National Association of College and University Business Officers

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Presenting Thought Leaders' Points of View

The Roles, Duties, and Ethical Responsibilities of the Chief Financial Officer

By Lawrence R. Ladd

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About the Author

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About Perspectives

Perspectives offers points of view on critical and emerging issues in higher education, written by senior business officers and other leaders in the academy. In brief essays, these thought leaders go beyond theory to offer practical applications and potential solutions to issues faced by campus administrators. Published online by NACUBO and available free of charge, this occasional series offers an opportunity for robust dialogue about significant issues.

Project Contact

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Let's say a higher education institution is in search of a chief financial officer. The position description might read something like this:

> The CFO oversees and enhances the financial management of the college, which includes: resource allocations, financial strategy, capital plans, debt management, cash flow optimization, and financial information systems. The CFO's business responsibilities encompass treasury, investment, budgets, accounting systems, the audit, and accounting oversight of the endowment. These activities require that the CFO have a central role with senior administrators in allocating resources annually and strategically. The CFO is also a key advisor to the President on financial and non-financial strategic issues.

This generic list of duties, however, doesn't do justice to the CFO's job: to achieve the institution's mission while preserving (and enhancing) its assets. In fact, the traditional role of the CFO is being transformed as institutions add new responsibilities to the position and require more expertise from the people who aspire to it.

More specifically, here are the seven roles—each requiring a different skill set—that educational institutions now expect CFOs to fulfill.

Truth Teller

The chief role and responsibility of the CFO is to provide facts, analyses, and observations that are the unvarnished truth. Although most of those facts, analyses, and observations are financial, they should also include information about the institution's operational and strategic position.

In short, the CFO should be the data guru. The controller, budget director, director of institutional research, and others in the organization may produce a great deal of information and analysis, but the CFO has the institutional perspective, clout, and access to represent that data effectively. He or she needs to produce, organize, and then present financial information that demonstrates the depth (or lack) of resources to achieve the institution's mission.

If provided without interpretation, financial information can mislead other officers as well as present an incomplete picture. So being a truth teller entails both interpreting the information and advising on what the information means in light of institutional strategies and financial plans. When hearing a report from another officer, the CFO is the person most likely to ask, "How do we know?" and "What are the metrics"?

Presenting financial facts so the truth can be heard, but not resented, often proves a challenge. The facts may run counter to what others believe or want to hear, yet the CFO has a duty to press on. Similarly, the CFO must speak the truth about sound ethical practices and behavior, always insisting on policies that protect the institution's reputation and assets.

Exemplary Manager

In addition to being a proponent of sound ethical practices, the CFO must model behavior that reflects the highest ethical and professional standards. Exemplifying best practices in job performance and supervision responsibilities builds credibility, positioning the CFO to effectively advocate good management practices throughout the institution.

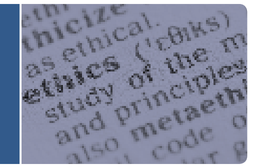
In casting an eye at other parts of the organization, the CFO should ensure that best practices are followed in support of fairness, accountability, compliance, and customer service. For example, the CFO should always question:

- Are our objectives clear and measurable?
- Do our organizational structures and job descriptions align with our objectives?
- Do we have written policies and procedures in place?
- Are we aware of our risks? Have we mitigated the important ones?
- Are we structured so that our practices comply with internal policies and with external laws and regulations?
- Are our decisions fiscally sound and prudent?

Maximizer of Resources

When asked to name the three duties on which they spent the most time, CFOs within higher education overwhelmingly chose budgeting/financial management (reported by 97% of respondents to NACUBO's 2010 Profile of Higher Education Chief Business and Financial Officers), followed by personnel supervision and management (64%) and facilities (60%).

Primarily through budgeting and financial management, the CFO helps the institution focus its available resources on its most critical priorities. That means balancing operating revenue and operating expense budgets to attain and sustain long-term equilibrium, rooting out inefficiencies,



and questioning the allocation of resources for lower priority objectives. Yet maximizing resources also means preserving the endowment's long-term purchasing power, adequately maintaining the physical plant to avoid the hidden cost of deferred maintenance, and ensuring the institution treats its employees fairly.

Guardian of Resources

The CFO must ensure that the institution protects its human, financial, and physical resources. That includes minimizing the risk of destruction of facilities from natural causes, tort liabilities from negligence, data systems crashes due to hardware or software failures or to external system attacks, and—most important—damage to the institution's reputation and good name.

Because risks permeate the institution and are certainly not limited to the finance function, enterprise risk management (ERM) is a key tool to employ. The CFO must not only be conversant with the Committee on Sponsoring Organizations' (COSO) standards but also know how to apply those recommended methods for risk assessment and mitigation throughout the institution.

In support of the board's audit review function through an audit or finance committee, the CFO arranges for adequate support for the audit and preparation of materials for the committee. Selecting, contracting, and reviewing the audit remains the board's responsibility; the CFO provides management of the audit. As an element of the audit, the CFO should advocate for a comprehensive conflict of interest policy—including whistleblower policies and procedures—for the board and senior administrators.

Increasingly, being a guardian of an institution's tangible and intangible resources also includes acknowledging and incorporating environmental sustainability. This role is circumscribed by governmental regulations, board policy, and cost-benefit analyses of options that could help minimize the institution's impact on the environment.

Sheriff

Every institution needs someone to ensure that policies are followed and internal controls are effective. In addition to aggressively pursuing potential and actual problems in this role as sheriff, CFOs must play the skeptic among senior administrators. They must ask the hard questions in cabinet meetings and of department heads about strategy, budgets, contracts, purchases, and institutional proposals with financial consequences.

Town Crier

When asked to rank the skills they need to succeed, CFOs within higher education cited communication as the second most important (reported by 60% of respondents to NACUBO's 2010 Profile of Higher Education Chief Business and Financial Officers). Only finance/budget, selected by 94 percent of respondents, ranked higher.

Being an effective communicator requires the CFO to explain complex technical issues in simple and understandable terms; raise difficult questions (while keeping attention on the question, not the questioner); and convey a sense of urgency, when needed, without causing undue alarm. The CFO must also educate fellow administrators about the institution's financial condition and the benefits of good management practices, such as financial planning and oversight, compliance, and monitoring of internal controls.

Institutional Strategist

The CFO, in tandem with the chief academic officer (CAO), often drives the strategic planning process. The CFO is the officer most likely to say—and prove with numbers—"If we do not change our strategy, we will not be financially viable." It might be the CFO who first highlights significant financial challenges that cannot be solved by small incremental changes or who shows, through financial projections, whether a proposed strategy is viable.

Typically, numbers drive change; as a result, the CFO will be in the thick of it.

Specific Duties

According to NACUBO's 2010 Profile of Higher Education Chief Business and Financial Officers, CFOs typically have the following financial and business duties.

Treasury. Management of cash and liquidity requires sufficient cash on hand to meet obligations, while too much cash represents a lost investment opportunity. Cash management encompasses operating cash and enough liquidity in the endowment to support operations during periods when short-term borrowing is stymied by conditions in the credit market.

Words of Advice

Following these 15 tips will increase your likelihood of being a competent and effective CFO:

- Set the proper tone. Make a personal commitment to professional excellence and best practices built upon the highest ethical standards.
- Build relationships of trust and goodwill.
- Hire the best. Good people make all the difference. Compensate the top performers on the business staff, even if you have to stretch on compensation.
- Expand the diversity of your background and perspective.
- Set personal priorities. CFOs cannot do everything, and the choices you make will define your career.
- Know your strengths and weaknesses. Play to personal strengths, and compensate for weaknesses by hiring good people.
- Think carefully about which direction to take, and choose the right objectives. If you choose the wrong objectives, successful implementation becomes irrelevant.
- Get out of the office often. Make sure you don't lose touch with the people doing the work and encountering operational problems.
- Set boundaries. The CFO should not serve as the chief operating officer (unless the president or board officially assigns that role).
- Listen to those you serve and with whom you work. Their feedback, observations, and suggestions can help you improve the institution.
- Take risks. Improvement requires risk, carefully assessed and understood.
- Be skeptical of those who say that an important issue is simple; it rarely is.
- Keep no secrets. Tell the board of any financial problems; avoid surprises!
- Never overlook ethical lapses or an intolerant action.
- Communicate frequently with groups throughout the institution. You can never communicate too much.

Either a trustee investment committee, a chief investment officer, or an independent management company usually makes endowment decisions. The CFO then implements and reports on investment decisions. The CFO, however, recommends the level of the endowment's spending policy, which the prudent investor rule constrains to between four and five percent.

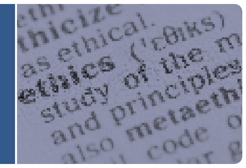
The CFO's third treasury responsibility is debt strategy and the legal and procedural aspects of incurring debt. Debt strategy should be integrated into an overall asset management strategy that integrates cash, endowment, and debt.

Controller. The controller, who may be the CFO or report directly to the CFO, handles financial reporting. This role includes arranging for full cooperation with auditors and carrying out their financial management recommendations.

Accurate and timely financial information, in compliance with Generally Accepted Accounting Principles (GAAP) in the case of external reporting, is an important fiduciary responsibility of the CFO. Although grant and contract accounting and compliance may be housed in departments outside the direct control of the CFO, he or she must still ensure compliance with regulations and restrictions required by the granting agency.

Accounts payables and receivables also need the CFO's attention to ensure they are efficient and customer focused and have sufficient internal controls to prevent fraud. All payables should be placed on the accounting system, not managed through the desk drawers of the staff. The same caveat holds true for receivables. To their great surprise, for example, some CFOs learn that the bursars' office keeps a large portion of the receivables in a special file cabinet and does not bill either students or third parties unless time permits. As a result, aging reports and past due balances are hopelessly inaccurate.

Budget. The budget function encompasses financial planning (next year's budget and future-year forecasts) and budget control (monitoring variances to the current year's budget). The CFO typically leads the institution-wide effort to prepare budgets, which includes articulating financial issues and proposing appropriate solutions. Provided managers take the budget seriously—and the institution is not experiencing financial stress—the CFO plays a largely informational role in budget control. Whenever the CFO identifies significant budget variances that may affect the year's operating results, he or she should take direct steps to resolve the issue.



Procurement/Purchasing. The CFO should insist on sound procurement practices, including competitive bidding and bulk purchasing. As with payables, effective internal controls should be in place to prevent procurement fraud.

Risk Management. One way to identify and mitigate risks that have direct financial effects on the institution is to regularly conduct an Enterprise Risk Assessment. Examples of risks can include: lax business office controls, failure to back-up data on administrative computer systems, deferred maintenance on buildings and grounds that leads to unsafe conditions, improper management of student and management data that could be accessed by unauthorized parties, or lack of security to protect students and staff. The Enterprise Risk Management function may be assigned to a separate department, such as Internal Audit. Wherever risk management is located, however, the CFO has the authority to review and take actions that reduce risks to the institution.

Environmental health and safety may also be housed outside the direct responsibility of the CFO. Nevertheless, the CFO should monitor environmental issues, which could entail large liabilities. For example, chemical storage, fuel spills, contaminated food, or contaminated buildings could put the institution at risk for large personal injury suits. Insurance is one risk management function always placed in the CFO's organization.

Information Technology (IT). Institutions often assign the IT function to a chief information officer (CIO), who may report directly to the president, chief academic officer (CAO), or CFO. Some institutions split the reporting relationship, assigning administrative IT functions to the CFO and academic IT functions to the CAO; this typically causes confusion and conflict and reduces the effectiveness of IT services.

Even when the IT function does not report to the CFO, the CFO and CIO must work closely to ensure that financial reporting systems function accurately, reliably, and with minimal risk to data security. In addition, both officers must work together when purchasing, monitoring, and maintaining hardware and software for administrative systems. As colleges and universities expand their distance learning programs, the CFO should help redesign policies and procedures to accommodate the enrollment and billing requirements for these off-campus students.

According to NACUBO's research, some CFOs also have responsibility for operations, such as physical plant, parking, security, dining halls, the bookstore, and other auxiliary enterprises.

A Web of Relationships

In addition to managing the business office—and accepting all the legal and ethical responsibilities associated with that office—the CFO needs a broad understanding of other facets of the institution to work effectively with senior administrators, faculty, board members, and the president. Excellent communication and interpersonal skills enable the CFO to explain the context and consequences of decisions related to the budget, capital projects, and new initiatives.

In fact, relationships of trust are critical to a CFO's success. The president depends upon the CFO to be loyal, truthful, and relentlessly communicative. The trustees look to the CFO to provide the information that enables them to be prudent and effective stewards of the institution's resources. Other senior administrators want the CFO's assistance in developing financial plans that will achieve their goals and plans.

The CFO must assure the board of trustees, the president, the auditors, and regulators that the work of the business office is reliably performed according to GAAP and that decisions are based upon information which accurately states the institution's financial condition. In some cases, these responsibilities make the CFO legally liable for compliance with governmental regulations and with statutory prescriptions and proscriptions for the work of the business office and for decisions affecting the institution's finances.

References

National Association of College and University Business Officers, *2010 Profile of Higher Education Chief Business and Financial Officers*, Washington DC: NACUBO, 2010, pp. 26-28.

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