

Minutes of the
NIU Board of Trustees
Compliance, Audit, Risk Management and Legal Affairs
COMMITTEE MEETING
May 28, 2015

CALL TO ORDER AND ROLL CALL

Time: 9:03a.m.

Present: Committee Vice Chair Wheeler Coleman (WC), Trustees Robert Marshall (RM), Marc Strauss (MS), Trustee Paul Julion (PJ), Board Chair John Butler (JB), Committee Chair Robert Boey (RB)

Phone: N/A

Absent: Cherilyn Murer, Robert Boey

Extras Present: President Douglas Baker, Committee, Board Liaison Mike Mann, Provost Lisa Freeman, Board General Counsel Jerry Blakemore (JBI), Bill Pittney, Deborah Haliczzer (DH) Eric Weldy, Ann Kaplan and Greg Brady.

Asked for roll call: WC: Good morning and welcome to the meeting of the Compliance, Audit, Risk Management and Legal Affairs Committee. Fondly referred to as the CARL committee. I will now call the CARL Committee to order and ask the Vice President General Council Jerry Blakemore to take the roll.

JBI: Actually Linda took the sheet from me. So Linda is going to do the roll.

Performed roll call: LO

VERIFICATION OF QUORUM AND APPROPRIATE NOTICE OF PUBLIC MEETING

Vice Chair: WC: Mr. Blakemore, do we have a quorum?

Answered verification: Board General Counsel JBI: We have a quorum and I can verify that this meeting has been called pursuant to the Illinois Open Meetings Act as well.

MEETING AGENDA APPROVAL

Vice Chair: WC: May I have a motion to approve the proposed agenda?

Motion: MS: So moved.

Second:JB: Second

WC: Any discussions? No discussions, all those in favor?

Members: Aye.

WC: All those opposed? Motion approved.

REVIEW AND APPROVAL OF MINUTES

Vice Chair: WC: The CARL Committee meeting minutes, may I have a motion to approve the minutes on February 26, 2015

Motion: MS: So moved.

Second: JB: Second.

WC: Any discussions? All those in favor?

Members: Aye.

WC: All those opposed. Motion approved.

CHAIR'S COMMENTS/ANNOUNCEMENTS

Vice Chair: WC: We've got, excuse me for a second, we've got some folks that are on the phone and if you're on the phone I've requested you put yourself on mute, we can hear some background noise. At this point in time public comments, Mr. Blakemore any requests. I have not received any requests from either persons physically present and I've not been given any notice from Brad Hoy or others who are participating from DeKalb in the Board of Trustees room of any persons who've requested for public comment either. It sounds like we've got some feedback. It sounds like there's a 30 second delay also.

Good morning everybody. Since there's no public comments, let me take a moment to offer my remarks as the CARL Committee Vice Chair that is sitting in for our Chair. There's nothing like having a closer start off a game. Let me begin by thanking each and every one of you for attending this meeting. I would now like to recognize various leaders of the University Constituents group; Dr. Bill Pittney, Executive Secretary of University Council; Ms. Deborah Haliczler, President of SPS Council.

DH: Good morning.

WC: Good morning.

DH: Everyone has trouble with that name.

WC: We're especially pleased that you're with us today. Are there any remarks that you'd like to make and share with us?

DH: Yes, thank you. On behalf of the University Advisory Committee, I have the following comment. As you consider risk management today, we would like to raise a concern pertaining to the perceived attrition of high quality faculty here at NIU that may negatively impact the institutions reputation. Although this comment is based largely on anecdotal information, there's a clear and present perception that good people are choosing to leave NIU. Our interactions with faculty and staff throughout the university lead us to believe that there's currently a confluence of issues that are prompting high productive, mid-career faculty and staff to depart NIU. These issues include the current financial challenges caused by declining enrollment and reduced state allocations, lack of pay raises over several years, state pension issues, and the state's continued divestment in higher education. These issues we believe make it extremely difficult to retain quality faculty and staff. Ultimately this leaves less personnel to mentor students and engage them in other high impact learning practices. This can ultimately erode NIU's excellent reputation in teaching and research.

WC: Are there any comments from the Board on comments just made? I'd like to say, first of all, I welcome your comments and that's the kind of comments that I think our Governor and our senators and our state representatives should hear. And I don't know what we can do about making sure that they get a copy of either the minutes of this committee or the comments that were made. Clearly, clearly we've got an issue that is bigger than just NIU and it impacts more institutions than just Northern. And so we appreciate your comments and my hope is that we can get those messages to our elected officials.

DH: We have indeed also Dr. Pittney, Mr. Monterio and I have written to the Governor and legislators with expressing our concerns about the situation and we shared that with our President who has brought them forward to other presidents and so there's a great deal of discussion and we as campus leaders have an obligation to really express the need of our students as well as faculty and staff.

WC: Great, thank you.

DH: You're welcome.

WC: We're moving on to Chair remarks. At this point in time I'd like to recognize our new Student Trustee-elect that takes the office in July, Rachel Chavez. Welcome and congratulations. As you can see, we are a bunch of friendly guys up here and so we'll enjoy working with you and looking forward to your service and your tenure. Thank you and we'll see you in July.

PUBLIC COMMENT

Vice Chair: WC

Legal: JBI

UNIVERSITY RECOMMENDATIONS/REPORTS

Information Item 7.a. – Enterprise Risk Management System

WC: We have a presentation that is scheduled for today. The agenda for the CARL Committee involves one important area which is our enterprise risk management system with would be led by our Vice President of Administration and Finance, Dr. Alan Phillips, with color commentary by Dr. Jerry Blakemore. Although the Committee was briefed on the procedural aspects of our enterprise risk management for proposal, today's presentation will highlight the substantial financial and legal aspects of risk management challenges and responsibility. I urge the committee to pay particular attention to the aspects as they directly impact decisions related to our oversight responsibility and the various role that the Board and the university leadership plays in this important area. Dr. Phillips, let's proceed.

AP: Good morning. Can you all hear me alright? As you know, risk management is a subject very critical to the well-being of the university. Risk management is an area of concern for a number of reasons to the university, the protection of assets. Typically when you think risk management you tend to think of insurance and of course it's something that we pay particular attention to however risk management covers a wide variety of other areas and issues and so what I'm going to talk about is enterprise risk management which encompasses the, or takes a holistic view of the management of risks across all the operations at a university or an institution. So first of all, enterprise risk management is a structured, consistent and continuous process across the whole organization for identifying, accessing deciding on responding to opportunities, threats that effect the achievement of its objectives. Enterprise risk management brings value by proactively identifying, assessing and prioritizing risks; developing mitigation strategies; aligning strategic objectives and administrative processes and embedding key components into the organizational culture. Basically it impacts everything you do and if it's done well it's incorporated into all aspects of the day-to-day operations of the university. So how is this different from traditional risk management, well first of all it's an enterprise wide approach. You're looking at every aspect of everything that takes place at the institution. All processes, activities, stakeholders, products and services. You're not only looking at the downside or potential losses or damages, but you're also looking at opportunities for efficiencies to mitigate potential problems or issues. You also take a look at risk not in the terms of say a building catching fire replacing a building, but in terms of the context of the operational and strategic objectives of the university. It enhances planning and budgeting processes and engages all the risk owners in the discussion. Benefits can help to sustain competitive advantage, transform process, implement technologies, solidify it's integrity and reputation. It allows you to respond in a better way when there's an event or problem that occurs. This one I like a lot, avoid financial surprises. Mitigate future liabilities, address rapidly changing regulations. Something I think that we're all very familiar with here in Illinois and effectively manage all the resources. So why is it important to college and universities? Well first of all, the Board of Trustees, it seeks enhanced visibility into the risk of the institution. Your creditors and auditors, who we get to spend a lot of quality time with, are interested in greater accountability for risk management. Analysts take a look at the ratings criteria for debt issues and as you know here in Illinois we have some challenges with long term debt and borrowing so they take a look at the risk involved there. And donors want to be sure that the funds that they donated are managed efficiently and effectively and we're good stewards of those resources. So issues that prompt discussion of risks and I would say I've been involved in discussions on almost every one of these issues involved risk; audit findings, continuity planning, construction projects, crisis response drills. Recently we had a tornado response exercise with the city of DeKalb and we have another one I think scheduled in July. Cyber security, all you had to do is pick up the paper every day. Those of you who pay taxes might be interested to know that the Russians broke into the IRS over the last day or so and stole quite a bit of information. Enrollment declines, financial under performance. Some of the other things, obviously reputation, research health care staff reductions, budget cuts and tuition increases. This chart is a little hard to read but what it touches on are the many aspects of enterprise risk management and these are just some of the areas where enterprise risk management is an issue or a concern. And to get back to Deb's comment earlier, you can see under faculty one of the risks is attract and retain faculty, tenure policies, curricular program design, research development, you have alumni, you have external stake holders, and then you can look at it in terms of human, capital, finance, integrity, process, strategy, IT, environmental health and safety and external issues. So there are a wide variety of issues associated with enterprise risk management. This is not all inclusive, but you get a pretty good idea of how holistic the

issue is. Another way to look at this is in terms of the types of risks. So you have financial risks. The outside ring are the externally driven risks. The center is internal. You have financial risks, strategic risks, operational risks, and hazard risks all are a part of enterprise risk management. So how does this work? You first have to identify and assess your risks. Then you have to do the planning and management of those risks. Then you measure, monitor and report; and then you start all over again. Underneath that you have to consider the culture. How much risk are you willing to take on? What's your risk tolerance? Is this aligned with your incentive plans and ongoing education? Do you have the means and methods to manage the process through your technology and systems? Do you have consistent communications about the process across the organization? Do you have policies and procedures in place that are well established and understood? And under governance and compliance are you leveraging and integrating the process in terms of operational compliance, financial compliance and regulatory compliance. The steps themselves; first of all you have to look in terms of the institutional culture for the context of how you're going to manage risk. You identify the risks, you assess the risks, evaluate them and prioritize the importance of those risks. You determine how you're going to deal with the risks, treat the risks. You're going to monitor, review, and take corrective action; and then you're going to communicate all of that to the organization, the institution, and then you're going to start over again. Risk identification, what can go wrong? What events are going to have an impact on people, mission and fiscal assets? A risk can be a missed opportunity also for improving effectiveness and efficiency and you can look at the context of existing external controls. If there were no specific controls what's the impact of the specific risks. If it's in the green area, it's not so much of a concern. If it gets over to the red area, that's something that you're going to pay attention to very much. Requirement identification, what's in place to prevent the risk? What are all the controls that would exist without the subsystem specific controls? What else is needed to control the risk and if there's extreme risk, what are the gaps between the existing risks and the external controls? As you can see, minor risk you may just accept that risk. Moderate, you may have controls that are adequate. If it's a significant risk, you may need to take a more in depth look at that and if it's an extreme risk you're going to make sure that you have sufficient controls in place to address that. In terms of documentation, you're going to document the analysis of the risks, the controls, to address any serious gap. You're going to lay out the potential options and you're going to evaluate the costs of various mitigation techniques and compare the cost benefit of various types of actions that you might take. So what are the goals and objectives? Well you want to create a culture of risk awareness where all the employees understand and consider risk. You're going to reduce operational surprises and losses as I had a very wise boss of mine say once upon a time, bad news does not improve with age. So you want to insure that there are no surprises. Increase your capacity to identify and take advantage of opportunities. Enhance decision making providing senior management and trustees with information that approves the understanding of the risks and the opportunities and improve your risk management efforts. Some of the best practices obtain a commitment full engagement. You have to set the tone at the top. Tailor the program to meet the institutions unique needs. All institutions and organizations are different. Articulate the approach to the risk and establish a common institutional language for how you're going to talk about the risk. Use cross-functional groups to get buy in; awareness and engagement. Integrate enterprise risk management into your existing processes. As I said, the goal is to try to institutionalize risk management into everything that you do. If you can do that you build a risk aware culture. You integrate and retain the knowledge of the special silos while taking an enterprise view and you also enhance internal controls around the areas of the great risk. At NIU we are looking at having someone in and coming into NIU and performing an assessment of our risk management capabilities. We want them to conduct an overview of where we are; recommend a sustainable methodology and tools to enhance and supplement our current risk assessment efforts. Explain options for how we can better develop governance, oversight and operational structures. Assist us in learning and utilizing a high risk discovery methodology and assist the president and senior leadership in determining risks that require monitoring risk tolerance, opportunities for transferring risks, the allocation of risk ownership and accountability; the need for specific policies and processes to manage risks and disasters, plans to mitigate risks. Development of an annual schedule for reviewing, monitoring and reassessing risks and a protocol to report these activities to the Board of Trustees. Along with that we'll be identifying staffing of the resource requirements and the information, tools and the information, tools and skills needed to successfully perform these activities and along with that identify all known and other potentially serious risk exposures. Evaluate mitigation strategies, develop policies and procedures, identify blind spots, and

integrate that into a comprehensive university wide risk assessment. That's a brief overview of enterprise risk management, how it impacts our institution and our plans for how we would like to move forward.

WC: From the floor, are there any questions for Dr. Phillips and Jerry?

MS: My understanding was that we already had an RFP out for services related to this.

AP: We do. There were six proposals. We have already reviewed them. We have not yet made a selection. One of our concerns is our budget requirements. Before we proceed we would like to have a better idea of what our budget appropriation looks for next year. But we have them and are ready execute when we feel that we can do so.

MS: I'd like to see a summary of the proposals and I'd also like to hear your comment on whether there are some low hanging pieces of fruit in this that we can do on our own while we're waiting what's obviously going to be long term consulting arrangement. I've been an advocate for engaging in enterprise risk management activity for years at this point, so I'm heartened to see that we have a presentation that will make it clear to my colleagues on the board exactly what's involved in being able to get us across the finish line, but I'm more interested in seeing that we're able to start to get a handle on some of the items that we can currently identify and we also have the opportunity I think to begin discussions about establishing an appropriate culture even before we have the completion of the RFP process.

AP: I tend to be very risk adverse. We have a lot of challenges. As I've gotten more into the job I've started to identify some of the areas initially in addition to the normal issues associated with insurance and management of those risks. As Deb said, some of the other risks we are very concerned about is the fiscal risk, the budget, the impact on the staff and faculty, the students; and so we are already starting to look at some of those kinds of things and how we can mitigate those across the institution.

MS: I think that the early steps could also include being able to put together a listing of all of the regulatory requirements and to assign ownership to those and some sort of a reporting structure. There has to be a way for us to begin the process of being able to determine the full scope of the items and start putting ourselves in a position where we can have reporting in whatever format turns out to be the most desirable to the board. At present I think we're without a good tool to be able to assure us that we have people who are on top of these. I know we've done, because we've had report before this committee as to the identification of regulatory requirements and certain aspects of the institution, but I'm not sure that process has been completed. That's obviously going to be one of the early steps that will be engaged in by anybody who takes a consulting assignment. After you take a look at all of the requests for proposal, you may even determine that there are portions of that scope that you bid that we could do internally. So I hope we'll be mindful of that as well we're taking a look at the costs.

WC: Are there any other questions? Dr. Phillips first of all I want to say we appreciate the work that you're doing here. I do have a couple of questions in terms of the anticipated cost of bringing in an organization to assist us. What are you seeing in terms of potential cost?

AP: I don't have it with me, but I think the costs range from several hundred down to less than 100,000. I think it was clearly some of the proposals were better than others. What we will probably end up with is something in the middle range which accomplishes essentially all the things that we want to do at the least cost. We have gone through, we have actually done an evaluation of all the different proposals and have evaluated them and my guess is it will be somewhere between the \$100-200,000 range.

WC: I know we are in a tight fiscal year and I know things are pretty tight, I can't think of a higher priority quite frankly and this group we have seen our share of surprises and had our share of blind spots. As an institution we find ourselves spending a lot of money fighting off those blind spots or addressing those blind spots. I'm not quite sure that I would encourage us to wait until our appropriation. I think we need to find the money. I think we need to find a way to say let's get some help in here, lets identify some of our key risk and then let's also implement a plan to mitigate those or to prevent them from surprising us, all of us. We've probably spent over the last two years way more than this RFP is going to cost based on risks that we didn't know that was out there that we probably should have addressed. So my recommendation is that we find a way to move as soon as possible versus waiting.

WC: Thank you Dr. Phillips.

JBI: I just want to follow up on a couple of the questions asked. My responsibility was to basically talk about risks from the legal perspective and from the Board's perspective. I'm going to pick up on Trustee Strauss's questions as part of this. This won't take very long. I have provided you a PowerPoint that was

used I believe earlier this year in March where both public and private university general counsels and deputy general counsels were invited to a morning seminar hosted by United Educators which does a significant amount of insurance for higher education institutions. One law firm in particular that we have utilized and they are experts in higher education as well as one of the insurance brokers. So I've shared with the committee selected PowerPoints from that. The chair of the committee has the entire 61 pages that Greg and I went through, but there are a couple points that I will make as a follow up to what Dr. Phillips said. One, there are 257 federal laws which institutions of higher education are required to comply with. There are approximately 86 Illinois state laws that institutions of higher education are required to comply with. I'm just going to do 2-5 in terms of the Power Point and we will make this document available to the public as well. The title of this seminar was Critical Risk Facing Higher Education and so you have the backdrop of here are the laws, 257 and 86 as an example that we're required to comply with. But then the next area are the potential institutional risks. One of the points that Dr. Phillips made was that risk was everyone's responsibility because it is everywhere and it's in all facets of our operations and goes fundamentally to everything that we do. I'm not going to go through all of the 25 areas that are listed here, but as examples, natural disaster, safety and security, environmental, study abroad, faculty staff, student conduct, minors on campus, student aid, immigration, accommodation of disabilities, fair labor standards act. There are 25 areas that were listed here. The next slide, which is the UE slide, United Educators, gives us the amount of loss that that particular insurer was responsible for 2015. Discrimination, actual financial awards in discrimination area and these are awards from higher education institutions because of lawsuits. \$90,000 to two million was the range. Sexual molestation, assault, \$700,000 to 1.28 million. Child abuse, \$900,000 to eight million. Negligence \$700,000 to 4.5 million and it goes on and on and on. So it makes the point that the vice-chair made earlier, there are significant risks associated with this. As an aside, both the NFL and the NCAA has changed their protocols regarding concussions because traumatic brain injuries over that period of time that UE covered was to the tune of 75 million dollars. So it tells us what the potential impact could be. One of the most critical issues getting back to Trustee Strauss's point was what's the role of the board? Particularly what's the role of this committee? This issue was purposely brought to this committee because it is within this jurisdiction that a number of these issues really come. And here is what the experts, these are external experts these are not my office of university officials saying, but the experts are basically saying that the board's responsibility and I'm on page four of the document that I passed out, the board through presidential leadership must adhere to several basic tenements that define fiduciary; duty of care, duty of obedience, duty of loyalty, duty to act in good faith, and the duty to serve the public interests. They become the framework by which this Board, particularly this committee, sort of makes decision and receives information from university officials. This outline also provide a, I believe a good summary of the different roles between the board as the policy maker and persons responsible for oversight and the administration responsible for management. Board, vision, planning, holding management accountable for their decisions; administration responsible for the day to day affairs of the institution; and implementing the Board's vision of plan. The Board should determine whether management is appropriately exercising judgment but leave matters of judgment on most issues to management. That's a very quick summary. We can spend days, if not weeks, just sort of going through all of the compliance requirements, etc. Obviously we're not going to even attempt to do something like that now. But we wanted to provide a framework upon which this committee in particular can begin to look at compliance audit risk management and sort of legal affairs and we believe that this is a good start. Closing, page five and I'm just going to go to the last two slides there. Balancing Board's role of oversight with role of management. Boards can participate effectively in policy making process by one, asking the right questions which are almost never purely financial in nature, pretty clear. Making sure that each realistic course of action has been identified and that a good faith effort has been made at weighing the costs and the benefit. This is an art not a science. There are going to be issues of judgment, etc. And then I think probably the most important thing is governing boards should monitor institutional risk management through regular formal reports by the administrators assigned the responsibilities. This committee is designed specifically to do it that way. This committee was designed in large part on recommendations from the Penn State issues which is why you have the group of functions that are here. And that management should provide the Board with information about misconduct and significant deviation from policy and the Board should evaluate and test management's responses. So that gives you sort of the summary of at least what the external experts are saying. Many of whom do business with us, but more

importantly they provide a national perspective of what not only the challenges are but from the Board's perspective what the Board can do and should be doing to position the university to meet those challenges. With that I'll end.

MS: One of final points that you made Mr. Blakemore was formal reports by the administrator assigned responsibility and my experience, organizations this size generally are able to support a chief compliance officer is a suggestion that I've made on a number of occasions in the past. I'm wondering whether in the education that you and your colleagues have attended there has been a recommendation as to what the structure should look like for the reporting relationship and the responsibilities to the board.

JBI: There are various structures and options that different institutions use and they really should be tailored to the institution; the size of the institution, the mission of an institution. Part of what, as I understand we will get from the ERM proposal, is some suggestions in that regard. I also know that the president and the provost have started looking at this issue as well. As so we will have the benefit of an external expert on that very question. We have already begun internally a process of looking at the whole issue of compliance, etc. and as you know, there have been recommendations discussed in that regard. I think we'll be able to wrap up that as part of the RFP or the ERM review process. So we'll talk about structure particularly as it relates to compliance. I have a special interest in compliance for obvious reasons. I never walk into a basketball game or to an artistic or an academic event without my compliance lawyers eyes on them. People think that's boring, I don't. So we will be able to give you a specific answer to that, but we're going to look at what those options are and what's going to best serve Northern Illinois University.

MS: Obviously we need to have something that fits within whatever structures we have. My life experience teaches me that if you several people responsible for something nobody's responsible for it. So if it winds up that there's more than one person responsible for compliance there are various pieces, I'd like to make sure that we have some clear assignment as to who it is that's responsible for reporting to us on which portions of the enterprise risk management effort.

WC: Are there any other questions. Jerry I want to say you stop reading at a point where there's a couple of comments that are here in the document that I'd like to read that further speaks to the Board role of oversight. The first comment here is that every board must have a thorough understanding of the risks at its academic institution and an up to date knowledge of how well the administration is working to mitigate those risks. Boards are most effective if they operate with a clear set of priorities and concentrate on strategic oversight. Risk management should be on every board's to-do list for oversight. Those are a further continuation of the role of the board and I think we all need to take that into consideration. We need some help. We're going to need report outs and we need to make sure that this is a priority. With that stated, while Dr. Phillips was giving us his presentation, our Chair walked into the door. I just wanted for the record to acknowledge Trustee Boey and Trustee Cherylyn also is here. So I just want to get that in the record. Welcome. Dr. Phillips and Jerry, thank you both for sharing with us some valuable information. It is clearly a priority and we need to make sure that we get on top of this and keep the risks as a priority in front of not only this committee but the full board. Thank you.

OTHER MATTERS

Vice Chair: WC: At this point in time we have no other topics for this committee. Let me pause for a second, Chair Boey is there anything that you'd like to add or anything you'd like to say before we close out our meeting?

RB: Let me just get one clarification here. Did we have our CARL risk committee meeting just now?

WC: Yes.

RB: Good. Cherylyn don't feel bad. I beat you by two minutes. Thank you for being such an effective replacement for me. Thank you. I'll leave it at that.

WC: So the shoes are big and it was difficult to fill.

NEXT MEETING DATE

Vice Chair: WC: Our next scheduled meeting for the CARL committee is scheduled for August 27, 2015.

ADJOURNMENT

Chair: WC: Do I have a motion to adjourn?

Motion: MS: So moved.

Chair: WC: Do I have a second?

Second:RB: Second

Chair: WC: All in favor?

Members: Aye

Chair: WC: The meeting is adjourned.

Meeting adjourned at: 9:46am

Respectfully submitted,

Julie Edwards
Recording Secretary

In compliance with Illinois Open Meetings Act 5 ILCS 120/1, et seq, a verbatim record of all Northern Illinois University Board of Trustees meetings is maintained by the Board Recording Secretary and is available for review upon request. The minutes contained herein represent a true and accurate summary of the Board proceedings.