

**WEDNESDAY, AUGUST 17, 2022**  
**LEGAL, AUDIT, RISK AND COMPLIANCE COMMITTEE MEETING**

Elizabeth P. Kessler, chair  
Michael Kiggin, vice chair  
Alan A. Stockmeister  
Jeff M.S. Kaplan  
Elizabeth A. Harsh  
Hiroyuki Fujita (*ex officio*)

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

Time: 12:00-2:00pm

**Public Session**

*ITEMS FOR DISCUSSION*

1. *Annual Compliance Report – Mr. Gates Garrity-Rokous* 12:00-12:10pm
2. *Annual Government Affairs Update – Ms. Stacy Rastauskas, Ms. Trudy Bartley,  
Mr. Brian Perera, Mr. Stan Skocki* 12:10-12:20pm
3. *External Auditor Introduction – Mr. Michael Papadakis, Mr. David Gagnon* 12:20-12:25pm

*ITEMS FOR ACTION*

4. Approval of May 2022 Committee Meeting Minutes – Ms. Elizabeth Kessler
5. Approval of Legal, Audit, Risk & Compliance Committee Charter – Ms. Elizabeth Kessler
6. Approval of Internal Audit Charter – Ms. Elizabeth Kessler

**Executive Session**

12:30-2:00pm



# Annual Compliance Report

Gates Garrity-Rokous







# Overview

- ✓ Compliance Risk Trends
- ✓ Focus Area: Concern Reporting
- ✓ FY22 Status
- ✓ FY2023 Compliance Plan



# Compliance Risk Trends

## Regulatory Expectations & Enforcement

- National security through compliance requirements
- Increased focus on administrative actions

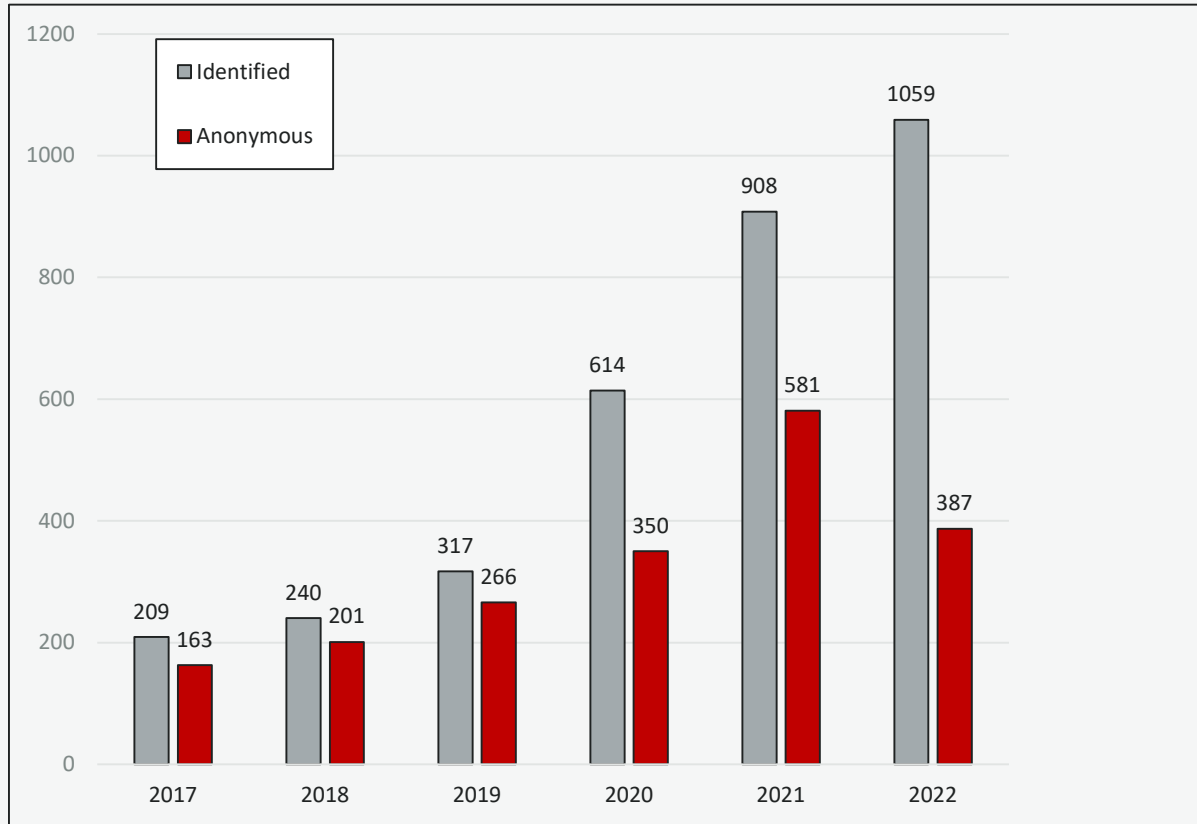
## National Trends

- Transformation of athletics
- Higher education in national dialogue
- Information security and privacy threats, especially in healthcare

## Research and Innovation Environment

- Innovation opportunities demand ever greater flexibility and speed

# Focus Area: Concern Reporting



Navex Reports

## Volume

- Concerns increasing, more complex
- Proportion of reports made anonymously is trending down

## Topics

- Concern areas are consistent over time
- These include privacy, ethics, and financial concerns

## Improvement opportunities

- Leverage existing best practices
- Reinforce leadership expectations
- Better communicate results

# FY2022 Status: Summary

## Key Regulatory Focus Areas

- Enforcement actions and investigations
- Information security and privacy
- Labor and employment

## Enterprise for Research, Innovation & Knowledge

- Outside Activities & Conflicts of Interest Policy
- Research security

## OSU Wexner Medical Center

- Support for further expansion
- HIPAA security and privacy
- Medicare billing

## Athletics

- Name, Image & Likeness (NIL) activities
- Responding to NCAA major case

## Shared Values

- Focus on leadership
- Embedding values in all aspects of operations
- Engaging with colleges and units

## Compliance Organization

- Compliance Career Framework
- Peer Mentoring and Coaching

## Process Expertise and Simplification Initiative

- Identification of Subject Matter Experts
- Best practices toolkit
- Critical process improvement projects
- Metrics and Reporting



# FY2023 Compliance Plan: Summary

## Key Regulatory Focus Areas

- Continue focus on enforcement actions and investigations
- Continue focus on information security and equity protections

## Enterprise for Research, Innovation & Knowledge

- Implement processes to support Outside Activities & Conflicts of Interest Policy
- Maintain improvement in research security

## OSU Wexner Medical Center

- Continue focus on Medicare billing

## Athletics

- Maintain support for expansion of NIL
- Flex to support changes to business model

## Shared Values

- Continue to embed values in all aspects of operations
- Extend focus on concern reporting

## Compliance Organization

- Address hybrid work issues
- Identify additional cross-organizational opportunities for best practice sharing and team development

## Process Expertise and Simplification Initiative

- Connect initiative with other university efforts





# **Office of Government Affairs Annual Update**

**Stacy Rastauskas, Vice President for Government Affairs  
August 2022**





# About Government Affairs

- Team of 20 focused on advancing university and medical center priorities at federal, state and local level
- Offices in Columbus, Ohio and Washington, D.C.
- Annual government investment into the university is \$1.48 billion





# 2021-2022 Highlights

- Securing investment in Ohio State
  - City of Columbus Innovation District (\$35M sewer, \$100M+ incentives)
  - State Capital funding (\$79.4M)
  - Federal support for RAISE Initiative (\$500,000)
  - County support for hospital pandemic floor (\$3.2M)
- Responding to policy changes affecting university
  - Anti-Hazing (Collin's Law)
  - CHIPS and Science Act
  - Retaining graduates in Ohio (GROW Act)
  - Higher Education Reform

# Federal

- Innovation Legislation
- Appropriations
- Positioning with federal agencies







# State

- Higher Education Reforms: Attainment and Efficiency
- State Capital Budget: Full request received
- Health Advocacy





# Local

- Innovation District
- Columbus City Schools
  - STEAMM Rising
  - Pathways to Progress Summer Program
- Pandemic Floor Funding
- Buckeyes in the City

# Looking Ahead

- November election
- State operating budget
- Capitalize on new innovation funding
- Increased focus on advocacy







# The Ohio State University

Discussion with  
those charged  
with governance



**Audit plan and strategy for the year ending June 30, 2022**

May 19, 2022

# Message from account leadership

We are pleased to have the opportunity to meet with you to discuss our audit plan and strategy for The Ohio State University Pool (OSU) as of and for the year ending June 30, 2022.

This report highlights where your KPMG team will focus, including areas of audit emphasis, first-year audit procedures, and new standards applicable to OSU and our audit. We also present a timeline for engagement milestones during the year.

Navigating through a multiyear journey will allow us to build a repository of successful outcomes and deliver operational excellence through continuous improvement. We look forward to building a strong foundation to continue to develop into the future.

Thank you.



David Gagnon  
*Lead Engagement Partner*



# Our commitment to you

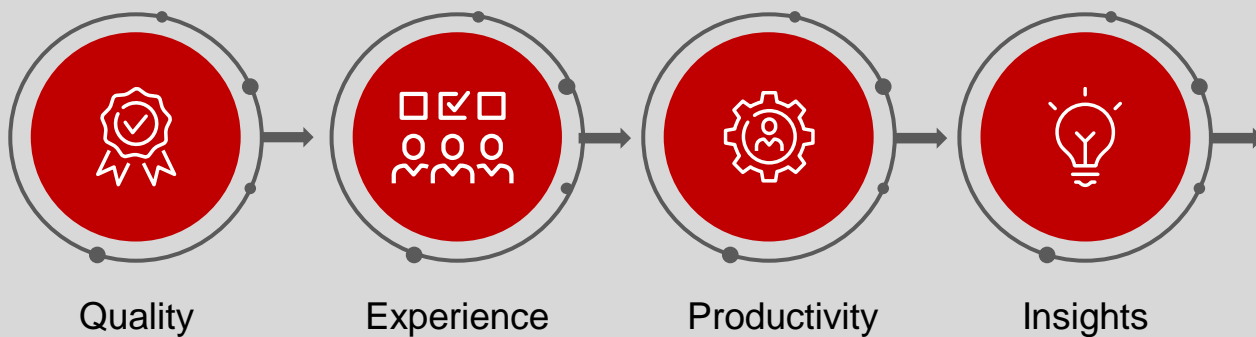


## Delivering a better audit experience drives us.

With KPMG, you can expect an experience that's better for your team, organizations and the capital markets. An experience that's built for a world that demands agility and integrity.

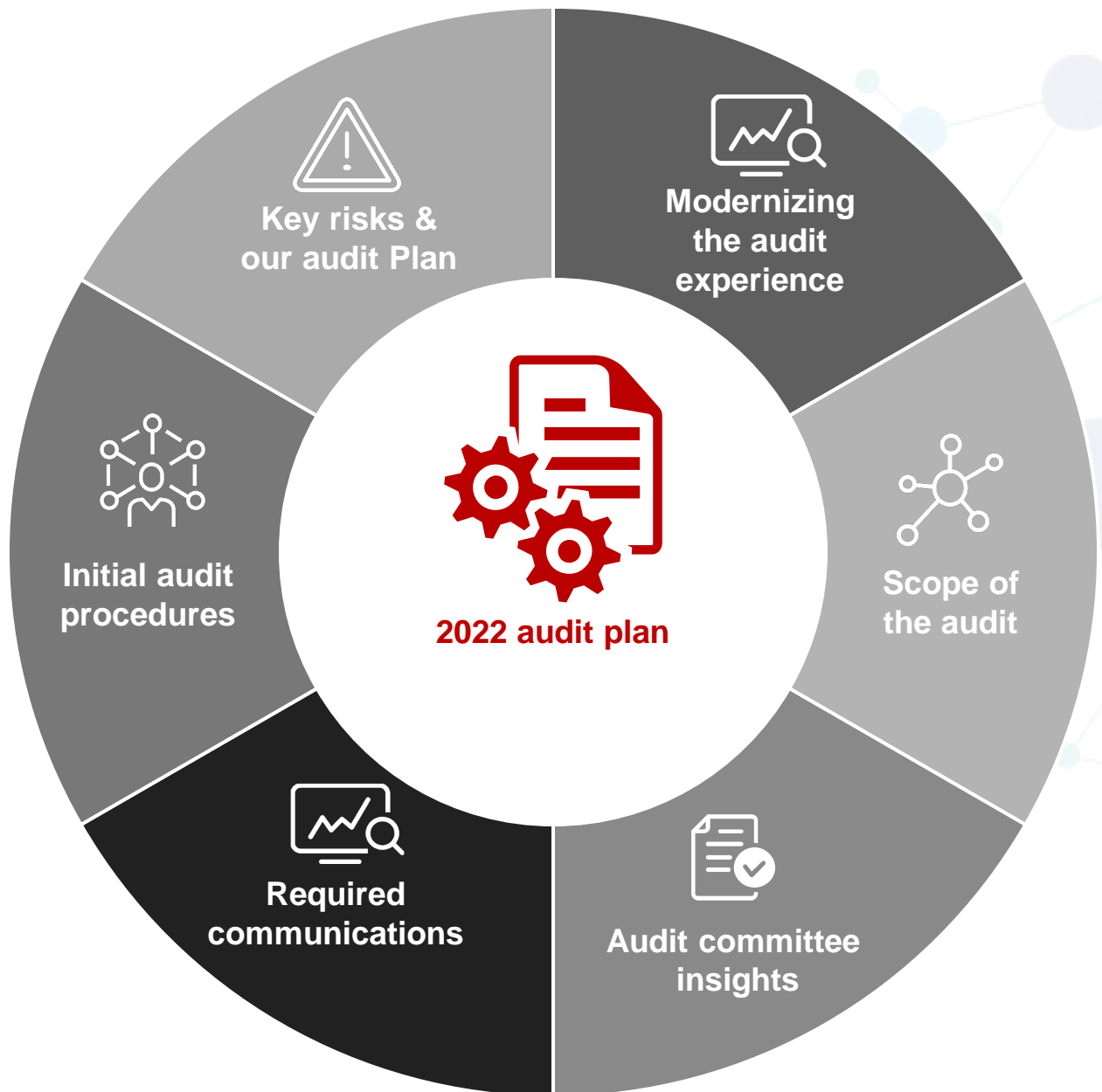
See patterns in what has passed. See where risks may emerge. See opportunities emerge. See opportunities to optimize processes. And see ahead to new possibilities.

## We aim to deliver an exceptional client experience for The Ohio State University by focusing on:





# Executive summary



# Advancing the KPMG Clara journey



## Accelerating our innovation

Built on an agile, integrated, and secure platform, KPMG Clara combines a client-facing portal, data extraction, a comprehensive suite of tools to evaluate and respond to risk, and a workflow to guide our teams through it all. These capabilities help us deliver with quality, efficiency, and insight, leading to an exceptional experience.

Over the past year, we have deployed multiple new audit technologies within the KPMG Clara ecosystem to enhance your audit experience.

Following are key recent and upcoming innovations you can expect to see on your engagement:

- Power BI
- Data Snipper
- Alteryx



# Cybersecurity considerations

## Factors and forces elevating cybersecurity risks:

- Shifts to remote work, online customer engagement, digital finance – “remote everything”
- Acceleration of digital strategies/transformation
- Surge and sophistication of cyber attacks
- Risks, vulnerabilities posed by third-party vendors

## Considerations for robust oversight:

- Focus on internal controls, access, and security protocols
- Increase diligence around third-party vendors
- Insist on a robust data governance framework
- Clarify responsibilities for data governance across the enterprise
- Reassess how the board – through its committee structure – assigns and coordinates oversight responsibility for cybersecurity and data governance frameworks, including data privacy, ethics, and hygiene

## Audit considerations:

- Evaluate risks of material misstatement resulting from, among other things, unauthorized access to financial reporting systems (e.g., IT applications, databases, operating systems)
- Determine whether there is a related risk of fraud
- Develop audit approach based on risk assessment
- If a cybersecurity incident occurs, we understand and evaluate its effect on our audit approach, as well as evaluate management’s assessment of the effect on the financial statements and disclosures

# First-year audit: additional procedures

Consistent with professional standards, we will perform certain audit procedures applicable to an initial audit for a successor auditor in accordance with generally accepted auditing standards in the United States of America (GAAS).

We perform audit procedures to obtain evidence about whether:

- Opening balances contain misstatements that materially affect the current period's financial statements; and
- Appropriate accounting policies or principles and the application of accounting policies or principles over the opening balances have been consistently applied in the current period's financial statements or changes have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Incremental procedures performed over opening balances and the consistency of accounting policies or principles include:

- Reading the financial statements and predecessor auditors' reports;
- Reviewing predecessor auditor audit documentation;
- Performing certain detailed procedures over opening balances, as appropriate;
- Assessing prior and current period financial statements for consistency; and
- Performing additional procedures if a possible misstatement is identified.



# The OSU engagement team



**Dave Gagnon**  
Lead Engagement Partner  
National Industry Leader –  
Higher Education



**Kim Zavislak**  
Account Executive  
Columbus Office  
Managing Partner



**Cathy Baumann**  
University and Single  
Audit Partner



**Rosemary Meyer**  
University and Components  
Engagement Quality  
Control Review Partner



**Lindsey Hoff**  
Uniform Guidance  
Senior Manager



**Amy Banovich**  
Healthcare Entities  
Engagement Quality  
Control Review Partner



**Justin Crew**  
Uniform Guidance  
Senior Associate



**Chase Gahan**  
University and  
Components Managing  
Director



**Johnny Lewis**  
Healthcare Entities  
Partner



**Jane Kim**  
Lead Senior  
Manager



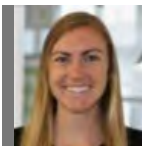
**Robby Perry**  
Healthcare Entities  
Senior Manager



**Alex Sherer**  
Investments  
Manager



**Kody Seeger**  
Healthcare Entities  
Manager



**Brigid Murray**  
Lead  
Senior Associate



**Sidney Arnold**  
Healthcare Entities  
Senior Associate



**Darryn Bradt**  
Investments  
Senior Associate

# The OSU engagement team (continued)

## Parms + Company



**John Parmis**  
Managing  
Partner



**Chris Kropp**  
Supervisor



**Tim Grant**  
Partner



**Egar Nusantara**  
Senior Associate

## Specialists



**Lorna Stark**  
National Sector Leader –  
Government



**Mandy Nelson**  
National Office Leader  
Higher Education/Grants  
Compliance



**Ash Shehata**  
National Sector Leader –  
Healthcare and Life  
Sciences



**Ann Joseph**  
Audit Center of Excellence  
Coordinator – Higher  
Education Practice

## Tech assurance



**Adrienne Henderson**  
Managing Director



**Mikael Johnson**  
Valuation Partner

## Tax



**Ruth Madrigal**  
Tax-Exempt Leader  
Washington National Tax



**Tara D'Agostino**  
Tax Compliance  
Managing Director

## Actuarial



**George Levine**  
Self-Insurance  
Director



**Steve Eisenstein**  
Employee Benefits  
Director



# Required Communications to the audit, Finance, and Investment Committee

Prepared on: April 25, 2022

Presented on: May 19, 2022

# Summary: Audit approach required communications and other matters

		Response
Planning & risk assessment	Role and identity of engagement partner	The lead audit engagement partner is: Dave Gagnon. Cathy Baumann will serve as the partner on the single audit and support Dave on the University audit. Johnny Lewis will serve as the partner for the standalone reports for Wexner Medical Center Health System and Ohio State University Physicians, Inc. Chase Gahan will serve as the managing director for the stand alone component reports for The Ohio State University Foundation, Transportation Research Center Inc., and Campus Partners for Community Urban Redevelopment and Subsidiaries.
	Significant findings or issues discussed with management	No matters to report.
	Scope of audit	Our audit of the financial statements of the OSU Pool as of and for the year ended June 30, 2022, will be performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States. Additionally, audits will be performed on stand-alone reports prepared for the following components: <ul style="list-style-type: none"> <li>— The Ohio State University Foundation</li> <li>— Campus Partners for Community and Urban Redevelopment</li> <li>— The Ohio State University Physicians, Inc.</li> <li>— Transportation Research Center, Inc.</li> <li>— The Ohio State University Wexner Medical Center Health System</li> </ul>



# Summary: Audit approach required communications and other matters (continued)

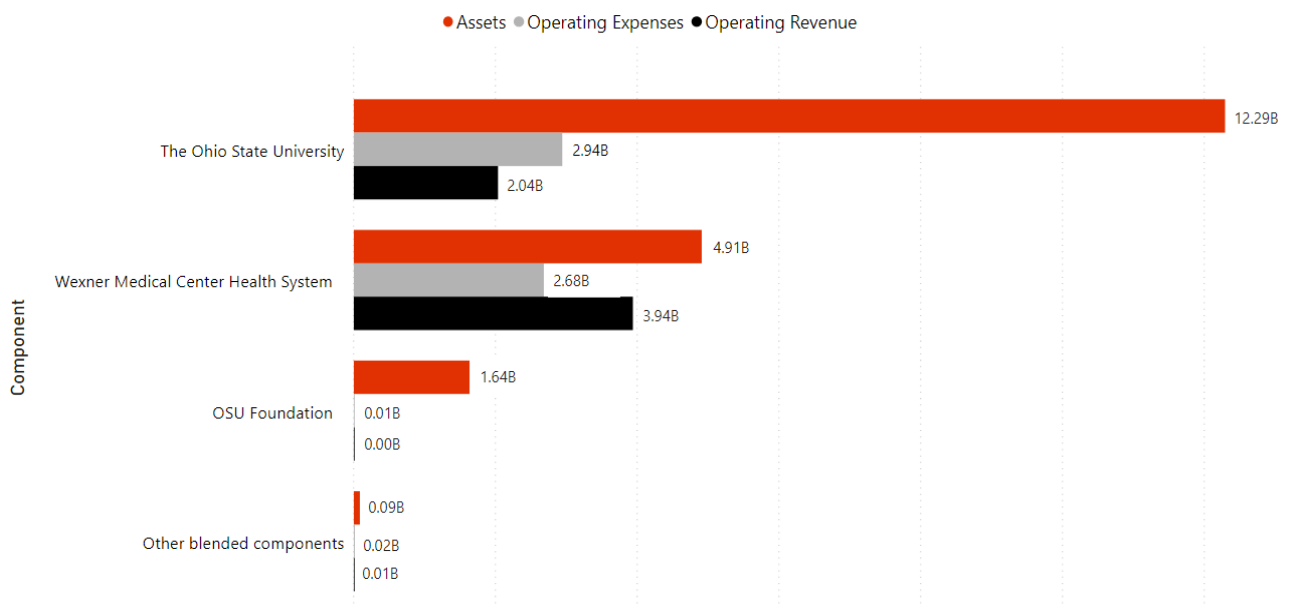
		Response
Planning & risk assessment		<p>Performing an audit of financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.</p> <p>Additionally, we will perform a single audit in accordance with 2 CFR 200.</p>
	Financial reporting entity	See page 13
	Materiality in the context of an audit	See page 15
	Our timeline	See page 16
	Risk assessment: Significant risks	See page 17
	Risk assessment: Additional risks identified	See page 19
	Involvement of others	See page 20
	New and upcoming accounting standards	See pages 21 to 24
<b>Independence</b>	See page 25	
<b>Responsibilities</b>	See page 26	
<b>Inquiries</b>	See page 28	
Single Audit	See pages 30 to 33	

# Financial reporting entity

The following illustration depicts the entities included in The Ohio State University financial statements

## OSU and blended component units

### 2021 Assets and Deferred Outflows of Resources, Operating Expenses, and Operating Revenue

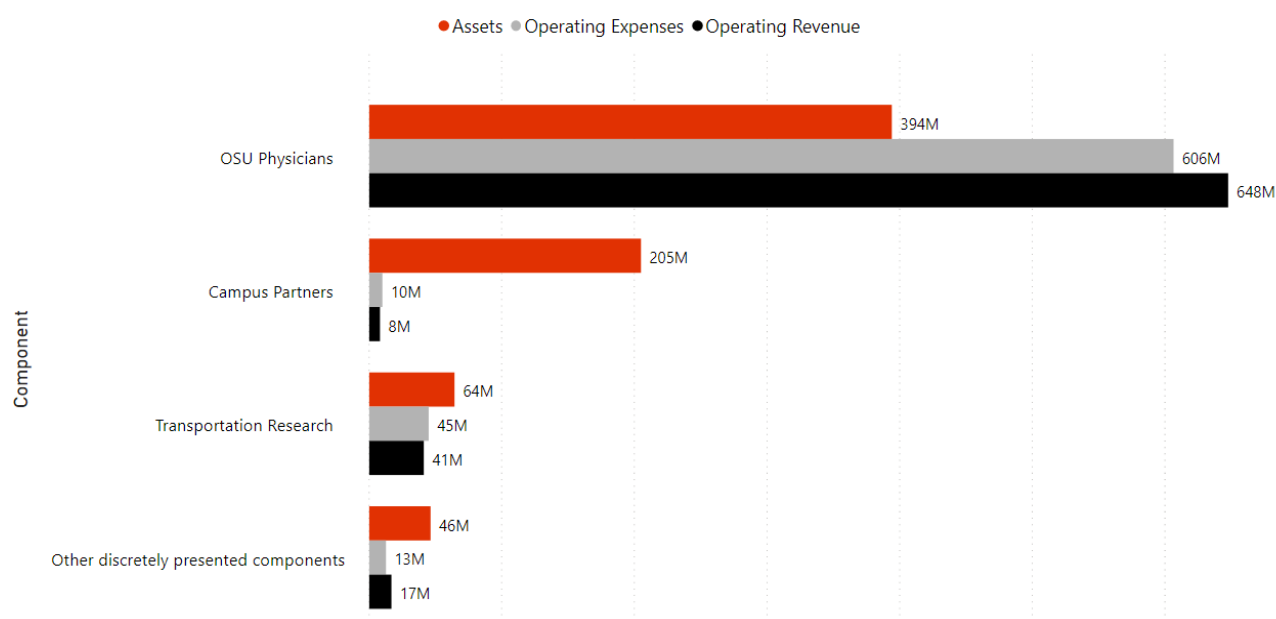


# Financial reporting entity (continued)

The following illustration depicts the entities included in The Ohio State University financial statements

## Discretely presented component units

### 2021 Assets and Deferred Outflows of Resources, Operating Expenses, and Operating Revenue



# Materiality in the context of an audit

**We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:**

Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

Judgments about materiality involve both qualitative and quantitative considerations.

Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Determining materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements.

Judgments about the size of misstatements that will be considered material provide a basis for

- a) Determining the nature and extent of risk assessment procedures;
- b) Identifying and assessing the risks of material misstatement; and
- c) Determining the nature, timing, and extent of further audit procedures.



# Our timeline

April – July 2022

August –  
October 2022

November  
2022

## Planning and risk assessment

- Planning and initial risk assessment procedures, including:
  - Involvement of others
  - Identification and assessment of risks of misstatements and planned audit response for processes
- Obtain and update an understanding of OSU and its environment
- Inquire of those charged with governance, management and others within the Company about risks of material misstatement
- Coordinate with Internal Audit

## Interim

- Communicate audit plan
- Identify IT applications and environments
- Perform process walkthroughs and identification of process risk points for remaining processes
- Evaluate design and implementation (D&I) of entity level controls and process level controls for processes
- Evaluate D&I of general IT and automated controls
- Perform TOE of relevant process level, general IT, and entity-level controls, where applicable
- Perform interim substantive audit procedures
- Perform risk assessments for direct and material compliance requirements identified for the major programs audited as part of the single audit

## Year-end

- Complete control testing for remaining process level, general IT, and entity-level controls, where applicable
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Perform control and compliance testing for the single audit

## Wrap Up

- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Present audit results to those charged with governance and perform required communications
- Issue audit reports

# Risk assessment: Significant risks

Significant risks	Susceptibility to:	
	Error	Fraud
<p><b>Management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.</p>		<b>Yes</b>

Significant risk	Description	Susceptibility to:		Relevant factors affecting our risk assessment
		Error	Fraud	
Valuation of patient accounts receivable (healthcare entities)	Management's estimate of the allowances for uncollectible accounts is based on analysis of open accounts receivable, average historical collection experience, and other relevant factors to arrive at an overall assessment of collectible net accounts receivable.	<b>Yes</b>		<p><b>Significant assumptions used that have a high degree of subjectivity:</b></p> <p>Historical collection experience is the key driver in evaluating the future collection of outstanding patient accounts receivable. Additional consideration is given for changes</p>

# Risk assessment: Significant risks (continued)

Significant risk	Description	Susceptibility to:		Relevant factors affecting our risk assessment
		Error	Fraud	
				in aging as well as process changes year over year.
Valuation of pension and other post-employment benefit liabilities and related accounts	Management's estimates of net pension obligations reported are based on a variety of actuarial assumptions related to participant mortality, as well as interest rates, historical experience, the provisions of the related benefit programs, and desired reserve levels.	Yes		<p><b>Significant assumptions that may have a high degree of subjectivity:</b></p> <ul style="list-style-type: none"> <li>— Discount rate</li> <li>— Expected long term rate of return</li> <li>— Mortality</li> <li>— Retirement rates</li> <li>— Plan participation</li> <li>— Trend rates</li> </ul>

# Risk assessment: Additional risks identified

Additional risks identified	Relevant factors affecting our risk assessment and planned response
Valuation of alternative investments	Due to the relative lack of transparency into the underlying assets, including that these investments are not valued on a daily basis, nor readily available, we will perform various procedures to determine whether net asset values (NAVs), as applicable, are reliable, including confirming balances and ownership percentages as of year-end, obtaining underlying audited annual financial statements and back-testing reported NAVs, evaluating NAV valuation and cash changes between the audit date and the University's fiscal year end.
Valuation of marketable securities, which are reported within current and noncurrent assets on the statement of net position	Management's estimate of the fair value of marketable securities, including stocks and fixed income assets, held directly by the University is determined based on quoted prices in active markets.
Implementation of GASB No. 87, <i>Leases</i>	The University will adopt this standard in fiscal 2022. We will evaluate the University's process for capturing lease information and perform procedures to ensure lease assets and related liabilities for qualifying leases are fairly stated in accordance with the provisions of GASB No. 87.



# Involvement of others

Audit of financial statements	Extent of planned involvement
Internal audit	No direct assistance will be received from the University's internal audit group. Internal audit reports will be reviewed and considered as part of our risk assessments as required under <i>Government Auditing Standards</i> .
KPMG Tech Assurance	Assist the audit team in evaluating general information technology controls and IT application controls.
KPMG pension and postretirement benefit actuary	Assist the audit team in evaluating of pension and postretirement benefit obligations.
KPMG Business Tax Services – Development and Exempt Organizations specialist	Assist the audit team in evaluating the University's tax-exempt status as a governmental entity. Also will assist the audit team in evaluating tax-exempt status of component units and to assist in evaluating uncertain tax positions.
Parms + Company LLC	Subcontractor firm assisting KPMG with certain audit procedures to be performed for the University's financial statements (including OSU Physicians, Inc. and Wexner Medical Center) and Uniform Guidance audits.

# New and upcoming accounting pronouncements

## Applicable accounting pronouncements to be adopted in FY 2022 and FY 2023:



### **GASB statement no. 87, *leases***

The requirements of this Statement are effective for periods beginning after June 30, 2021, or OSU's FY22 financials. Changes the current classification of lease arrangements as either operating or capital leases, and establishes a single model for lease accounting based on the foundational principle that leases represent a financing transaction associated with the right to use an underlying asset. This Statement applies to contracts that convey the right to use a non-financial asset in an exchange or exchange-like transaction for a term exceeding 12 months. Lessees will be required to recognize a lease liability and an intangible right-to-use lease asset, and lessors will be required to recognize a lease receivable and a deferred inflow of resources.



### **GASB statement no. 89, *accounting for interest costs incurred before the end of a construction period***

The requirements of this Statement are effective for periods beginning after June 30, 2021, or OSU's FY22 financials. Requires interest incurred before the end of a construction period to be recognized as expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

# New and upcoming accounting pronouncements (continued)

## Applicable accounting pronouncements to be adopted in FY 2022 and FY 2023:



### **GASB statement no. 91, conduit debt obligations**

The requirements of this Statement are effective for periods ending June 30, 2022, or OSU's FY22 financials. Conduit Debt Obligations provides a single method for reporting conduit debt obligations of issuers. The Statement clarifies the existing definition of a conduit debt obligation, creates standards for accounting for commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations, and improves related financial statement disclosures.



### **GASB statement no. 93, replacement of interbank offered rates**

The requirements of this Statement are effective for periods beginning after June 30, 2021, or OSU's FY22 financials. Addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate.



### **GASB statement no. 94, public-private and public-public partnerships and availability payment arrangements**

The requirements of this Statement are effective for periods beginning after June 15, 2022, or OSU's FY23 financials. Addresses issues related to public-private and public-public partnership arrangements.

# New and upcoming accounting pronouncements (continued)

## Applicable accounting pronouncements to be adopted in FY 2022 and FY 2023:



### **GASB statement no. 96, *subscription-based information technology arrangements***

The requirements of this Statement are effective for periods beginning after June 15, 2022, or OSU's FY23 financials. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.



# New and upcoming accounting pronouncements (continued)

## Applicable accounting pronouncements to be adopted in FY 2022 and FY 2023:



***GASB statement no. 97, certain component unit criteria, and accounting and financial reporting for internal revenue code section 457 deferred compensation plans – an amendment of GASB statements no. 14 and no. 84, and a supersession of GASB statement no. 32.***

The requirements of this Statement are effective for periods ending June 30, 2022, or OSU's FY22 financials.

This statement provides guidance intended to increase consistency and comparability related to reporting of fiduciary component units in situations where a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform. The Statement also intends to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements. The Statement further seeks to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan, and for benefits provided through those plans.

# Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, those charged with governance, and KPMG each play an important role.

## System of independence quality control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules).
- Those in governance or in key positions within the entity with respect to the preparation or oversight of the financial statements.

## Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- The University or its trustees and officers from having certain types of business relationships with KPMG or KPMG professionals.

# Responsibilities

## Management responsibilities



- Communicating matters of governance interest to those charged with governance.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## KPMG responsibilities – Objectives






- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and those charged with governance.
- Communicating effectively with management and third parties.

## KPMG responsibilities – Other



- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
  - Withdraw from the audit engagement when possible under applicable law or regulation,
  - Communicate the circumstances to those charged with governance, and
  - Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.

# Responsibilities (continued)

<b>Management responsibilities</b> 	<b>KPMG responsibilities – Objectives</b> 	<b>KPMG responsibilities – Other</b> 
		<ul style="list-style-type: none"> <li>— Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework.</li> <li>— Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.</li> <li>— Communicating any procedures performed relating to other information, and the results of those procedures.</li> </ul>

# Inquiries

## The following inquiries are in accordance with AU-C 260

### Are those charged with governance aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
  - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
  - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

### Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the Company?
  - If so, have the instances been appropriately addressed and how have they been addressed?

### Additional inquiries:

- What are those charged with governance's views about fraud risks in the Company?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and those charged with governance?
- What are the Company's objectives and strategies and related business risks that may result in material misstatements?



# Inquiries (continued)

**The following inquiries are in accordance with AU-C 260**

## **Additional inquiries:**

- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are those charged with governance's attitudes, awareness, and actions concerning (a.) the Company's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b.) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has the Company entered into any significant unusual transactions?
- Whether the entity is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?

# Single Audit overview and scope

The Single Audit in accordance with the Uniform Guidance (UG) is required annually by federal regulation and is focused on compliance and internal control over compliance for programs that are federally funded. For auditees such as the University, programs audited must cover at least 20% of federal funds expended during the fiscal year.

- Major programs are selected for audit based on quantitative and qualitative risk considerations prescribed by federal regulations. Larger programs (“Type A,” which for the University are over \$3 million) must be audited as major programs at least once every three years; however, certain Type A programs may be required to be audited more frequently based on agency directives that they are “higher risk”.
- While risk assessments are still in progress, below is a summary of major programs recently audited for the University and the planned 2022 major programs:

# Single Audit overview and scope (continued)

FY20 Major programs – audited	FY21 Major programs – audited	FY22 Major programs – planned
<ul style="list-style-type: none"> <li>— Research and Development Cluster (R&amp;D)</li> <li>— Student Financial Assistance Cluster (SFA)</li> <li>— Higher Education Emergency Relief Fund (HEERF)</li> <li>— Cooperative Extension Cluster</li> <li>— Admin for Children and Family Cluster</li> <li>— Institute of Museum and Library Services Cluster</li> </ul>	<ul style="list-style-type: none"> <li>— R&amp;D</li> <li>— SFA</li> <li>— HEERF</li> <li>— Coronavirus Relief Fund (CRF)</li> <li>— Provider Relief Fund (PRF)</li> <li>— HRSA COVID-19 Uninsured Program</li> <li>— Cooperative Extension Cluster</li> <li>— Supplemental Nutritional Assistance Program Cluster</li> <li>— Highway Planning and Construction Cluster</li> <li>— Disaster Grants – Public Assistance</li> </ul>	<ul style="list-style-type: none"> <li>— R&amp;D</li> <li>— SFA</li> <li>— HEERF*</li> <li>— PRF*</li> <li>— CRF*</li> <li>— Medicaid Cluster</li> </ul> <p><i>* Expected to be identified as higher risk in 2022 OMB Compliance Supplement</i></p>

- Finalization of major program determination is dependent upon the final supplementary schedule of expenditures of federal awards, risk assessment procedures, and requirements of the 2022 Compliance Supplement (see next page).
- Major program compliance test work over direct and material compliance requirements is planned based upon reliance on internal control over compliance. While we may test and report on internal control over compliance, we do not express an opinion on the effectiveness of internal control over compliance.

# Single Audit overview and scope (continued)

## Potential changes to Student Financial Assistance Cluster (SFA) audit requirements

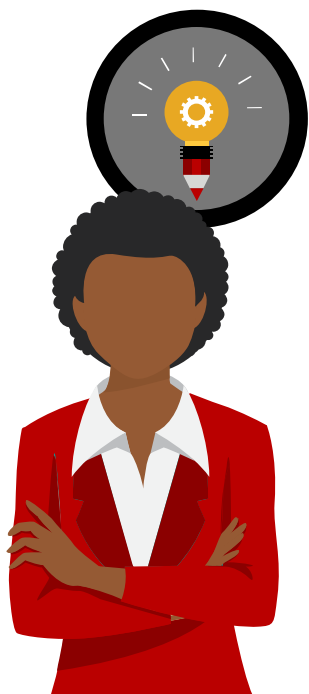
We understand that Office of Management and Budget (OMB), which promulgates Uniform Guidance requirements, expects the Compliance Supplement (the Supplement) to be issued this spring. We are monitoring developments, particularly with respect to the U.S. Department of Education's (ED's) proposed changes to section 5-3-1 pertaining to SFA. Should these changes, discussed further below, be implemented, there could be impacts on the scope of the SFA audit, increasing effort, complexity, and transparency for both auditors and auditees. Following are key takeaways:

### Random sampling:

- ED recently proposed a requirement to stipulate random sampling in the audit of SFA and indicated it might select its own samples at certain institutions. However, UG, OMB, and federal granting agencies historically have not stipulated sampling methodologies. After extensive discussion with major firms and the AICPA, these proposals appear to be off the table for FY22 audits; however, sampling may continue to be a focus of ED in future audits.

### New auditor disclosures:

- In addition to Pell Grant and Direct Loan sampling data currently submitted to ED by the auditor after each SFA audit, ED wants auditors to provide information about risk assessments and audit execution. This would include explanations by the auditor for compliance attributes the auditor decided not to test because they either (a) did not apply or (b) meet the auditor's risk thresholds



# Single Audit overview and scope (continued)

## **New auditor disclosures:**

- Either way, there would be additional burden for auditors, and possibly auditees, to compile, report, and address any questions from ED about this additional data.

## **Related party disclosures:**

- In its draft Supplement, ED has placed renewed emphasis on disclosure requirements under 34 CFR section 668.23(d), which extend beyond those of GAAP to include **all** “related parties” and a level of detail that would enable the Secretary to readily identify each related party. While as a practical matter these disclosures have always been deemed met through disclosures in the financial statements, if any, additional disclosures may be required. Refer also to the 2021 single audit results discussion.







# Questions?

**For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at [www.kpmg.com/ACI](http://www.kpmg.com/ACI)**

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# Appendix

**Appendix I – New auditor reporting  
standards for fiscal 2022  
and example report**

**Pages 36 to 38**

**Appendix II – ESG in higher education**

**Pages 39 to 45**

# New auditor reporting standards

SAS 134\*, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, aligns the content of the auditors' report under U.S. GAAS with the equivalent ISAs. The revised auditors report will:

- Present the opinion section first, followed by the basis for opinion section.
- Include a statement that the auditor is required to be independent of the entity and to meet the auditor's other ethical responsibilities relating to the audit.
- Expand the statement of management's responsibility to include assessing the entity's ability to continue as a going concern.
- Expand the description of auditor responsibilities to include exercising and maintaining professional judgment throughout the audit, concluding on whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and communicating with those charged with governance regarding, among other matters:
  - The planned scope and timing of the audit,
  - Significant audit findings, and
  - Certain internal control-related matters that are identified during the audit
- When engaged by the entity, key audit matters are communicated within the auditors' report.

SAS 134\*, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, aligns the content of the auditors' report under U.S. GAAS with the equivalent ISAs. The revised auditors report will:

- Include a separate 'Other Information' section when the annual report is available before the date of our auditors' report.

**Effective for years ending on or after December 15, 2021.**

\* Conforming changes were made to AU-C 800, 805, and 810 to incorporate Auditor Reporting Changes from SAS 134. Conforming changes were made to AU-C Sections 725, 730, 930, 935, and 940 to incorporate auditor reporting changes from SAS 134 and 137.

# New auditor reporting standards (continued)

## Comparison of Basic Elements of U.S. GAAS Auditors' Report

### Revised auditors' report

- Title
- Addressee
- Auditors' opinion
- Basis of opinion
- Going concern (when applicable)
- Key audit matters
- Responsibilities of management for the financial statements
- Auditors' responsibilities for the audit of the financial statements
- Other information (when applicable)
- Other reporting responsibilities (when applicable)
- Signature of the auditor
- Auditors' address
- Date of the auditors' report

### Report under current standards

- Title
- Addressee
- Introductory paragraph
- Management's responsibilities for the financial statements
- Auditors' responsibilities
- Auditors' opinion
- Other reporting responsibilities (when applicable)
- Signature of the auditor
- Auditors' address
- Date of the auditors' report

# Example opinion

## Independent Auditors' Report

The Board of Trustees  
The Ohio State University

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of The Ohio State University (the University), a component unit of the State of Ohio, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the University's basic financial statements for the year then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the University, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

#### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government /*

*Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### Required Supplementary Information

U.S. generally accepted accounting principles require that the accompanying management's discussion and analysis on pages XX through YY, the required supplementary information on GASB 68 Pension Liabilities on page XX, the required supplementary information on GASB 75 Net OPEB Liabilities on page XX, and the notes to required supplementary information on page XX be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Matters

The accompanying financial statements of the University as of June 30, 2021 and for the year then ended were audited by other auditors whose report thereon dated November 19, 2021, expressed an unmodified opinion on those financial statements.

#### Other Information

Management is responsible for the other information included in the annual report. The other information comprises the accompanying other information on the long-term investment pool on pages XX through YY but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November XX, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Columbus, Ohio  
November XX, 2022





# ESG in higher education



# ESG reporting considerations

## Our definition

ESG refers to strategic and operational environmental, social and governance risks and opportunities with the potential to have a material impact on an entity's long-term financial sustainability and value creation. For not-for-profit entities, ESG goals may align inherently with the organization's charitable mission and programs.

## ESG overview



**Environmental** criteria consider how an entity acts in its role as a steward of nature, such as energy use, recycling practices, pollution, and natural resource conservation.



**Social** criteria examine how well an entity manages relationships with employees, suppliers, customers, and the community, including diversity and inclusion metrics.



**Governance** criteria are concerned with quality of entity leadership, internal controls, executive compensation process, audits, and other oversight responsibilities. An example is board-level diversity.

## Five initial questions to consider:

1. Does the institution have an ESG strategy? Who is responsible?
2. How and by whom are material ESG risks identified?
3. Have key metrics been defined, and is a reporting framework in place?
4. What processes and controls exist over data being collected and reported?
5. Does (or should) the institution obtain assurance from third parties about the integrity of ESG data and processes?

Boards and executives increasingly see ESG topics as important to long-term value creation and the need to meet stakeholder demand for ESG information in a way that drives value for the organization.

# Rise of the ESG agenda



## Access to capital

Investors and other stakeholders increasingly factor ESG into their investment and affiliation decisions.



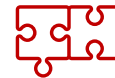
## Regulatory developments

ESG-related focus areas, including around climate, diversity, and even cybersecurity, continue to evolve.



## Societal pressure

Customers increasingly scrutinize entities' ESG performance and transparency, potentially affecting their desire to do business with the entity.



## Enhanced risk management and investment returns

Institutional investors now consider ESG in expected returns. At universities, for example, other stakeholders may demand divestment from fossil fuel.



## Reporting standards

Measurement and reporting of ESG-related information is evolving, as are disclosure standards.



## Workforce of the future

ESG has become a key factor in attracting and retaining top talent.

# Rise of the ESG agenda (continued)

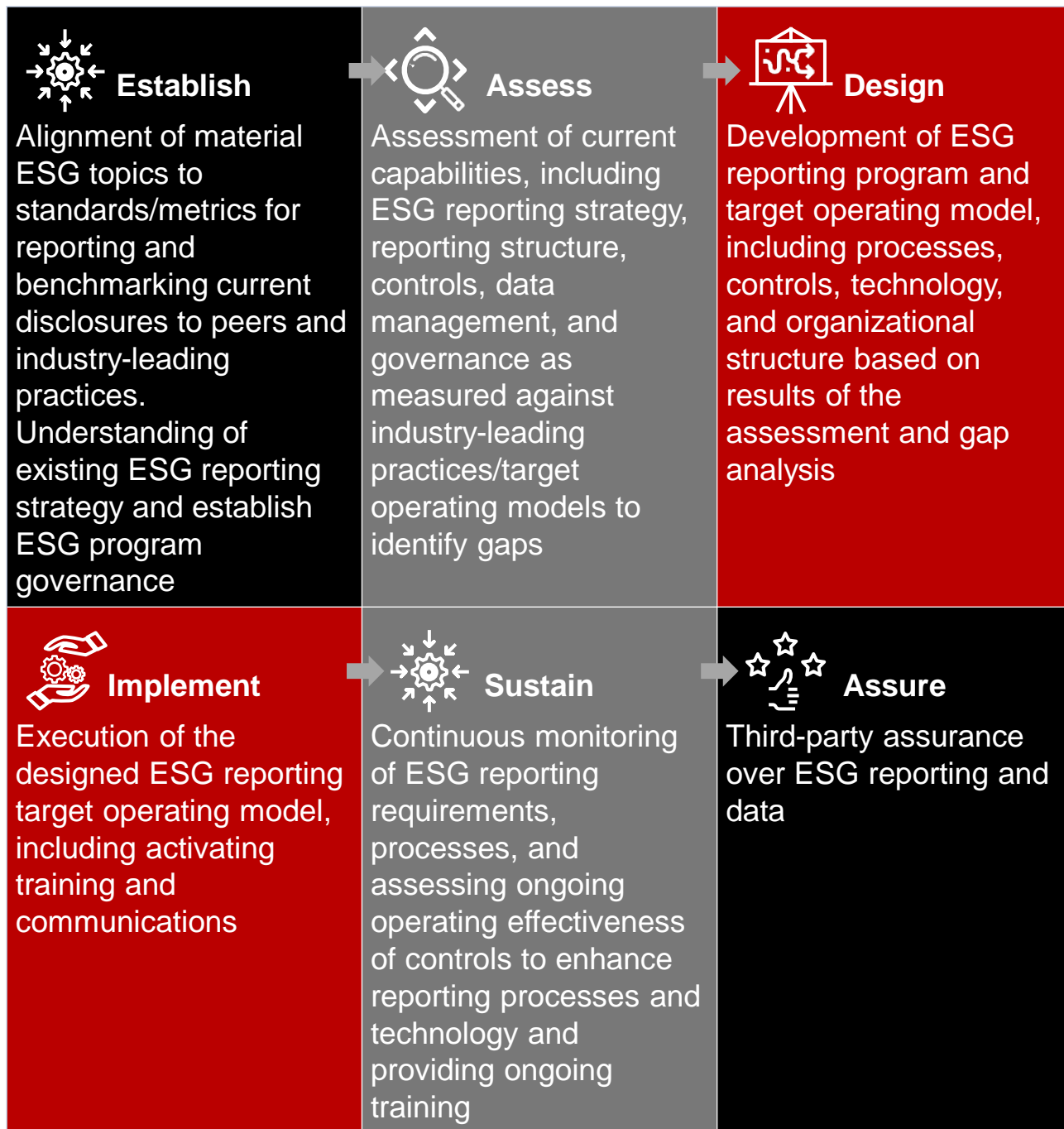
- ◆ **Feb 2021:** SEC announced focus on climate-related disclosures.
- ◆ **Mar-June 2021:** SEC public consultation on ESG (focus on climate).
- ◆ **April 2021:** EU proposed expanded ESG reporting (with limited assurance) that would impact certain U.S. companies.
- ◆ **March 2022:** SEC climate disclosure proposal issued.

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[KPMG Financial Reporting View](#)

## Possible implications of regulatory developments:

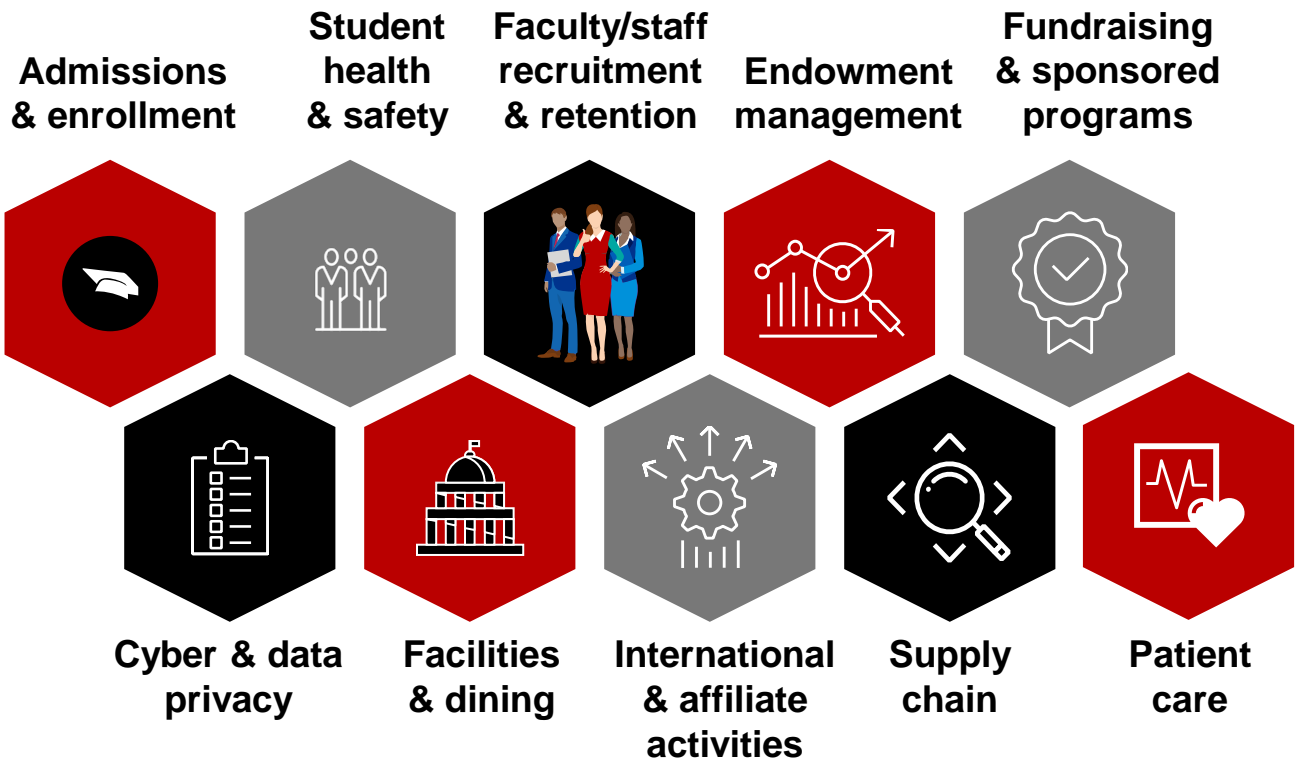
- General pressure by investment community to conform to requirements for registrants.
- Clarity over disclosure expectations and a level playing field.
- Pressure from customers as they seek assurance on supply chain.

# The ESG reporting journey

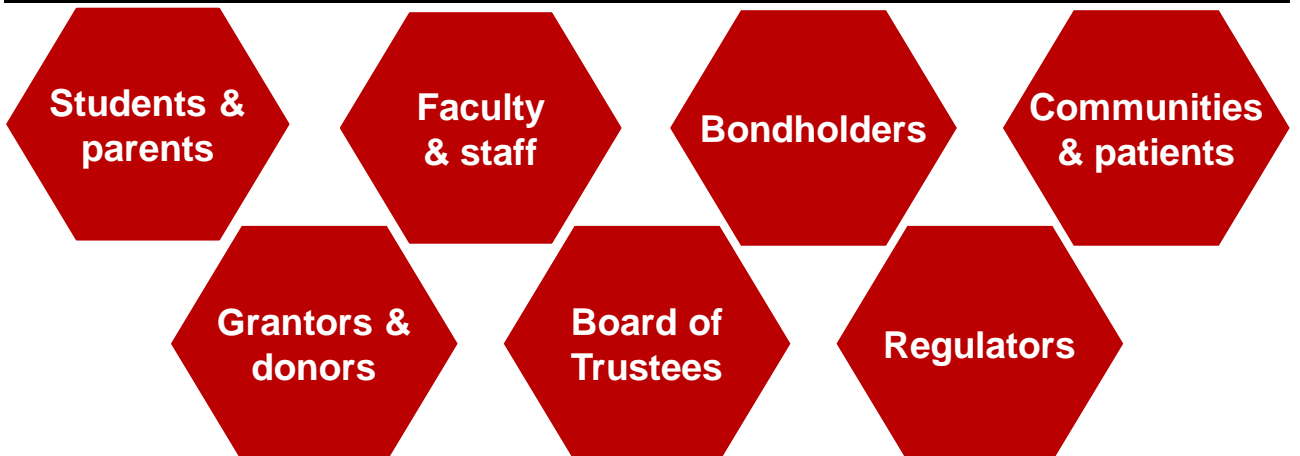












# ESG in higher education



## Stakeholders



# Common challenges and pain points in ESG reporting

<p>Stakeholders want more transparency on ESG risks, but lack of standards makes interpretation of data challenging</p> 	<p>Unclear roles and responsibilities, resulting in lack of accountability</p> 	<p>Inability to identify ESG risks and gather relevant and reliable data</p> 	<p>Decentralized or distributed ESG-related activities and data complicate comprehensive measurements and strategy</p> 
<p>Lack of short, medium and long-term actions and metrics supporting Net Zero commitments</p> 	<p>Inability to develop and monitor enterprise-wide metrics, as well as lack of relevant benchmarks</p> 	<p>Lack of documentation of data lineage and controls over data gathering, maintenance and reporting</p> 	<p>Achievement of Net Zero relies on offsets rather than absolute reductions</p> 



## Thank you

**Dave Gagnon**

*Lead Engagement  
Partner*

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# 2022 Higher education industry update

August 2022

The Ohio State University



# Topics

- Audit committee and internal audit focus areas for 2022
- 2022 Sector financial outlook
- Moody's higher education cybersecurity survey
- Higher education sector fundraising in fiscal 2021
- Fundraising – Risks in the current environment
- 2021 NACUBO-TIAA study of endowments
- AGB Study of higher education governing boards
- Workforce disruption and planning
- Get to know crypto





# Audit committee and internal audit focus areas for 2022

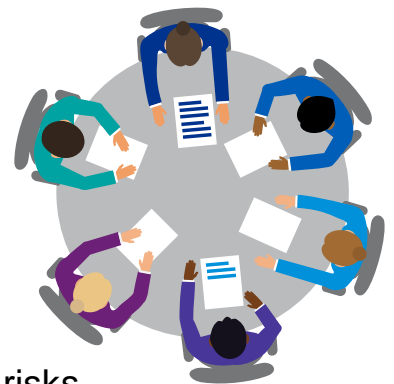




# 2022 Higher education audit committee focus areas

The risk agendas of college and university audit committees continue to expand. Beyond its core responsibilities regarding oversight of financial reporting and internal controls – and after a disproportionate focus during the last two years on COVID-19 impacts – the audit committee is dealing with several other emerging industry and regulatory risks. Areas to keep in mind in 2022 include:

- Maintain the focus on cybersecurity and data privacy
- Keep an eye on workforce disruptions and shortages, especially in financial and IT roles
- As “work from anywhere” continues to transform the workplace, consider risks related to recruitment, retention, equity, as well as tax and other regulatory compliance
- Understand how environmental, social, and governance (ESG) is being managed and reported
- Monitor disclosures and other protocols to ensure research integrity, including as to conflicts of interest and commitment, undue foreign influence, and misconduct
- Understand how management ensures integrity of data provided to external parties
- Continue to monitor compliance with federal stimulus funding requirements
- Understand how cryptocurrency may factor into fundraising and investing
- Reinforce the institution’s focus on ethics and compliance
- Understand risks and changes to the scope of international activities
- Help internal audit stay focused on the most critical risks



# 2022 Higher education internal audit focus areas

The opportunity for internal audit to maximize its influence within the institution and help respond to risk is ever-increasing. College and university internal audit functions can challenge the status quo to reduce risk, improve controls, and identify efficiencies and cost benefits across the institution. In 2022, internal audit should consider the following risks and other factors to help maximize its impact on the institution:



- Cybersecurity, data governance, and distributed enterprise threats amid hybrid working, learning, and patient care environments
- How changing work modes and workforce attrition may affect internal controls and the risk of fraud
- Adequacy of safeguards to ensure proper migration of data and systems to the cloud
- Propriety of management's plans to comply with evolving federal stimulus funding requirements and address other changes in laws and regulations
- Appropriateness of and compliance with gift acceptance policies – including as to digital assets such as cryptocurrency – and processes for complying with donor restrictions
- Given their significance to donor compliance and liquidity, effectiveness of policies and procedures in endowment and treasury management
- Integrity and propriety of data used for environmental, social, and governance (ESG), rankings, and other external disclosures
- Strength of protocols around research integrity, including for conflicts of interest and commitment, undue foreign influence, and misconduct
- As to significant NCAA programs, adequacy of name, image, and likeness (NIL) policies and procedures

# 2022 Higher education internal audit focus areas (continued)

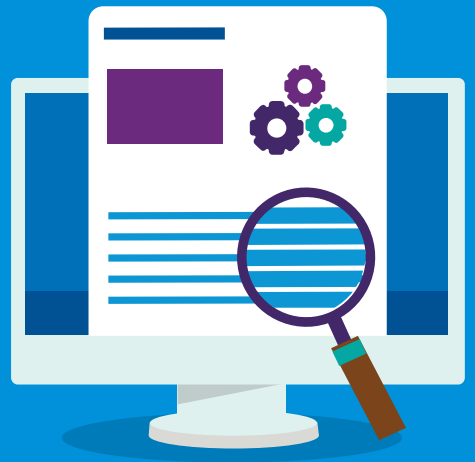
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- Appropriateness and accuracy of key performance indicators to measure institution-wide compliance, training, and other imperatives
- How technology can reshape internal audit and allow the department's limited resources to be more effective and efficient
- Ways to elevate internal audit's profile as a valued advisor to the board, senior administration, and other departments



# 2022 Sector financial outlook



# 2022 Sector financial outlook

Recently, Moody's and S&P released their 2022 sector outlooks. Compared to 2021, both rating agencies' moved their outlooks from **negative to stable**, due mainly to a return of students to campus, additional rounds of federal stimulus, record investment returns, and ebbing financial and operational effects from COVID-19 as many expect the pandemic to become endemic. Indeed, S&P noted that despite their worst crisis in decades, no rated colleges or universities defaulted on their debt. The majority of rated colleges and universities had a stable outlook, but credit quality remains bifurcated, with larger, more comprehensive, more selective, and more highly endowed institutions having stronger ratings. While both agencies suggest that longer-term industry challenges around enrollment and pricing will affect a majority of institutions – and that pre-pandemic reputational and financial strengths will continue to be differentiators – inflation and labor shortages could have more pervasive sector impacts in the near-term.

## ➤ Tuition and auxiliary revenues

While Moody's projects operating revenues **will rise 4 – 6 %** in 2022, both agencies cited inflation and labor shortages (as noted on the following page) as major threats to margins moving forward. Moody's estimates that sector tuition revenues will rise modestly, with the largest increases from housing, parking, athletics, and other auxiliary revenues as they rebound after sharp declines in fiscal 2020 and 2021. As to net tuition revenue, pricing overall remains constrained, with **nearly 60%** of private universities providing first-year discounting of over 50%. However, privates will perform better than publics because privates suffered larger enrollment declines in fall 2020 and will have a higher recovery percentage. Larger, more comprehensive institutions will perform above the median as to tuition gains, consistent with prior years.

# 2022 Sector financial outlook (continued)

## ➤ International enrollment

International enrollment is **on the rise**, with an ease in travel restrictions and immigration policies contributing to Moody's estimated 7.8% increase in fall 2021. Moody's noted that data provided by Open Door suggests new international students will increase 68% in fall 2021 (following a 46% decline in fall 2020), and that fall 2022 international applications are up 40% over the past two years based on reporting from Common Apps. S&P also expects international enrollment to stabilize or grow in 2022.



## ➤ Other revenue sources

Following robust growth in 2021, state revenues will grow more slowly or flatten, but **public university support** will be maintained or enhanced. S&P notes that state support could be pressured by inflation challenges, labor shortages, and continued pandemic-induced volatility. Funding for **research** is also likely to grow, with significant increases from National Institutes of Health and the National Science Foundation proposed in the 2022 Appropriations Bill. In addition, for universities with academic medical centers (AMCs), **patient care revenue** will rise. Such revenue – which makes up 22% of aggregate sector income for four-year universities – is increasing due to a backlog of demand for treatments and other surgeries and a continuation of telemedicine. However, insufficient staffing and the higher salaries of specialized nurses at AMCs will limit growth. Lastly, **strong endowment returns and philanthropy** in 2021 will bolster operating budgets and balance sheets in 2022 and likely beyond.



## 2022 Sector financial outlook (continued)

### ➤ Inflation and the “great resignation”

Inflation will increase sector expenses, narrowing EBIDA margins and potentially exceeding revenue growth. Higher education institutions are particularly susceptible to the rising **cost of labor** and demands for more workplace flexibility, given more than half of their expenses are related to compensation and their employees are mostly campus- or hospital-based. These vulnerabilities are exacerbated by attrition from an aging demographic in key administrative roles. In addition, the prices of sector goods and services are rising, and **supply disruptions** will linger heading into 2022. Assuming inflation fades somewhat in the second half of 2022, Moody’s estimates that only one-third of public universities and half of private institutions are likely to generate EBIDA margins greater than 10% (still an improvement from 2021).



### ➤ ESG issues

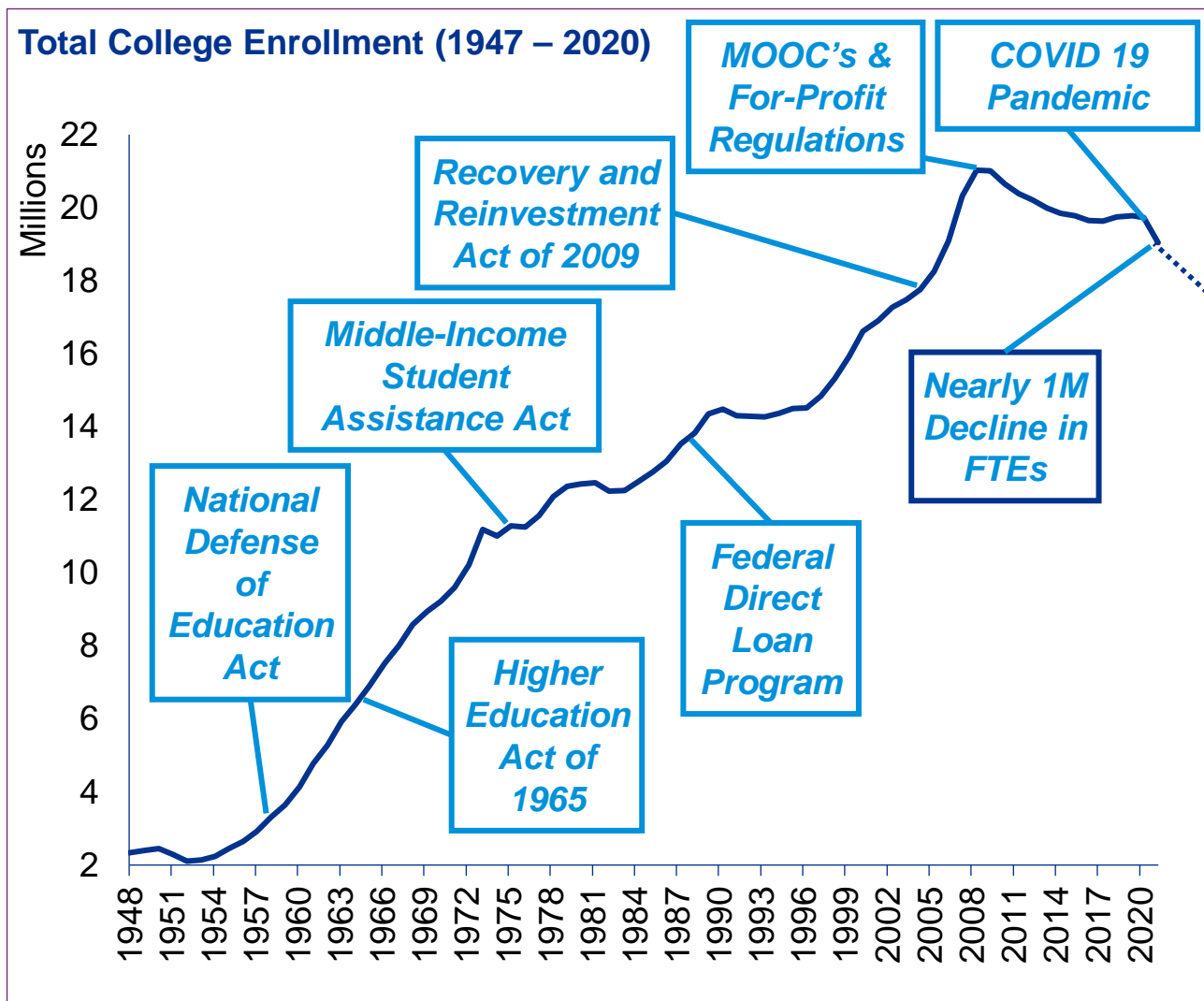
Environmental, social, and governance (ESG) issues – management of which may challenge credit quality for many institutions – will remain in the spotlight in 2022. The pandemic disproportionately hurt low-income populations. Colleges and universities will continue to struggle with rising financial aid and pressures to limit tuition and auxiliary increases. Addressing sector concerns around **affordability, access, and diversity** – recognizing students and other stakeholder demand more information and expect progress – will be challenging. In addition, extreme weather has amplified the focus on environmental risks and decarbonization efforts, and increasing digitization will make data governance and cybersecurity top of mind for many stakeholders.

# 2022 Sector financial outlook (continued)

Historical enrollment trends have been impacted by key moments in history, but COVID-19 accelerated the pace of change as never before.

## Critical Transformative Milestones in College Enrollment

United States



Source: NCES

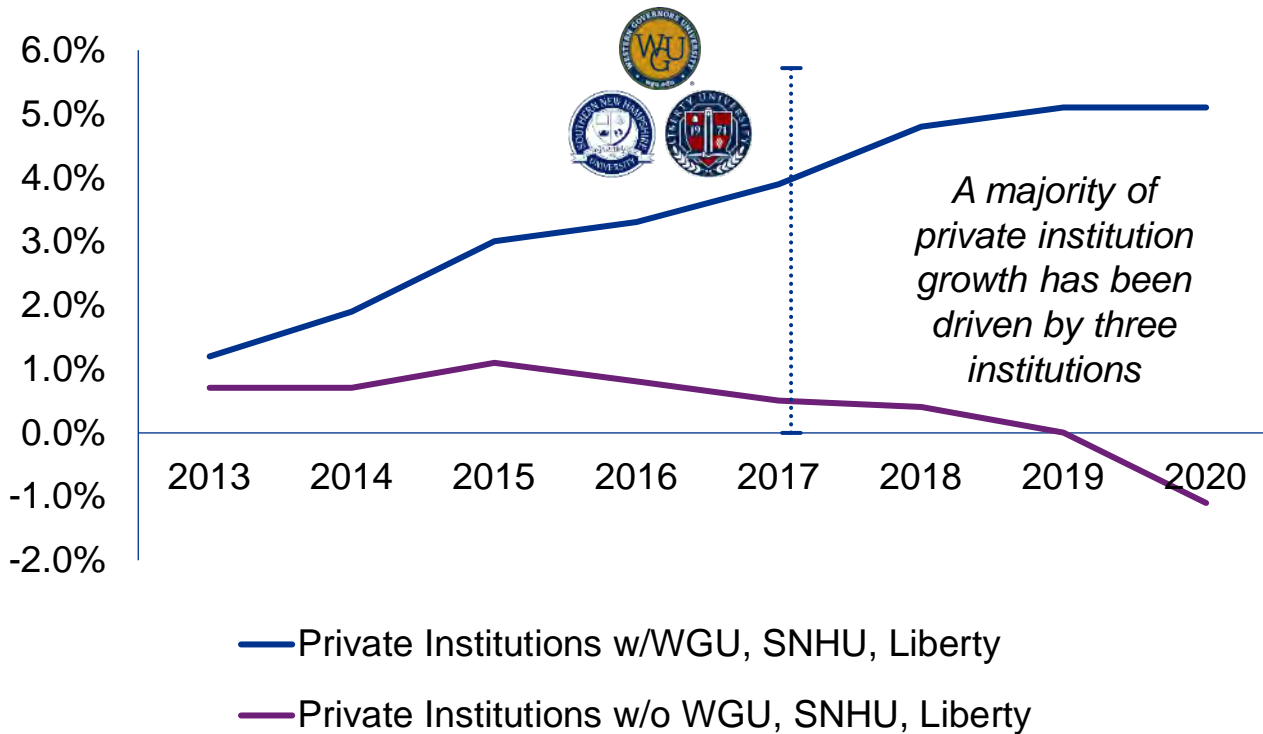
# 2022 Sector financial outlook (continued)

Highly ranked, more selective private institutions continue to retain a disproportionate share of students, and many have become even more selective. However, private institutions overall face a highly competitive landscape, with a majority of enrollment growth being driven by three institutions in recent years.

## Private Institution Enrollment

United States

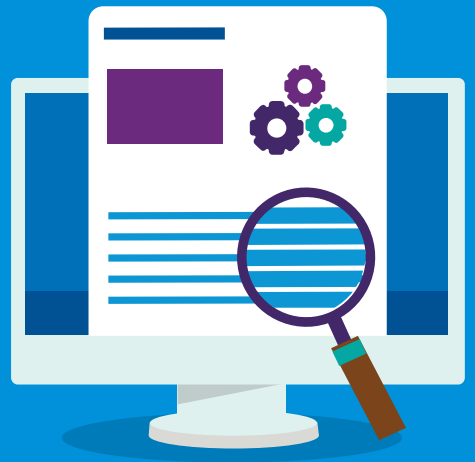
### Annual Change (%) in Private Institution Enrollment (2013 – 2020)



Source: NCES



# Moody's higher education cybersecurity survey



# Moody's higher education cybersecurity survey

In October 2021, Moody's issued results of its survey of cybersecurity at global universities, Cyber defenses improve across sector but stronger at larger and US-based universities. Respondents primarily consisted of the largest university issuers by operating revenue. The survey results generally indicate that private comprehensive universities in the U.S. – especially those with academic medical centers – have greater cyber preparedness relative to their public university counterparts (who may rely more on their affiliated governments). Topics covered include cybersecurity reporting structures, dedication of resources, and vulnerability assessments, as well use of the cloud and cyber insurance.

Following are key takeaways from the survey.

## Cybersecurity reporting structures

- The survey found that globally, most cyber risk managers report directly to the executive team, which suggests cybersecurity is controlled at the most senior levels of the administration.
- At the campus level, 93% of global public universities (which tend to have more distributed campus environments) and 67% of global private universities have their head of cybersecurity report directly to the president. In the case of global universities with academic medical centers, 100% of cybersecurity heads report directly to the president, perhaps reflecting that healthcare is the only nonfinancial sector assessed by Moody's and other agencies as high risk with respect to cybersecurity.
- On the other hand, cyber expertise is not resident in the board – indeed, only 2% of U.S. university respondents noted that cyber expertise exists at the board level.

# Moody's higher education cybersecurity survey (continued)

## Resources devoted to cybersecurity

- Despite overall fiscal constraints at many universities, cybersecurity budgets are growing, with more direct financial resources being devoted to protection programs.
- Relative to the institution's total IT budget, cybersecurity spending – which was 3% for U.S. university respondents – appears modest.
- Many universities, particularly those with healthcare operations, are adding full-time staff resources to bolster their cybersecurity programs. While private universities overall are growing cybersecurity budgets (up 44% in 2019 and projected to increase 17% in 2020), Moody's noted they are not necessarily growing cyber staffing. By contrast, public universities' full-time cyber staffing has increased 20% since 2019.



## Strength of vulnerability assessments

- In general, US-based, private, and healthcare-focused universities are more likely to deploy advanced cyber defenses than public universities and non-US institutions. The strength of cybersecurity practices is also highly correlated to levels of institutional wealth and credit ratings.
- Nearly all respondents indicate they have incident response plans – the absence of which is credit negative – and multifactor authentication, both of which have become core to cybersecurity.
- However, less than one-third of public and private universities regularly perform red team testing, in which experts attempt to hack an institution's systems and measure how effectively employees and other cyber safeguards respond. Moreover, many institutions do not have a formal process to address findings from red-teaming exercises. In addition, globally only 5% of public and 10% of private institutions engaged in traditional penetration testing, or simulated attacks, in the last 12 months



# Moody's higher education cybersecurity survey (continued)

- The results are more positive with respect to the number of times respondents engaged with or educated employees on cybersecurity issues in the last year, with U.S. institutions overall reporting 14 such interactions and healthcare-focused universities reporting 25 interactions.

## Cloud adoption

- Compared to server-based technologies, cloud-based systems are often considered more secure, flexible, accessible, and cost-effective.
- Colleges and universities are increasingly reliant on cloud-hosted infrastructure, with 30% of U.S. and 35% of non-US institutions using cloud technology in 2021 versus 2% and 6%, respectively, in 2020.
- The migration to the cloud has been rapid – particularly among institutions with the highest credit ratings – with a vast majority of institutions using more than one cloud provider.

## Use of cyber insurance

- Most universities surveyed carry cyber insurance. Globally, 100% of private universities and 76% of public universities surveyed have stand-alone cyber insurance policies. However, more U.S. institutions (91%) carry such insurance than their non-US counterparts (60%).
- The most common policy coverages include ransom payments, incident response, business interruption, and regulatory fines, consistent with surveys of other sectors.
- Prices of cyber insurance have been driven higher by the increase in cyber incidents generally and by several high-profile attacks in the sector, and some insurers have amended underwriting criteria or reduced policy limits.





# Higher education sector fundraising in fiscal 2021



# Higher education sector fundraising in fiscal 2021

In February 2022, the Council for Advancement and Support of Education (CASE) published its annual *Voluntary Support of Education* survey. The survey gathered responses from 864 U.S. institutions, representing 27% of the colleges and universities in the U.S. and 84% of funds raised. The survey covered various types of private and public colleges and universities and gleaned data about their philanthropic support in the 2020 – 2021 academic year. Following are highlighted data and our key takeaways from the survey.

## Estimated voluntary support of higher education by source\*

(Dollars in billions)

Donor type	2021 amount	% of 2021 total	% increase 2020 to 2021
Foundations <sup>1</sup>	\$17.50	33.1%	6.4%
Alumni	12.25	23.2%	10.8%
Non-alumni individuals	8.80	16.6%	2.0%
Other organizations <sup>2</sup>	7.35	13.9%	9.1%
Corporations	7.00	13.2%	5.6%
<b>Total</b>	<b>\$52.90</b>	<b>100.0%</b>	<b>6.9%</b>

CASE *Voluntary Support of Education*, 2021 survey.

1. Category includes family foundations.
2. Category includes donor-advised funds.

# Higher education sector fundraising in fiscal 2021 (continued)

## Key takeaways from the survey

- After a year of flat giving in 2020 totaling \$49.5 billion, the strong economy and booming stock market supported a 6.9% increase in giving in 2021, resulting in a record-high \$52.9 billion of sector fundraising. Alumni and wealthy philanthropists led the way, with multiple major gifts to underfunded institutions such as historically black colleges and universities (HBCUs) and two-year colleges.
- There were nine gifts in 2021 (versus seven in 2020) of \$100 million or more, totaling \$1.46 billion. Eight of these went to research/doctoral universities, and the other went to a private baccalaureate institution.
- Giving for unrestricted purposes, representing 7.4% of contributions reported by survey respondents, grew by a whopping 30.2%. Contributions for capital purposes – driven higher by gifts for restricted endowments – grew 8.4% sector-wide and represented 40.2% of total giving reported by respondents. Again, the distribution of this giving by purpose and institution type varied.
- As in 2020, foundation support (33.1%) and alumni support (23.2%) comprised the two largest giving categories in 2021. CASE has pointed out in the past that a significant portion of foundation support is from family foundations, which are often connected to alumni.



# Higher education sector fundraising in fiscal 2021 (continued)

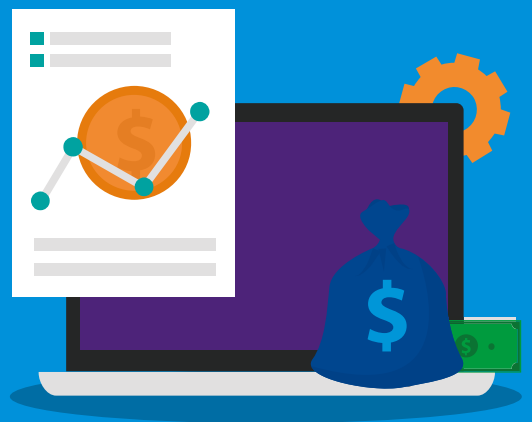
## Key takeaways from the survey

- The second largest increase in any giving category – 9.1% – was from other organizations, most of which are donor-advised funds (DAFs). Over the last decade, the other organizations category has grown significantly, attesting to the growing popularity and convenience of DAFs. Indeed, DAFs represented 81.8% of other organization giving for those institutions who reported on DAFs, increasing 26.5% in 2021. Because DAFs have become so prominent, CASE indicated they will be tracked as a separate donor category beginning in 2022.
- Once again, respondent private and public research/doctoral institutions generated a disproportionate share of total giving, comprising 71% of sector funds raised (versus 70% in 2020) and growing 7% over 2020. Private universities generated 57% of the total research/doctoral giving reported. Although as categories they comprise a much smaller share of total giving, respondent master's and associate's institutions realized the largest percentage increases in giving, at 26% and 53%, respectively.
- Colleges and universities typically receive most of their gifts at the end of the calendar year and the end of the academic fiscal year. In 2021, the stock market made large gains in both of these periods, fueling giving overall and larger gifts in particular. Survey respondents replying to a question about gifts of stock reported that the number and value of such contributions rose, by 6.2% and 13%, respectively.





# Fundraising – Risks in the current environment





## Risks in the current environment

Fundraising by U.S. higher education entities was \$52 billion in 2021 and is increasingly complex. From new tax regulations affecting cryptocurrency donations to reputational concerns around tainted donors and foreign influence, both the National Council of Nonprofits and the Council for Advancement and Support of Education (CASE) have commented on the importance of appropriate fundraising policies to manage risks. As the complexity and variety of contributions and grants grow, the risk of noncompliance with donor stipulations remains a top risk. Most NFPs recognize the existential threat of failure to honor donor intent and have controls designed to ensure compliance. Still, other risks may also merit attention by governance and management.



### Gift acceptance policies

Appropriate gift acceptance policies are the starting point for sound fundraising practices. As any gift acceptance policy that has not been updated in the last few years may no longer be sufficient to protect the institution, consider the following when reviewing and updating policies and related procedures:

- Do policies and procedures ensure the institution avoids gifts inconsistent with its values, mission, or programs, or that create unwarranted reputational risk, legal risk, or handling obligations? Does the policy address noncash and non-dollar denominated gifts, including, for example, digital assets like cryptocurrency and non-fungible tokens (NFTs)?
- Have potential conflicts of interest that could occur in the fundraising process been addressed? For example, avoid situations that put the institution in a position to serve as both recipient of a donation and tax advisor to the donor.

## Risks in the current environment (continued)

Fundraising by U.S. higher education entities was \$52 billion in 2021 and is increasingly complex. From new tax regulations affecting cryptocurrency donations to reputational concerns around tainted donors and foreign influence, both the National Council of Nonprofits and the Council for Advancement and Support of Education (CASE) have commented on the importance of appropriate fundraising policies to manage risks. As the complexity and variety of contributions and grants grow, the risk of noncompliance with donor stipulations remains a top risk. Most NFPs recognize the existential threat of failure to honor donor intent and have controls designed to ensure compliance. Still, other risks may also merit attention by governance and management.



### Gift acceptance policies (continued)

Appropriate gift acceptance policies are the starting point for sound fundraising practices. As any gift acceptance policy that has not been updated in the last few years may no longer be sufficient to protect the institution, consider the following when reviewing and updating policies and related procedures:

- Have the board and appropriate committees reviewed and approved the policy? Has a gift acceptance committee been established to evaluate and approve major gifts?
- If the institution imposes gift or endowment administration fees, how are they communicated to donors?
- Consider posting an external policy for prospective donors to help manage their expectations, as well as more detailed internal guidelines for management to implement the policy.

## Risks in the current environment (continued)

### Risks around gift and donor administration

Just as the vehicles available for making charitable contributions have become more varied and donor agreements have become more complicated, fundraising administration is increasingly complex. Following are risks that should be considered in the institution's administrative processes and controls:



- Lack of clarity around donor intent, or lack of robust documentation supporting interpretations for proper administration and financial reporting
- Inconsistent or untimely utilization of donor-restricted endowments and other gifts
- Difficulties reconciling or explaining gift measurement and reporting differences (e.g., CASE vs. GAAP standards)
- Inappropriate or inconsistent valuation policies for noncash gifts, including digital assets
- Failure to properly or completely report gifts from, and contracts with, foreign sources in accordance with the Higher Education Act
- Failure to comply with tax or donor reporting requirements
- Managing gifts from donor-advised funds and payments therefrom on existing donor commitments
- Inability to protect donor privacy and safeguard other sensitive information
- Failure to adequately separate admissions and other critical institutional processes from fundraising activities and influence

## Risks in the current environment (continued)

### Other common challenges and risks

A number of operational challenges and risks – some longstanding and others new because of heightened sensitivities around conflicts of interest or stakeholder expectations – may also be encountered in the fundraising enterprise:



- Reliance on a small group of donors, including board members or other related parties
- Overdependence on narrowly restricted contributions and grants, or acceptance of gifts that create mission creep or new fixed costs
- Potential for undue influence by major donors
- Objections by faculty or students to specific donors or program funding
- Failure to retain – or grow – the donor pool, including ineffective capture and use of donor data
- Turnover in development leadership and staff, leading to loss of donor connectivity
- Protocols to ensure safety at fundraising events
- Challenges in projecting fundraising performance in light of recent trends in donor behavior and tax changes
- KPIs to measure fundraising spend and success



# 2021 NACUBO- TIAA study of endowments



# Highlights of the study

## Returns



Annualized average returns were 30.6% in 2021 (versus 1.8% in 2020), the strongest in years. Despite these results—which drove the 10-year annualized return from 7.5% to 8.5%—inflation expectations and higher fees and expenses caused the longstanding target return of 7.5% to rise to 7.94%. Based on median 2021 data reported, the return gap between endowments over \$1 billion and endowments between \$101 million and \$250 million was 7.2%.

## Spending



Endowment spending in 2021 held steady with 2020 at 4.5%, although 20% of institutions made special appropriations in 2021. Spending remained concentrated on student aid (47%); academic programs and research (15%); endowed faculty positions (11%); and operations and maintenance of campus facilities (9%).

## Fundraising



New endowment gifts were up 15% over 2020, likely reflecting the strong investment returns during 2021. Responding to a new survey question, 65% of respondents reported at least some giving directed toward diversity, equity, and inclusion (DEI) initiatives.

## ESG Considerations

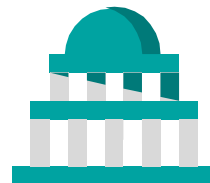


More endowments said they have added environmental, social, and governance (ESG) factors to their portfolios. The percent of endowments factoring responsible investing into investment manager due diligence and evaluation grew from 39.6% in 2020 to 47.4% in 2021, with 26.1% of respondents saying such investing can create performance in excess of market. Overall, 7.7% of institutions (versus 5.8% in 2020) reported having a formal policy to address DEI in investment manager selection.

# Highlights of the study

## Respondent data

A total of 720 institutions— aggregating \$821 billion of total endowment value—took part in the Study, which covered the fiscal year ended June 30, 2021. Endowment wealth remained sharply concentrated, with endowments over \$1 billion comprising 84% of total endowment value (up from 80% in 2020). Average endowment size was \$1.1 billion, up 35% over 2020. Compared to smaller endowments and consistent with prior years, endowments over \$1 billion had lower allocations to public U.S. equities and fixed income and higher allocations to private equity and venture capital, marketable alternatives, and real assets.







# AGB Study of higher education governing boards



# AGB Study of higher education governing boards

## Overview

The Association of Governing Boards of Universities and Colleges (AGB) recently released *Policies, Practices, and Composition of Governing Boards of Colleges, Universities, and Institutionally Related Foundations, 2021*. The study, which is generally conducted every five years, was based on a 2020 survey of over 500 colleges, universities, systems, and institutionally related foundations. Like the last survey in 2015, the latest survey focuses on several board attributes. AGB notes that some survey results should be interpreted with caution given the lower response rate in 2020, likely as a result of the pandemic.



## Respondent highlights



- Among those responding, 22%, 60%, and 18%, respectively, were public institutions, independent (private) institutions, and foundations.
- Among public and private respondents by Carnegie Classification, 35% and 19%, respectively, were doctoral/research universities, and 82% of foundation respondents were affiliated with four-year institutions.

## Survey takeaways

Following are highlights of the survey's major areas of focus in 2020, including I. Characteristics of public and private institution governing boards; II. Board policies and practices; and III. Institutionally related foundations. The full survey, which contains substantial additional data and insights not highlighted here, can be ordered from AGB at [www.AGB.com](http://www.AGB.com).

# AGB Study of higher education governing boards (continued)

## I. Characteristics of public and private institution governing boards

### Size



- Among those responding, 22%, 60%, and 18%, respectively, were public institutions, independent (private) institutions, and foundations.
- Among public and private respondents by Carnegie Classification, 35% and 19%, respectively, were doctoral/research universities, and 82% of foundation respondents were affiliated with four-year institutions.

### Gender and LBGQTQIA



- Men remain in the majority on college and university boards. However, women now comprise 37% and 36%, respectively, of public and private board members, an increase of over 4% in each sector since the 2015 survey. Still, AGB notes these percentages significantly lag the percentage of female students overall, which has been between 56 – 57% over the last few decades.
- Approximately 23% of public and 25% of private board chairs were women. Among public and private respondents, 23% and 34%, respectively, indicated their institution's president is female.
- A new question added in 2020 asked if any voting members self-identified as LBGQTQIA, and 87% of public and 51% of private respondents either answered no or that they did not know. However, AGB notes these results should be interpreted with caution given the number of times the question was skipped.

### Age



- Approximately 61% of public and 60% of private board members were between the ages of 50 – 69, the largest single category. In addition, board members aged 70 and over comprised 15% of public and 22% of private boards (versus 14% and 18% in the 2015 survey).

# AGB Study of higher education governing boards (continued)

## I. Characteristics of public and private institution governing boards (continued)

### Race/ethnicity



- Minorities<sup>1</sup> overall comprised 30% of public and 17% of private boards. Black/African Americans comprised 20% of public and 10% of private boards. However, Minority-Serving Institutions (MSIs) skewed the data overall for public institutions, with Black/African Americans comprising 41% of MSI boards and only 13% of boards at other publics.
- Total minorities represented 25% of public and 10% of private board chairs, with Black/African Americans comprising the largest single minority category. Excluding MSIs, total minorities represented 17% of public and 8% of private board chairs.
- In terms of presidents/chancellors by race/ethnicity, total minorities comprised 33% at publics and 28% at privates. The majority of those were Black/African American, with 22% at publics and 24% at privates. However, MSIs again represented a disproportionate share of these percentages, particularly at private institutions. After removing MSIs from the data, total minorities and Black/African Americans represented 7% and 4%, respectively, of private college and university presidents.
- In terms of faculty, total minorities comprised 19% at publics and 22% at privates. Similar to board-level data, these figures lag total minority representation among students, which was 41% at publics and 35% at privates.

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<sup>1</sup> AGB has defined as American Indian/Alaskan Native; Asian; Black/African American (Non-Hispanic); Hispanic/Latino; and Native Hawaiian/Pacific Islander.

# AGB Study of higher education governing boards (continued)

## I. Characteristics of public and private institution governing boards (continued)

### Board diversity and diversity, equity, and inclusion (DEI) planning



- The vast majority (95%) of private institution respondents indicated they were attempting to diversify the composition of their boards, as compared to 50% of public respondents, some of whom cited less control around board diversification due to member appointment and state election rules. Indeed, the survey noted that 77% of public board members are appointed by governors or state legislatures, and 8% are elected.
- While 90% of public and 81% of private institutions indicated they have an overall DEI plan, only 28% and 31%, respectively, have a board-specific DEI plan. In addition, 3% of public and 7% of private respondents have established a standing DEI committee at the board level.
- Among the most popular diversification categories cited for publics and privates, respectively, included race/ethnicity (76% and 97%); professional background (74% and 84%); gender (74% and 77%); and age (28% and 68%). Self-identified sexual orientation was also cited by 22% and 28%, respectively, of publics and privates as an important diversification category.
- In terms of occupational trends for board members, an increasing proportion of board members have current or former business roles (53% at publics and 57% at privates), and 46% of public and 48% of private institutions reported at least one board member serving on a corporate board.

# AGB Study of higher education governing boards (continued)

## II. Board policies and practices

### Term limits



- A vast majority of boards (92% of publics and 96% of privates) specify the length of member terms, with most (52% of publics and 74% of privates) also limiting the number of consecutive terms of service. As to the board chair, most boards limit term length, and 44% of publics and 54% of privates limit the number of consecutive terms.
- While average term length was longer at publics (5.5 years) than privates (3.2 years), the average number of consecutive terms served (if limited) is longer at privates (3.2) than at publics (2.2).

### Board meetings



- Perhaps due to the pandemic, boards generally reported more frequent but shorter meetings in 2020 than in the past, with meeting frequency and length somewhat correlated to institution size and complexity.
- Overall, public boards held an average 7.7 meetings (skewed higher by boards at public university systems, who met 11.0 times on average) for 3.2 hours, while private boards held an average 4.6 meetings for 4.3 hours. Generally, boards at doctoral/research universities met more frequently than their smaller counterparts.
- In terms of the percentage of voting member attendance at board meetings, 84% of public and 58% of private institution respondents reported “full attendance” (i.e., 91%+). The pandemic likely impacted these statistics, and the lower figure for privates likely reflects their much larger average board size.
- A vast majority of public and private respondents reported virtual meetings in 2020, with about two-thirds of public boards and virtually all private institutions permitting electronic voting (although it is unclear whether such permissions will become permanent).

# AGB Study of higher education governing boards (continued)

## II. Board policies and practices (continued)

### Board meetings (continued)



- Public respondents reported that executive sessions were held at only 32% of board meetings, whereas their private counterparts held such sessions at 63% of board meetings.
- Utilization of consent agendas to make meetings more efficient has continued to increase over the last decade. For example, in 2020, 77% of public respondents (63% in 2010) and 60% of private respondents (47% in 2010) reported using consent agendas.

### Board committees



- Public respondents reported fewer committees (4.5 on average) than their private counterparts (7.7 on average). The highest average numbers of board committees were reported by private doctoral/research universities (8.9) and public university systems (5.4), in both cases likely due to their larger size and levels of decentralization.
- In terms of committee types, finance/budget was the most common (75% at publics and 74% at privates), and audit (60% at publics and 64% at privates) and academic affairs (55% at publics and 58% at privates) were also widely reported.
- However, there was some divergence as to other committee types: whereas 72% of privates said they had an executive committee, only 36% of publics reported the same (with a similar disparity as to a trustee/nominating/governance committee). Privates were also more likely to have a committee for development/advancement (63%) and investments (43%) relative to their more foundation-dependent public counterparts (23% and 12%, respectively).



# AGB Study of higher education governing boards (continued)

## III. Institutionally related foundations

### Foundation characteristics and practices



- Most institutions (78%) had only one foundation, and most foundation respondents (82%) served four-year institutions.
- Overall, 40% of respondents defined their relationship with the institution as “interdependent.” More foundations with large endowments (over \$100 million) were more likely to describe themselves as “independent” than their smaller counterparts. Despite varying levels of dependence among respondents, the majority of foundations (85%) had a formal operating agreement or memorandum of understanding their institution or system.
- As to functions performed by foundations, the most prevalent were serving as the primary gift repository for contributions to the affiliated institution (96%) and endowment management (95%). However, a number of other common functions, especially pertaining to fundraising and alumni relations activities, were reported.
- Among all respondents, 38% reported having endowments from \$101 million to \$500 million. Among foundations serving public university systems, 40% had endowments over \$1 billion.
- Operating budgets and staff size were correlated with endowment size. Foundations reporting endowments greater than \$1 billion had average FTE staff of 75, and over half had an operating budget greater than \$20 million.
- As to the foundation’s role in fundraising, the results were split: 37% reported that the institution or system staff directed and coordinated fundraising efforts, whereas 36% stated the foundation is primarily responsible for directing and executing fundraising.

# AGB Study of higher education governing boards (continued)

## III. Institutionally related foundations (continued)

### Foundation board composition and related data



- As to foundation board composition overall, total minority representation (12%) lags that on college and university boards, although overall female representation (35% in 2020 and 25% in 2010) has been increasing and is more comparable. As to age, foundation board member data aligned with institutions, with 63% of board members aged 50 – 69 and 22% are 70 and over. Virtually all respondents (98%) said they are attempting to diversity board composition, although only 22% of respondents said they have a board-specific DEI plan.
- As to board member terms, 98% of respondents indicated that their foundation specifies member term lengths (3.7 years on average) and that the average number of consecutive terms is 2.8. As to the foundation board chair, average term length was 1.9 years and average number of consecutive terms was 1.7.



# Workforce disruption and planning



# Workforce disruption and planning

The ways in which employees work were profoundly impacted by the pandemic and continue to evolve as labor shortages and wage inflation take hold. In higher education specifically, traditional campus-based work environments, attrition from an aging demographic in key administrative roles, and leaner staffing models only intensify pressures on retention and recruitment. Following are some of the risks in today's evolving work environment.



- Finance, accounting, IT and internal audit have been particularly **hard-hit**
- Effects of **changing work modes** and workforce attrition on internal controls, including segregation of duties, and risk of fraud
- **Equity issues** – physical vs. remote, pay gaps, health and safety
- Wage **inflation** and benefit enhancements in recruiting new positions, as well as risks around unfilled positions
- **Concerns** about employee engagement, productivity, mentoring, and career progression in remote environment
- **Space utilization** and allocation impacts on capital planning and budgeting
- **Expectations** around reallocated space in relation to campus carbon footprint
- **Compliance** with state and international tax laws and other regulations
- Continued **uncertainties** and impacts around pandemic and related protocols

# Mobility trends across higher education



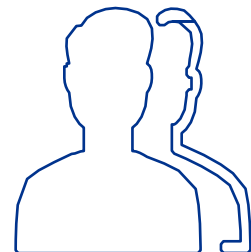
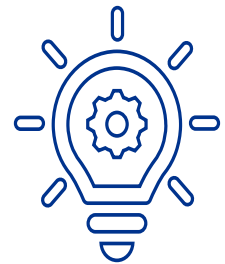
**Increased awareness of risks and costs of managing compliance**

**International strategy**



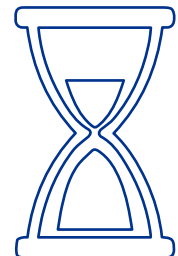
**Increased flexible and remote working arrangements**

**Key stakeholder involvement and decision making**

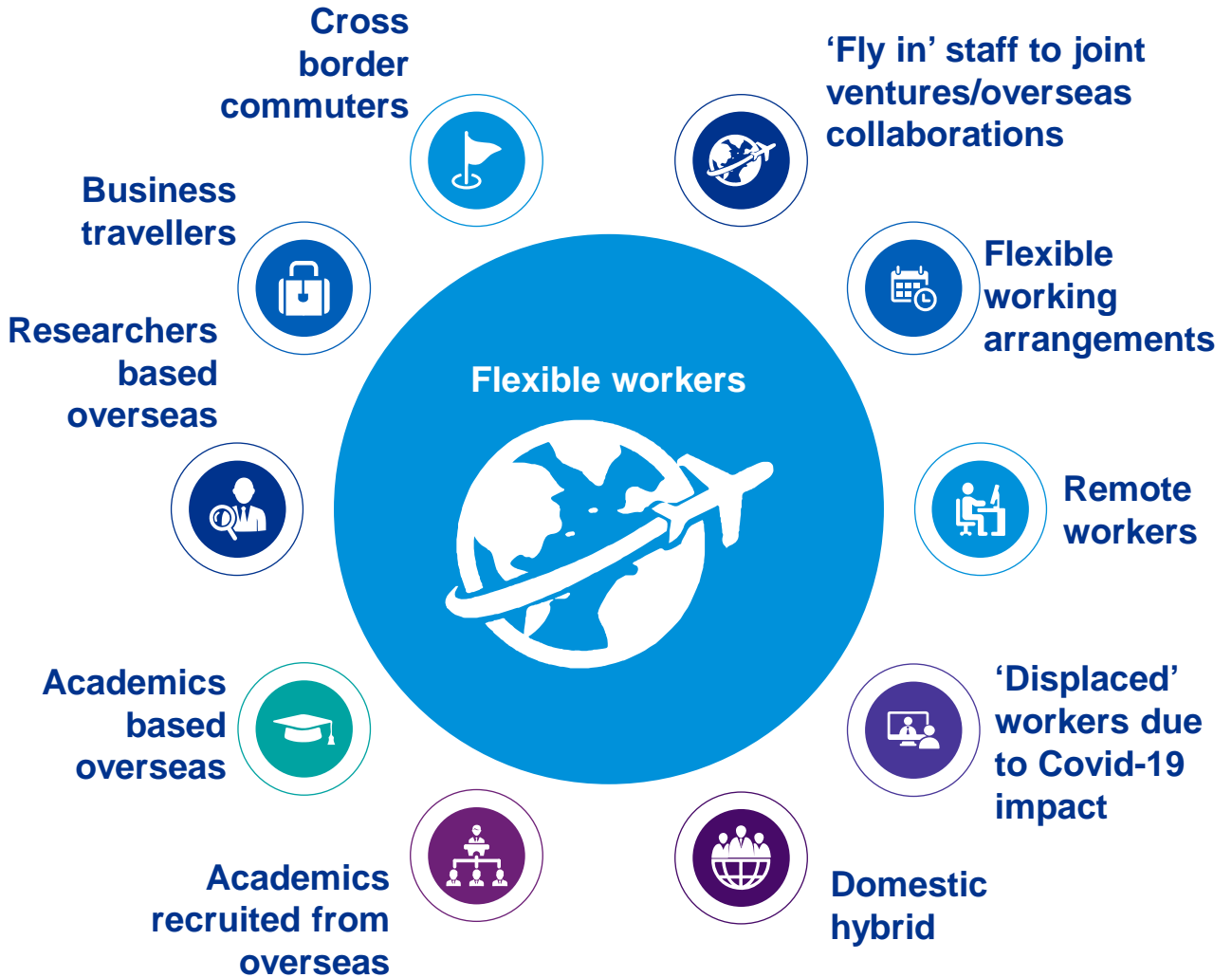


**Aligning strategy and governance**

**Policy and process for managing an increasing globally mobile workforce**



# Evolution of mobile employees in higher education



# Key compliance issues around mobile workforce

Our ways of working have changed for good, we need to build a robust operating and risk management model for today and tomorrow

## Income and social tax

- Tax payment and fling support to employees due to increased liability due to remote work
- Certificate of Coverages
- Management of potential mismatch in social security benefits
- Tracking & identification
- Income tax residency/tax home determination

## Employment and payroll tax

- Employment tax, state and local taxes
- Domestic and international payroll reporting and withholding
- Documentation maintenance

## Organizational

- Reputational risk
- Operational risk
- Talent and employee experience risks
- Business continuity and sustainability
- Environmental, Social, and Governance risks

## Indirect tax and subsidies

- VAT, GST, service tax
- Location based subsidies and credits
- Other credits

## Corporate tax, SALT and transfer pricing

- Corporate structure and entity characterization
- Permanent establishment & state nexus
- Value attribution and profit allocation
- Accounting & reporting considerations (i.e., FIN 48, FAS5)
- Governance & controls (e.g., intercompany contracts, policies)
- Location and substance-based positions (e.g., tax rulings, Subpart F)
- On-going compliance management, risk monitoring & assessment

## Regulatory insurance and licensing

- Licensing & regulatory considerations
- Exchange control regulations
- Immigration & employment law
- Employment/assignment documentation
- Data privacy & cyber considerations
- Works councils and trade unions
- Health & safety







# Get to know crypto



# What is cryptocurrency?



**Cryptocurrency (crypto)** is a digital asset (i.e., property) designed to work as a medium of exchange

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- Mined (i.e., formed), encrypted, and stored in secured blockchains
- Tracking and transacting uses blockchain technologies
- Not really a security or a fiat currency
- No central authority that manages or maintains value
- Can be used as a means of payment or investment



**Blockchain** is a digital ledger that keeps record of transactions in code

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- Each transaction is a “block,” and the ledger is a “chain” which links the blocks together
- Does not sit on one server (decentralized tracking and validation) – no single party controls the data
- Once data is written, it cannot be deleted
- Uses technology which prevents unauthorized changes to the blockchain record through the use of a digital key

# Common cryptocurrencies



Bitcoin



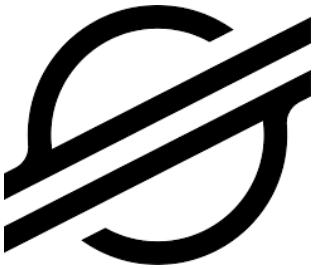
Ethereum



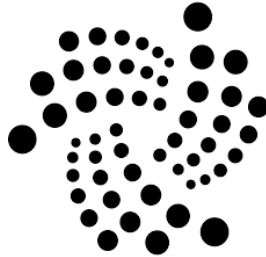
Ripple



Litecoin



Stellar



IOTA



Dash



Monero



Zcash

...and thousands more. Anyone can create their own form of cryptocurrency with a modified blockchain code.

# Risks and challenges



## Risk of loss

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- When holding crypto, it can be highly speculative and volatile
- Loss of keys or other access points



## Reputational risks

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- Blockchain does not disclose donor identity
- Environmental concerns around crypto mining



## Other challenges

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- Policies and procedures over transacting and custody
- Use of third-party advisors and brokers
- Valuation and accounting
- Tax and other regulatory compliance

# Questions to ask

Because crypto is speculative and volatile, engaging in transactions or holdings requires a thorough understanding of the risks, as well as the entity's crypto posture. Colleges and universities, with appropriate oversight of the board, should establish clear policies and procedures before accepting crypto or investing in these digital assets.

- Have we engaged an **outside advisor** to better understand crypto risks and opportunities?
- What **approvals** should occur prior to accepting a donation in crypto?
- How are we staying **current** on evolving tax compliance and reporting rules?
- What information will be required from donors for proper **identification**, and how can we ensure its accuracy?
- Given the potential **risk of loss** and impacts on financial reporting, will we hold or immediately liquidate such donations?
- Will we make crypto investments **directly or indirectly** (e.g., through commingled funds)?
- How will crypto payments or investments be **administered**, and by whom?
- Are **internal controls** appropriate? Consider whether a reputable custodian or broker is needed.





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**SUMMARY OF ACTIONS TAKEN**

May 19, 2022 – Legal, Risk & Compliance Committee Meeting

**Voting Members Present:**

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

Elizabeth A. Harsh  
Tom B. Mitevski  
Tanner R. Hunt

Gary R. Heminger (ex officio)

**Members Present via Zoom:**

Michael Kiggin

**Members Absent:**

N/A

**PUBLIC SESSION**

The Legal, Risk & Compliance Committee of The Ohio State University Board of Trustees convened on Thursday, May 19, 2022, in person at Longaberger Alumni House on the Columbus campus and virtually over Zoom. Committee Chair Elizabeth Kessler called the meeting to order at 1:28 p.m.

***Items for Action:***

1. Approval of Minutes: No changes were requested to the February 10, 2022, meeting minutes; therefore, a formal vote was not required, and the minutes were considered approved.
2. Resolution No. 2022-152, Approval of the Outside Activities and Conflicts Policy:

Synopsis: Approval of a comprehensive university policy on outside activities and conflicts is proposed.

WHEREAS the university currently has multiple university policies addressing university ethical expectations, research conflicts of interest regulations, and other federal and state laws governing financial and fiduciary conflicts of interest, specifically the Faculty Conflict of Commitment and Faculty Paid External Consulting policies owned by the Office of Academic Affairs, the Faculty Financial Conflict of Interest policy owned by the Office of Research, and the Conflict of Interest and Work Outside the University policy owned by the Office of Human Resources; and

WHEREAS to promote simplicity and efficiency in these areas, the university proposes a single, comprehensive Outside Activities and Conflicts policy owned by the Office of University Compliance and Integrity to replace the four existing policies; and

WHEREAS the goal of the proposed policy is to make it easier for university community members to understand their ethical and legal responsibilities as well as the university's processes for managing and monitoring potential conflicts; and





WHEREAS the proposed policy has been approved by the University Senate, the Senior Management Council, and the President's Cabinet, and other university community members have reviewed and provided feedback on the policy in accordance with the university's standard approach to policy review; and

WHEREAS the Board of Trustees has previously approved three of the four policies being merged into the new comprehensive policy (Faculty Paid External Consulting, Faculty Conflict of Commitment, and Faculty Financial Conflict of Interest), and therefore the retirement of those three policies and the issuance of the new comprehensive Outside Activities and Conflicts policy are presented for Board approval; and

WHEREAS future changes to the Outside Activities and Conflicts policy may proceed through the university's standard policy review and approval process, and the Board of Trustees may be consulted but will not need to approve future policy changes:

NOW THEREFORE

BE IT RESOLVED, That the Board of Trustees hereby approves the attached Outside Activities and Conflicts policy, proposed to be effective September 1, 2022; and

BE IT FURTHER RESOLVED, That the Board of Trustees hereby approves the retirement of the Faculty Paid External Consulting policy, the Faculty Conflict of Commitment policy, and the Faculty Financial Conflict of Interest policy to become effective upon the issuance of the Outside Activities and Conflicts policy.

(See Attachment X for background information, page XX)

**Action:** Upon the motion of Ms. Kessler, seconded by Mr. Stockmeister, the committee adopted the foregoing motion by unanimous voice vote with the following members present and voting: Ms. Kessler, Mr. Stockmeister, Mr. Kaplan, Mrs. Harsh, Mr. Kiggin, Mr. Mitevski, Mr. Hunt, and Mr. Heminger.

#### **EXECUTIVE SESSION**

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

A roll call vote was taken and the committee voted to go into executive session with the following members present and voting: Ms. Kessler, Mr. Stockmeister, Mr. Kaplan, Mrs. Harsh, Mr. Kiggin, Mr. Mitevski, Mr. Hunt, and Mr. Heminger.

The committee entered executive session at 1:44 p.m. and the meeting adjourned at 3:20 p.m.

**APPROVAL OF THE LEGAL, AUDIT, RISK AND COMPLIANCE COMMITTEE CHARTER**

Synopsis: Approval of the Legal, Audit, Risk and Compliance Committee charter is proposed.

WHEREAS the Board of Trustees may adopt individual committee charters, consistent with committee descriptions, that set forth further information and definition regarding the committee's charge, committee composition, or the delegated authority and responsibilities of each committee; and

WHEREAS the delineation and description of each committee function will enable the board to be more effective in the execution of its duties and responsibilities; and

WHEREAS the Board of Trustees created its Legal, Audit, Risk and Compliance Committee effective August 18, 2022; and

WHEREAS section 3335-1-02(C)(1)(e) of the *Bylaws of The Ohio State University Board of Trustees* sets forth the description of the Board of Trustees' Legal, Audit, Risk and Compliance Committee; and

WHEREAS the Legal, Audit, Risk and Compliance Committee has developed a proposed charter, consistent with that description, that reflects its status as a standing committee of the Board of Trustees, and that charter has been fully reviewed by the committee; and

WHEREAS the Legal, Audit, Risk and Compliance Committee shall be governed by the rules set forth in this Legal, Audit, Risk and Compliance Committee charter:

NOW THEREFORE

BE IT RESOLVED, That the Board of Trustees hereby approves the attached Legal, Audit, Risk and Compliance Committee charter.

## Legal, Audit, Risk & Compliance Committee

### Purpose of Committee

The Legal, Audit, Risk and Compliance Committee is a standing committee of The Ohio State University Board of Trustees established to assist the Board in fulfilling its role in providing oversight of the university's legal, audit, risk and compliance functions. Matters to be brought before the Committee may include, but shall not be limited to: reports regarding significant legal, legislative and regulatory matters and initiatives; potential and active litigation; oversight and monitoring of compliance programs and activities; university and OSU Wexner Medical Center enterprise risk management programs and business continuity planning; approval and monitoring of affiliated entities; and any other matter assigned to the Committee by the Board or the chair of the Board. Additionally, the Committee will:

- Monitor and discuss with management the financial operations of the University including the effectiveness of internal control over financial reporting.
- Focus on maintaining the integrity of the external auditor's qualifications and independence and the performance of the internal audit function and the external auditors.
- Interface with administration, outside auditors and internal auditors to evaluate financial integrity of University operations and resolve any issues raised by the University's auditors.

Although the Committee has the powers and responsibilities articulated in this charter, the Committee's core function is oversight. It is not the duty or responsibility of the Committee to plan or conduct audits. Management is responsible for the quality, accuracy and integrity of the organization's accounting practices, financial statements and reporting, and system of internal controls. The external auditor is responsible for performing an audit of the organization's financial statements.

### Committee Authority and Responsibilities

In furtherance of its purpose set forth above, the Committee shall have the authority to conduct or authorize investigations into any matters within its scope of responsibility. Specifically, it is empowered to:

- Seek access through the university to obtain counsel, accountants, or other expertise to advise the Committee or assist in the conduct of an investigation;
- Seek any information it requires from employees - all of whom are directed to cooperate with the Committee's requests - or external parties;
- Meet with university board members, officers, compliance officer, university counsel, or outside counsel, as necessary;
- Serve as an objective party, independent of management, to monitor the university's compliance with laws and regulations;
- Review all accounting operations and decisions of the University;
- Institute and oversee special financial or fraud investigations as needed and obtain accountants or other expertise to advise the Committee or assist in the conduct of an investigation; and

Perform any other activities consistent with this charter, the University's Bylaws, and governing law, as the Committee or the Board of Trustees deems necessary or appropriate.

The Committee will carry out the following responsibilities:

#### Legal

- Review prospective and active litigation and ongoing legal and regulatory risks of the university;
- Ensure there are no unjustified restrictions or limitations on, and review and concur in the appointment, review, replacement, or dismissal of the general counsel;
- Review periodically with the general counsel the guidelines, plans, activities, staffing, and organizational structure of the legal function;



### **Legal, Audit, Risk & Compliance Committee**

- Review the effectiveness of the legal function;
- On a regular basis, meet separately with the general counsel to discuss any matters that the Committee or general counsel believes should be discussed privately;
- Ensure there are no unjustified restrictions or limitations on the legal function.

### **Audited Financial Statements**

- Review with management and the external auditors the results of the audit and resolve any disagreements.
- Review and discuss the University's annual audited financial statements with management and the external auditors prior to submission to the appropriate regulatory officials.
- Evaluate annually the external auditor's qualifications, performance, and independence, including a review and evaluation of the lead partner, taking into account the opinions of the University's management and the internal audit director, and report its conclusions to the Board of Trustees.
- Review with management and the auditors the status of the University's internal control over financial reporting, including reports on significant findings and recommendations, together with management's response.

### **Internal Audit**

- Internal audit reports directly to the Committee.
- Approve the internal audit charter and assure the independence of the internal audit function.
- Review annually with the director of internal audit the guidelines, plans, activities, staffing, and organizational structure of the internal audit function.
- Review the effectiveness of the internal audit function, including conformance with the Institute of Internal Auditors' Definition of Internal Auditing, Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.
- Have final approval authority regarding the appointment, review, and removal of the director of internal audit. At least once per year, review the performance of the internal audit director and concur with the annual compensation and salary adjustment.
- At each meeting of the Committee, provide the director of internal audit an opportunity to report significant findings and management's response and, if needed, discuss privately with the Committee any matters that the Committee or internal audit believes should be raised.

### **External Audit**

- The external auditors report directly to the Committee and provide all required audit communications to it.
- Approve the contract with the external auditor for the annual audit of the University, subject to ultimate approval of the Auditor of State.
- Pre-approve all auditing and non-audit services to be provided by the external auditor and/or delegate this authority to the Committee Chair.
- Review and approve the external auditor engagement letter.
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and with input from the administration, determine appointment or discharge of the external auditors.



### **Legal, Audit, Risk & Compliance Committee**

- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the University, including non-audit services.
- Provide oversight for the rotation of the lead external audit partner.
- At each meeting of the Committee, provide the external auditors an opportunity to discuss privately with the Committee any matters that the Committee or auditors believe should be raised.

### **Risk**

- Discuss university policies with respect to risk assessment and risk management;
- Discuss significant risk exposures and steps to monitor, mitigate, and control these risks;
- Provide oversight of the university's insurance, business continuity, and risk management programs;
- Periodically review the university's enterprise risk management program, the OSU Wexner Medical Center risk program, major insurance policies, and related issues.

### **Compliance**

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance;
- Obtain regular updates from the chief compliance officer and university legal counsel regarding compliance and legal matters;
- Review the findings of any examinations by regulatory agencies, and any auditor observations;
- Review compliance with Related Party/Conflict of Interest Disclosure Statements for senior management annually;
- Ensure there are no unjustified restrictions or limitations on, and review and concur in the appointment, review, replacement, or dismissal of the chief compliance officer;
- Review periodically with the chief compliance officer the guidelines, plans, activities, staffing, and organizational structure of the compliance function;
- Review the effectiveness of the compliance function;
- On a regular basis, meet separately with the chief compliance officer to discuss any matters that the Committee or compliance believes should be discussed privately;
- Ensure there are no unjustified restrictions or limitations on the compliance function.

### **Reporting Responsibilities**

- Regularly report to the Board of Trustees about Committee activities, issues, and related recommendations;
- Provide an open avenue of communication between the general counsel, risk management, government affairs, compliance and integrity, and the Board of Trustees;
- Review any other reports the university issues that relate to the Committee's responsibilities.

### **Other Responsibilities**

- Perform other activities related to this charter as requested by the Board of Trustees;



### **Legal, Audit, Risk & Compliance Committee**

- Receive periodic updates and an annual legislative report from the office of government affairs;
- Given the reporting relationship, receive regular reports from the general counsel, director of risk management and chief compliance officer and provide opportunity for them to meet separately to discuss any matters that the Committee or general counsel, director of risk management and chief compliance officer believes should be discussed privately;
- Establish standards for ethical conduct, and ensure that management has established processes to meet these standards;
- Perform any other activities consistent with this charter, the university's Bylaws and governing law, as the Committee or the Board of Trustees deems necessary or appropriate;
- Review and assess the adequacy of this Committee charter annually, requesting the Board of Trustees approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation;
- Report to the Board of Trustees, at least annually, regarding the Committee's activities in discharge of its duties as described in this Committee charter;
- Evaluate the Committee's and individual members' performance on a regular basis.

### **Committee Meetings**

The Committee generally shall meet in conjunction with the regularly scheduled meetings of the full Board, and at such other times and places as it deems necessary to carry out its responsibilities. The Committee has the authority to convene additional meetings as circumstances require. As necessary or desirable, the chair of the Committee may request that members of management, the general counsel, the director of risk management, the chief compliance officer, the director of internal audit and representatives of the external auditor be present at a meeting of the Committee. Meeting agendas will be prepared and provided in advance to members, along with the appropriate briefing materials.

As part of its job to foster open communication, the Committee shall meet at least annually with management, the senior vice president and general counsel, and the chief compliance officer in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

A majority of the voting members of the Committee shall be present in person, or as otherwise permitted under Ohio law, at any meeting of the Committee in order to constitute a quorum for the transaction of business at such meeting.

### **Committee Membership**

All members of the Committee, as well as the Committee chair and vice chair, shall be appointed by the chair of the Board. The chair and vice chair of the Committee shall be trustees or charter trustees. Trustees, student trustees, charter trustees and non-trustee Committee members shall all be voting members of the Committee.

In addition to the trustees appointed to the Committee, the Committee shall also consist of at least one student trustee and up to three additional non-trustee members, with majority membership by trustees at all times. Each member of the Committee shall serve for such term or terms as the chair of the Board may determine or until his or her earlier resignation, removal or death.

All Committee members must be independent of management and the external auditor. In order to be deemed independent, the Committee member:



### **Legal, Audit, Risk & Compliance Committee**

- Does not directly have a business relationship with the University.
- Is not an executive of another corporation/university where any of the corporation's/university's executive officers serve on that corporation's/university's compensation committee; and
- Does not have an immediate family member who is an executive officer of the University.

At least one member of the Committee must be designated as the "audit expert," In order to be deemed an "audit expert," at least one member of the Committee must have:

- An understanding of GAAP and financial statements.
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves.
- Experience in preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the issues that can reasonably be expected to be raised by the University's financial statements (or experience actively supervising one or more persons engaged in such activities).
- An understanding of internal controls and procedures for financial reporting; and
- An understanding of audit committee functions.

### **Staff and Other Support**

Primary staff support for the committee shall be provided by the Office of Legal Affairs with support from the Office of University Compliance and Integrity and the Office of Government Affairs. Further, the Committee shall obtain advice and assistance as needed from other advisors as deemed necessary by the Committee.

### **University Bylaws**

The provisions of this charter are intended to comport with the bylaws of the university. To the extent that these provisions conflict, the university bylaws shall control.



**CHARTER FOR THE INTERNAL AUDIT DEPARTMENT**

Synopsis: Approval of the amended charter for the Internal Audit Department is proposed.

WHEREAS in November 2004 the Board of Trustees adopted a charter for the Internal Audit Department; and

WHEREAS in May 2021 the Board of Trustees last adopted an amended and updated charter; and

WHEREAS to ensure comprehensive oversight of the university's Internal Audit Department and the university's operations through the adoption of best practices, it is important to update the charter for the university's Internal Audit Department periodically; and

WHEREAS the university's Internal Audit Department now reports to the Legal, Audit, Risk and Compliance Committee:

NOW THEREFORE

BE IT RESOLVED, That the Board of Trustees hereby adopts the attached amended charter for the university's Internal Audit Department.

## **BACKGROUND**

### **INTRODUCTION**

The purpose of the Internal Audit Department (Internal Audit) is to provide independent and objective assurance and consulting services designed to add value and improve the operations of The Ohio State University. The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. It assists the university in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and control processes.

### **ROLE**

Internal Audit is established by the Board of Trustees (hereafter referred to as the Board). Internal Audit's responsibilities are defined by the Board as part of their oversight role.

### **PROFESSIONALISM**

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the university's relevant policies and procedures and Internal Audit's standard operating procedures manual.

### **AUTHORITY**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all university records, physical properties, and personnel pertinent to carrying out any engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the Legal, Audit, Risk and Compliance Committee of the Board.

### **ORGANIZATION**

The chief audit executive (Director) will report functionally to the Board's Legal, Audit, Risk and Compliance Committee and to the university president and administratively (i.e., day to day operations) to the senior vice president for business and finance.

The Legal, Audit, Risk and Compliance Committee will:

- Approve the internal audit charter;
- Approve the risk based internal audit plan;
- Approve the internal audit budget and resource plan;
- Receive communications from the Director on the internal audit activity's performance relative to its plan and other matters;
- Approve decisions regarding the appointment and removal of the Director;
- Approve the remuneration of the Director;
- Make appropriate inquiries of management and the Director to determine whether there is inappropriate scope or resource limitations.

The Director will communicate and interact directly with the Legal, Audit, Risk and Compliance Committee, including in executive sessions and between Board meetings as appropriate.

## **INDEPENDENCE AND OBJECTIVITY**

The Director will ensure that Internal Audit remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. If the Director determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for The Ohio State University or its affiliates.
- Initiating or approving transactions external to Internal Audit.
- Directing any activities of any Ohio State University employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

The Director will confirm to the Legal, Audit, Risk and Compliance Committee, at least annually, the organizational independence of the Internal Audit Department.

## **RESPONSIBILITY**

The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organization's strategic objectives;
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organization's risk management processes;
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization;

- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board;
- Evaluating specific operations at the request of the Board or management, as appropriate.

## **INTERNAL AUDIT PLAN**

At least annually, the Director will submit to senior management and the Legal, Audit, Risk and Compliance Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Director will communicate the impact of resource limitations and significant interim changes to senior management and the Legal, Audit, Risk and Compliance Committee.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board. The Director will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Legal, Audit, Risk and Compliance Committee through periodic activity reports.

## **REPORTING AND MONITORING**

A written report will be prepared and issued by the Director or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Legal, Audit, Risk and Compliance Committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, included within the original audit report, should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director will periodically report to senior management and the Legal, Audit, Risk and Compliance Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board. The Director will also ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

Internal Audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director will communicate to senior management and the Legal, Audit, Risk and Compliance Committee on the Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.