

ONLY 89 THINGS TO BY GRANT LICHTMAN WORRY ABOUT

One school
undertakes
a comprehensive
approach
to enterprise
risk management

ILLUSTRATION BY DAN PAGE C/O THEISPOT.COM

About 18 months ago, our head of school came down to my office asking to “elevate” our off-and-on discussions about risk management. Over the years, the subject had come up many times, usually at a board or finance committee meeting, and usually within the context of insurance liability and coverage.

Increasingly, however, schools have recognized their susceptibility to a wide range of risks, and we, along with many other schools, decided to put a more robust approach to the issue squarely on the front burner. So, as is often the case in our schools, the head came to the business office with the directive to “get it done.”

In my 11-plus years in charge of finance and/or operations at Francis Parker, this was the first time I ever said “no.”

Having been involved in both for-profit and not-for-profit businesses for more than 30 years, I knew just enough about the potential legal complications of establishing a risk program that I knew I was not qualified to do this on my own. I am not too proud to say that the first image that passed before my eyes was some future distant emergency board meeting, called in the wake of some relative disaster, the room crowded with legal counsel and insurance representatives, reading out a poorly written or inadequate policy or guideline that had been borne in the formative days of our risk management efforts, with my name all over it. That was not a pretty picture—for me or the school.

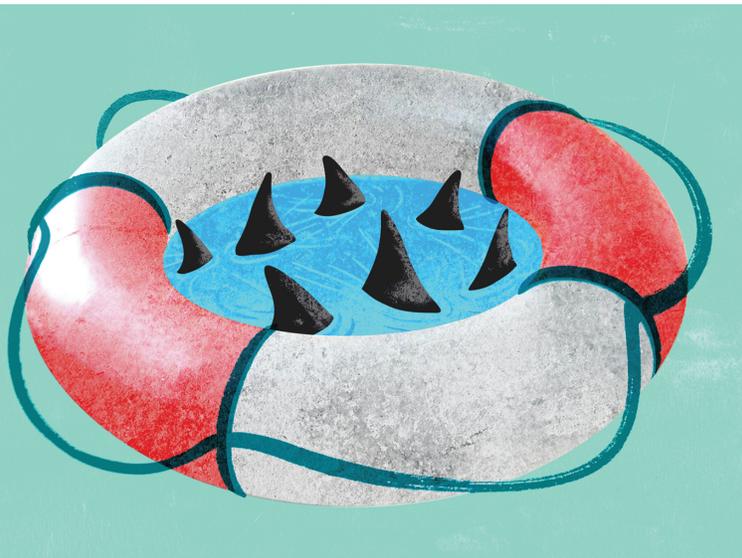
I suggested that we seek outside help in this effort, both to ensure that we were aligned with best practices and to guide us around the more serious pitfalls of what I expected would be a long-term process. We agreed that I would survey the marketplace

for outside counsel options, then lay out a strategy to embark on the school's first-ever comprehensive risk assessment and mitigation program.

A magic all-in-one solution proved elusive. By combining resources from NBOA, as well as NAIS (the National Association of Independent Schools), CAIS (the California Association of Independent Schools), and our general liability insurance broker, I was able to put together a master list of risks associated with running an independent school. After grouping and organizing, the master list contained 89 individual risk issues in the following groups:

- * Strategic
- * Students and Program
- * Financial Controls
- * Financial Planning
- * Legal
- * Operational
- * Reputational

(I am happy to share the full list; my email is at the end of this article.)



I was unable to find a single vendor with expertise in all of these areas, and in fact we decided at a very early stage that it would not be necessary to evaluate anew all of these categories of risk. Some areas, such as financial controls, are adequately addressed by our annual financial audit. Members of our board audit committee, tasked with overseeing the risk assessment and management program, requested that staff prepare a high-graded sub-set of this list of those risks that, to put it bluntly, “keep us up at night.” We decided to focus first on those.

Our next phase was critical. In discussions with our insurance broker, we decided to take an enterprise risk management (ERM) approach to further delineate our assessment and mitigation strategies. ERM provides an overall framework in which to strategically prioritize, assess, respond to, and monitor risks in all areas of the institution.

Most importantly, it works to develop a school-wide culture of awareness about risk. Historically, risk has been seen as something that a relatively small number of individuals, mostly in the business and operations offices, should worry about. With ERM, risk is seen as just another part of the daily business of the school, deserving the attention of most of the faculty and staff.

Since ERM requires a long-term cultural change, we decided to bring in an outside consultant to both train our employees about distributed risk management and help us focus on high-value targets in the full list of risks. We had confidence that many areas of our comprehensive risk matrix were being managed fairly well, particularly those areas most specific to our educational mission: the relationship of the school to the students. We wanted to focus near-term resources on jump-

Historically, risk has been seen as something that only a few individuals, mostly in the business and operations offices, should worry about.

starting a more invasive risk assessment in areas where we felt less comfortable.

With the help of our insurance broker, we developed an RFP and reached out to several potential regional vendors that specialize in ERM. Following several interviews, we selected Bickmore Risk Management of Sacramento, California, and further refined the scope of work into three primary phases.

The first phase was an initial training and survey of stakeholders in the school. Since ERM is about distributing awareness and responsibility for risk management away from a core of administrators, we identified a group of about 45 employees (out of a total of approximately 125 faculty and 100 non-teaching staff) to attend an initial one-hour training session provided by Bickmore.

This session laid the foundation for the process and developed an understanding of the role of ERM in meeting the mission of the school. Following that training, this group of employees took an online survey that generated a statistical report on which school-wide risks were perceived to be both the most present and significant.

The initial training and survey turned out to be critical. We were concerned that hints of a school-wide risk management process might spur rumblings that “something was really wrong at the school,” which is fortunately not the case. By proactively scheduling an initial training with a broad array of employees, we were able to forestall any misconceptions about the process or need for it.

Without a contextual understanding of the decision to take a more proactive approach to managing risk, the majority of employees may well feel that putting this on the front burner means the institution itself is at risk. The broadly attended training session, as well as a school-wide communication from the head of school, alleviated these concerns.

In the second phase, we took the results of the survey and decided we would drill down on the top 20 risks that had been

Applications are now being accepted.
Visit www.commonfund.org/ei

Endowment Institute 2012

at the Yale School of Management | New Haven, CT

For trustees, senior investment management and all investment professionals who support nonprofit institutions.

Now more than ever, nonprofit institutions need the support of committed, insightful leaders and staff.

Commonfund's Endowment Institute, now in its 19th year, will help you to bring critical investment knowledge and the latest thinking to the nonprofit institutions that you serve.

The Endowment Institute is held each year at the Yale School of Management. The Institute focuses on investment policy, portfolio management and governance, among other crucial issues of importance to nonprofits. Along with rigorous course work, participants learn from leading investment faculty and practitioners. You'll also have the opportunity to analyze investment theories and concepts and to discuss their practical application to your own endowment.

Level I

Fundamentals of
Endowment Management
July 8-13, 2012

Introduces delegates to Modern Portfolio Theory, the equity risk premium, portfolio management, valuation, governance, fiduciary duty and related subjects.

Level II

Exploring the interaction
of theory and practice
July 22-26, 2012

Using an intensive, hands-on case study methodology, delegates experience the practical challenges of applying leading-edge theory to the practice of managing long-term funds.

Learn more about the Endowment Institute 2012 by visiting www.commonfund.org/ei or call Allison Parker, Program Manager, at 203-563-5021.

commonfund
I N S T I T U T E



self-identified as both present and significant. We were able to group those top 20 risks into five general categories: physical plant, data management, athletics, external communications, and internal school structure and communications.

The ranking held some real surprises. Those of us closest to the process thought that the risks most likely to float to the top in this analysis would be things like a school bus accident or an injured student on an overseas trip. In fact, several of the most highly ranked perceived risks had to do with internal communications and the school organizational structure. In other words, as a group, the perceived risk of inadequate communications between various segments and levels of the school hierarchy was deemed more critical than many of the more obvious risks that we normally think about.

The consultants met with small groups of employees who have responsibility in these identified areas, and drilled down to the specifics of the identified risks. They then began to develop a map for creating mitigation strategies. Feedback after the meetings was extremely positive.

In the case of the issues related to internal communications, for example, it was clear that significant mitigation strategies were already in process, but highlighting these issues in the ERM process emphasized the importance of continuous and iterative improvement practices.

On the other end of the spectrum, the complex and often turbid swirl of issues that revolve around data access, management, integration, and security will be a discussion that will take some time to fully address.

As of this writing, we are about to begin the third phase—finalizing the mitigation strategies for the list of risks compiled in the survey. Simultaneously, I have been gathering documents from the various divisions and departments that pertain to risk mitigation. These range from training manuals and schedules for our bus drivers to off-campus health and safety procedures to student conduct manuals. We will compile these many documents in a single digital file with a single hard-copy location; this will serve as the master source for risk assessment and mitigation policies at the school.

We anticipate that completion of the current process is only the end of the beginning for our school. The central point of ERM is that this becomes an ongoing cultural integration, and the focus will shift to ensuring that the policies we adopt are both follow-able and followed. It does us no good to drill down, understand, and create policies that sit and gather dust on the shelf.

We anticipate that there will be a long-term role for an outside consultant in ERM, much like a financial auditor, who advises us on an annual basis about what risks we might want to review, helps to assess how well we are keeping the guiding



© Hublot Geneve

All the right pieces. All working together.

Venable's Independent School Law Practice: wise in the school world.

- Practical legal advice
- Experience in the full range of legal issues facing Independent Schools including:

employment issues	governance
student discipline	enrollment/employment contracts
retirement plans	investment compliance
social media	litigation

Representing Independent Schools nationwide for over 20 years

Caryn Pass	202.344.8039	cpass@Venable.com
Heather Broadwater	202.344.8042	hbroadwater@Venable.com
Grace Lee	202.344.8043	glee@Venable.com

VENABLE[®] LLP

CALIFORNIA • MARYLAND • NEW YORK • VIRGINIA • WASHINGTON, DC

www.Venable.com / 1.888.VENABLE



We know the fundamentals of financing independent schools.

Andover, Bolles School and Childpeace Montessori School. These are just a few of nearly 150 independent schools that have relied on George K. Baum & Company to help fund new classrooms, athletic facilities and dorms. In fact, we've secured more than \$2.1 billion in tax-exempt bond financing for our clients to date.

Our innovative approach to tax-exempt financing can fund your school's new capital projects too. Give us a call. We'll cover your needs from A to Z.

Chuck Procknow
Executive Vice President

Julia Donnelly
Vice President

Dev Talvadkar
Vice President

800.722.1670
gkbaum.com/is
procknow@gkbaum.com



George K. Baum & Company

INVESTMENT BANKERS SINCE 1928

Member FINRA www.finra.org



www.sipc.org

documents alive in terms of practice, and provides training to both new and current employees in the best practices of ERM.

We are also working closely with our insurance carrier to integrate their resources into the overall risk mitigation effort.

Our overall ERM team, therefore, consists of an ERM vendor, legal counsel, financial and HR auditors, and the extensive school-based team of faculty and staff.

The cost of an ERM project will depend on how much your school cedes to an outside consultant and how much you do yourself. The scope we followed resulted in a vendor cost of between \$25,000–\$30,000. Small groups of our staff will likely spend between five and 20 hours on this issue over the current year. We predict that both internal and external costs will be similar in coming years as we ensure that the ERM process takes root at our school.

Reflecting back to our initial naïve stab at putting together a risk management system for our school, we have learned some key lessons. First, we were right that we could not do this ourselves. There is a system and science to ERM and we were no more qualified to entrain the process than we would be to undertake our own financial audit or provide our own legal counsel.

Second, we realized that we needed to shift our school's culture from imagining risk as something negative to

something that can positively contribute to the completion of our mission. This process does not start and end with a risk assessment and production of mitigation policies; it is ongoing and needs both presence and authority to keep it appropriately placed on the school radar screen.

Finally, we learned that risk management is not the providence of the head of school or the business office. Through an appropriate ERM process, the responsibility is widely distributed to those who can most closely monitor and mitigate risk.

While some might argue we spent a lot of money to undertake ERM, the peace of mind this process has engendered is, as they say, priceless. ■



Grant Lichtman is the Chief Operating Officer at Francis Parker School in San Diego, California. He has worked in both the for-profit and nonprofit sectors during his career. His book, *The Falconer*, a primer for 21st century education, was recently published by iUniverse. He can be reached at glichtman@francisarker.org.

Wells Fargo Insurance Services

**WELLS
FARGO**



With you when you need guidance to protect independent schools from risk

Your unique insurance needs require tailored, comprehensive risk management solutions. Wells Fargo Insurance Services' school and non-profit division professionals have built a reputation on meeting—and anticipating—the complicated insurance challenges today's schools face.

Our years of experience insuring schools, local approach to customer service, and broad national resources (including Wells Fargo's Employment Law HELPLINE, safety plans, loss control, claims

support, and catastrophe team) will support your requirements for:

- Property
- Liability
- Fidelity and fiduciary
- Employee benefits
- Workers' compensation
- Educators professional
- Accident and trip travel
- Network security

And as a leader in the student insurance industry, we offer a wide range of products, including domestic and international student health plans, intercollegiate athletic accident insurance, study abroad, and camp and clinic coverage.

Team up with us today.

Darrow Milgrim, Georgette Rieck, and Jim Kelch
Sherman Oaks, CA 800-232-2117 x 308

Ken Keeney and Gail Dillon
Petaluma, CA 707-773-1881

Stephanie Ruppenstein and Dan Brady
San Francisco, CA 415-512-3699

CA License #ODO8408
Jolene Vermeer
Illinois and Iowa 515-245-3179

Gail Brodsack
Colorado Springs 719-785-8149

Anne Rice
Southfield, MI 248-948-5739

Robert Wintsch
Mechanicsburg, PA 717-506-3043

wfs.wellsfargo.com/schools

Together we'll go far



©2010 Wells Fargo Insurance Services.
All rights reserved.