

ENTERPRISE RISK MANAGEMENT PROGRAM



TEXAS A&M
UNIVERSITY
CENTRAL TEXAS

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CHARTING A PATH TO EXCELLENCE

Texas A&M University – Central Texas is a member of The Texas A&M University System which is governed by a nine-member Board of Regents. The mission of Texas A&M University – Central Texas (the “University”) is to be an upper-level institution committed to high-quality, rigorous and innovative learning experiences that will prepare its students for lifelong learning through excellence in teaching, service, and scholarship. To fulfill that mission, the University has embarked on an ambitious strategic planning initiative which is outlined in a five-year strategic plan that was initiated in 2011. This plan is designed to focus University commitment on three imperatives essential to building a quality institution of higher learning:

- a. Academic Excellence through Accountability and Classroom Rigor
- b. Building an Environment to Foster Scholastic Achievement
- c. Fostering a Sense of Community

The plan not only articulates these imperatives, it describes specific outcomes to be accomplished, and it details performance measures to chart progress.

The complex and rapid changes in today’s world place unprecedented pressures on the University, especially one as relatively young as the Texas A&M University – Central Texas. 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 political in nature. They can affect the entire University, specific programs and individual departments.

To facilitate its commitment to excellence and support the achievement of its strategic plan, the University has decided to implement an Enterprise Risk Management (ERM) program to establish a systematic organization-wide approach that will allow it to proactively manage risks. Managing risks involves identifying risks, assessing their potential impact, and exercising prudent judgment to accept, avoid, reduce or share the risks.

AUTHORITY

A&M System Policy 03.01 – System Mission, Vision, Core Values, and Strategic Planning requires the development of an enterprise risk management process. This ERM program is designed to fulfill this requirement.

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The goal of the ERM program is to address risks in a centralized, holistic approach rather than independently within operational units and functional areas. Addressing risks from a University-wide perspective gives personnel the opportunity to understand how their individual actions affect not only their specific goals, but also the achievement of the University's goals.

The University's ERM program will follow the Enterprise Risk Management Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO Enterprise Risk Management Framework is designed to create a consistent risk and control consciousness throughout an enterprise and establish the model for discussing and evaluating the organization's risk management processes.

Framework

The Enterprise Risk Management Framework is made up of eight separate components:

1. **Internal Environment.** The internal environment forms the basis for how risks are viewed and addressed. It includes:
 - a. Vision and mission
 - b. Organizational structure
 - c. Management's operating style
 - d. Assignment of authority and responsibility
 - e. Competence and development of personnel
 - f. Ethical values
 - g. Policies and procedures
 - h. Risk management culture
2. **Goal Setting.** ERM ensures that a formal process is in place to establish goals and that those goals support the University's mission and strategic plan and are consistent with its risk appetite. Risk appetite is the amount of risk the University is willing to accept in pursuit of its goals. It affects the risk management philosophy and in turn affects the University's culture and operating style. Risk management philosophy is the set of shared beliefs and attitudes that characterize how risks are considered from strategy development and implementation to day-to-day activities. It reflects the University's values, influences its culture and operating style, and determines how risks are identified, assessed, and managed.
3. **Event Identification.** Events have the potential to positively or negatively impact the University's ability to achieve its strategic goals. A variety of internal and external factors drive events. Examples of internal factors are infrastructure, people, processes, and technology. Examples of external factors are social, political and economic conditions, laws and regulations, technological changes, weather, and natural disasters. It is important to understand these internal and external factors and develop methods for identifying and monitoring these factors and related events.

4. **Risk Assessment.** Risk assessment is the process of identifying the risk level for events based on an assessment of vulnerabilities, likelihood of occurrence, and potential impact. Risk assessment is both a point-in-time activity and a continuous and iterative process. It involves a determination of both inherent risk and residual risk. Inherent risk is the risk to the University in the absence of any actions that may be taken to alter the likelihood, vulnerability, or impact related to that risk. Residual risk is the risk that remains after the risk mitigation activities occur.
5. **Risk Response.** After risks are identified and assessed, the University must decide how it will respond to those risks in order to bring the residual risk within the desired tolerance level (i.e., within its risk appetite).

Risk responses include:

- a. Accepting the residual risk associated with an event or activity
- b. Avoiding the event or activity that causes the risk
- c. Reducing the likelihood, vulnerability or impact associated with a risk
- d. Sharing a portion of the risk with others (e.g., insurance, outsourcing)

Risk responses should be evaluated according to the relative costs and benefits of possible responses so that decisions can be made to determine the best course of action.

6. **Control Activities.** Control activities are policies and procedures that help ensure risk responses are properly executed so that the University's goals can be accomplished. Control activities involve the University's structure, people, information systems, and operational processes. They are the means by which resources are directed, monitored, and measured.
7. **Information and Communication.** Financial and non-financial Information is needed at all levels throughout the University to identify, assess, and respond to risks. Information is available from internal and external sources, in quantitative and qualitative forms, and can be both formal and informal in nature.

Having and communicating the right information at the right time is essential to enterprise risk management. An inventory must be developed of the information needed for the ERM program and processes put in place to ensure that this information is effectively produced, aggregated, analyzed, and communicated to those involved in risk management.

The communication process should convey:

- a. The importance and relevance of effective enterprise risk management
- b. The roles and responsibilities of personnel at all levels in supporting and carrying out enterprise risk management
- c. The process for identifying existing and emerging risks to the University's goals
- d. The risks that have been identified and how those risks can impact the achievement of the University's goals
- e. The University's risk appetite and risk tolerances related to those risks
- f. Existing controls that address identified risks
- g. New controls or changes to existing controls that are designed to improve risk postures
- h. The process for determining the cost/benefit proposition for new and changed controls
- i. Sources of information and key indicators related to identified risks
- j. The process for monitoring and reporting the effectiveness of controls in maintaining and reducing risk exposures

8. **Monitoring.** Monitoring is the process of assessing the ongoing operating effectiveness of the ERM program and related activities. Monitoring can be accomplished through day-to-day management oversight and reporting and through separate control evaluations.

Monitoring should include these key activities:

- a. Identifying early warning indicators that signal changes in the risk environment
- b. Making changes to the details of the risks already documented in the risk register
- c. Adding new risks to the risk register
- d. Determining the effectiveness of risk control activities so that corrective action can be initiated when needed
- e. Reporting on the success of the ERM program

Benefits and Limitations

An effective ERM program will give the University a consistent and systematic approach to managing risks. It will allow the University to critically review its activities, assess new ideas, and seize opportunities. It is expected to provide tangible benefits, including:

- a. Greater confidence in decision making
- b. Fewer operational surprises, disruptions and losses
- c. Improved operational effectiveness and efficiency
- d. More effective deployment of resources
- e. Increased cross-institutional awareness and involvement in the achievement of strategic goals

While ERM provides important benefits, some limitations do exist, such as:

- a. Not all risks can be foreseen
- b. Sudden changes may not allow sufficient time to mitigate risks
- c. Sufficient resources may not be available to address all key risks
- d. Resources may not be correctly allocated due to limited information and/or the lack of control over external factors
- e. Errors and mistakes may occur in the control environment
- f. Controls may be circumvented and decisions overridden

The goal of the ERM program will be to maximize its benefits while addressing its limitations.

BUILDING AN EFFECTIVE ERM PROGRAM

One of the frequent reasons that ERM program implementations fail is that organizations try to implement all the components of ERM at one time, making the program too broad and overly complex. The University has elected to take an incremental approach by beginning with the basic components of the ERM framework and adding additional elements and complexity as the program matures over time.

Initially, the University will identify and focus on those risks that can directly impede the achievement of the business goals outlined in the University's Strategic Plan. The University will then determine specific actions designed to address those risks, and put in place targeted practices that will help it reduce the impacts of those risks and improve the likelihood that the goals listed in our Strategic Plan can be realized. This will allow the University to experience early "wins" and incorporate the ERM program into operational processes. As the program matures, we will apply the ERM framework in a more targeted manner at the program and department level.

PROGRAM IMPLEMENTATION

ERM program planning began in March 2012. ERM program introduction meetings were held with University leadership, department directors and other key personnel to introduce the concept of enterprise risk management, discuss why ERM is important to the University, and describe their roles and responsibilities in the program.

An ERM risk survey form was distributed to the University's executive team and department directors which requested the following information for compilation into the University's risk register:

- Department name, description and mission
- Three to five primary department goals
- Five to eight primary department processes
- Three University goals that were most relevant to the department
- Risk information for each department and University goal:
 - Short description for a risk that would impact the goal
 - One or more risk category names from the list below to designate the type of risk:
 - ◁ Strategic – events that affect the ability to make good decisions and respond appropriately to changes in critical internal and external factors such as social trends, economic trends, technological trends, industry trends, political changes, regulatory changes, etc.
 - ◁ Compliance – events that affect compliance with laws and regulations
 - ◁ Operational – events that affect ongoing business and educational processes
 - ◁ Technological - events that affect electrical and electronic systems
 - ◁ Financial – events that affect the sources/uses of funds and the achievement of financial goals
 - ◁ People – events that affect the availability, quality, health and safety of staff and students
 - ◁ Facility – events that affect the availability and quality of facilities
 - ◁ Reputational – events that affect public perception
 - Risk background – why the risk might occur

- Risk likelihood rating
 - ◁ High – happens frequently, occurs often, and is common or predictable
 - ◁ Medium – happens infrequently, sometimes occurs, or is unpredictable
 - ◁ Low – seldom happens, infrequent, rare, or has not happened before
- Risk proximity rating
 - ◁ Immediate (risk exists now)
 - ◁ Near-term (<1 year)
 - ◁ Mid-term (1-3 years)
 - ◁ Long-term (>3 years)
- Risk impact rating
 - ◁ High – consequence include termination of business area or program, significant injury or loss of life, termination of funding, significant financial loss/cost (including legal liability), and criminal penalties
 - ◁ Medium – consequences include inefficiencies and extra workloads, fines, minor injuries or property loss
 - ◁ Low – consequences have little or no effect on the organization; include warnings and/or reprimands with no other actions taken
- Risk impact description – a description of the effect the risk will have on the attainment of the specified goal
- Risk history
 - ◁ Has this risk occurred before? If so, when and what was the impact?
- Risk indicator – events or data that can indicate that the risk is likely to or about to occur
- Existing controls to reduce the likelihood and/or impact of the risk
- Risk acceptance level
 - ◁ Is the current level of risk acceptable? If not, why not?
- Recommended controls or changes to existing controls

Meetings were held with the University’s executive team and department directors to discuss the information provided in the risk surveys, and to clarify and expand the information provided in the surveys. The results of the risk surveys and meetings were compiled and presented in summary form to the executive team and department directors. Key risks were selected for which new or modified risk management control activities will be implemented and the ERM program plan was finalized (the Key Risks summary begins on page 12).

RESPONSIBILITIES AND OVERSIGHT

The University has established an ERM Steering Committee to oversee its efforts to identify, assess, measure, respond, monitor, and report risks. This committee will establish ERM program goals, assess progress toward those goals, and provide reports to the President and other key stakeholders as requested. It will be the responsibility of the ERM Steering Committee to revise the program as needed to accommodate the emerging needs of the University and address the current risk environment. While the President and ERM Steering Committee are responsible for enterprise risk management, it is critical that all employees support the University's risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility.

INFORMATION REQUESTS

For additional information about the ERM program, please contact Gaylene Nunn, Vice President for Finance and Administration, at nunn@ct.tamus.edu.

KEY RISKS

RISK CATEGORY	RISK BACKGROUND	RISK DESCRIPTION	RISK IMPACT
Funding – Appropriations	State appropriations are fifty four percent of Texas A&M University – Central Texas (TAMUCT) funds.	State appropriations are not provided at the level requested in the most recent legislative appropriations request.	<p>Inability to fund, attract, and retain additional qualified persons to fill required professional positions limits the University's ability to provide the programs needed for upcoming terms.</p> <p>Reductions in the funds available for marketing and recruiting limit the University's ability to continue to attract new students and to grow its way out of current funding constraints.</p> <p>Reductions in funds will require the University to implement a five-year rotation for the replacement of instructional computer equipment, and will inevitably delay software purchases. Both outcomes will impact student ability to complete assignments and will threaten the adequacy of their preparation on newer versions of hardware and software now in common use in the workplace.</p> <p>Inability to implement the University's own electronic and print library resources will require the extension of the Tarleton State University library contract with significant costs and delay the ability to meet all SACS accreditation requirements.</p> <p>Unavailability of additional tax revenue bonds will significantly restrict the ability to build the additional facilities needed to meet the University's growing program needs and enrollment growth.</p>
Funding – Financial Aid	Federal financial aid programs were modified in 2012 to change the eligibility and financial terms of certain types of student loans.	Reductions occur in federal tuition assistance programs.	Reductions in tuition assistance, especially during a tough economic environment, may lead to decreased enrollment because students choose less expensive educational alternatives or decide not attend due to financial constraints.
Funding – Military Tuition Assistance	The military tuition assistance program was changed so that specific fees are no longer reimbursable.	The tuition and fee structure mix is not adjusted to reflect the change in the military tuition assistance program.	Fees previously paid by the military tuition assistance program can become significant out-of-pocket expenses for some students resulting in a competitive disadvantage for the University and a decline in enrollment.

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Funding – Tuition & Fees	Growth in tuition and fees are required in order to fund certain programs and offset reductions in state appropriations.	Flat or reduced enrollment without corresponding increases in tuition and fees.	<p>Coupled with reductions in state appropriations, financial aid, and military student assistance, lack of growth in tuition and fees will adversely impact operations, programs, technology and staffing.</p> <p>Distributed Learning and other programs that are directly dependent on fees cannot be implemented in a way sufficient to meet the demands of students or the program needs of the University.</p>
Funding – Endowments & Gifts	As a very young university, TAMUCT does not have a fully developed endowment and gift program.	Endowments and gift programs do not grow to meet the financial needs of the University.	The lack of a robust endowment and gift program limits the ability to support the maintenance and growth of programs and facilities.
Accreditation – SACS	TAMUCT is now completing the third year of a coordinated transition from Tarleton State University, its parent institution during its operation as a System Center. Obtaining separate accreditation from the Southern Association of Colleges and Schools (SACS) is the step that gives TAMUCT complete autonomy from Tarleton State University and allows TAMUCT to continue to grow and develop new program offerings and partnerships.	SACS accreditation is delayed or not achieved.	<p>Programs cannot be added or changed during the accreditation process. The longer the process takes the greater the likelihood that the programs offered by the University will not fit the needs of current and prospective students.</p> <p>Failure to achieve separate SACS accreditation would prohibit the University from operating as a separately accredited institution, and require significant changes to operations, programs, technology, and staffing.</p>
Accreditation – CACREP, CAOMFTE	The US Military has instituted new rules requiring counselors to come from accredited programs. TAMUCT is seeking accreditation from Council for Accreditation of Counseling & Related Educational Programs (CACREP), and the Commission on Accreditation for Marriage and Family Therapy Education (COAMFTE).	CACREP and COAMFTE accreditation is delayed or not achieved.	Counseling students will not be eligible for jobs within the US Military, leading to significant declines in the number of students these degree programs can attract.

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Accreditation – CSWE	The social work program must be accredited by the Council on Social Work Education (CSWE) in order for graduates to meet this requirement for employment. CSWE accreditation is currently provided through TAMUCT’s affiliation with Tarleton State University.	CSWE accreditation is not maintained during the transition from Tarleton State University. CSWE accreditation is not achieved after TAMUCT becomes a separately accredited university.	Failure to maintain CSWE accreditation of the social work program during the transition from Tarleton State University would adversely impact the success of program and ability of graduates to be licensed. Failure to achieve separate CSWE accreditation as an independent university would adversely impact the viability of the program and the ability of graduates to be licensed.
Tarleton State University	TAMUCT is now completing the third year of a coordinated transition from Tarleton State University.	The transition from Tarleton State University is delayed or experiences significant operational or programmatic issues.	Delays in completing the University’s plan to separate completely from Tarleton State University will have a significant adverse impact to the University’s operations, programs, technology, and staffing, and its ability to become a distinct, self-sufficient university.
Information Technology Systems	TAMUCT currently relies on Tarleton State University’s Banner student information system. TAMUCT’s own implementation of Banner in a vendor-hosted environment is scheduled for completion no later than Fall of 2014.	Banner implementation is delayed.	Delay in implementing the separate Banner student information system will adversely impact the University’s ability to complete its operational and programmatic separation from Tarleton State University.
Relationship to Two-Year Post-Secondary Institutions	Seventy percent of all new students are entering TAMUCT through two-year post-secondary institutions.	Relationships with two-year post-secondary institutions are not adequately nourished and expanded. Marketing to graduates from those institutions is not as effective as planned.	Reductions in the number of students coming from two-year post-secondary institutions would limit the growth and development of TAMUCT as a regional university.
Military Relations	Approximately forty five percent of the TAMUCT student body is comprised of soldiers on active duty, veterans, and members of military families. TAMUCT ranked for two consecutive years in the top twenty percent of universities in the nation serving military students.	Reductions occur in state appropriations, military tuition assistance, fees, and contractual agreements. There is a lack of qualified faculty, technology and accredited programs to meet military demand.	Reductions in the funding, the lack of qualified faculty, and unavailability of certain accredited programs will limit the University’s ability to meet its existing commitment for the delivery of military programs (specifically for Fort Hood) and take advantage of tremendous growth opportunities, especially those made possible through Distributed Learning technology.

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Curriculum	Curriculum growth and development are dependent on the expansion of funding, faculty and facilities. Curriculum changes are currently limited by TAMUCT's operational and accreditation dependency on Tarleton State University. Curriculum changes are also restricted while TAMUCT goes through the process of SACS accreditation.	Funding, faculty, technology, facilities, and accreditation goals are not realized.	Inability to develop and expand curriculum will adversely impact the marketability of the University and inhibit its ability to be a leading upper-level regional university. Additionally, tremendous growth opportunities exist in military programs which cannot be realized without adequate resources.
Student Retention, Success & Graduation	The ongoing frequent assessment, intervention, and monitoring of student performance are critical factors in increasing student satisfaction and success.	Resources are not adequately deployed to ensure that students' support needs are being met and that students are showing sufficient progress toward successful program completion and graduation.	Shortcomings in student support will negatively impact student retention, graduation and employment.
Faculty & Staff Recruitment, Performance, Retention	A qualified experienced faculty and staff are vitally important to the growth and success of the University. TAMUCT is now staffed at a level just adequate to meet current needs. Many of the faculty and staff are relatively young and inexperienced, and need additional training in areas that are critical for the future growth and success of the University.	Qualified, experienced faculty and staff are not retained and recruited at desired levels.	The inability to attract, train, and retain qualified faculty and staff will have a detrimental effect on the University's ability to meet its goals regarding the quality and growth of its operational and academic programs.
Campus Security & Safety	TAMUCT's multi-location infrastructure increases the complexity of providing a safe and secure environment for faculty, staff and students. Additionally, perilous incidents at universities and military bases (such as nearby Fort Hood) have increased in recent years.	The safety and security needs of the University are not sufficiently addressed.	Lack of sufficient visible resources to fully address the unique safety and security needs of each location and the inherent risks associated with a university environment located in close proximity to one of the largest military bases in the world increase the likelihood of incidents occurring, inhibit the response time and capabilities should an incident occur, and negatively impact the peace-of-mind of faculty, staff and students.

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Distributed Learning	Distributed Learning is one of the fastest growing and most highly demanded areas in higher education. It is especially popular with adult learners over the age of 25, the fastest growing education demographic, and has become the primary method of instruction to U.S. military services shipboard and on military posts across the country and around the world. Additionally, classroom-delivered education is now frequently supplemented by content delivered through the Distance Learning infrastructure. Nearly 100% of the Distant Learning budget is provided through fees.	Funding through fees is not adequate meet the Distributed Learning plan of the University.	Insufficient funding of the Distributed Learning infrastructure will create a competitive disadvantage and not allow the University to address the growing needs for this method of instructional delivery, especially for the University's core demographics, adult learners and the U.S. Military.
Financial Operations	A sound internal control framework is in place that must be maintained as the University grows.	Internal controls weaken or are not adapted to meet emerging needs.	Internal control failures could result in financial errors and losses, and the inability to effectively meet oversight and reporting requirements, especially in emerging areas such as grants, gifts, and endowments.
Facilities	The delivery and marketability of the University's programs require the availability of facilities with sufficient space and high quality design characteristics. TAMUCT is in the process of moving from leased spaced facilities in multiple geographically dispersed locations to its own 672-acre campus location with new facilities that are designed to meet the long-term needs of the University.	The transition to high-quality, purpose-built facilities that are all located on TAMUCT's new campus are delayed.	<p>The multi-location, leased facility infrastructure increases the complexity and costs of facility support, program delivery, and business operations.</p> <p>The University's plan to expand its programs and become a top-tier upper-level university is dependent on the fulfillment of its long-range building program at the new campus.</p> <p>The lack of a sufficient, high-quality facilities located at the new campus will not allow the University to fulfill its commitment to Fort Hood which donated the land under an agreement for the University to provide educational and support services for a period of twenty years.</p>

RISK CATEGORY	RISK BACKGROUND	RISK DESCRIPTION	RISK IMPACT
Compliance	The transition from Tarleton State University requires TAMUCT to develop and implement its own program to comply with numerous federal, state and local regulations, Texas A&M System policies and TAMUCT's internal standards. This is a very large undertaking for a young university that is building its own operational infrastructure and culture.	Regulatory compliance policies, procedures and training are not developed in a timely manner and incorporated into the University's culture.	Delays or failures in meeting regulatory compliance requirements could result in litigation, disciplinary action, financial fines and penalties, and reputational damage.
Image & Reputation	TAMUCT's image and reputation play a vital role in its ability to attract and retain faculty, staff, and students, and its ability to obtain the funding necessary to achieve its near-term and long-term goals.	The University's image and reputation are adversely affected by deficiencies in programs and facilities, and by disruptive or damaging events that are not appropriately addressed or are outside the control of the University.	<p>Negative perceptions among students, faculty, staff, community, legislative representatives, and other stakeholders can result in declining enrollment and reductions in funding.</p> <p>The lack of resources to successfully build and promote the University's brand can limit the ability to attract and retain faculty, staff and students.</p>



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