Enterprise Risk Management for Independent Schools

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Historical Perspective

- No coordinated model for dealing with risk to the school
- Traditional solution was to purchase insurance and/or assume risk in-house
- More recently, educational institutions have established formal risk management committees
- Enterprise Risk Management (ERM) evolves to provide a holistic model for managing financial risk
5 types of risk schools should address in a comprehensive ERM:

1. **Strategic Risk** that affects an organization’s ability to achieve its goals.

2. **Financial Risk** that may result in a loss of assets.

3. **Operational Risk** that affects ongoing management process.

4. **Compliance Risk** that relates to externally imposed laws and regulations as well as with internally imposed policies and procedures concerning safety, conflict of interest and the like.

5. **Reputational Risk** that affects a school’s reputation, brand or both.
Risk can affect the entire school and covers a broad spectrum of exposure:

- Financial
- Operational
- Technological
- Environmental
- Regulatory
- Compliance
- Competitive
- Strategic
- Litigation
- Reputational
- Political
- Cultural

Enterprise Risk Management
Responsibility for Implementing ERM

**Board of Trustees**
- Executive Committee
- Finance Committee
- Audit Committee

**School Management**
- Risk Management Committee
- Head of School
- Business Officer
- Division Heads
- Operations/Facilities Manager
- Human Resources
Implementing ERM

The Audit Committee’s Role:

1. Determine whether the school has appropriate policies in place to minimize risk
2. Regular assessment of financial risk and exposure
3. Assure adequate funding for staffing and facilities maintenance/repairs to minimize risk
4. Require annual reporting/updating of risk management program
5. Conduct a Risk Management Audit
Implementing ERM

The Head of School’s Role

1. Promote risk management throughout the school community

2. Ensure that risk management is delegated to the appropriate individuals within the organization

3. Monitor the program and keeping the Board apprised of its implementation
Implementing ERM

The Business Officer’s Role

- Key player in the risk assessment, implementation and management process, primarily for:
  - Financial
  - Human Resources
  - Facilities
Internal Risk Management Audit:
Ten Key Areas of Focus

1. Board Oversight on Fiduciary Matters
2. Financial and Accounting Policies
3. Student Programs and Activities
4. Facilities Management - maintenance, safety, security
5. Human Resources - employment practices, handbooks, records management
6. **Legal compliance** - report filings, contracts
7. **Technology** - internal controls, safeguarding data & assets
8. **Admissions** - services, activities and policies
9. **Fundraising** - services, activities and policies
10. **Environmental** - indoor air quality, noise, lighting, hazardous materials
1. Identify and analyze loss exposures
2. Examine alternative risk management techniques
3. Select Risk Management techniques
4. Implement Risk Management techniques
5. Monitor results
## Identifying & Managing Risk

<table>
<thead>
<tr>
<th>Identify Degree of Risk Exposure</th>
<th>Determine Risk Management Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Retain/Control</td>
</tr>
<tr>
<td>Minimal</td>
<td>Retain/Control OR Insure</td>
</tr>
<tr>
<td>Tolerable</td>
<td>Retain/Control OR Insure</td>
</tr>
<tr>
<td>Frequent</td>
<td>Retain/Control OR Transfer OR Insure</td>
</tr>
<tr>
<td>Severe</td>
<td>Transfer OR Insure OR Avoid</td>
</tr>
<tr>
<td>Unknown</td>
<td>Insure OR Avoid</td>
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</table>
## Risk Management Audit & Risk Assessment

<table>
<thead>
<tr>
<th>Potential Risk Area</th>
<th>Type of Exposure</th>
<th>Likelihood of Exposure(1)</th>
<th>Extent of Potential Loss</th>
<th>Risk Management Approach(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Mishandling of cash transactions</td>
<td>Minimal due to checks and balances</td>
<td>$20,000</td>
<td>Retain/Control</td>
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<tr>
<td>Facilities</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Human Resources</td>
<td></td>
<td></td>
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<tr>
<td>Legal</td>
<td></td>
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</tbody>
</table>

(1) Rate: none; minimal; tolerable; frequent; severe; unknown  
(2) Avoid; Retain/Control; Transfer; Insure
Audit Existing Insurance and Risk Management Program

Benchmark Existing Coverage and Limits

Evaluate Assumption of Risk
  - Self Insurance
  - Deductibles
  - Risk Retention Groups
ERM Best Practices

1. Place on the Board’s strategic agenda

2. Employ long-term thinking - proactive not reactive

3. Establish an Audit Committee or Clarify Audit Committee’s Role in Risk Management Oversight

4. Conduct Internal Risk Management Audit and Update Annually
5. Implement critical policies and update regularly
6. Conduct Insurance Risk Management Audit
7. Review and benchmark results on a “peer to peer” basis
8. Review and benchmark employee benefits/retirement plans
9. Consider Impact of Health Care Reform on Medical Plans (Grandfathered Status)
ERM Best Practices

Policies Critical for Schools:

- Annual Audit Policy
- Conflict of Interest
- Whistleblower
- Document Retention/Management
- Banking and Cash Management
- Fundraising—Gift Acceptance and Gift Management
- Endowment Investment Management and Spending
- Personnel and Employment Practices
- Financial Aid and Tuition Assistance
- Facilities Management
Ethics and Risk Management

- Tone at the Top - management’s ethics and integrity are unimpeachable and tone permeates organization.

Conflicts of Interest

- Policies to safeguard against actual and perceived conflicts - how transactions identified and brought to the Board; process to identify “excess benefits.”
- Contemporaneous discussion and documentation is critical.
Current Critical Issues in ERM

Financial Misstatements and Risks

- Assessment of risk of material misstatement
- Identification of major risk areas (i.e. debt covenants)
- Management incentive to distort reported results
  - Occurs due to ethical tone, control environment and staff training and capacity
- Financial fraud and exposures
  - Check forgeries
  - Credit card usage
Current Critical Issues in ERM

Regulatory Compliance

Awareness of breadth and nature of regulations the school is subject to and protocols for compliance:

- Tax Return compliance
- Retirement Plans
- OSHA
- Federal funding
OSHA’s New Globally Harmonized System (GHS)

Adopting GHS will result in three major areas of change:

1. **Hazard classification:** The definition of a hazardous chemical has been changed to provide specific, uniform criteria for classification of health and physical hazards.

2. **Labels:** Chemical manufacturers, importers and distributors will be required to provide a label that includes a harmonized signal word, pictogram and hazard statement for each hazard class and category. Precautionary statements must also be provided.

3. **Safety Data Sheets:** These will now have a specified 16-section format.
What chemicals can my faculty/staff/students be exposed to?

- Do you have science or chemistry classes?
- Do you have a pool?
- Do you have janitorial or custodial supplies?
- Do you have art classes, wood shop classes, or ceramics classes?
- Does your administrative staff work with printer ink or printer toner?
- Does your administrative staff regularly receive shipments of chemicals for any of the above and distribute them to their appropriate locations?
Current Critical Issues in ERM

Fundraising
- Collectability of pledges
- Events yielding budgeted net revenue
- Capital campaigns and impacts on related projects

Admissions and Student Retention
- Understanding impacts on student enrollment and external environment.
- Goals regarding student enrollment realistic to trends.
- Strategies to address declining enrollment.
Employment Risks

- Impacts of compensation decisions on employees
  - Increased incidence of workers’ compensation claim
  - Increased employment practices liability claims
  - Increase in premiums and experience modification factors
Investment and Debt Management

- Ensure clear understanding of investments and debt covenants and how they work.
- Multiple revenue streams creates complexity in control structures requiring skills staffing may not possess.
- Investment policy—acceptable investments, asset classes, etc.
- Changes in investment managers.
- Comparison of investment returns to industry, to budget expectations, etc.
- Debt capacity.
- Credit rating/Letter of Credit renewals
Resources

- Insurance Broker
- Insurance Company Loss Control Dept.
- Outside Consultants
- Police Department
- Fire Department
- Health Inspector
- Utility Companies
- OSHA Inspector
- Physicians
- Lawyers
- Architects
- Investment Managers
- Real Estate Brokers
ERM Must Be Dynamic

- Remain alert to developing risks
- Adapt the risk management program and plan accordingly
- Be flexible to keep pace with ever-changing environment
- Tap available expertise and resources to stay apprised of the risk environment:
  - Trustees
  - Insurance brokers
  - Professional associations
Contact us with any questions

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