

THURSDAY, AUGUST 29, 2019
AUDIT AND COMPLIANCE COMMITTEE MEETING

John W. Zeiger
Elizabeth P. Kessler
Brent R. Porteus
Hiroyuki Fujita
Lewis Von Thaer
Gary R. Heminger
Jeff M.S. Kaplan
Anand Shah
James D. Klingbeil
Amy Chronis
Timothy P. Smucker (*ex officio*)

Location: Longaberger Alumni House
Sanders Grand Lounge

Time: 10:00-11:30am

ITEMS FOR DISCUSSION

1. *External Audit Update – Christa Dewire* 10:00-10:10am
2. *Compliance and Integrity Program Report – Chris Culley, Gates Garrity-Rokous* 10:10-10:20am
3. *Shared Values Initiative – Chris Culley, Gates Garrity-Rokous* 10:20-10:25am
4. *Written Reports* 10:25-10:30am
 - a. *Audit and Compliance Committee Scorecard*
 - b. *Compliance Report (cont.)*

Executive Session

10:30-11:30am



Date: August 5, 2019
To: The Ohio State University Audit & Compliance Committee
From: Christa Dewire, Audit Partner
Subject: External Audit Update Summary

Purpose

To update the Committee on the status of the external audit of the University's financial statements as of and for the fiscal year ended June 30, 2019.

Committee Action

No action needed.

Executive Summary

The External Audit Update provides the Committee with a status update since the last meeting.

- There have been no changes to scope of services or agreed upon timelines.
- There have been no significant changes to the Audit Plan as previously communicated to the Committee.
- Planning procedures are complete; interim fieldwork is nearing completion; and year-end audit procedures begin in mid-August.
- Based on procedures performed to date, there is nothing of concern to bring to the Committee's attention.

We have included within our materials, additional detail and examples of where our engagement team is leveraging digital opportunities and technologies to innovate our audit at the University.

The Appendix includes PwC's annual "Perspectives in Higher Education" publication and is included for informational purposes only.



***Report to the Audit & Compliance Committee of the Board
of Trustees
FY2019 External Audit Status Update***

The Ohio State University
August 29, 2019

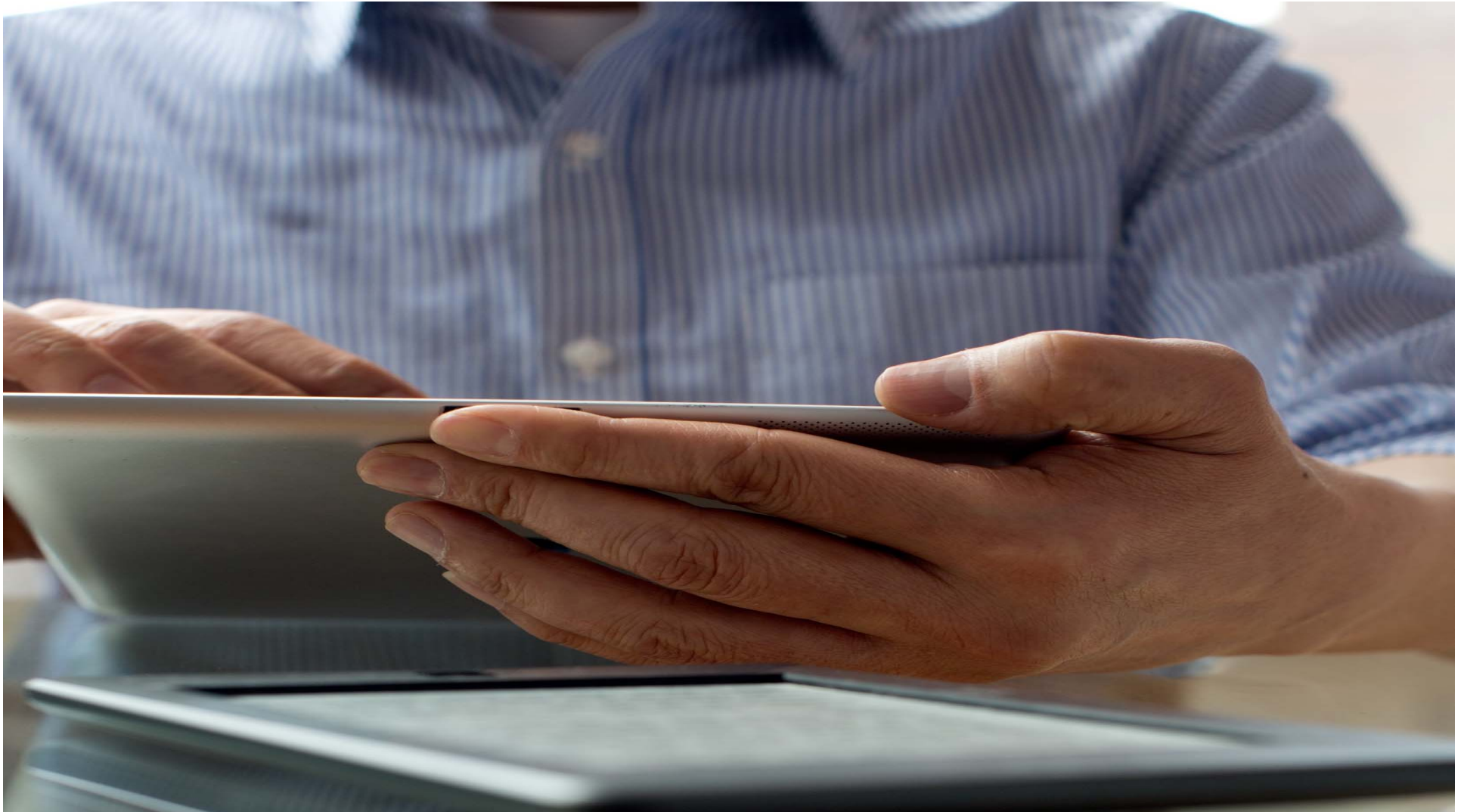
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This report and the information that it contains is intended solely for the information and use of the Audit and Compliance Committee and management, if appropriate, and should not be used by anyone other than these specified parties.



FY2019 External Audit Update



Audit Deliverables and Timeline

Financial Statement Audits	Components	Deliverables	Timeline
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 	Oct 15
	OSU Wexner Medical Center Health System (OSU Health System)		
Discretely Presented Component Units	OSU Physicians (OSUP)		
	Campus Partners for Community Urban Redevelopment and Subsidiaries		
	Transportation Research Center Inc.		
	Dental Faculty Practice Association, Inc.		
Other Deliverables	Reporting Entity	Timeline	
Stand-alone Financial Statement Audits	OSU Foundation	Oct 25	
	OSU Health System	Oct 2	
	Transportation Research Center Inc.	Oct 2	
	OSU Physicians	Oct 2	
	Department of Athletics	Nov 13	
	WOSU Public Media	Dec 6	
	OSU Global Gateways LLC (as of and for year ending December 31, 2018)	May 31	
	Campus Partners for Community Urban Redevelopment and Subsidiaries	Oct 2	
Compliance Opinion	Uniform Guidance Compliance	Nov 29	
Review Report	Wexner Center for the Arts	Oct 4	
	OSU Health Plan, Inc.	Nov 9	
Agreed Upon Procedures	National Collegiate Athletic Association (NCAA)	Nov 15	
Benefit Plan Audit	Transportation Research Center – Benefit Plan	Oct 15	

^[1] Final financial statements subject to Audit & Compliance Committee approval on Nov 21st.

^[2] Final financial statements subject to OSU Foundation's Audit Committee approval in Nov.

Audit Status (as of Aug 5th)

	Planning (Apr-May)	Interim (Jun-Aug)	Year-end (Sept-Oct)
University Financial Statement Audit	<ul style="list-style-type: none"> ✓ Perform scoping and risk assessment ✓ Establish materiality thresholds ✓ Perform walk-throughs to update our understanding of the key processes and related controls (including IT) ✓ Make sample selections for interim test of details in certain areas (i.e. cash, payroll, patient service revenue, student tuition and fees, housing and dining revenue, ORC cash deposits testing, pension contributions testing) 	<ul style="list-style-type: none"> ✓ Tests of certain IT controls for in-scope applications (focus on security, change management, operations) ✓ Interim testing of certain key controls ✓ Complete interim testing 	<ul style="list-style-type: none"> ❑ Year-end update testing of controls ❑ Tests of details in relation to journal entries and consolidation ❑ Tests of details performed in most areas (revenues, operating expenses, investment valuation, 3rd party confirmations, fixed assets, contractual allowance, pledges, various reserves, accounts payable and reserves, etc.) ❑ Review and tie-out of financial statements and disclosures (first full draft targeted for mid-September) ❑ Review and tie-out of CAFR
	Planning (Apr-May)	Interim (Aug)	Year-end (Nov)
Uniform Guidance Compliance Report <i>PwC</i>	<ul style="list-style-type: none"> ✓ Identify Major Programs ✓ Establish materiality thresholds ✓ Perform walk-throughs to update our understanding of key processes and controls (i.e. SFA and R&D) 	<ul style="list-style-type: none"> ✓ Interim tests of certain key controls ✓ Interim tests of details (direct costs for major programs, cash management, tests of details related to Student Financial Aid) 	<ul style="list-style-type: none"> ❑ Year-end update testing of controls ❑ Tests of details related to Student Financial Aid, Returns of Title IV Funding, Matching, etc. ❑ Other tests of details, including review and tie out of SEFA



Use of Digital Technology in our Audit

Audit Innovation Tools

Our current technology used on the audit engagement today



Aura

Aura, our global ERP system, is used by our 100,000 auditors worldwide on every PwC audit. It involves a systematic, risk-based approach with workflow technology. This ensures that things are done one way – the right way – consistently and efficiently across the global engagement team. The result is all of the elements of our audit fitting together seamlessly – no duplication, no omissions.



Connect

Connect is our data sharing and collaborative workflow tool, providing fast, efficient and secure information sharing at every stage of the audit globally. It monitors the status of information flows on a real-time basis.

Connect Audit Manager (CAM) is our global project management tool that will give you a real-time view of the status of all your global statutory audits. CAM will facilitate even greater project management, more visibility and control, and a global consistency across the global engagement team.



Halo

Halo is revolutionizing the PwC audit, providing greater assurance and deeper insight. It is market-leading assurance technology that tests and visualizes information, testing more, more often. We are able to share insight with management based on trends and anomalies identified in the data.



Spark

Spark is PwC's enterprise social networking tool allowing us to connect across the PwC network, share knowledge and information, initiate discussions, comment and collaborate. Spark also allows our people to create platforms for common interests, e.g. account team groups, enabling discussions and the sharing of ideas and opportunities.



ADC

Automated Disclosure Checklist (ADC) is a cloud-based technology solution which allows multiple users to work on a checklist at the same time from different locations. The application utilizes a tailoring function to create customized checklists for each company, and allows both the engagement team and the client to collaborate on meeting disclosure requirements.

A Deeper Dive – in practice



Halo

Award-winning data auditing tool designed to test information reliability in real time



Aura

Our global ERP system driving global quality and consistency



Connect

A collaborative workflow tool allowing fast, secure information sharing

Aura

Intelligent risk assessment
Risk settings enable teams to tailor Aura to specific scenarios, taking account of risk levels, controls reliance and substantive testing.

Extraordinary/exceptional items may not be correctly identified or recorded
Impacts: Exceptional items

Financial statements and disclosures may not be properly presented or disclosed
Impacts: Financial statement preparation and disclosures

All transactions with related parties are not identified and disclosed
Impacts: Intercompany accounts, Financial statement preparation and disclosures

Notes to the accounts
Impacts: Financial statement preparation and disclosures

Risk of material misstatement in Gain/Loss from extraordinary/exceptional items
Impacts: Exceptional items



+ Benefits

- + **Enhanced understanding of your business** resulting from new views and end-to-end visibility of the audit process.
- + **A systematic risk-based approach** enables greater focus on the things that matter.
- + **Pre-loaded risk software** helps teams to identify the right risks and perform the right work to address them.
- + **Real time monitoring of engagement quality and progress** available on mobile devices, anytime, anywhere.

Aura

Key features

Intuitive design, streamlined views, and automation of manual processes contribute to increased productivity and efficiency

Workshare feature designed for shared service centers and multi-location audits, allows us to work collaboratively and eliminate duplication.

Workflow technology allocates audit procedures and individual tasks on personalized dashboards, enabling the timely execution and review of work.



Aura in Practice on the OSU Audit

Risk Assessment

Ohio State University 2019 Audit - RISK & RESPONSE : Risk Strategy - Aura 6.4

Engagement Edit View Create Manage Links Help

> Ohio State University 2019 Audit-HQ > All Units

DASHBOARD | **UNDERSTAND & PLAN** | **RISK & RESPONSE** | EXECUTE | COMPLETE | REVIEW

Risk Strategy | Controls Testing Plan | Substantive Testing Plan | Risk & Response Summary

View by: FSLI | Edit Mode: Off | Properties:

The following filters are applied: **BP/FSLI**

Risk	Process Reference	Inherent Risk	Expected Controls Reliance	Planned Substantive Evidence
Healthcare Providers - Patient service revenue				
Risk of material misstatement in Healthcare Provider - Patient service revenue Impacts: Healthcare Providers - Patient service revenue		Normal	None	Low
Risk of fraud in patient service revenue recognition (Health Systems) Impacts: Healthcare Providers - Patient service revenue		Significant	None	High
Student tuition and fees, net of scholarships				
Risk of material misstatement - Student Tuition and Fees Impacts: Student tuition and fees, net of scholarships		Normal	None	Low
Federal grants and contracts				
Risk of material misstatement - Federal Grants Impacts: Federal grants and contracts		Normal	None	Low
Private grants and contracts				
Risk of material misstatement - Private Grants and Contracts Impacts: Private grants and contracts		Normal	None	Low

Last replicated: 8/1/2019 2:24 PM | 2 Replication conflicts exist | 1.96 GB | cdewire003 | File Owner, Engagement Leader | 6.4 | Online

Aura in Practice on the OSU Audit

Workflow technology

Ohio State University 2019 Audit - DASHBOARD : - Aura 6.4

Engagement Edit View Create Manage Links Help

> Ohio State University 2019 Audit-HQ > All Units

DASHBOARD UNDERSTAND & PLAN RISK & RESPONSE EXECUTE COMPLETE REVIEW

Chart:

The following filters are applied: Audit Unit(s)

Individual Team

Audit Unit \ Status \ Task Type

- Health System 170 Tasks
 - Not Started 46 Tasks
 - In Progress 58 Tasks
 - Understand 2 Tasks
 - *Understand the IT environment
 - *IT entity-level controls
 - Execute - Controls 3 Tasks
 - Paid Claims Report Testing
 - Patient Encounters Report (CRF) Testing
 - Hindsight - Patient Progression Report Testin
 - Execute - Substantive 48 Tasks
 - * Journal entries and other adjustments (P&L)

Interactive Chart

Phase	Not Started (46)	In Progress (58)	Prepared (19)	In Review (14)	Reviewed Final (33)
Understand	0	0	0	0	33
Risk & Response	0	0	0	0	33
Execute - Controls	46	0	0	0	0
Execute - Substantive	0	0	19	0	0
Review & Conclude	46	0	0	0	0
Total	46	58	19	14	33

Last replicated: 8/1/2019 2:24 PM | 2 Replication conflicts exist

1.96 GB | cdewire003 | File Owner, Engagement Leader | 6.4 | Online

2:35 PM 8/1/2019

Connect

Issues are flagged and aggregated
Audit adjustments, control deficiencies and regulatory reporting all in one place means delays or issues can be identified promptly.



+ Benefits

- + **Better information exchange and document management** using a secure web-based tool.
- + **Drives process efficiencies** through consolidation and automation of notifications.
- + **Safe and secure** collaboration between your teams and ours.
- + **Globally available** for small to large clients.
- + **Significantly reduces document management effort.**
- + **Real time tracking** enables fast and efficient issue resolution.

Connect

Key features

Consolidated dashboards

Combines audit-related issues, key events, what is being done to resolve them, and progress tracking in real time.

Real time tracking

The personalized dashboard allows clients and audit teams to track status at an overall engagement and individual level.



Connect

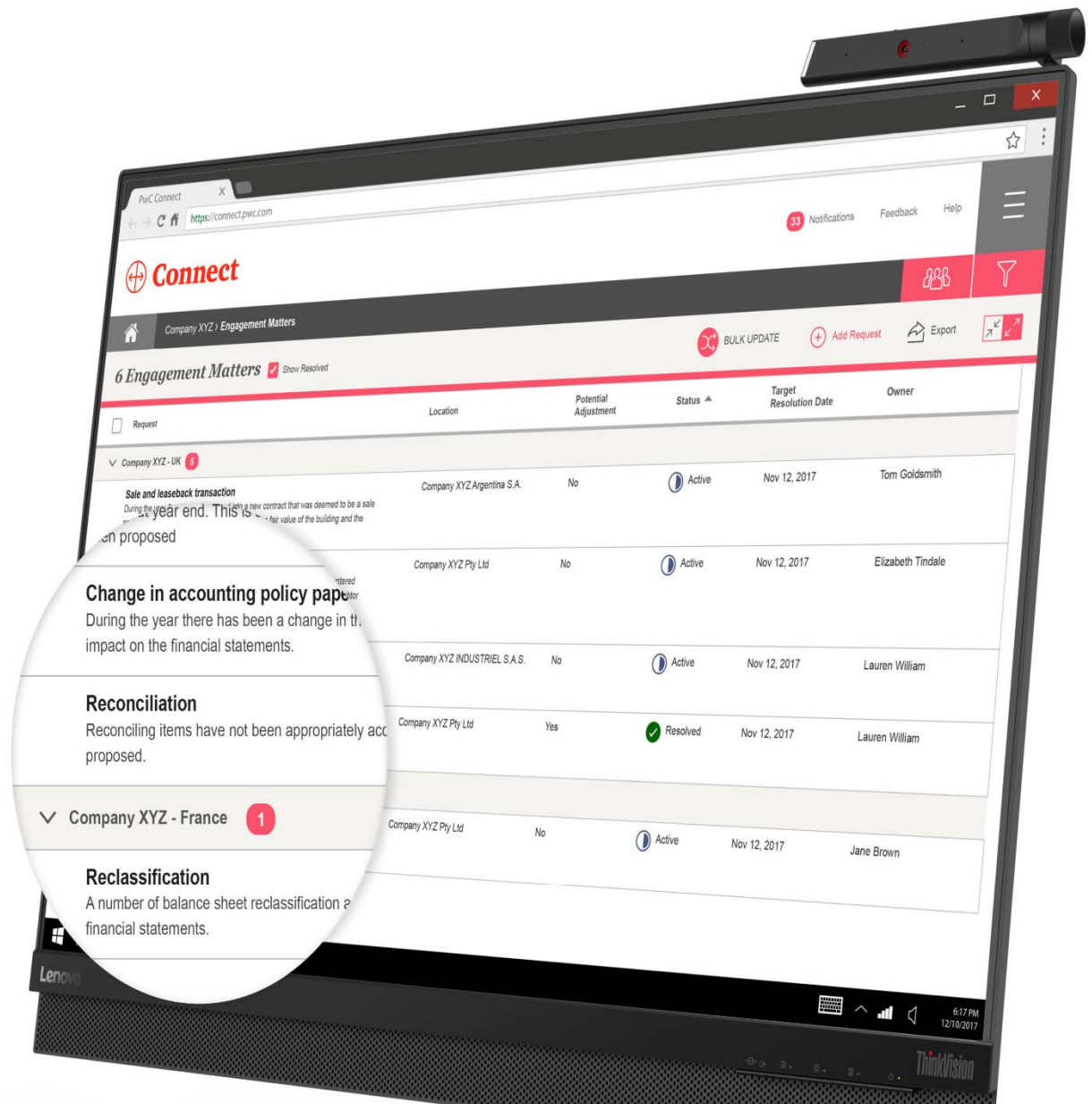
Key features

PwC's global collaboration tool, provides you with a central portal for audits of all sizes and complexity

Global and local issues are identified, aggregated and shared so they can be investigated as they arise.

You can track engagement milestones and KPI's on your local audits as well as the status of your global audits – both regulatory and statutory.

At all times your team and ours are kept up to date and on the same page.



Connect in Practice on the OSU Audit

Audit Requests

Department	Business Process	Request	Status	Due Date
University	Revenue	52 - Government Loan Payment Support	Requested	03 Sep 2019
University	Payroll	69 - Support for payroll testing selections	Submitted	12 Jul 2019
University	Payroll	120 - Monthly Payroll Register - in excel	In Progress	23 Jul 2019
University	Payroll	122 - Payroll reconciliations and bank statements 2.0	Submitted	23 Jul 2019
University	Payroll	123 - Bi Weekly payroll register – Excel	In Progress	23 Jul 2019
University	Payroll	121 - Monthly Payroll Register PDF	Submitted	23 Jul 2019

Connect in Practice on the OSU Audit

Audit Request Metrics Report

Provides details at the request level for the Request Metrics on the dashboard. All engagements within a site are included in the report unless only certain engagements are selected in the filter prior to generating the report.

KPIs:

Total Number of Requests Submitted	502
Number of Requests Submitted Past	197
% of Requests Submitted Past Due	15
Average Days Past Due	10
Number of Requests Returned	75
Number of Requests Returned More	12

Request Details:

Request Information							
Engagement	Request ID	Request	Status	Request Owner(s)	Requestee(s)	Due Date	Date Submitted
Foundation Audit	1	Walkthrough Requests - Gifts and Annuities	Submitted	Jeffrey R Annis Kevin J Munch	Julie Saunders	10 May 2019	09 May 2019
Foundation Audit	2	3.31.19 Trial Balance	Accepted	Jeffrey R Annis Kevin J Munch	Julie Saunders	08 May 2019	17 May 2019
Foundation Audit	3	Walkthrough Requests - Pledges Receivable	Submitted	Jeffrey R Annis Kevin J Munch	John Lister	10 May 2019	01 May 2019
Foundation Audit	4	Walkthrough Requests - Gifts	Accepted	Jeffrey R Annis Kevin J Munch	Julie Saunders	10 May 2019	09 May 2019
Foundation Audit	5	OSU Foundation Board Minutes	Accepted	Kevin J Munch	Julie Saunders	02 May 2019	02 May 2019
Foundation Audit	6	FY19 Foundation Contracts	Accepted	Kevin J Munch	Julie Saunders	02 May 2019	02 May 2019

HALO

+ Benefits

- + **Understanding your business** increases the audit team's knowledge, enhancing the quality of the audit.
- + **Insights** combines trend and ratio analysis to provide you with insights using information we already receive as part of the audit.
- + **Visualizations** show you patterns and potentially higher risk transactions instantly, enabling deeper understanding of your business, supporting more relevant conversations and delivering insight.
- + **Automation** means manual tasks are now completely automated.



Halo tests huge volumes of business-critical data analyzing whole populations, improving risk assessment, analysis and testing, and unlocking a wealth of insight.



HALO

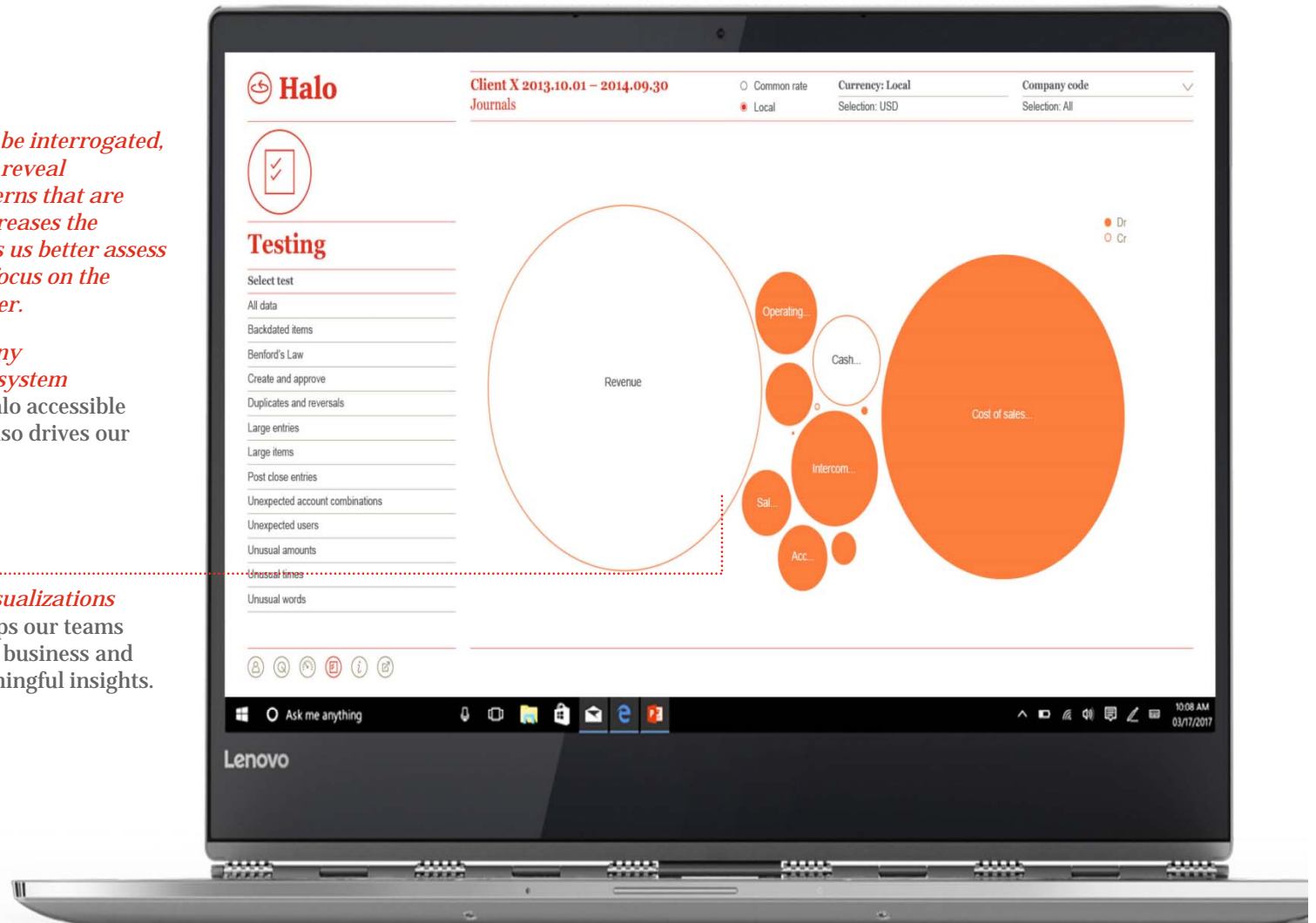
Journals

Enables all journals to be interrogated, tested and analyzed to reveal relationships and patterns that are truly unusual. This increases the quality of testing, helps us better assess risk, and allows us to focus on the things that really matter.

Designed to work on any information from any system

This not only makes Halo accessible to all of our clients, it also drives our ability to benchmark.

Built-in algorithms, visualizations and benchmarking helps our teams better understand your business and provides you with meaningful insights.



HALO in practice on the OSU audit

Journal Entry Dashboard



Dashboard

Total no journals

519,166

Journals < USD 10

20,957

Average lines per manual journal

12.5

Number of users

647

Users posting < 10 journals

132

OSU Consolidated FY18 2017-07... Journals

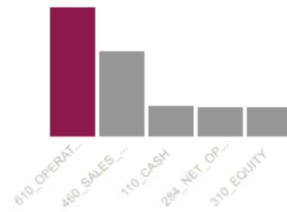
Common rate
 Local

Currency: Local
Selection: USD

Company code
Selection: All

Top 5 FSLI

Top FSLI Value USD (m)
610_OPERATING_EX 5,434.6
PENSE



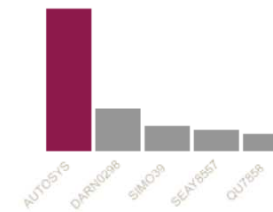
Automated vs manual

% manual Value USD (m)
100% 155,313.0



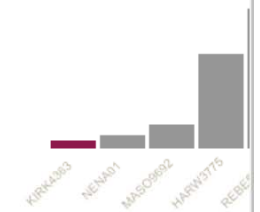
Top 5 manual users

Top user Value USD (m)
AUTOSYS 63,359.6



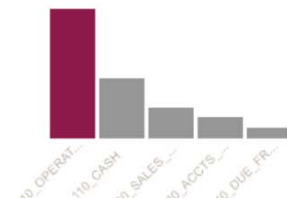
Bottom 5 manual users

Bottom user Value USD
KIRK4363 4



Top 5 FSLI

Top FSLI Volume (m)
610_OPERATING_E 2.9
XPENSE



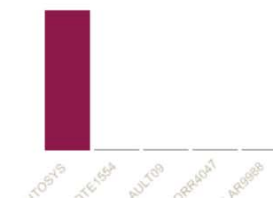
Automated vs manual

% manual Volume
100% 519,166



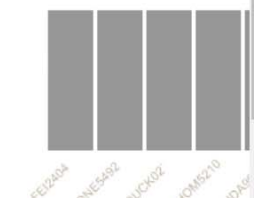
Top 5 manual users

Top user Volume
AUTOSYS 443,841



Bottom 5 manual users

Bottom user Volume
-



HALO in practice on the OSU Audit

Journal Entry Testing – Start with the full population of manual entries ... and make selections for testing



OSU Consolidated FY18 2017-07...
Journals

- Common rate
- Local

Currency: Local
Selection: USD

Company code
Selection: All

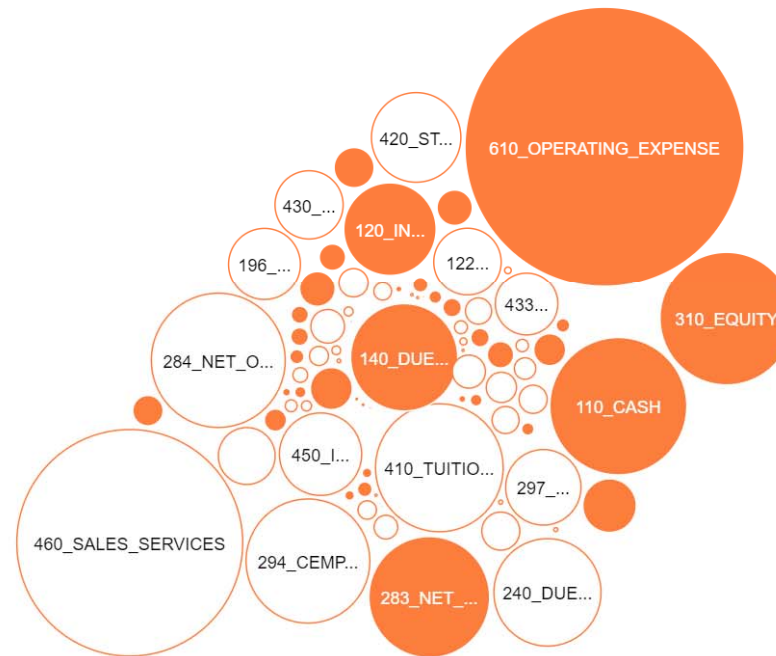


Testing

Select test

- All data
- Backdated items
- Benford's law
- Create and approve
- Duplicates and reversals
- Large entries
- Large items
- Post close entries
- Unexpected account combinations
- Unexpected users
- Unusual amounts
- Unusual times
- Unusual words

See next page for output when 'unexpected users' is selected



HALO in practice on the OSU Audit

Journal Entry Test: Unexpected Users - Results



Journals

Test: Unexpected users

Test variables

Find selected Find unselected

Creator ID list

- | | |
|--|-----------------------------------|
| <input checked="" type="checkbox"/> KEMP4707 | <input type="checkbox"/> ALDR4586 |
| <input checked="" type="checkbox"/> PLAG1677 | <input type="checkbox"/> ALDW6920 |
| <input type="checkbox"/> 100101499 | <input type="checkbox"/> ALFA9612 |
| <input type="checkbox"/> ADAM0602 | <input type="checkbox"/> ALLE5302 |
| <input type="checkbox"/> ADAM1771 | <input type="checkbox"/> AMER4469 |
| <input type="checkbox"/> ADAM4896 | <input type="checkbox"/> AMLI2564 |
| <input type="checkbox"/> ADAT5661 | <input type="checkbox"/> ANAN3959 |
| <input type="checkbox"/> ADOL1329 | <input type="checkbox"/> ANDE0653 |
| <input type="checkbox"/> AKIN2802 | <input type="checkbox"/> ANDE7209 |
| <input type="checkbox"/> ALBR4865 | <input type="checkbox"/> ANDR6677 |

No list selected

Manage filters

Clear all

Manual filter

Manual

Current selections

Creator ID List KEMP4707, PLAG1677

OSU Consolidated FY18 2017-07-01 - 2018-06-30

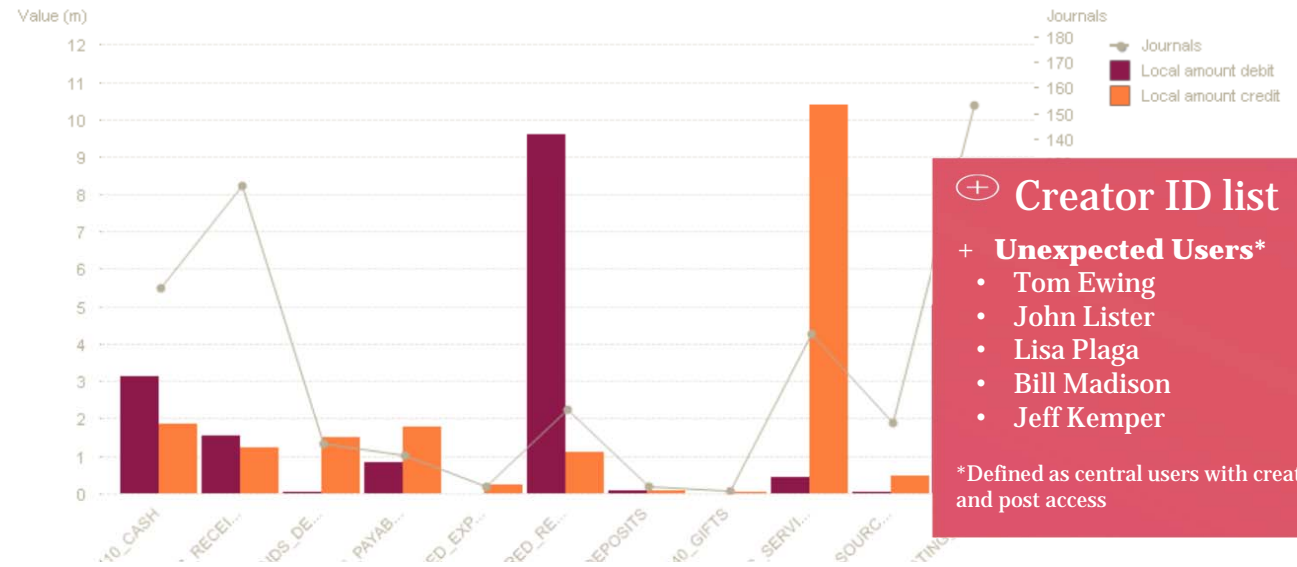
Common rate
 Local

Currency: Local
Selection: USD

Company code
Selection: All

FSLI | Account code and name | Creator ID | Month | Period | Source | Day | Time

Net value | Gross value



HALO in practice on the OSU Audit

Journal Entry Test: Unexpected Users – Detailed Results



Journals

Test: Unexpected users

Test variables

Find selected Find unselected

Creator ID list

- KEMP4707
- PLAG1677
- 100101499
- ADAM0602
- ADAM1771
- ADAM4896
- ADAT5661
- ADOL1329
- AKIN2802
- ALBR4865
- ALDR4586
- ALDW6920
- ALFA9612
- ALLE5302
- AMER4469
- AMLI2564
- ANAN3959
- ANDE0653
- ANDE7209
- ANDR6677

No list selected

Manage filters

Clear all

Manual filter

Manual

Current selections

OSU Consolidated FY18 2017-07-01 - 2018-06-30

Common rate

Currency: Local

Company code

Local

Selection: USD

Selection: All

Data summary

Company code	Journal ID	Effective date	GL account number	GL account description	Creator ID	Local currency	Local amount debit	Local amount credit
			21100	Payables	KEMP4...	USD	137,902.38	0.00
			61201	Office Supplies	KEMP4...	USD	0.00	-1,351.33
			62401	Equipment Repair & ...	KEMP4...	USD	0.00	-52,120.20
2018/01-00052891		2017-07-27	62611	HVAC Repairs	KEMP4...	USD	0.00	-5,843.92
74-0			63606	Purchased Services ...	KEMP4...	USD	0.00	-7,118.59
			65324	Capitalized AV/TV A...	KEMP4...	USD	0.00	-71,468.34
			Total				137,902.38	-137,902.38
2018/01-0005290...		2017-07-28	60636	COS-Staff Meals	KEMP4...	USD	505.00	-505.00
			Total				505.00	-505.00
			21100	Payables	KEMP4...	USD	0.00	-56,590.45
			60636	COS-Staff Meals	KEMP4...	USD	12,100.45	0.00
2018/01-00053012		2017-07-31	60649	COS-Miscellaneous ...	KEMP4...	USD	37,260.00	0.00
83-0			60683	COS-Promotions	KEMP4...	USD	7,230.00	0.00
			Total				56,590.45	-56,590.45
2018/02-00053233		2017-08-18	60683	COS-Promotions	KEMP4...	USD	1,470.00	0.00
30-0			64405	Advertising	KEMP4...	USD	0.00	-1,470.00
			Total				1,470.00	-1,470.00
			21100	Payables	KEMP4...	USD	0.00	-30,877.92
2018/02-00053399		2017-08-29	41159	Event Parking - Day...	KEMP4...	USD	0.00	-165,142.50
35-0			60757	COS-Event Day Par...	KEMP4...	USD	196,020.42	0.00
			Total				196,020.42	-196,020.42
			13010	Accounts Receivable	KEMP4...	USD	41,492.99	0.00
2018/02-00053436		2017-08-31	41042	Rental Income	KEMP4...	USD	0.00	-12,500.00
48-0			60890	Cost of Sales 1	KEMP4...	USD	0.00	-28,992.99
			Total				41,492.99	-41,492.99

Audit Innovation Tools

Next generation technology



GL.ai

GL.ai is a revolutionary bot that uses AI and machine learning to 'x-ray' a business, analyzing billions of data points in milliseconds, seeing what humans can't, and applying judgment to detect anomalies in the general ledger. It is the first module of PwC's Audit.ai.



Data Sieve

We have bespoke optical character recognition tools that utilize machine-learning technology and can be 'trained' to scan contracts and extract the relevant information. This information is easily searchable and can be analyzed in several different ways. The technology is already being used to help clients implement the revenue and leases standards, for example.



Process mining

Our range of Halo tools can illustrate the journey that each transaction takes through the Company's systems. This generates a detailed illustration of the transaction flows for each key process, showing not only the most common route that transactions take, but also when transactions follow an unexpected path. This enables us to compare expected data flows to reality and to properly understand the reliance companies are placing on automated and manual controls. This drives a higher-quality risk-based audit and also generates unique insight into the Company's business.



Appendix



www.pwc.com

Perspectives

in Higher

Education

Spring 2019



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Responding
to a crisis and
protecting
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and inclusion

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The future of
liberal arts
education

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Audit committee
trends

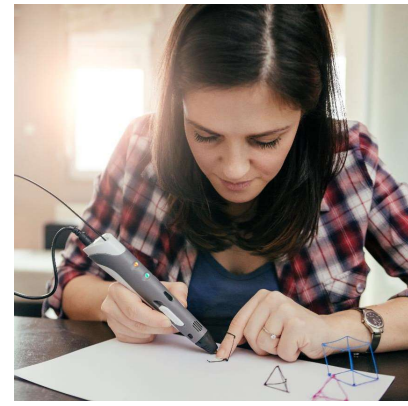
29

The state of
compliance

32

Contributors

35





Introduction

The higher education industry has faced many challenges over the years. While the challenges have varied, the common theme is that the environment continues to be increasingly complex. From the recent “Varsity Blues” headlines, to increased student demands, to challenges around diversity and inclusion, institutions are confronted with the best way to handle the dynamic pace of change. Dealing with these challenges, as well as many others, has required the attention and involvement of many constituents throughout an institution.

In addition to highlighting certain challenges facing higher education, in this edition of “Perspectives in Higher Education”, we have provided our annual Washington update and offered our views on such areas as the state of compliance and the future of liberal arts education. Additionally, from a strategic perspective, we feature certain key items institutions are focused on including technological innovation, investments in campus facilities and international areas of focus. Finally, with the myriad of opportunities and challenges facing institutions, the role of the audit committee has never been more important. We take a look at their current role, as well as best practices associated with crisis management.

We are excited to share PwC’s insights and to offer an informed point of view on how institutions might proactively respond. As a leader in providing audit, tax, and advisory services to the higher education industry, it is PwC’s honor to work with many of the nation’s premier educational institutions in addressing their most pressing challenges.

The higher education system in the United States remains the envy of many countries. To maintain this global position, institutions must be proactive in encouraging dialogue on how to best position themselves to succeed in the years ahead. Doing so will ensure the industry continues to fulfill their responsibilities to society, as it has done for many generations.

Our report is not meant to be comprehensive in nature. Drawing upon our understanding of the diverse nature of higher education institutions that have complex educational, research and clinical activities, we offer the summary as a broad platform for discussing these topical issues in a proactive and collaborative manner.

Please feel free to contact Chris Cox at (508) 259-1557 or christopher.cox@pwc.com, or Margaret Stover at (267) 250-8922 or margaret.stover@pwc.com with any questions or comments you may have.

Chris Cox
National Higher Education
Assurance Leader

Margaret Stover
National Higher Education
Advisory Leader



Institutions should have a crisis management plan that could be put into motion if the unexpected should occur.

➤ Responding to a crisis and protecting the brand

Background

It is hard to pick up the newspaper or turn on the television without there being mention of a negative event in higher education. Corruption, bribery, and harassment are a few of the headlines that have been highlighted recently. Whether it is the recent college admissions scandal, a story on harassment, or an institution closing its doors, each headline has left a negative impression on an industry that is working to protect its brand. The headlines add fuel to the fire for critics that question the cost and value of higher education.

The most recent higher education controversy surrounds bribery and corruption involving wealthy parents paying off test administrators to help improve their children's standardized test scores, and certain

coaches assisting a college admissions advisor in gaining admission to elite universities in return for illegal payments. This case has been widely reported and has cast a negative light on the college admissions process. The admissions process and how exceptions are made to standard procedures has not been a significant focus area at most institutions. This changed almost overnight when the details behind "Varsity Blues" came to light. Although this scandal appears to be limited to certain institutions, parents and coaches, the general discussion quickly turned to the entire higher education system and how it benefits the upper class.

Another recent controversy involved college basketball and bribery and racketeering charges.

College coaches and shoe company executives entered into a scheme to make payments to the families of potential college recruits with the expectation that the athlete would choose to attend the university where the shoe company had a lucrative contract. Several individuals were found guilty and sentenced to jail time, while others lost their jobs. Although “Varsity Blues” and the basketball scandal related mainly to large or prestigious universities, smaller, tuition dependent institutions have not been immune to the negative press. For example, Mount Ida College in Newton, Massachusetts abruptly announced its closure, leaving students, parents and faculty scrambling to find a place to continue their education and/or careers. In reaction to this event, the Commonwealth of Massachusetts proposed legislation that would

Our perspective

Few organizations, if any, had bribery in the admissions process on its list of enterprise risks prior to “Varsity Blues”. When these types of situations occur it frequently surprises and throws institutions into crisis mode. While many organizations currently have a documented and tested disaster recovery plan for natural disasters or other types of physical emergencies, they should also have a similar crisis management plan that can be put into motion if the unexpected should occur.

Time is always of the essence with these types of events. Delaying action or unintentionally taking the wrong action can have lasting negative effects for a college or university. With a spotlight on a university in crisis, the eyes of the students, faculty, administration, board, and donors will all be watching to see how leadership will respond. Additionally, many of these events bring legal or regulatory liabilities with them, and the impacts of a misstep could result in significant leadership changes.

While every crisis is unique, an effective and thoughtful response can be the difference between stumbling through a response and making sound decisions with confidence. Preparing and training for the known risks, as well as recognizing the need for agility in the face of unforeseen events, provide teams the muscle memory needed to effectively navigate a crisis.

Key items to consider include the following:

- Prepare your teams and enable collaboration:
 - Conduct a crisis preparedness assessment to identify current capabilities and gaps
 - Enhance and update current plans

require enhanced financial reporting to act as an early warning system and to identify colleges that may not be able to perform on their obligation to students. If an institution does not meet certain financial and other metrics, they would be expected to demonstrate that they have a “teach out plan” in place to ensure their active and incoming students are able to graduate or continue their education. The proposed legislation is the equivalent of a consumer protection bill. However, such a bill does not come without risk if not carefully implemented. Critics argue that having a list of “at-risk” institutions could cause more harm than good. If an at-risk list was made public, it could be hard to retain current students and faculty as well as recruit new students, which could lead to a college’s potential closure.

- Define key roles and dedicate resources
- Bring together the teams needed for an effective response – do not work in silos
- Test the plan through training and simulations - training as a team builds trust and appreciation of the roles in a response
- Know the facts and stakeholders in a crisis and communicate authentically:
 - Have a process to investigate the facts quickly and effectively - use the facts to drive action
 - Facts drive the communications but authenticity protects the brand
 - Know who your key stakeholders are and their expectations of you, and communicate and respond in a way that preserves your brand and values
- Learn from your (and others) mistakes:
 - Continuously look for ways to improve and learn from where others have faltered
 - Revisit the plans as the risk environment shifts
 - Get feedback on the plan and adjust accordingly

Although it is not possible to prepare for all risks, developing a plan that is agile across different types of crises gives teams a framework to work from and confidence when making real-time decisions. The more prepared an organization is to manage surprises or brand damaging events, the less likely they will fall victim to a wide-spread crisis. Moreover, organizations perceived to have responded well to a crisis often experience unexpected benefits in the form of brand strength and competitive advantage.



Acknowledgement of the importance of diversity and inclusion is not new, however the demand for change is increasingly impatient and is encompassing expanded dimensions of diversity.

➤ Diversity and inclusion

Background

The world continues to become more global and interconnected yet often feels more ideologically divided. In the United States, demographics continue to change. In the very near future, K-12 students in communities of color will represent the majority of the United States population.¹ Additionally, technology and other factors continue to accelerate and contribute to cultural and day to day changes. One emerging effect, resulting from fear of change, loss of identity or being left behind, is a rise in backlash and blaming, nationalism and isolationism. There is a significant divide in politics and media, and in personal interactions in communities and on campuses. Laws, regulations, and related interpretations addressing the rights of individuals continue to evolve, challenging institutions as to the

best way to incorporate them into their policies and procedures.

Colleges and universities regularly find themselves in the center of this turmoil. Their communities comprise diverse populations of students, faculty, administration, alumni and other constituents, and as a result, campuses often provide a broad platform to address these complex issues. Colleges and universities are confronted with instances of hate and bias, both overt and implicit, on and off of their campuses. They wrestle with buildings, statues and other symbols of their history and legacy which are now seen as offensive. Many of the symbols reflect past views that do not represent current values and beliefs, resulting in struggles and debate on the best path forward. Concepts of free speech and hate

¹ American Council on Education 2019 Race and Ethnicity in Higher Education: A Status Report

speech surface through social media, speakers on campus, and all other areas of dialogue and communication. Institutions work hard to create more diverse environments while complying with complex laws and regulations that are subject to interpretation and challenged in courts of law and courts of public opinion through social and traditional media channels.

Colleges and universities are considered thought leaders when it comes to social issues – identifying, assessing and analyzing issues, impact and solutions. Through education and the pursuit of advancing knowledge, institutions of higher learning play a critical role in increasing understanding in our society. Colleges and universities also play a critical role in shaping future leaders. The need for leaders to have diverse views and open minds to be successful is widely established, as is the value of incorporating those diverse views in decision making.

Acknowledgement of the importance of diversity and inclusion is not new, however the demand for change is increasingly impatient and is encompassing expanded dimensions of diversity. College campuses include emerging generations that are passionate, highly motivated and engaged in making a difference. The challenge lies in identifying and implementing the steps necessary to create and support a diverse and inclusive learning and working environment where all feel supported, respected and have a sense of belonging. In a place where many different ideas, backgrounds, and cultures are invited, and diverse and opposing views are welcomed, establishing and maintaining a unified culture can be difficult. The goal of treating each individual with the respect they inherently deserve and operating consistently in accordance with established values is much easier said than done.

US higher education has been shaped by certain ideals and influences – key among them is the commitment to equal opportunity and social mobility.² Leaders recognize that reminding communities of the mission and values of their organization is critical, and also that remaining silent in the face of incivility and prejudice could be seen as implicit support.



² American Council on Education - An Overview of Higher Education in the United States: Diversity, Access, and the Role of the Marketplace, by Peter D. Eckel and Jacqueline E. King

Impact on educational institutions

Significant progress and change is happening across institutions. Faculty, board, employee and student populations are becoming more diverse. Diversity and inclusion related topics are part of the strategic agendas for most organizations. There is action being taken to attract, retain and advance more diverse students, faculty and employees. This includes additional support and resources for the communities in the form of people, programs, and centers and in some instances, formal campus plans. These resources support international students, under-represented minorities and other groups across various dimensions of diversity. Additionally, many campuses are releasing scholarly research on topics of race, gender, and socioeconomics. A number of colleges and universities have institutes

supporting research, hosting forums, and offering classes on diversity.

Although progress has been made across many institutions, others are at the beginning stages of their diversity and inclusion journey or are challenged with affecting the change they need and desire. Institutions often find themselves in the position of reacting to events and external critics rather than proactively developing and executing specific goals and actions. Silos and separate initiatives may exist across campuses without a clear direction to coordinate these activities for maximum impact. Even where strategic focus exists, a tweet, incident or lawsuit can distract and deter progress that has been made.

Our perspective

Colleges and universities should continue to challenge themselves to make more tangible progress towards equitable and inclusive communities. Perhaps the most significant factor in driving greater success is an institution's culture. No programs, metrics or policies can make meaningful or lasting change if the culture is not aligned. Communities must recognize leadership commitment to respecting the inherent value of each individual. Research recognizes that progress can be made when the organization's culture believes progress is important and that the value of diverse views at the table can only be realized when diverse individuals are encouraged and empowered to share those views.³

It is important to assess how consistently the culture is experienced by all constituents across the institution and where adjustments are required. This can be accomplished through surveys, town hall meetings and other communication channels. A critical outcome is visible action in the short-term. Given the complexity of the issue, there is no silver bullet and consensus building takes time. However, it is better to make mistakes when taking imperfect action and continuing to progress, than not to act at all. Strong opinions and personal beliefs and biases will contribute to debate and disagreement. This is to be expected and encouraged, but respectful engagement and open minds are essential and should be reinforced.

There also should be a coordinated plan across the institution. The goal of an inclusive campus impacts all aspects of the community. As a result, all members of the community influence the status of inclusion and should have a level of responsibility. That said, there should be one or more members of leadership that have accountability to develop action items and ensure progress. In many organizations, diversity related responsibilities exist within human resources, student life, legal, and compliance. There should be a mechanism for centrally assessing these different areas to reduce inconsistencies and redundancies, and increase impact across the institution.

All institutions are in different places in their inclusion journey, and the focus on people and increasing inclusiveness is never-ending. Institutions should assess the current state and where the most significant changes are needed. To move forward, colleges and universities should open the dialogue and engage all constituents. Leaders need to both inspire and require change, but change will only come through leading by example and through participation by all key stakeholders. The diversity and inclusion journey will not be perfect and there will be missteps along the way, but honest goals and progress rooted in values will bring positive change.

³ When Gender Diversity Makes Firms More Productive – Harvard Business Review, February 11, 2019, Stephen Turban, Dan Wu, Letian (LT) Zhang



A well-structured and organized approach will enable institutions to ensure their facilities are equipped to cultivate the most effective learning and working environment in the future.

➤ Campus facilities

Background

Colleges and universities continue to evaluate their campus facilities and ways to approach the challenges of building, maintaining and renovating the physical campus. Developing a strategic roadmap is critical to the facilities planning process. Addressing the needs of the institution in light of changing student demographics, while maintaining state-of-the-art facilities and determining how to finance infrastructure projects, are at the forefront of discussions at the board and senior management levels. As colleges and universities continue to face the challenges of administrative budget cuts,

decreased research funding and pressures to reduce tuition increases, the significant costs associated with campus renewal and replacement and funding campus projects are top of mind budgetary considerations. Strategic investments in campus facilities are critical for colleges and universities to address student satisfaction and success, position the campus for the future, decrease the backlog of deferred maintenance, and promote good stewardship of campus assets.

Impact on educational institutions

Changing demographics such as increased diversity, the declining population of college-age students, and greater numbers of non-traditional students will all impact the campus of the future. The campus landscape and composition of the student body are important components when developing a long-term facilities plan that includes classrooms, student housing, student centers, and research laboratories - all necessary to create the total educational experience that supports the student community and overall campus environment.

The physical campus plays a significant role in attracting prospective students and engaging the existing student population. A recent survey found that the campus environment is the number one reason students chose to enroll at an institution, even more than academic reputation and cost.⁴ Research conducted by *The Leadership in Educational Facilities* revealed that roughly a quarter of prospective students will reject an institution if they consider an important facility (related to a student's major) inadequate, and approximately 15 percent will reject an institution if an important facility is poorly maintained.⁵ In evaluating the investment that should be made on the physical campus, institutions are focusing on updating facilities to be better suited for 21st-century learning, and ensuring the campus has the necessary facilities and amenities to attract students and support their success.

Colleges and universities are developing comprehensive campus plans with the involvement of key representatives across the campus community including the facilities department, the budget office, finance, development, and executive leadership, as well as professional space planners. These plans include evaluating existing campus buildings to determine if they can be adapted to meet the critical needs of the institution or if it is more advantageous to construct new structures. Leading campus design practices encourage more interaction among students and faculty. Considerations to achieve this include alternative space design and moving away from a private office model, and creating more open-plan workspaces with "huddle" rooms. Green building design is another key consideration and modular construction, with advantages in flexibility, sustainability and cost, are gaining more traction. Responding to student needs, institutions are

also considering off-campus housing, new student housing and remodeling older traditional residence halls to include modern conveniences. Best practices that institutions are adopting in their campus planning process include:

- Involving faculty, staff, students, alumni and local communities in campus plan development to help build broad support across diverse constituents;
- Establishing planning committees that include senior administrators, faculty, students and alumni representatives to build an integrated planning framework;
- Formalizing a framework that aligns with the institution's strategic goals such as increasing student enrollment and retention, promoting community engagement, and building sustainable facilities;
- Setting short, middle and long-term goals to continue momentum and enable the measurement of success on a continuous basis; and
- Utilizing scorecards to report performance on metrics and benchmark indicators unique to the institution.

Deferred maintenance remains high on the list of priorities. The backlog for facilities maintenance is a record \$30 billion across the US.⁶ For colleges and universities, the funding of deferred maintenance is typically more challenging as private donor funding is more likely to fund new construction. Development offices have continued to address this challenge by promoting capital campaign messaging not only around new construction, but also around renovations to existing facilities and the inherent costs of maintaining infrastructure over a significant period of time. As institutions continue to evaluate the state of their deferred maintenance, facilities strategies and long-term budgeting is considering the need to properly fund depreciation.

As institutions consider funding sources to replace or upgrade facilities, private development deals are an option. Public-private partnerships provide

⁴ Expert Insights, September 18, 2018

⁵ APPA Thought Leaders Series, 2017

⁶ Chronicle of Education, Campus Spaces; Lazy Rivers and Learning, January 17, 2018

institutions financial benefits including access to capital, economies of scale and the potential for holding down maintenance costs since private developers may take on the upkeep of a facility. Public-private partnerships are however, more complicated and often require more time and resources. As private developer models and public-private partnerships evolve, institutions are considering whether such projects are beneficial

Our perspective

Whether colleges and universities build new facilities or renovate existing buildings, a comprehensive long-term campus plan is imperative. This plan must consider how employees may work and how students may learn in the future. Colleges and universities will need to manage space more creatively to respond to the expectations of students, faculty and other constituents. This includes encouraging interaction and cross-disciplinary synergy to facilitate the integration of a more diverse student body.

Long-term facilities planning and forecasting is imperative given the significance of construction costs and related financing. Active involvement of trustees on decisions regarding significant facilities activities is a key component of the process to ensure alignment with the institution's strategic plan and business goals. Ongoing communication across the campus community is also an important element to keep stakeholders informed and part of the process.

for their institution. While public-private partnerships serve to transfer or share risks and provide experience and skills in particular development areas, relinquishing elements of control in the campus building process and potential impacts to the institution's brand if things do not go as planned, are key considerations in the decision for institutions.

Institutions should also consider whether the facilities organization is well positioned with the tools to effectively manage a changing campus environment. Best practices for space management and utilization should be considered, including establishing metrics to better measure and allocate space, implementing incentives to encourage smart space management and designing spaces that are easy to manage. Additionally, as institutions look at their long-term capital needs, benchmarking data may provide insights and help identify areas to lower costs and drive operating efficiencies.

To meet the priorities of the institution going forward, comprehensive planning, communication and support from leadership and stakeholders is paramount. A well-structured and organized approach will enable institutions to ensure their facilities are equipped to cultivate the most effective learning and working environment in the future.



The digital revolution is dramatically disrupting and benefiting the way we work and learn, and will change the way higher education operates.

➤ How technology and automation will change higher education

Background

Automation will have a dramatic impact on all industries, including higher education. Tracking grant writing processes, automating admissions criteria, and streamlining human resources are just a few examples of where automation can improve antiquated procedures. Those colleges and universities that embrace automation and technological changes such as artificial intelligence (AI), augmented reality (AR), machine learning and data modelling will be in a better position to capture the benefits of this rapid evolution.

The availability of accurate data is the foundation for this transformation. A data governance structure is important to ensure the quality and completeness of the data that will be analyzed. Many institutions are still grappling with data availability, especially how to assess unstructured big data.

Prospects, students, faculty and alumni demand continuous access to information. Constituents expect immediate assistance when needed. Readily available data can have a dramatic impact on the

student experience. University administrators are asking how easy is it for students to receive administrative, advising and learning support when they need it, which requires a big data governance

strategy across the institution. Technology and automation can then mine the data, predicting outcomes, and determining an optimal intervention.



Impact on educational institutions

Technology and automation will impact every area within the higher education environment. The following are examples of areas that are being impacted today.

The student experience

Technology will have a significant role in every part of the student lifecycle with big data and AI playing a much larger role in the future, than they do today. For instance, cognitive assistants may be deployed across the institution using big data and AI to provide personalized recommendations to prospects and students. AI teaching assistants may tailor information to a learner's optimal learning style and preference. Assessments could adjust to the learner whereby if a question is answered incorrectly, it can be asked in a different way, thus reducing any bias in the testing instrument. An inaccurate answer can spawn additional questions, so areas for improvement can be precisely identified.

Augmented reality is creating immersive experiences that help the learner interact with their subject. For instance, certain institutions have created immersive environments for medical students which use virtual and augmented reality to let students interact with patients before they enter a hospital setting. Another example relates to chemistry instruction which is utilizing augmented reality to enable understanding of spatial relations in and between molecules.

The classroom experience is also being revolutionized. One of the most publicized tools for classroom AI has been "Jill Watson," a teaching assistant developed by Ashok Goel and his team

at Georgia Tech University. Jill was created to help manage the volume of questions in his AI course. Many students were surprised when Goel revealed that Jill was not an actual person but a Chabot built on IBM Watson. Given that the average faculty member deals with multiple queries in a large course deployment, the advantage for faculty is clear, while students benefit from a more responsive course experience.

AI will also be able to personalize the career-advising experience for students, leveraging university services and providing ongoing interactions on students' chosen paths until placed. For instance, *MARi* is one such tool already in the market. It is a personal learning platform that creates pathways to careers and jobs, based on individuals' skills and credentials, and functions like a "Career GPS," helping users navigate from their current skill set through a series of educational experiences and on to their stated job goal. Other new services are also emerging to assist institutions improve the linkage to the job market. *Roadtrip Nation* has developed a broad library of video interviews on the career paths of different individuals with videos that can help personalize career choices for students and job-seekers. As the demand for higher education accountability increases, technology is playing an important role in recommending career choices and assisting with job placement.⁷

⁷ "The AI Revolution on Campus", Educause Review, August 27, 2017

Human Resources

Colleges and universities are experiencing pressures to improve HR services with less resources and increasingly tightening budgets. Technology and automation are one avenue to creating such improvements. For example, the employee experience can be improved by AI and Chatbots. Consider 24/7 self-service with an AI Chatbot able to assist employees find information and resolve basic inquiries. Increasingly, these tools will complete transactions in underlying HR systems (e.g. moving an employee from one team to another, or approving a leave request). Typically this transformation requires data, process and system standards to be in place. As these technologies are expanded in HR, transformational improvement in the employee experience should be seen.

AI can also be used to improve recruiting talent by advancing the process of identifying the best candidates, sifting through resumes and creating short lists of individuals matched to job requirements. AI can also provide advice and recommendations, saving large amounts of human time and resources. By regularly reviewing algorithms, AI applications may strengthen the hiring, evaluation, and promotion process.

Although still in the early stages, virtual reality is being used in onboarding and training situations. For instance, companies are running simulations that allow employees to train safely in situations that involve real-world health and safety risks. Blockchain can also be useful in HR. Although the more common applications are in payments and complex supply chains, blockchain can help institutions by creating a standard, verifiable, and accurate record of employee qualifications, including items such as education, training, and workforce performance.

HR will have a larger role to play in understanding the impact of automation - overseeing end-to-end workforce strategies that span people and machines. As technology becomes ubiquitous, there are critical skills and capabilities that cannot be reduced to an algorithm. Creativity, innovation, critical thinking, complex problem solving, and emotional intelligence - the human difference - will be increasingly important. HR should take the lead by defining and being the 'guardians' of these human-centered capabilities by reinforcing the purpose and values that hold organizations together, while at the same time promoting employee innovation through the use of technology.⁸

⁸ The Future of HR: Eight technologies that will reshape the HR function, PwC, Christian Murray, Elizabeth Yates and Prasun Shah

Financial Management

Finance operations have a significant opportunity to modernize with technology. Tools such as robotics process automation (RPA) and machine learning are providing low cost/high return opportunities without investing significant time in planning, standardizing and implementing. However, an enterprise view will yield more significant benefits. These technologies are maturing at the same time there is a great demand for business and financial insights while economizing operations. Capturing the remainder of the opportunity requires advanced cognitive-automation technologies, like machine-learning algorithms and natural-language tools.

RPA is being utilized in a variety of ways including accounts payable processing, posting journal entries, assembling reports and dashboards, inventory management, and the financial closing process.

Examples include the following:

- **Supporting the financial close:** The financial close and reporting process encompasses many tasks and processes—from closing out subledgers to creating and delivering financial filings to regulatory bodies. The process can require posting data from sources such as spreadsheets to subledgers, a tedious undertaking that RPA can facilitate.

- **Data extraction for the accounting close:** Oftentimes departments and divisions record transactions, which need to be consolidated and reconciled. A robot can gather and consolidate transactions and reconcile them in an ERP system.
- **Data management:** Aggregating and analyzing financial and operational performance is a business-critical function. A robot can take this job on and not only lighten the time-sensitive burden for employees gathering data, but also benefit executives who need information to gain insight into the business.
- **Blockchain – Trusted Transactions and Contracts:** While still in its infancy, blockchain may change the way higher education interacts with third-parties. Blockchain is essentially a distributed ledger, in which a change automatically gets registered across the entire chain. It is not far-fetched to think that the Federal Government may use blockchain to manage grants, student aid and federal research funding. All the requirements of the ‘contract’ would be built into the blockchain and monitored for compliance.

Our perspective

The digital revolution is dramatically disrupting and benefiting the way we work and learn, and will change the way higher education operates. It is almost certain that somewhere within an institution, some form of automation is being deployed. Technology solutions will increasingly play a vital role in institutional success by producing cost savings and efficiencies. While the growth of

automation throughout an organization is likely under the radar, establishing governance and operating structures, such as a center of excellence, will be important for the integrity of deployment and maximizing adoption, organizational resources and expertise.



A university's international strategy must be coupled with comprehensive business and operational planning.

➤ International trends

Background

"We want a top ranked US university to establish a presence here" is a comment commonly heard in developing markets. The brand value of US colleges and universities is something all but a small number of international universities revere. US higher education institutions build and sustain their brand, and have developed reputations that many countries envy. US institutions are also considered by many foreign students to be more accessible with greater advanced recognition of prior learning experiences, the prospects of future citizenship and diverse student populations.

However, the attraction of the US for certain foreign students has declined in recent years, mostly to the benefit of the United Kingdom (UK) and Australasian

universities. For example, the applications by Mexican students to the UK increased 53 percent in 2018,⁹ and the Institute of International Education identified a decline in international students enrolling in the US for the first time in 2017 by 6.6 percent.¹⁰ The political climate in the US has been one influence on a student's decision to study in the US.

The climate is possibly shifting. Brexit is having an impact on the attractiveness of the UK for both students and faculty as access to research funding and the wider European labor market is now at risk. The Higher Education Policy Institute in the UK predict a potential drop in European students to the

⁹ <https://www.hepi.ac.uk/2018/02/21/higher-education-brexit-britain-changing-future-international-students-uk/>

¹⁰ <https://www.iie.org/Research-and-Insights/Open-Doors/Open-Doors-2018-Media-Information>

UK of over 30,000 students.¹¹ Cognizant of this, the UK has set a target to boost income from international education by 75 percent or an additional

600,000 students by 2030.¹² Germany, Canada and Australia are also setting aggressive international student growth targets.



¹¹ <https://www.hepi.ac.uk/2018/02/21/higher-education-brexit-britain-changing-future-international-students-uk/>

¹² <https://www.timeshighereducation.com/news/uk-international-student-strategy-sets-600k-recruitment-target>

Impact on educational institutions

The following section takes a closer look at four themes and the potential impact of global trends on US higher education institutions: student demand, labor market alignment, the potential for alternative revenue streams and academic risk and governance.

Student Demand

New international student enrollment is on the decline in the US. One cause of the decline has been the improvement in higher education systems in developing markets. Traditionally international students have been a source for the US, but improvements made in these developing markets are now seen as a reason for continuing decreases in foreign students. For example, China now has 72 universities in the 2019 world university rankings, up from 63 a year ago.

US universities are adapting to the international enrollment changes. It is in the US where innovative program models are maturing, including project and skills-based educational credentials programs and stackable degrees and a widening tolerance for diverse approaches and flexible time-frames to complete education requirements. US universities are leading the way in making education more accessible, not just to undergraduates, but to a whole new market – life-long learners. Executive masters programs are among the most profitable courses to run, and tapping into this market in a way that allows learners to combine their studies with their work commitments, is essential. It is true that the UK now has two year bachelor's programs and the Australian universities are also becoming more innovative, but it was the US who set the trend.

Labor Market Alignment

Developing markets are facing significant job shortages. The World Bank and others estimate that in the regions of South East Asia, Africa and the Middle East, there will be a need for 8 million to 10 million new jobs, yet high productivity jobs are shrinking due to the 4th Industrial Revolution. This

places a strong imperative on entrepreneurship and innovation. In many developing countries, there is still a tendency to interfere with course level design decisions, which although may be warranted in some cases, also restricts innovation. This is not helpful when the job market is evolving dramatically and the employability of graduates is a growing concern.

US universities will need to capitalize on trends in the international labor market and try to redress the disadvantage many US students have in finding work outside the US. For example, approximately 20 percent of American students learn a foreign language in school, compared to more than 90 percent of European students¹³. Language learning is a proven pathway toward developing a global mind-set. In addition, US universities can capitalize on trends toward high demand job categories especially in those countries that are a few years behind in the adoption of new technologies. For instance, coding boot camps, entrepreneurship skills and more applied course design have been an accepted part of the US system for many years, but are relatively new in developing markets.

Alternative Revenue Streams

When considering alternative revenue streams, there are several areas of opportunity. The world's love affair with certificates is enduring, and being regenerated with more and more corporate certificates of qualification. A recent survey by *The Learning House* found that employers are increasingly open to non-degree qualifications, sometimes referred to as micro-credentials.

Academic partnerships are also evolving. Increasingly, international universities and large employers are looking for assistance on course design and will pay well for regular quality assurance reviews. Developing market accreditation authorities also support and encourage international benchmarking on program design. If US universities engage in this activity, they should be prepared to provide proper monitoring in order to ensure brand protection.

¹³ The Future of American Education, Transforming our k-12 educational system to meet the needs of the next generation, Kimberly Farmer, Age of Awareness, March 2019

The vast majority of US universities, particularly those highly ranked, have long and fruitful partnerships with international institutions, starting initially in research and now extending more frequently into course design and co-delivery of programs. Large multi-national employers are working with US universities to design specialized graduate programs that are delivered partly overseas and partly on campus in the US. These opportunities are not only revenue generating, but can also result in more research funding.

Academic Risk and Governance

When a developing region welcomes an international university into their country, they are placing a burden of trust in that university's ability to raise the level of academic excellence and improve the quality of the students who graduate.

Our perspective

A university's international strategy must be coupled with comprehensive business and operational planning. This should include undertaking a comprehensive risk analysis that factors in such key areas as academic quality, recruitment practices, rules and regulations associated with foreign expansion, and financial forecasting and budgeting considerations.

Universities are complex systems, and executing on their strategy requires foresight, a determined yet sensitive leadership team, and constant vigilance. Expanding into new territories and capitalizing on international trends requires

Academic governance is that combination of expertise and rigor that no one wants to see compromised. International partnerships can take many forms when it comes to commercial agreements, but rarely will the university's demands for autonomy on matters of academic governance be challenged by any investment partner or regulator.

US universities have encountered a number of challenges around academic governance overseas, most notably in those countries with relatively immature sector governance. Over the past 10 years, US universities have learned some difficult lessons, and as a result institutions have developed clearer criteria for evaluating international expansion.

extensive discussions with senior management and board members at US institutions. The rewards from an effective international strategy include reputational growth, new revenue sources and additional opportunities for students. These rewards must be weighed against the risks, such as the potential impact to an institution's brand and sustainability of the overseas location once initial funding is no longer in place. Involvement of many different constituents in the international decision-making process will be necessary to ensure the strategy is in line with both short- and long-term goals of an institution.



The demands students are making are increasingly more complex and polarizing.

➤ Student demands

Background

College campuses are often a microcosm of the polarized political environment that we live in today. Institutions are now experiencing demands from many diverse viewpoints. With similar passion as the 1960's when students were demanding civil rights and protesting the Vietnam War, students are again demonstrating their first amendment rights on college campuses and through social media. Ralph F. Young, author of "Dissent in America" and professor

at Temple University, predicts, "We will have the 1960s all over again, however, now it is about everything – everything is under attack."

From the "#Me too" movement, to freedom of speech, to campus safety and security, to mental health, students are not only demanding that their voices be heard, but that immediate actions be taken by institutions on key issues impacting society.

Impact on educational institutions

College students are making their voices heard, including speaking out on diversity issues, sustainability, gun laws, and ending discrimination on campus. Some protests have escalated into power struggles between students and campus administration. For example:

- The ongoing saga of Silent Sam protests at the University of North Carolina at Chapel Hill garnered media attention for months as the campus became a battleground with increased police presence, student arrests and virtually no compromise between students and university leadership;
- Students at many of the largest endowed universities are targeting key investment officers and senior administration to encourage green campuses and to demand the college endowment be divested from all fossil fuels;
- Students at a large research university recently held a 10-day sit-in where they vowed to occupy the president's office until the administration appropriately addressed a formal list of demands addressing racism on campus.

Formal, written demands from students are becoming increasingly popular. These demands often outline guidelines for negotiations with and related responses from college officials. Several years ago, the website www.thedemands.org was

established to facilitate a place for students to outline their demands, primarily related to ending systematic and structural racism on campus. Demand letters place administrators in a difficult position. Administrators are often hesitant to take action due to differing viewpoints from constituents, limitations on what college officials can change, and the economic realities that often come with change. Changing such items as investment mix, faculty hiring, and courses that are held often requires input from many stakeholders and a thoughtful decision-making process, rather than a reactionary approach.

Even in the college environment where different views are accepted and explored, faculty and administration struggle with polarizing outcries and demands. At times, students appear to have the power which allows them to be the ultimate judge of what is offensive or not. For instance, students have been allowed to opt out of classes that they deem offensive. Additionally, institutions have limited guest speakers thought to be inappropriate to a student group.

Student demands have not just impacted policies, but have also impacted how faculty teach and express their ideas. Recently there have been several high profile incidents where, based on what a faculty member said or did, students called for a faculty member's resignation. These high profile incidents have resulted in faculty reconsidering whether they should express their views and engage students in intellectual debate.

Our perspective

Are college administrations coddling students by reacting to their demands or are these demands warranted in order to provide a better academic environment? Regardless, for administrators, it is a delicate balance between mission and demands. A misstep in this area can lead to reputational risk for the institution or career risk for individual faculty, staff and administrators.

The demands students are making are increasingly more complex and polarizing. It can be difficult for senior administration to make decisions with support from all students and alumni. By ensuring alignment to the institution's strategy and incorporating an effective communication plan with the institution's constituents, the risk of a community crisis and further demands may be mitigated.

While some demands will require a long-term systemic approach, administrators will need in the short-term to collaborate to find solutions for students today. This means administrators will

need to closely align their mission with the demands from students and develop a clear and concise communication plan of why certain demands are accepted while others are not. It is important to have input from constituents across the university community – including student leaders, alumni, faculty and board members. Convening the appropriate constituents at the right time is not easy. However, institutions may want to begin with developing an advisory committee to deal with social issues on campus. Similar to recent disaster recovery planning, many colleges and universities are incorporating student social demands into their enterprise wide risk management processes and modeling out how to handle various types of student demands that could potentially impact their institution. This not only allows colleges and universities to better plan and align their decisions with their strategy, but also allows for a consistent and well thought out “playbook”.



As the world continues to change and technology continues to advance, liberal arts institutions need to provide relevant programs to prepare their students to be successful in the ever-changing and dynamic workforce.

➤ The future of liberal arts education

Background

High tuition costs, continued increases in education debt and perceptions of students being unprepared for the workforce are several factors that have led to discussions about the value of a college degree. When discussing such value, one of the frequently debated approaches to learning is a liberal arts education.

Liberal arts institutions pride themselves on producing students who are taught to ‘think’ and are broadly educated in the social sciences, natural

sciences, and humanities. Many employers seek skills that are fundamentally part of a liberal arts education and many liberal arts graduates earn respectable salaries. On average, graduates from liberal arts institutions earn \$92,000 in their mid-careers.¹⁴ Employers often indicate they are looking to hire graduates with such skills as critical thinking, complex problem solving and oral communication. Recognizing this and the value of these qualities in future leaders, liberal arts programs are on the rise in many countries around the globe. These countries

¹⁴ Payscale: “College Salary Report, Best Liberal Arts Colleges by Salary Potential,”2018-2019

are looking to the United States liberal arts model to enhance their curriculums.

There are others who question the value of a liberal arts education in a world where engineering, finance, computer science, and medicine dominate the list of degrees in highest demand. There is a view that a liberal arts education is diminishing in value due to factors such as its lack of focus on specialized skills, lower potential career earnings and higher unemployment. In 1967, one in five students enrolled in a US university majored in the liberal arts, however, today it is one in twenty students.¹⁵ Research shows that 4.4 percent of liberal arts degree holders are unemployed among 24-34 year

Impact on educational institutions

The case for a liberal arts education is harder in today's world than the case for a more specialized education, however, liberal arts institutions are not remaining stagnant. They are seeking ways to remain relevant with parents and students by building a curriculum based on employer requirements, offering real world experiences to students, partnering with other institutions and investing in the advancement of science, technology, engineering and math ("STEM") courses. These are not easy tasks, given the cost involved to attract faculty, enhance facilities and strengthen marketing campaigns, especially for tuition-dependent institutions. Changes, however, are happening and include the following:

Collaborations with specialized schools. Liberal arts institutions are collaborating with other colleges and universities that offer business, engineering and other specialized courses. This collaboration provides a different experience and a broader range of choices in courses for students. Additionally, by partnering with other schools, liberal arts institutions are minimizing the cost of implementing new courses in their own curriculum.

Investment in STEM. Automation, artificial intelligence, big data, robotics, and healthcare advances represent some of the fastest growing trends in today's world. Skills in these areas coupled with the traditional liberal arts values of writing,

olds and 3.8 percent are unemployed among 35-54 year olds compared to health and medical sciences graduates, whose rate drops from 2.6 to 2.0 percent among the same age groups.¹⁶ Additionally, of nearly 500 small private colleges studied over the last 50 years, most of them focused on the liberal arts, 28 percent have closed, merged or changed their missions.¹⁷

Liberal arts institutions are aware of these challenges and the various perceptions surrounding their education model and are implementing changes to market their programs to current and future students, parents and employers.

problem-solving and oral communication are valuable to employers. As a result, liberal arts institutions are placing an emphasis on the growth of STEM courses. On average, approximately 20 percent of graduates at the top liberal arts institutions in the United States graduated with a STEM degree. A number of liberal arts institutions are investing in infrastructure, faculty, and technology to meet these demands.

Meeting employer requirements. Many liberal arts institutions are lining up their curriculum to correlate with the skills and experiences employers are prioritizing as part of their talent recruitment. Additionally, institutions are providing students with real-life opportunities on how to use their skills. Offering internships and job experiences through coursework allows students to understand how to apply skills learned in a liberal arts setting in the workforce. Institutions are also encouraging undergraduate research projects, study abroad programs or world cultural studies in order to broaden the learning experience.

Promotion of the value of liberal arts. Liberal arts institutions continue to strive to promote their value, demonstrating they offer skills employers seek, along with clearly showing career trajectories of recent graduates. Data on job placement upon graduation, average starting salaries, and career earnings potentials are being promoted not only with students, but to parents and employers.

¹⁵ Humanities Indicators, a project of the American Academy of Arts and Sciences: "Bachelor's Degrees in the Humanities", May 2017

¹⁶ Humanities Indicators, a project of the American Academy of Arts and Sciences: "The Employment Status of Humanities Majors", February 2018

¹⁷ The Journal of Higher Education: "The Invisible Colleges Revisited: An Empirical Review", December 14, 2017

Our perspective

Liberal arts institutions offer diverse and unique experiences to students. As these institutions continue to enhance their brand and related programs, the following questions should be considered:

- What is the institution doing to evaluate majors that lead to more gainful employment?
- What types of internships and work experience are being implemented as part of the curriculum?
- How can technology be used and leveraged to enhance a liberal arts program?
- How is the institution marketing its educational experience to potential students, parents and employers?
- How can the institution partner with other colleges and universities to provide students with greater opportunities?

- Which liberal arts strategies best align to the institution's mission and vision?
- Should the current STEM courses offered be expanded?
- How is the institution educating parents and students on post-graduation employment statistics, potential pay, and other important metrics?

The skills acquired through a liberal arts background are essential attributes that employers are embracing including creativity, innovation, adaptation and mindfulness. These are universal characteristics that are transferable to any field and industry. As the world continues to change and technology continues to advance, liberal arts institutions need to provide relevant programs to prepare their students to be successful in the ever-changing and dynamic workforce.



Educational institutions should continue to be vocal with regulatory bodies and political leaders as to their perspectives on proposed changes and the regulatory cost associated with such changes.

➤ Washington update

Background

Over the past two years, the Trump administration's deregulatory agenda was encouraged by the Republican-majorities in the US Senate and House of Representatives. Republican leaders, committee chairs, and rank-and-file members generally supported the administration's efforts to reform or dismantle an array of Obama-era education policies. Most notably, the Department of Education (ED) halted enforcement of the gainful-employment regulations, while seeking to rescind the rules and establish a new construct. It also delayed processing borrower-defense claims, while working to roll back the Obama administration's Borrower Defense to Repayment (BDR) rules. It also proposed changes to Title IX, which bars gender discrimination at institutions receiving federal funds.

These and other efforts undertaken by the Trump administration, as well as other education initiatives it pursues over the next two years, will be subjected to new oversight now that Democrats have majority control in the House. While it will be difficult to derail or block the Trump administration's deregulatory agenda, the new Democratic-majority in the House is planning to use its oversight and subpoena power to closely scrutinize education initiatives driven by the White House and ED Secretary Betsy DeVos.

Impact on educational institutions

Higher Education Act Reauthorization

The Higher Education Act (HEA), which authorizes numerous federal aid programs that provides support to both students and higher education institutions, has not been updated in more than a decade. After four years as the ranking member, Congressman Bobby Scott (D-VA) took the reigns as chairman of the House Committee on Education and Labor and was joined by over half a dozen new Democratic committee members. Meanwhile, Committee Republicans had an overall reduction in members. With this new makeup, Chairman Scott has indicated that he intends to prioritize higher education issues and attempt a bipartisan HEA reauthorization process. Scott and his colleagues may begin this process by using the Aim Higher Act as a baseline. The Aim Higher Act, which was introduced prior to the midterm election by Scott and Democratic committee members, focused on making college more affordable and cracking down on for-profit schools. The bill calls for a state-federal partnership to spur states to invest more in higher education and would make two years of community college tuition-free. It would also boost Pell funding, simplify the FAFSA form, and allow states to regulate student lenders.

In the Senate, the Health, Education, Labor and Pensions (HELP) Committee failed to produce HEA reauthorization in the 115th Congress due to partisan disagreements. GOP Senators were focused on overhauling the federal student aid system and easing restrictions on the types of programs receiving federal funds, while Democratic Senators also wanted to revamp the federal aid system, but not at the cost of restricting access to students or sacrificing protections. Chairman Alexander (R-TN) and Ranking Member Murray (D-WA) returned to their posts and see HEA reauthorization as the top priority.

Deregulation and the Trump Administration

The ED and other agencies have aimed to deregulate certain areas in the higher education arena. ED Secretary DeVos released a memo arguing that state laws that govern federal student loan servicers are invalid, because they undermine the federal government's role, and then the ED issued a rule stating the same. Since then, Secretary DeVos and the Trump Administration have been cutting off information and data to state attorneys general suing on behalf of student borrowers, while instructing companies that collect

on federal loans to refuse demands for information. On August 10, DeVos unveiled her proposal to rescind the Gainful Employment Rule, effectively ending the imposition of sanctions on low-performing programs at for-profit colleges and other career schools. While there is still no final rule and the November 1 deadline passed, the current regulations are not being enforced and the ED is not expected to produce any new gainful employment data on college programs. Stepping away from its deregulatory efforts, the Trump Administration laid out its vision for the future of college accrediting agencies in December. Secretary DeVos presented a white paper and agenda in a private meeting with over 100 leaders of organizations representing thousands of colleges, faculty, and the presidents and heads of individual schools.

Congressional Oversight

Democrats have been eager to hold the administration accountable for its expansive deregulation effort on issues including student loans, for-profit colleges, and civil rights. Specifically, Democrats including Chairman Scott, Representative Takano (D-CA), Representative DeLauro (D-CT), and Representative Waters (D-CA) have expressed concerns around ED's proposed overhaul of the BDR and gainful-employment rules. Democrats are also expected to challenge ED's management of the Public Service Loan Forgiveness program (PSLF), as the majority of applicants have been rejected and the President has twice attempted to eliminate the program. It is likely that Secretary DeVos and/or members of her Department will be asked to testify about these and other proposals related to student debt and the for-profit college industry.

Current Student Loan Considerations

President Trump's fiscal year 2019 budget proposal honed in on removing the PSLF program, eliminating subsidized student loans, and creating a single income-driven repayment plan in an effort to save an estimated \$203 billion over 10 years. In his proposal, President Trump also outlined an expansion of the Pell program to include certificates and short-term education programs, increased funding for the Federal Work-Study program, and created a Perkins grant that would be allocated for STEM programs; however, the president cut the overall discretionary spending for

the ED by \$3.6 billion. The proposal also included an elimination of subsidized loan programs.

Despite these proposed cuts, the fiscal year 2019 appropriations measure that was signed by Congress includes a \$100 increase to the maximum Pell Grant award, a \$50 million increase to TRIO programs, a \$10 million increase to GEAR UP programs, \$350 million for an eligibility fix for the PSLF program, dubbed the Temporary Expanded Public Service Loan Forgiveness program, and level funding for the Federal Supplemental Educational Opportunity Grant (FSEOG) program and Federal Work-Study. Additionally, the bill includes \$1.17 billion for Student Support and Academic Achievement State Grants and over \$1.4 billion for Impact Aid. The overall increase to ED's budget passed by Congress of \$71.5 billion is \$581 million over the fiscal year 2018 enacted level.

Research and Research Funding

In last year's fiscal year 2018 plan, President Trump proposed cuts to the budgets of major federal agencies that provide a significant funding pipeline to university research grants and projects. In Congress' fiscal year 2019 passed and proposed Appropriations packages, Congress has increased funding for most of the same programs.

The majority of research funding goes to institutions of higher education, with NIH grants alone supporting the research of over 300,000 researchers at more than 2,500 universities, medical schools, and research institutes across the country. Unsurprisingly, the backlash from the agency heads and academic community after President Trump released his proposed budget was fierce, citing devastating consequences to the nation's economy, education system, and innovation in science and technology.

Lawmakers largely rejected these provisions in the May 2017 spending bill, increasing funding for the NIH (\$2 billion) and NEH (\$2 million), while keeping the National Science Foundation's budget unscathed and reducing the EPA's budget by

only 3 percent. President Trump's FY 2019 budget proposal was nearly identical in rhetoric and intention to his FY 2018 plan, with only slight variations in the percentage point changes to budget reductions. Considering the bipartisan opposition to these provisions in the past, and the growing aversion to another government shutdown, lawmakers listened to the academic community and rejected many of the cuts, though they still did not fund the institutions and agencies to the levels requested.

Continuing impact of the Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law by President Trump. A sweeping change to US tax laws, it contains several provisions that are impactful to higher education including a 1.4 percent excise tax on the endowments of certain private colleges and universities, a 21 percent excise tax on compensation in excess of \$1 million, segmentation of unrelated business activities and the taxation of employee transportation fringe benefits.

Institutions have now had over a year to review and plan for the potential impact of these provisions. The IRS has provided several notices that address key issues, but many questions still remain. For those institutions subject to the excise tax on endowments, significant planning is necessary due to the tax and compliance burden as they adjust to a new reporting regime. Also, institutions continue to be concerned about the financial impact of the taxation of employee transportation fringe benefits. Although there is pending legislation introduced to repeal this provision, no action has been taken at this time. As a result, colleges and universities might consider actions to mitigate the tax burden including the potential restructuring of parking facilities to meet a test that excludes the cost of certain facilities if they are majority established for public use. Finally, institutions continue to pay close attention on how tax reform impacts other areas, including donor behavior. The true economic and legislative impact of tax reform is still to be determined in the years to come.

Immigration Considerations for Higher Education

California State Superintendent of Public Instruction Tom Torlakson and the California Student Aid Commission (CSAC) announced that applications for the California Dream Act are down. He had urged all eligible students to apply for the program by the March 2 deadline, which allows undocumented students to receive state financial aid for college. The California Dream Act is unrelated to the DACA program. Amongst the

backdrop of the national immigration debate, CSAC stated it will take “all available legal precautions to protect California Dream Act information, which is used solely to determine eligibility for state financial aid, and is not shared with any other government agency.” Regardless of what happens at the federal level, state financial aid for DREAMers remains legal in California, he noted. Currently, a DREAMer student does not need to be DACA-certified to be eligible for a public education or state financial aid, and losing DACA status does not affect state financial aid eligibility.

Our perspective

The attention to higher education from Congress, the President, and other regulatory bodies is not slowing down. While some legislation is in progress to streamline compliance requirements and reduce the financial burden, other legislation may result in more compliance requirements and

added cost of implementation. Therefore, when the opportunity arises, educational institutions should continue to be vocal with regulatory bodies and political leaders as to their perspectives on proposed changes and the regulatory cost associated with such changes.



Colleges and universities require an audit committee that has the requisite knowledge, time, and experience to assist in managing risks, maintaining a competitive advantage and ensuring long-term success.

➤ Audit committee trends

Background

Audit committees continue to serve a critical fiduciary role in serving their respective institutions. Rules, regulations and related compliance requirements have increased and are more complex than ever. Additionally, information technology (IT) environments at institutions continue to evolve and become more complicated. These types of changes have resulted in an increase in the depth and range of audit committee oversight.

Audit committee agenda topics such as approval of the internal and external audit plans and review of the audited financial statements have given way to much broader industry risks such as enterprise risk management and cybersecurity. As a result, there is a shift in the type and number of audit committee members, as well as the number and length of audit committee meetings to ensure there is the proper level of knowledge and understanding of items on the agenda and adequate discussion of key topics.

Impact on educational institutions

The demands placed on audit committees have made it more important to have the right skill sets and perspectives seated around the table. It is imperative for committee members to find the right balance between the appropriate level of oversight and supporting management in their roles and responsibilities.

Diversity and length of service have become an area of focus for committees. A diverse board yields unique perspectives which can enhance the performance of the committee. Additionally, many boards struggle to find the right balance between newer members that may bring different views versus longer term members that have historical experience and institutional knowledge.

Many institutions have either recently completed or are planning to embark on one or more major IT projects. Many of these projects include some form of cloud computing which adds another aspect of risks to be considered. "Data protection is among the biggest concerns in cloud computing...when information is hosted by cloud service providers, a considerable amount of privacy control is transferred to the cloud vendor. It is essential to

ensure the cloud provider understands the end user's security and privacy needs..."¹⁸ In addition, there are new governmental regulations going into effect related to data privacy, namely the General Data Protection Regulation. Issues arising from system implementations and data privacy can quickly derail the operations and reputations of even the most prestigious institutions.

As a result of the risks associated with IT projects, as well as the public nature of cyber breaches and related reputational damage that can be caused, boards are more engaged than ever in ensuring they understand the institution's IT environment and preparedness to deal with the risk of cyberattacks. According to EdTech, "2018 was a bad year for higher education cybersecurity after experts revealed education institutions had the weakest digital protections out of seventeen vulnerable industries. Moreover, while universities are falling behind on their security plans, the cyber underworld is evolving and consolidating, according to the McAfee Labs 2019 Threats Predictions Report."¹⁹

¹⁸ <https://www.stacktunnel.com/critical-risks-and-challenges-cloud-computing.html>

¹⁹ <https://edtechmagazine.com/higher/article/2019/01/3-cybersecurity-threats-higher-education-institutions-should-be-wary-2019>

Our perspective

A leading practice among audit committees is performing an annual performance assessment. The results of the performance assessment can identify gaps in skills that members believe they need to be successful and can assist in identifying topics for future committee education. In addition, the audit committee charter should be revisited on an annual basis. As the role of the committee continues to evolve, it is imperative the charter appropriately reflect the expected roles and responsibilities. Updating the charter and performing a self-assessment will assist the committee in measuring its own effectiveness.

Most boards and audit committees have orientation and training for new members. As regulations and responsibilities increase, it is a leading practice to incorporate continuous training to assist trustees in keeping abreast of current industry developments. This ongoing training could take the form of additional meetings added to the calendar or on-line tutorials or webcasts covering specific topics.

Audit committee members should be involved in monitoring the status of major IT projects to ensure the institution has performed the appropriate training and implementation reviews prior to “go live”. Typically, committee involvement includes receiving periodic updates throughout the various

phases of an IT implementation, including receiving formal reports from either internal audit or an external consultant hired by management.

With the increased focus and attention on cybersecurity, board members are receiving more education on the topic. This education is not only being provided to the audit committee, but to the full board of trustees. In cases where ultimate responsibility for cybersecurity does not lie with the audit committee, it is still typical for the committee to receive periodic updates on this issue.

Given the additional responsibilities expected of today’s audit committees, it is imperative that meeting materials be provided in advance and be in a form highlighting the most vital items. It is also imperative that members have enough time prior to meetings to review meeting materials so the allotted meeting time can be spent in discussions and dialogue with management and others around the most significant matters.

The changing business environment continues to create both challenges and opportunities for institutions. Colleges and universities require an audit committee that has the requisite knowledge, time, and experience to assist in managing risks, maintaining a competitive advantage and ensuring long-term success.



Given the increasing profile of compliance within higher education, many institutions are revisiting their approach to compliance.

➤ The state of compliance

Background

The compliance requirements within higher education continue to expand. Like many commercial entities, colleges and universities must assess industry-specific requirements (such as accreditation, Title IX, and the Family Educational Rights and Privacy Act), as well as the impact of broad mandates, such as the European General Data Protection Regulation and the Gramm-Leach-Bliley Act. Layered on top of the evolving regulatory environment is the negative brand impact of adverse events. The advent of social media and “in the moment reporting” fosters headline-making news, often before the facts are known and vetted. These have included recent scandals regarding school rankings, sexual harassment and misconduct, and tragic student deaths. Each of these events were instant news, resulting in negative brand impact, often before an institution could investigate the incident and respond. Senior administration,

academics and trustees are asking how they can avoid such negative headlines.

When these scandals are revealed, questions are often raised regarding culture. These questions can include: “How could that have happened?”, “who could possibly think that was acceptable?” and “that punishment hardly fits the misdeed.” While the tone at the top is almost universally focused on doing the right thing, somehow it can become disconnected. When someone looks the other way, fails to speak up, or fails to act, a new scandal can be in the headlines.

Facing these changing dynamics, educational institutions often look to their compliance structures to address specific risks and to avoid the headlines. Compliance departments are routinely charged with understanding regulatory requirements, designing policies, procedures and training to facilitate

compliance, and responding to stakeholder inquiries regarding regulations. Certain compliance departments have significant resources allocated to monitoring compliance, particularly in academic medical centers (AMCs), while others focus primarily on risk identification and mitigation. Compliance departments often collaborate with the provost, academic departments, legal, and internal audit, casting a net to identify and respond to compliance concerns, regardless of the source.

Traditionally, compliance has been decentralized across the academic environment whereby individual colleges and departments maintain responsibility for regulatory compliance. Centralization of compliance responsibilities is generally limited, and has been shaped by historical structures and institutional culture. AMCs are an exception, as the intense healthcare regulatory and accreditation requirements drive centralized policy development and monitoring. Research-intensive institutions may also centralize elements of compliance monitoring, but each

Impact on educational institutions

Historically, compliance functions vary in their power within an institution. Some compliance elements, such as Institutional Review Boards, are highly respected, powerful components of a compliance function, but their purview can be very narrow in the context of an institution's broad regulatory footprint. Other compliance functions, whether they be centralized or embedded in other areas, often have limited budgetary resources. The result is that compliance resources focus on regulatory risk identification and policy development, with little time spent on training or monitoring. Compliance training must take place repeatedly over time, to adapt to changing requirements and also to ensure that those with changing roles are informed on requirements, processes and exception protocols. Often, the only reporting of non-compliance are "hotline" calls or the occasional internal audit, as an institution relies on

institution strives to maintain the balance between central oversight and perceived limits on academic freedom.

Structurally, there is no 'standard' approach to compliance within higher education. Some institutions have a chief compliance officer or vice president of compliance reporting through the chief financial officer, general counsel or chief risk officer, while others have a director or manager within the legal department or internal audit function. The size of the compliance staff underneath these leaders ranges from zero to six (excluding any healthcare compliance team members). Privacy, a key regulatory function, can rest within compliance or within IT (or elsewhere), impacting the resourcing of the compliance department. As the above approaches demonstrate, there is wide diversity in how institutions choose to address their compliance requirements.

people to do the right thing. The inability to effectively educate those with compliance roles and actively monitor compliance reduces effectiveness of the overall compliance function.

Although there have been increased regulatory requirements and increasing public scrutiny of institutions, this has not been accompanied by increased budgets for compliance departments. These departments are consistently asked to do more with the same, or less, resources. Some compliance leaders have been able to team with other colleagues in their institution to creatively address potential risks, but the overall sentiment is that regulatory risk at higher education institutions is steadily growing, as a result of increasing regulatory complexity and reduced compliance resources overall.

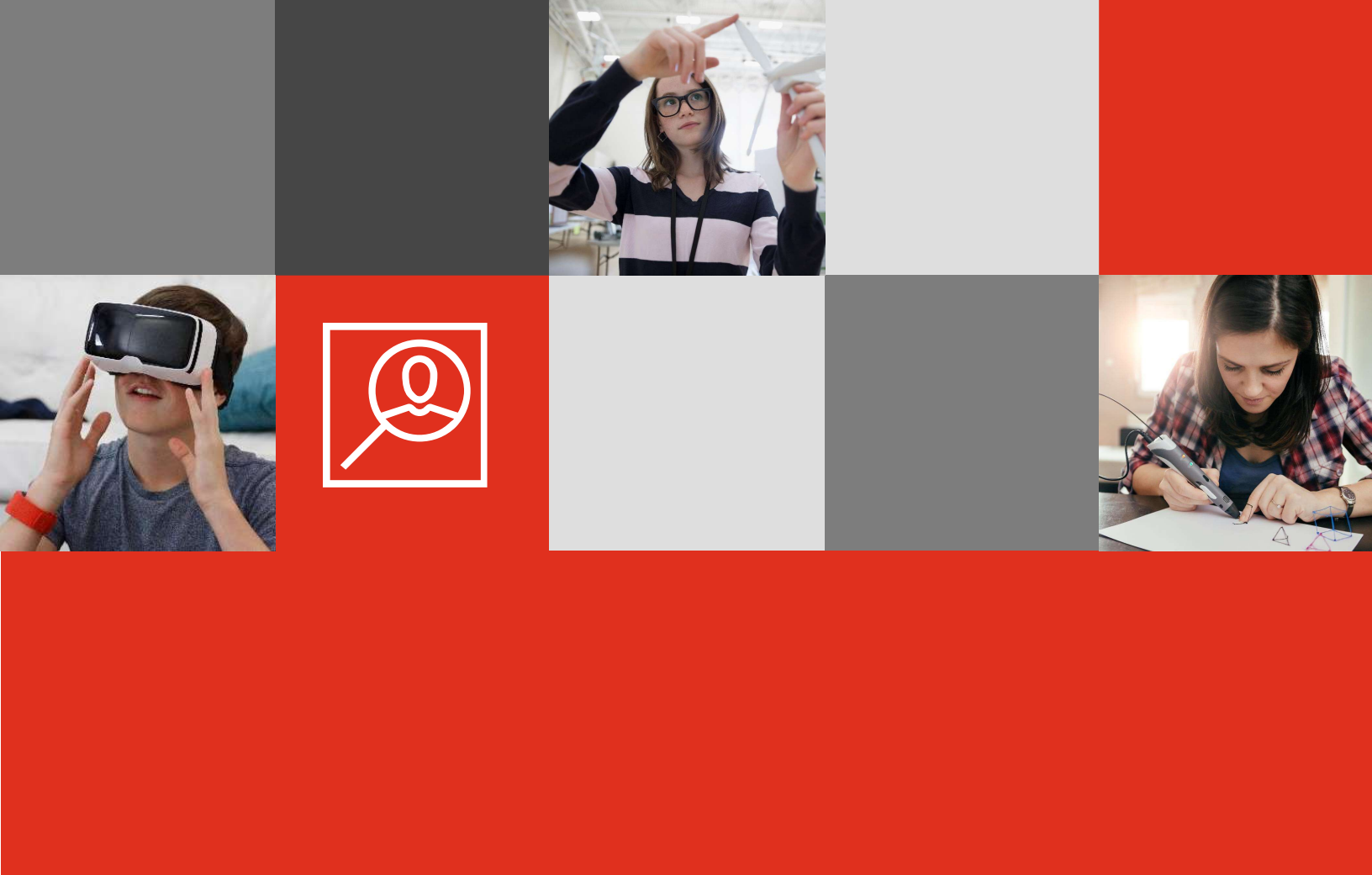
Our perspective

Given the increasing profile of compliance within higher education, many institutions are revisiting their approach to compliance. Board members in general, and audit, risk and compliance committees in particular, want to know how their institution is making sure issues at other colleges and universities do not arise 'on their watch.' This is driving the need for increased transparency, whether from the central compliance function or the distributed compliance teams within research, IT, human resources and elsewhere across the institution.

While seismic shifts in who maintains responsibility for compliance are not expected, there is greater need for increased transparency at the center, which will allow senior executives to respond to compliance threats and trustee expectations. The likely result is increased centralization of certain compliance responsibilities, as well as increased compliance resources overall. At a minimum, the network of connections between the centralized compliance function and the decentralized resources will be enhanced to allow faster, more accurate communication of key information to senior leaders.

Forward-looking institutions will look to technology to help address transparency needs. Data analytics can be designed to identify risks before they become an issue. Most analytic tools do not require a common underlying platform, enabling the compliance function to look across the entire institution for potentially risky situations at an acceptable cost. Other governance, risk and compliance technology tools have been developed to allow for integrated policy communication and procedure definition, while also allowing monitoring of compliance across a dispersed environment. The ability of these tools to work around the clock across the vast expanse of academic environments makes them an increasingly attractive resource to enhance communication and reduce risk.

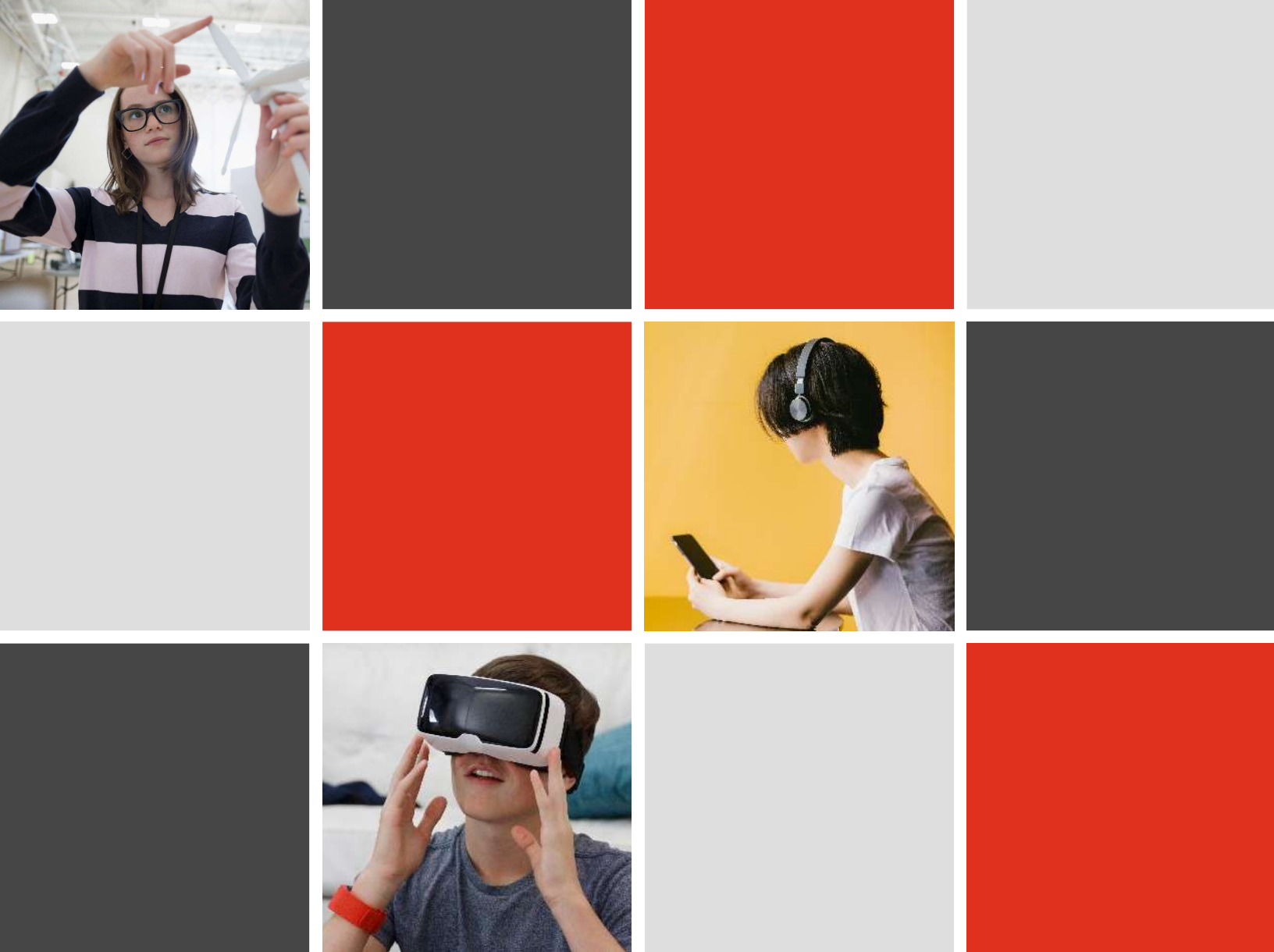
Finally, a word about culture. An institution's culture is created over decades, and can be brand-defining, but one significant negative event can harm its brand and culture for years to come. Culture can also take decades to change. Trustees and senior leaders must not only say the right things, they must also do the right things - all day, every day, not just when a crisis occurs. Culture is created, and changed, by the events that happen every day, and it is likely the single most important factor determining an institution's ability to comply with regulatory and other requirements. Beyond the tone at the top, creating a consistent, positive "mood in the middle" and a "buzz at the bottom" will benefit an institution far beyond any policy or technology tool. Institutions should be more aggressive in assessing their culture across the entire organization. By identifying cultural misalignment and responding to indicators of inconsistency between the top, middle and bottom of the organization, benefits will flow far beyond reduced regulatory issues.



Contributors

Chatham Bray
Matt Booth
Michael Dillon
Maria Esposito
Tom Gaudrault
Kathy Grover
Chris Hoffman
Sally Jeffery

Mike MacBryde
Alejandra Orellana
Ann Pike
John Powers
Lisa Preddice
Shannon N. Smith
David Stainback
Kelly Thornton



Thank you

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Compliance Report

Board of Trustees
Audit and Compliance Committee

Compliance and Integrity Program

Office of University Compliance and Integrity

August 29, 2019

COMPLIANCE AND INTEGRITY PROGRAM



THE OHIO STATE
UNIVERSITY

Executive Summary

Committee Action: *For information and discussion. No vote is required.*

Annual Compliance and Integrity Program Report

- Overview of trending compliance risk areas
- Summary of key Compliance and Integrity initiatives

COMPLIANCE AND INTEGRITY PROGRAM

ANNUAL COMPLIANCE AND INTEGRITY PROGRAM REPORT

Trending Issues

The university continues to operate under challenging political, economic, and regulatory conditions. The uncertain enforcement and regulatory environment has increased in FY2020 in four principal ways.

First, the 2020 election promises to heighten existing attention on immigration and international issues affecting research, including security controls over intellectual property. Congress and regulatory agencies may issue more aggressive (or conflicting) requirements governing research security and controls over intellectual property theft. This regulatory focus occurs in a media culture that is increasingly sensitive to issues of research misconduct. Immigration controls also will increasingly constrain international enrollment, particularly among graduate students. The increased politicization of these topics will heighten the reputational risk of any emerging issue in this area.

Second, diversity and gender, including sexual misconduct and assault prevention, remain a major focus of national media attention.

Third, competition and cost pressures in the health care industry continue, as do regulatory enforcement pressures. Duke University's \$112 million False Claims Act settlement this past year was a significant watershed, as it constitutes a significant extension of False Claims Act liability in the area of clinical trials and medical research.

Finally, high information security and privacy risks remain. Hackers and state actors continue to attack all types of systems in new ways, while individual expectations for protection of confidential information also continue to increase.

Major Actions and Initiatives

The summary below of our actions and initiatives is organized in the major categories of the university's strategic plan, followed by additional actions to support our compliance and integrity program.

- 1. Teaching and Learning** *(Provide an unsurpassed, student-centered learning experience led by engaged world-class faculty and staff, and enhanced by a globally diverse student body.)*

The Compliance team continues to assist the Office of Academic Affairs' (OAA) development of the new Office of Institutional Equity (OIE), in the transition of all related functions from the Office of Student Life and Office of Human Relations, including Title IX, Americans with Disabilities Act (ADA), Affirmative Action/EEO, and Protection of Minors. This effort will continue in FY2020. In addition, Compliance partnered with OCIO on implementing digital accessibility, and will continue to support that effort through the transition of ADA to OIE.

- 2. Research and Innovation** *(Create distinctive and internationally recognized contributions to advance fundamental knowledge and scholarship and toward solutions of the world's most pressing problems.)*

The Compliance team continues to support the extension of the **Information Security Framework**, in partnership with OCIO, to include mitigation of minor breaches. We have hired the university's first Chief Privacy Officer, and we will continue to integrate the security and privacy programs. Our efforts in the **Medical Center**

COMPLIANCE AND INTEGRITY PROGRAM

will involve continued development of the Medical Center Compliance Committee, including its oversight of tailored compliance programs (e.g., OSUP, OSU Health Plan, Pharmacy, HIPAA, CLIA labs, etc.). That Committee continues to address major compliance risks, including improved departmental/unit ownership of compliance with Medicare's National and Local Coverage Determinations; oversight of Stark-physician compensation Arrangements; provider-based departments; and ensuring compliance with Medicare's conditions of participation requirements. Our efforts on **Research Integrity** will continue, which included a national Research Integrity Conference and hiring of additional compliance personnel. Finally, national legislative and regulatory efforts on **Research Security** emphasize the need for the university to focus on export controls, which will remain a focus for FY2020.

3. Outreach and Engagement *(Advance a culture of engagement and collaboration in a context of reciprocity with the citizens and institutions of Ohio, the nation, and the world.)*

Compliance and Integrity is supporting the Office of International Affairs in its efforts to develop a control framework for its international affiliates and engagements. This framework will serve as a pilot for other international initiatives, so that strong processes can be replicated.

4. Resource Stewardship *(Be an exemplar of best practices in resource stewardship, operational effectiveness, and efficiency and innovation.)*

The Office will continue developing a best-in-class Compliance and Integrity Program to advance university values and support its mission, in particular by assisting the appropriate extension of university policies and controls with the Enterprise Project, including coordination of compliance and control reviews. In addition, the Shared Values Initiative (see below) will reinforce university values and reinforce the ethics-based leadership of university leaders.



Shared Values Initiative

Board of Trustees
Audit and Compliance Committee

Compliance and Integrity Program

Office of University Compliance and Integrity

August 29, 2019

SHARED VALUES INITIATIVE



THE OHIO STATE
UNIVERSITY

Executive Summary

Committee Action: *For information and discussion. No vote is required.*

Shared Values Initiative

- Overview of university-wide initiative to strengthen integrity culture for faculty, staff, and students
- Description of key next steps and future plans

SHARED VALUES INITIATIVE

SHARED VALUES INITIATIVE

As presented at the last meeting, we are engaged in a proactive university-wide initiative to reinforce our ethical culture and live our shared values, to better advance the university’s core work of teaching, learning, research, and service. The four key focus areas of this initiative are shared values, robust sharing of ideas and concerns, disciplined decision-making, and trusted leaders (see figure 1 below). The initiative is co-sponsored by Provost and Executive Vice President Bruce McPheron, Senior Vice President Susan Basso, and Chief Compliance Officer Gates Garrity-Rokous.





<p>OUR AMBITION: Reinforce our ethical culture and live our shared values to better advance the university’s core work of teaching, learning, research, and service. <small>(fostered through structured education, communication, and evaluation)</small></p>	
FOCUS AREA	GOAL
<p>Shared Values</p> 	<p>The daily interactions and behavior of all university community members are guided by a shared set of values at the unit, college, and university level.</p>
<p>Robust Sharing of Ideas & Concerns</p> 	<p>Faculty, staff, and students feel comfortable sharing ideas and concerns, and leaders listen to and address both respectfully.</p>
<p>Disciplined Decision-Making</p> 	<p>Individuals consider shared values and the common good when making difficult decisions.</p>
<p>Trusted Leaders</p> 	<p>University leaders at all levels behave ethically, uphold shared values, and expect to be held and are held to the highest standards of integrity.</p>

Figure 1

The initiative will inventory and integrate existing efforts in the Offices of Academic Affairs, Human Resources, and University Compliance and Integrity, as well as within colleges and units, to build a culture of integrity and to reinforce ethical leadership. The initiative also extends the work that resulted in the revision of the university’s Mission, Vision, Values and Goals, which occurred prior to the institution’s 2017 reaccreditation.

Survey: The initiative includes a values and ethics survey of all faculty, staff, and students on all campuses and at the Wexner Medical Center, in the Autumn Semester. The survey is being developed in consultation with Ethics & Compliance Initiative (ECI), an independent nonprofit organization, which will conduct the survey and enable the university to benchmark results against higher education peers and other organizations. Survey results, which will be shared in an aggregate format to protect respondents’ identity, will inform the ongoing values, ethics, and leadership efforts already underway at the university and help identify which of those efforts should be elevated as best practices. The results may also suggest new areas for engagement on ethics and values.

SHARED VALUES INITIATIVE

Reporting: ECI's standard report format covers all areas of the survey. The initiative team is developing a report format for college and unit leaders that presents ECI's data in a manner that best focuses implementation of action steps.






Inventory of Best Practices and Programs: The team has been creating this inventory to identify potential best practices and initiatives that might be determined to correlate to strong performance of a given college or unit, which could then be recommended to other colleges or units based on findings on the key questions. To date, the team has collected 30 best practices from the Medical Center and 22 best practices from colleges and units; the team estimates this effort is about a third complete.

Communications and Oversight: Coordinated communications are underway to prepare for the survey rollout. The effort is guided by a Steering Committee, which is ensuring progress.

AUDIT AND COMPLIANCE COMMITTEE						2015-16	2016-17	2017-18	2018-19	
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 Ohio State brand, alumni relationships, or advancement objectives)						↓	↔	↑	↓	
12. Compliance (failure to meet regulatory, legal, or policy requirements not captured in above categories)						↔	↑	↑	↔	
						2014-15	2015-16	2016-17	2017-18	2018-19
B. Public Records¹										
1. Number of records requests closed (3-year average: 1,081)						769	842	964	890	1374
2. Average days to fill all records requests						21	15	16.0	20.7	30.9
C. Internal Investigations (rated 4 or 5)										
1. Number of investigations opened in the fiscal year						20	17	17	26	10
2. Number of investigations closed in the fiscal year						16	19	15	21	13
3. Percent of closed investigations with findings						31%	52%	27%	21%	21%
D. Regulatory Actions² (rated 4 or 5)										
1. Number of current regulatory actions						7	10	12	11	14
E. Internal Audit										
1. Number of audits cleared at second follow-up during the fiscal year							10	10	10	7
2. Number of audits open after second follow-up or cleared at third follow-up or later during the fiscal year							2	4	8	9

COMMENTS & FOOTNOTES
¹Processed by Public Records Office only

²Includes audits, fines, probations, sanctions, warnings, or other similar actions

Mitigation Effectiveness Rating	Trend
 Meets or Exceeds Goal	↑ Environment/Performance Improving
	↔ No Significant Change/On Track
 Caution	↓ Environment/Performance Worsening
	
 Below Goal - Action Needed	



Compliance Report

Board of Trustees
Audit and Compliance Committee

Compliance and Integrity Program

Office of University Compliance and Integrity

August 29, 2019

RESOLUTION AGREEMENT WITH OFFICE FOR CIVIL RIGHTS (OCR) [TITLE IX]



THE OHIO STATE
UNIVERSITY

Executive Summary

Committee Action: *For information and discussion. No vote is required.*

Resolution Agreement with Office for Civil Rights (OCR) [Title IX]

- The university has made no submission to OCR since the last Board meeting.
- Informed the Office for Civil Rights on July 24, 2019 of developments with the Office of Institutional Equity; no additional information has been requested.

RESOLUTION AGREEMENT WITH OFFICE FOR CIVIL RIGHTS (OCR) [TITLE IX]

All requirements of the Resolution Agreement have been met, and OCR confirmed orally that Ohio State has no outstanding items under our Resolution Agreement; the university awaits final written confirmation.

Activity	Steps	Status				
		2014-15	2015-16	2016-17	2017-18	
Title IX Coordinator	<ul style="list-style-type: none"> ✓ Published detailed statement outlining the roles and responsibilities of Ohio State's Title IX Coordinator (11/15/14) 	Complete	Complete	Complete	Complete	<ul style="list-style-type: none"> • All requirements met.
Document Maintenance	<ul style="list-style-type: none"> ✓ Created a coordinated document management process for all Title IX complaints (12/15/14) 	Complete	Complete	Complete	Complete	<ul style="list-style-type: none"> • All requirements met.
Policies	<ul style="list-style-type: none"> ✓ Revised Notice of Nondiscrimination and post online as appropriate (10/15/14) ✓ Revised "Reporting Sexual Assault" link on Campus Police website (10/15/14) ✓ 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 ✓ Submitted evidence of policy communications in nineteenth progress report (10/15/16) ✓ Submitted annual information on complaints during academic year to OCR (6/10/16) ✓ Submitted annual information on complaints during academic year to OCR (6/15/17) 	Complete	Complete	On Track	On Track	<ul style="list-style-type: none"> • 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. • Submitted information on AY 2015-2016 complaints to OCR in 6/10/16 status report; appropriately implemented per OCR 12/19/18. • Submitted information on AY 2016-2017 complaints to OCR in 6/15/17 status report; awaiting OCR feedback.
Training	<ul style="list-style-type: none"> ✓ Reviewed Student Wellness Center programming to ensure consistency with Resolution Agreement standards (12/15/14) ✓ Developed Title IX Coordinator and investigator training (12/15/14) ✓ Identified Title IX training module for employees (12/15/14) ✓ Reviewed and revised orientation program and materials for incoming students (12/15/14) ✓ Verified annual Title IX training conducted during previous calendar year (6/10/16) ✓ Provide training to specific groups identified in climate survey (annual) 	Complete	Complete	Complete	Complete	<ul style="list-style-type: none"> • Training for 2016-17 and 2017-18 submitted and approved by OCR in 12/19/18 response. • Notified OCR of online training for AY 2018-19

RESOLUTION AGREEMENT WITH OFFICE FOR CIVIL RIGHTS (OCR) [TITLE IX]

Activity	Steps	Status				
		2014-15	2015-16	2016-17	2017-18	
Climate Assessment and Response	<ul style="list-style-type: none"> ✓ Added OHR representative to Sexual Violence Consultation Team (1/15/15) ✓ Established campus working group on Title IX and climate survey (9/30/14) ✓ Reviewed last 2 years of sexual harassment complaints (12/15/14) ✓ Developed recommended actions as appropriate based on review (12/15/14) ✓ Developed and conducted annual climate survey (3/23-4/22/16) ✓ Developed and conducted annual climate survey (2/5-3/10/17) ✓ Analyze survey results to identify need for additional actions and training as appropriate (annual) 	Complete	Complete	Complete	Complete	<ul style="list-style-type: none"> • Submitted results of AY15-16 climate survey and written recommendations based on results in 1/15/17 status report. • Developed/disseminated AY16-17 climate survey. As noted in 1/15/17 report, written recommendations submitted before January 2018. • Submitted proof of AY16-17 climate survey dissemination in 6/15/2017 status report. • Results of the AY16-17 climate survey and recommendations sent to OCR in 1/31/18 status report.
Student-Focused Remedies	<ul style="list-style-type: none"> ✓ Reviewed last 3 years of sexual harassment complaints for prompt and equitable investigation (1/15/15) ✓ Take appropriate action to address identified problems (within 30 days of OCR approval) 	Complete	Complete	N/A	N/A	<ul style="list-style-type: none"> • 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. Approved by OCR in their response on 4/14/17.
Marching Band Investigation	<ul style="list-style-type: none"> ✓ Developed timetable for corrective actions (11/1/14) ✓ Submit quarterly progress report to OCR (beginning 10/15/14) 	Complete	Complete	Complete	On Track	<ul style="list-style-type: none"> • Continuing implementation. • 6/15/2017 status report included documentation addressing ongoing climate surveys with respect to the marching band; appropriately implemented to date per OCR 12/19/18