



# HEAD-BUSINESS MANAGER- BOARD TRIAD

## PRACTICES FOR A SUCCESSFUL PARTNERSHIP



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**TUESDAY, OCTOBER 9, 2007 FROM 1:30-2:30 PM EASTERN**  
**AND WEDNESDAY, OCTOBER 31, 2007 FROM 12:00 – 1:00 PM EASTERN**



# ROLES



- **BOARD CHAIR: LEADS THE BOARD, HAS CLOSEST RELATIONSHIP WITH HEAD**
- **HEAD: VISION FOR SCHOOL, RESPONSIBLE FOR IMPLEMENTATION**
- **TREASURER: BOARD NUMBER'S PERSON**
- **BUSINESS OFFICER: STAFF PERSON WHO TRANSLATES MISSION INTO DOLLARS**

## HEADS AND BUSINESS OFFICERS

- **TRAINED ACADEMICS**
- **UNFAMILIAR WITH TERMINOLOGY**
- **UNCOMFORTABLE WITH NOT KNOWING AND/OR ASKING FOR HELP**
- **FINANCE TRAINING**
- **INTO DETAILS**
- **OFTEN UNAWARE OF OTHERS DISCOMFORT WITH NUMBERS**

## HOW TO MAKE IT WIN-WIN

- **HEADS CAN HELP BUSINESS OFFICERS LEARN ABOUT SCHOOLS.**
- **BUSINESS OFFICERS CAN HELP HEADS LEARN ABOUT FINANCE.**
- **THESE TWO CAN BE A FORMIDABLE PAIR WHO CAN WORK TOGETHER TO IMPLEMENT THE SCHOOL'S MISSION**

## AVOID PROBLEMS

- **COMMUNICATION, COMMUNICATION, COMMUNICATION**
- **NO SURPRISES**
- **AVOID ISOLATING ANY ONE MEMBER OF THE TRIAD**
- **ANNUAL GOALS: BOARD, HEAD, COMMITTEES, BUSINESS OFFICER**

-Communication and collaboration among the leadership team is critical. Avoiding surprises is of key importance. Here are some examples of what to avoid as a result of good communication:

-At a budget presentation, the head of school should not announce new programs or hires for the first time.

-Similarly, the business manager should not announce financial problems to the board without first discussing and planning with the head of school. The board chair should also be made aware.

-Never isolate a member of the triad. Business managers and key boards members sometimes come from a business background and consequently revert to financial language that can be isolating to others. People should be aware of this and ensure they are more inclusive.

-Key board members can be in touch with the business manager directly, but only for routine issues. Major issues must go through the head of school.

-Making each party's **annual goals** explicit, as through a comprehensive strategic plan, should ensure that all can see the strategic areas that everyone is responsible for. This allows the group to tease out issues and problems. For example, if the finance committee suggests that it should review individual financial aid applications, it is an opportunity to remind them that this is a day to day operational issue in the hands of the staff.

-Explicit annual goals can also describe the rationale behind various school activities. Board members with business experience sometimes have trouble adjusting to the way school budgets are built. They cannot see why a school begins its budget a year in advance or how you can define 70% of its expenses

## WHAT IS FIDUCIARY RESPONSIBILITY?

- **A LEGAL DUTY IMPOSED ON INDIVIDUALS WHO ARE IN POSITIONS OF TRUST OR CONFIDENCE**
- **REQUIRES AN INDIVIDUAL TO ACT PRIMARILY IN THE INTERESTS OF OTHERS.**
- **REQUIRES SCRUPULOUS GOOD FAITH AND CANDOR.**
- **FIDUCIARY DUTIES ARE DEFINED BY STATUTES AND COMMON LAW (CASE LAW)**
- **THE STATE WHERE SCHOOL IS INCORPORATED WILL HAVE CODIFIED CONCEPT OF FIDUCIARY DUTY**

## **DUTY OF CARE**

**TRUSTEES ARE REQUIRED TO ACT IN THE  
BEST INTEREST OF THE SCHOOL, TAKING  
REASONABLE CARE AND EXHIBITING  
HONESTY AND GOOD FAITH.**

**“ACT AS AN ORDINARILY PRUDENT PERSON IN  
A LIKE POSITION UNDER SIMILAR  
CIRCUMSTANCES”**

**TO ENSURE THAT THE INSTITUTION’S RESOURCES ARE  
DEDICATED TO THE FULFILLMENT OF ITS MISSION.**

-Showing up is critical.

-Agendas and financial statements should be shared in advance with a narrative coversheet highlighting major issues.

-Job of a trustee is to ask questions relevant to the topic at hand. Trustees should be wary of responses that do not answer a question sufficiently such as “trust me” or “we’ve got it under control.”

## DUTY OF LOYALTY

**TRUSTEES ARE REQUIRED TO PUT THE INTERESTS OF THE SCHOOL FIRST, ABOVE THEIR OWN SELF-INTEREST OR THE INTERESTS OF OTHERS.**

-Discussion at the board stays there. Never continue conversations afterwards or share what seems to be innocuous with non-board members.

-Boards must adopt conflict of interest policies. Board members must recuse themselves from discussions where they stand to gain financially. See the accompanying sample conflict of interest policies available at the PEJE 'accountability and transparency' page:

[http://www.peje.org/knowledge/financial\\_management/accountability\\_and\\_transparency.php](http://www.peje.org/knowledge/financial_management/accountability_and_transparency.php)

## DUTY OF COMPLIANCE

**TRUSTEES ARE REQUIRED TO ACT IN FIDELITY TO THE SCHOOL'S MISSION, TO ASSURE THAT ALL LOCAL, STATE, AND FEDERAL LAWS AND REGULATIONS ARE OBEYED, AND TO MAINTAIN THE SCHOOL'S INDEPENDENCE.**

The following are critical to actualize duty of compliance:

- Conduct audits whenever possible. Audits are independent tests by accounting firms to show that the numbers people are looking at throughout the year are a true reflection of school activity and financial position.
- Develop the proper internal controls by segregating financial duties. Different people should open the mail, deposit checks, print checks, sign them, and then mail them.
- Ensure that the school has an insurance review and complies with regulations.
- Ensure adequate risk management policies and procedures in place.
- Ensure proper by-laws in place.
- Ensure the school files its annual tax return.
- Important: Trustee oversight of the above does not mean that board members should walk through the business office to ensure these items are taken care of. The board and committee reporting mechanisms should ensure adequate oversight.
- NAIS Principles of Good Practice Outline Everyone's Role at the School. See link: <http://www.nais.org/about/index.cfm?ItemNumber=146811&sn.ItemNumber=146810>

## **BOARD FINANCIAL TASKS**

- **OPERATIONAL OVERSIGHT: BUDGET, FIVE YEAR PLAN, ANALYSIS OF FINANCIAL QUESTIONS**
- **INVESTMENT MANAGEMENT: REVIEW PERFORMANCE AND MANAGERS**
- **REVIEW ALL ASPECTS OF COMPENSATION**
- **REVIEW PLANT ISSUES, DEFERRED MAINTENANCE**

# FINANCIAL COMMITTEES

- **FINANCE COMMITTEE**
  - BUDGET, FIVE YEAR PLAN, OVERSIGHT, BOND ANALYSIS
- **INVESTMENT COMMITTEE**
  - REVIEW MANAGERS, PERFORMANCE, AND POLICIES
- **PERSONNEL COMMITTEE**
  - REVIEW ALL ASPECTS OF COMPENSATION
- **BUILDINGS & GROUNDS**
  - REVIEW PLANT ISSUES
- **AUDIT COMMITTEE**
  - ENGAGE THE AUDITOR, SET THE SCOPE, REVIEW THE FINDINGS

-Not every board has all of these committees or sub committees. What is critical, however, is that the tasks associated with the above get done.

-The finance committee is the cornerstone financial committee that prepares the budget with the business manager and head of school, reviews variances, conducts financial planning and is responsible for general financial oversight.

-The investment committee is composed of investment experts to manage the endowment or investment of cash float.

-The personnel committee DOES NOT review each staff person's compensation and performance. Rather, it sets compensation policy.

-Build and grounds helps the business manager maintain the facility and grounds and plays a role in looking for new space.

-The audit committee is separate from the finance committee. It does not contain staff members and works to ensure that financial reports delivered to the board are accurate. This committee also hires the audit firm. It is best that this committee be as independent from the finance committee as possible, which means that whenever possible, membership between the two should not overlap. The audit committee shares issues and concerns it has identified with the audit firm in advance of the firm conducting the audit. Auditors routinely communicate their concerns through management letters to all clients. Concerns about the business manager should go directly to the head of school and not the board. SAS 112 has raised communication standards for internal control issues as identified by auditors. Good internal controls in the past are often not stringent enough to meet auditor approvals. See this article by the Nonprofit Quarterly about SAS 112:  
<http://www.nonprofitquarterly.org/section/922.html>

-Financial reviews often entail the same work on the part of the school as audits do, but the accounting firm does not provide an opinion nor does it contact third parties to verify the quality of the statements. Reviews are much cheaper to undertake.

-See the accompanying Audit Committee Charter and Due Diligence Checklist on the PEJE 'accountability and transparency' page:  
[http://www.peje.org/knowledge/financial\\_management/accountability\\_and\\_transparency.php](http://www.peje.org/knowledge/financial_management/accountability_and_transparency.php)

## **ADOPT THE BUDGET**

- **SET SALARY POOL INCREASES**
- **SET TUITION**
- **DECIDE HOW TO BALANCE THE BUDGET – BIG PICTURE**
  - **MORE FINANCIAL AID VS. LOWER TUITION VS. HIGH SALARIES VS. SPENDING RATE ON ENDOWMENT**

-The finance committee reviews and hashes out big issues and assumptions guiding budget development. This happens before budget discussions go to the board. The finance committee should receive detailed financial reports, but probably not on every line item. Displaying every line items gives implicit permission to talk about each line item.

-The board should receive financial reports that have less detail than finance committee's reports.

-The treasurer should present the budget in collaboration with the business manager. Often the business manager makes the presentation. The business manager must be at the board meeting during budget discussion. His or her depth of knowledge is critical to moving the board agenda forward. Not having the business manager in the room can stymie the board's progress.

-It is typical for boards to want to increase salaries as much as possible, increase financial aid as much as possible, and reduce tuition increases as much as possible. These three tendencies are in conflict with one another. The best way to have these discussions is in the framework of a multi-year financial plan. It is critical for the business manager to come to the board meeting with a budget framework so that s/he can inform the board if a particular desire is possible or not. For example, is it feasible to raise faculty salaries an average of 5% next year? Even having a laptop with the plan loaded can answer such questions in real time.

## REVIEW THE RESULTS

- **BUSINESS MANAGER GIVES THE FINANCE COMMITTEE AND THE BOARD THE RESULTS**
  - MONTHLY/QUARTERLY
  - SEE IF YOU ARE ON TRACK
  - UNDERSTAND THE MAJOR DEVIATIONS
- **ANNUAL AUDIT**
  - OUTSIDE ASSURANCE OF PROCEDURES, IMPLEMENTATION OF POLICY

## **BUSINESS OFFICER ROLE**

- **TRANSLATE INFO**
- **SEND IT OFTEN ENOUGH**
- **THE RIGHT LEVEL OF DETAIL**
- **NARRATIVE TO EXPLAIN THE IMPORTANT ITEMS**
- **WORK WITH HEAD BEFORE IT GOES OUT SO THE HEAD KNOWS ALL OF IT TOO.**

-The head of school must be conversant in the major issues covered in a financial statement presentation.

-Board financial reports should include at least a balance sheet and statement of activities (including endowment and plan transactions). Schools often add a cash flow forecast. Again, ensure that the level of detail is not too deep. The board should not be discussing why the science trip is more expensive this year than last year, for example.

## FINANCIAL FORECASTS

- **FIVE YEAR FINANCIAL FORECAST**
- **WHAT HAPPENS IF YOU CARRY OUT YOUR POLICIES FOR FIVE YEARS?**
- **IS THIS WHERE YOU WANT TO BE?**

-The first step in building a multi-year financial plan is to run your numbers over five years to see what happens. Often, expenses will exceed revenue in such a forecast. Developing the scenario allows you to be proactive.

-Next, adjust your plans to respond to your scenario. Discuss your assumptions about everything, from tuition increases to the economic outlook in the region. Having such a plan in place makes tuition setting much easier.

# ROLES

- **BOARD MEMBERS – BIG PICTURE VIEW – ASK QUESTIONS**
- **HEAD OF SCHOOL – BRING EDUCATIONAL VISION TO THE TABLE – ASK QUESTIONS**
- **BUSINESS OFFICERS – CRUNCH THE NUMBERS, INTERPRET THE TRENDS – ASK QUESTIONS**

-Each year, keep asking questions about your assumptions.

## TYPICAL FINANCIAL POLICIES

- **SALARY GOALS**
- **FINANCIAL AID**
- **PPRRSM (PROVISION FOR PLANT RENEWAL, REPAIRS AND SPECIAL MAINTENANCE)**
- **NET ASSET TARGET – CASH ON HAND**
- **ENDOWMENT INVESTMENT POLICY**
- **ENDOWMENT SPENDING RATE**

-School must have measurable goals in place as a first step to build plans to attain them.

## **SALARY GOALS**



- **DO YOU HAVE A TARGET FOR YOUR FACULTY SALARIES?**
  - **BOTTOM OF THE TOP 10% OF THE PEJE SCHOOLS OVER 750 STUDENTS?**
- **ADMINISTRATIVE SALARIES?**
  - **HEAD SALARY – INTERMEDIATE SANCTIONS**

## FINANCIAL AID



- **HOW MUCH FINANCIAL AID WILL YOU GIVE?**
- **WHY DO YOU WANT A GOAL?**
- **TARGET**
  - **10% OF THE BUDGET**
  - **20% OF STUDENTS**

## PPRRSM



- **HOW MUCH DO YOU PUT IN YOUR PLANT FUND TO DEAL WITH DEFERRED MAINTENANCE?**
- **WHAT HAPPENS WHEN YOU DON'T?**
- **2% OF THE REPLACEMENT VALUE OF YOUR PLANT IN CASH ANNUALLY.**
- **MOST SCHOOLS CAN'T/WON'T DO THIS**

-Schools have a hard time funding this important item, because it does not have a face or a voice like faculty (salaries) or families (financial aid or tuition increases). It is also very expensive.

-The PRRSM account is revolving. Schools should always be investing and withdrawing from PRRSM to invest in their facility and grounds.

## NET ASSETS TARGET

- **DO YOU HAVE ANY CASH IN YOUR UNRESTRICTED OPERATING FUND?**
- **HOW MUCH SHOULD YOU HAVE?**
  - 15% OF OPERATING COSTS
  - 60 DAYS WORKING CAPITAL
- **ISM\* STABILITY MARKERS**

\*INDEPENDENT SCHOOL MANAGEMENT

-It is important to know what the net asset or cash reserve goal is for. It's not necessarily for an earthquake. Natural disasters are covered by insurance minus the deduction. The reserve is usually to cover drops in enrollment.

# INVESTMENT POLICY



- **TYPES OF INVESTMENT VEHICLES**
  - EQUITY
  - FIXED INCOME
  - OTHER VEHICLES
- **ALLOCATION TO EACH TYPE**
- **WHEN TO REBALANCE**

## SPENDING RATE



- **HOW MUCH MONEY WILL YOU DRAW OUT OF THE ENDOWMENT?**
- **TIMING OF THE DRAWS**
- **GOAL: TO TAKE THE AMOUNT NECESSARY FOR TODAY'S BUDGET WHILE NOT DRAINING THE FUTURE VALUE OF THE ENDOWMENT.**
- **4.5%**

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