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ILLINOIS BOARD OF HIGHER EDUCATION  
**THE BOARD'S ROLE IN FINANCIAL OVERSIGHT**

# THE BOARD'S ROLE IN FINANCIAL OVERSIGHT

Today...

- Quickly restating the obvious;
- Dealing with today and tomorrow; and
- Understanding the Board's essential role in financial oversight

What do you want  
as your legacy?

# Stating the Obvious

- Nosy questions?
  - Born before 1945?
  - Between 1946 and 1970?
  - After 1971?
  - Your perspective about the State's financial situation will be different!
- SHEEO Report – more than half of states rely more heavily on tuition than state appropriations

- Today, not yesterday!
- Tomorrow, not today
- Denial – a river in Egypt

# Now Some Light but with Challenges

- MAP – bright spot
- Budget more stabilized
- Big enrollment declines
- Outmigration issues
- Competition for state dollars for pension payments (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?

- Are you prepared?
- Does your Board review its performance?



# Lots of Answers?

- Wisconsin proposal to link 2-year and 4-year institutions
- Just get rid of administrative bloat
- Make faculty teach more
- Spend more on recruiting
- Disruptive change
- Reconfigure governance

# Sorry, No One Answer

But an essential truth:  
It's your responsibility and your institution!

So, what is your legacy going to be?

## So, What does Abby Say?

- “Not the situation that is the problem, but our reaction to it!” (Actually, many therapists say this!)
- So we move on, wisely and bravely...
- But move on!
- We acknowledge and adapt!

# A Climate for Change

“If we keep doing what we are doing,  
we are going to keep getting  
what we are getting.”

Stephen Covey

# The Audit Function

- Focus on killer errors!
- Are these killer errors?
  - The Quarters' Sheriff
  - The Weed Wacker Five
  - Petty Cash Penny

- **Are these killer errors?**
  - **Poorly constructed and/or implemented sexual assault policies**
  - **For all NCAA divisions, poorly constructed system to ensure adherence to the rules**
  - **Conflicts of interest that are ignored**
  - **Inability to handle crises**

# 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,  
AGB Press, 2011, p. 5

# Purpose of the Audit Committee

- “The primary charge of the audit committee is to provide oversight of the institution’s financial practices and standards of conduct. Specifically, the committee should be responsible for:
  - Internal control
  - Oversight of internal auditing
  - Oversight of the external audit
  - Financial statement review
  - Risk management
  - Compliance”

*The Audit Committee, AGB, p.9*



# The Oversight Audit Has Been Greatly Expanded to Include:

- “Helping Management identify and assess strategic risks;
- Proactively incorporating training, continuous improvement, and accountability into the management of the institution;
- Leading process and internal control improvement initiatives; and
- Monitoring institution compliance with donor-imposed gift restrictions.”

*The Audit Committee, AGB, p.12*

# The Role of Risk Management Has Been 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 and external reporting requirements
- **Reputational** – Institution's public image”

*The Audit Committee, AGB, p.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
- Ignoring anything you think needs greater emphasis

# 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.”
- Could you speak at a Rotary about your institution’s finances?

*The Board’s Role in Financial Oversight, Krawitz, Natalie,  
AGB Board Essentials Series, AGB Press, 2015, p. 4-5*

- 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.”
- Transparency

*The Board's Role in Financial Oversight, AGB, p.4-5*

# Summary of the Board's Basic Financial Duties

- **“Reviewing, approving, and monitoring** annual operating and capital budgets, including regularly reviewing progress on capital projects.
- **Tracking** key metrics.
- *(What metrics should be added to your institution's reporting?)*
- **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

- “As part of Board governance, 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 and effective facilities and administrative cost rates, and to what extent does the university subsidize the research mission?”

*The Board’s Role in Financial Oversight, AGB, p.69*

- “Does the Board have policies and 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? (Foundations, private corporations)
- 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 and **DON'T** expect the administration to have the answer to every question on the spot!
- **DO** expect a response in a timely manner.
- **RED FLAG:** If no one on the Board can understand the financial information, and no one in the administration can answer the relevant question, there may be a problem. Seek the help of your external auditors.”

*The Board's Role in Financial Oversight, AGB, p.72*

# 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

- Willingness to get help
- Understand the emotional component
- Use triage in dealing with stakeholders
- Give people the tools to change
- Care about real people and show it
- Roll out plans
- Persist and have high expectations
- Give support for campus leadership

What are your major obstacles  
to change?

# Question

- What is the next “reform” in higher education?
- Previous focus:
  - Student access
  - Student success
- **Is there a new wave? What is it?**

# Is the Next Wave...

- Demand driven education?
- Measurable results – beyond diploma?