

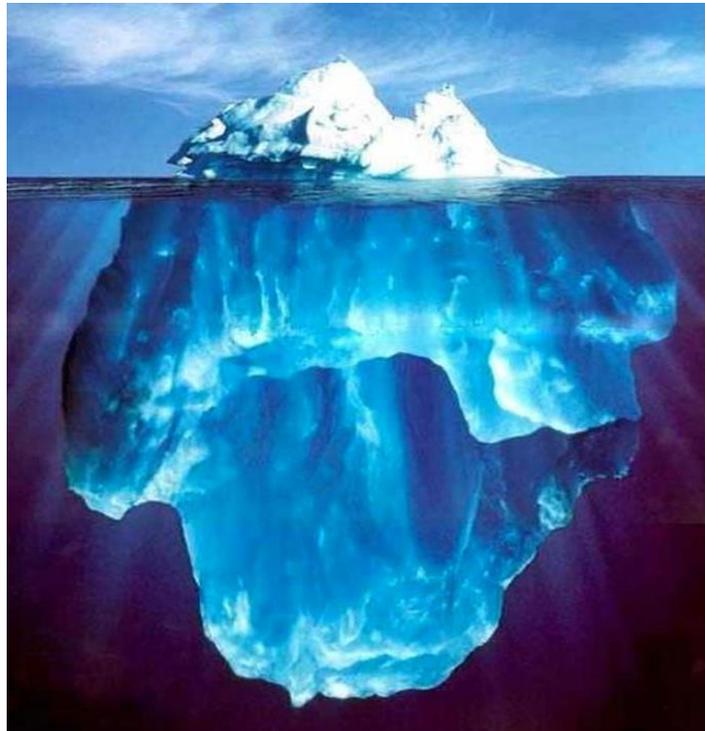
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EACUBO Pittsburgh Accounting Forum

“How Effectively Does Your Board Oversee Institutional Risk?”

Jean Demchak, Managing Director
Global Education Leader

“It wasn’t the risk we knew about that concerned us, but the risks we were unaware of that worried us the most.”



President Obama Address to Joint Session of Congress, February 24, 2009

“By 2020 America will once again have the highest proportion of college graduates in the world...so tonight I ask every American to commit to at least one year or more of higher education or career training...every American will need to get more than a high school diploma”

President's Higher Education Initiatives

- Affordability
- Cost Containment
- Transparency and Accountability

Student Demographics

- Fewer high school graduates
- Enrollment challenges – privates
- Composition is changing:
 - Minority is majority
 - 1st generation, low income move from feeder schools that offer less academically
 - Adult learners
- Organizational challenge to meet demand

Transformational Leadership

- Evolution of Risk Management
 - Expectations of skill sets
 - Sophisticated approach: ERM
- Role clarity
 - Internal Audit
 - Compliance
 - Legal
 - Business Officer

Changing Role of Business Officer from...

- “Back office” to “key spokesperson”
- “Numbers only” to “overall strategy”
- “Solitary administrator” to “collaborative leader”
- “Revenue and expense manager” to “entrepreneur and cost cutter”

Changing Role of Business Officer to...

- In tune with the academic side
- Aware of legal and regulatory issues
- Attentive to data and information technology
- Focused on human resources and talent management
- Mindful of external politics
- Well-versed in facilities and construction
- Committed to teach and explain financial information to key constituents

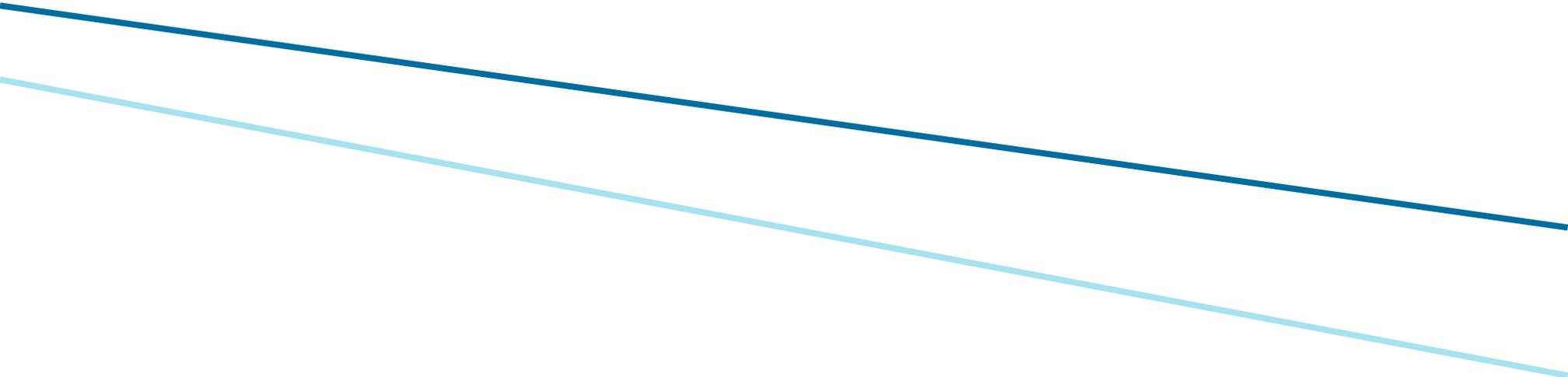
CBO Most Important Duties...

	CBO	Pres	Board
Managing the institution's resources	77.1%	77.5%	86.8%
Strategic thinking and decision-making	38.7%	34.2%	26.6%
Leading change and fostering innovation	21.4%	18.6%	7.6%
Supporting the president and managing up	16.6%	23.6%	10.3%
Appropriately engaging the community in financial decisions/Communicating	12.8%	14.7%	5.6%

CBO Perspective

- Top uses of time
 - Strategic/financial/capital planning
 - Ensuring financial, physical and human resources are responsibly managed
 - Budget management
 - Asset and liability management
 - Salary, benefit and performance management
 - Facilities management
 - Risk/compliance management
 - Supervising and managing personnel
 - Board relationships

Governance: Driving the Bus



WHERE TO START?



Kenneth, why did you bet that terrible hand?



Why? Because I believe life is for the living. I believe in taking risks and biting off more than you can chew. And also, people were yelling and I got confused about the rules.

How Effectively Do Boards Oversee Institutional Risk?

Boards with a Formal Process for Risk Assessment	All	Budget < or = \$51 Million	Budget > or = \$51 Million
	%	%	%
Public	33	15	40
Private	34	24	47

Source: 2011 AGB Survey of Higher Education Governance

How Effectively Do Boards Oversee Institutional Risk?

Board members and senior administrators regularly evaluate major risks (more than 1 answer possible)	2009 Percentage	2013 Percentage
Every board meeting	8.6	11.4
Every year	24.4	28.1
Every other year	3.1	1.7
As needed	50.8	44.4
None of the above	13.7	21.7
Other	10.7	8.5

Source: 2009 and 2013 AGB & United Educators Survey on Boards and Risk

How Effectively Do Boards Oversee Institutional Risk?

The board monitors institutional risk through regular, formal reports from administration	2009 Percentage	2013 Percentage
Mostly agree	22.8	30.0
Somewhat agree	30.4	42.3
No opinion	8.7	2.4
Somewhat disagree	24.2	19.7
Mostly disagree	13.9	5.6

Source: 2009 and 2013 AGB & United Educators Survey on Boards and Risk

How Effectively Do Boards Oversee Institutional Risk?

Overall, how would you rate your institution's approach to and management of risks?	2009 Percentage	2013 Percentage
Exemplary	5.0	5.2
Above average	43.6	43.7
Average	39.9	40.9
Below average	9.7	9.0
Poor	1.7	1.3

Source: 2009 and 2013 AGB United Educators Survey on Boards and Risk

Top Risks in 2013

RISK

Economic conditions
Brand / reputation
Regulatory compliance
Legal or regulatory shifts
Data security / privacy breach
Destruction / loss of physical resources
Litigation or claims
Technology / systems failure
Insurance (availability, limits, claims payment)
Capital availability

2013 RANK

1	1
6	2
5	3
3	4
17	5
10	6
4	7
14	7
9	7
13	10

■ Overall ■ Education

Understanding the Risk Landscape

What are the top two areas of improvement to help senior management and board more fully understand the risk landscape of your organization?

	OVERALL	EDUCATION
#1	Clearly link risk management deliverables to the organization's strategies and objectives	Clearly link risk management deliverables to the organization's strategies and objectives
#2	Increase education and awareness of concepts such as enterprise or strategic risk management	Increase education and awareness of concepts such as enterprise or strategic risk management
#3	Improve cross-functional risk collaboration	Improve cross-functional risk collaboration

Calculated Risk -- Taking Control of Uncertainty?

- Interconnected financial, operational and strategic risks
 - Governance emergence
- Changing risk landscape alters strategy
 - Long-term financial commitments, often putting capital investment and expansion plans on hold
 - Lack the ability to obtain and quantify the data involved
 - Regulatory risks/unfunded mandates impact on costs
 - Reduction/streamlining of staff/role

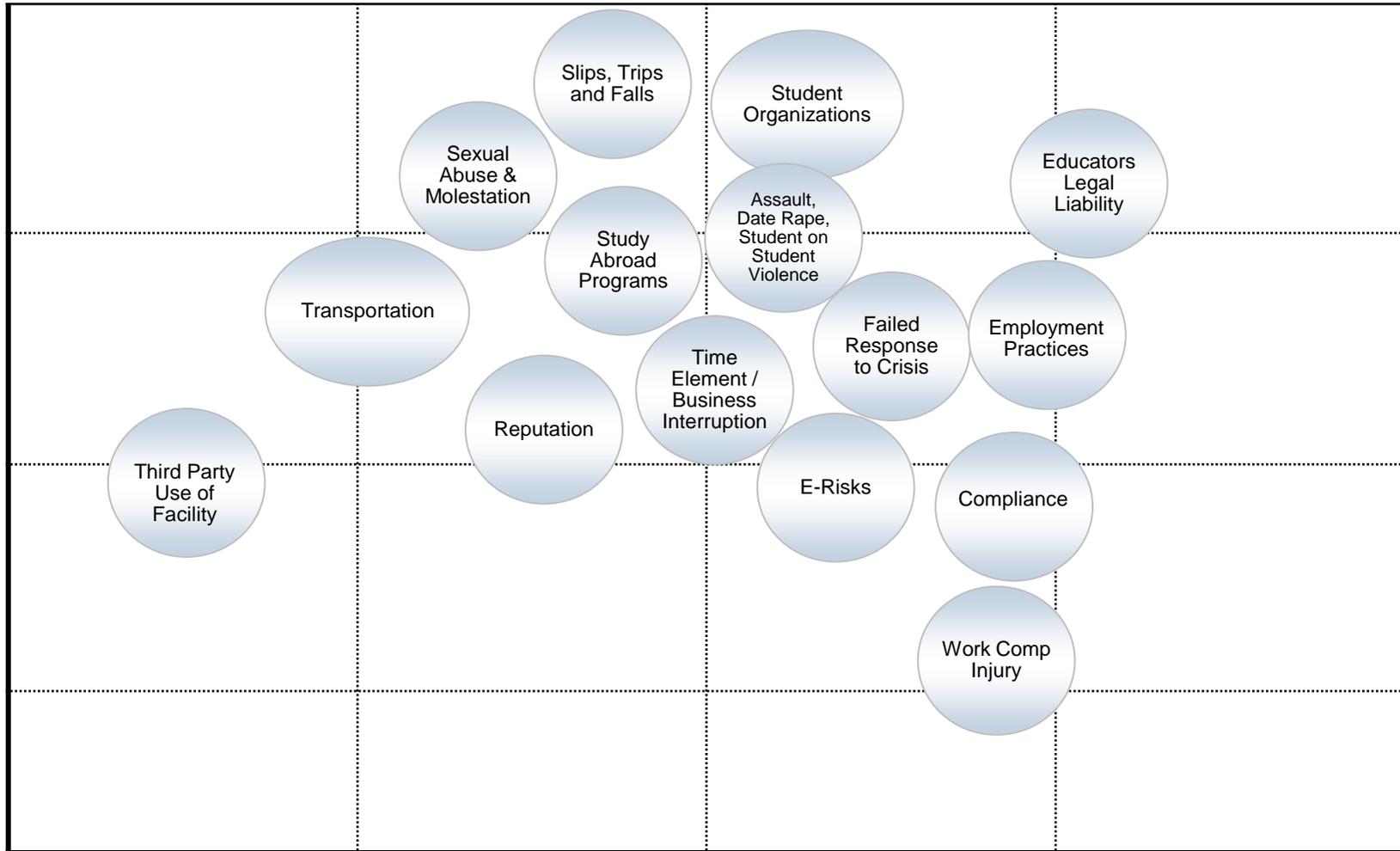
Baseline Risk Map

SEVERITY

High

Medium

Low



Low

Medium

High

FREQUENCY



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