Overview

• AGB Best Practices
• Board of Trustees Authority
• Board of Trustees General Duties
• Board of Governors Delegation to Board
• Findings From Penn State
• Current Risk Management Strategy
• Institutional Risk Management Initiative
• Determining Risk Response
• Institutional Risk Management Best Practices
• Current Audit, Risk Management and Compliance Committee Charter
• Proposed Compliance, Audit, Risk Management and Legal Affairs Committee
• Summary
Four Types of Risk Management

• Traditional operational risk.
  – Weather
  – Fire
  – Accident

• Legal, compliance, ethical and regulatory risk.
  – Lawsuits
  – Safety compliance failures
  – Title IX violations

• Financial risk.
  – Sudden drop in tuition revenue or enrollment
  – Reduced government appropriations
  – Fundraising campaign fails to meet goals

• Political and reputational risk.
  – Loss of accreditation
  – NCAA sanctions
  – Adverse public response to campus event
UNCG Definition of Risk Management Categories
AGB: Board Responsibility for Risk Management

- **Establish** Risk Management as a Top Priority.
- **Determine** Risk Tolerance.
- **Charge** and Support Senior Management With Assessing and Managing Risk
- **Monitor** Senior Management’s Risk Plan.
AGB: Questions for Board to Consider How to Monitor Risk Plan

• Has the Board discussed its responsibility for risk management?
• How frequently does the University review major areas of risk exposure?
• Does the Board or an appropriate Board committee regularly receive risk management reports?
• Does the Board consider major risks to the successful operation of the institution as part of its strategic plan?
Board of Trustees Authority

- Promote the sound development of the institution within the functions prescribed for it.
- Advise the Board of Governors on matters pertaining to the institution.
- Advise the Chancellor concerning the management and development of the university.
- Have such other powers and duties, as shall be defined and delegated by the Board of Governors.

North Carolina General Statutes § 116-33
Board of Governors Delegations to UNCG Board of Trustees

• Ensure that the University establishes an enterprise risk management process.
• Ensure the University's compliance with the educational, research, and public service roles assigned to it by the Board of Governors.
• Advise Chancellor on execution and administration of the budget.
• Recommend to the UNC President fees for application, athletics, health services, student activities, educational and technology.
Lessons From Penn State
Findings from Penn State

• “Four of the most powerful people at the University … failed to protect against a child sexual predator harming children for over a decade. These men concealed … activities from the Board of Trustees, the University community and authorities.”

• “These individuals, unchecked by the Board of Trustees that did not perform its oversight duties, empowered Sandusky to attract potential victims to the campus.”

• “The Board also failed in its duties to oversee the President and senior University officials … by not creating an environment where senior University officials felt accountable.”

• “Once the Board was made aware of the investigations … it should have recognized the potential risk to the University community and to the University's reputation. Instead, the Board, as a governing body, failed to inquire reasonably and to demand detailed information.”

Report of the Special Investigative Counsel Regarding the Actions of The Pennsylvania State University Related to the Child Sexual Abuse Committed by Gerald A. Sandusky (Freeh Report).
North Carolina follows an old common law rule in tort cases known as *contributory negligence*. Under this rule, whenever a person is found to share any responsibility for his or her injuries, the person is barred from recovering compensation for those injuries.

“if the **Industrial Commission** finds that there was negligence on the part of an officer, employee, involuntary servant or agent of the State while acting within the scope of his office, employment, service, agency or authority of that was the proximate cause of the injury and that there was no contributory negligence on the part of the claimant or the person in whose behalf the claim is asserted.” “The **unit of State government that employed the employee at the time the cause of action arose** shall pay the first one hundred fifty thousand dollars ($150,000) of liability, and the balance of any payment owed shall be paid in accordance with G.S. 143-299.4”.

“The maximum amount that the State may pay cumulatively to all claimants on account of injury and damage to any one person arising out of any one occurrence, whether the claim or claims are brought under this Chapter, shall be one million dollars ($1,000,000).”
§ 143-299.4. Payment of State excess liability. For each claim payable during any fiscal year in excess of one hundred fifty thousand dollars ($150,000) per claim arising under this Article, or Article 31A or 31B of this Chapter, on account of injury or damage to any one person, each State agency shall transfer to the Office of State Budget and Management its proportionate share of that agency's estimated lapsed salaries, as determined by the Director of the Budget, and the Director of the Budget shall use these transferred funds to pay the balance of that claim in excess of one hundred fifty thousand dollars ($150,000). However, if the Director of the Budget determines that the agency liable for the claim has the resources to pay the full claim even though it exceeds one hundred fifty thousand dollars ($150,000), then the Director of the Budget may, in the Director's discretion, require the agency to pay the full claim. Additionally, the Director of the Budget may, in the Director's discretion, limit the number of agencies required to transfer funds to the agency liable for the claim to pay the balance of the claim. (2000-67, s. 7A(e); 2000-140, s. 93.1(i); 2001-424, s. 12.2(b); 2002-159, s. 43.)
Excess Liability Insurance

In addition, the State of North Carolina has for a number of years purchased an excess liability insurance policy that provides all State employees with supplementary coverage beyond the $1,000,000 paid directly by the employee’s State agency. Under this insurance contract negotiated by the North Carolina Department of Insurance, the coverage limits below are shared by all State agency employees:

- $10,000,000 per employee
- $10,000,000 per occurrence
- $25,000,000 annual aggregate
Liability Insurance

Due to exclusions and definitions within the Excess Liability insurance policy, legislations has allowed for the purchase of the following types of liability insurance policy.

- Vehicle Liability
- Aviation
- Boat Liability
- Cyber Liability
- Interns/Student Blanket Professional Liability
- Medical Malpractice
- Professional Liability
- Volunteer Liability
Property Insurance

Property insurance is provided by The State Property Fire Insurance Fund which is managed by the North Carolina Department of Insurance - Office of State Fire Marshall.

- All property is **required to have coverage for losses caused by Fire and Lightning**. However, an agency or university may choose to insure property under its control for other types of property losses.

- The General Property Coverage Policy is the Fund’s basic policy and is used to provide insurance against losses caused by Fire and Lightning, Extended Coverage, Vandalism, Sprinkler Leakage and Theft. However, the agency or university is covered only for those named perils for which the agency or university has paid a premium and for which the named peril is indicated in the Declarations.

- If coverage is purchased on a Broad Form basis, coverage for all of the perils listed in the basic General Property Coverage Policy is included in addition to damage caused by falling objects; weight of snow, ice or sleet; water damage; collapse; and glass breakage, subject to any limitations in the form. The Broad Form exclusions take the place of the exclusions in the General Property Coverage Policy. However, any other conditions in the General Property Coverage Policy still apply.

- If coverage is purchased on an "All Risk" basis, property is covered for risks of direct physical loss unless the loss is excluded or limited by one of the indicated “All Risk” Exclusion forms. These "All Risk” exclusions take the place of the exclusions in the General Property Coverage Policy. However, any other conditions in the General Property Coverage Policy still apply.
All Other Insurance

- Excess Liability
- Boiler & Machinery
- Auto Liability & Property Damage
- Musical Instruments
- Leased Computerized Business Equipment
- Professional Liability – Athletic Trainers
- Professional Liability – Dietician
- Professional Liability – Student Interns
- Medical Malpractice
- Business Travel
- International Travel
- Study Abroad
- Accident Health
- Volunteer Liability

- Crime – Employee Dishonesty
- Postal Bond
- Fine Arts
- Performance Bond
- Crime – Theft
- Student Health
- Athletic Accident
Financial Consequences to Penn State

• Sandusky scandal cost Penn State at least $237 Million:
  – $93 M paid to settle claims from victims
  – $60 M in NCAA fines
  – $14 M to defend former president, athletics director, and senior vice president
  – $12 M to pay former assistant coach in a whistleblower / defamation case
  – $2.4 M in federal fines
Criminal Consequences

• Former President, Athletics Director and Vice President for Finance and Business were charged with endangering welfare of children and criminal conspiracy (both felonies).

• Former Athletics Director and former Vice President for Finance and Business pleaded guilty to misdemeanor child endangerment in exchange for getting more serious charges dropped.

• Former President convicted of misdemeanor child endangerment.
Current Risk Management Strategy

• **February 2016 Chancellor approves Risk Management Policy**
  
  https://policy.uncg.edu/university-policies/risk_management/

• **February 2016 Establishes IRM Steering Committee**

• **September 2016 – BOT adopts committee charge revision and name change to Committee on Audit, Risk Management and Compliance**

Current Risk Management Strategy

• August 2016 Institutional Risk Management Committee is appointed
• March 2017 IRM Committee creates risk inventory and prioritizes for evaluation of possible Tier I risks
• April – Conducting Interviews for Institutional Risk Officer
Institutional Risk Management Initiative
IRM Initiative at UNCG

Provide reasonable assurance regarding the achievement of university objectives; specifically:

1. Establish risk awareness and culture tailored to higher education
2. Enhance risk response decisions
3. Reduce operational risks and losses
4. Identify and manage multiple, and cross-institution risks (holistic process)
5. Seize opportunities
Who’s Responsible

- Institutional Risk Management Office - Role is to facilitate the identification of existing and/or potential risks and the development of risk mitigation strategies
- IRM Committee - Comprised of key unit leaders. Communicates vertically and horizontally across the institution
- Chancellor’s Steering Committee - Key campus stakeholders
- Holistic approach - No one is exempt from contributing
**Institutional Risk Management**

### Identification and Ranking of Risks

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify Risks</td>
<td>Departmental assessments, interviews of key leaders, committee input, risk indicators</td>
</tr>
<tr>
<td>Assess the Risks</td>
<td>Likelihood of risk (probability)</td>
</tr>
<tr>
<td></td>
<td>Severity of risk (impact)</td>
</tr>
<tr>
<td>Identify Mitigations</td>
<td>e.g., Internal controls, processes, hardened structures, insurance, contracts and cooperative agreements</td>
</tr>
<tr>
<td>Rank the Risk</td>
<td>1-25 based on probability and impact after mitigations</td>
</tr>
<tr>
<td>Determine Risk Response</td>
<td>Consider threat to achievement of university objectives</td>
</tr>
</tbody>
</table>
Determine Risk Response

Sometimes known as the four T’s in risk management:
- Tolerate, Treat, Transfer, Terminate

1. **Accept the Risk** – When the impact and the probability is low

2. **Control** – When there is a high probability of a risk but low impact, use internal controls

   **Mitigate and Control** – When both probability and impact are high, design controls and processes to reduce the exposure to the risk

3. **Share** – When there is high impact but low probability, share the risk with others (e.g., insurance companies, cooperative agreements, third party outsourcing)

4. **Reject the risk** – When the risk is too great, decide not to attempt the task
Areas of Risk Being Assessed

- Regulatory Intervention
- Infrastructure Sufficiency and Condition
- Risk Management Integration
- Strained Operational Core
- Continuity of Operations Planning
- Participant Programs
- Research Support
- Campus Health and Safety
- Diverse Revenue Streams
- Volatility of Essential Resources
Implementation

• Develop a risk inventory that touches all categories of risks. Review risks/threats in key areas such as finance, operations, regulatory/research compliance, employee relations, business conduct and ethics, hazard mitigation and business continuity, and others

• Focus on assets and critical processes

• In Process: Create a university level risk profile that assesses the sources of the most significant risks, the strategic objectives impacted, and the mitigation strategies in place or planned

• Propose risk mitigation strategies (e.g., insurance or process improvements) to Chancellor’s IRM Steering Committee

• Update Senior Management and the Audit, Risk Management and Compliance Committee of the Board of Trustees

• Monitor trends and ensure ongoing institutional evaluation
IRM Best Practice
Action Steps

1. Develop a disciplined process to consider risk in strategic discussions.
2. Designate an owner of the risk identification process.
3. Require all top administrators to prioritize risk.
4. Sift through the prioritized risks to decide which ones warrant attention at the highest level.
5. Require annual written reports on each high-priority risk being monitored.
6. Re-assess priority risks at the board level at least once a year.
7. Look for blind spots.
8. Move risk identification deeper into the institution each year.
9. Keep repeating the process.

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UNCG’s Central Process Tenets

Institutional Risk Management (IRM) processes are holistic, flexible and under continuous refinement.

The six types of risks move beyond the traditional focus on financial risks covered by insurance. Risks are broadly defined to represent any impediment to accomplishing institutional goals.

The risk areas, though broad, are regularly analyzed to ensure a relevant and sufficiently narrow focus exists for each.

The figure below illustrates other important IRM process components.
UNCG Risk Tier Overview

**Tier I** – Top Tier Risk Areas containing risks with potential to affect the university’s mission, strategies, and goals

**Tier II** – Shared risks across multiple areas or single area risks with cascading impacts

**Tier III** – Unit or single area risks which are largely identified and managed at the department level
Next steps: Implementation Plan

- Design and Develop Policy/Protocols/Risk Management Strategies
- Implement Risk Committee
- List of Key and Emerging Risk
  - Organizational Flow of Risk Monitoring & Review
  - Develop Dash Board (metrics to show status of risk)
  - KRI – Key Risk Indicators with Trends
  - Establish ERM Culture – at all levels
  - Assist with Recognizing Potential Adverse Events, Assets
  - Risks & Establish Responses (All tiers)
Current Audit, Risk Management and Compliance Committee Charter

• Currently, the expanded Audit, Risk Management and Compliance Committee operates without a charter.
• Charge to the former Audit Committee was to assist Board in fulfilling its oversight responsibilities related to:
  1. the integrity of the University’s financial reporting;
  2. the adequacy and effectiveness of the systems of internal control; and
  3. the independence and performance of the external and internal audit functions.
OGC Proposed Committee Structure

- OGC recommends expanding the scope of the Audit, Risk Management and Compliance Committee to include Legal Affairs.
- Proposed Committee Name:

  Compliance, Audit, Risk Management, and Legal Affairs (“CARL”) Committee
Proposed CARL Committee Charter (Purpose)

• Purpose of the CARL Committee shall be to assist the Board in fulfilling its oversight responsibilities related to:
  – Audit, risk management, compliance, legal and ethical functions of the University.
  – The integrity of the University’s financial reporting; the adequacy and effectiveness of the systems of internal control; and the independence and performance of the external and internal audit functions.
  – Establishment, implementation, evaluation and monitoring of a campus-wide institutional risk management process.
  – Compliance with relevant laws, regulations and ethical standards, including NCAA and research and related compliance.
  – Litigation, substantial administrative agency complaints, substantial government investigations, and other relevant legal matters.
Proposed CARL Committee Charter (Organization)

- CARL Committee shall consist of a minimum of five voting Board members selected by the Board Chair.
- The Board Chair shall designate one member of the Committee to serve as its Chair and may designate another member to serve as Vice Chair.
- Unless otherwise designated by the Chancellor, Committee liaisons shall be:
  - Vice Chancellor for Business Affairs
  - General Counsel
  - Director of Internal Audit
  - Associate Vice Chancellor for Strategy and Policy
Summary

• Board of Trustees plays a critical role in ensuring that executive management is taking appropriate action to identify, evaluate, monitor and manage risks, as well as helping create and maintain a culture of both legal and ethical compliance.

• Critical components of this effort include: (1) supporting executive management; (2) establishing appropriate committees and communication structures; (3) establishing priorities, evaluating and monitoring progress and exercising its oversight responsibilities in a prudent and responsible manner.

• Review of the current Board committee structure allows both the Board and executive management to fulfill their respective roles and responsibilities, as well as clarify, prioritize and establish structures that best serve the interest of the University.
Thank You and Questions?

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