



Texas Southern University



Enterprise Risk Management @ TSU

Enterprise Risk Management (ERM) Initiative
Presented on behalf of the Compliance Governance Committee by the
Department of Internal Audit & Assurance Services

Agenda

Background

University Mission/Vision

Introducing an Enterprise Risk Management (ERM) Strategy

What is ERM?

Risk Factors

Success Factors

Benefits of ERM

➤ **Risk Assessment Methodology**

- COSO Framework
- Key Objectives of ERM
- Terminology
- Risk Assessments at TSU

➤ **Risk Management Assessment (RMA) Output**

- Internal Control Maturity Levels
- Residual Risk Matrix

Texas Southern University

Mission

Texas Southern University is a comprehensive metropolitan university. Building on its legacy as a historically black college/university (HBCU), the university provides academic and research programs that address critical urban issues and prepare an ethnically diverse student population to become a force for positive change in a global society.

In order to achieve this mission, Texas Southern University provides:

- ✓ Quality instruction in a culture of innovative teaching and learning
- ✓ Basic and applied research and scholarship that is responsive to community issues
- ✓ Opportunities for public service that benefit the community and the world.

Texas Southern University

Vision

Texas Southern University will become one of the nation's pre-eminent comprehensive metropolitan universities. We will be recognized by the excellence of our programs, the quality of our instruction, our innovative research, and our desire to be a contributing partner to our community, state, nation, and world.

Introducing Enterprise Risk Management (ERM)

Achieving Success through ERM

The complex and rapid changes in today's world place unprecedented pressures on the University. Events occur that have the potential to adversely affect the University's ability to achieve its goals. The possibility that an adverse event will occur is called "risk". Risks can be financial, operational, technological, environmental, regulatory, competitive, strategic, legal, reputational, and/or political in nature. They can affect the entire University, specific programs and/or individual departments.

To facilitate our commitment to excellence and support the achievement of the strategic plan, the University has decided to implement an Enterprise Risk Management (ERM) initiative to establish a systematic organization-wide approach that will allow us to proactively manage risks.

What is ERM?

Enterprise Risk Management (ERM):

- Is a process through which management identifies significant threats (risks) that would prevent their organization/unit from meeting stated goals and objectives
- Assigns specific responsibility and accountability for developing controls to mitigate risks
- Implements those controls
- Monitors the controls to verify they are working as intended
- Its about establishing the oversight, control and discipline to drive continuous improvement of an entity's risk management capabilities in a changing operating environment.

Enterprise Risk Management



- Strategic Risk – high-level goals aligned with the University’s mission (i.e. Strategic Plan, QEP)
- Operational Risk – ongoing management processes
- Financial Risk – protection of assets
- Compliance Risk – adherence to laws and regulations

Enterprise Risk Management (ERM)

Authority and Support

The University has an established Compliance Governance Committee (CGC) comprised of:

- University President
 - Provost and Vice President for Academic Affairs
 - Vice President of Administration and Finance/Chief Financial Officer
 - Vice President for Research
 - Vice President/Chief Compliance Officer
 - Vice President, Intercollegiate Athletics
 - General Counsel
-

Committee Advisory Liaison
Chief Audit Executive

Why Should TSU Implement ERM?

Benefits of a Successful ERM Program:

- Improves how the University actively manages financial, compliance, strategic, reputational and other aspects of risk
- Creates decisive, resilient controls/action plans that deter or minimize the impact of unexpected occurrences
- Focuses on risks that could prevent success in achieving University, collegiate and functional goals and objectives and examines how to correctly mitigate them
- Enables the University to actualize its vision to be forward-thinking and futuristic; and assures stakeholders that we are doing all that can be done to be sustainable

Key Objectives of the Enterprise Risk Management Process

- Risks arising from business strategies and activities are identified and prioritized.
- Management and the board have determined the level of risks acceptable to the organization, including the acceptance of risks designed to accomplish the organization's strategic plans.
- Risk mitigation (controlled) activities are designed and implemented to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management and the board.
- Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
- Enterprise risk management deficiencies are reported upstream, with serious matters reported to top management and the board.

ERM Success Factors

Key Elements to an Effective ERM Initiative

- Acceptance of a Risk Management Framework and common language regarding risks
- BOR, Executive, Management, Faculty and Staff Commitment (it takes all of us)
- ERM Champion
- Communication & Training
- Reinforcement (through University and/or HR mechanisms)
- Valid Process
- Internal Audit /Compliance monitoring

Who Else Has Implemented ERM?

- Drexel University
- University System of Georgia
- NC State University
- Penn State University
- Emory University
- Ohio University
- University of North Carolina
- University of Texas
- Texas A&M University
- University of Maryland
- Notre Dame University
- University of Wisconsin

What to Expect Next

- Implementation teams will contact process owners (function/department heads) to schedule facilitated sessions
 - Will request departmental documentation, SOPs, etc. and may provide common risks by area for preliminary review
- Implementation team lead will host facilitated session(s) to understand processes, and work with you to document risks and controls, as well as:
 - The probability of the risk occurring and the possible impact should the risk occur
- Risk universe will be compiled from the results of the facilitated sessions, and key risks/controls identified (for high (p)/high (i)) scenarios
- Risk information to be disclosed quarterly to the CGC and the BOR

Stay Engaged During the ERM Process

- Most colleges and universities focus on financial and compliance risks and on building compliance programs.
- ERM impacts not only the numbers, but also brand, competitiveness and strategy.
- Our University is only as good as the weakest link or most ineffective process, thus:
 - Let's move from adding controls to a process to building risk management into the process.

ERM Initiative

Strategy and Methodology

What is COSO?

The Committee of Sponsoring Organizations of the Treadway Commission



COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative which studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions.

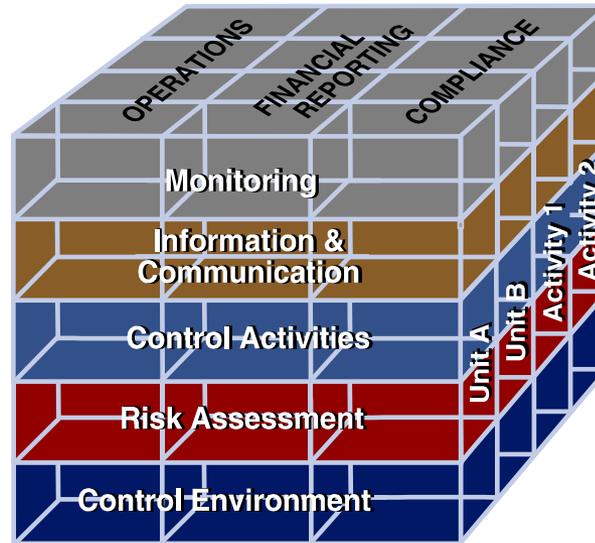
(The Original) COSO Framework

Risk Assessment

- Risk assessment is the identification and analysis of relevant risks to achieving the entity's objectives and forming the basis for determining control activities.

Information and Communication

- Pertinent information identified, captured and communicated in a timely manner.
- Access to internal and externally generated information.
- Flow of information that allows for successful control actions from instructions on responsibilities to summary of findings for management action.



Control Environment

- Sets tone of organization influencing control consciousness of its people.
- Factors include integrity, ethical values, competence, authority and responsibility.
- Foundation for all other components of control.

Control Activities

- Policies/procedures that ensure management directives are carried out.
- Range of activities including approvals, authorizations, verifications, recommendations, performance reviews, asset security and segregation of duties.

Monitoring

- Assessment of a control system's performance over time.
- Combination of ongoing and separate evaluation.
- Management and supervisory activities.
- Internal audit activities

The New COSO

COSO Areas Used to Identify the Risk and Control Framework



The Strategy Inputs are evaluated through a risk and control framework that guides the planning and delivery of Internal Audit Services.

- Services should assess four areas of potential risks that impact achievement of the University's mission and goals
- There are eight elements to evaluate within and across the areas, which describe the capacity to manage opportunities and challenges
- Scale Services to the organizational level , e.g., not all areas or elements are applicable from the transaction-level through the Campus, process, or University levels
- Define delivery of Services in a context relevant for the University

Risk Factors

The Risk Factors considered during the risk assessment include:

Compliance

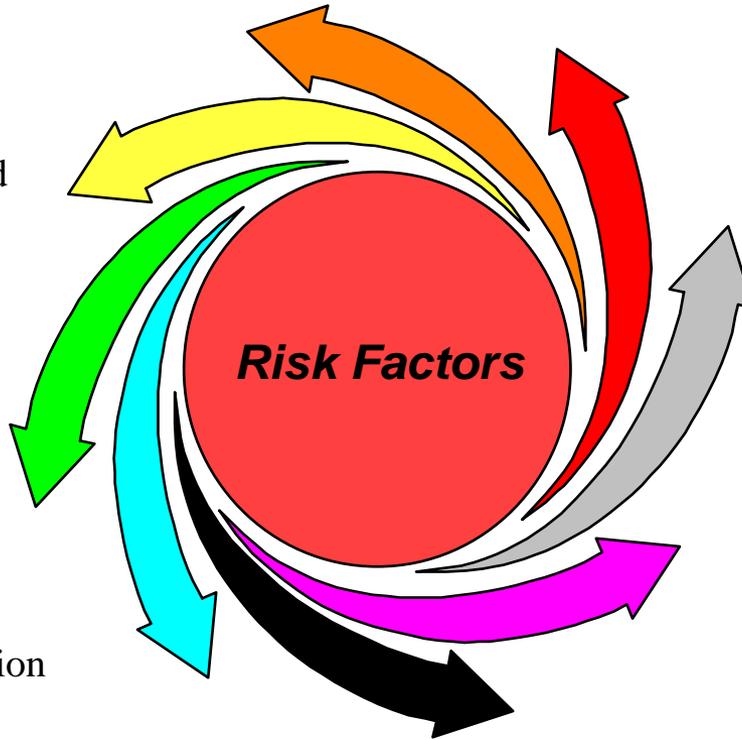
- Compliance with laws and regulations, safety and environmental issues, conflicts of interest, sponsoring agencies, employment.

Financial

- Budgets, financing, cash flow, sources and uses of funds reporting, preservation of assets.

Legal

- Outside demands and restrictions, such as grants, data retention, data preservation



Technology

- Academic and administrative information systems and infrastructure.

Operational

- Considers the needs of the delivery of core operations, such as space/facilities, utilities, personnel, student services, information systems.

Reputational

- Considers political and outside perception of the university ('goodwill')

Strategic

- Considers what needs to be done to maintain and enhance units and university's competitiveness through strategic initiatives.

Risk Terminology

Risk – Any event or action that adversely affects the University’s ability to achieve its objectives (financial, operational, strategic, technology, compliance, reputational).

Risk Evaluation – An analysis by which risks are ranked (high, medium, low) and prioritized considering: 1) the probability of occurrence (what is the likelihood that the risk will happen), and 2) the impact (the consequences or outcome should the risk occur).

Risk Management Assessment (RMA) – The process used to identify, quantify, evaluate and treat risks to the business/academic unit. (This process includes the documentation of risks, control gaps, mitigating control activities (or compensating strategies), and monitoring of processes. Output from the RMA is in the form of the ICM, Residual Risk Analysis and Risk/Controls Matrix.

Risk Terminology continued

Detailed Control Activities – Mitigating, controlled actions (generally documented within policies and procedures) which are used to manage, limit and monitor risks.

Risk Mitigation Plan– is developed as a result of the Risk Management Assessment (RMA); it defines how the risks identified are to be addressed through detailed control activities (or mitigating/compensating controls), implementation time to completion, and responsible party.

Risk Assessments at TSU

Colleges and Schools (and related academic units)

- Thurgood Marshall School of Law
- Thomas F. Freeman Honors College
- College of Science and Technology
- Graduate School
- School of Communication
- College of Pharmacy and Health Sciences
- Jesse H. Jones School of Business
- College of Education
- Barbara Jordan/Mickey Leland School of Public Affairs
- College of Liberal Arts and Behavioral Sciences
- Libraries and Museums
 - Additional/Related Academic Units
- Student Enhancement Success Services
- Online College
- Office of Continuing Education
- Center for Online Education & Instructional Technology
- Teaching Learning Excellence Center

Risk Assessments at TSU (continued)

Academic Affairs

- Admissions
- Provost Business Services
- Director of Libraries
- Institutional Assessment, Planning & Effectiveness
- International Student Affairs
- Registrar
- University Testing
- Enrollment Services

Office of Research

- Research Funding and Pre-award Services
- Research Enhancement and Compliance Services
- Research Financial Services (Grants & Contracts)

Board Administration

- Department of Internal Audit & Assurance Services
 - Information Security
- Board Relations

Buildings & Ground Maintenance

- Customer Service

Risk Assessments at TSU (continued)

Enrollment Management

- Enrollment Management & Planning
- Financial Aid
- Financial Aid Systems
- Recruitment

Facilities Operations

- Facilities – Business & Administration
- Facilities – Energy
- Facilities – Facilities Planning
- Facilities – Maintenance Construction and Crafts
- Facilities – Safety
- Facilities – Maintenance & Equipment
- Facilities – Operations

Finance and Administration

- Accounts Payable

- Student Accounting (Accounts Receivable/Student Billing)
- Procurement Services
- Budgets
- Student Accounting (Bursars Office)
- Treasury/Cash Management
- Finance Systems Operations
- Financial Reporting
- General Accounting
- Travel
- Warehouse Operations
- Reprographics

Human Resources

- Employee Relations & Compliance
- Employee Benefits
- Payroll

Risk Assessments at TSU (continued)

Information Technology

- Infrastructure and Operations
- Security
- Banner Application and Support
- Communications/Help Desk

Police Department

- Department of Public Safety

President

- Office of General Counsel
- Governmental Affairs
- Athletics – Administration
 - NCAA Compliance
- Title III

Student Services

- Business Administration Services
- Counseling Center
- Health Center
- Judicial Affairs
- Music Activities/Band
- Career Planning & Placement
- Recreation Center
- Student Activities & Campus Events
- Student Center Operations
- Veteran Affairs
- Academic Services

Risk Assessments at TSU (continued)

University Advancement

- Alumni Affairs
- Marketing
- Communications
- Special Events
- Development
- KTSU

Campus Services and Operations

- Bookstore
- Food Services
- Greystone Apartments
- Student Housing
- University Parking

Research and Outreach Centers

- A total of 25 (approx) Research and Outreach Centers are part of the Annual Risk Assessment Process and would be included in the ERM Strategy.

Ranking Indexes

Rankings are given to the Risks (for a reportable unit) based on Probability and Impact:

Probability

Impact

Probability – The likelihood that the risk will happen.	
HIGH	➤ Event happens frequently, will occur, predictable
MEDIUM	➤ Event happens infrequently, sometimes occurs
LOW	➤ Event seldom happens, rare, has not happened

IMPACT		The effect on achieving University objectives, the consequences
HIGH	(Catastrophic)	<ul style="list-style-type: none"> ➤ Sustained, long-term loss in shareholder value ➤ Major impact on profitability ➤ Loss of key relationships
MEDIUM	(Moderate)	<ul style="list-style-type: none"> ➤ Resolution of issues will be handled by function head and direct reports to function head ➤ Moderate impact on profitability ➤ Short-term impact on shareholder value and/or reputation
LOW	(Minimal Impact)	<ul style="list-style-type: none"> ➤ Resolution of issues will be handled by junior management and staff ➤ Minimal impact on profitability ➤ No potential impact on shareholder value ➤ No impact on reputation

Internal Controls Maturity Levels



Level 1 – Unreliable

- Unpredictable environment where control activities are not designed or in place

Level 2 – Informal

- Disclosure Activities and Controls are designed and in place but are not adequately documented
- Controls mostly dependent on people
- No formal training or communication of control activities

Level 3 – Standardized

- Control activities are designed and in place
- Control activities have been documented and communicated to employees
- Deviations from control activities will likely not be detected

Level 4 – Monitored

- Standardized controls with periodic testing for effective design and operation with reporting to management
- Automation and tools may be used in a limited way to support control activities

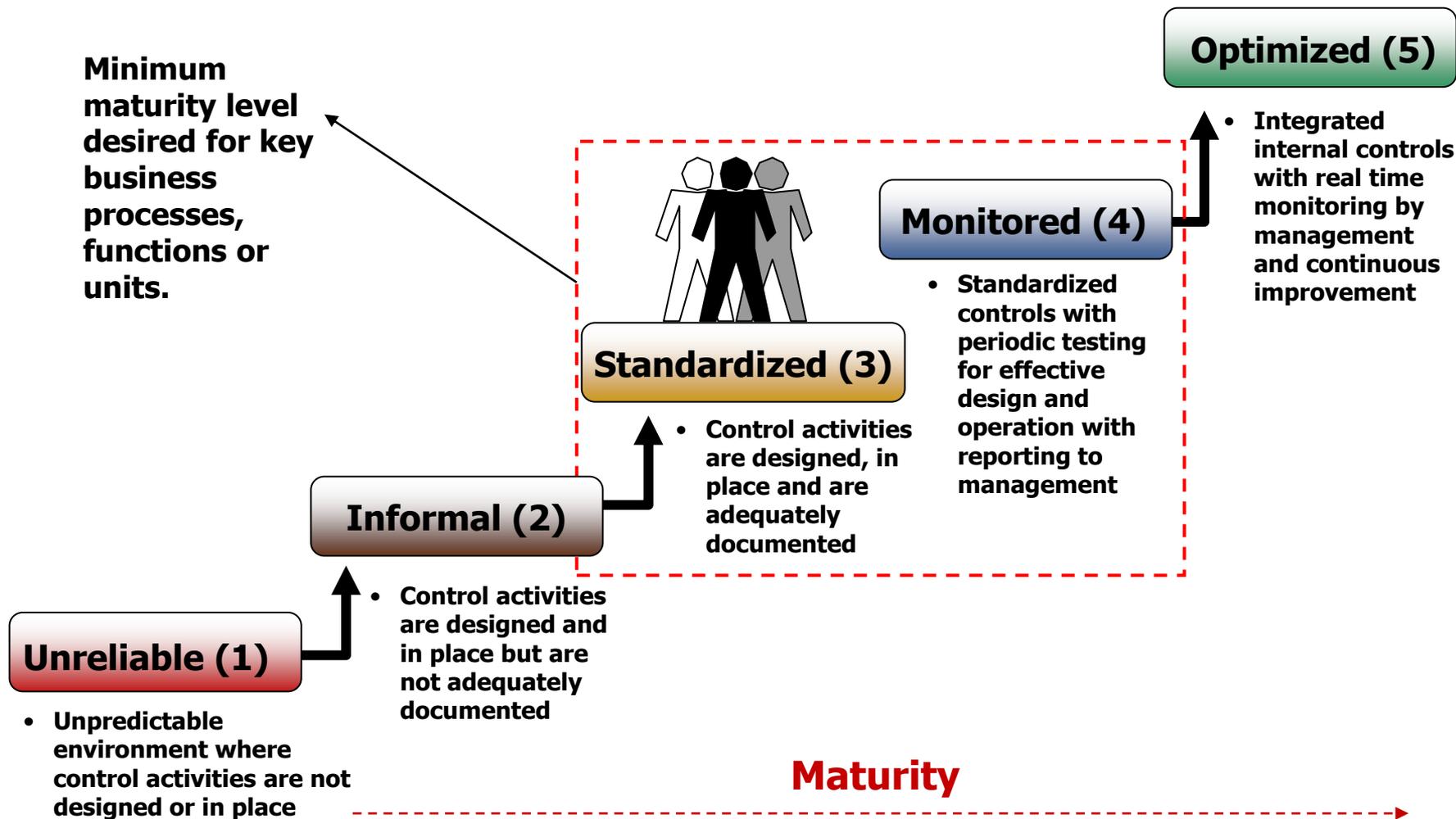
Level 5 – Optimized

- An integrated internal control framework with real time monitoring by management with continuous improvement (Enterprise Wide Risk Management)
- Automation and tools are used to support controls activities and allow the organization to make rapid changes to the control activities if needed

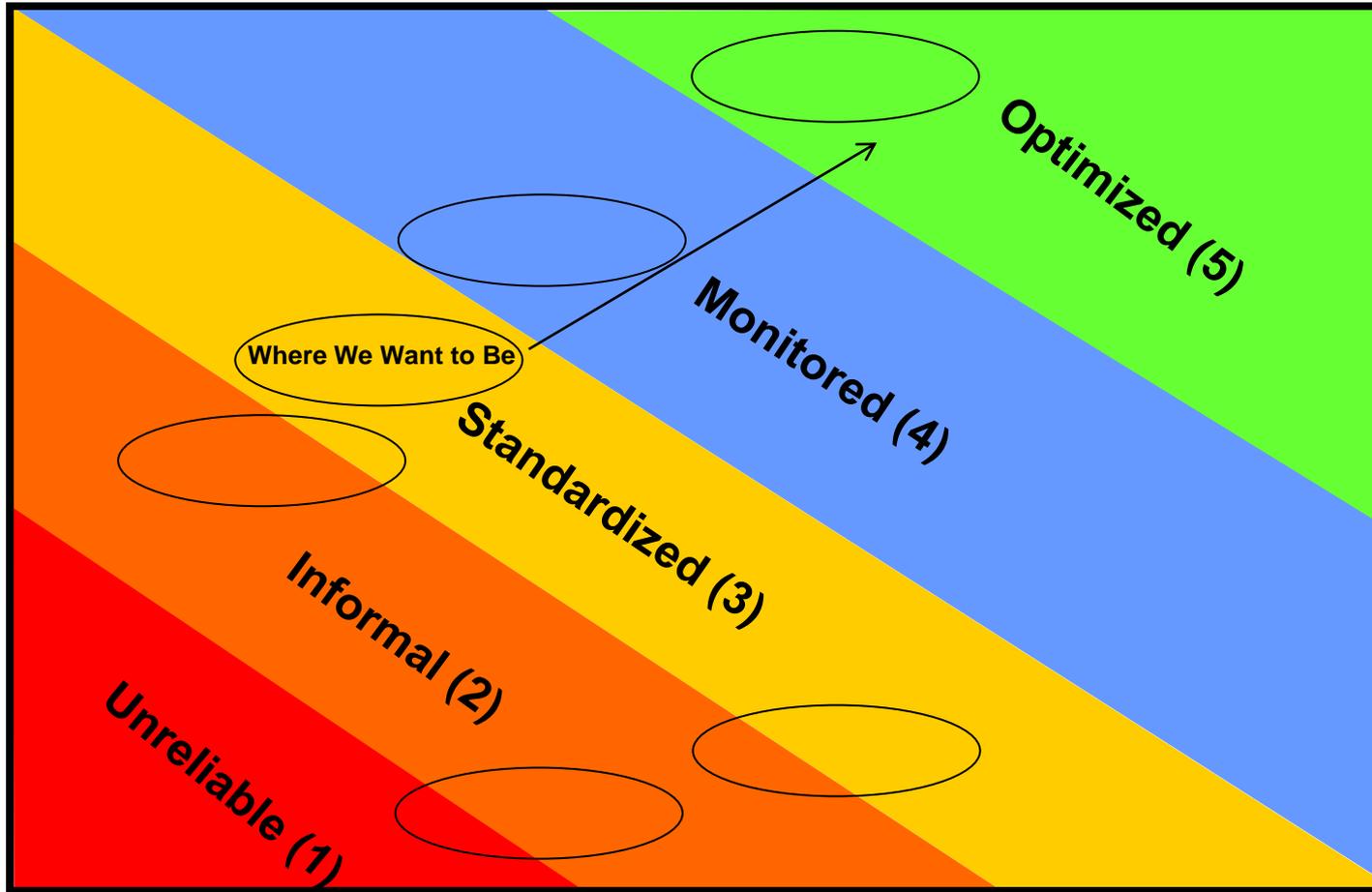
**Management 's Internal
Control Assertion**

Where We Need To Be

Internal Controls Maturity Levels



Internal Control Effectiveness



Internal Controls Maturity Levels (Sample)

Controls Effectiveness



Design Effectiveness



Operational Effectiveness

Residual Risk Matrix

