



Enterprise Risk Management Task Force Report to UNC Board of Trustees

Trustee Sallie Shuping-Russell, Chair
May 2015

“In all well regulated governments it is the indispensable duty of every legislature to consult the happiness of a rising generation, and endeavor to fit them for an honorable discharge of the social duties of life by paying the strictest attention to their education and that, **a University, supported by permanent funds and well endowed, would have the most direct tendency to answer the above purpose.**”

UNC Charter - December 11, 1789

Overview

- July 2013, Chair Lowry Caudill appoints Trustee Sallie Shuping-Russell to chair ERM Task Force
- Trustee-led process
 - 6 trustees
 - Provost
 - Key vice chancellors, internal audit, faculty and student leaders
- More than 18 months of study



Members of ERM Task Force

- Sallie Shuping-Russell, Board of Trustees Secretary – Task Force Chair
- Phillip Clay – Board of Trustees
- Peter Grauer – Board of Trustees
- Kelly Matthews Hopkins – Board of Trustees
- Steven Lerner – Board of Trustees
- Andrew Powell – Board of Trustees and Student Body President
- James Dean Jr. – Executive Vice Chancellor and Provost
- Winston Crisp – Vice Chancellor for Student Affairs
- Barbara Entwisle – Vice Chancellor for Research and Kenan Professor
- Matt Fajack – Vice Chancellor for Finance & Administration
- Chris Kielt – Vice Chancellor for Information Technology & CIO
- William Roper – Vice Chancellor for Health Affairs, Dean of School of Medicine and CEO for UNC Health Care
- David Parker – Interim Vice Chancellor & General Counsel
- Phyllis Petree – Director of Internal Audit
- Staff: Laurie Burroughs; Glenn George, JD; Meredith Weiss; Elizabeth Josephs



Charge to Task Force

- Identify areas of risk or *potential* risk
 - Determine if risks are being successfully mitigated
 - Recommend ways to reduce or eliminate unmitigated risks
- Identify key opportunities for Carolina
- Create a sustainable University approach to assess risks in order to safeguard Carolina's academic quality and institutional integrity



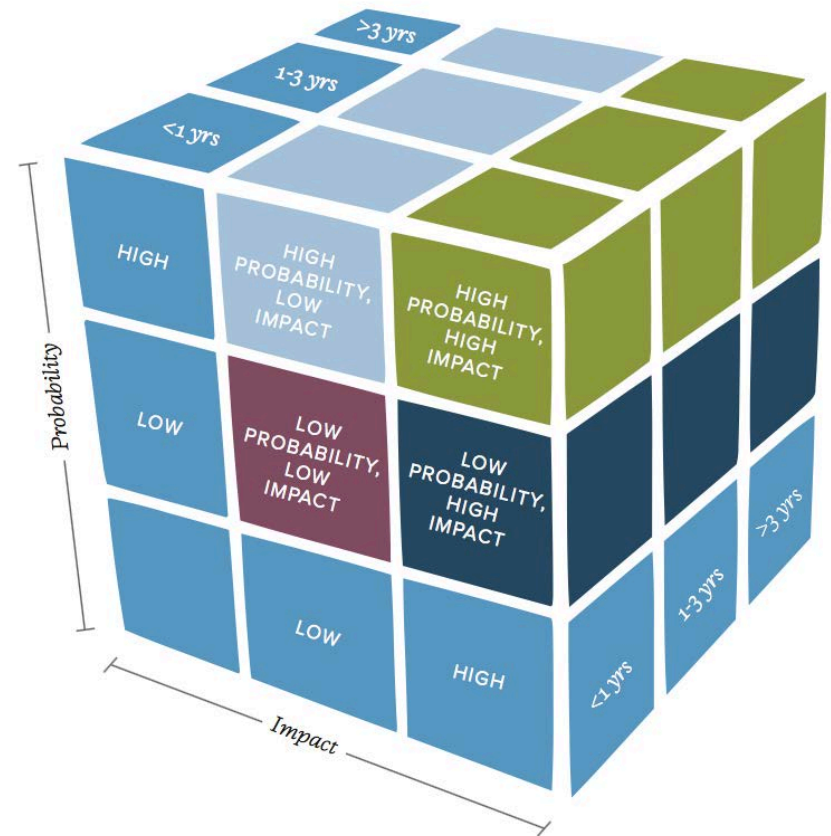
Approach and Process

- Reviewed several areas of risk across University
- Grouped risks into six categories:
 - Strategic
 - Operational
 - Reputational
 - Safety
 - Financial
 - Regulatory
- Created three subcommittees to evaluate



Approach and Process

- Ranked each risk by:
 - *probability* of occurring
 - *impact* if occurred
 - likely *timing* of risk
- Task Force focused on high impact **and** high probability risks



A photograph of a classical building entrance featuring several white columns. In the center, there is a dark stone pedestal or fountain base. The scene is framed by lush greenery and vibrant pink azalea bushes. A blue rectangular overlay is positioned across the middle of the image, containing the text "Task Force Findings" in white serif font.

Task Force Findings

Culture of Trust

- Needed across University
- Imperative to maintain and support
- Recent internal events and externalities challenged this:
 - Data security breaches, balancing athletics and academics, responses to public records requests
 - Great recession, media scrutiny, increased regulations
- Must prioritize frequent, full and timely communication across University and with constituents
- De-silo campus interactions to create a consistent culture of trust and accountability



Big Picture Themes

To ensure Carolina can realize opportunities before us and to be optimally positioned for the future, we need:

1. An institutional strategic plan, so all are pulling in the same direction
2. An organizational review that is top-to-bottom and bottom-to-top for optimal structure and communication
3. A comprehensive review of safety and compliance, as these areas' heterogeneity and complexity were beyond this task force's capabilities



Guiding Principles In All Risk Categories

“Within a university academic freedom, unencumbered inquiry, and creation of wholly new concepts are required to advance knowledge and teach independent thinking by students.”

- ERM Task Force Statement

“The University of North Carolina at Chapel Hill serves North Carolina, the United States, and the world through teaching, research, and public service. We embrace an unwavering commitment to excellence as one of the world’s great research universities.”

– UNC-Chapel Hill Mission Statement



Findings By Category

- Strategic and Reputational Risks
- Financial and Operational Risks
- Safety and Regulatory Risks



Strategic and Reputational Risks

1



Strategic and Reputational Risks

- Maintain a culture of integrity
- Protect academic freedom
- Recruit and retain top faculty, staff and students
- Attract best young faculty and graduate students to renew retiring faculty and generate best, newest ideas
- Align interests within layers of governance
- Oversee balance of athletics with academics
- Provide needed transparency
- Be ever mindful of public perceptions as well as reality



Mitigation Measures Already in Place

- BOT, senior administrators, faculty and students interacting with BOG, GA and legislature to help align interests of governing groups
- Developed new ways to assess and monitor strategic issues, e.g.:
 - Integrity Working Group
 - Policies and Procedure Working Group
 - Improved public records requests fulfillment
- Responded urgently and in detail on questions from accrediting agencies, BOG and compliance offices
- Created rules to ensure faculty chairs are reviewed every five years
- Improved course monitoring activities
- Attracting new funding sources, such as increased corporate sponsorship for research



Strategic and Reputational Recommendations

- Undertake an institutional strategic planning effort
- Strengthen faculty leadership development
- Enhance academic management succession planning
- Prioritize recruitment and retention of top faculty, graduate students and staff
- Continue collaboration across the UNC System
- Continue to focus on academic and athletic excellence
- Solidify and clearly communicate accountability standards
- Foster dialogue on the importance of education as a job creator and economic driver



Financial and Operational Risks

2



Financial and Operational Considerations

- Financial and operating tasks are often intertwined
 - Risk to one often affects the other
 - Multiplier effect created
- At Carolina, two key factors created vulnerabilities:
 - Central finance and operating units took brunt of five years of budget cuts – almost \$200 million in recurring cuts
 - Continuous process improvement has not been part of UNC operating focus



Financial and Operational Risks

- Insufficient financial planning process
 - Can misalign resource allocation with institutional objectives
 - Potential for missed opportunities or misplaced incentives
- Information Technology (IT) too decentralized and insufficient
- Outdated, decentralized organizational structure
 - Sub-optimized resource allocation
 - Inefficiencies
- Outdated budget model: *historical* allocation vs. *anticipated future needs* allocation
- Inadequate disaster recovery and business continuity plans
- Insufficient flexible endowment capabilities



Mitigation Measures in Place

- Many tactical plans in lieu of larger strategic plan
- New Finance Council of academic and administrative units created to help govern institutional finance-related issues
- Reorganization of certain units, including centralizing some activities
- PeopleSoft and EPIC implemented
- Undertaking new continuous business process improvement practices
- Significant investment in Development Office
- Developing broader and deeper industry relationships
- Reallocation of funds to support salaries and faculty retention
- Use of F&A to fund research-related deferred maintenance
- Exploring increased shared services environment
- Many IT security improvements, including centralized procedures



Example: IT Improvements



1976



2006



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Financial and Operational Recommendations

- Begin major Capital Campaign as soon as possible
- Increase unrestricted endowment
- Develop a regular comprehensive financial planning process that will support the University's overall strategic plan
- Develop sufficient disaster recovery and business continuity plans across campus
- Investigate optimal organizational structure so Carolina can continue to lead higher education and research



Safety and Regulatory Risks

3



Safety and Regulatory Considerations

- Abundance of federal, state, local and agency regulations, along with UNC System measures, present challenges for the University
- Carolina's growing and extensive research efforts spread compliance responsibilities across a broader spectrum of campus
- Safety concerns are always with us. Growing issues regarding safety within the University community make this the highest risk that Carolina faces today



Summary of Safety and Regulatory Risks

- Research-related regulations
- Non-research regulations; largely related to student rights, EEO, accreditation, NCAA
- Compliance-driven safety needs
- Day-to-day safety concerns

Maintaining proper communication of issues is key. We must tailor to audience, deliver in familiar language and get info to students where they live and spend time.



Regulatory Risks Reviewed

- Research on human subjects regulations
- Federal grant financial compliance
- Clery Act (campus safety)
- CERCLA (hazardous substances)
- FERPA (privacy of student records)
- ADA/EEO (equal opportunities)
- SACSOC (accreditation)
- NCAA (student athletes)
- Title IX (prohibits discrimination by sex)
- Public records
- Data security and ID theft
- HIPAA (privacy of healthcare records)



Safety Risks Reviewed

- Research misconduct
- Lab safety
- International operations
- Active shooter/violence
- Sexual assault
- General safety and conduct
- Hazing
- Alcohol and drug misuse
- Facility safety



Mitigation Measures in Place

- Updated policies, procedures and internal guidelines
- Increased dedicated staff or offices to address risks
- Increased training for all involved
- Enhanced training procedures, software updates
- Required annual, quarterly meetings for administrators
- Hired additional people in finance, research and legal
- Established new websites
- Recommitted to transparency but must also balance with confidentiality and privacy requirements



Safety and Regulatory Recommendations

- A more in-depth review will be required to fully assess safety and regulatory risks
- A high-level assessment makes clear:
 - Wide communication and education are imperative
 - The University must be nimble and smart when communicating, tailoring messages to unique audiences
- The task force recommends that a full safety and regulatory assessment be a University priority





Opportunities for the Modern Carolina

Opportunities Carolina Should Seize

- Grow and diversify our research enterprise
 - Currently near \$1 billion a year in research activity
 - Supports all or part of the salary of almost 10,000 UNC employees
 - Significant value to the state's economy
 - Need to grow corporate research grants
- Continue innovation and entrepreneurship initiatives
- Initiate major, dynamic Capital Campaign
- Evaluate potential global operations
- Expand medical faculty across state, as appropriate
- Continue to lead and collaborate across the UNC System





Task Force Recommendations



Overall Recommendations

- Maintain and support a culture of trust at Carolina
- Initiate institution-wide Strategic Plan as soon as possible
- Launch major Capital Campaign as soon as possible
- Maintain an imperative on safety
- Continue to enhance communications to be timely and complete across campus
- Implement measurable performance goals
- Continue to evaluate the business case for centralization, shared services
- Develop regulatory repository
- Create Chief Risk Manager position
- Create Risk Committee for regular follow up on ERM



Conclusion

- Carolina remains committed to serving North Carolina and to standing among the top global research universities
- We have sufficient controls in place for most current and foreseeable risks that would challenge this commitment
- Disaster recovery, business continuity planning and organizational structure need further mitigation
- We must always ensure actions support a culture of trust
- To continue to evolve over the next 221 years Carolina must not shy away from risk. We must continue to control risk in order to make new discoveries and inspire new leadership





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