UNIVERSITY OF OREGON

December 4, 2014

TO: The Board of Trustees of the University of Oregon

FR: Angela Wilhelms, Secretary

RE: Notice of Executive and Audit Committee Meeting

The Executive and Audit Committee of the Board of Trustees of the University of Oregon will hold a public meeting on the date and at the location set forth below. Subjects of the meeting will include: audit reports and audited financial statements, risk management, Board planning, and an update on policy processes.

The meeting will occur as follows:

Wednesday, December 10, 2014 at 12:30 PM
Ford Alumni Center, Room 403

The Ford Alumni Center is located at 1720 East 13th Avenue, Eugene, Oregon. If special accommodations are required, please contact Amanda Hatch at (541) 346-3013 at least 72 hours in advance.

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Board of Trustees of the University of Oregon
Executive and Audit Committee Meeting
December 10, 2014

12:30 pm – Public Meeting – Ford Alumni Center, Room 403

1. Convene
   - Call to Order
   - Roll Call
   - Introductory comments and agenda review

2. Approval of September 10 and September 24, 2014, EAC meeting minutes (Action)

3. University policies update (Scott Coltrane, President)

4. Audited yearly financial statements
   4.1 Annual financial statements (Jamie Moffitt, VPFA/CFO and Treasurer; Kelly B. Wolf, Controller)
   4.2 Independent auditors' report (Jean Bushong, Principal, CliftonLarsonAllen LLP)

5. Quarterly internal audit report (Brenda Muirhead, Chief Auditor)

6. Risk Management update (Andre LeDuc, Enterprise Risk Management Services Executive Director)

7. Board planning

8. Adjourn

Board of Trustees of the University of Oregon
Executive and Audit Committee Meeting
December 10, 2014

Agenda Item #1

There are no materials for this section

Board of Trustees of the University of Oregon
Executive and Audit Committee Meeting
December 10, 2014

Agenda Item #2

The draft minutes for September 10 and September 24, 2014, were emailed to the Board of Trustees, Executive and Audit Committee, for review on Monday, December 1, 2014.

Board of Trustees of the University of Oregon
Executive and Audit Committee Meeting
December 10, 2014

Agenda Item #3

There are no materials for this section

UNIVERSITY OF OREGON

MEMORANDUM
December 4, 2014

TO: Board of Trustees

FROM: Angela Wilhelms, Secretary

RE: Audited Annual Financials and External Audit Report

This memo serves to inform you that materials for this section of the EAC agenda (audited financial statements for FY14 and associated annual external audit reports) will be provided at the meeting. We apologize that they are not ready in time for inclusion in this packet, but specific information is still being finalized.

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FAC #4

UNIVERSITY OF OREGON

FY2014 Audited Financial Statements

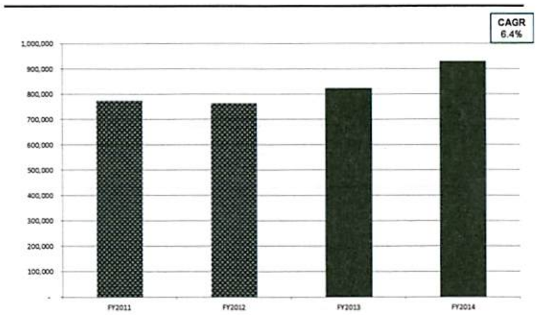
December 11, 2014
Presenters: Jamie Moffitt, VPFA/CFO/Treasurer
Kelly B. Wolf, AVP/Controller

Board of Trustees of the University of Oregon

Agenda

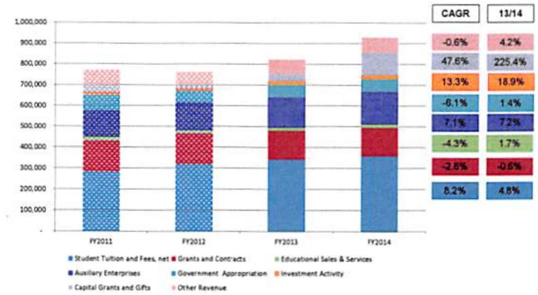
- Revenues & Expenses
- Assets, Liabilities & Net Position
- Cash Flows

Four Year Revenue Trend (in thousands)



Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

Sources of Revenue (in thousands)



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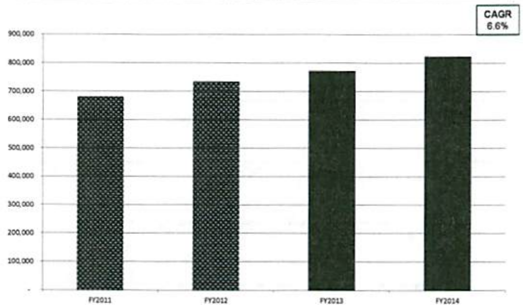
UNIVERSITY OF OREGON

Four Year Expense Trend (in thousands)



Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

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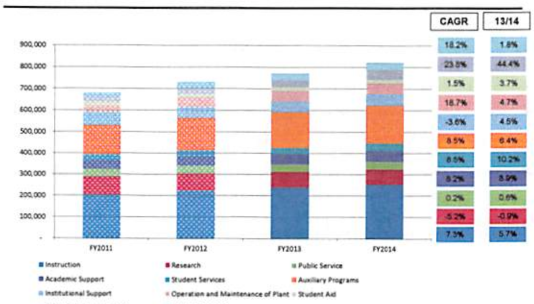
Expenses by Programmatic Use (in thousands)



Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

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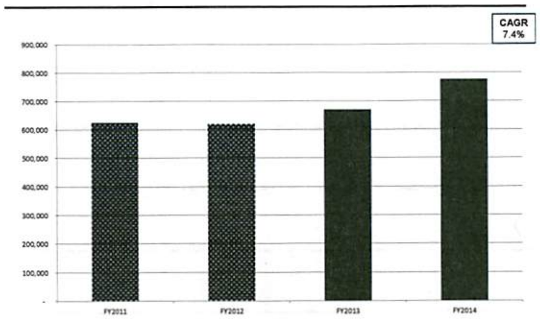
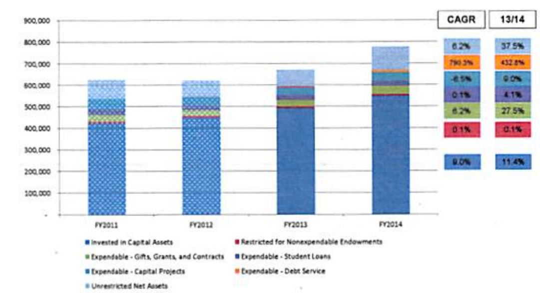
Growth in Net Assets (in thousands)



Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

Net Position by Category (in thousands)



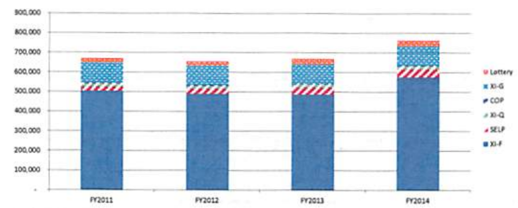
Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

Capital Assets (in thousands)

	FY2011	FY2012	FY2013	FY2014
Equipment	91,315	97,250	107,064	106,827
Collections	32,125	34,408	37,596	38,745
Library	120,791	122,884	125,301	126,893
Buildings	1,088,806	1,202,787	1,254,070	1,405,110
Land	77,481	79,993	90,192	88,013
IOTB	9,727	9,727	10,033	10,828
Infrastructure	38,749	44,254	44,632	47,900
Intangible Assets	14,919	14,274	15,045	15,314
	1,473,912	1,605,577	1,683,934	1,839,631
Accumulated Depreciation	(469,838)	(507,644)	(552,607)	(598,824)
	1,004,074	1,097,933	1,131,326	1,240,807

Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

Debt by Bond Type (in thousands)



Annual Debt Service as % of Operating Exp.	5.8%	6.5%	6.2%	5.8%

Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

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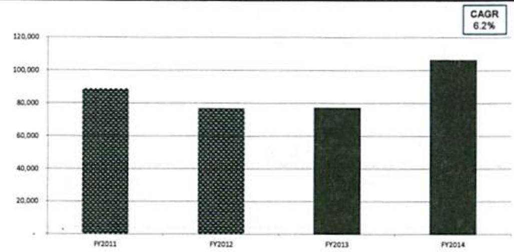
Unrestricted Net Assets (in thousands)

CAGR 6.2%



Weeks of Operating Expenses	7.0	6.1	5.8	7.5

Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

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Unrestricted Net Assets – Future Considerations

- GASB 68 will be effective for FY2015
- Requires recognition of unfunded pension liability (PERS)
- May have significant negative effect on Unrestricted Net Assets

UNIVERSITY OF OREGON

Four Year Cash Flow Trend (in thousands)

	FY2011	FY2012	FY2013	FY2014
Beginning Cash Balance	350,355	329,522	134,977	130,410
Cash Flows from Operating Activities	(39,746)	(80,980)	(83,319)	(82,990)
Cash Flows from Non-Capital Financing Activities	153,259	122,418	119,569	210,504
Cash Flows from Capital and Related Financing Activities	(144,830)	(138,191)	(54,229)	(42,159)
Cash Flows from Investing Activities	10,584	(97,790)	13,412	52,811
Ending Cash Balance	329,522	134,977	130,410	268,576

Note: FY2013 and FY2014 audit is still in progress. Figures presented here are tentative until final audit certification.

UNIVERSITY OF OREGON

Office of Internal Audit

Quarterly Report

Fiscal Year 2015 - 1st Quarter

Report to the Board of Trustees of the University of Oregon
Executive and Audit Committee
December 10, 2014

<u>Agenda</u>

1) Internal Audit Activities

    a. Implementing the audit function
    b. Assurance
    c. Consulting
    d. Fraud and Ethics Reporting Hotline

2) External Audit Coordination

    a. Procuring external audit services (Financial Statements, OMB Circular related requirements, and NCAA Agreed Upon Procedures).

3) Internal Audit Resources

    a. Staffing - Four of the five positions have been filled. IT auditor position will remain vacant until the external assessment is complete.
    b. External Audit Services –procuring an external firm to audit the information technology environment.

4) Audit Plan

    a. Status
    b. Audit Requests
        i. Transition Management Review
        ii. Efficiency Audit

UNIVERSITY OF OREGON

MEMORANDUM
December 4, 2014

TO: Board of Trustees

FROM: Angela Wilhelms, Secretary

RE: Risk Management Materials

This memo serves to inform you that materials for this section of the EAC agenda (Risk Management Update) will be provided at the meeting. We apologize that they are not ready in time for inclusion in this packet, but specific information is still being finalized.

Provided for your background knowledge is a 2009 report from the Association of Governing Boards of Colleges and Universities (AGB) and United Educators which looks at "The State of Enterprise Risk Management at Colleges and Universities Today." This document provides terrific context for higher education risk management, and provides a good background to many of the key issues and terms that will be addressed during the EAC meeting presentation.

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The State of Enterprise Risk Management at Colleges and Universities Today

For more than 80 years, the Association of Governing Boards of Universities and Colleges (AGB) has had one mission: to strengthen and protect this country's unique form of institutional governance through its research, services, and advocacy. Serving more than 1,200 member boards and 35,000 individuals, AGB is the only national organization providing university and college presidents, board chairs, trustees, and board professionals of both public and private institutions with resources that enhance their effectiveness. In accordance with its mission, AGB has developed programs and services that strengthen the partnership between the president and governing board; provide guidance to regents and trustees; identify issues that affect tomorrow's decision making; and foster cooperation among all constituencies in higher education.

United Educators (UE) is a licensed insurance company owned and governed by more than 1,150 member colleges, universities, independent schools, public school districts, public school insurance pools, and related organizations throughout the United States. UE was created to be "Education's Own Insurance Company" in 1987 on the recommendation of a national task force organized by the National Association of College and University Business Officers. UE's mandate is to provide long-term, stable alternatives to the cyclical unavailability and erratic pricing of commercial liability insurance. UE understands the special nature of education and is committed to reducing the overall cost of risk for its policyholders. UE members benefit from tailored coverages as well as value-added, education-specific services in claims and risk management. UE is Rated A (Excellent) by A.M. Best.

This publication is intended to inform discussion and aid in enterprise risk management for higher education. It is not intended as a substitute for legal advice or counsel.

Additional resources on this topic can be found in United Educator's Risk Management Library and in Essentials of Risk Management, part of AGB's Board Basics series.

Contents

Enterprise Risk Management: Best Practices for Boards, Presidents, and Chancellors

In private industry, boards and chief executives routinely consider risk in strategic planning, but a new survey by the Association of Governing Boards and United Educators reveals that higher education is lagging behind in this important fiduciary responsibility. (A detailed summary of the survey results is available at www.agb.org/research and at www.ue.org.) Key survey findings include:

- Sixty percent of respondents said their institutions do not use comprehensive, strategic risk assessment to identify major risks to mission success.
- Fewer than half of the respondents said they "mostly agree" with the statement, "Board members and senior administrators actively engage in discussions regarding institutional risks."
- Five percent of respondents said their institutions have exemplary practices for management of major risks to mission success.

College presidents* and boards should collaborate in developing and overseeing a system for evaluating campus risks at the strategic level. Specific ways in which the board and president can support risk assessment are recommended in the following Best Practices and Action Steps.

Best Practices

1. Define risk broadly. Traditionally, institutions focused on financial risks covered by insurance. Current thinking defines "risk" as any impediment to accomplishing institutional goals. In a 2000 report, the National Association of College and Business Officers (NACUBO) discussed the "new language of risk" and identified five types of risk: strategic, financial, operational, compliance, and reputational.

2. Recognize both the opportunities and downsides of risk. Many colleges focus only on the downsides of risk. In addition, they should weigh risks against potential rewards. All successful organizations take risks, and the most promising opportunities often involve heightened risk.

3. Develop a culture of evaluating and identifying risk at multiple levels. Presidents and board members rarely see the first warnings of risk. Institutions need to identify and assess risks regularly at multiple levels so that the most critical ones filter up to top decision-makers.

4. Look at the total cost of risk. Risk is not just about dollars and cents. Institutions must consider all the consequences of risk. For example, in a lawsuit over denial of tenure, there are litigation costs, but there are also non-monetary costs such as lost productivity, distraction from mission, and negative publicity.

5. Boards and presidents should collaborate. They need to engage in candid discussions at the strategic level. By working together, presidents and boards can fulfill their shared responsibility for ensuring the success of the mission and stability of the institution.

* The term "president" includes both presidents and chancellors of higher education institutions.

Action Steps

1. Develop a disciplined process to consider risk in strategic discussions. Most institutions monitor risk on an ad-hoc basis. Institutions need a disciplined process to ensure that mission-critical risks are elevated from the operational level to strategic discussions of institutional goals. For policy decisions, boards need to ensure that comprehensive risk assessment has occurred.

2. Designate an owner of the risk identification process. Risk identification is the first step of risk evaluation. To ensure the process moves forward, institutions should designate an administrator to oversee risk identification by every department throughout the institution. The right person will vary by institution and could be the president, chief financial officer, risk manager, chief auditor, or general counsel.

3. Require all top administrators to prioritize risk. Once identified, risks should be prioritized based on probability of occurrence and severity of impact.

4. Sift through the prioritized risks to decide which ones warrant attention at the highest level. Boards and presidents need to monitor those risks that could interfere with strategic goals of the institution and establish tolerances for each risk. They should limit the number of risks monitored so that top risks receive sufficient discussion.

5. Require annual written reports on each high-priority risk being monitored. Annual written reports ensure that administrators stay focused. In addition, they allow boards and presidents to monitor progress in managing key risks.

6. Re-assess priority risks at the board level at least once a year. An institution's environment is constantly changing. At least once a year, the board and president need to determine which risks are emerging, and which ones can come off the priority list.

7. Look for blind spots. At least once a year, boards and presidents need to ask, what downside risks are we leaving out, and what opportunities are we missing? Imagine the unimaginable—a flood that closes your campus for a year, a student killing more than 30 classmates, a 20 percent drop in the stock market in one week. All of these "unimaginable" events have occurred.

8. Move risk identification deeper into the institution each year. Many serious risks are first spotted by employees without fancy titles. Who at an institution would first know that campus buildings are developing mold problems, a donor database has security flaws, or a student is becoming dangerous to others?

9. Keep repeating the process. Risk management is not a one-time endeavor. Boards and presidents need a dynamic approach to protect the institution from mission-critical risks and take advantage of emerging opportunities. Most institutions focus on downside risks in the beginning and then move to opportunities as their risk-management processes become more advanced.

Worksheet for Oversight of Systematic Risk Assessment

Overview

This worksheet is designed to help boards, presidents*, and other higher education leaders begin the process of systematic risk assessment by determining which areas of potential risk are the most urgent. After deciding which risk areas need immediate attention, the board and president should delegate those areas to subject matter experts to identify specific risks that require top-level attention. During the first years of the process, a college should focus on downside risks, gradually expanding the number of risk areas assessed. After the process becomes institutionalized and more advanced, an institution can begin to focus on upside risks and opportunities.

Contents of the Worksheet

The worksheet contains approximately 80 risk areas in four categories: operational, financial, compliance, and board governance. The worksheet is not comprehensive. It serves as a starting point by compiling risk areas drawn from assessments performed by numerous colleges and universities. Within each category, the worksheet contains space for institutions to add risk areas unique to their institutions.

Instructions for Using the Worksheet

The president and the board, through appropriate board committees, should review each of the areas in the checklist and assign them one of four urgency ratings in the middle column:

1 – Risk area needs immediate assessment
2 – Risk area to assess over the mid-term
3 – Risk area to assess over the long-term
NA – Risk area not applicable to the institution

In deciding which risk areas to assess first, boards and presidents should consider the following questions:

- Which areas worry you most?
- Which areas have generated problems that could have been prevented?
- Which areas have caused problems for peer institutions?
- Which areas have the greatest potential for mitigation?
- In which areas do you or the institution lack sufficient information to make an informed assessment?

An institution should not assess more than 15 risk areas in the first year. Many systematic risk management efforts have stalled or failed because institutions attempted too much in the beginning. The president, after consulting with top administrators, should delegate responsibility for each urgent risk area

* The term “president” includes both presidents and chancellors for the purposes of this worksheet.

to a subject-area expert on campus and list that person in the column on the right. If the institution lacks expertise in an important risk area, it has discovered a serious information gap that must be filled either by hiring someone with the necessary skills or retaining an outside consultant.

The subject area experts, perhaps assisted by teams, should assign a priority ranking to the most critical risks in each area, based on probability of occurrence and severity of impact and determine which risks warrant elevated attention. The appendix contains three examples of analysis that subject area experts could perform. The first two examples were developed by the University of Washington and focus on risk identification. The final example, developed by United Educators, illustrates both risk identification and a basic method for risk prioritization. The examples show that there are multiple ways to achieve the same objective. Institutions should choose a method that best fits their needs and resources.

The final steps are for the board and president to review the highest priority risks identified by subject area experts, decide which risks pose the greatest threats to the institution's strategic goals, and develop a procedure for monitoring efforts to mitigate them. For the most serious risks, the board should receive a written update at least once a year.

Operational Risk Areas

Facilities	**Urgency Rating**				**Person to Assess (If rated "1")**
	1	**2**	**3**	**NA**	
Accessibility					
Auto/Fleet					
Disaster preparedness					
Maintenance and condition					
Outsourcing					
Pollution					
Safety					
Security					
Transportation					

Additional Facilities Risk Areas:

______________________ ______________________

______________________ ______________________

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

Additional Academic Affairs Risk Areas:

External Relations	Urgency Rating 1	2	3	NA	Person to Assess (If rated "1")
Alumni relations					
Community relations					
Compliance with donor intent					
Crisis communications plan					
Sale of donated property					
Gift acceptance policies					
Naming policies					
Officer codes of conduct					
Relationships with vendors					

Additional External Relations Risk Areas:

Human Resources	Urgency Rating 1	2	3	NA	Person to Assess (If rated "1")
Affirmative action					
Background checks					
Benefits					
Code of conduct					
Employee handbook					
Employee retention					
Executive succession					
Grievance procedure					
Harassment prevention					
Labor relations					
Non-discrimination					
Performance evaluation					
Sexual molestation prevention					
Termination procedures					
Workplace safety					

Additional Human Resources Risk Areas:

Information Technology	**Urgency Rating** 1	2	3	NA	**Person to Assess (If rated "1")**
Back-up procedures					
Communications systems					
Cyber liability					
Data protection					
End-user training					
Incident response					
Network integrity					
Privacy					
Security					
Staffing and support					
System capacity					

Additional Information Technology Risk Areas:

Research	**Urgency Rating** 1	2	3	NA	**Person to Assess (If rated "1")**
Accounting					
Animal research					
Clinical research					
Environmental and lab safety					
Hazardous materials					
Human subjects					
Lab safety					
Patenting					
Security					
Technology Transfer					

Additional Research Risk Areas:

Student Affairs	Urgency Rating 1	2	3	NA	Person to Assess (If rated "1")
Academic standards					
Admissions/retention					
Alcohol and drug policies					
Athletics					
Code of conduct					
Crime on campus					
Diversity					
Experiential programs					
Financial aid					
Fraternities and sororities					
Free speech					
International students					
Privacy					
Student debt					
Study abroad					

Additional Student Affairs Risk Areas:

Financial Risk Areas

	Urgency Rating 1	2	3	NA	Person to Assess (If rated "1")
Auditor independence					
Budget					
Cash management					
Conflict of interest					
Contracting and purchasing					
Cost management					
Depletion of endowment principal					
Enrollment trends					
Financial aid					
Financial exigency plan					
Fundraising					
High-risk investments					
Insurance					
Investment oversight					
Long-term debt					
Reserve fund					
Tuition dependency					

Additional Financial Risk Areas:

Compliance Risk Areas

	Urgency Rating 1	2	3	NA	Person to Assess (If rated "1")
Animal research					
Athletics					
Clinical research					
Copyright and "fair use"					
Environmental					
Government grants					
Higher Education Act					
HR/employment					
Intellectual property rights					
Privacy					
Record retention and destruction					
Taxes					
Whistleblower policy					

Additional Compliance Risk Areas:

Board Governance Risk Areas

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

Additional Board Governance Risk Areas

Survey on Enterprise Risk Management: Summary of Key Findings

- Forty-one percent of respondents “mostly agreed” that risk management is a priority at their institution.
- Twenty-three percent of respondents (and 29 percent of trustees) “mostly agreed” that their governing board monitors institutional risk through regular, formal reports from the administrator who is assigned responsibility.
- A majority (60.1 percent) of respondents reported that their institutions do not identify major risks to institutional mission success through comprehensive, strategic risk assessments.
- Fewer than half of respondents (41.7 percent) reported frequent or routine monitoring of “political or reputational” risks which pose serious threats for colleges and universities.
- Half of respondents (50.8 percent) reported that board members and senior administrators at their institutions evaluated major risks identified by strategic risk assessment only on an as-needed basis.
- The survey responses of presidents were consistently more optimistic than those of chief financial officers (CFOs), who are most frequently delegated risk-management responsibilities.
- While the survey results suggest there is considerable room for improvement in risk-management practices, only 11.4 percent of respondents rated their own institution’s risk-management performance as lower than average.

Results

This survey was jointly conducted by the Association of Governing Boards of Universities and Colleges (AGB) and United Educators (UE) and reports data on attitudes, practices, and policies regarding enterprise risk management[1] among American colleges and universities. The survey was completed by more than 600 respondents between June 11 and 25, 2008. The population was generally representative of American higher education with greater participation of four-year private institutions and lesser participation of two-year public institutions; 77.2 percent were private colleges and universities, and 22.8 percent were public. Respondents included contacts and members of both AGB and UE and in descending order of frequency, presidents[2], CFOs, trustees, chief academic officers, risk managers, and general counsels. The profile of the most common respondent was a president or CFO of a private, baccalaureate institution with 1,000 to 4,999 (FTE) students and annual expenditures between $25 and $99 million.

This paper shares some of the results; a detailed summary of text responses can be found at www.agb.org/research and www.ue.org.

1. The terms “enterprise risk management” and “institutional risk management” are used synonymously in this document.
2. The term “president” includes both presidents and chancellors of institutions of higher education.

Survey Population and Respondents

Survey Respondents and Response Rate	
Total Surveys Sent	4,192
Responded	606
Opted Out or Undeliverable	223
Response Rate (606/3,969)	15.3%

I serve in the following position at the institution:

Answer Options	Response Percent	Response Count
President	24.5%	120
Chief financial officer	24.3%	119
Governing board member	17.2%	84
Provost/VP academic affairs	13.7%	67
Risk manager	13.7%	67
Other	8.6%	42
General counsel	6.5%	32
	answered question	489*
	skipped question	117

*multiple responses were allowed

The institution(s) I serve is/are:

Answer Options	Response Percent	Response Count
Baccalaureate	46.2%	234
Master's	44.8%	227
Doctoral	25.8%	131
Associate	9.3%	47
Specialized	5.5%	28
System	5.5%	28
Other	4.3%	22
	answered question	507*
	skipped question	99

*multiple responses were allowed

The institution(s) I serve is/are:

Answer Options	Response Percent	Response Count
Private	77.2%	396
Public	22.8%	117
	answered question	513
	skipped question	93

The total number of full-time equivalent (FTE) students enrolled is:

Answer Options	Response Percent	Response Count
0 to 999	15.5%	80
1,000 to 4,999	53.4%	275
5,000 to 9,999	12.6%	65
10,000 to 24,999	9.7%	50
25,000 or more	8.7%	45
	answered question	515
	skipped question	91

The total annual expenditures for the institution I serve total:

Answer Options	Response Percent	Response Count
Under $25 million	18.7%	95
$25 to 99 million	45.6%	232
$100 to 499 million	24.4%	124
$500 to 999 million	4.5%	23
Over $1 billion	6.9%	35
	answered question	509
	skipped question	97

Part I: Attitude Toward Institutional Risk

Fewer than half of respondents “mostly agreed” that their institution’s risk tolerance is understood (46.6 percent) and guides decision making (43.8 percent). Even fewer (40.7 percent) “mostly agreed” that risk management is a priority at their institution (Q1). Those who “mostly agree” with each of the statements typically came from private, doctoral institutions with 10,000 to 24,999 (FTE) students and $500 to $999 million in assets. More presidents (57.1 percent) than general counsels (41.7 percent) or risk managers (35.8 percent) “mostly agreed” with each of these statements.

Almost as many respondents answered “somewhat agree” to each part of the three-part question about attitudes towards risk: 39.5 percent “somewhat agreed” that risk tolerance is understood, 40.9 percent “somewhat agreed” that it guides decision making and 40.7 percent “somewhat agreed” that risk management is a priority at their institutions. While a positive response, “somewhat agree” is not a very strong foundation for understanding and using information about risk in decision making.

Q1. Please rate your level of agreement with the following statements:

Answer Options	Mostly agree (1)	Somewhat agree (2)	No opinion (3)	Somewhat disagree (4)	Mostly disagree (5)	Rating Average	Response Count
The institution's appetite and tolerance for risk are understood and are a part of the institution's decision-making culture.	274 (46.6%)	232 (39.5%)	12 (2.0%)	58 (9.9%)	12 (2.0%)	1.81	588
The institution's risk tolerance guides strategic and operational decisions.	256 (43.8%)	239 (40.9%)	20 (3.4%)	59 (10.1%)	10 (1.7%)	1.85	584
As a philosophical matter, oversight of institutional risk management is a priority at my institution.	237 (40.7%)	231 (39.6%)	32 (5.5%)	65 (11.1%)	18 (3.1%)	1.96	583
						answered question	591
						skipped question	15

Part II: Strategies to Manage Risk and Protect the Institution

Of the respondents, 42.6 percent "mostly agreed" and 41.6 percent "somewhat agreed" that board members and senior administrators at their institutions actively engage in discussions regarding institutional risks (Q2); presidents (56 percent) were much more likely to "mostly agree" with this statement than risk managers (30.3 percent). Looking at institutional assets, the largest segment to "mostly agree" (52.9 percent) were respondents at institutions with the largest assets (over $1 billion).

For two-thirds of all institutions, discussion and consideration of institutional risks occur primarily in finance committee meetings (67.1 percent) and audit committee meetings (63.2 percent) (Q3). However, for institutions with over $500 million in assets these discussions occur more often in meetings of the audit committee (90.9 percent for assets $500 to $999 million and 82.4 percent for assets over $1 billion). This may indicate that institutions with larger assets tend to follow the recommended practice of establishing a separate audit committee. According to the 2008 AGB survey on the state of higher education governance, 38.8 percent of public and 59.4 percent of private institutions reported that the board had a separate audit committee. This represented a substantial increase from 2004 when 23 percent of public institutions (40 percent of systems) and 38.6 percent of private institutions reportedly had a separate audit committee (*2004 AGB Survey on Policies, Practices and Composition of Governing Boards*).

Larger research universities are also more likely to identify risks to the success of this mission through comprehensive, strategic risk assessments (Q4). Although fewer than 40 percent of all institutions employ such an assessment, that number increased to 53.4 percent among institutions with over $500 million in assets. Most institutions (89.9 percent) that have conducted a comprehensive risk assessment have done so in the past two years (Q5).

Fewer than a quarter of respondents (23.6 percent) "mostly agreed" that board members and senior administrators use monitoring activities to determine the effectiveness of institutional risk management activities (Q8). A majority (60.1 percent) of respondents reported that their institutions do not identify major risks to institutional mission success through comprehensive, strategic risk assessments (Q4). And half of respondents (50.8 percent) reported that board members and senior administrators at their institutions evaluated major risks identified by strategic risk assessment only "as needed" (Q6).

Q2. Please rate your level of agreement with the following statement:

Answer Options	Mostly agree (1)	Somewhat agree (2)	No opinion (3)	Somewhat disagree (4)	Mostly disagree (5)	Rating Average	Response Count
Board members and senior administrators actively engage in discussions regarding institutional risks.	229 (42.6%)	224 (41.6%)	14 (2.6%)	57 (10.6%)	14 (2.6%)	1.89	538
						answered question	538
						skipped question	68

Q3. Discussion and consideration of institutional risks occur primarily in (check all that apply):

Answer Options	Response Percent	Response Count
Full board meeting	46.8%	240
Audit committee meeting	63.2%	324
Finance committee meeting	67.1%	344
None of the above	9.6%	49
Other	37%	190
	answered question	513
	skipped question	93

Q4. Major risks to success of your institution's mission are identified through comprehensive, strategic risk assessments.

Answer Options	Response Percent	Response Count
Yes	39.9%	216
No (skip to question 6)	60.1%	325
	answered question	541
	skipped question	65

Q5. If you answered "yes" to the previous question, when was the most recent comprehensive risk assessment conducted?

Answer Options	Response Percent	Response Count
Less than 1 year ago	61.9%	135
1-2 years ago	28.0%	61
3-4 years ago	7.3%	16
5 or more years ago	2.8%	6
	answered question	218
	skipped question	388

Q6. Board members and senior administrators regularly evaluate major risks identified by the strategic risk assessment (check all that apply):

Answer Options	Response Percent	Response Count
Every board meeting	8.6%	45
Every year	24.4%	128
Every other year	3.1%	16
As needed	50.8%	266
None of the above	13.7%	72
Other	10.7%	56
	answered question	524
	skipped question	82

Q8. Please rate your level of agreement with the following statements:

Answer Options	Mostly agree (1)	Somewhat agree (2)	No opinion (3)	Somewhat disagree (4)	Mostly disagree (5)	Rating Average	Response Count
Board members and senior administrators regularly consider and assess the likelihood and impact of expected and unexpected events.	173 (32.1%)	244 (45.3%)	26 (4.8%)	82 (15.2%)	14 (2.6%)	2.11	539
In responding to major risks to mission success, board members and senior administrators consider strategies such as: risk avoidance, risk mitigation, risk sharing, and risk acceptance.	175 (32.5%)	231 (42.9%)	37 (6.9%)	74 (13.8%)	21 (3.9%)	2.14	538
Board members and senior administrators identify activities needed to ensure that institutional controls for major risks are in place.	217 (40.3%)	224 (41.6%)	32 (5.9%)	53 (9.8%)	13 (2.4%)	1.93	539
Board members and senior administrators use monitoring activities to determine the effectiveness of institutional risk management activities.	126 (23.6%)	224 (41.9%)	47 (8.8%)	115 (21.5%)	22 (4.1%)	2.41	534
						answered question	540
						skipped question	66

Part III: Policies and Procedures

Fewer than one-third of respondents “mostly agreed” (29.7 percent) and just over one-third “somewhat agreed” (34.7 percent) that their institutions capture their risk management philosophy in policy statements, oral and written communications, and decision making (Q9). Looking at the combined responses for “mostly agree” and “somewhat agree,” we find that institutions with over $1 billion in assets are significantly more likely to agree (79.5 percent) compared with those with less than $25 million in assets (56.4 percent).

Financial risks received the most attention among risks typically discussed during board meetings; 81.2 percent of respondents reported discussing financial risks either “frequently” or “routinely” (Q10). “Legal and regulatory” risks received slightly less attention. Also, fewer than half of respondents (41.7 percent) reported frequent or routine monitoring of “political or reputational” risks, which pose serious threats for colleges and universities.

Half of respondents (49.7 percent) reported that their governing board or president has assigned primary responsibility for institutional risk management to their institution’s chief financial officer (Q11). When responses were examined by respondent role, approximately half of the trustees (50.6 percent) identified the president as the person to whom the responsibility for risk management was primarily delegated, while 43.2 percent of presidents reported that the duty fell to the chief financial officer. It’s interesting to note that presidents’ survey responses were consistently more optimistic than CFOs, to whom the responsibility for risk management was most frequently delegated.

Respondents reported that boards were not routinely monitoring or sufficiently informed about institutional risk. Only 22.8 percent of all participants (and 28.6 percent of trustees) "mostly agreed" that their governing board monitors institutional risk through regular, formal reports from the administrator assigned responsibility (Q12); an additional 30.4 percent "somewhat agreed." Moreover, only 42.6 percent of respondents "mostly agreed" that they are provided enough information about institutional risks to meet their legal and fiduciary responsibilities; an additional 32.7 percent "somewhat agreed." The percentage of those who "mostly agreed" that they are provided with enough information about institutional risks varied by position: 53.3 percent of general counsels, 50.4 percent of presidents, 41.2 percent of chief financial officers, 40.5 percent of board members, 36.4 percent of provosts or vice presidents of academic affairs, and 31.7 percent of risk managers.

Lastly, while the survey results suggest there is room for improvement, only 11.4 percent of respondents reported that their own institution's performance on risk management was less than average (Q14).

Q9. Please rate your level of agreement with the following statement:

Answer Options	Mostly agree (1)	Somewhat agree (2)	No opinion (3)	Somewhat disagree (4)	Mostly disagree (5)	Rating Average	Response Count
The institution's risk management philosophy is captured in policy statements, oral and written communications, and decision making.	153 (29.7%)	179 (34.7%)	36 (7.0%)	108 (20.9%)	40 (7.8%)	2.42	516
						answered question	516
						skipped question	90

Q10. How often are the following risks typically discussed during board meetings?

Answer Options	Never (1)	Rarely (2)	Occasionally (3)	Frequently (4)	Routinely (5)	Rating Average	Response Count
Operational	4 (0.8%)	65 (12.8%)	192 (37.9%)	161 (31.8%)	84 (16.6%)	3.51	506
Legal and regulatory	5 (1.0%)	42 (8.3%)	197 (35.4%)	174 (34.5%)	105 (20.8%)	3.66	505
Financial	2 (0.4%)	14 (2.8%)	79 (15.6%)	203 (40.1%)	208 (41.1%)	4.19	506
Political and reputational	6 (1.3%)	72 (15.2%)	198 (41.9%)	137 (29.0%)	60 (12.7%)	3.37	473
						answered question	540
						skipped question	66

Q11. To whom has the governing board (or president) assigned primary responsibility for institutional risk management?

Answer Options	Response Percent	Response Count
President	32.1%	150
Financial officer	49.7%	232
Provost/VP academic affairs	0.4%	2
Chief legal counsel	6.6%	31
Chief compliance/audit officer	4.1%	19
Chief risk officer	7.1%	33
Other	14.8%	69
	answered question	467*
	skipped question	139

*multiple responses were allowed

Q12. Please rate your level of agreement with the following statements:

Answer Options	Mostly agree (1)	Somewhat agree (2)	No opinion (3)	Somewhat disagree (4)	Mostly disagree (5)	Rating Average	Response Count
The governing board monitors institutional risk through regular, formal reports by the administrator assigned responsibility for institutional risk management.	118 (22.8%)	157 (30.4%)	45 (8.7%)	125 (24.2%)	72 (13.9%)	2.76	517
In my role as a governing board member or senior administrator, I am provided enough information about institutional risks to meet my legal and fiduciary responsibilities.	216 (42.6%)	166 (32.7%)	56 (11.0%)	56 (11.0%)	13 (2.6%)	1.98	507
						answered question	517
						skipped question	89

Q14. Overall, how would you rate your institution's approach to, and management of, major risks to mission success?

Answer Options	Response Percent	Response Count
Exemplary	5.0%	26
Above Average	43.6%	225
Average	39.9%	206
Below Average	9.7%	50
Poor	1.7%	9
	answered question	516
	skipped question	90

Recommendations

Attitude Toward Institutional Risk

- An institution's appetite and tolerance for risk needs to be understood and part of the institution's decision-making culture.
- An institution's risk tolerance ought to guide strategic and operational decisions.
- Fewer than half of respondents "mostly agreed" that their institutions adhere to these attitudes. An interest in improving risk management and leadership from the president and board are needed for practices to change.
- A comprehensive risk assessment presents an excellent opportunity to educate and raise awareness about risk management. An inclusive process is needed to produce the best results.

Strategies to Manage Risk and Protect the Institution

- Board members and senior administrators should actively engage in discussions regarding institutional risks; 42.6 percent of respondents "mostly agreed" they were doing so. Discussion and consideration of institutional risks take place most often in finance and audit committee meetings, not with the full board. Good practice suggests that all committees and the full board assume responsibilities for discussing and considering risk.
- Institutions ought to identify major risks to the success of their missions through periodic comprehensive, strategic-risk assessments. However, the majority (60.1 percent) of respondents don't follow this practice. Instead of evaluating risks on an ad-hoc basis prompted by a campus incident, an audit, or in the aftermath of another institution's tragedy, such as the shootings at Virginia Tech's—events commonly cited by respondents—evaluating risks through routine strategic assessment should be protocol. But simply having a policy isn't enough, either. The institution must use the information about risks in decision-making to be effective.
- In summary, board members and senior administrators should:
  - regularly consider and assess the likelihood and impact of expected and unexpected events—comprehensively assess risk and consider risk in making decisions;
  - consider strategies such as risk avoidance, risk mitigation, risk sharing, and risk acceptance in responding to major risks to mission success;
  - identify activities needed to ensure that institutional controls for major risks are in place; and
  - use monitoring activities to determine the effectiveness of institutional risk-management activities.

Policies and Procedures

- Institutions with a sound risk-management philosophy should capture it in policy statements, oral and written communications, and decision making. These institutions will also keep in mind that financial risks are not the only type. Operational, legal and regulatory, and political and reputational risks are also significant and merit routine discussion at board meetings.
- Governing boards at institutions with good policies and procedures should monitor institutional risk management through regular, formal reports by the administrator assigned responsibility. As such, governing board members and senior administrators ought to be informed about institutional risks and the efforts being taken to manage, mitigate, and insure the institution against such risks to meet their legal and fiduciary responsibilities.

Appendix:
Sample Risk Assessments by Campus Experts

Example 1: Occupational Health and Safety – Risk Summary Picture

Top Risks
General exposures: • Employees/students injured as a result of acts of violence • Environmental releases/excess exposure to physical, chemical, biological, ionizing and non-ionizing radioactive, and/or other workplace hazards result in faculty, staff, or student injury, illness or death • Work being done by contractors and other non-university employees causes Injuries, illnesses, exposures to UW employees/students
Decentralization of academic programs: Decentralization, turnover, inexperience hinders control programs for injury prevention
Employee protection & training: Inadequate personal protection, training, monitoring, and emergency preparation for researchers, staff, and faculty cause short- and or long-term safety/health hazards, injury, illness or death
Long term costs: • Increased costs and hazards due to limited consideration of environmental health and safety construction issues (e.g., codes, standards, accreditations) in renovation or new construction of labs or other facilities • Insufficient NIH safety compliance regarding biosafety and animals leads to funding loss and capital costs
Research factors: Use of infectious agents or other hazardous materials without approval, adequate controls or monitoring causes disease/illness
Systemic factors and strategic planning: • Insufficient resources to provide comprehensive oversight of workplace and research risks/practices hinders research enterprise and ability to anticipate risks to employees, and students, resulting in injury or illness • Insufficient process to deliberately and systematically identify health and safety risks leads to inadequate prevention and control of risks • Research practices, risks, and/or lab-acquired illnesses result in negative media coverage and negative impact on image/fundraising/reputation

Notes: This chart is adapted from one published in the University of Washington's 2008 Enterprise Risk Management Annual Report. The chart in the report lists members of the risk-assessment work group at the top and has the categories in a different order.

Example 2: Pollution Risks

	Risk Areas	Risk Statements
Compliance Risk	• Air quality (fires/smoke, toxins, second-hand smoke, fume hood exhaust, N2O, ethylene oxide, diesel generators, odor, greenhouse gases, carbon dioxide, methane, paint spray booth emissions, outdoor spraying) • Indoor air quality (odor, asbestos-containing materials, mold, radon, cleaning chemicals)	1. Air Quality: Air emissions exceed Air Operating Permit (AOP) limits 2. Indoor Air Quality: Dust contamination during construction, renovation, remodels or construction 3. Indoor Air Quality: Employee and/or public exposure to indoor contaminants or odors that cause acute or chronic health effects
	• Chemical use (storage, spills, waste management, pesticide use)	1. Chemical Use: Chemicals are stored or managed improperly and result in accidental release
	• Contaminated soil and properties (purchasing, cleanup, selling, disposal, people factors)	2. Contaminated soils/properties: Improper disposal of contaminated soils from construction and remediation projects
Financial Risk	• Capital development and building maintenance • Citations, fines, and lawsuits • Electronic equipment, computers, battery use (disposal) • Property purchasing practices	1. Lawsuits: Damage and injury claims for exposure to hazardous materials or pollution generated by university 2. Electronic equipment/computers/batteries: Large waste stream with little or no disposal options (e.g., use of leading edge or new equipment/chemicals/construction materials)
Operations Risk	• Permits and licenses • Security • Shipping and transportation of hazardous materials • Work space	1. Permits and licenses: Revocation of radioactive materials license 2. Security: Unauthorized access or use of restricted materials 3. Shipping and transportation of hazardous materials: Public exposure to hazardous materials and agents during transit
Strategic Risk	• Investing in sustainable business practices and partnerships	1. Sustainable business practices and partnerships: Liaison with wrong business partner

Note: This chart is excerpted from *Enterprise Risk Management Tools for Self Assessment*, an excellent step-by-step guide created by the University of Washington that can be accessed at www.ue.org/documents/University of Washington ERM Self-Assessment Tools.pdf

Example 3: Faculty and Staff Background Checks

Risk	Probability (1 to 5)	Severity (1 to 5)	Priority Rating (1 to 5)	Elevated Attention? (Y or N)
Employee with unsupervised access to children is sex offender.	2	5	3.5	N
Job applicants using false identities.	3	2	2.5	N
Job applicants misrepresenting academic credentials.	4	2	3	N
Employee handling significant funds has history of credit fraud.	3	3	3	N
Users of campus vehicles have poor driving records.	3	4	3.5	N
Campus police officers have criminal records.	1	4	2.5	N
Researchers handling select agents have criminal records.	1	5	3	N
Employee with master key access to buildings is convicted felon.	2	4	3	N
No procedure for handling negative info learned in checks.	2	4	3	N
Employees promoted into sensitive positions not checked.	2	4	3	N
No follow-up checks of existing employees.	5	3	4	Y
Existing employees in critical positions resistant to checks.	4	4	4	Y

Notes: This table was developed by United Educators and is a compilation of procedures used at many colleges. The “priority rating” in column 4 is the average of columns 2 and 3. A priority rating of “4” or higher merits elevated attention.

Resources on Enterprise Risk for Colleges and Universities

Nine Easy Steps to Consider Risk in Budget Reductions
http://accounting.ucdavis.edu/

The budget reduction analysis tool developed by the University of California at Davis provides managers with a framework for considering risk when making budget cutting decisions. In "9 Easy Steps" managers are able to compare the benefits and risks of the options they identified to meet their budget reduction goals. Since budget reductions will most often result in reducing the number of personnel, the framework also provides a guide for best assigning responsibilities among the remaining staff.

***Creating a Risk Conscious Climate*, by Rick Whitfield**
http://usfweb2.usf.edu/uac/documents/RiskManagementArticle.pdf

This article by the former vice president for audit and compliance at the University of Pennsylvania (now executive vice president and treasurer at Pace University) analyzes how risk management can affect strategic planning in higher education. In addition, the article explores lessons that colleges and universities can learn about risk from the corporate world.

Developing a Strategy to Manage Enterprisewide Risk in Higher Education
http://www.nacubo.org/documents/business_topics/enterprisewide_risk.pdf

This joint publication by the National Association of College and University Business Officers (NACUBO) and the consulting firm PriceWaterhouseCoopers was one of the first to examine changing conceptions of risk in higher education. The publication is divided into four sections: the definition of risk; the drivers of risk; implementing a risk management plan; and advancing the risk-management agenda further.

Enterprise Risk Management Tools for Self Assessment
www.ue.org/documents/University of Washington_ERM Self-Assessment Tools.pdf

This guide created by the University of Washington provides step-by-step instructions in plain English on how to identify, assess, and mitigate risks. It includes numerous examples and provides guidance on how to conduct the process at either a basic, intermediate, or advanced level.

ERM in Higher Education
http://www.urmia.org/library/docs/reports/URMIA_ERM_White_Paper.pdf

This white paper published by the University Risk Management and Insurance Association (URMIA) provides an excellent introduction for colleges to enterprise risk management (ERM). It explains how to implement ERM on a campus and includes four cases studies of institutions that have adopted ERM.

Measuring the Total Cost of Risk
https://www.urmia.org/library/docs/WhitePapers/TCOR_WhitePaper_20081114.pdf

This advanced URMIA white paper is primarily aimed at risk managers who want to quantify the total costs of specific risks. It contains a suggested methodology and a hypothetical case study to illustrate how the methodology works.

Meeting the Challenge of Enterprise Risk Management in Higher Education
http://www.nacubo.org/documents/business_topics/NACUBOriskmgmtWeb.pdf

This white paper arose out of a summit of higher education leaders hosted by NACUBO and the Association of Governing Boards (AGB). It describes the components of ERM, how to implement it, and the roles of the board and specific campus administrators in the process.

Texas A&M – List of Risks
http://universityrisk.tamu.edu/AssessmentTool.aspx

Texas A&M University has made public its spreadsheets listing risks commonly found in nine functional areas of the institution. A tenth spreadsheet serves as an index file to guide users to the appropriate Excel workbook and tab.

University of Minnesota Heat Maps
http://www1.umn.edu/audit/HeatMapSummary.html

The University of Minnesota has made public its "heat maps," which evaluate risks in various categories based on the probability of the risk occurring and the severity of its impact.

United Educators

ASSOCIATION OF GOVERNING BOARDS OF UNIVERSITIES AND COLLEGES

Board of Trustees of the University of Oregon
Executive and Audit Committee Meeting
December 10, 2014

Agenda Item #7

There are no materials for this section

Board of Trustees of the University of Oregon
Executive and Audit Committee Meeting
December 10, 2014

Agenda Item #8

There are no materials for this section