

The Ohio State University
Board of Trustees

April 7, 2017

THURSDAY, APRIL 6, 2017
AUDIT AND COMPLIANCE COMMITTEE MEETING

Timothy P. Smucker
W. G. Jurgensen
Michael J. Gasser
Jeffrey Wadsworth
Hiroyuki Fujita
Lydia A. Lancaster
James D. Klingbeil
Lawrence A. Hilsheimer
Amy Chronis
Craig S. Morford
Alex Shumate (*ex officio*)

Location: Longaberger Alumni House
Mount Leadership Room

Time: 10:00-11:30am

ITEMS FOR DISCUSSION

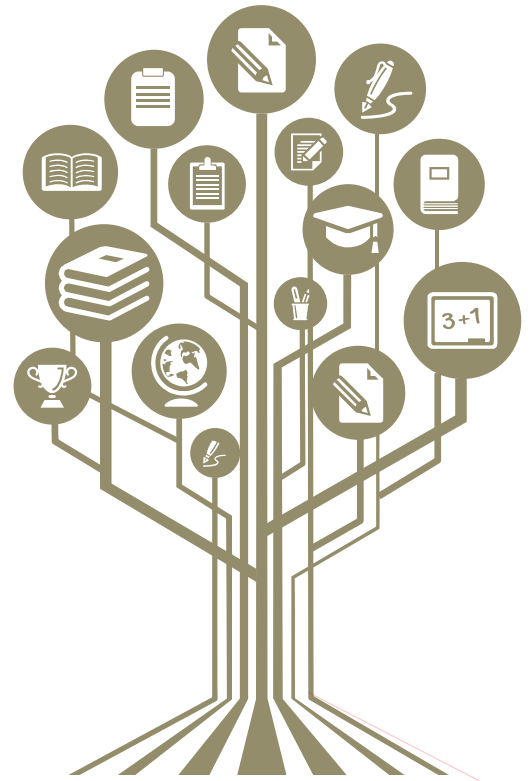
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|---|---------------|
| 1. <i>FY2017 External Audit Plan - Ms. Dewire</i> | 10:00-10:15am |
| 2. <i>Internal Audit Quality Assurance and Improvement Program - Mr. Patton</i> | 10:15-10:25am |
| 3. <i>Audit and Compliance Committee Scorecard - Mr. Culley, Mr. Chatas</i> | 10:25-10:30am |
| 4. <i>Compliance and Integrity Program - Mr. Culley, Mr. Garrity-Rokous</i> | 10:30-10:35am |

Executive Session	10:35-11:30am
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The Ohio State University

Report to the Audit & Compliance Committee of the Board of Trustees

April 2017





March 13, 2017

Members of the Audit & Compliance Committee
of the Board of Trustees of The Ohio State University

Dear Committee Members:

We appreciate the opportunity to meet with you and present our 2017 audit plan for The Ohio State University (the "University"). Our goal has been and continues to be understanding and delivering upon your expectations and providing you with the best possible service and value. Our history with The Ohio State University is strong and we are truly proud to continue to serve as the University's independent auditor.

Our plan has been developed to provide the University with an efficient, high quality audit which addresses the key risks and business issues of the organization. Discussion of our plan with you ensures that our engagement team members understand your concerns and that we agree on mutual needs and expectations to provide the highest level of service quality. As in the past years, our plan will remain flexible and responsive to the University's environment. Any significant changes to the plan during the 2017 audit will be shared and discussed with the Audit & Compliance Committee.

We remain committed to candid, forward looking discussions with the Audit & Compliance Committee and management, delivering high quality audits, as well as providing an independent point of view. We look forward to meeting with you on April 6, 2017 to discuss our plan and any other matters of interest to you. If you have any questions in advance of our meeting on any of the matters outlined in this report, please contact Christa Dewire at (614) 629 5344.

Very truly yours,

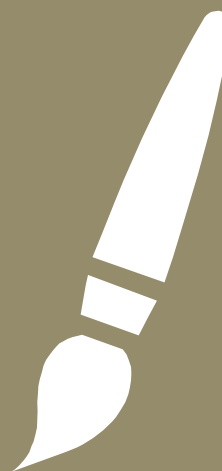
PricewaterhouseCoopers LLP

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THIS REPORT AND THE INFORMATION THAT IT CONTAINS ARE SOLELY FOR THE BENEFIT AND RESTRICTED USE OF THE AUDIT & COMPLIANCE COMMITTEE OF THE BOARD OF TRUSTEES AND ARE NOT INTENDED TO BE USED OR RELIED UPON BY ANY OTHER PARTY.

PwC



Executive Summary

This document outlines our audit strategy including our assessment of significant audit risks and planned approach for the 2017 audit of The Ohio State University and is provided to give the Audit & Compliance Committee (the “Committee”) the opportunity to review, discuss and comment on our plan.

Our primary goal is to provide an audit with the highest levels of accounting and audit quality. We will work with management to identify issues early and leverage our deep understanding of the University and extensive experience in the higher education and healthcare industries to recognize challenges on the horizon. We have a strong appreciation for your responsibility as Committee members, as well as the responsibility of management and understand the importance of your (and their) role to the Board of Trustees and other stakeholders. We affirm our commitment to you to help you meet these responsibilities. We also reaffirm our awareness of our responsibility to call to the Board’s attention, through the Committee, any accounting, financial reporting, auditing, internal control, governance or other matters that we believe warrant consideration or action. We appreciate that we have access to you at any time during the year, if needed, to discuss such matters.

Aspects of our Audit Plan that remain consistent with the prior year

- **Our Audit Objective and Engagement Scope of Services** - No changes to the primary objective of our audit, scope of services or external audit deliverables; and continued use of Parms & Company LLC in a direct assistance capacity.
- **Our Commitments** - Committed to providing accessible, experienced team members; delivering a “no surprises” audit; and providing relevant and timely technical advice, as well as sharing our independent views and perspectives on matters arising from our audit work, as well as industry best practices.
- **Our Audit and Management’s Responsibilities** - Our primary responsibility is to form an opinion on the University’s financial statements; Management is responsible for the University’s financial statements; establishing and maintaining effective internal control over financial reporting; and ensuring that the University complies with the laws and regulations applicable to its activities.
- **Our Perspectives on Fraud and Fraud Risk** - No significant changes with respect to our perspectives on fraud and fraud risk; however, we welcome the Committee’s views with respect to potential risk of fraud; changes in the University’s objectives and strategies that the Committee believes introduces business risks that may result in a material misstatement; or any areas that the Committee thinks warrant particular attention during our audit.



■ **Our Top-Down Risk-based Audit Approach**



- **Your PwC Client Service Team** - No significant changes planned
- **Audit Timeline** - No significant changes planned
- **Other Required Communications**
 - Communications Plan – Management and the Audit & Compliance Committee
 - Relationships between PwC (or any affiliates of the Firm) and the University (and its affiliates) and other matters that might reasonably be thought to bear on independence
 - Significant issues discussed with management prior to appointment or retention
 - Terms of the audit engagement
 - Obtain information relevant to the audit



Changes to our 2017 Audit Plan

■ OSU's Strategic Initiatives and related impact on our Audit Plan

The University continues to execute on its overall strategic priorities and initiatives focused on its commitment to access, affordability and academic excellence. To the extent the focus on efficiencies increases the automation, standardization and simplification of certain processes, we will adjust our audit plan accordingly, such that we ensure we are placing reliance on controls where appropriate. Further, as new funding or partnership opportunities arise, we will work closely with University management to ensure timely consideration of reporting requirements, as well as potential technical accounting complexities associated with significant new arrangements.

■ Continued focus on Transforming the PwC Audit

As a Firm, we have made major investments in technology, process improvements and how we develop our people. The result is that we are ushering in a new way of conducting our work to continue to deliver a high quality audit while improving the audit experience for management and our people. Areas of continued focus include:



People

Continue to use local team with relevant skills; increased usage of global delivery centers for standardized routine tasks; look for more opportunities to improve coordination/leveraging between audit teams.



Approach

Build continuous improvement into the audit process; hold debrief / brainstorming session with Controllershship wherein we identify and address mutual 'pain points' within the process; identify additional opportunities to phase work earlier in the year; and continue to stay ahead of emerging accounting guidance as well as significant transactions of the University and affiliates.



Technology

Continue to leverage our global audit platform to drive quality and consistency (with focus on workflow technology and real-time monitoring of progress); continue to identify areas to utilize 'HALO' to provide deeper insights from data in real time (journal entry testing); and continued use of 'Connect,' our collaborative web-based workflow tool to provide for faster, more efficient and secure information sharing and progress tracking of audit requests.



■ **New Accounting Standards/Compliance Requirements for 2017**



Implementation of new GASB Standards (No.'s 73, 78, 79 and 80)

While each is effective for 2017, management does not expect any of the new GASB standards to have an impact on the FY17 financial statements. We will notify the Committee should this assessment change.



Uniform Guidance

Implementation of the new procurement requirements has been delayed until July 1, 2017. We anticipate the OMB's issuance of the 2017 Compliance Supplement, which guides our procedures, in summer of 2017, and will notify the Committee should that have a significant impact on our planned approach.

This remainder of this document provides additional information regarding the above. Given the nature and complexity of the University's activities, some modification of the scope of our plan may be required as we execute our audit. We will advise the Committee of any significant changes.





Our Audit Objectives

As the University’s independent auditor, we are responsible for reporting to management on the financial statements. Our audit engagements are directed toward delivering our services at three levels:

For stakeholders	Independent opinions and reports that provide assurance on financial information released by the University. Note: The University is a component unit of the State of Ohio.
For the Committee	Assistance to the Committee in discharging its corporate governance compliance responsibilities.
For management	Observations and open dialogue on financial reporting, accounting, tax and internal control issues from PwC professionals.

Our primary objective is to opine on the University’s financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which includes obtaining reasonable assurance about whether the financial statements are prepared in accordance with U.S. generally accepted accounting principles and are free of material misstatement, whether caused by error or fraud.

The financial statements subject to our opinions include the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and other changes in net position and of cash flows for the years then ended and the related notes to the financial statements, of both the primary institution and the discretely presented component units. Additional information regarding the primary institution and discretely presented component units, as well as separate audit opinions or attest reports are issued in relation to certain components of the University as listed on the following page.





Engagement Scope and Services

We will provide the following services in connection with our audit contract with The Ohio State University for FY 2017 (the only change from the prior year is the full scope audit for Campus Partners instead of balance sheet audit and AUP):

Audit Opinions	Components	Deliverables
Primary Institution	General University	<ul style="list-style-type: none"> Financial Statement Audit Opinion (GASB) GAGAS Internal Controls Opinion (including procedures to support compliance with Ohio Revised Code) Management letter comments
Discretely Presented Component Units	OSU Wexner Medical Center Health System (Health System)	
	OSU Physicians (OSUP)	
	Campus Partners For Community Urban Redevelopment and Subsidiaries	
	Transportation Research Center Inc.	
	Dental Faculty Practice Association, Inc.	
Other Deliverables	Reporting Entity	
Stand-alone Financial Statement Audits	OSU Foundation	
	OSU Wexner Medical Center Health System	
	Transportation Research Center Inc.	
	OSU Physicians, Inc.	
	Department of Athletics	
	WOSU Public Media	
	OSU Health Plan, Inc.	
	OSU Global Gateways, LLC (as of and for year ending December 31, 2016)	
	Campus Partners For Community Urban Redevelopment and Subsidiaries	
Compliance Opinion	Uniform Guidance (formerly A-133) Compliance	
Review Report	Wexner Center for the Arts	
Agreed Upon Procedures	National Collegiate Athletic Association (NCAA)	
Benefit Plan Audit	Transportation Research Center Inc.	

Our contract with the State of Ohio as it relates to the audit of The Ohio State University requires that we utilize a Minority Business Enterprise (MBE) firm (Parms & Company, LLC) for approximately 15% of the annual contract fee for certain deliverables (specifically, those in excess of 800 hours).





Our Commitments for 2017

Our primary responsibility is to form an opinion on The Ohio State University's financial statements. We undertake to provide you with service of the highest quality by confirming our mutual expectations with Management and the Committee, and discussing how we collectively perform against those expectations in a manner that brings value to the University.

Set forth below is our understanding of the needs and expectations of The Ohio State University in 2017. We welcome your input and feedback with respect to the below and look forward to collectively assessing our performance throughout the course of the upcoming year.

- Providing an accessible, experienced team whose members have a detailed knowledge of the University and your issues as they arise;
- Being committed to a “no surprises” audit, undertaking to report important audit issues to management and the Committee as soon as possible after we become aware of them;
- Supporting the Committee in achieving its objectives of ensuring that the University operates within a well-controlled environment;
- Helping members of the Committee evaluate the complexities inherent in the University's financial statements, the quality of the financial statements, and significant judgments made by management in the application of US GAAP used to prepare the financial statements;
- Providing excellent technical advice and assistance on a timely basis, as well as continuing to update the University on emerging industry issues and best practices;
- Providing robust and independent views on matters arising from our audit work;
- Accelerating the timing of controls testing and substantive audit procedures, where feasible, to reduce the burden on management during fiscal year-end;
- Providing a fair and competitive fee for all services provided to the University; and
- Providing insights to the University on areas where its processes and operations can be improved or function more efficiently.





Our Audit Responsibilities

Our responsibility is to express opinions on the University's financial statements based on our audits. We conduct our audits in accordance with generally accepted auditing standards ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that the auditor obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, a material misstatement may remain undetected. Also, an audit is not designed to detect error or fraud that is immaterial to the financial statements. An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, the auditor is responsible for ensuring that the audit committee or others with equivalent authority or responsibility are aware of any significant deficiencies or material weaknesses that come to his or her attention.

Our responsibility with respect to other information in documents containing audited financial statements is to read such information and consider whether the information or the manner of its presentation is materially inconsistent with information appearing in the basic financial statements.

Our responsibility with respect to the Committee communications is to communicate those matters that have come to our attention as a result of the performance of our audit. Our audit does not relieve management or the Committee of their responsibilities with regard to the financial statements.





Management's Responsibilities

As part of the audit process, management is responsible for the following:


- The University's financial statements;
- Establishing and maintaining effective internal control over financial reporting;
- Identifying and ensuring that the University complies with the laws and regulations applicable to its activities;
- Making all financial records and related information available to the auditor;
- Providing the auditor with a letter that confirms certain representations made during the audit;
- Adjusting the financial statements to correct material misstatements and affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole








Views of Those Charged with Governance


In order to help us better plan the scope and timing of our audit, we would appreciate your candid feedback on issues related to the governance of the University. Specifically, we would like to continuously understand your perspectives on the following:


- 

In addition to the Committee and members of management, are there others in the University's governing structure that we should communicate with?
- 

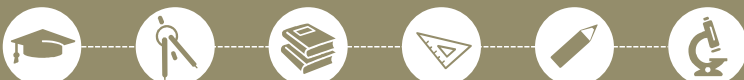
Do the University's objectives and strategies contain business risks that may result in a material misstatement?
- 

Are there any areas that you think warrant particular attention during our audit or where you would request additional procedures performed?
- 

Have there been any significant communications with regulators or other matters which you believe are relevant to our audit?
- 

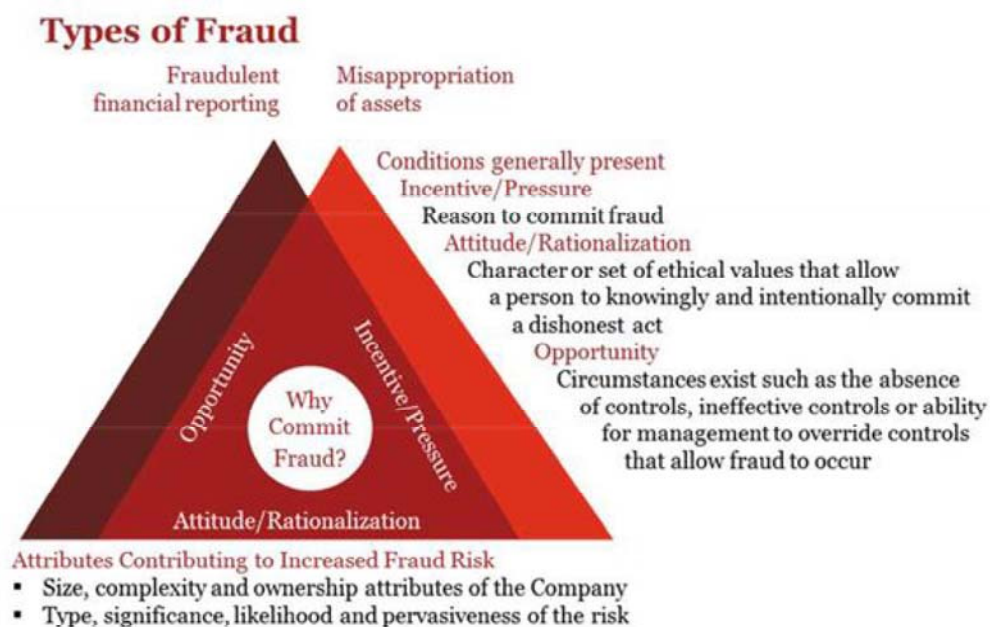
Are there areas in the financial reporting or audit processes where you would like more information?
- 

Are you aware of other matters relevant to the audit and about the risks of material misstatement?





Perspectives on Fraud Risk and Responsibilities



The oversight responsibilities of senior management and the Committee and the auditor's responsibilities are outlined below.

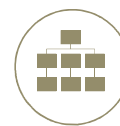
Management Responsibilities

- Design and implement programs and controls to prevent, deter and detect fraud (antifraud programs)
- Ensure that the University's culture and environment promote honesty and ethical behavior
- Perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalization
- Assess management override of controls and communicate with the Committee and Board

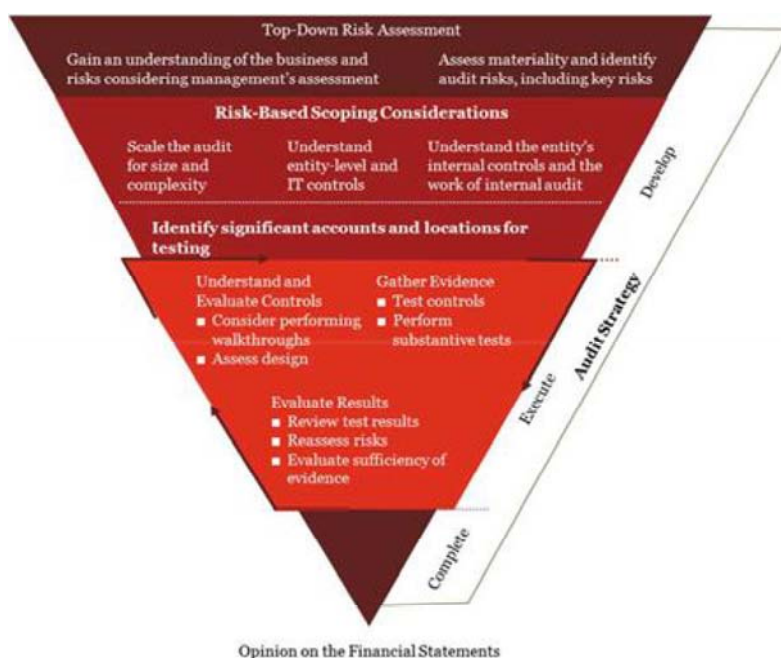


Audit & Compliance Committee Considerations	<ul style="list-style-type: none"> ▪ Evaluate management's identification of fraud risks, implementation of antifraud measures, and creation of appropriate "tone at the top" ▪ Ensure that senior management implements appropriate fraud deterrence and prevention measures to better protect investors, employees and other stakeholders ▪ Investigate any alleged or suspected wrongdoing brought to its attention ▪ Challenge management in the areas of nonroutine, related party and inter-entity transactions
PwC's Role	<ul style="list-style-type: none"> ▪ Plan and perform the audit to provide reasonable assurance that the financial statements are free of material misstatement, whether caused by fraud or error ▪ Evaluate whether the University's programs and controls that address identified risks of material misstatement due to fraud have been suitably designed and placed in operation ▪ Evaluate management's process for assessing effectiveness of antifraud programs and controls ▪ Evaluate fraud of any magnitude on the part of senior management and the impact on the control environment
PwC's Procedures	<p>In order to fulfill our responsibilities related to fraud, we plan to perform the following procedures:</p> <ul style="list-style-type: none"> ▪ Inquiries of management, the Committee, Internal Audit and others related to knowledge of fraud or suspected fraud, the fraud risk assessment process and how fraud risks are addressed by the University ▪ Disaggregated analytical procedures, primarily over revenue ▪ Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed ▪ Identify and select journal entries and other adjustments for testing





PwC Top-Down, Risk – Based Audit Approach



Our Audit Strategy is based on:

- The use of a top-down, risk-based approach to planning and conducting the audit; and
- The application of well-reasoned professional judgment.

In developing our audit strategy, we start by obtaining an understanding of the business and risks which drives our assessment of materiality and the identification of audit risks, including significant risks. We define a “significant risk” as a risk which, in our judgment, requires special audit consideration because of the nature of the risk (higher inherent risk), the likely magnitude of potential misstatement (including the possibility the risk may give rise to multiple misstatements) and the likelihood of the risk occurring.

In assessing whether a significant risk exists, we do not consider the effect of controls related to the risk. We then scale our audit approach based on the size and complexity of the business and entity-level and information technology controls, taking into consideration management’s approach to its evaluation and testing of internal controls. Our top-down, risk-based approach drives the identification of significant accounts and locations/units for testing. It also is the basis for our determination of the most effective and efficient process of obtaining audit evidence.

We gather audit evidence in a number of different ways—tests of controls through inquiry, observation, inspection and reperformance including walkthroughs as well as tests of details through substantive procedures. Our audit strategy is designed to achieve the effective and efficient accumulation of audit evidence to support the issuance of our opinion on the financial statements.

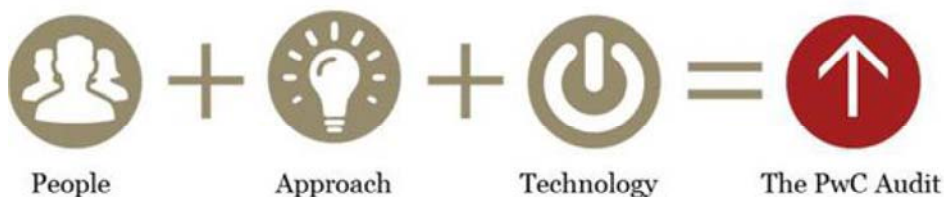
We do not rely on Internal Audit in a direct assistance capacity; however, we obtain the reports issued by Internal Audit and discuss results such that we are able to determine the impact related findings have on the nature, timing and extent of our planned procedures.





Transforming the PwC Audit

Our Firm is simplifying and enhancing the audit by making significant investments in new technologies and tools that are designed to provide a more seamless and integrated audit process and provide deeper insights and value along the way.



What's driving our transformation?

- Globalization
- Technology
- Clients
- Our people
- Regulators
- Economics

Where are we today?

- An extensive suite of solutions available now, with more to come, related to people, approach and technology, that involve:
- Data auditing and analytics
 - Technology for communication and automation
 - Improved phasing and timing
 - Enhanced project management
 - Increased standardization
 - New audit staffing models

What do we envision is next?

- Industry-specific analytics
- Global approach to data extraction
- Scalable technology to perform complex analyses
- Customized data-driven insights
- Embedded business rules within our audit program
- New immersive training experiences for our people



The Ohio State University Report to the Audit & Compliance Committee of the Board of Trustees

We continue to focus on ways to simplify and transform our audit as it relates to the University, with the following highlighting continued areas of focus for 2017:

People	Approach	Technology
<ul style="list-style-type: none"> Continue to use local team with relevant skills Continue to meet the Auditor of State's minority firm requirement (no minority firm-signed deliverables; 15% of fee for deliverables >800 hours) Increased usage of global delivery centers for standardized routine tasks Look for opportunities to improve coordination/leveraging between audit teams 	<ul style="list-style-type: none"> Build continuous improvement into the audit process (Engagement Performance and Quality (EPQ) framework) Hold debrief/brainstorming session with Controllershship wherein we identify and address mutual 'pain points' within the process Identify opportunities to phase work earlier in the year Continue to stay ahead of emerging accounting guidance as well as significant transactions of the University and affiliates 	<ul style="list-style-type: none"> Continue to leverage our global audit platform to drive quality and consistency (with focus on workflow technology and real-time monitoring of progress) Continue to identify areas to utilize 'HALO' to provide deeper insights from data in real time (journal entry testing and beyond) Continued use of 'Connect,' our collaborative web-based workflow tool to provide for faster, more efficient and secure information sharing and progress tracking of audit requests





Areas of Audit Emphasis

We emphasize certain areas in our audit on a recurring basis because of their potential significant impact on your financial results. We have outlined below the key areas of audit focus, based on our cumulative knowledge of the University, used in determining risk, materiality and the significance of various judgments.

Significant Risks

The significant risks identified for the University's audit are as follows:

Significant Risks	Primary Institution	Discretely Presented Component Units
Risk of Management Override of Controls - This is a required significant risk for all of our audits.	✓	✓
Risk of Fraud in Revenue Recognition in Certain Revenue Streams – This is a presumed significant risk for all of our audits, ultimately dependent on the nature and complexity of certain revenue streams.	✓ patient service revenue	✓ patient service revenue and contract revenues
Risk of Material Misstatement in the Valuation of Certain Alternative Investments – This is to address the risk related to the valuation of certain of the University's alternative investments for which a US GAAP compliant “NAV” is not available. This risk and the related procedures to be performed is discussed in more detail below. Approximately 13 alternative fund investments with fair value of \$135.5 million at June 30, 2016 met the definition of our significant risk.	✓	
Risk of Material Misstatement in the Valuation in Patient Revenue and Patient A/R - This is to address the risk that the contractual allowance and allowance for doubtful accounts, both of which are subject to estimation are materially misstated. This risk and the related procedures to be performed is discussed in more detail below.	✓	✓

There were no changes in significant risks identified for 2017 in comparison to the prior year.



Critical Accounting Estimates and Management Judgment

To prepare financial statements in conformity with US GAAP, management is required to use estimates and make certain judgments, which often have a material effect on the financial statements. Auditing standards require enhanced communications between the auditor and audit committees regarding such matters. Below we have articulated those items which we believe are the University's critical accounting estimates and judgments. These items are consistent with what we communicated in the prior year.

Valuation of Certain Alternative Investments

Management's process

Investments are carried at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The majority of the University's Alternative Investments (which approximated \$2.6 billion and 50% of the Primary Institution's total investments at June 30, 2016) are hedge funds, for which a US GAAP compliant Net Asset Value ("NAV") is available. For this purpose, US GAAP compliant NAV is defined as that determined in accordance with investment company guidance (*Accounting Standards Codification ("ASC") Topic 946, "Financial Services – Investment Companies"*). The accounting literature allows for organizations to rely upon the reported NAV by fund managers assuming the organization has appropriate controls in place to evaluate such estimates by fund managers.

Management has historically relied upon most recently available NAVs to determine the fair value of hedge funds as of June 30th. The remainder of the alternative investment portfolio is made up of real estate, venture capital and private equity investments – some of which have US GAAP compliant NAV's available and others that do not. Management relies on the fair values as reported within the investee's audited financial statements when available in determining fair value. These audited financial statements' period ends may not align with the University's June 30th year-end, nor are the values within necessarily US-GAAP based. Therefore, additional analysis is performed by management to gain comfort over the reported values. Management has not historically made adjustments to or introduced additional estimation to the reported fair values for these investments.

Management has certain monitoring controls and due diligence processes in place with respect to the back offices of relevant fund managers. In determining the estimated fair value, the University uses the latest net asset value provided by the fund prior to the University's fiscal year-end. Where available, June 30th valuations are utilized. In circumstances where June 30th information is not available, an interim valuation is used, adjusted for cash receipts, cash disbursements and securities distributions through June 30th. This estimation methodology is used to facilitate a timely close.

Our Audit Procedures

Because the fair value for certain of these alternative investments is not readily available or based on observable market activity, we have assessed the valuation of certain alternative investments for which a US GAAP compliant NAV is not available to be a significant risk as it relates to our audit. As mentioned above, for these investments, management relies upon the fund managers, with appropriate due diligence and monitoring controls executed by the University. We will focus our audit work over such due diligence and monitoring controls in response to the significance of this estimate.

Specific controls in place by the University and planned to be tested by PwC as part of the audit include:

- Management performs a risk assessment, assessing the transparency into underlying financial holdings and the quality of financial reporting;
- Management relies on a third party to supplement performance of certain initial due diligence procedures such as site visit, historical performance review, investment team competency review, etc.



- Management performs an annual review of audited financial statements (unqualified vs qualified opinions, fair value methodology applied, US GAAP vs. other basis of reporting), as well as periodic reviews of valuation methodologies, underlying investment holdings and periodic benchmarking and an evaluation of investment performance/returns (vs. expectations);
- Management performs a roll forward of audited NAVs per the Fund's year-end to the University's fiscal year end, which includes a look back analysis comparing audited annual NAVs to unaudited quarterly NAVs;
- Management evaluates the reasonableness of investee fund returns by comparing calculated fund returns after consideration of cash flows subsequent to investee funds fiscal year end to relevant benchmarks, which are selected based on investment strategies and investment fund types;
- Management relies on Bank of New York Custody Services for tracking of investment activities, and obtains a 'Use of Service Organization' report and considers relevant user controls;
- Management performs a reconciliation of service organization records with internal activity records to ensure completeness of data for valuation roll forward procedures,
- Management performs a reconciliation of both fair value and cost basis from investee fund manager statements to the general ledger;
- Management periodically reviews investment activity with investee fund managers, as well as reviews portfolio allocations and exposure relating to outstanding/unfunded commitments; and
- Periodic review by the Investment Committee and Investment Working Group.

In addition to the above, we will confirm specific information with the fund company as of June 30th including the University's period end capital balance, percentage ownership, unfunded commitments, fund NAV and related accounting framework utilized to determine NAV, as well as year-to-date fund activity (capital calls and disbursements) throughout the period.

Patient Accounts Receivable and Related Allowances

Management's process

Reported patient revenues represent amounts received and the estimated realizable amounts due from patients and third-party payers for services rendered, net of contractual allowances, charity care and bad debt expenses. The reserve for contractual allowances and bad debts was approximately \$625 million and \$78 million for Health System and OSUP respectively, as of June 30, 2016. Bad debt expense was approximately 2.3% and 5.5% of net patient revenue for Health System and OSUP, respectively.

The Health System is subject to examination and retroactive adjustments by the agencies administering the programs related to matters such as allowable costs, utilization and charge structure. In the normal course of business, the Health System contests certain issues resulting from examination of prior years' reimbursement reports. With respect to OSUP, such arrangements provide for payment for covered services at agreed-upon rates and under certain fee schedules and various discounts from charges.

The financial statements include provisions of estimated retroactive adjustments arising from such examinations and contested issues (in the case of the Health System) as well as estimated contractual adjustments, representing the difference between the customary charges for services rendered and related reimbursement (in the case of OSUP).



Management's estimates for contractual and bad debts allowances are based on cash collections and adjustments compared to revenue over a rolling twelve month period disaggregated by major payor class (in the case of the Health System) and over a six month period disaggregated by major payor class (in the case of OSUP). Management also performs a look-back analysis of contractual and bad debt allowances established at the end of the prior fiscal year.

Our Audit Procedures

The process for estimating net collectible Patient Accounts Receivable is complex and involves a significant amount of estimation, and therefore considered to be a significant risk in our audit. Our audit procedures will include:

- Test for existence of Patient Accounts Receivable at year end by tracing certain attributes back to patient medical records.
- Test for existence of Patient Service Revenue transactions by tracing certain attributes back to patient medical records and cash receipts.
- Perform walkthrough procedures to gain an understanding of management's reserve methodology for different classes of A/R (i.e. time at which A/R is adjudicated).
- Perform testing over management's contractual allowance and bad debt reserve models.
- Perform the following risk assessment analytical procedures:
 - Days sales outstanding analysis
 - Accounts receivable aging analysis
 - Bad debt write-offs analysis
 - Net patient service revenue (NPSR) revenue analysis,
 - Contractual allowance collection percentage change analysis,
 - NPSR Cut-off
- Obtain and review management's hindsight analysis on FY16 net billed A/R, which will be compared to payments received through June 30, 2017, in order to gain an understanding of the accuracy of management's reserve methodology.
- Perform an additional subsequent cash analysis on the June 30, 2017 net A/R balance, in order to obtain further evidence over the adequacy of the current year reserves.

Other Estimates

The following are additional areas subject to varying levels of judgment and estimate, which while not deemed to be significant risks for purposes of our audit, are subject to specific auditing procedures:

Medical Malpractice Liability

The medical malpractice liability is an additional area subject to management judgment and estimate, which while not deemed to be a significant risk for purposes of our audit, will be subject to specific auditing procedures.



Management's Process

The University maintains a self-insurance program for professional medical malpractice liability, which is made up of three funds (Fund I, Fund II and Oval) each of which provide for different levels of loss coverage. Management's estimate of professional medical malpractice liability (approximately \$84.8 million at June 30, 2016) is based on an independent actuarial determination and includes provisions for known claims (case reserves) and actuarially determined estimates of incurred but not reported claims and incidents (IBNR).

Key inputs and assumptions related to this liability include historical loss data (which is utilized by the third party actuary to estimate losses) and a discount rate, which management establishes. In addition, due to the sensitivity surrounding the potential for one loss to be material, management has historically applied an additional cost factor to the actuary's estimate to bring the funding requirement to a 75% confidence level. Although actual experience upon the ultimate disposition of the claims may vary from this estimate, the self-insurance designated fund assets have historically been more than the recorded liability.

Our Audit Procedures

Our audit procedures will be focused on the medical malpractice liability associated with Fund II (approximately 59% of the total liability at June 30, 2016). We will engage PwC subject matter experts to assist our engagement team in assessing the reasonableness of the methodologies and assumptions utilized by the University's independent actuarial consultants. In addition, we will perform detailed testing in relation to the historical loss/claims information management provides to the actuary.

Pension Liability

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability, which is the difference between the total pension liability and the assets set aside to pay pension benefits. The Statement also requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan.

Management's Process

In Ohio, employer contributions to the State's cost-sharing multi-employer pension plans are established by statute. These contributions, which are payable to the retirement systems one month in arrears, constitute the full legal claim on the University for pension funding. GASB Statement No. 68 establishes accounting and financial reporting for pensions provided to employees of state and local government employers through pension plans that are administered through trusts.

GASB Statement No. 68 requires that a liability be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently from period to period. Therefore, to be in accordance with the GASB standard, management has recognized a proportionate share of the net pension liabilities of OPERS and STRS-Ohio as liabilities on its Statement of Net Position.

Management's recognition of the liability is based on allocation schedules and reports provided by the State Plans which are subject to audit by the State Plans' independent audit firm. Within the allocation schedules, the retirement systems have provided each participating employer associated with the plan, the specific net pension liability, deferred outflows or resources and deferred inflows or resources that should be recorded within their financial statements. The allocation is based on the contributions made to the individual plans by each participating employer. Even though the majority of the information is obtained from the retirement systems' audited schedules, the University is responsible for calculating certain significant deferrals, amortization of deferrals and pension expense.



Our Audit Procedures

As the employer auditor, it is our responsibility to audit the employer's financial statements and, therefore, we are responsible for determining the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to an appropriately low level. Our audit procedures with respect to the impacts of GASB 68 will be focused on assessing the competency and objectivity of the plan auditor; agreeing management's schedules to the retirement systems' allocation schedules; recalculating the allocation percentage; recalculating the net pension liability/expense and reviewing management's disclosures.

In addition, to the extent affiliate stand-alone financial statements are impacted via an allocation of the pension liability, we will review management's allocation methodology to ensure it was reasonable and consistently applied.

New Areas of Focus for 2017

The following are new areas of focus are relevant for the 2017 audit:

Implementation of new GASB Standards (No.'s 73, 78, 79 and 80) – we don't expect any of the new GASB standards to have an impact on the FY17 financial statements. We will continue working with management in relation to the implementation of new standards for fiscal 2017.

Uniform Guidance –Implementation of the new procurement requirements in OMB 2.CFR.200.320 has been delayed until July 1, 2017. We will consider any changes and additions to our audit procedures based on the new 2017 Compliance Supplement that is expected to be issued in the summer of 2017.

While we are still working through our program scoping discussions with management, we do not expect the above to result in any significant change in the nature or number or programs selected for testing.





Use of Specialists

During the course of the audit, we will utilize our functional experts to evaluate key areas of your business risks—such as self-insured risks, information systems controls and security and compliance. These specialists will ensure that we have the right resources to achieve our audit objectives. Drawing upon their best practice knowledge, our team will provide points of view related to your business, industry and regulatory compliance.

Area of expertise	Description of service
Financial Services Valuation Specialists	Assistance with the evaluation of the fair value of certain investments and related disclosures
Actuarial Insurance Management Solutions	Review of actuarially determined balances and actuarial models for medical malpractice
Healthcare Reimbursement Specialists	Review third party account transactions subject to complex rules and interpretation
Process Assurance	Assist with the core audit team's gaining an understanding of the System's IT environment and testing of IT and application controls as deemed relevant.
Data Management Group	Review of complex spreadsheets and data outputs and assistance with SAS 99 journal entry testing.
Healthcare Compliance Services	Provide guidance to Medical Center audit team and the University regarding healthcare compliance requirements
Regulatory Compliance Services	Review the University's OMB Uniform Guidance report and data collection form as well as provide perspective on federal agencies' monitoring and expectations of award recipients





Materiality

We consider both quantitative and qualitative factors in our assessment of materiality. We also assess the metrics used by the users of the financial statements in determining the appropriate basis for calculating materiality.

We identify and assess the risk of material misstatement at:

- The overall financial statement level, and
- In relation to classes of transactions, account balances and disclosures.

We use different materiality levels for our audit of the primary government/institution and discretely presented component units as well as other standalone engagements such as the Health System and other University affiliates.

The overall materiality levels we establish impact the financial statement line items or accounts which are scoped into and subjected to our audit procedures. While qualitative factors are also considered, our overall materiality thresholds are generally based on a percentage of total expenses, which in the prior year, were established at \$87 million for the primary institution and \$7.6 million for the discretely presented component units. In the prior year, this translated into uncorrected adjustments in excess of \$4.85 million and \$0.42 million (for the primary institution and discretely presented component unit financial statements, respectively) being reported to management and the Committee.

While our scoping is being finalized, we would expect to apply similar materiality thresholds to our FY 2017 audit.





Communicating with Management and the Committee

Communication Plan with the Committee:

Our communications with the Committee will be designed to comply with standards established by the AICPA.

Our formal communications will occur via meetings with the Committee at the planning and completion stages of our audit. As part of these meetings we will communicate with the Committee our service approach and audit plan, and our views on risks and controls, including those over financial reporting and governance. Upon completion of our audit, we will present the results of the audit including constructive observations relating to the University's financial processes and controls to the Committee.

In addition to our scheduled meetings, we are also available, at any time, to respond to any Committee member's questions and will be present at all meetings.

Communication Plan with Management:

In addition to our communications with the Committee throughout the year, we also communicate with management continuously throughout the year.

Examples of our ongoing communications include:

- Issue identification and resolution - consult with management on a timely basis regarding accounting and financial reporting issues and ensure all matters of significance are reviewed and discussed;
- Status meetings, at which point significant topics such as the impact of economic conditions, year-to-date financial results, and new or proposed accounting and auditing standards and completed and anticipated nonrecurring transactions are discussed;
- Planning and scoping discussions - evaluate changes in the business, risk profile and internal controls to determine the nature, timing and extent of our testing of controls and substantive tests;
- Provide relevant expertise to management throughout the audit to facilitate the resolution of important issues;
- Discussions of findings from interim audit work including our controls and early substantive procedures;
- Review of draft financial statements and required disclosures; and
- Report the results of our work to management including our observations on the University's financial processes and controls.





Other Required Communications

Matter to be communicated	Auditor's response
Relationships between PwC (or any affiliates of the Firm) and the University (and its affiliates) and other matters that might reasonably be thought to bear on independence	There were no relationships or other matters identified that might reasonably be thought to bear on independence.
Significant issues discussed with management prior to appointment or retention	There were no significant issues discussed with management in connection with the retention of PwC.
Terms of the audit engagement	The terms of the audit engagement, including the objective of the audit and management's and our responsibilities, are set forth in our engagement letter. We will provide a copy of the engagement letter to the Committee Chair upon its execution.
Obtain information relevant to the audit	We will inquire of the Audit & Compliance Committee about whether it is aware of matters relevant to the audit and about the risks of material misstatement.





Audit Timeline

We have developed the following reporting timeline that facilitates the University meeting all of its regulatory reporting requirements. As you can see below, this timeline spans the entire year and represents our commitment to the University throughout the year.

Engagement Activities	Key Procedures Performed	Timing
Planning and Audit Management	Meet with management to understand changes to business and related risks; and obtain update of business and operating plan	Ongoing
	Assess key audit risks and materiality	Ongoing
	Meet with management to discuss interim results and coordinate requests and timeline in support of FY 2017 audits	April – June 2017
	Present preliminary FY 2017 service plan to the Committee	April 2017
Execution and Audit Management	Obtain/update our understanding of the control environment and information systems and perform internal control testing	April – May 2017
	Perform interim substantive procedures	May – July 2017
	Meet with management to discuss results of internal control testing and interim substantive procedures	June 2017
	Perform year-end audit work	August – October 2017
	Meet with management to discuss findings	September – October 2017
Completion and Audit Management	Issue opinions on University financial statements	November 2017
	Present year-end Required Communications and audit results to the Committee	October -November 2017
	Issue other audit and attest deliverables	November – December 2017





2017 Client Service Team

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The Ohio State University Report to the Audit & Compliance Committee of the Board of Trustees

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Department of Internal Audit Quality Assurance and Improvement Program

**OSU Board of Trustees
Audit and Compliance Committee Meeting
April 6, 2017**



What is a Quality Assurance and Improvement Program?

As defined by the *Institute of Internal Auditors*:

- Incorporates both internal and external assessments of the Department.
- External Assessments are required every five years – we had one in 2015, our next external assessment will be in 2020.
- Internal Assessments are required annually when not undergoing an external assessment.



2015 External Quality Assurance Review Results

The external validators confirmed that the Department generally conforms to the Institute of Internal Auditors (IIA) – *International Standards for the Professional Practice of Internal Auditing*

The external validators recommended:

- Confirm with the Audit and Compliance Committee the Department's independence annually.
- Communicate the results of the Quality Assurance and Improvement Program periodically.



Departmental Independence

To maintain independent stature, the Department of Internal Audit reports:

- functionally to the Audit and Compliance Committee and University President; and
- administratively to the Senior Vice President for Business and Finance.



Quality Assurance and Improvement Program

Internal Assessments – On-going Monitoring:

- Monitoring Audits – progress is tracked for each project by project phase and assigned auditor, all audit workpapers are reviewed by the Associate Director and Director, review notes are provided to assist in strengthening performance for future audits, all audit reports and related communications are reviewed by the Associate Director and Director before issuance.
- Performance Metrics – auditor productivity, project management, and work quality is monitored for each auditor.
- Professional Development and Training – each auditor receives approximately 40 hours of continuing professional development annually.
- Feedback – each staff member receives coaching and feedback, written review notes are provided for each audit project, customer feedback is obtained at the end of each audit engagement.



Quality Assurance and Improvement Program

Internal Assessments – On-going Monitoring:

- Audit Plan – developed based on a prioritization of the audit universe using a risk-based methodology, including input from the Audit and Compliance Committee Chair and senior management. The plan is presented and agreed upon by the Audit and Compliance Committee at the June 8, 2017 Audit and Compliance Committee meeting.
- Follow-up – disposition of audit recommendations are followed up until resolved.



Quality Assurance and Improvement Program

Periodic Self-Assessments:

- Annual Governance Review – Internal Audit Charter and Audit and Compliance Committee Guidelines are reviewed annually and updated as needed. Last updated January 2015; no update necessary to Internal Audit Charter at this time.
- Annual Workpaper Review – sample of audit workpapers are reviewed by Internal Audit management to make sure work is performed in accordance with departmental practices and *IIA Standards*.
- Audit Staff Review – job descriptions for each audit position have been reviewed and are appropriate. Formal performance feedback is performed for each staff member three times/year.
- Audit Management Review – Senior VP for Business and Finance consults with Audit and Compliance Committee Chair, University President, and General Counsel for input into Director's performance evaluation.
- Audit Process/Scope Review – reviewed and modified as necessary.



Results of Quality Assurance and Improvement Program

1. Confirmation that Department of Internal Audit is independent.
2. Our work is performed in accordance with *IIA Standards*.
3. Internal Audit Charter is appropriate and Audit and Compliance Committee Guidelines are appropriate related to internal audit activities.
4. We continue to refine audit processes and staff productivity.



AUDIT AND COMPLIANCE COMMITTEE										2015-16	Current Status										
A. Strategic Risk Mitigation Effectiveness																					
1. Education (risks related to decrease in academic standing; harm in ability to attract faculty/students) 2. Scholarship (challenges to ability to perform significant academic or scientific research) 3. Information Technology (inability to store, develop, transmit, or protect data) 4. Student Life (inability to maintain an environment conducive to student life) 5. Athletics (risk of disruption to Athletics operations, including significant NCAA violation) 6. Medical (significant reduction in performance of the health system and related colleges) 7. Financial (inability to reach capital, revenue, or cost containment objectives) 8. Physical Environment (loss of infrastructure; major event impacting ongoing operations, including campus safety) 9. Government, Community and Affiliates (failure to monitor and develop government, community, or affiliate relationships) 10. Talent and Culture (failure to attract, develop, or retain talent) 11. Advancement (events impacting OSU brand, alumni relationships, or Advancement objectives) 12. Compliance (failure to meet regulatory, legal, or policy requirements not captured in above categories)																					
B. Public Records ²																					
1. Number of records requests closed																					
2. Average days to fill all records requests																					
C. Internal Investigations (rated 4 or 5)																					
1. Number of investigations opened in the fiscal year																					
2. Number of investigations closed in the fiscal year																					
3. Percent of closed investigations with findings																					
D. Regulatory Actions ³ (rated 4 or 5)																					
1. Number of current regulatory actions																					
E. Internal Audit Findings ⁴																					
1. Percent of resolved fiscal year findings cleared at second follow-up																					
2. Percent of resolved fiscal year findings cleared at third follow-up or later																					

COMMENTS & FOOTNOTES

¹Includes data from 7/1/16 through 3/1/17

²Processed by Public Records Office only

³Includes audits, fines, probations, sanctions, warnings, or other similar actions

⁴Data for a fiscal year is not complete until all follow ups are closed. Data should be not be viewed as representative until one year after the FY close.

Mitigation Effectiveness Rating

Meets or Exceeds Goal

Cautious

Below Goal - Action Needed

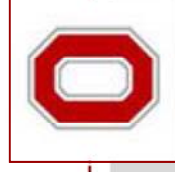
Trend

↑ Environment/Performance Improving

↔ No Significant Change/On Track

↓ Environment/Performance Worsening

Compliance and Integrity Program



Audit and Compliance Committee

April 6, 2017

OFFICE OF LEGAL AFFAIRS
CHRISTOPHER CULLEY

OFFICE OF UNIVERSITY COMPLIANCE AND INTEGRITY
GATES GARRITY-ROKOUS

Proactive Efforts: Continuing Build of OSU's Compliance Framework

Risk Prevention and Advancement of Integrity Culture

Continuing Growth of Compliance Expectations Across Higher Education

- **Association of Governing Boards of Universities and Colleges:**
 - “Recent years have seen extraordinary increases in the volume and specificity of regulation”
 - Compliance is number one concern cited among higher education lawyers
- **Higher Education Compliance Initiatives**
 - *Higher Education Compliance Alliance*: Created by National Association of College and University Attorneys; generate inventory in 2015 of ~450 applicable regulations
 - *Higher Education Compliance Conference*: Hosted annually by Society of Corporate Compliance and Ethics; generates ongoing CLE for compliance

Compliance and Integrity are Now Integrated in Higher Education Reaccreditation Process

- Higher Learning Commission revised accreditation standards in 2012 and 2014 with increased focus on federal compliance and Integrity
- **Federal Compliance**
 - Heightened focus on Department of Education's financial aid and reporting regulations
- **Criterion Two of Reaccreditation Standards – Integrity: Ethical and Responsible Conduct**
 - University's Assurance Statement highlights new Mission, Vision, and Values
 - Focus on standards (rules and policies), implementation, effectiveness of oversight
 - Materials are available at <https://oaa.osu.edu/accreditation.html>

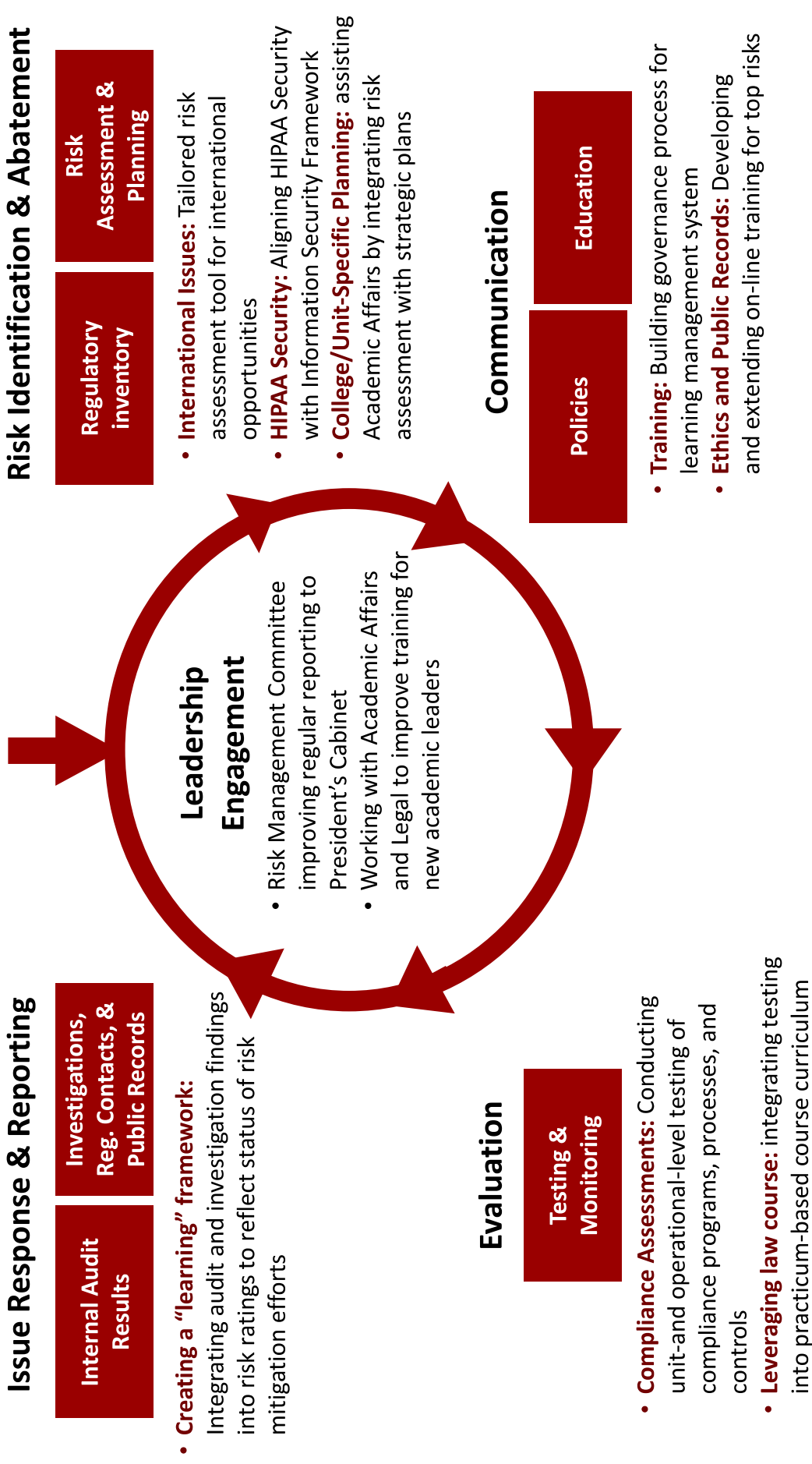
Aligning to the Academic Mission

- Compliance Academy: Monthly seminars to expand Compliance framework
- Leveraging students through Moritz College of Law practicum and externships

Proactive Efforts: Continuing Build of OSU's Compliance Framework

Recent Key Pilots and Initiatives

OSU Compliance Framework



Title IX: OCR Resolution Agreement

Overview and Status

Activity	Steps	Status			
		2014-15	2015-16	2016-17	
Title IX Coordinator	✓ Published detailed statement outlining the roles and responsibilities of Ohio State's Title IX Coordinator (11/15/14)	Complete	Complete	Complete	All requirements met.
	✓ Created a coordinated document management process for all Title IX complaints (12/15/14)	Complete	Complete	Complete	All requirements met.
Document Maintenance	✓ Revised Notice of Nondiscrimination and post online as appropriate (10/15/14)				
	✓ Revised "Reporting Sexual Assault" link on Campus Police website (10/15/14)				
Policies	✓ Reviewed and revised all sexual harassment policies for consistency (10/15/14)				
	✓ Sexual Misconduct policy taken from interim to final status (effective 8/23/16 per President's Cabinet). Revised the Code of Student Conduct consistent with the revised Sexual Misconduct policy, BOT approved 4/8/16				
Policies	✓ Submitted evidence of policy communications in nineteenth progress report (10/15/16)	Complete	Complete	N/A	Submitted revised Code of Student Conduct and final Sexual Misconduct policy to OCR in 8/5/16 status report. Submitted proof of how updated policy was communicated to Ohio State community in 10/15/16 status report; awaiting OCR feedback .
	✓ Submitted annual information on complaints during academic year to OCR (6/10/16)				Submitted information on AY 2015-2016 complaints to OCR in 6/10/16 status report; awaiting OCR feedback .
Training	✓ Reviewed Student Wellness Center programming to ensure consistency with Resolution Agreement standards (12/15/14)				Awaiting OCR feedback on revised training materials.
	✓ Developed Title IX Coordinator and Investigator training (12/15/14)				Submitted evidence of Title IX training conducted during previous calendar year to OCR in 6/10/16 status report; awaiting OCR feedback .
Training	✓ Identified Title IX training module for employees (12/15/14)			On Track	Submitted documentation on training provided to specific groups identified in both the AY14-15 and AY15-16 climate surveys in 10/15/16 status report; awaiting OCR feedback .
	✓ Reviewed and revised orientation program and materials for incoming students (12/15/14)	Complete	Complete		
Training	✓ Verified annual Title IX training conducted during previous calendar year (6/10/16)				
	✓ Provide training to specific groups identified in climate survey (annual)				
Climate Assessment and Response	✓ Added OHR representative to Sexual Violence Consultation Team (1/15/15)				AY15-16 climate survey conducted 3/23 – 4/22/16; beginning survey analysis to identify additional groups in need of training.
	✓ Established campus working group on Title IX and climate survey (9/30/14)				
Climate Assessment and Response	✓ Reviewed last 2 years of sexual harassment complaints (12/15/14)				
	✓ Developed recommended actions as appropriate based on review (12/15/14)				Submitted results of AY15-16 climate survey and written recommendations based on results in 1/15/17 status report; awaiting OCR feedback .
Climate Assessment and Response	✓ Developed and conducted annual climate survey (3/23-4/22/16)	Complete	On Track	On Track	
	✓ Developed and conducted annual climate survey (2/5-3/10/17)				Developed and disseminated AY16-17 climate survey. As noted in 1/15/17 status report, written recommendations will be submitted on or before January 2018.
Climate Assessment and Response	✓ Analyze survey results to identify need for additional actions and training as appropriate (annual)				
	✓ Reviewed last 3 years of sexual harassment complaints for prompt and equitable investigation (1/15/15)				
Student-Focused Remedies	✓ Take appropriate action to address identified problems (within 30 days of OCR approval)	Complete	On Track	N/A	Reported findings to OCR in 2/27/15 status report and 9/15/15 addendum; submitted documentation of identified "process improvements" to address issues in the addendum in 8/5/16 status report; awaiting OCR feedback .
	✓ Developed timetable for corrective actions (11/1/14)				
Marching Band Investigation	✓ Submit quarterly progress report to OCR (beginning 10/15/14)				
	✓ Developed timetable for corrective actions (11/1/14)	Complete	On Track	On Track	Continuing implementation.