



Kenneth A. Shaw, Ph.D.
Chancellor and President Emeritus,
University Professor
Syracuse University

Senior Consultant, AGB

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. UNDERTANDING THE BOARD'S ESSENTIAL ROLE IN FINANCIAL OVERSIGHT**

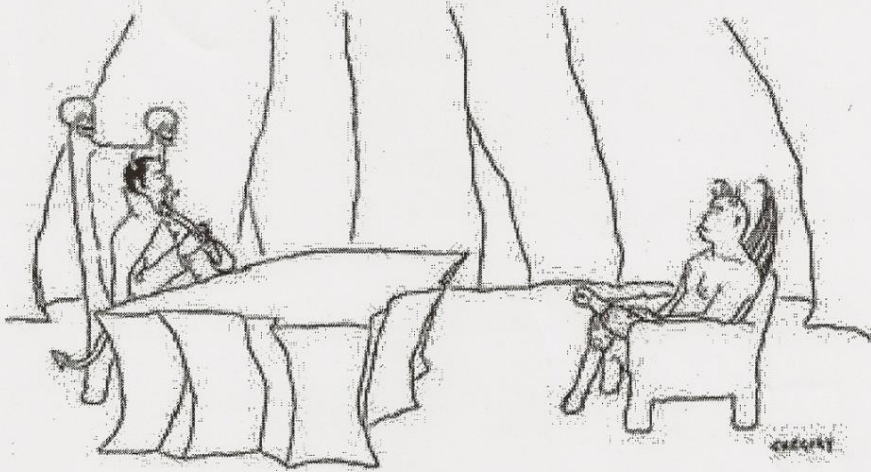
BUT FIRST, LET'S LIGHTEN THE LOAD.....

THE LIGHTER SIDE OF LEADERSHIP



*“From the violent nature of the multiple stab wounds,
I’d say the victim was probably a consultant.”*

power point ?
Cartoon 00



*"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."

Barbara Smaller (7/7/2003)

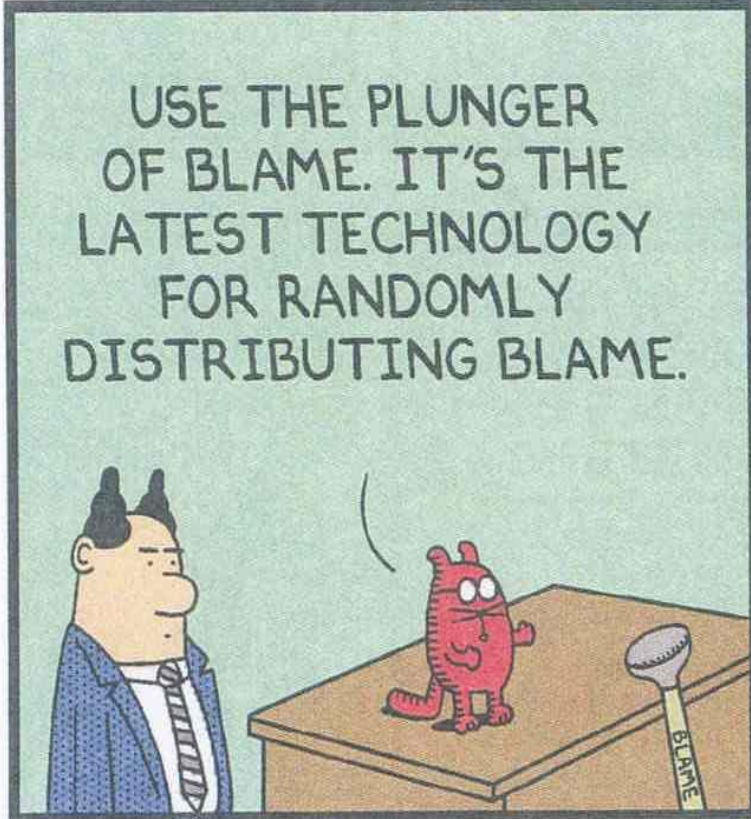
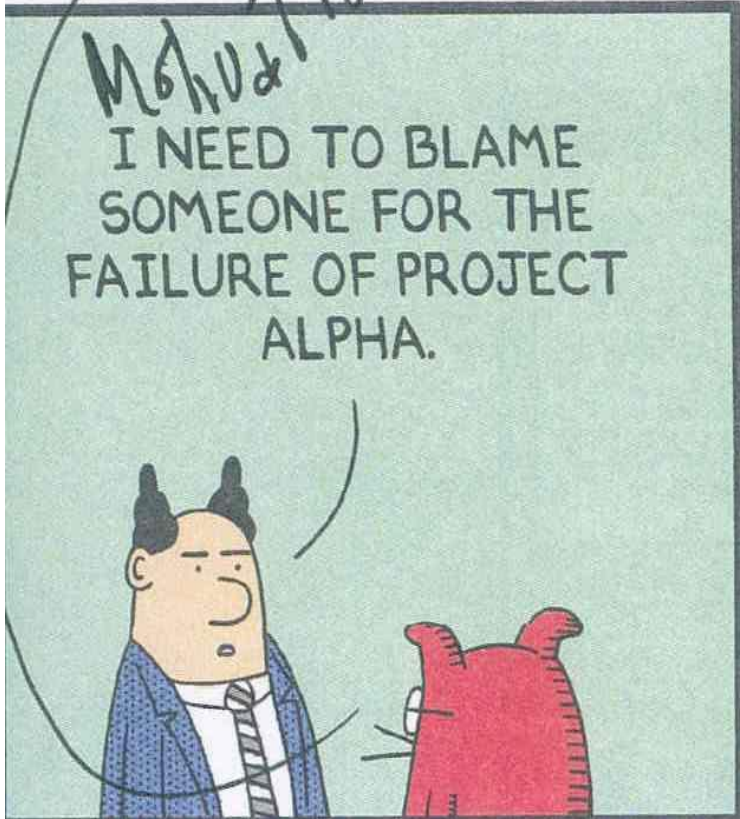
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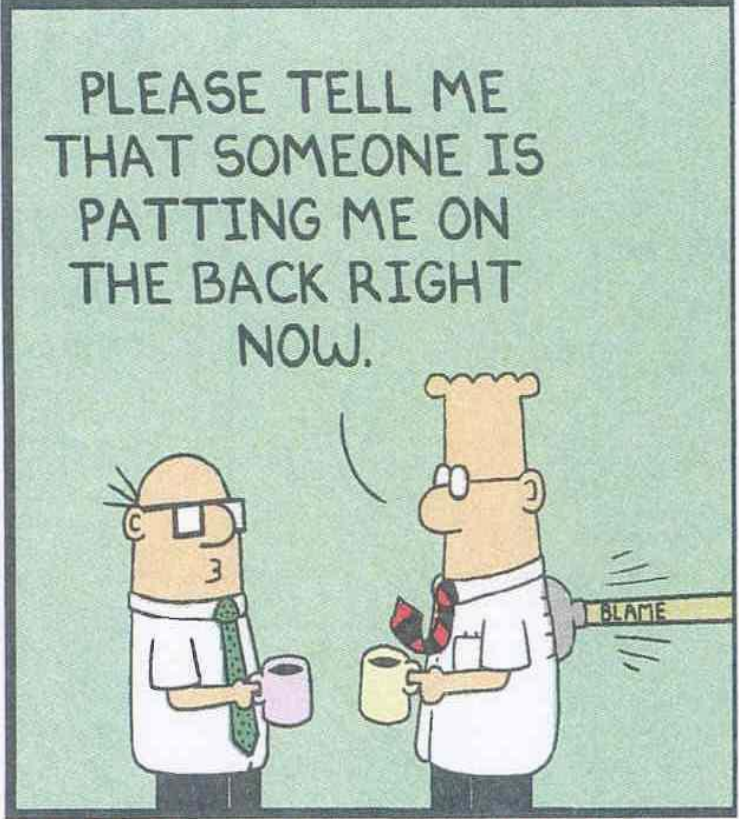
"This is what happens when ethical standards are set artificially high."

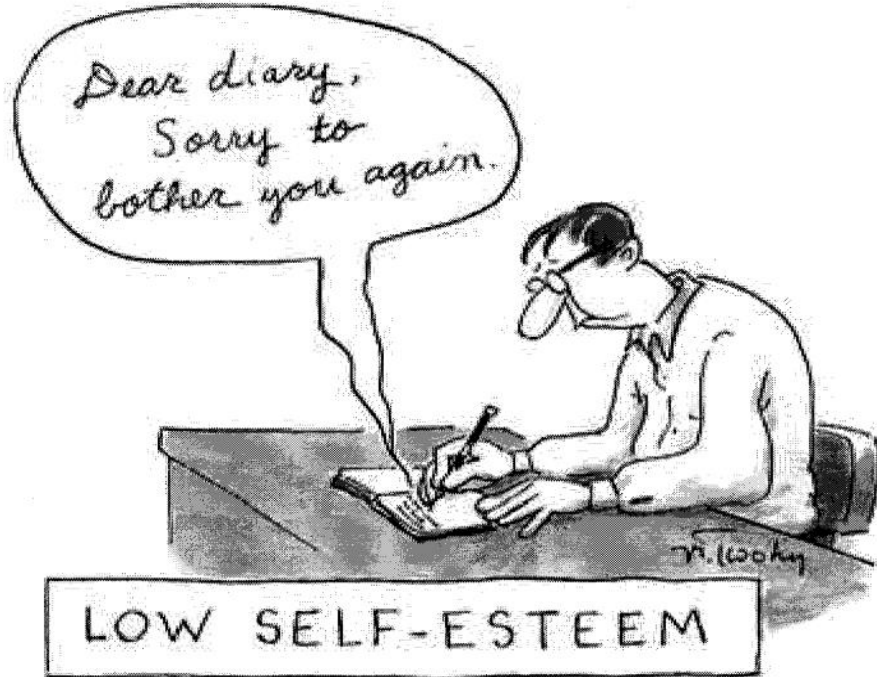
Frank Cotham (7/14/2003)

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Mike Twohy (11/25/1996)

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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
 - COMPETITION 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?**

FORTUNATELY, THE MEDIA HAS THE ANSWER

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 ADMINSTRATIVE 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***

ARE THESE KILLER ERRORS?

- 4. POORLY CONSTRUCTED AND/OR IMPLEMENTED SEXUAL ASSUALT 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.

SUMMARY OF THE BOARD'S BASIC FINANCIAL DUTIES

- **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.

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

- **WILLINGNESS 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?**