

WEDNESDAY, MAY 15, 2024
LEGAL, AUDIT, RISK AND COMPLIANCE COMMITTEE MEETING

Elizabeth P. Kessler, chair
Michael F. Kiggin, vice chair
Alan A. Stockmeister
Jeff M.S. Kaplan
Elizabeth A. Harsh
John Jose Perez
Bradley R. Kastan
Joshua H.B. Kerner
Amy Chronis
Hiroyuki Fujita (*ex officio*)

Location: Sanders Grand Lounge, Longaberger Alumni House
2200 Olentangy River Road, Columbus, Ohio 43210

Time: 12:00-2:00pm

Public Session

ITEMS FOR DISCUSSION

1. *External Audit Update – Mr. David Gagnon* 12:00-12:05pm
2. *Office of Institutional Equity Update – Ms. Keesha Mitchell* 12:05-12:15pm

ITEMS FOR ACTION

3. Approval of February 2024 Committee Meeting Minutes – Ms. Elizabeth Kessler 12:15-12:20pm

Executive Session

12:20-2:00pm

Meeting of the Legal, Audit, Risk and Compliance Committee (LARC), May 15, 2024

- **Status of audits**
 - Audit plan communicated at February LARC meeting
 - Planning meetings and fieldwork
- **Industry update** (summary of more detailed read-ahead materials)
 - Higher education audit committee and internal audit focus areas in 2024
 - Artificial intelligence (AI) in higher education and the audit
 - *2023 NACUBO-Commonfund Study of Endowments*



2024 higher education industry update

The Ohio State University

May 15, 2024

CONFIDENTIAL



Topics

01

Higher education
audit committee
and internal audit
focus areas in
2024

02

AI in higher
education and in
the audit

03

2023 *NACUBO-
Commonfund
Study of
Endowments*



01

**Higher education
audit committee
and internal audit
focus areas in 2024**

Higher education audit committee focus areas in 2024

The risk agendas of higher education audit committees will continue to expand in 2024. Accordingly, taking a fresh look at the audit committee's agenda, workload, and capabilities will be important. We've highlighted several potential areas of expected focus below, many of which overlap with risks in the sector more broadly.

- Keep a watchful eye on the institution's cybersecurity and data governance risks.
- Understand how the institution is considering and deploying artificial intelligence (AI), and help define the board's oversight responsibilities.
- Understand how the institution is managing and reporting on sustainability and diversity, equity, and inclusion (DEI) risks and potentially applicable regulations.
- Monitor other emerging regulations and standards impacting the institution, such as related party disclosure requirements from the U.S. Department of Education effective in fiscal 2024.
- Stay focused on leadership and talent in finance and other key functions as the institution refines its business model.
- Monitor protocols to ensure research compliance and integrity, including as to grant administration, conflicts of interest and commitment, foreign influence, and misconduct.
- Ask about management's processes to ensure integrity and consistency of data provided or available to creditors, ranking and rating agencies, grantors, and other third parties.
- Sharpen the institution's focus on ethics, compliance, and culture.
- Understand risks of and changes to the institution's international activities and alliances.
- Help internal audit stay focused on critical risks while adding value to the institution.



*United Educators'
Top 10 Risks of 2023**

1. Data Security
2. Enrollment
3. Recruitment and Hiring
4. Operational Pressures
5. Student Mental Health
6. Funding
7. Facilities and Deferred Maintenance
8. Regulatory and Legal Compliance (non-VAWA/Title IX)
9. Title IX
10. External Pressures

* Based on survey responses in September and October 2023.

Higher education internal audit focus areas in 2024

The opportunity for internal audit (IA) to maximize its influence within the institution and help respond to risk is ever-increasing. College and university IA functions can challenge the status quo to reduce risk, improve controls, and identify efficiencies and cost benefits across the institution. We've highlighted several risks and other focus areas to help maximize IA's value to the institution in 2024.

- Cybersecurity, data governance, and distributed enterprise threats amid hybrid working and patient care environments and growing geopolitical instability.
- Sufficiency of management's compliance with evolving cybersecurity and data governance regulations and grantor requirements.
- Appropriateness and extent of the institution's use and governance of AI.
- Adequacy of safeguards to ensure proper migration of data and systems to the cloud.
- Continuing changes to workforce modes, recruitment, and retention, all of which could impact internal controls and fraud risks.
- How digitization—including routines, dashboards, and AI to enable risk assessment and real-time auditing—can help mitigate IA's workload and improve efficiency.
- Integrity and consistency of data used for sustainability and DEI, rankings, and other external disclosures.
- Adequacy of key performance indicators to measure compliance, training, and other imperatives.
- Appropriateness of and compliance with gift acceptance policies and processes for complying with donor restrictions.
- Given their significance to donor compliance and liquidity, effectiveness of policies and procedures in endowment and treasury management.
- Strength of protocols around research compliance and integrity, including as it pertains to grant administration, identification and disclosure of potential conflicts of interest and commitment, foreign influence, and misconduct.
- Management, monitoring, and verification of construction costs for major capital projects.
- As to significant NCAA programs, adequacy of Name, Image, Likeness (NIL) policies and procedures.
- Ways to elevate internal audit's profile as a valued advisor to the board, senior administration, and other departments.

02

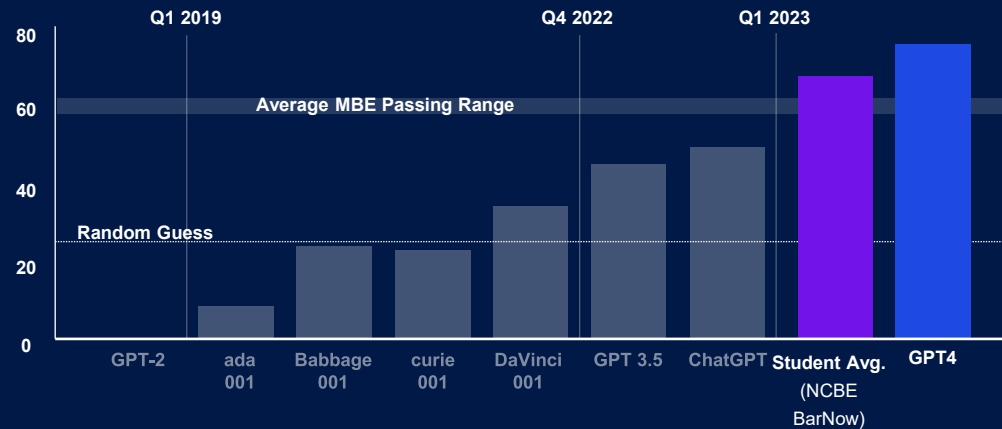
**Artificial
intelligence (AI) in
higher education
and in the audit**

GenAI is moving quickly from media buzz to business value

In the last year, GPT4 has passed

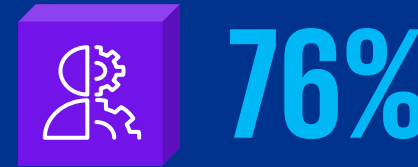
- The Uniform Bar Exam
 - US medical licensing exam
 - Law School Exams
 - Stanford Medical School clinical reasoning final
 - The SAT
- The GRE
 - USA Biology Olympiad Semifinal
 - AP Exams
 - AMC 10 / 12
 - Sommelier Exams (written portion, not taste)

Gen AI performance on multistate bar exam*



*Source: <https://www.iit.edu/news/gpt-4-passes-bar-exam>

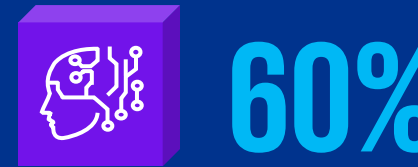
Business leaders are taking notice



“Expect Generative AI to have the **largest impact on broader society** out of all emerging technologies”



“Predict Generative AI to have a **high/very high impact on their firm in the next 3-5 years**”



“Expect to adopt Generative AI **within 6-12 months**”

Source: KPMG Generative AI Survey of 300 executives; March 2023

AI in higher education

In the news...



Risks and Rewards as Higher Ed Invests in an AI Future.” **Inside Higher Ed, September 5, 2023**



How Will Artificial Intelligence Change Higher Ed?” **The Chronicle of Higher Ed, May 23, 2023**



Integrating Generative AI into Higher Education: Considerations” **EDUCAUSE, August 30, 2023**



Administration



Student services



Admissions



Supply chain



Research



Marketing



Use cases for AI

While generative AI in higher education is often considered in an academic context—where it remains both a threat (e.g., academic dishonesty) and opportunity (e.g., online education)—it also has tremendous potential to transform finance and other administrative processes at colleges and universities.

Examples of how college and university administrative teams might leverage AI moving forward include:

- Filtering and combining data sets to identify trends.
- Further automating core business processes and user-support systems.
- Combing through public data to provide market insights and competitive intelligence to support marketing, admissions, fundraising, and other strategies.
- Analyzing anomalies to control budget variances, spot fraud, and facilitate internal audits.
- Developing dynamic budgeting and forecasting models to sensitize projections for any number of internal and external variables.

Industry perspectives on AI



2023 EDUCAUSE survey, August 2023

83% of college and university respondents believe “generative AI will profoundly change higher education in the next three to five years,” and 65% believe its use has “more benefits than drawbacks.”



Inside Higher Ed, September 2023

Several institutions—in part through funding from federal, state, and private grants—have made significant investments in AI to support research, education, and workforce initiatives, with some building large-scale AI centers.



Chronicle of Higher Education, May 2023

“AI will help control costs ... admissions and student services will be first ... While much of the discussion has focused on what generative AI means for teaching, learning, and research, its immediate impact will likely be felt on functions outside of the academic core.”

AI adoption and governance

At this time, AI's emergence in higher education remains nascent. While other industries are exploring the capabilities that AI—and generative AI in particular—can bring to their organizations, many are taking a slow and steady approach to adoption. In fact, according to a KPMG survey, 37% of finance leaders are still in the planning stages of their generative AI journeys. Any number of issues can result in the technology making mistakes that can affect an entity's forecasts and reputation. But for leaders who make the effort to put the right controls in place around AI, the benefits can outweigh the risks.

Questions the institution should ask include:

- How will the institution maintain compliance with the patchwork of differing laws and regulations currently governing generative AI?
- How and when is a generative AI system or model—including a third-party model—developed and deployed, and who makes that decision?
- What generative AI risk management framework should we use?
- Does the institution have the necessary generative AI-related talent and resources?
- How do we ensure our adoption of AI is ethically responsible and aligned with our institution's culture?
- Do we have clear AI governance and AI security policies? Have we determined how those should link to our data governance and cybersecurity programs?
- How will the board oversee the institution's AI programs?

AI in the audit: our vision and focus

A glimpse of where we're headed ...



AI-augmented audit

Through substantial investments in AI capabilities, we are delivering relevant, high-impact intelligent automation to drive audit quality and efficiency.



Robust data extraction

Automated data extraction and transformation capabilities of general ledger and subledger data will provide relevant audit data while alleviating the burden on you.



World-class data infrastructure and capabilities

Connected, unified, and transparent data infrastructure will enable efficiencies through the use of your relevant data across the audit lifecycle.



Next-generation KPMG Clara platform

Expanding on our world-class audit platform powered by a real-time and integrated AI eco-system, enhancing our robust continued risk assessment processes, generating relevant insights to you.

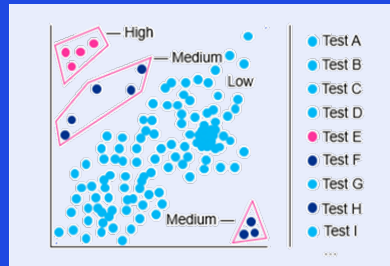
At KPMG, we believe intelligent automation will enable a faster, more agile audit, increasing quality while reshaping the nature of auditing itself. AI helps us focus on where risk truly lies, delivering a better audit across the board.

KPMG works with the world's leading technology companies to develop unique-to-KPMG, AI-based audit tools.

This approach ensures we are on the cutting-edge of what's now – and what's next.

We have a concerted and accelerated effort underway to test new AI use cases, including the security and legal risks associated with these tools.

Our approach



Currently deployed: Risk scoring with machine learning

Transactions are processed through a series of automated concurrent tests to develop a risk score – by transaction and account. No more random sampling.

2023 Pilot efforts: Generative AI



Clara, please analyze the client control document for completeness of data elements.”



I have evaluated the document for completeness of data elements. Would you like to see a full listing?”

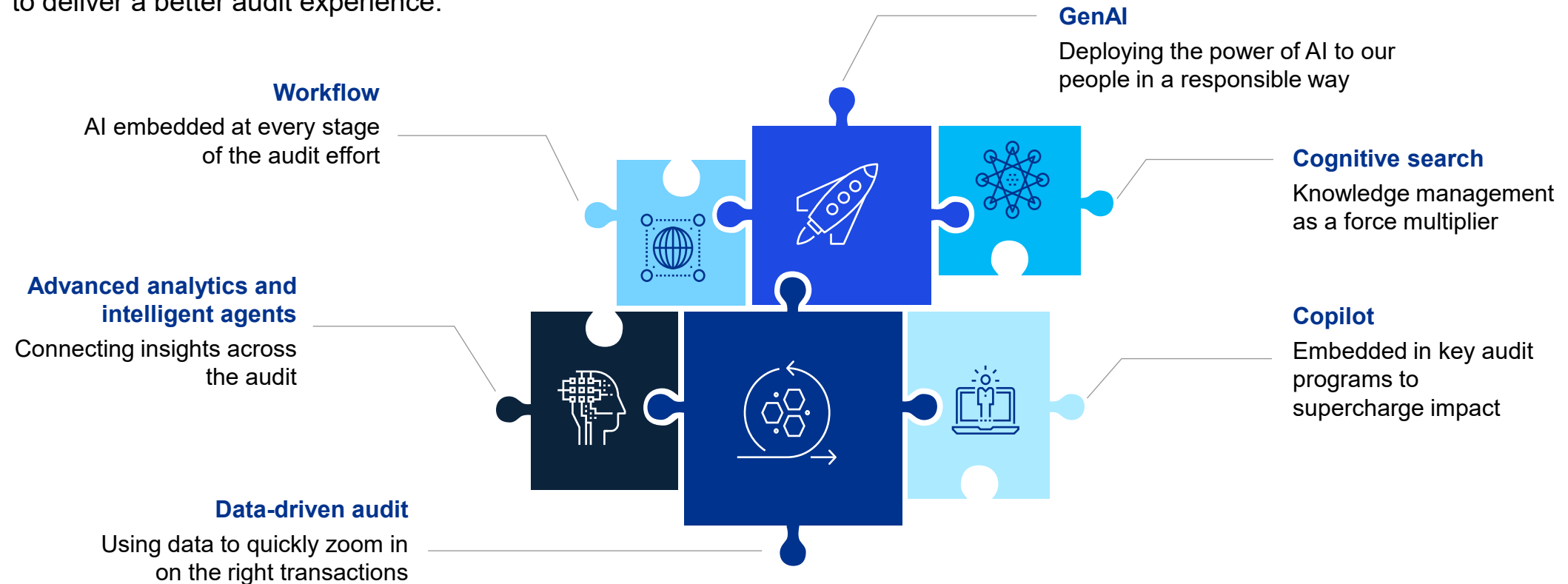
Benefits

Increased quality. Heightened efficiency. Less disruption. Deeper insights. A better audit experience.
Our vision is to embed AI into every aspect of the audit as we develop the next generation of KPMG Clara.



The way forward

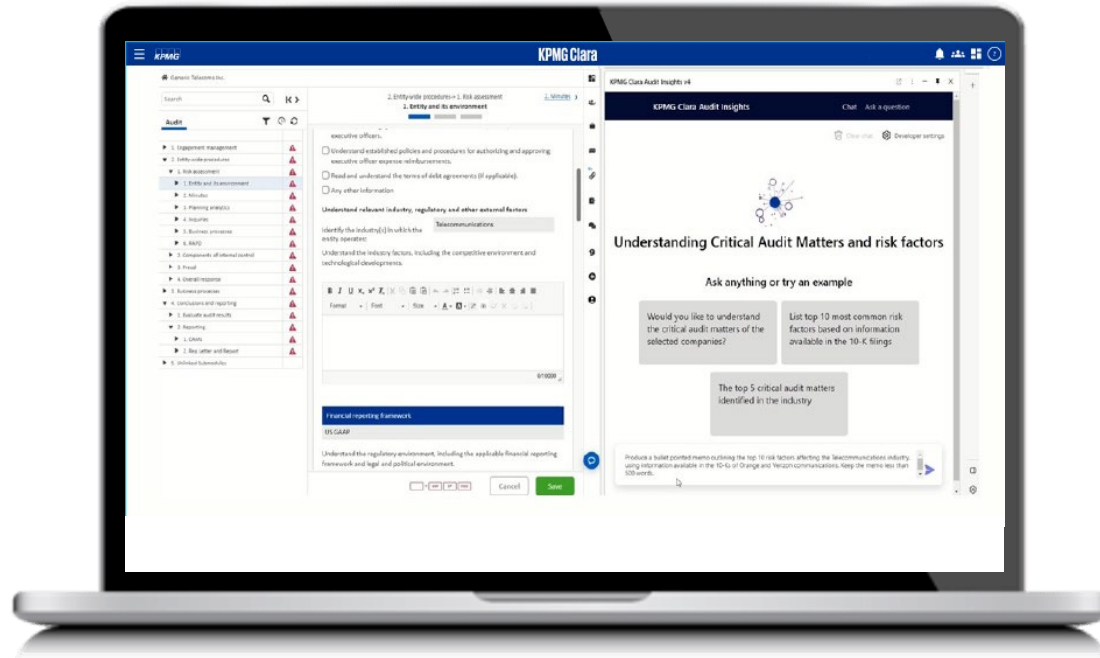
As a multidisciplinary firm, KPMG brings a holistic approach to using AI in the audit – leveraging advances across the organization to deliver a better audit experience.



There will always be a need for human judgment, but as AI becomes more sophisticated, so will its use in the audit, which means increased benefits to our clients.

KPMG Clara generative AI

With our global alliance partner Microsoft, we have embarked on a journey to embed Generative AI into our smart audit platform – KPMG Clara. This will make our auditors more productive and give them the tools to provide quicker feedback, make more insightful connections, and deliver a better audit experience.



AI done right

Although early adoption is key, we are focused on avoiding reliance on a 'black box' so we're building 'explainability' and 'traceability' at the core.



Bolstered productivity

Focused on removing time-consuming low value tasks, we'll apply our skills in other, more judgmental areas or in order to give insights to you.



Quality embedded

We are teaching our model with our knowledge databases to capture our vast experience. This means quality information accessible in seconds.



Secure integration

KPMG Clara has been built on a solid and secure Azure Cloud backbone, allowing us to easily integrate Generative AI in partnership with Microsoft.

03

**2023 *NACUBO-
Commonfund Study
of Endowments***

2023 NACUBO-Commonfund Study of Endowments

Released in February 2024



Respondents

- A total of 688 institutions—aggregating \$839.1 billion of total endowment value—took part in the Study, which covered the fiscal year ended June 30, 2023 and included private and public institutions and institutionally related entities (such as foundations).
- Study data were arranged in seven cohorts based on size, which ranged from endowments with assets under \$50 million to those with assets over \$5 billion. The median endowment size was \$209.1 million, whereas the average was \$1.2 billion.
- Once again, the Study showed that endowment wealth in the sector remains heavily concentrated, with 58% of total market value held by endowments with more than \$5 billion in assets.



Returns

- The Study showed an overall return for FY23 of 7.7%, net of fees, in contrast to the -8.0% return reported for FY22. Trailing 10-year returns averaged 7.2%.
- Institutions with endowments over \$5 billion had an average return of 2.8%, whereas those in the three smallest size cohorts were the only ones with average returns of 8.0% or more.
- While returns of institutions with larger allocations to alternative strategies lagged in FY23, over the longer term they have generated higher returns. For example, institutions with assets over \$5 billion reported 10-year average annual returns of 9.1% vs. institutions in the other six size categories, which reported 10-year average annual returns of 6.5% to 8.0%.



Asset allocation

- Asset allocation was a primary factor creating return differences among the seven cohorts in the Study in FY23, as it has been in the past. While smaller institutions' larger allocations to publicly traded securities resulted in the highest returns in FY23, alternative investment strategies remained the largest allocation among Study participants overall.
- Significant alternative strategies included private equity (17.1%), marketable alternatives (15.9%), and venture capital (11.9%). In addition, real assets represented 11.2% of allocations. Taken together, over half of the average portfolio value is comprised of alternative and real asset strategies, with much higher allocations of these assets in larger endowments driving the average.

2023 NACUBO-Commonfund Study of Endowments(cont'd)

Released in February 2024



Spending

- Distributions from endowments in FY23 increased 8.4% over FY22. Endowments funded an average 10.9% of annual operating budgets, with endowments over \$5 billion and \$1 billion leading the way in funding 17.7% and 17.1%, respectively, of their annual operating budgets. The average effective spending rate increased to 4.7% in FY23 (from 4.0% in FY22), with private institutions reporting a 5.0% average rate (vs. public institutions at 4.1%).
- Consistent with prior years, the largest share of spending distributions was for student aid (47.7%). This was followed by research (17.5%), endowed faculty positions (11.1%), operations and maintenance (7.4%), and all other purposes (16.4%).



Fundraising

- New gifts to endowments totaled \$13.3 billion among all Study participants (down more than 10% from the \$14.9 billion raised in FY22). The average new gift in FY23 for all Study participants was \$20.4 million, while the median new gift was \$4.7 million.
- As previously noted, endowment growth at larger institutions in FY23 was constrained by more muted investment returns. In addition, less robust endowment giving in FY23 – likely due in part to negative public market indices at the end of calendar 2022 – contributed to endowments growing only 4% at institutions in the two largest size cohorts. By contrast, endowments at institutions in the two cohorts with smaller endowments grew by 6%.



ESG considerations

- The Study reported that although adoption of responsible investing practices has grown over the years, 65.4% of respondents in the FY23 Study had not adopted such practices. For those who have, 51.0% factored responsible investing into investment manager due diligence in FY23 (down slightly from the 52.3% that did so in FY22).
- Various barriers to implementation were cited by respondents who have not pursued ESG practices in their portfolios. Among those are potential adverse impacts on investment performance and conflicts with mission/fiduciary duty; difficulty assessing the extent to which ESG mandates in the portfolio have been achieved; lack of enough quality managers; and higher investment fees.



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Office of Institutional Equity Update

Keesha Mitchell, Associate Vice President

**Legal, Audit, Risk, and Compliance Committee
Public Session**

May 2024



Who we are

A team that collaborates with individuals on all campuses, the Wexner Medical Center, and across Ohio to provide education, support, and response in accordance with the Americans with Disabilities Act, Affirmative Action / Equal Employment Opportunity, Youth Protection, Title IX, and other civil rights laws such as Title VI.

Education & Engagement	Intake	Investigations	Resolutions	Youth Protection	ADA	Affirmative Action & EEO
<ul style="list-style-type: none">• Develops and delivers preventative and responsive educational materials, training, and consultation on OIE's expectations, policies, and procedures	<ul style="list-style-type: none">• Manages incoming reports within purview• Responsible for conducting thorough/critical assessment and determining severity• Offers reporting options, resources, and supportive measures	<ul style="list-style-type: none">• Investigates covered allegations• Compiles evidence, preparing comprehensive investigative reports, presenting findings relevant adjudicator for hearings• Determines policy violations	<ul style="list-style-type: none">• Facilitates Informal Resolutions• Serves as gatekeeper for appeals• Ensures effective management and coordination of hearing processes	<ul style="list-style-type: none">• Leads policy compliance efforts to highest standards of protection and care• Supports compliance and risk management practices of participating youth/minors connected programs	<ul style="list-style-type: none">• Leads university's access initiatives• Ensures policy compliance, providing support for accommodations and evaluating technology for accessibility.• Investigates disability-related complaints.	<ul style="list-style-type: none">• Coordinates the university's AA/EEO efforts• Leads AA/EEO initiative and administers the Affirmative Action Program• Ensures equal opportunity and diversity alignment in accordance with EEO principles

Where We Work



Training Focus Areas



Sexual Misconduct

Employees: complete annually; no AMCP if non-compliant.
Students: provided annually, hold placed on first year accts if non-compliant



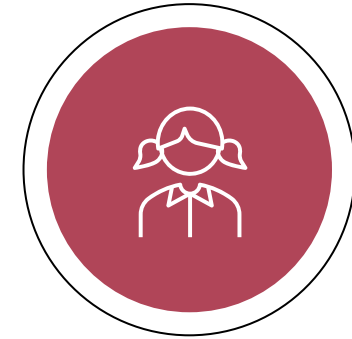
ADA

Digital Accessibility training required if acquire, develop, or deliver digital information or services.



AA/EEO

1. Recruitment and Selection (required for faculty searches)
2. Creating equitable job descriptions



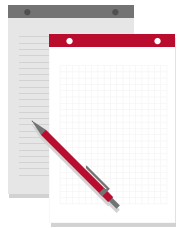
Youth Protection

Required for Youth Program Administrators and Personnel

Educational Trainings & Conversations

Other Resolutions

Facilitator-led Sessions



AY19-20 - 119

AY20-21 - 134

AY21-22 - 106

AY22-23 – 123 (**3,658**)

AYTD23-24 – 53 (**2,712**)



Average of ~ 4hrs estimated holistically per facilitated session (prework, content development, delivery, post-session level setting and sidebar discussions)



1:1 Educational Conversations

AY20-21 – 115 (**27** Students | **88** EEs)

AY21-22 – 133 (**34** Students | **99** EEs)

AY22-23 – 143 (**31** Students | **112** EEs)

AYTD-23-24 – 59 (**9** Students | **50** EEs)



Average of ~ 3hrs estimated holistically per Case (prework, HR touchpoints, conversation/delivery, closing notifications, memo writing/delivery)]

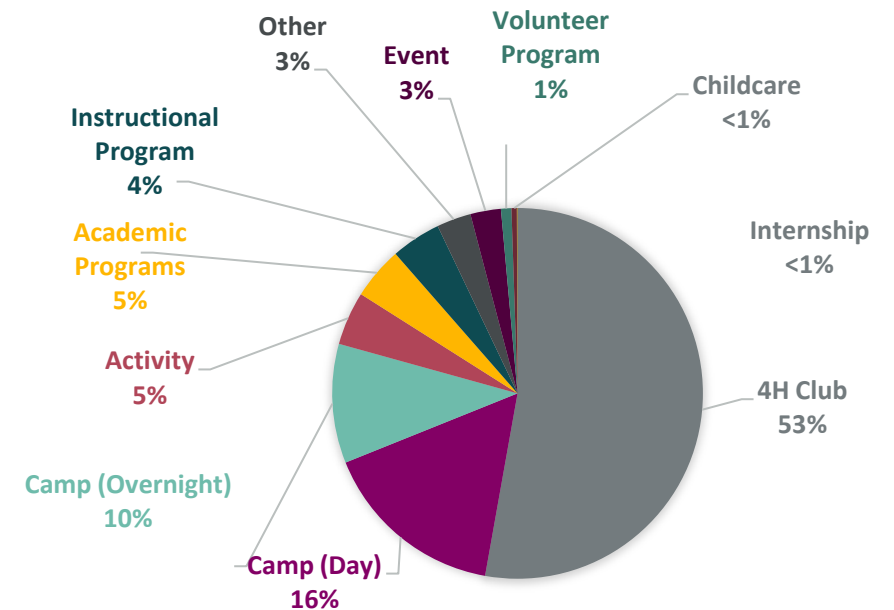
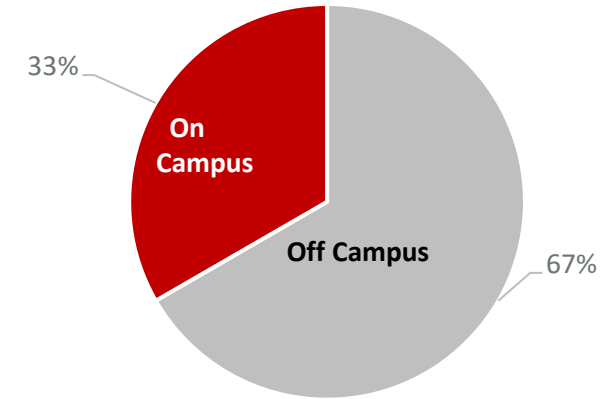
Youth Protection Program

Comprised of 1,500 programs and activities

- Over 700,000 youth participants (including 4H)
- Programs and activities take place in all 88 counties, on and off campus
- Operate year-round with peak activity in summer months

Key Updates

- Youth Protection training module launch
- Overhaul of compliance/site-visit protocol and tool
- Increasing in-person training offerings based on record of successful identification and reporting from programs receiving in-person training and visits



Title IX Regulations

*New regulations announced
on April 19, 2024, effective
August 1, 2024*



BACKGROUND

- Proposed in June 2022, received 240,000 public comments including from public officials and advocacy groups
- Replaces the Trump administration regulations issued in May 2020



KEY CHANGES

- New definitions and lowers threshold for what schools must investigate
- Expands protections for sexual orientation, gender identity, and students/employees who are pregnant or parenting
- Provides more flexibility in determining best approach for investigation and adjudication process in certain cases



IMPLEMENTATION

- OIE is well-positioned to address the new regulations
- Some changes already reflected in Non-Discrimination, Harassment, and Sexual Misconduct policy, committee working on making other needed changes



Questions?

Thank you for your time!



SUMMARY OF ACTIONS TAKEN

February 21, 2024 – Legal, Audit, Risk & Compliance Committee Meeting

Voting Members Present:

Elizabeth P. Kessler
Alan A. Stockmeister
Jeff M.S. Kaplan

Elizabeth A. Harsh
Juan Jose Perez
Bradley R. Kastan

Joshua H.B. Kerner
Amy Chronis
Hiroyuki Fujita (ex officio)

Members Present via Zoom:

Michael F. Kiggin

Members Absent: N/A

PUBLIC SESSION

The Legal, Audit, Risk & Compliance Committee of The Ohio State University Board of Trustees convened on Wednesday, February 21, 2024, in person at Longaberger Alumni House on the Columbus campus and virtually over Zoom. Committee Chair Elizabeth Kessler called the meeting to order at 11:57 a.m.

Items for Discussion:

1. **External Audit Update:** The university's external auditor from KPMG, David Gagnon, presented on the FY2024 audit plan, the FY2023 single audit plan results and the single audit plan for FY2024, as well as some industry emerging issues.

The FY2024 audit plan scope of entities is the same as the past two years: the university and the team the timeline are also consistent with last year. More time will be spent on the front end of the audit on more routine items to focus on more important items as the reporting deadline nears. The risks and estimates in the audit are also consistent with last year.

The FY2023 single audit was completed after the November 2023 meeting, and the report was filed with the state and the federal audit clearing house. There were unmodified (unqualified) opinions on six major programs and no findings of any kind — no internal control matters and no identified noncompliance.

Planning is currently underway for the FY2024 single audit plan. Identification and selection of additional programs are also in progress.

(See Attachment X for background information, page XX)

2. **Internal Audit Quality Assurance Program:** Chief Audit Executive, Kevin Patton provided his annual report and briefed the committee on the Internal Audit Quality Assurance and Improvement Program.

The Quality Assurance and Improvement Program incorporates both internal and external assessments of the Department of Internal Audit. External assessments are required every five years and was last presented to the Board committee formerly named "Audit, Finance, and



Investment Committee” in February 2021. Internal Assessments are required periodically when not undergoing an external assessment. The external validators confirmed the department generally conforms to the Institute of Internal Auditor (IIA) – International Standards for the Professional Practice of Internal Auditing. The term “generally conforms” is the highest rating available from the IIA.

The audit standards were updated and recently released by the Institute of Internal Auditors, now named Global Internal Audit Standards. The department plans to evaluate and address the changes during 2024. The implementation date is January 2025, and our next external quality assurance review is targeted for 2026.

(See Attachment X for background information, page XX)

3. Office of Government Affairs Update: Stacy Rastauskas, vice president for government affairs, gave an overview of the Office of Government Affairs and shared the 2024 Government Affairs forecast highlighting SOAR, FY25 federal budget, Ohio primary, State Capital Bill and the general election.

(See Attachment X for background information, page XX)

4. Information Security Update: The Office of Technology and Digital Innovation team — Cindy Leavitt, chief information officer, Rich Nagle, chief information security officer, and Tom Bentley, chief information & digital technology officer of Wexner Medical Center — provided a security update outlining external and internal risk drivers.

(See Attachment X for background information, page XX)

Items for Action:

5. Approval of Minutes: No changes were requested to the November 15, 2023, meeting minutes; therefore, a formal vote was not required, and the minutes were considered approved.

EXECUTIVE SESSION

It was moved by Ms. Kessler and seconded by Mr. Kaplan that the committee recess into executive session to consult with legal counsel regarding pending or imminent litigation; to consider business-sensitive trade secrets required to be kept confidential by federal and state statutes; and to discuss personnel matters regarding the appointment, employment and compensation of public employees.

A roll-call vote was taken, and the committee voted to move into executive session with the following members present and voting: Ms. Kessler, Mr. Kigglin, Mr. Stockmeister, Mr. Kaplan, Mrs. Harsh, Mr. Perez, Mr. Kastan, Mr. Kerner, Ms. Chronis and Dr. Fujita.

The committee entered executive session at 12:40 p.m., and the meeting adjourned at 2:05 p.m.