



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



Enterprise Risk Management

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 on 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.



Enterprise Risk Management

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



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



Identifying & Managing Risk

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



Identifying & Managing Risk

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



Identifying & Managing Risk

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

Identify Degree of Risk Exposure	Determine Risk Management Approach
None	Retain/Control
Minimal	Retain /Control OR Insure
Tolerable	Retain/Control OR Insure
Frequent	Retain/Control OR Transfer OR Insure
Severe	Transfer OR Insure OR Avoid
Unknown	Insure OR Avoid



Risk Management Audit & Risk Assessment

Potential Risk Area	Type of Exposure	Likelihood of Exposure(1)	Extent of Potential Loss	Risk Management Approach(2)
Financial	Mishandling of cash transactions	Minimal due to internal controls	\$20,000	Retain/Control
Facilities	HVAC failure	Frequent due to age of systems	\$300,000	Control/Insure
Human Resources	Part-time Coaches no training	Severe— personnel issues; sex harassment	Unknown	Retain/Control/ Insure
Legal	Contracts with dated provisions	Minimal—counsel reviews annually	?	Control/Transfer

(1) Rate: none; minimal; tolerable; frequent; severe; unknown

(2) Avoid; Retain/Control; Transfer; Insure



Risk Management & Insurance

- 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



ERM Best Practices

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



Current Critical Issues in ERM



Cyber Liability

- Invasion of privacy
- Negligence
- Violation of federal statutes governing the handling of student, employee or health information
- Misappropriation of sensitive or secret proprietary information
- Investigations by governmental authorities
- Business interruption/extra expense if they must shut down certain online systems or websites in order to contain (or determine the method of) the attack
- Costs related to informing families, faculty, staff and third parties



Cyber Liability: Breach Notification Laws

- All states, except four, have data loss/breach notification laws: Alabama, Kentucky, New Mexico, and South Dakota

- No universal definition of Personally Identifiable Information (PII), but typically includes:
 - Social Security numbers
 - Bank account or credit card numbers
 - Date and place of birth
 - Address
 - Driver's license number
 - Fingerprints
 - Passwords
 - and more (i.e., CA = zip codes)



Cyber Liability: Who's at Risk?

- Laptops are lost or stolen at a rate of nearly 300 per day in the largest U.S. airports
- PDAs, smart phones, jump drives, and even traditional hard copy (paper) records are lost, stolen, or improperly disposed of on a regular basis

All are subject to breach notification statutes



Cyber Liability: Best Practices

- Changes in SEC rules dictate that an organization under their jurisdiction has additional D&O exposure from failure to properly insure
- Although not subject to SEC jurisdiction, school boards have a fiduciary responsibility to ensure the financial stability of the organization



International Travel

- Hotchkiss Claim
- Waivers – Only a Risk Management Tool
- Risk Assessment Process



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?



Globally Harmonized System (GHS) Compliance

- Comprehensive hazard communication training is essential to a safe and healthful work environment.
- To ensure your safety, as well as the safety of your faculty/staff, you must fully understand the types of hazardous materials used at your school.
- You must also know what to do in case something unexpected happens during chemical use.
- GHS requires that chemical hazards are communicated in an organized way on labels and Safety Data Sheets (SDSs).
- Labels must have a product identifier that cross references with the SDS, a pictogram and a hazard statement to indicate the degree of severity.
- A good hazard communication program will keep you prepared and safe.



Current Critical Issues in ERM

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



Current Critical Issues in ERM

Fundraising

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

Building Projects

- Project Oversight
- Cost Control
- Project schedule



Current Critical Issues in ERM

Admissions and Student Retention

- Changing demographics and impact on student enrollment—Are goals regarding student enrollment realistic to trends.
- Strategies to address declining enrollment.

Employment Risks

- Impacts of compensation decisions on employees



Current Critical Issues in ERM

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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