

Enterprise Risk Management: 2020 Annual Report
November 10, 2020



Chris Jennings, Vice President for University Integrity and General Counsel
Steven Lin, Director of Risk Management



BACKGROUND AND OVERVIEW

In 2013, under the purview of the University Integrity Committee of the Board of Trustees, Azusa Pacific University created the Strategic Risk Management Committee (SRMC) to identify significant areas of risk to the University and provide oversight to the risk management process. In the years thereafter, the SRMC adopted and began implementing a “Risk Management Framework and Procedure” that guided university leadership through an annual process of identifying and mitigating key risks that had the chance to significantly affect the pursuit of stated University strategic goals and objectives. The process provided a good foundation for an enterprise risk management function at APU, but implementation stalled from a variety of factors, including no plan for a data-driven approach to risk identification, the lack of board input due to a dormant University Integrity Committee, and the advent of a number of internal and external crises that required a reactive, rather than a proactive, approach to risk management at APU.

Under a reorganized and elevated leadership for risk management, including the Executive Committee’s new oversight over risk, President Ferguson’s priority focus on compliance and risk mitigation, the placement of risk management with the division of University Integrity, and the recent hire of APU’s first Director of Risk Management, the university is poised for a fresh approach to identifying, assessing, and managing risks at APU. That approach calls for the approval and implementation of a formal, data-driven, organizationally integrated and accountable Enterprise Risk Management (ERM) program at APU.

That approach could not come at a more opportune time for APU, with the introduction of the Strategic Plan and its subsequent implementation. APU’s ERM process will be a ground-up initiative and move in lockstep with action items to identify, assess, and actively maintain risks within the institution’s risk appetite, as those evaluated and assumed. This will draw the director of risk management into close collaboration with vice presidents and directors during the planning phases of Strategic Plan projects.

Department of Risks Management's Annual Goals 2020-2021

With all this in mind, the President and Vice President for University Integrity and General Counsel developed several risk management goals for FY 2020-2021 that are the foundation to APU's Enterprise Risk Management (ERM) program:

1. Hire a Director of Risk Management.
2. Reconsider the risk assessments approved for calendar year 2020.
3. Conduct a feasibility analysis and implementation period for establishing an ERM program at APU.

1. Director of Risk Management

Steven Lin joined APU in September 2020 as its first Director of Risk Management. He reports directly to Chris Jennings and will oversee risk, emergency management, and environmental health and safety. Steven brings decades of experience in risk management, including insurance claims handling and management, ERM, business continuity, and emergency planning. He has held executive and VP risk management roles at major, multi-national billion-dollar corporations, including Safeway/Vons, Panda Restaurant Group, Whataburger, and Keolis Transportation. Since his arrival, Steven has participated in face-to-face and remote orientation and has made several key observations that are presented later in this report.

2. FY20 Risk Assessments

In January and February 2020, under the aforementioned Risk Management Framework and Procedure, APU leadership (Board, PC, and SRMC) approved six risk assessment priorities that the SRMC and Risk Manager would conduct in 2020.

The list was created in the fall 2019 under prior SRMC and risk management leadership, and ahead of the coronavirus pandemic that necessarily diverted the institution's risk and emergency management resources of the institution for 2020. As a result, we were not able to prioritize or complete the approved FY20 Risk Assessments. Instead, we targeted our limited resources to meet the needs of the community during the pandemic. We will reconsider an assessment of these identified risks under the new ERM program at APU.

3. Enterprise Risk Management

Focus for the remainder of the current fiscal year includes designing, developing, and implementing a strategic, data-driven ERM program. The remainder of this annual report will provide an overview of that program for the Executive Committee. We ask that the committee approve our plans set forth herein.

The following defines ERM at APU:

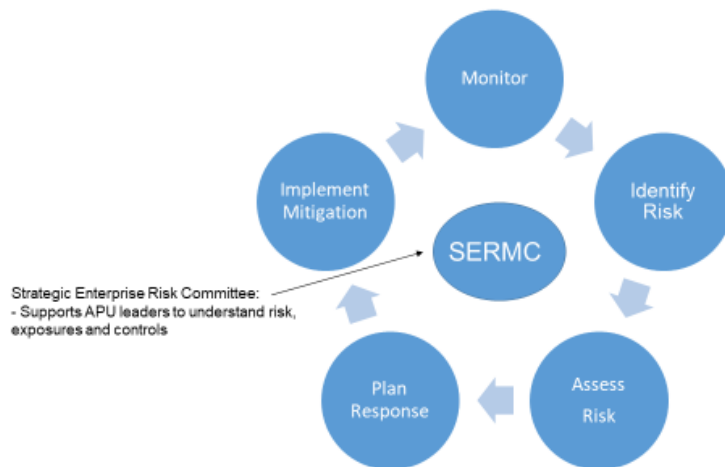
Enterprise Risk Management at Azusa Pacific University is the university-wide strategic process, supported by the Board of Trustees, management, and other key personnel, for (1) identifying risks (potential events that may negatively affect the university), and (2) managing those risks within the university’s risk appetite in order to achieve the university’s strategic objectives.

In addition to identifying and managing specific risks within available human and financial resources, ERM includes components of training university risk owners and stakeholders, leading business continuity planning efforts, workplace safety, emergency planning and management, and assessing and holding the institution to its Total Cost of Risk (TCOR) profile.

Second, we propose to re-vision the Strategic Risk Management Committee as an enterprise-wide risk management committee and rename it the Strategic Enterprise Risk Management Committee (SERMC). The proposed updated Terms of Reference, including membership list, are attached to this annual report as Exhibit 1.

SERMC is a highly coordinated group designed to help reduce the university’s vulnerability to events that may prevent it from achieving its strategic goals and objectives. SERMC achieves this by developing data, tools, processes, and risk-based methodologies to help identify, evaluate and manage university risks. SERMC, through university-wide input and data-driven analysis and assessment, will annually identify, review, and prioritize the top risk matters facing the institution and present them to the President’s Cabinet and Executive Committee for approval. The PC will assign key, knowledgeable administrators to develop mitigation plans and monitor the implementation of such plans in collaboration with the Director of Risk Management and the SERMC.

Here is a visual representation of the SERMC’s responsibilities:



The workflow wheel represents APU’s annual proactive approach to risk identification and mitigation. Reactive risk management will continue, responding to less obvious risks that materialize.

The process generally will follow APU's fiscal year (July 1 to June 30) to align with the Strategic Plan calendar, APU's annual audit and financial reporting period, and insurance policy periods:

- SERMC will perform risk identification (four o'clock on the workflow wheel) each winter. That identification process will include a survey and individual meetings with each President Cabinet member.
- Once risk identification is completed, will seek PC input/approval in February and board input/approval at the March Executive Committee and May full board meetings.
- Assessment, response, implementation, and monitoring will occur after board approval during the following fiscal year, with a report to the Executive Committee each July on the prior fiscal year's risk assessments.

This timeline modifies the former University Integrity Committee reporting timeline (now reflected in the Executive Committee Charter): "Every September/November, the committee shall review the university's risk assessment and administration plan. The Committee shall also review significant risk exposures to the university and the steps administration has taken to monitor control and report such exposures."

Please see Attachment 2 for the Director of Risk Management's initial observations and recommendations that provide additional details for the steps on the workflow wheel.

Attachments

1. Strategic Enterprise Risk Management Committee Terms of Reference (DRAFT Nov. 2020)
2. Director of Risk Management's Initial Observations, October 2020

[End]

Enterprise Risk Management: 2020 Annual Report
Attachment 1: DRAFT SERMC Terms of Reference

Azusa Pacific University

University Information Management Documents

Terms of Reference – Strategic Enterprise Risk Management Committee

Type of Document	Reference
Status	Version 1.0 Approved & Implemented Nov. 2013
Status	Version 2.0
Date of Implementation	November ____, 2020
Date of Last Approval	November ____, 2020

Azusa Pacific University has determined that it needs to use an Enterprise Risk Management process designed to uniquely identify the University's risks throughout the organization and manage them within the University's risk tolerance. These risks include strategic risks that affect the University's ability to achieve its goals or objectives (strategic risk), risks that affect regular operations (operational risk), risks that may result in the loss of physical assets or financial resources (financial risk), risks created by failure to comply with laws, regulations or university policies (compliance risk), and risks that affect the institution's public standing (reputational risk).



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In addition to identifying and managing specific risks within available human and financial resources, ERM includes components of training university risk owners and stakeholders, leading business continuity planning efforts, workplace safety, emergency planning and management, and assessing and holding the institution to its Total Cost of Risk (TCOR) profile.

As such, there is a pragmatic need for a committee of key university leaders to oversee the University's efforts to manage risk and compliance. The SERMC will (a) identify and analyze risks of strategic importance, (b) provide resources to create response and control measures for those risks, and (c) continue to monitor the outcomes or process until the risk falls into acceptable risk tolerance levels for the University.

Composition and Leadership of Committee

The committee is made up of University leaders who are in key positions to identify and assess strategic risks to the University, and to apply human and financial resources to the task of mitigating such risks. New members can be added to the committee by a recommendation of any existing member, and approved by a consensus of the committee, the Office of the President or the Chair. Using the committee model, and valuing the continuity of discussion and strategy, the following offices or disciplines shall be represented on the committee:

President or designee (who may be any other committee member)
Vice President for University Integrity and General Counsel
Vice President for Finance and Business Strategy / Chief Financial Officer or designee
Vice President for Administration / CIO or designee
Vice President for Strategic Communication and Engagement or designee
Vice President for Human Resources or designee
Vice President for Student Affairs or designee
Provost or designee
Director of Risk Management (Chair)
Executive Director of Campus Safety
Safety and Emergency Manager
IMT Security Architect
Title IV Compliance Officer

To provide leadership, the chair assumes the role of facilitating group dynamics, monitoring progress, and, through the Vice President for University Integrity, sharing the committee's direction with the President's Cabinet and Board of Trustees. The chair will also facilitate meetings, communications, and general process management.

Role of the Committee

The committee exists to ensure that the university has an integrated enterprise risk management strategy and operational plan that can be shared and coordinated with all constituents. In order for this to be implemented in an integrated and efficient process, a group of committed professionals will:

- Develop and refine a process to identify risks across all disciplines as well as proposed integrated initiatives.
- Analyze the probability and impact of identified risks and recommend appropriate risk responses.
- Recommend risk control measures to mitigate risk.
- Direct efforts to monitor strategic, operational, financial, compliance, and reputational risks.
- Communicate information regarding enterprise risks to administrators and other members of the APU community.

Meetings and Decision-making Authority

The chair will create the agenda, and call and manage all meetings, which shall occur no less than quarterly. Meeting minutes, including attendees, topics discussed, and decisions will be recorded in writing by a member of the committee designated by the chair. Minutes will be distributed within five business days of the meeting, and approved by majority vote at the next meeting.

Between meetings, decisions that in the opinion of the chair are urgent, may be made using electronic mail. Decisions and agreements will be finalized at the next meeting.

Information Sharing

Communications between the committee members will be the responsibility of the chair. The primary communication on decisions, requests for resources, or recommendations resulting from this committee would be the responsibility of the Vice President for University Integrity and the Director of Risk Management.

END

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Attachment 2: Director of Risk Management's Initial Observations, October 2020

Observation 1

After a review of the ERM process currently in place, although there exists a list of risk priorities, there is no clear risk methodology or process as to how these risks were prioritized, and it does not appear to be data-driven. It is recommended that we reset the foundational principles of enterprise risk (based on COSO model) and build up from there. This approach will give APU a solid foundation to build on as well as bring credibility to its risk process.



Using this model, each PC member with their senior leadership teams 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, department leaders should consider the following questions:

- Which areas worry you most?
- Which areas have generated problems that could have been prevented?
- What areas have come up in audits / investigations?
- 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?

Sample:

OPERATIONAL RISK		Urgency Rating				Person to Assess if rated "1"	
		1	2	3	N/A		
Academic Affairs							*rating key
RF1	Academic freedom						1 - Risk area needs immediate assessment
RF2	Academic quality						2 - Risk area to assess over the mid-term
RF3	Accreditation						3 - Risk area to assess over the long term
RF4	Joint Programs						
RF5	Distance learning						
RF6	Faculty conflict of interest						
	Graduation rates/student						
RF7	learning outcomes						
RF8	Promotion and tenure						
RF9	Recruitment/competition						
Facilities		Urgency Rating				Person to Assess if rated "1"	
		1	2	3	N/A		
RF1	Accessibility						
RF2	Auto/fleet						
RF3	Disaster preparedness						
RF4	Maintainance and condition						
RF5	Outsourcing						
RF6	Pollution						
RF7	Safety						
RF8	Security						
RF9	Transportation						

Risk Assessment Matrix and Risk Score Legend

		Likelihood							
		Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Almost Certain (5)	Risk Score	Risk Level Category	Description
Impact	Catastrophic (5)	Moderate Risk	Moderate Risk	High Risk	Critical Risk	Critical Risk	1 to 4	Low Risk	Manage by routine procedures and operations; should not require much attention but should be reviewed at least every 18 months.
	Major (4)	Low Risk	Moderate Risk	High Risk	High Risk	Critical Risk			
	Moderate (3)	Low Risk	Moderate Risk	Moderate Risk	High Risk	High Risk	5 to 10	Moderate Risk	Manage by specific monitoring or response procedures; should be monitored and reviewed every 12 months.
	Minor (2)	Low Risk	Low Risk	Moderate Risk	Moderate Risk	Moderate Risk	11 to 18	High Risk	Requires escalation to VP; should be constantly monitored and reviewed every 3 months.
	Insignificant (1)	Low Risk	Low Risk	Low Risk	Low Risk	Moderate Risk	19 to 25	Critical Risk	Requires escalation to Board Committee responsible for risk management oversight; should be constantly monitored and reviewed monthly.

Information gathered using the survey worksheet and interviews with PC members will then be brought before the SERMC, which will convert the data into a spreadsheet assessing all risks and assigning a score which will identify the top 5-10 risks and guide Board of Trustees, PC, and SERMC decision-making on which risk assessments to focus on in the coming fiscal year.

Observation 2

The Office of General Counsel intends to onboard a Safety and Emergency Planning Manager, who will report directly to the Director of Risk Management. The Safety and Emergency Planning Manager role is expected to add immediate contribution to the university’s environmental health and safety program as well as help prepare us for any unplanned emergencies going forward.

Observation 3

A revamp of the Terms of Reference and members for the University Safety Committee as well as the Strategic Enterprise Risk Management Committee will help align ERM goals and narrow any gaps or blind spots we have not previously seen.

Observation 4

APU's premiums for risk transfer over to insurance should be tested. We may want to revisit and stress test our tolerance for risk in taking a higher deductible or self-retention level on the Workers Compensation program.

[End]