM reassures the organization's executive and governing board that the institution uses solid procedures that advance goals and minimize unnecessary costs, reputational damage, and other adverse consequences.

How Risk Management Has Evolved

Transactional	Integrated	Strategic
Traditional Risk Management	Advanced Risk Management	Enterprise Risk Management
• Purchase insurance to cover risks • Safety and emergency management handled separately • Hazard-based risk identification • Compliance issues addressed separately • "Silo" approach- not integrated across the institution	• Greater use of alternative risk financing techniques • More proactive about preventing and reducing risks • Integrates safety and EM, claims management, contract review etc. • Cost allocation used for accountability • More collaboration	• A top-down approach aligns RM process with strategy and mission • A wide range of risks are identified and evaluated, including financial, human, capital, strategic and operational • Evaluation includes the "upside of risks" or opportunities risk-taking offers • Helps manage successful growth • Risks owned and managed and owned at the departmental level.
Risk perceived as a negative- focus on transferring risk	Risk is an expense- Focus on reducing cost of risk	Risk is uncertainty- Focus is on optimizing risk taking to achieve goals

Moving forward to ERM

- Top-Down Approach- Top leaders promote and endorse ERM initiative.
- PEC embrace ERM and are involved in the process.
- Consider creating an ERM Policy

Multi-Step Process

- Understand the institution's plans, environment and culture
  - Link to strategic planning process
- Determine current risk management processes
- Establish ERM goals and objectives
- Obtain top-level commitment, support and participation.

Multi-Step Process

- Establish ERM project timeline
- Refine ERM framework that works for SSU
  - ERM Leadership
  - ERM Executive Group
  - ERM Steering Group

Multi-Step Process

- Refine the identification process
- Ensure understanding of risk
  - May impede the organization's ability to achieve goals and objectives (Strategic Plan)
  - Upside of risk- opportunity –risk taking to achieve goals
    - Risk vs. Reward analysis

Risk identification process

- Top – Down Approach – PEC Driven
- Work within divisions and departments
- Identify risks/obstacles to achieving goals and objectives
  - What are the impediments preventing the department from achieving its goals/objectives
- Identify Opportunities
- Identify mitigation strategies and controls

Audit terms of engagement and fees for FY2022 audit – information only, no action required

The Risk Management and Audit Committee charter includes the following responsibilities, among others, pertaining to the annual independent audit:

1. Annually consider the appointment of the external auditor.
2. Review and approve the terms of engagement and fees of the external auditor at the start of each audit.

No action to appoint O'Connor & Drew P.C. to perform the FY2022 audit is required by the committee or the Board of Trustees at this time, given approval previously granted. O'Connor & Drew P.C. was appointed by the Board of Trustees at its April 14, 2021 meeting to provide audit services for the fiscal periods FY2021, FY2022 and FY2023. For the audit of FY2022, the price will increase as agreed by 3% for the base audit to $80,340 and will remain at $4,500 for each additional major program (for the federal audit.)

PRESIDENT'S OFFICE

Public Safety and Risk Management

Salem STATE | UNIVERSITY

TO: Members of the Risk Management and Audit Committee

FROM: Gene Labonte
Associate Vice President for Public Safety and Risk Management

DATE: March 15, 2022

RE: Annual Risk Assessment Process

Members of the RMA Committee,

As you are aware, the topic of the university's annual risk assessment is on the agenda for the March 30th meeting. The information below provides a summary of our current process. It is my hope that we might use our meeting time to discuss ways that we might modify our current process so that it more closely aligns with all the below requirements. While we have been undertaking a process that ensures compliance, I hope to draw on your collective experience to create a process that is more meaningful and actionable moving forward. Following this memorandum, I have included some reference material that might inform and guide our discussion.

Current Risk Assessment Process:

The Office of the State Comptroller requires each state agency and department to comply with the provisions of Chapter 647, entitled An Act Relative to Improving Controls Within State Agencies. The Act, in part, requires agencies to have an internal control plan and that the plan include Enterprise Risk Management (ERM) components as follows:

- Internal Environment- Leadership demonstrates a commitment to integrity, ethical values, and competence.
- Objective Setting- Measurable targets or purpose of the organization's efforts
    - Goals and objectives are defined, and aligned to the organization's mission
- Event Identification- Occurrences (risks) that could prohibit the accomplishment of objectives.
    - Have risks that may impede the achievement of each objective been identified?
    - Are risks linked to objectives?
- Risk Assessment- Impact and likelihood of occurrence for each potential risk identified.
    - Assessment of risks is performed in determining how risks should be managed.
- Risk Response- How the organization will respond to an event (risk)
- Control Activities- Policies and Procedures, Preventive and Detective Controls, Segregation of Duties.
    - Are control activities linked to identified risks?

The primary action components include risk identification and risk assessment. The university has complied with the requirements of Chapter 647 by undertaking a process of risk identification and conducting a risk assessment. The risk identification process is conducted by a sub-committee of the university internal controls committee. Committee members work across various departments to identify risks and meet individually with members of the risk management team to assess the risk in terms of likelihood and impact. The risk management team compiles a comprehensive risk register and identifies several top risks confronting the university. Each of these risks is further examined and a risk response or mitigation strategy assigned.

Link to video reference material:

https://www.ue.org/risk-management/enterprise-risk-management/implementing-erm-programs-for-leaders-in-higher-education/

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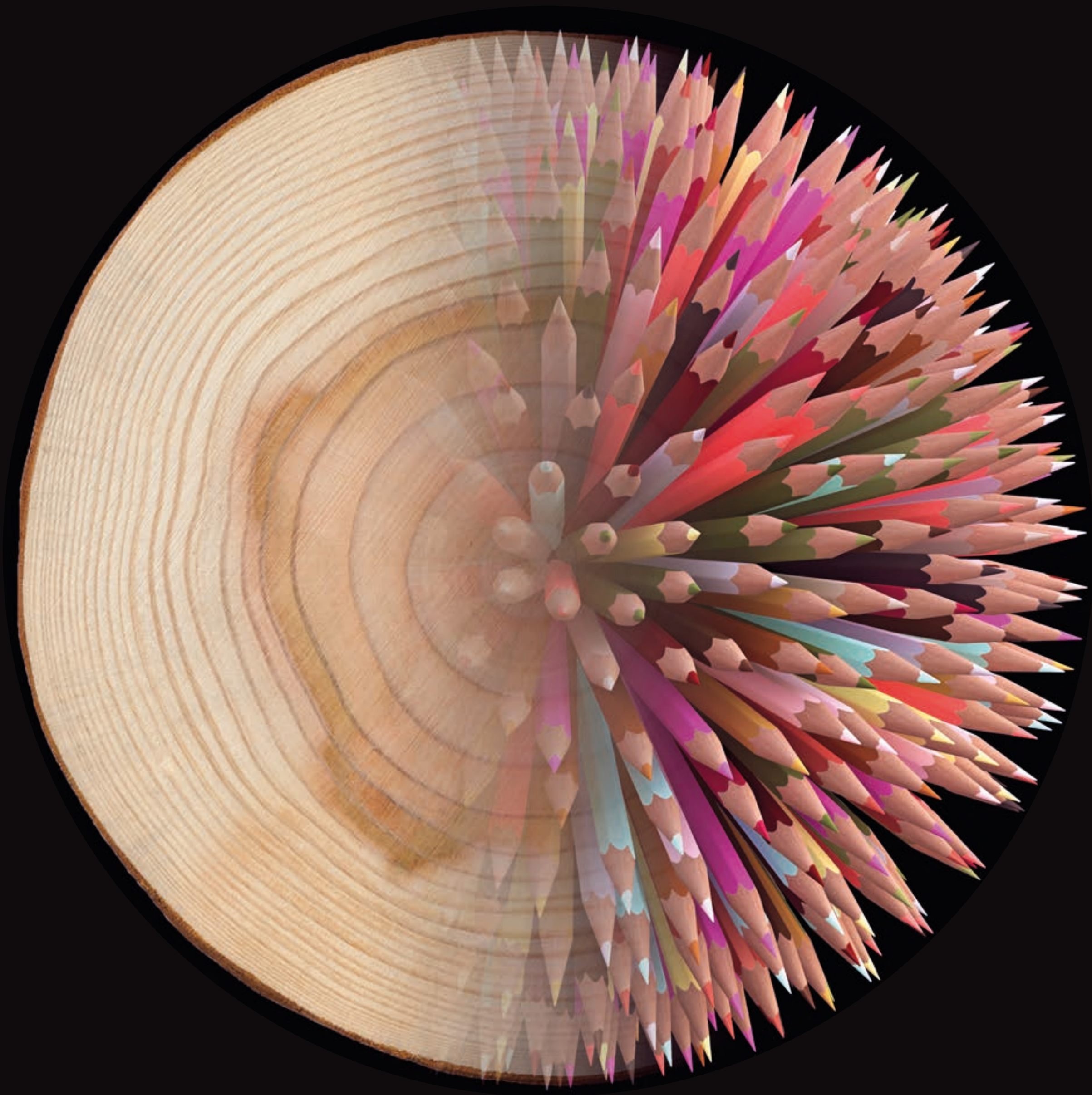
Deloitte.



Significant risks facing higher education

Taking an enterprise approach to risk management

The higher education sector is experiencing change at an accelerating rate. Some of these shifts have been years in the making; others are the result of recent disruptions to the sector itself, or even adjacent sectors, from such as finance and retail. A study by Duke Corporate Education explains that, "It's time to get comfortable being perpetually uncomfortable. The known, mostly predictable, rhythms associated with universities of the past 100 years have given way to syncopation caused by two off-beat troublemakers: technological change and cost pressure[1]."

While an environment of constant change and disruption creates opportunities for institutions to differentiate themselves in a crowded market, it also creates a growing array of risks that can quickly derail their strategy. On top of that, recent events on college campuses have raised serious questions about not just the priorities and processes of leadership, but their moral and ethical standards. High profile instances of sexual misconduct, deaths related to hazing, and athletic program violations, among many others, have shown that major reputational crises (and the resulting scrutiny of both leaders the Board) can happen at any time – and may be happening already.

In some cases, a risk event catches an institution by surprise; in other cases, the risk is well known. Growth of media coverage, including amplification of any topic through social media, means that any mishaps are likely to quickly become public and thus subject to the type of scrutiny that can erode a university's reputation overnight. Consider an institution that:

- is rocked by sexual misconduct allegations that results in leadership resignations and large financial settlements
- braces for student activism after incidences of alleged racism, resulting in leadership resignations followed by an enrollment dip the following year
- faces the ramifications of the loss of accreditation, leaving students at risk of financial aid request denial, inability of credits in progress to transfer to another institution, and most importantly the stigma against the institution that may negative impact the degree's value and the student's ability to gain employment.

Institutions do not need to have all the answers to all the risks they face. But they can be more aware of the increasingly wide spectrum of threats affecting them and thus more proactive, taking action to avoid what they can but also prepare for worse case scenarios to lessen the damage of events that are out of their control.

Further, institutions should consider developing an "enterprise" approach to risk management, as opposed to siloed plans that exist within specific divisions or units to deal with risks specific to their function or mission.

The sections below describe some of the significant risks and issues facing higher education institutions of various sizes. Looking at recent examples of brand and financially-damaging events, five broad categories emerge, under which there are examples of specific risk areas that institutions are (or should be) thinking about. The risks below are by no means comprehensive, nor are they mutually exclusive, but they begin to show why the higher education sector has been steadily investing in the people, systems, and capabilities to survive in the new normal of perpetual discomfort.

[1] http://www.dukece.com/insights/riding-tide-disruption-higher-education/

Business Model Risks

Business model risks challenge an institution's ability to generate adequate revenue and, in some cases, to even exist. The factors below impact the sustainability and relevance of college and university business models in an environment where new approaches to education delivery, revenue generation, and enrollment are evolving rapidly. Institutions that do not plan for these factors may find themselves outpaced by more agile competitors.

- **Tuition dependency –** Schools from large research universities to community colleges depend on income from student tuition to provide the cash flow that sustains operations. Where tuition is the primary (>60%)[2] source of revenue, growing concerns among prospective students about rising costs can lead to decreases in enrollment or increased subsidy rates, all impacting an institution's financial health. With certain geographic regions experiencing a decline in high school graduates, there is a smaller pool of potential new students[3]. Naturally, the decline in high school graduates has had an impact on higher education enrollment, in fact, the National Student Clearinghouse Research Center conducted a study in Spring 2018 concluding that college enrollments went down in 34 states; six of the 10 states with the largest declines were in the Midwest or Northeast.[4] As schools confront this topic, some are exploring new ways to diversify revenue streams or make tuition growth more sustainable. To compound these factors, the unpredictability in state appropriations at public universities provides an additional risk factor beyond the control of an institution. As states grapple with competing interests for state funding such as rising health care costs, an institution should be prepared for less reliance on state appropriations. Forbes predicts that the concept of "state universities" may change, with institutions less reliant on state aid and more dependent on tuition fees and private support gaining some greater independence from state control as partial compensation for declining state support. The distinction between public and private schools, already minimal, might decline even more[5].

- **Education delivery mix[6] –** The trend of rising tuition and declining enrollment in traditional track, in-person programs has led to an increase in alternative delivery models. This movement is not limited to online programs and includes expansion of new or existing part-time programs, Massively Open Online Courses (MOOCs), independent-study, accelerated executive programs, and shorter certificate programs. While alternative models can diversify an institution's offerings, they also present risks related to the quality of material delivered and the ability to assess competency and completion. As students increasingly elect to forgo the traditional path in favor or alternative programs, institutions should be prepared with responses to questions about their student's preparedness for potential jobs and whether an online education is attractive enough and accepted by potential employers for them to become gainfully employed. Alternative delivery models also put pressure on institutions to allocate the appropriate resources to fund them.

- **Endowment returns[7] –** For many institutions, endowments are a critical revenue stream to fund ongoing operations and new initiatives. Endowments adhere to required guidelines mandating how funds can be invested (asset allocation), target returns expected by fund managers, and proportion of investment income that can be spent in each timeframe. As endowments continue to grow (returns averaged 12.2% in the fiscal year ending June 2017[8]), institutions should comply with established rules and long-term expectations for their investments. Because endowments also fund ongoing operations, institutions should ensure they are appropriately estimating expected returns to avoid insufficient cash flow that could force staff/program cuts.

- **Recruiting and targeting –** Depending on location, offerings, and other factors, schools may target certain demographics and population sub-groups (e.g., career experience, STEM-focus, income level, full/part time). However, many institutions have not developed sophisticated recruiting and targeting methods that leverage analytics and continue to "mine" their traditional sources of new students. More advanced use of analytics and big data could help institutions improve recruiting efforts and better align their academic offerings with target segments, potentially reducing recruiting costs and increasing enrollment. Yet institutions should also be conscious of unintended consequences, such as decreases in diversity due to more targeted recruiting. Institutions may need new strategies to balance recruitment targeting, diversity, and the historic enrollment characteristics that have positively influenced the institution's reputation.

- **Heightened Cash Monitoring (HCM) –** Schools with issues including but not limited to accreditation, late or missing annual financial statements and/or audits, outstanding liabilities, denial of re-certifications, concern around administrative capabilities, concern around a schools' financial responsibility, and findings uncovered during a program review, may be placed on HCM by the Department of Education As of June 2018, 544 institutions are designated as being placed on HCM1 or HCM2[9], which may lead to severe financial impacts (including reduced or cessation of funding) that could affect their ability to operate.

[2] https://www.forbes.com/sites/schifrin/2013/07/24/behind-forbes-financial-grades/#7bfa7f44d386
[3] https://www.insidehighered.com/news/2016/12/06/high-school-graduates-drop-number-and-be-increasingly-diverse
[4] https://www.insidehighered.com/quicktakes/2018/05/22/enrollment-declines-steepest-midwest-and-northeast
[5] https://www.forbes.com/sites/richardvedder/2018/05/24/why-is-public-support-for-state-universities-declining/#7c8abc094894
[6] https://mfeldstein.com/the-emerging-landscape-of-educational-delivery-models/
[7] https://www.investopedia.com/ask/answers/how-do-university-endowments-work/
[8] https://www.insidehighered.com/news/2018/01/25/college-endowments-rise-122-percent-2017-experts-worry-about-long-term-trends
[9] https://studentaid.ed.gov/sa/about/data-center/school/hcm

Attachment C

Reputation Risks

In the 24/7 news cycle where negative headlines score highly, higher education institutions have frequently become the target. Schools can lose alumni and business relationships, brand favorability, etc. Institutions with reputational awareness and control over their increasingly vast presence in the media can reduce the risk of damaging a reputation they have spent years building. Some reputational risk factors may include:

- **Brand management -** In 2007, a study in the Journal of Business Research noted that "consensus exists that understanding institutional branding and clearly developing and communicating that brand is of high-quality value to universities[10]". Universities rely on their positive reputation not only to bring in top students and faculty, but to maintain strong alumni relations and bring in auxiliary revenue through merchandise sales, ticketed event sales, television deals for athletics, and relationships with local and state businesses.

- **Campus safety -** To be considered a viable option for students, universities should make campus safety a top priority. Campus safety departments and related functions must be prepared for a wide range of threats – active shooters, hazing, sexual misconduct, physical security, lab safety, drug-related crime, to name a few. For example, while it is difficult to say whether sexual misconduct on college campuses has increased in the last 20 years, the number of cases reported in the media has become more frequent. With the rise of social media and the ease in capturing video footage or text messages, an institution should be prepared for when sexual misconduct occurs on their campus, and speed at which a student body can organize against how an event is being handled. Additionally, hazing was conducted in the open for decades, but since retreated to "behind closed doors", however with the rise of social media, the evidence can no longer be buried[11]. Swift, organized action on behalf of the victim and the institution can reduce the backlash from the media, but an institution must be vigilant in their preparation for events happening on campus. The same logic also applies to active shooters or unrest on campus. Response plans must be established, tested, and continuously improved.

- **Student activism -** While student activism is not a new concept to higher education institutions, a school's responses can in some cases create new risks. With the rise of social media, students can mobilize quickly around an issue faster than ever. Given that institutions are bastions of free speech and encourage students to formulate their own positions on issues, the risk of conflict amongst the student body and the surrounding community is elevated. Institutions should be prepared with plans to de-escalate the situation in the early stages of unrest within the student body. Frequently institutions are caught in a reactive position and unable to manage the situation because they are unprepared for the event.

Operating Model Risks

Operating model risks stem from inadequate processes, people, and systems that affect an institution's ability to function efficiently and effectively. Operational agility is critical to staying competitive, flexible, and relevant as strategies and business models shift. As shown below, college and university operating models involve a range of activities such as how to deliver academic programs, conduct research, make decisions, manage relationships with vendors, sustain enrollment, or maintain accreditation status.

- **Operational efficiency –** If institutions don't continuously assess their portfolio of business process, identify duplicative activities or inefficiencies, or ensure each business function supports the institution's broader strategy, they could find themselves unable to deliver on their academic mission. How business processes are designed and executed drives resource allocation, staffing, and management oversight. If processes are inadequate, the institution may experience financial strain in an environment already facing revenue declines, increased operating costs, and shrinking budgets. Colleges and universities should balance revenue with operating costs, including faculty, staff, utilities, and facilities.

- **Third-party vendors –** Today, every large organization has contracts and relationships with third-party vendors to support and, in many cases, carry out day-to-day operations. Third-party vendors help colleges and universities deliver a growing range of essential duties ranging from janitorial staff to food service to IT security and even teaching. While contracting with third parties can bring efficiencies, there are also risks that require strong governance, iron-clad service level agreements for mission critical services, and robust processes (e.g., pre-screening, vetting and verification of vendors, etc.) to ensure a university's needs are being met while complying with applicable laws and regulations.

- **Accreditation –** Maintaining accreditation is fundamental for higher education institutions to attract and maintain enrollment, faculty, and revenue. A variety of accreditation bodies (approved by the US Department of Education as a safeguard to prevent fraudulent accreditation bodies from taking advantage of schools) assess colleges and universities against defined standards relevant to the institution type. institutions should be prepared for these reviews to reduce the risk of losing their accreditation.

- **Facilities and asset management –** Higher education institutions manage a large portfolio of physical facilities and assets within them – from dormitories, classrooms, offices, student centers, and athletic facilities, to expensive equipment used in research labs. University CFOs should balance the need to maintain competitive, via large scale capital investment programs for new facilities,

[10] https://core.ac.uk/download/pdf/398055.pdf
[11] https://www.insidehighered.com/news/2017/05/24/college-hazing-becoming-easier-punish

with the need to allocate adequate resources to maintenance costs to sustain their growing physical footprint.

- **Business continuity and crisis management –** Colleges and universities are often communities unto themselves, where in some cases thousands of people live and work in close proximity. Whether it's a natural disaster, an active shooter, or a cyber breach, institutions are at high risk given the concentration of people and physical assets that are vulnerable. While geography and institution size are factors that drive the level of exposure to natural hazards or the amount of damage that is possible, these events can happen at any time and often with little warning, requiring increasingly higher levels of preparedness to mitigate the damage.

- **Talent management –** Retaining and attracting top talent is fundamental to a university's ability to not only operate but compete in a crowded market. Talent can be defined beyond the traditional professor or department administrator and includes the people responsible for managing all facets of university life. An institution's ability to maintain top talent is essential to maintaining a respected reputation, producing valuable intellectual property, sustaining enrollment, and reducing turnover.

- **Decision support –** The ability to make informed decisions, such as how to allocate scarce resources to meet their strategic goals, requires leaders from different functions and departments to balance tradeoffs and risks – often without data or visibility into how decisions impact other areas. Challenges that stress an institution's ability to make informed decisions include: functional silos that do not share data; poorly defined business processes; and aging information systems. Higher education institutions should balance financial considerations against academic expectations for a high-caliber organization[12], which may not be aligned. Institutions lacking dedicated capabilities to manage strategy, risk, budget, enrollment, academic performance, and the relationships between them may find themselves unprepared for the changes transforming higher education.

- **Cybersecurity –** As universities becomes more digitized, exposure to cybersecurity breaches naturally increases. Cyber risks have been well publicized over the last several years, and organizations such as EDUCAUSE have noted that information security is annually listed as a top risk by higher education leaders.[13] Higher education institutions possess large amounts of personally identifiable information (PII), payment information, and medical records that can be lucrative targets for hackers. Migration of systems and applications that house this data to new cloud platforms means IT administrators have to think differently about security, and in many cases cloud solutions also make information safer. An added complexity is that institutions may have antiquated systems or connection points with various third-party vendors that allow for numerous entry points. Without the commensurate information security controls, institutions are more vulnerable to a breach. Schools should not expect to mitigate all cyber risks; the costs would be prohibitive. But they are increasingly thinking more holistically about identity and access management, data protection, application security, and cyber incident response capabilities across all business domains. Tools such as business continuity, war gaming, crisis communication, and post-crisis recovery and review exercises are readily available to help institutions stay prepared and resilient in the face of today's inherent cyber threats.

[12] https://www.researchgate.net/publication/47799644_Higher_education_decision_making_and_decision_support_systems
[13] http://www.govtech.com/education/higher-ed/8-Cybersecurity-Challenges-Facing-Higher-Education.html

Enrollment Supply Risks

In the absence of robust, consistent student enrollment, tuition-dependent institutions cannot sustain their financial health and fund operations. Gaps between estimates and actual student enrollment limit a school's ability to forecast faculty turnover, resource use, and infrastructure needs to support the student population. Recent trends have pointed to declining student populations (between 2026 and 2031 the number of high school graduates is expected to drop by 9%)[14], as well as shifting demographics. Some enrollment supply risk factors include:

- **Immigration and Federal policies –** The United States hosts the largest number of international students worldwide[15]. In 2017, there were 1.21 million international students in the United States, a number which declined from 2016's high of 1.23 million.[16] Some universities have come to rely on international students as a main revenue source, putting them at greater risk to the recent fluctuations in foreign students entering the US. According to a National Science Foundation report, in Fall 2017 the number of international students enrolled at US universities fell by close to 4% from the previous year, and State Department data showed a decline in the number of new student visas awarded. Recent policies, such as proposals to limit legal immigration levels and increased scrutiny of H-1B visa applications[17], are beginning to make it increasingly difficult for workers from certain countries to gain access to US institutions. Despite declining enrollment, there is still a large international presence and support system surrounding an institution. Institutes, often funded by international governments to promote the country of origins' culture and language exist at many colleges and universities.

- **Growing economic markets –** Global socio-economic shifts have also contributed to declining enrollment at US universities. Other countries are continuing to advance their institutional quality and students who would otherwise have considered US schools may choose to attend an institution of choice in their home country – or may stay in their home country due to immigration concerns. Or, US students looking to avoid high costs at US institutions may attend programs abroad, decreasing the domestic enrollment levels.

- **Market demand –** Demand for higher education varies according to economic factors and relevance of educational offerings to job markets and industry trends. With overall employment projected to increase 7% by 2024[18], students hoping to invest further in their education will consider the expected payoff of their degrees and their ability to find a job upon completion. Some students may forsake higher education in favor of entering the job market. Institutions should to remain attuned to current and projected market conditions to ensure their business model and associated offerings are aligned with demand.

- **Rising student debt –** Aggregate student debt in the US has eclipsed $1 trillion, while the price of American college education has risen nearly 400% in the past 30 years[19]. This has resulted in prospective students questioning the return on investment of a college degree vs. entering the workforce directly or finding alternative online or certification-based education. Institutions should be conscious of the impacts of debt on students' ability to attend the institution of their choice.

[14] https://www.washingtonpost.com/news/grade-point/wp/2018/01/27/higher-education-is-headed-for-a-supply-and-demand-crisis/?utm_term=.917e977e9658
[15] https://www.theatlantic.com/education/archive/2015/11/globalization-american-higher-ed/416502/
[16] https://www.bostonglobe.com/metro/2018/02/01/number-foreign-students-studying-drops/JHb6P59y3Ut0px2VM54JBN/story.html
[17] https://www.wsj.com/articles/u-s-workers-only-companies-hesitate-to-hire-foreign-m-b-a-students-1533124800?mod=searchresults&page=1&pos=5
[18] http://time.com/money/4169373/fast-growing-jobs-2024/
[19] https://www.theatlantic.com/business/archive/2017/07/college-bubble-ends/534915/

Compliance Risks
Higher education leadership and governance bodies are expected to remain compliant with a growing array of state, local, federal, and private regulations. Failure to meet compliance standards can lead to consequences ranging from loss of funding, loss of accreditation, or, in extreme cases, to lawsuits and/or criminal charges against leadership.

There is complicated web of compliance requirements and the list is growing as universities become increasingly complex. As a result, the cost of compliance is increasing. A study conducted found that "it spends 11 percent of the university's entire budget[20]" to comply with government regulations. The study also notes that it has become increasingly difficult to quantify the cost of compliance as the requirements have become increasingly complex and at times intertwined. The Higher Education Compliance Alliance created a matrix of 265 key federal laws and regulations governing colleges and universities[21]. Institutions may have additional requirements based on their financial relationships, research expenditures, and legal circumstances. Some compliance risk factors include:

- **Federal regulations –** Higher education institutions should comply with a variety of federal regulations to maintain accreditation and standing. Failure to satisfy the requirements of Title IX, Title IV, Clery Act, the Gainful Employment Act, or other regulations can not only damage an institution's accreditation status and financial standing but can also damage its reputation.

- **State and local regulations –** While typically requiring fewer resources to remain compliant relative to Federal rules, adherence to state and local regulations is essential for institutions to remain solvent, accredited, and successful in their business model. Many of these local regulations are related to physical assets, zoning, safeguards against physical and emotional harm, taxes, and workforce management. Some examples include - Pennsylvania State System of Higher Education Procedure/Standard Number 2011-04 Accounting for Privatized Housing, California Code of Regulations Title 13 Hazardous Materials Transportation.

- **Research expenditures –** Research can be funded either by the Federal government or privately, through a variety of channels. To sustain the research programs that attract top talent, schools should consider adhere to all regulations around research funding. A study noted, approximately $117M of the $150 million of annual compliance-related costs are attributed to "research-related regulation[22]". While a portion of grant funding covers administrative and reporting requirements, large university research programs require dedicated offices, staff, and operating budget to coordinate compliance across a large portfolio.

- **Fraud –** Higher education institutions are susceptible to instances of financial and academic fraud, leading to significant legal and reputational costs. A strong internal controls program can reduce the potential for fraud while adhering to specific fraud prevention requirements such as the Fraud Enforcement and Recovery Act of 2009 (FERA) and Higher Education Program Participation Agreements.

Embracing the challenging future: the new normal

As higher education continues to rapidly evolve, new risks will emerge, known risks will take new forms, and crises will inevitably unfold. Universities must be comfortable with a "new normal" of perpetual discomfort.

In response, many schools are re-thinking how they look at risk. Whereas risk management has historically been confined to specific domains (compliance, internal audit, safety, insurance) and often managed in siloes, institutions today are realizing their risk portfolio is inherently interconnected. Greater visibility helps but is often not enough. Schools are finding they need the infrastructure – governance, data, processes, and culture – to be prepared for the threats (and opportunities) that will determine whether they can survive or thrive.

Universities must accept that they will not have all the answers. Events and even crises will occur. But events that derail an institution's strategy are not inevitable. By taking an "enterprise" approach to risk management, schools can be more proactive and prepared: avoiding, accepting, mitigating, sharing, or exploiting risk where possible, or responding more effectively when issues, incidents, and crises do materialize. Knowing they have taken steps to be more resilient in the face of risk, Boards, presidents, and the rest of the university community can be more confident as they embrace a challenging future.

[20] https://hechingerreport.org/the-150-million-question-what-does-federal-regulation-really-cost-colleges/
[21] http://www.higheredcompliance.org/matrix/
[22] https://hechingerreport.org/the-150-million-question-what-does-federal-regulation-really-cost-colleges/

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Attachment C

January 21, 2019

Leverage Enterprise Risk Management for Higher Education Boards

Written by Nick Price

Every industry carries unique types of risks. Due to student populations and school-related activities, institutions of higher education face many different types of risks than in other industries. An enterprise risk management in higher education helps colleges and universities to identify what kinds of things could happen that could negatively impact the school's ability to reach their goals.

An enterprise risk management plan in higher education incorporates plans to identify risks, analyze the impact of those risks, and take steps to mitigate the risks. Governance software solutions are instrumental in the enterprise risk management process and in supporting good corporate governance principles as well.

Attachment C

What Is Enterprise Risk Management? (ERM)

Enterprise risk management (ERM) is a business process that helps companies identify risks that could prevent a business from becoming successful. ERM helps businesses understand what risks they may face. Furthermore, ERM helps boards and managers to assess how likely those risks are to happen and what their impact may be if they should happen.

The ERM process is a valuable tool for developing plans to continue monitoring risks and actively plan for them. Janice Abraham, President and CEO of United Educators, says that one of the easiest things that higher education can do is to see what the media is reporting about risks in higher education, not only in the school's geographical area, but across the nation. Another viable way to identify risks in higher education is to check out what kinds of risk their competitors are facing. Sooner or later, the same risks are bound to come along.

Abraham wants boards and managers of higher education institutions to be aware of two things. First, senior administrators own responsibility for risk management. Secondly, risk management is a continual process—not a one-shot deal. Boards and managers are wise to be constantly looking at enterprise risk management.

Best Practices for Enterprise Risk Management in Higher Education

The most successful models for ERM in higher education embrace a serious attitude about risk management from the top. At the board and senior management levels, the primary belief has to be that risk management in higher education requires a comprehensive, integral approach.

This approach requires that board committees, in addition to the audit and finance committees, be engaged and involved in the process. Every department, club, and activity brings risk on a college campus and such issues as sexual assault and alcoholism present common risks. From the board's governance committee to the student's campus life committee, every board committee and school committee needs to understand its risks.

A good place for boards and committees to start is with their policies. Are their conflict of interest, gift acceptance, whistleblower, and other policies being followed? Creating awareness of the importance of abiding by policies is a good place to start.

Classifying Risks for an Enterprise Risk Management in Higher Education Plan

Boards can classify risks into many different categories. The impact of risk has many different facets. It may be helpful for boards to classify the impact of their risks into the most common categories. Each institution may have unique categories. Here are a few to get you started.

- Strategic risks-impacts strategic risks, causing them to fail
- Financial risks-generates unexpected costs or loss of revenue
- Operational risks-affects the quality of work and impacts its efficiency
- Reputational risks-media sensationalizes crime or other school incidents
- Environmental, health, and safety risks-threatens the students', faculty's, or someone's well-being
- Technology risks-cybersecurity risks may leak personal or sensitive business information through applications, data, operating systems, network, or infrastructure for criminal use
- Legal risks-risks may instigate lawsuits against the institution

Ms. Abraham also warns that some colleges face unnecessary risks to protect their "sacred cows." If your school has a top sports program, highly acclaimed academic program, or any special traditions that they want to protect and the board or management tries to shove the risks under the rug, risks could get out of control.

To be effective, boards and senior administrators must be accountable. Their best resource for ERM is learning from those who've been identifying and assessing risks in higher education for the long-term. ERM needs to be pervasive in all things. Board committees must write risk management into their charters and senior managers must ensure that it's written into their job descriptions.

Establish Your Risk Tolerance

One of the more important steps in ERM is to establish a risk tolerance. This step requires risk committees to develop a scale, identify the organization's risk tolerance and have a willingness to accept a certain outcome. Boards, managers, and their risk committees must continually evaluate the risk management plan to assess whether it's too risky or too conservative. The process of continual assessment will help to shape the ERM over the long-term.

A Board Portal Can Serve as an ERM Program

Governance, risk, and compliance (GRC) software assists board in the areas of auditing, policy management, compliance management, and risk management. Unlike manual processes that can't keep up with the complexity of risks, GRC software is highly secure. High levels of security are crucial for boards in dealing with such issues as cyber threats, economic fluctuations, operational factors, environmental factors, geopolitical factors, and much more.

Attachment C

In addition, board portals and governance software solutions provided by BoardEffect assist boards and senior managers with organizing and storing board materials, securing communications, conducting board evaluations, submitting compliance documents, recording board agendas and minutes, strategic planning, and analyzing data.

Enterprise Risk Management in Higher Education Now and for the Future

There's no question that the future will bring more and varied risks with it. Higher education is already facing new challenges due to advancements in technology, advancements in health care, and the competition with online learning institutions.

Cybersecurity threats will continue and they're bound to increase in sophistication. On campus scandals such as alcoholism, drug use, sexual assault, school shootings, and health risks will continue to keep board directors and senior administrators up at night. Risk management teams will be busy and on-call as the need to classify, assess the impact, and plan to mitigate risks increases over time.

A board portal system is an asset to higher education systems in forming a well-developed enterprise risk in higher education program.

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Risk Management and Audit Committee Work Plan for FY22

March 2022

September 29, 2021 w BOT Oct. 13, 2021

- Cyber security update
- COVID mitigation efforts update
- Audit Matters
  - Status of FY21 audit (verbal update)
- Other
  - Committee charter
  - Committee work plan for the year
- Executive session, if needed

October 13, 2021 Special RMA Meeting re Audit w BOT Oct. 13, 2021

- Review and recommend acceptance of FY21 audit (auditors in attendance)

January 26, 2022 w BOT Feb. 9, 2022

- Clery Report
- COVID mitigation efforts update
- FY21 annual report of president's expenditures

March 30, 2022 w BOT April 13, 2022

- Risk Assessment
- COVID mitigation efforts update
- FY21 Uniform Guidance report status update
- Auditors for FY22 (information)
- Other – Committee work plan for the year

May 25, 2022 w BOT June 8, 2022

- Acceptance of FY21 Uniform Guidance report
- Risk Assessment Report
- Status of implementation of the GASB 87 leases
- Executive Session, if needed