ILLINOIS BOARD OF HIGHER EDUCATION

THE BOARD’S ROLE IN FINANCIAL OVERSIGHT
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TODAY...

I. QUICKLY RESTATING THE OBVIOUS

II. DEALING WITH TODAY & TOMORROW

III. UNDERSTANDING THE BOARD’S ESSENTIAL ROLE IN FINANCIAL OVERSIGHT

BUT FIRST, LET’S LIGHTEN THE LOAD.....
THE LIGHTER SIDE OF LEADERSHIP
"From the violent nature of the multiple stab wounds, I'd say the victim was probably a consultant."
"I need someone well versed in the art of torture—do you know PowerPoint?"
"If we take a late retirement and an early death, we'll just squeak by."
"This is what happens when ethical standards are set artificially high."

Frank Cotham (7/14/2003)
I need to blame someone for the failure of project Alpha.

Use the plunger of blame. It's the latest technology for randomly distributing blame.

Please tell me that someone is patting me on the back right now.
Dear diary. Sorry to bother you again.

LOW SELF-ESTEEM
STATING THE OBVIOUS

QUESTION...

– BORN BEFORE 1945?
– BETWEEN 1946 AND 1970?
– AFTER 1971?
– YOUR PERSPECTIVE WILL BE DIFFERENT!
THE SAD REALITY

• NOT JUST THE GREAT RECESSION

• FY 2002 WAS THE HIGHEST YEAR IN FUNDING

• STARTING IN 2008 – THINGS REALLY WENT SOUTH FOR THE STATE:
  • 16 BILLION UNPAID BILLS
  • 130 BILLION PENSION HOLE
  • 2 YEAR IMPASS
  • LOW STATE CREDIT RATING
NOW SOME LIGHT BUT WITH CHALLENGES

• MAP – BRIGHT SPOT
• A BUDGET – 10% REDUCTION FY 2018
  • BIG ENROLLMENT DECLINES
  • OUT MIGRATION ISSUES
  • COMPETETION FOR STATE DOLLARS FOR PENSION PAYMENTS SUCH AS PUBLIC SCHOOL FUNDING, MEDICAL
  • COMPETITION FOR SCARCE RESOURCES
QUESTION

IN THE NEXT FIVE YEARS WILL WE...

• RETURN TO THE GRAVY TRAIN YEARS?

• SEE MODEST INCREASES IN STATE FUNDS?

• SEE MORE CUTS (BUT NOT AS BAD AS 2008)?

• SEE WORSE THAN THAT?
FROM THE CHICAGO TRIBUNE....

1. OVERHAUL & CONSOLIDATE STATE’S DYSFUNCTIONAL UNIVERSITY SYSTEM

2. FORCE SPECIALIZATION

3. CONSOLIDATE BACK OFFICE, PURCHASING, ETC.

4. FIND NEW SOURCES OF INCOME
OTHER ANSWERS NEARBY?

• WISCONSIN PROPOSAL TO LINK 2 YEAR & 4 YEAR INSTITUTIONS

• JUST GET RID OF ADMINISTRATIVE BLOAT

• MAKE FACULTY TEACH MORE

• SPEND MORE ON RECRUITING
SORRY, NO ONE ANSWER

BUT AN ESSENTIAL TRUTH:

IT’S YOUR RESPONSIBILITY!
SO WHAT DOES ABBY SAY?

• “NOT THE SITUATION THAT IS THE PROBLEM, BUT OUR REACTION TO IT!”

• SO, WE MOVE ON, WISELY AND BRAVELY...

  BUT, MOVE ON!

• WE ACKNOWLEDGE & ADAPT!
A CLIMATE FOR CHANGE

“IF WE KEEP DOING WHAT WE ARE DOING, WE ARE GOING TO KEEP GETTING WHAT WE ARE GETTING”

(old sage)
THE AUDIT FUNCTION

• FOCUS ON KILLER ERRORS!

• ARE THESE KILLER ERRORS?

1. THE QUARTERS’ SHERIFF
2. THE WEEDWACKER FIVE
3. PETTY CASH PENNY
4. **POORLY CONSTRUCTED AND/OR IMPLEMENTED SEXUAL ASSAULT POLICIES**

5. **FOR ALL NCAA DIVISIONS, POORLY CONSTRUCTED SYSTEM TO ENSURE ADHERENCE TO THE RULES**

6. **CONFLICTS OF INTEREST THAT ARE IGNORED**
ROLE OF THE AUDIT COMMITTEE

WHILE THE FULL BOARD HAS BROAD FIDUCIARY RESPONSIBILITIES, THE **AUDIT COMMITTEE** SERVES AS THE INSTITUTION’S **FIRST LINE OF DEFENSE** WHEN CONSIDERING **FINANCIAL REPORTING, INTERNAL CONTROL, COMPLIANCE, AND RISK MANAGEMENT**.

- The **Audit Committee**, Staisloff, Richard L., AGB Effective Committee Series, p 5. AGB Press, 2011
PURPOSE OF THE AUDIT COMMITTEE

• PRIMARY CHARGE OF THE AUDIT COMMITTEE IS TO PROVIDE OVERSIGHT OF THE INSTITUTION’S FINANCIAL PRACTICES & STANDARDS OF CONDUCT.

• COMMITTEE IS RESPONSIBLE FOR:

  1. INTERNAL CONTROL
  2. OVERSIGHT OF INTERNAL AUDITING
  3. OVERSIGHT OF THE EXTERNAL AUDIT
  4. FINANCIAL STATEMENT REVIEW
  5. RISK MANAGEMENT
  6. COMPLIANCE

  The Audit Committee, AGB, p. 9
THE OVERSIGHT AUDIT HAS BEEN GREATLY EXPANDED TO INCLUDE:

1. HELPING MANAGEMENT IDENTIFY & ASSESS STRATEGIC RISKS;

2. PROACTIVELY INCORPORATING TRAINING, CONTINUOUS IMPROVEMENT, & ACCOUNTABILITY INTO THE MANAGEMENT OF THE INSTITUTION;

3. LEADING PROCESS & INTERNAL CONTROL IMPROVEMENT INITIATIVES; &

4. MONITORING INSTITUTIONAL COMPLIANCE WITH DONOR-IMPOSED GIFT RESTRICTIONS.

- The Audit Committee, AGB, page 12
The role of risk management has greatly expanded to include:

- **Strategic** – Organizational strategic goals
- **Operational** – Day-to-day activities in pursuit of these goals
- **Financial** – Organization’s physical assets and financial resources
- **Compliance** – Internal & external reporting requirements
- **Reputational** – Institution’s public image

The Audit Committee, AGB, page 21
DON’T FALL INTO THESE TRAPS...

• NOT MEETING WITH EXTERNAL AUDITOR

• FAILING TO ANALYZE EXPENDITURES OF THE CEO’S OFFICE

• NOT SAFEGUARDING INFORMATION SECURITY
FINANCIAL OVERSIGHT BEST PRACTICES

PRINCIPLES

• A CLEARLY STATED **INSTITUTIONAL MISSION** – ACCOMPANIED BY STATEMENTS OF VISION, GOALS AND PRIORITIES – **CREATES THE FOUNDATION FOR EXERCISING FINANCIAL RESPONSIBILITY.**

• **ALL BOARD MEMBERS SHOULD HAVE A BASIC UNDERSTANDING OF THE FINANCIAL CONDITION OF THEIR INSTITUTION TO EFFECTIVELY EXERCISE THEIR FIDUCIARY RESPONSIBILITIES.**
FINANCIAL OVERSIGHT BEST PRACTICES

PRINCIPLES

• THE FINANCIAL CONDITION OF AN INSTITUTION SHOULD NOT BE THE EXCLUSIVE KNOWLEDGE OF A HANDFUL OF BOARD MEMBERS AND SENIOR ADMINISTRATORS.

• THE BOARD IS RESPONSIBLE FOR ENSURING THAT FINANCIAL DECISION MAKING ALIGNS WITH STRATEGIC OPTIONS.

• “NOSES IN; FINGERS OUT.”

  The Board’s Role in Financial Oversight, Krawitz, Natalie, AGB, Board Essentials Series, AGB Press, 2015, pp. 4, 5.
• **KEY TO FULFILLING ITS FIDUCIARY RESPONSIBILITIES & ENSURING FINANCIAL SUSTAINABILITY, THE BOARD’S BASIC FINANCIAL DUTIES INCLUDE:**

  - **UNDERSTANDING** how the institution is financially supported & capitalized and whether it is operating in a financially sustainable manner.
SUMMARY OF THE BOARD’S BASIC FINANCIAL DUTIES

— **REVIEWING, APPROVING, AND MONITORING** annual operating & capital budgets, including regularly reviewing progress on capital projects.

— **TRACKING** key metrics.

— **ENGAGING** in long-range strategic financial planning.

— **ENSURING** that sound financial controls are in place.

  ❖ The Board’s Role in Financial Oversight, AGB, p.12.
“SPECIAL ISSUES”

- Does the board have appropriate conflict-of-interest policies? Does it provide oversight of itself in this regard?

- Are the institution’s research and intellectual-property policies up to date?

- What are the institution’s negotiated & effective facilities & administrative cost rates, & to what extent does the university subsidize the research mission?
“SPECIAL ISSUES”

• Does the board have policies & procedures to guide the establishment of ongoing relationships with different types of entities that may be related to the institution but not necessarily under its direct control?

• Has the institution taken an enterprise approach to risk management to ensure that the appropriate risk-mitigation strategies are in place?

• Is the board aware of the institution’s highest operational, financial, compliance, and reputational risks?
  ❖ The Board’s Role in Financial Oversight, AGB, p.69.
TWO DON’Ts, ONE DO, AND ONE RED FLAG

• **DON’T** get mired in the detail, & **DON’T** expect the administration to have the answer to every question on the spot!

• **DO** expect a response to questions in a timely manner.

• **RED FLAG**: If no one on the board can understand the financial information, & no one in the administration can answer the relevant question, there may be a problem. Seek the help of your external auditors.

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FINAL QUESTIONS

• WHAT’S WORKING FOR YOU?

• WHAT’S NOT WORKING?

• WHAT CAN YOU DO ABOUT IT?

• WHAT WILL YOU DO ABOUT IT?
CHANGE REQUIRES A CULTURE OF MUTUAL RESPECT
WHEN CUTTING OR MAKING STRATEGIC DECISIONS

• BE GUIDED BY MISSION
• REDUCE BUT REINVEST
• ALLOW FOR PARTICIPATION
• COMMUNICATE
• WHAT IS BEST FOR YOUR INSTITUTION?
• TRANSPARENCY
• OWN THE NARRATIVE
WHEN CUTTING OR MAKING STRATEGIC DECISIONS

- WILLINGESS TO GET HELP
- UNDERSTAND THE EMOTIONAL COMPONENT
- USE TRIAGE IN DEALING WITH STAKEHOLDERS
- GIVE PEOPLE THE TOOLS TO CHANGE
WHEN CUTTING OR MAKING STRATEGIC DECISIONS

• CARE ABOUT REAL PEOPLE & SHOW IT
• ROLL OUT PLANS
• PERSIST AND HAVE HIGH EXPECTATIONS
• GIVE SUPPORT FOR CAMPUS LEADERSHIP
QUESTION:

WHAT ARE YOUR MAJOR OBSTACLES TO CHANGE?