WEDNESDAY, MARCH 4, 2026
LEGAL, AUDIT, RISK AND COMPLIANCE COMMITTEE MEETING

Elizabeth P. Kessler, chair
Bradley R. Kastan, vice chair
John Jose Perez
Patrick C. Arp
Amy Chronis
John W. Zeiger *(ex officio)*

Location: Mount Leadership Room, Longaberger Alumni House
2200 Olentangy River Road, Columbus, OH 43210

Time: 3:30-5:30 p.m.

Public Session **3:30-3:40 p.m.**

ITEM FOR DISCUSSION

1. *External Audit Update – Mr. David Gagnon* 3:30-3:35 p.m.

ITEM FOR ACTION

2. Approval of December 2025 Committee Meeting Minutes – Ms. Elizabeth Kessler 3:35-3:40 p.m.

Written Reports (Background Only)
   a. KPMG Required Audit Communications

Executive Session **3:40-5:30 p.m.**

The Ohio State University

Discussion with those charged with Governance

Single Audit results for the year ended June 30, 2025

March 4, 2026

Summary of Single Audit results for FY2025

Scope:

- Total expenditures of federal awards for the University: **$1.14 billion.**
- Dollar threshold used to distinguish between Type A and Type B programs: **$3,420,419**
- Major programs tested: **Research and Development Cluster, Student Financial Assistance Cluster, Medicaid Cluster, and Fish and Wildlife Cluster**

Results:

- Type of report issued on compliance for major programs: **Unmodified**
- Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **None**
  - Significant deficiencies: **None reported**
  - Audit findings required to be reported: **None**
- Type of report issued on internal control over financial reporting and on compliance and other matters based on an audit of financial statements (as previously reported): **Unmodified**
  - Material weaknesses: **None**
  - Significant deficiencies: **None reported**

The single audit reporting package is expected to be filed with the Federal Audit Clearinghouse before the required submission deadline.

THE OHIO STATE UNIVERSITY

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SUMMARY OF ACTIONS TAKEN

December 3, 2025 – Legal, Audit, Risk and Compliance Committee Meeting

Members Present:

Elizabeth P. Kessler	Juan Jose Perez	Amy Chronis
Bradley R. Kastan	Patrick C. Arp	John W. Zeiger (ex officio)

Members Present via Zoom: N/A

Members Absent: N/A

PUBLIC SESSION

The Legal, Audit, Risk and Compliance Committee of The Ohio State University Board of Trustees convened on Wednesday, December 3, 2025, virtually and in person at Longaberger Alumni House on Ohio State's Columbus campus. Committee Chair Elizabeth Kessler called the meeting to order at 2:58 p.m.

Items for Discussion:

1. Audit Update: Michael Papadakis, senior vice president and chief financial officer, and Kris Devine, vice president of operations and deputy chief financial officer, reviewed the consolidated balance sheet and shared performance highlights from FY 2025. For the first time, the university achieved $11 billion in operating revenue and $12 billion in total revenue, which includes investment income. Ms. Devine also briefed trustees on significant transactions either included or excluded in this year's report as well as changes to auditing standards for FY 2026.

   Mr. David Gagnon, lead engagement partner and national industry leader for higher education at KPMG, then reviewed the external audit of university finances, including areas of special focus. No concerns were identified.

   (See Attachment X for background information, page XX)

2. Annual Compliance Report: Vice President and Chief Compliance Officer Gates Garrity-Rokous provided an overview of key drivers of risk in the compliance space during the coming year and the focus areas of the FY26 Compliance Plan. He noted the substantial growth in the number of regulations and policies issued by the federal government as well as the continued work by the university to align controls and processes to obtain efficiencies and facilitate compliance. .

   (See Attachment X for background information, page XX)

Item for Action:

3. Approval of Minutes: No changes were requested to the June 4, 2025, 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. Perez that the committee recess into executive session to consult with legal counsel regarding pending or imminent litigation and to consider business-sensitive trade secrets.

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. Kastan, Mr. Perez, Mr. Arp, Ms. Chronis and Mr. Zeiger.

The committee entered executive session at 3:20 p.m. The meeting adjourned at 5:09 p.m.

Appendix

Accelerating AI in Education

On the 2026 higher education audit committee agenda

Accelerating the value of AI in education

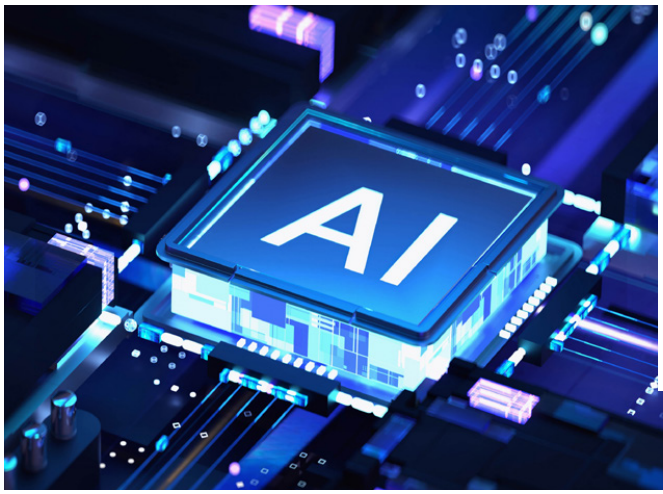
AI value starts with a clear strategic vision, not a "field-of-dreams" approach

When you step outside the box of the AI features that are incorporated in existing enterprise solutions, implementing AI, and AI agentic systems in particular, can get very complicated very quickly. In our KPMG Q3 2025 Quarterly Pulse Survey, nearly three-quarters of respondents said they were struggling with the intricacies of deploying AI agents at scale.

What's perhaps more challenging than implementing the technology, however, is realizing demonstrable value from it.

Clearly, AI is not a solution in search of a problem. KPMG LLP (KPMG) estimates that agentic AI will be key to unlocking a staggering $3 trillion in corporate productivity annually.[1] There are a great number of potential applications for educational institutions, including effectiveness in enrollment, improving student success, enhancing instruction, reducing administrative burden, and accelerating research, to name just a few.

And yet, many organizations are struggling to realize value from their AI investments. What's the key to breaking through this impediment?



A solid AI foundation is necessary but not sufficient.

It's increasingly rare to find an educational institution that hasn't already established policies and risk and governance frameworks that define, for example, where AI can and can't be used, what parameters define its ethical use, what models can be trusted, how data sources are evaluated, and how potential biases or unethical uses are identified. Although this foundation is necessary to realize value from AI, it's far from sufficient.

Many educational institutions have taken a field-of-dreams approach to AI, the assumption that if you build the right foundation and provide access to AI solutions, your students, faculty, and administrators will find ways to use it and become efficient in their respective roles. That may be true in some limited cases. AI is so new that having faculty, staff, and students experiment with it may indeed produce new and innovative use cases that do deliver value. But as any research institution will tell you, return on investment (ROI) and value realization typically aren't a high priority for experimentation.

Returns on AI investments demand structure and stakeholder feedback loops, not simply putting tools in users' hands and hoping for the best. We find that this undirected, technology-first application of AI is very often the root cause of not realizing value from AI projects. Rather than starting with AI's incredible capabilities and then searching for applications, the key is to start with a critical business objective and work backward to identify opportunities for AI to drive better, faster outcomes.

[1] "The Agentic AI Advantage: Unlocking the next level of AI value," KPMG, June 2025

Putting AI into the proper perspective

While AI is revolutionizing how organizations are achieving their mission (including our own teams here at KPMG), its implementation and application follow the same principles as any other capability; it's simply another technology tool in the transformation toolbox. If there's one thing we've learned over the last two decades, it's that ROI doesn't come from deploying technology, no matter how revolutionary or powerful it is. It comes from coordinated organizational transformations bridging people, process, policy, and data, enabled by that technology, to advance the organization's goals more effectively or efficiently.

AI presents an opportunity to reduce process debt: the inefficient, outdated, or redundant processes that have accumulated over time. Many of these processes were built on legacy technology that, in some cases, was already obsolete at the time of implementation. Many process inefficiencies continue to exist to this day for no other reason than "because that's how it's always been done."

Importantly, by itself, AI doesn't eliminate or necessarily automate away process debt. AI is not a replacement for transformation. Rather, AI is the catalyst for reexamining the processes and their contribution to advancing a strategic goal. There's no value in using AI to automate or enhance a process that doesn't support a clear business objective. In such cases, AI would simply help you fail faster and more efficiently.

Netflix, for example, didn't take advantage of the internet to make the process of renting DVDs more efficient, but instead used the technology to reimagine its operating model. Its strategic business objective wasn't to deliver DVDs. That was simply a tactic using the technology that was available at the time (DVDs) to achieve its business objective, which was to provide consumers with fast and easy access to a wide range of high-quality entertainment.

We see similar examples in education. Western Governors University (WGU), for example, was founded when the internet made the possibility of an "anywhere, anytime" education a reality. But its vision was more than simply delivering traditional, lecture-based learning over the internet. WGU founders recognized that technology could be used to fundamentally change the way college students learn. Its goal was to develop a competency-based education model, which measures skills and learning over time spent in a classroom, and then it leveraged the internet to achieve that goal.[2]

As you seek to create value, you similarly must start with a clear business objective in mind, and then work backward from it, determining how AI and other technologies, and the organizational transformations that go along with them, can best advance that objective.

[2] "Past, present, and future of online education," Western Governors University (WGU), January 21, 2020.

Identifying opportunities for value creation

Let's put this in the context of the student lifecycle, starting from the very beginning: enrollment, including marketing to attract students and the application and financial aid processes.

Consider, for example, the increasing strategic importance of student recruitment. As institutions face the impending "demographic cliff," competition for students, even at highly selective institutions, is increasing. A strategic objective, therefore, is to attract and secure commitments from the most desirable students.

Working backward from that objective, begin by pinpointing the key moments in the student journey that matter most to improve success. Students often struggle with application complexity, with multiple portals, essay requirements, deadlines, and the pressure to stand out. Financial aid uncertainty can add to the stress. And making what is one of the most significant commitments in a young adult's life by selecting a school can be overwhelming. What are the key moments in the application and acceptance process, and will students find them friendly and inviting or intimidating? With even a modest volume of applications, admissions counselors can't personally engage with each prospective student, yet personalization would likely significantly improve enrollment.

The next step, therefore, is to identify any friction or pain points that are impediments to successfully achieving the desired experience. Might students find it challenging to learn about your school, or to apply or accept admission offers, or to identify the financial aid options that may be available to them? As the pool of potential students shrinks and competition for the most desirable students increases, every part of the process becomes increasingly critical as a differentiator for your institution.

At this point, you can identify where AI can be used to help reduce friction, eliminate pain points, and enhance the admissions experience to help achieve the desired goal. For example, an AI agent can answer student questions about the institution, the application and acceptance process, student life including course selection processes, and so on. An AI agent can also provide personalized financial aid recommendations and help enable fair and efficient distribution of aid.

Additionally, AI can help admissions counselors identify students who may be most desirable for direct admissions programs or to pursue with additional outreach and personal engagement based on their interactions with the system.

Opportunities across the entire student journey

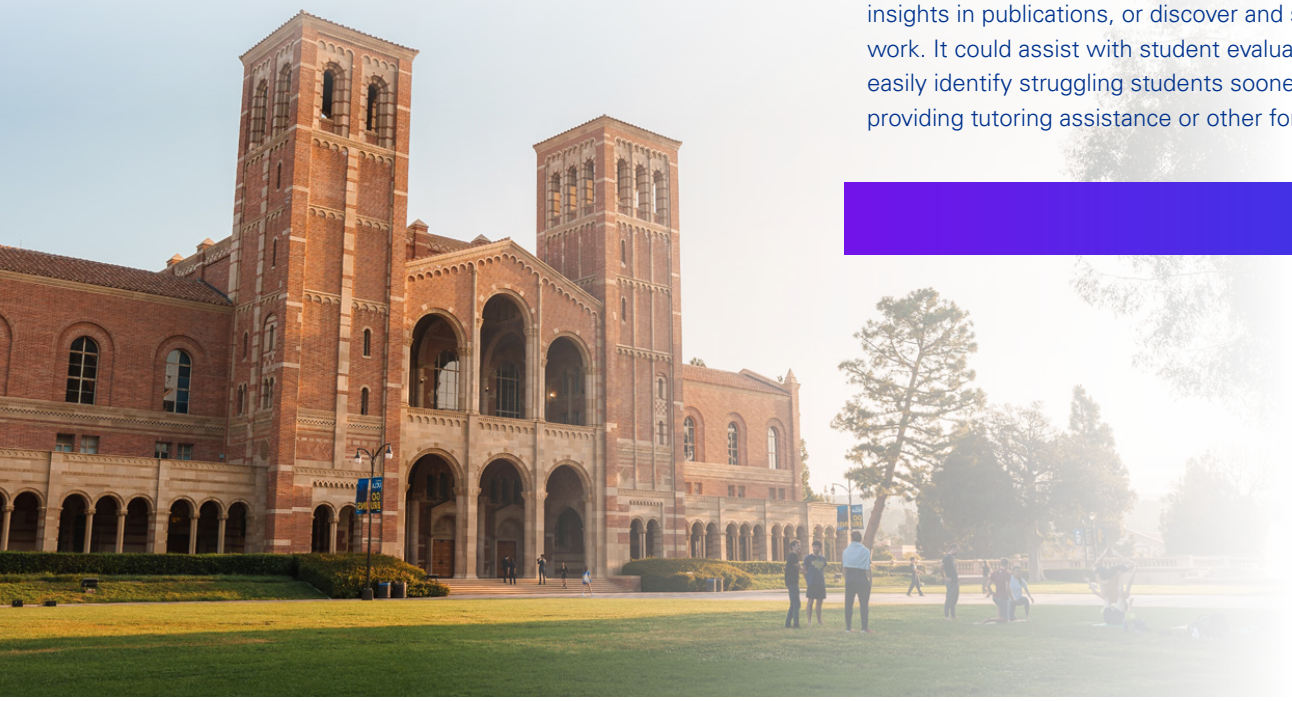
You can imagine repeating this process across the rest of the student journey:

- **Course registration**, including course planning and selection, degree requirement auditing, and schedule adjustments.
- **Learning and student life**, the core of the student experience, including the classroom and study experiences, assignment submissions, testing, grading, advising, changes, and student progression, social activities, and friendship development.
- **Transition to postgraduate life**, including graduation eligibility, transfers and graduate school support, alignment to employer needs, and job placement assistance.
- **Alumni**, including continuous learning opportunities, community development, and donor outreach.

At each phase, by first clearly defining the strategic objectives, then the key moments, then the friction or pain points, you can then consider how AI (or other technologies) along with the requisite operating model changes can help you advance those objectives more efficiently and effectively, or in other words, generate value. You can also more easily identify, measure and quantify business outcomes and ROI for future investment decisions.

You can then repeat this same exercise across the lifecycles of other stakeholders, including:

- **Administrators**, where AI can simplify and automate many of the more mundane, rote, or administrative tasks involved in institutional operations, including those within student services, HR, IT services, accounting and finance, and procurement.
- **Faculty**, where AI can help clarify and enhance course materials, help researchers better communicate key insights in publications, or discover and summarize related work. It could assist with student evaluations and help more easily identify struggling students sooner, automatically providing tutoring assistance or other forms of support.



Three approaches to generating AI value, even on a limited budget

Investments in AI, particularly agentic systems, can be quite substantial and realistically out of the reach of many colleges and universities. Moreover, AI cannot replace the heavy lifting of comprehensive business and digital transformation. If you are already struggling to upgrade your legacy systems, AI will not be your savior.

That doesn't mean, however, that there aren't opportunities for institutions operating with limited budgets to find value in AI. If you prioritize these opportunities based on complexity, risk, and value, you'll likely find at the top of the list many that require no custom work at all.

Your path will depend on where you are with other digital transformation efforts.

01 Leverage AI capabilities in your existing enterprise platforms.

If your institution is already making investments in enterprise resource planning (ERP), customer relation management (CRM), student information systems (SIS), or learning management systems (LMS), for example, the fastest, easiest, and most cost-effective way to introduce AI is to take advantage of the AI capabilities embedded in those modern cloud-based systems.

These platform-native AI and GenAI features typically can be activated incrementally with existing data access and identity controls, but you'll still need to make sure that high-quality and trusted data is available for AI to use. Benchmarks already exist to quantify the workforce roles and expected AI efficiencies, which help with establishing ROI expectations to justify investments up front.

With this option, the focus will be less on the technology and more on defining new business processes with AI in the middle and human in the loop. Instead of broad AI strategies, start with narrow, high-impact use cases that address a few key pain points identified in lifecycle assessments. Although by now many education stakeholders, particularly students, may be quite experienced using AI in some form, these pilot projects can also help your organization become accustomed to the operating model transformations and change management processes that accompany the technology deployments. You can identify, share, and enable use case adoption across the institution, which enables additional efficiencies while reinforcing the continuous learning organizational habits that are required for absorbing the increased pace of AI innovations.

02 Implement AI-specific point solutions.

If your institution isn't already engaged in broad technology-powered transformation efforts with out-of-the-box AI features that you can leverage, there are other low-hanging-fruit options. Here, however, in addition to the greater emphasis on technology deployment, you'll also need to be more focused on identifying the specific challenges to address and on the requisite workforce transformations required to achieve the desired outcome. You'll need to anticipate the new capabilities you'll need from your workforce and develop reskilling or upskilling plans for employees.

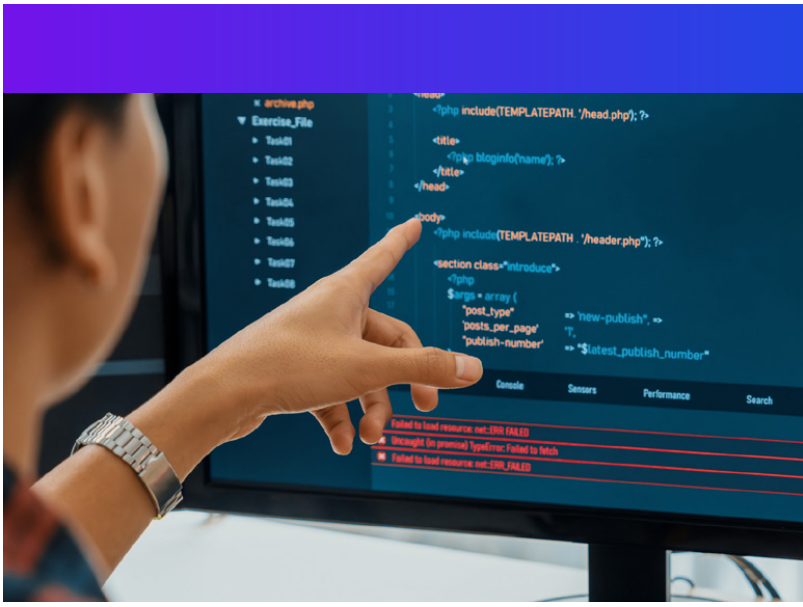
For example, robotic process automation (RPA), which has long been used to handle repetitive manual tasks, has become much more powerful with the introduction of AI. RPA has historically been limited to highly structured tasks given its reliance on rigid rules. But AI-powered RPA agents can understand context, make decisions, and adapt automatically to new tasks or circumstances, unlocking a range of new use cases.

The growing adoption of the model context protocol (MCP) is facilitating this advance by providing a standardized way to connect AI models to different data sources and software tools. As the backend systems behind the interfaces that RPA bots crawl are increasingly being integrated with large language models (LLMs), AI-powered RPA agents use MCP to access this knowledge and expand their capabilities.

Easy-to-implement, off-the-shelf tools now embed AI models for smart form extraction, summarization, and email interpretation. Start by focusing on simple service requests, internal approvals, or document handling workflows that can reduce staff burden and improve turnaround. This provides a foundation for future AI-assisted process reengineering with low initial risk.

Even if you're already using a large-scale LLM for certain tasks, you may find that small AI agents or copilots tailored to a single domain can be easy to implement and highly effective. Domain-specific models can be less computationally intensive, and they lower hallucination risks associated with general-purpose models.[3]

Consider using open-source agent frameworks, such as LangChain or CrewAI, or vendor-specific options to build agents tied to a single system or dataset. Focus on agents that assist with basic but time-consuming tasks such as form completion, document review, or internal help desk support. These can be sandboxed for risk control, deployed iteratively, and integrated into familiar interfaces such as Microsoft Teams, Slack, or existing service portals.



[3] "3 Bold and Actionable Predictions for the Future of GenAI," Arun Chandrasekaran, Gartner, April 12, 2024.

03 Consider managed services or shared-services consortiums.

Finally, consider collaborating with other departments or even other institutions. A shared-services model implemented through a consortium of institutions can help distribute the costs of large-scale AI deployments across multiple entities. The Collaborative on Information Technology Management (CITM), an initiative of the Association of Jesuit Colleges and Universities, is one such example, built on the premise that "Jesuit institutions face common challenges and opportunities: therefore, CITM members routinely share information and leading practices across institutional boundaries."[4]

Another similar option is to take advantage of AI-powered managed services. Historically, managed services have enabled organizations to offload routine, nondifferentiating functions: less expensive bodies handling mundane, back-office tasks. But today's managed services are something entirely different.

This new generation of managed services is often called "managed services 2.0," "everything-as-a-service (XaaS)," or even "services-as-software" due to their heavy reliance on AI and automation rather than people. They can help to accelerate time-to-value for AI in much the same way that a software-as-a-service (SaaS) solution can give you access to leading software capabilities without prohibitive up-front capital investments. The entry cost to acquire these capabilities is significantly lower than building an internal capability with fewer long-term commitment requirements. Given the amount of new business model experimentation occurring in the commercial sector, there are great opportunities to coexperiment with the private sector to learn and refine possible future operating models.

Indeed, the SaaS model foreshadowed this transformation in managed services. The key difference is that while SaaS delivers business software, these next-gen managed services deliver *business outcomes*. Instead of uptime, service level agreements (SLAs) are based on these outcomes.

The key difference is that while SaaS delivers business software, these next-gen managed services deliver *business outcomes*.

[4] "Collaborative on Information Technology Management (CITM)," Association of Jesuit Colleges and Universities.

How KPMG can help

KPMG LLP has the experience, resources, methodologies, and commitment required to help address the complex challenges facing educational institutions today.

Our mission is to help colleges and universities thrive in the face of change, continuing to effectively serve the needs of society, strengthen their financial viability, enhance their brand, and improve the student, parent, faculty, and staff experience. We do this by helping institutions implement holistic, forward-looking strategies with the necessary people, process, and technology transformations to help them achieve new levels of excellence.

We're experienced, nimble, and flexible. We understand the unique issues, pressures, and challenges educational institutions face on the journey to AI adoption. We'll meet you where you are on that journey and help advance your progress with no agenda other than to see you succeed. We'll help you leverage the investments you've already made to help maximize their value.

We offer clarity and insight. As a trusted advisor, we can help you make sense of everything going on in the highly dynamic world of AI that can impact your mission, from regulatory mandates and governance to emerging technologies. We can help align your efforts with leading practices from the private and public sectors, moving you forward with confidence and conviction.

We see the big picture. We can help you anticipate and adapt to the wide-ranging impacts AI can have on your organization, including budgets and financial controls, business processes and operating models, and employee growth and retention. We can help you understand your data, including where it comes from, what controls are required, how to help maximize the value locked in it, and how to share that value across organizations. We can help you harness the power of AI ethically and responsibly with trusted AI principles and governance models for managing risk.

We can help you from strategy through implementation. Unlike business-only consultancies, our more than 15,000 technology professionals have the resources, skills, and experience, battle-tested tools and solutions, and close alignment with leading technology providers to help you achieve your vision, quickly, efficiently, and reliably. And unlike technology-only firms, we have the business credentials, subject matter professionals, and public sector experience to help you deliver measurable business results.

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Talk to us about how we can help your AI projects succeed—even the small ones.

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KPMG

On the 2026 higher education audit committee agenda

KPMG Board Leadership Center

January 2026

Audit committees at colleges and universities can expect their institution's reporting, compliance, risk, and internal control environment to be put to the test in 2026. Negative industry outlooks from Moody's and S&P for the year ahead reflect rising costs, operating pressures, and uncertainty amid unprecedented sector disruption from federal and certain state policy shifts, as well as other ongoing challenges—from managing cybersecurity and artificial intelligence (AI) to demographic changes and geopolitical instability.[1,2] As they continue to refine and monitor their risk-driven agendas, the focus and effectiveness of higher education boards and audit committees will be paramount to stakeholder confidence.

Drawing on insights from our interactions with higher education audit committees and senior administrators, we've identified five key objectives to guide audit committees as they refine and execute their 2026 agendas in a dynamic environment:

- **Understand how the institution is tracking federal policy changes and managing their impacts.**
- **Help ensure the institution's enterprise risk management (ERM) program is built for the rapidly changing environment.**
- **Clarify the audit committee's oversight of AI, cybersecurity, and data governance.**
- **Take a fresh look at the audit committee's agenda, workload, and capabilities.**
- **Help internal audit stay attentive to the institution's key risks and be a valuable resource for the audit committee.**

[1] Source: Higher Ed Dive: *Higher education outlook remains negative for 2026, Moody's says,* November 21, 2025.
[2] Source: S&P Global Ratings, *U.S. Not-for-Profit Higher Education 2026 Outlook,* December 2, 2025.

Understand how the institution is tracking federal policy changes and managing their impacts.

In its 2026 Top Risks Survey, United Educators noted that Compliance (Non-Title IX/VAWA) had the biggest increase in its Top 10 Risks two years in a row, moving from the eighth-highest risk to the third-highest risk over that time and reflecting increased federal attention and regulatory complexity.[3] Indeed, our 2025 Agenda publication highlighted several anticipated federal policy shifts by the incoming administration that could reshape aspects of research, student aid, and other mission-related strategies in the sector. Changes to numerous federal policies have since been implemented with extraordinary speed, primarily through executive orders (EOs), and legislation affecting the sector was included in HR1 (Public Law 119-21), widely known as the One Big Beautiful Bill Act (OB3). These activities—many of which have faced legal challenges—have had significant effects on various institutions, including funding shortfalls from grant reductions and a drop in international graduate student enrollments, increased complexity in financial planning and regulatory compliance, and changes to organizational structures and operations.

Higher education boards and audit committees are already overseeing a variety of emerging compliance and legal issues. The urgency and potential impact of certain recent issues—including investigations of dozens of private and public institutions by the Department of Justice and other federal agencies—have only heightened the focus. These investigations, often centered on allegations of discrimination or other violations, have had significant consequences, such as terminations of federal grants, impositions of financial settlements, and monitoring agreements. Given the potential ramifications, senior officers, including general counsel, should keep the audit committee informed throughout the lifecycle of any federal investigation. Beyond this, the committee should be briefed on whether any of the institution's activities could run afoul of recent regulatory initiatives and what the institution is doing to proactively manage their impact.

Boards and audit committees should remain attentive to the evolving federal landscape. The following areas of focus may merit further consideration in the year ahead by the audit committee:

Grant funding and compliance

Driven by policy directions from the Trump administration, the shift in federal scientific and other priorities has led to suspension or cancellation of specific research, e.g., clinical trials, and other grant programs, including grants and contracts managed by the U.S. Agency for International Development (USAID), as well as changes to grant administrative requirements. During 2025, a substantial decrease in new grant funding opportunities posted by the Department of Health and Human Services (HHS) prior to the government shutdown in October, compounded by the administration's proposal to deeply cut budgets at several agencies—including a 40% reduction for the National Institutes of Health (NIH)—signaled further declines in federal grant funding. However, a bipartisan funding package put forth by Congress in January 2026 would stave off proposed cuts at NIH, the National Science Foundation, Department of Energy, and other agencies and maintain or even increase certain scientific research funding.[4] As to administrative requirements, some EOs have introduced further constraints, e.g., more stringent regulations on "no-cost" grant extensions.

Given these developments, the board and audit committee should engage with the chief financial officer and other senior administrators to understand how potential changes to federally sponsored programs are being integrated into scenario planning, as well as institutional budget models and liquidity forecasts. The audit committee should also understand how policies and internal controls are evolving to address these financial uncertainties and compliance demands.

Indirect cost recoveries and emerging models

Institutions with federally sponsored research have traditionally recovered a portion of their indirect costs—those necessary to support research infrastructure and administration—through rates negotiated with cognizant federal agencies, commonly known as indirect cost rates (ICRs). These negotiated rates have historically been vital for enabling institutions to sustain their research enterprises.

In 2025, NIH and other federal agencies issued supplemental guidance prospectively imposing a 15% cap on ICRs related to new and existing research awards. For most research institutions, this would lead to a significant decrease in amounts they could recover for indirect costs, posing substantial financial challenges. Although litigation has at least temporarily halted the implementation of such caps, a subsequent EO issued in August 2025 directed federal agencies to give preference to institutions with lower ICRs when awarding discretionary

[3] Source: United Educators, *2026 Top Risks Report: Insights for Higher Education*, December 2025.

[4] Source: Inside Higher Ed, *Again Defying Trump, Congress Proposes Increasing NIH Budget, Maintaining ED*, January 20, 2026.

grants. This policy shift has prompted concern across the sector, given its potential to alter the funding landscape for research institutions.

In response to these developments, the Joint Associations Group—a national committee representing academic, medical, and independent research organizations—has proposed a new model for indirect cost recovery: Financial Accountability in Research (FAIR). The traditional ICR model applies a uniform rate to all types of federally funded research, even though certain types of research, i.e., biomedical, have inherently higher cost structures. The traditional model also does not adequately account for the substantial growth in regulatory compliance costs in recent years and is constrained by various federal caps and budget limitations, often making effective recovery rates much lower. The FAIR model attempts to address these shortcomings by introducing three distinct cost categories, enabling a more nuanced and accurate allocation of both direct and indirect costs associated with different types of research activities. While this approach increases complexity, it attempts to more precisely reflect actual costs institutions incur when conducting federally funded research.

It remains uncertain when—or if—the FAIR model will be adopted. For now, the research funding legislation proposed by Congress in January 2026 seeks to leave the traditional ICR model in place and prevent the federal government from capping ICRs at 15%. Should a transition to FAIR eventually occur, institutions would need to establish new systems, policies, and internal controls to support the revised approach to cost attribution and recovery and compliance with related administrative requirements.

Foreign gift and contract reporting: Section 117 compliance and oversight

Section 117 of the Higher Education Act of 1965 mandates that most public and private institutions report foreign gifts and contracts. Specifically, institutions must disclose any foreign gift or contract, whether individually or combined with other sources from the same foreign entity, that totals $250,000 or more within a calendar year. This requirement aims to ensure transparency regarding the flow of foreign funds into educational institutions.

The U.S. Department of Education (ED) oversees compliance with Section 117, managing collection and dissemination of data related to institutional disclosures. With growing concerns among Congress and federal agencies about potential foreign influence—particularly in institutions that receive substantial federal research funding—there has been an increased emphasis on the accuracy and transparency of these disclosures. To further support transparency, ED recently introduced the Section 117 Foreign Gift and Contract Public Transparency Dashboard. This online resource provides public access to each institution's foreign funding by country. As a result, stakeholders can more easily review and analyze the scope and nature of foreign financial relationships within higher education.

Given the increased scrutiny and reputational implications of Section 117 reporting, the audit committee should probe whether management's protocols for gathering, reporting, and validating information reported to ED are sufficiently robust.

OB3: Changes to federal student loan programs and institutional accountability

Among other things, OB3 introduces substantial reforms to federal student loan programs, affecting both borrowers and institutions in terms of borrowing limits, repayment reforms, and institutional accountability. Most of the changes are scheduled to take effect for any period of instruction beginning on or after July 1, 2026. Highlights include:

- As to borrowing, the legislation eliminates Grad PLUS loans for graduate and professional students, removing a key borrowing option for those pursuing advanced degrees. In addition, OB3 establishes new loan limits: for example, parent borrowers may now access no more than $20,000 per student per year; graduate non-professional students are capped at $20,500 annually, and professional students are capped at $50,000 annually. Also, among other things, ED's Proposed Rule published in the Federal Register on January 30, 2026 (with comments due by March 2, 2026) would reclassify several degree programs previously classified as professional—such as nursing and occupational therapy—to non-professional, meaning they would be subject to the lower annual graduate cap of $20,500. These changes significantly alter the borrowing landscape and may require many institutions to reassess the availability and structure of financial aid packages for affected students.
- OB3 also enacts repayment reforms, replacing several income-driven repayment options previously available to student borrowers with a single option, the Repayment Assistance Plan, is designed to facilitate faster student loan payoffs and less loan forgiveness and may impact students' long-term financial planning and affordability.
- To strengthen institutional accountability, OB3 introduces a "do no harm" test. Under this provision, a degree-granting program's eligibility for federal student loans is revoked if the earnings of its graduates—whether associate, bachelor's, master's, doctoral, or professional programs, excluding undergraduate certificate programs—are determined to be too low. This measure places greater emphasis on post-graduation outcomes and the financial viability of academic programs. These changes are in addition to the existing complex data reporting requirements of ED's Financial Value Transparency and Gainful Employment regulations, which focus on transparency of program costs and outcomes.

Although ED's rulemaking on OB3's changes is still developing and implementation of the new regulations could be delayed, the audit committee should ask how management is assessing the potential financial, programmatic, enrollment, and compliance impacts of the new regulations.

OB3: Increased endowment tax and its implications

OB3 introduces significant changes to the so-called "endowment tax" affecting applicable educational institutions. Originally implemented under the 2017 Tax Cuts and Jobs Act, the previous 1.4% excise tax on net investment income (NII) from non-exempt-use assets (including the endowment) of certain private colleges and universities is replaced with a three-tiered system based on an institution's student-adjusted endowment level:

- Institutions with a student-adjusted endowment of $500,000 to less than $750,000 per student are subject to a 1.4% tax rate.
- Institutions with a student-adjusted endowment of more than $750,000 but less than $2,000,000 per student are subject to a 4% tax rate.
- Institutions with a student-adjusted endowment exceeding $2,000,000 per student are subject to an 8% tax rate.

Additionally, the revised tax structure limits applicability to educational institutions enrolling at least 3,000 tuition-paying students. The calculation of NII for tax purposes is also broadened to include as NII student loan interest income, as well as royalty income derived from federally subsidized research, development, or intellectual property. Given the complexity of the regulations, proper interpretation of the definitions of NII, "exempt use asset," and other provisions is critical to determining whether an institution is subject to the tax and, if so, at what rate.

While smaller institutions will be exempt under these new provisions, the Joint Committee on Taxation estimates that the revisions will generate significantly more revenue than the previous tax over the next 10 years. Audit committees at institutions currently or potentially subject to the tax should consider the financial reporting implications, including liabilities for current and deferred taxes. Furthermore, it is important to continue to monitor industry developments, as some state and local governments are considering similar tax proposals.

Impact on tariffs on institutional costs and budgets

Due to tariffs imposed by the administration on imports from global trading partners in 2025, colleges and universities—as well as students and their families—are experiencing increased costs for a range of goods and services. This includes higher expenses for technology, utilities, construction materials, food, and equipment. These rising costs further intensify the already existing pressures related to tuition pricing and student enrollment at some institutions.

On November 5, 2025, the Supreme Court heard oral arguments concerning tariffs implemented to date under the authority of the International Emergency Economic Powers Act (IEEPA). The outcome of this case has the potential to significantly influence U.S. trade policy, with a decision expected in 2026. Importantly, any Supreme Court ruling would specifically address tariffs imposed under IEEPA, leaving other tariffs unchanged. As a result, a degree of uncertainty around the administration's tariff policies is likely to persist, regardless of the Supreme Court's decision. Accordingly, institutions should continue to consider the possible impacts of tariffs in developing operating and capital budgets and evaluating liquidity needs going forward.

Help ensure the institution's ERM program is built for the rapidly changing environment.

In addition to federal policy risks focused on the sector, the magnitude, complexity, and velocity of other ongoing risks—and their interconnectedness—requires proactive and holistic risk management, as well as effective oversight by the audit committee. In 2026, institutions will contend with many emerging issues, including new regulatory risks from EOs; campus safety; enrollments; immigration, international travel, and related enforcement; governance of AI and other new technologies, such as quantum computing; sustainability and climate events; and new risks and complexities managing athletics, which entered United Educators' Top 10 Risks for the first time this year.[5]

A robust ERM program facilitates an institution's ability to monitor and assess emerging risks and opportunities based on their likelihood over time, considers how risks can interact with each other and magnify impacts, and acknowledges that low-probability, high-impact events can quickly materialize. While building and maintaining such a program can be difficult, transforming ERM from a transactional risk register to a high-maturity program allows the institution to go beyond operational resilience and create competitive advantage.

Building a robust ERM program starts with fundamentals. In our experience, a leading practice is to assign responsibility for oversight of the risk management process to the audit committee and oversight of risk areas to appropriate board committees (including the audit committee for risks within its scope). Also fundamental are mechanisms to ensure that risk information is reaching the full board, which should receive regular reports on risk, especially mission-critical risks. In hindsight, organizational crises and failures can often be traced to inadequate board oversight of such risks. With the institution's reputation on the line, the audit committee can help advance ERM effectiveness by asking:

- How rigorous are management's processes to identify and assess risks, including emerging risks? Who is involved, and who is championing management's efforts? How far down in the organization does it go?
- Do we have a complete understanding of the risks in our institution's strategy and risk profile, as well as how the profile is changing? Are certain emerging risks not being addressed? Scenario planning, tabletop exercises, and updating crisis response plans are critical.
- If a risk event were to occur, then how quickly would it adversely affect operations? Properly assessing the institution's resiliency and crisis preparedness, including communication plans, is key. Is a process in place to monitor changes in the environment that might alter key assumptions?
- How do individual risks aggregate and interrelate to determine the top risks that require senior management's focus and merit presentation to the board?
- Are resources applied effectively and efficiently to achieve a risk outcome commensurate with the institution's risk appetite?
- Are our risk, compliance, and internal audit functions aligned with respect to risk identification and mitigation throughout the institution?
- How effective are we, other committees, and the full board in coordinating and communicating risk oversight activities—to ensure appropriate oversight of risks and avoid being siloed? Is the full board in charge of allocating risk to committees? Committee charters should reflect up-to-date allocations of risk oversight, and the full board should be receiving reports from each committee so that all trustees are aware of what is happening at the committee level.

[5] Source: United Educators, *2026 Top Risks Report: Insights for Higher Education*, December 2025.

Clarify the audit committee's oversight of AI, cybersecurity, and data governance.

Assessing oversight responsibilities for AI

According to the 2025 EDUCAUSE AI Landscape Study, which surveyed nearly 800 higher education professionals, fewer than 40% of institutions had established formal policies regarding acceptable use of AI. The study also found that many campuses remained in initial phases of policy development or were engaged in exploratory discussions.[6] The lack of such policies and formal governance frameworks leaves institutions vulnerable to FERPA or other data privacy violations, disclosure of confidential information, algorithmic bias, accessibility failures, and erosion of stakeholder trust—particularly when high-value decisions are driven by AI systems with unclear oversight. These risks may be more pronounced in larger, more decentralized institutions.

While AI has the potential to modernize and enhance back-office processes and the student experience, it also enables cyber criminals to launch more sophisticated and targeted attacks—using AI's ability to write code and mimic voices in verification techniques. Indeed, just as several institutions have integrated AI to improve learning and operational efficiency, some are adopting AI-driven threat detection systems and zero trust strategies to bolster their cybersecurity.

Higher education boards and audit committees should be probing the degree to which AI acceptable use and other governance policies have been implemented and whether the institution's interrelated cybersecurity and data governance frameworks are keeping pace. How and when is an AI system or model—including a third-party model—developed and deployed, and who makes that decision? How do we ensure ethical and responsible use? What AI risk management framework is in place, and does it emphasize human-in-the-loop involvement? Who is responsible for monitoring AI usage and compliance, and how is the board kept apprised? Several guiding principles should inform and support the governance framework used. For example, KPMG has developed the KPMG Trusted AI framework, which guides responsible and ethical AI use through a values-driven, human-centric, and trustworthy approach, embedding security, privacy, and other protocols. Another key question for boards is how to structure oversight of these areas at the full board and committee levels, including the audit committee. In assessing possible oversight responsibilities in these areas, we recommend the following areas of focus:

- For academic and administrative applications, compliance with evolving AI, privacy, and intellectual property laws and regulations.
- Use of AI in the preparation of financial statements and other regulatory filings, as well as by external auditors.
- Use of AI in internal audit, finance, fundraising, admissions, research, and other functions, and whether those personnel have the necessary talent and skill sets.
- Implementation of policies, procedures, and internal controls pertaining to AI and data used, including to mitigate potential inadvertent biases in algorithms (e.g., admissions).
- Consistent with cybersecurity awareness and training for faculty, staff, and students, deployment of comprehensive AI training programs focused on ethical use, practical applications, and security.

Given how fluid the situation is and the audit committee's bandwidth and skill sets—and with generative and agentic AI both gaining rapid momentum—oversight responsibilities ofthe audit committee may need to be revisited and refined.

[6] Source: *2025 EDUCAUSE AI Landscape Study,* February 17, 2025.

Assessing oversight responsibilities for cybersecurity and data governance

Once again, data security/cybersecurity ranked near the top of United Educators' 2026 Top Risks Report.[7] These results align with attacks at several leading institutions during 2025, where unpatched enterprise software and sophisticated social engineering campaigns resulted in hacks.

We have observed that the board's oversight responsibility for cybersecurity and data governance most often resides with the audit committee. We also note that despite the prioritization of other emerging industry risks on the agenda, cybersecurity and data governance continue to receive significant attention at most committee meetings. Amid the explosive growth in AI and significant risks posed by AI technologies, asking management probing questions about whether data governance and cybersecurity frameworks and processes are keeping pace with the institution's use of technologies is key. Does the committee have access to outside expertise as needed to assist in the oversight of data governance, and perhaps cybersecurity?

[7] Source: United Educators, *2026 Top Risks Report: Insights for Higher Education*, December 2025.

Take a fresh look at the audit committee's agenda, workload, and capabilities.

Keeping the audit committee's agenda focused on its core responsibilities—oversight of financial reporting and compliance, internal controls, and internal and external auditors—is essential to the committee's effectiveness. Beyond these duties, audit committees at colleges and universities oversee a growing list of other institutional risks, compounding the workload challenge and making efficiency essential. As the role and responsibilities of the audit committee continue to evolve, the committee, in conjunction with the board, should periodically assess its composition, skill sets, independence, and leadership to ensure they are keeping pace and to mitigate "agenda overload." The committee—with input from management and, as appropriate, internal and external auditors—should conduct self-evaluations at least annually.

In our interactions with higher education institutions across the country, we have observed that evaluating the audit committee's effectiveness in this specialized sector—which lacks public disclosures of data often used in other industries to benchmark practices against peers—and in the context of each institution's unique operating profile can be difficult. Following are questions the committee should consider (including during self-evaluations):

- Does the committee's charter align with and reflect the current goals and work of the committee?
- How many members have experience with financial reporting, compliance, and internal controls? Is the committee relying too heavily on one member to do the "heavy lifting" in overseeing these responsibilities? Do the skills needed to oversee emerging risk areas—such as AI and data security—reside in the committee? There may be a need to periodically engage outside specialists to assist the committee in its oversight of certain issues, e.g., forensic audits and new technology. Does the committee spread the workload by allocating oversight duties to each audit committee member, rather than relying on the committee chair to shoulder most of the work?
- Does the chair spend sufficient time outside the boardroom with management and auditors to prepare for committee meetings, get a fuller picture of the issues, and enhance productiveness of committee meeting time?
- Are separate executive (nonpublic) sessions with management, internal auditors, external auditors, and members only at the beginning or end of meetings scheduled? Such a cadence helps ensure that sensitive matters, if any, can be addressed without raising unnecessary flags.
- Do members have access to orientation and continuing education programs, and are they provided with relevant industry information sourced from outside the institution? Is the committee learning what counterparts at comparable institutions might be doing, including through guidance issued by the Association of Governing Boards of Colleges and Universities (AGB), AICPA, and other organizations?

Help internal audit stay attentive to the institution's key risks and be a valuable resource for the audit committee.

Internal audit should be a valuable resource and a crucial voice on risk and control matters. This means focusing not only on reporting and compliance risks, but also on critical operational, AI, and other technology risks and related controls. Recent emerging risks related to federal policy changes and investigations have also become important areas of focus for internal auditors—as they assist the board and management in responding to such activities and evaluate revisions to policies and controls—and may result in reprioritization of audit plans.

Is internal audit's annual plan risk-based and flexible, and does it adapt to changing operational and risk conditions? Internal audit must be able to effectively pivot to address unanticipated issues and risks, as well as ongoing institutional risks highlighted in the audit plan. The audit committee should work with the chief audit executive and chief risk officer to help identify areas in which significant risks to the institution's reputation, strategy, and operations exist or could arise, such as the integrity of financial and compliance reporting, and emerging risks related to generative and AI agents—and whether the related governance structure and risk management processes are effective. Audit committees will also want to understand how internal audit is using generative AI and AI agents to improve its effectiveness and efficiency. What workflows can AI agents handle, and what internal audit workflows are AI agents actually handling today? Is internal audit maintaining a human-in-the-loop at critical stages of AI agent workflows?

Set clear expectations and ask whether internal audit has what it needs to succeed. In terms of ERM, clarify internal audit's role—which is not to manage risk, but to help guide its audit priorities and provide an important sanity check on the adequacy of management's risk identification and mitigation processes. Does internal audit have the skills and resources needed to handle the fast-evolving AI and cybersecurity issues affecting the institution? Similar to staffing in finance and technology functions, internal audit is not immune to talent pressures. What is internal audit doing to be a valued business advisor to other departments?

About the KPMG Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC promotes continuous education and improvement of public and private company governance. The BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and sustainability to data governance, AI audit quality, proxy trends, and more. Learn more at kpmg.com/us/blc.

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The KPMG Higher Education, Research & Other Not-for-Profits (HERON) practice is committed to helping colleges, universities, and a variety of other not-for-profits carry out their missions. Our experience serving private and public higher education institutions and other charitable organizations across the U.S. allows our professionals to provide deep insights on emerging issues and trends—from financial reporting, tax, compliance, and internal controls to leading strategic, operational, technology, risk management, and governance practices. Learn more at the KPMG Education dedicated webpage: https://kpmg.com/us/en/industries/government-public-sector/higher-education.html.

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