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The state of higher education in 2015

Fourth annual report

Contents

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Introduction

The higher education sector, like virtually all industries, continues to be faced with pressures — changes in the economy, technology, demographics and regulations, to name a few — that demand institutional change if success is to be sustained over the long term. The colleges and universities that grow and thrive will do so because they have adapted and planned for a future that will look very different from their past.

This is our fourth *State of higher education* report. Our intent is to go beyond the thought leadership we provide via articles, webcasts and training that address topics relevant to management and trustees. Instead, the editorial intent of this publication is to focus on issues that are specifically trending for this industry. As leaders in the higher education sector, it is our responsibility to provide these valuable insights to the marketplace we serve.

Within these pages, you will find our thoughts on key industry developments and the challenges facing higher education leadership, including expectation for assessments of performance, overhaul of cost and revenue strategies, and innovation in reaching a new kind of student. Topics include the complexities brought by evolutions in technology — online learning, cloud computing, cost modeling and analytics; in performance measurement, evaluation and demonstration; in governance and regulatory requirements; in the federal grant framework; in student demographics; in financial and academic reporting; and in collaborations between previously reluctant institutional partners. Issues and obstacles are described, and, as importantly, solutions and alternative approaches are offered.

The articles in this report stem from knowledge gained through our professionals' direct interactions with their clients. Rather than theoretical pieces, they are the result of practical, hands-on experience gained by more than 400 Grant Thornton LLP professionals serving over 200 higher education clients. These insights are intended to be used by you — board members, executives, management and other leaders in higher education.

Our Higher Education and Not-for-Profit practices are committed to helping "organizations that do good" achieve their missions. We understand that protecting your reputation and operating sustainably are essential to your institution's ability to achieve its mission and further its cause. Our higher education experience is deep, and we offer it to assist you with the challenges addressed in this report.

On behalf of the partners and professionals of Grant Thornton's Higher Education and Not-for-Profit practices, I am pleased to present *The state of higher education in 2015*. We hope that you find this to be a valuable resource. As always, we welcome your feedback and are available to assist management teams and boards in addressing the challenges discussed in this report, or any other issues your institution may be facing.

Sincerely,

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5 top trends to grapple with in 2015

Larry Ladd, Director, National Higher Education Practice

The year 2014 is gone but not forgotten, as some challenges have followed us into 2015. And to prove it really is a new year, challenges that began to form in the past years have gained strength and speed to become viable trends. We discuss five that will surely top your list.

1. We'll transition from "Is college worth it?" to "How do we know we've been effective?"

In every recession, the value of a college education comes into question. It is harder in general to get a job, but the media loves to focus on unemployed or underemployed recent graduates, who have "earned" employment, and to pick on educational entities — often in the for-profit sector — that "fail" any graduates. At least in part because of the media obsession with individual cases, and the focus on student debt, only 31.5% of adults say that college is worth the cost.[1]

Information demonstrating that college is worth the financial sacrifice is ever more available, and the case for a college education paying off economically over the long term is supported by the evidence — as opposed to anecdotes — which shows that college graduates earn far more income over their lifetimes than those without college degrees.

On the debt front, families are borrowing less and spending more of income and savings. Out-of-pocket contributions rose in 2014 after three years of decreases, even as college costs rose. Families are coming up with the money outside of their students taking on debt. For low-income families, the reduced borrowing is possible due to a big increase in grants and scholarships.

Student debt is an important issue, but it is engulfed in misleading headlines and unrepresentative examples. A *New York Times* article adds clarification: "The share of income that young adults are devoting to loan repayment has remained fairly steady over the last two decades."[2] Many figures about student debt loads are alarming, but if you focus on bachelor's degree candidates and on not-for-profit higher education, the figures become far less dire. Furthermore, a report from the Brookings Institution found that the widely publicized increases in borrowing seen over the past two decades were accompanied, for the most part, by increases in graduates' earnings, despite stagnant growth in wages in the broader economy.[3]

Financial returns are relatively easy to measure, but they are not sufficient to prove whether a college education is "worth it." What matters is whether colleges and universities are doing their job as effectively as possible.

[1] Jaschik, Scott. "Mixed Views of Higher Ed," Inside Higher Ed, March 10, 2014. See www.insidehighered.com/news/2014/03/10/poll-finds-mixed-public-attitudes-higher-education-issues for the article.
[2] Leonhardt, David. "The Reality of Student Debt Is Different From the Clichés," *The Upshot, The New York Times,* June 24, 2014.
See www.nytimes.com/2014/06/24/upshot/the-reality-of-student-debt-is-different-from-the-cliches.html?emc=edit_tnt_20140624&nlid=33959374&tntemail0=y&_r=1 for the article.
[3] Akers, Beth and Chingos, Matthew M. "Is a Student Loan Crisis on the Horizon?" Brookings Institution, June 24, 2014.
See www.brookings.edu/research/reports/2014/06/24-student-loan-crisis-akers-chingos for the article.

Policymakers and educational leaders are shifting their attention to measuring outcomes. Are graduates prepared to keep learning their whole lives? Are students learning what the program is designed to teach them, and are they learning in a timely way? Are they driven by curiosity? Do they know what they don't know? Can they show leadership in their communities? Will they be productive citizens who contribute to civic discourse? Just as important are questions about how best to measure the answers, since any metrics or other forms of answers are all likely to be based as much on qualitative opinion as on the appearance of any objective fact.

The new and intensive focus on learning outcomes is producing significant progress; a Lumina Foundation report documents progress on measuring outcomes and makes recommendations that reflect the nuanced approach higher education needs to take because outcomes aren't easy to measure.[4] Also notable is the adoption by 30 states of various forms of "performance-based funding," which uses indicators such as course completion, time to degree, transfer rates, number of degrees awarded, and number of low-income and minority graduates.[5]

Institutions should expect to provide the facts that will serve as answers to questions about worthiness and effectiveness. President Obama's college rating proposal, while receiving much criticism on details, has raised the visibility of the current intense discussion of how best to achieve a college's stated objectives.

2. Colleges and universities will intensify their focus on becoming more financially sustainable

Both trustees and business officers are focused, as never before, on finances. Trustees have identified fiscal sustainability as the single most important area that boards feel they need to address. Chief business officers say that higher education is in the midst of a financial crisis.[6] Fewer than one in four business officers strongly expresses confidence about the sustainability of his or her institution's financial model over the next five years.

Because it is central to financial health, the vast majority of business officers (89%) are focusing more on enrollment management issues than they did five years ago. Close to half of private institutions are worried that their enrollments will decline.[7] The National Association of College and University Business Officers (NACUBO) foresees increasing tuition discounts at four-year private colleges.[8]

But the improving economy will help significantly. As fundraising and endowment returns grow, we will see colleges increasingly focus their attention on academic quality, on measurement of results, and on accountability of stakeholders (such as faculty and students) to achieving results.

4 Colthart, Bruce. *Beyond the Rankings: Measuring Learning in Higher Education*, Lumina Foundation, Jan. 5, 2007.
   See www.luminafoundation.org/resources/beyond-the-rankings-measuring-learning-in-higher-education for the report.
5 The National Conference of State Legislatures. "Performance-Based Funding for Higher Education," Jan. 13, 2015. See www.ncsl.org/research/education/performance-funding.aspx for the article.
6 Rivard, Ry. *Sustainability, Divestment and Debt: A Survey of Business Officers, Inside Higher Ed*, July 18, 2014.
   See www.insidehighered.com/news/survey/sustainability-divestment-and-debt-survey-business-officers for the survey.
7 Marcus, Jon. "Colleges and universities charge more, keep less, new report finds," The Hechinger Report, Nov. 17, 2014.
   See http://hechingerreport.org/content/colleges-universities-charge-keep-less-new-report-finds_18068/ for the article.
8 Edmonds, Kellee. "Private Colleges and Universities Continue to Increase Tuition Discount Rate. Resulting in Limited Net Tuition Revenue Growth," NACUBO, July 2, 2014.
   See www.nacubo.org/Documents/about/pressreleases/2013TDSPressRelease.pdf for the press release.

3. The Digital Revolution will continue to change the business model

While media and public attention for some time focused on massive open online courses (MOOCs), the Digital Revolution has now entered a "quiet" phase of experimentation and foundation-building, with change occurring slowly and steadily, largely under the media radar. The depth and variety of digital experimentation is growing, and it will have a dramatic impact, although the precise effect is difficult to predict. What is certain is that higher education will change, as so many other industries have already done.

Here are some examples of that activity:

- Data mining and analytics is becoming a new tool for monitoring student learning and progress. Colleges are increasingly using data analytics to predict whether students and prospective students will be academically successful, according to *Time*.[9] Rutgers and others predict that data analytics will become more pervasive in internal audit work.[10]

- Universities are beginning to offer a rich variety of ways for students to learn, rather than offering a "one-size-fits-all" approach. Information is increasingly accessible, with libraries as we know them becoming obsolete. Faculty are teaching in increasingly student-centered ways and are frequently using technology to do so. Brandman University, as one example of change, is going "all-in" with a competency-based bachelor's degree that is online, available on a tablet, and not based on the credit hour. Its projected price tag? $10,000.[11]

- A small but significant (and slowly growing) number of campuses are contracting with third-party providers for various services (recruitment, curriculum development, student services) to help develop or expand their online programs. Also, the number of students taking at least one online course (now 7.1 million) continued to grow at a rate far in excess of overall enrollments. More colleges are creating affiliates or subsidiaries to offer online education such as those already offered by Harvard and MIT.[12]

How this intense activity translates into future directions is not yet clear, but the digital revolution in higher education is moving along rapidly.

4. Governance will be challenged as never before

Declining public confidence, changing models of delivery and financial pressures will place stresses on traditional governance assumptions and lead to new ways for institutions to make decisions. The Association of Governing Boards of Universities and Colleges (AGB) recognized this reality when it set up its National Commission on College and University Board Governance to make fresh recommendations on the role of governing boards. The commission's *Consequential Boards* report asks board members to restore public faith in higher education by improving value for students; focusing more on long-term planning; rethinking power-sharing agreements with faculty; and holding themselves accountable for bad board behavior, including self-dealing and conflicts of interest.[13]

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[9] Marcus, Jon. "Here's the New Way Colleges Are Predicting Student Grades," Time, Dec. 10, 2014.
  See http://time.com/3621228/college-data-tracking-graduation-rates/ for the article.
[10] Rutgers Accounting Web. "The Emerging Role of Audit Analytics; Internal Audit Should Embrace Data Analytics." See http://raw.rutgers.edu/node/89 for the article.
  See www.insidehighered.com/news/2014/11/13/national-survey-suggests-greater-focus-teaching-ongoing-concerns-about-diversity for the article.
[11] Fain, Paul. "Mobile Bachelor's Degree," *Inside Higher Ed,* Nov. 26, 2014. See www.insidehighered.com/news/2014/11/26/competency-based-bachelors-brandman-could-be-glimpse-future for the article.
[12] Fain, Paul. "Catholic College, Online Degrees," *Inside Higher Ed,* April 28, 2014.
  See www.insidehighered.com/news/2014/04/28/portmont-college-and-mount-st-marys-chart-new-territory-online-associate-programs for the article.
[13] AGB. *Consequential Boards; Adding Value Where It Matters Most, 2014.* See http://agb.org/sites/default/files/legacy/2014_AGB_National_Commission.pdf for the report.

The AGB has reported on boards' responsibility to assure that institutions are focused on measuring student outcomes, saying that "colleges and universities can no more do without a systematic program of student-outcomes assessment than they could do without a development office. And boards, which have ultimate oversight responsibility, must ensure that such a systematic program is in place."[14] Board members will need to be educated to provide the oversight.

5. Higher education will have to acknowledge elephants in the room

Deferred maintenance cannot be ignored much longer. A report by *The Chronicle of Higher Education* describes how maintenance has been neglected during the economic difficulties of the past five years.[15] The 2014 annual report on facilities from Sightlines documents the growing backlog of deferred maintenance at colleges and universities.[16]

Compliance must be addressed, particularly around sexual assaults. Higher education leaders have struggled to find the right tone and policy, apparently thinking that the stricter the policy the less likely it will come under criticism. University of Virginia President Teresa Sullivan adopted one of the most direct approaches, facing the issue directly without putting any blame on victims: "We have a problem and we are going to get after it."[17]

There will be a high cost to ignoring risk of any kind. A survey by AGB and United Educators found colleges and universities still lack "formal risk assessment processes." The survey reports that while they are increasingly making oversight of institutional risk a priority, institutions' confidence that they are following good practices has decreased.[18]

Discern and meet the challenges behind the trends

Each of these trends represents opportunities to adapt and flourish. In measuring outcomes, boosting sustainability, embracing technology, empowering the board, dealing with lingering effects of the Great Recession, and making campuses safer and managing risks, institutions will enhance their value and their effectiveness.

2015 trends represent opportunities for institutions to adapt and flourish.

[14] Ewell, Peter T. "The Growing Interest in Academic Quality," *Trusteeship Magazine,* AGB, Jan.-Feb. 2014.
See http://agb.org/trusteeship/2014/1/growing-interest-academic-quality for the article.
[15] Carlson, Scott. "As Deferred Maintenance Piles Up, Colleges Face Hard Choices," *The Chronicle of Higher Education,* Nov. 6, 2013.
See http://chronicle.com/article/As-Deferred-Maintenance-Piles/142833/?cid=at&utm_source=at&utm_medium=en for the article.
[16] Sightlines. *The State of Facilities in Higher Education: 2014 Benchmarks, Best Practices, & Trends.* See www.sightlines.com/insight/state-of-facilities-2014/ for the annual report.
[17] Sullivan, Teresa A. "A Message to Faculty and Staff from University of Virginia President Teresa A. Sullivan," UVA Today, the University of Virginia, Dec. 15, 2014.
See www.news.virginia.edu/content/important-university-virginia-messages-regarding-sexual-assault#12-15-TAS-Fac-staff for the article.
[18] AGB. *A Wake-up Call: Enterprise Risk Management at Colleges and Universities Today,* May 2014. See http://agb.org/sites/default/files/legacy/RiskSurvey2014.pdf for the report.

Enhancing financial performance through strategic business analysis

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Faced with declining funding, falling enrollments, rising health care costs and questions about the value of a degree, many colleges and universities are struggling to deliver acceptable financial performance. In order to balance financial results and mission-driven outcomes, higher education leaders are performing strategic business analyses (SBAs) to transform their operating model and bottom-line financial performance.

Clearly, what has been happening of late is not the first wave of higher education managers seeking to improve financial performance. However, as "low-hanging fruit" remedies have already been identified and addressed, reducing costs is no longer a simple exercise of changing the procurement function and going out to bid on long-standing contracts. Instead, the task at hand is more strategic in nature and more challenging, with every decision coming with trade-offs, complexities, politics and implementation challenges. As a result, in their search for more substantive, less incremental opportunities to enhance revenues and decrease expenditures, institutions are conducting analyses in a more sophisticated, integrated, strategic and inclusive manner.

Here are a dozen proven techniques that can help your institution continue to enhance its business results through the execution of a successful SBA:

1. **Engage in upfront communications with the entire college/university community.** Let them know that this effort is happening, and that it will be challenging. Being transparent about the fact that all constituents will be affected and that the institution is pursuing a well-rounded and inclusive strategy lets the community know this process will be fair, even if it won't be easy.

2. **Establish and empower a steering committee.** Gone are the days of making decisions for the community behind closed doors. These tough decisions need to be made together to minimize implementation roadblocks. While involving constituents in the analysis and decision-making process will at first blush seem to slow things down, it will ultimately lead to tangible and implemented solutions as opposed to continuous pushback and divisive behavior.

3. **Seek creative solutions.** At all costs, avoid pursuing potentially community-destroying initiatives and programmatic compromises. Leave no stone unturned to generate revenue-enhancing and expenditure-reducing concepts that enable your institution to stay true to itself and its constituents. Have you looked at privatizing that parking garage or using your facilities for alternative purposes? While no solution will be a silver bullet and all will involve some kind of trade-off, avoid decisions that compromise your culture, mission or relationships with alumni, students and funders — shore up your bottom line through other means.

4. **Don't ignore revenue-enhancement opportunities.** Steer clear of focusing solely on cost reduction. While reducing expenditures can at times be more immediate and appear to be more of a "sure thing" than enhancing revenue, taking the time to consider investments that can generate revenue will reinforce constituents' understanding that the administration does not want to adversely affect the community.

5. **Put everything on the table.** Sparing specific areas due to sensitivities of certain populations is counterproductive; your communities want a fair and transparent process. There should be no sacred cows or pet projects left unexamined. Generating a complete list of ideas will underscore to the community that you are committed to an open and honest assessment.

6. **Avoid reliance on benchmarks.** Assessing and transforming operations are challenging tasks, and there will inevitably be "that guy" on your steering committee who wants to take the easy way out, relying on benchmarks to make the decision. But operating in line with benchmarks is not necessarily a best practice. Each institution has its own unique situation and circumstances. "More or less" is not necessarily "better or worse," and regressing to the mean will likely not serve your institution well. Further, don't assume that others have good data or are operating under optimal circumstances — aligning to others' performance is desirable only if they have been verifiably effective and successful. As a result, extrapolating benchmarked metrics onto your unique situation can be a dangerous proposition. Instead, successful institutions approach their situation strategically and treat challenging financial performance as an opportunity to make holistic changes that serve their constituents and mission over the long haul.

7. **Examine inflows and outflows.** Follow the money as it comes into, moves through and leaves your institution. Seek to understand where an incoming dollar goes, what areas are far from self-sufficient and what departments are healthy while their peers are suffering. Work on responding to identified opportunities, either by making investments in areas that are doing better than expected or by focusing remediation efforts on identified weaknesses.

8. **Establish assessment criteria upfront.** It is only natural to be protective of one's own areas and to take a "not in my backyard" approach to generating and supporting enhancement ideas. To combat this bias, create a set of agreed-upon criteria that can be utilized to filter through identified opportunities and serve as decision support for the steering committee. These criteria should support the institution as a whole, as opposed to special interests or specific fiefdoms, in order to enable your SBA initiative to generate ideas and facilitate decisions that will optimally serve the entire enterprise.

9. **Examine your budget.** It's easy to try to crack down on reducing specific expenditures, but doing so on a one-off basis will be of limited value — you will be playing Whac-a-Mole as new unfunded expenses are sure to arise in the future. Ineffective budgeting processes and systems will inevitably lead to suboptimized deployment of institutional resources, wasted funds and missed opportunities. Instead, make sure to analyze your budgeting process and tools in parallel with identifying opportunities for cost reduction and revenue enhancement so that you can achieve long-term financial success within your organization.

10. **Focus on implementation.** While generating actionable ideas and obtaining support from across the community is an important objective, it is hardly the end goal. Creating a "pretty report" only to leave it on a shelf collecting dust is far from a success. Invest resources in implementation and monitoring, not just in idea generation, in order to make a quantifiable difference in your institution.

11. **Communicate to show progress.** Making certain that the institution stays afloat is in everyone's interest. While many will want the SBA effort to simply "go away," reminding them of its progress is critical. Further, holding the institution accountable to itself for the end-to-end project and the achievement of actual financial improvements will ensure this isn't yet another effort announced by central administration with minimal feedback loops and tangible results.

12. **Make an ongoing commitment to change.** An SBA is practically guaranteed to be hard. Given the level of effort required to improve results and the extent of parallel investments in socializing the importance of performance improvement, an SBA effort should not just be a one-shot deal. True improvement comes from establishing processes and a culture that give assurance that performance continues to be monitored and improved, even in good times, so that every dollar is optimally invested in the institution's mission-driven performance.

Enhancing the strategic value of the finance function

Joseph Mulligan, Manager, Not-for-Profit and Higher Education Practices, Business Advisory Services

Given the dynamic nature of today's operating environment, it is growing increasingly important for higher education boards, finance committees and administrators to expand their view of their institution's financial performance. While colleges and universities routinely develop strategic plans to re-evaluate their market position, assess institutional priorities and trade-offs, and chart a course for the future, such initiatives are conducted with varying levels of participation from and coordination with chief financial planners. Although some finance executives are intimately involved in these initiatives, others have historically maintained a relatively nominal role. Finance professionals are increasingly being asked to offer insights and deliver greater strategic value to their institution's long-term planning and resource allocation decision-making.

In addition to participating in discussions and partnering with institutional leaders to confront pressing issues and offer pragmatic solutions to critical issues — tuition rates, financial aid, investments, benefit and pension plan sustainability, cost containment, revenue diversification, and debt refinancing, among others — finance executives must maintain a keen eye on navigating the tumult associated with the months and years ahead, while taking measured steps to position their institution for financial sustainability and future success. These leaders are charged with the difficult task of balancing their institution's ambitions with financial capacity and the opportunity costs of resource deployment. While an annual budget and year-to-date variance reports and forecasts can play a vital role in helping finance and institutional leaders maintain a finger on the pulse of near-term performance, it is essential that boards, finance committees and administrators understand the institution's anticipated trajectory over the long term.

With enrollment figures less certain than ever before, increasing price competitiveness and rising health care costs, establishing a multiyear financial plan and developing long-range financial projections will help constituents better understand baseline financial performance projected for the next three to five years. This planning will also offer valuable insights regarding the institution's sensitivity to changes in key business drivers under a variety of "what-if" scenarios. In addition to understanding the institution's trajectory in relation to the status quo, long-range financial plans enable finance executives to make more informed decisions regarding their institution's ability to pursue growth, fund capital expenditures and service debt. These plans will also shed light on how heavily their institution might have to rely on investment income or fundraising to support core operations.

An integrated long-range financial projection, informed by institutional strategy, is increasingly becoming a valued resource to help inform finance and board discussions.

Meet your revenue challenges with new strategies

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Local and national demographic trends leading to lower enrollment levels have become a revenue concern for colleges and universities. Institutions are facing the quandary of maintaining long-term success and adequate levels of enrollment and revenue without sacrificing academic quality by lowering application standards.

The demographic changes begin with a simple population count. The pool of prospective incoming freshmen will be in decline for years to come. Forecasts are that birth numbers will drop more precipitously in the Northeast and the Midwest. The realities of a population decrease, a student base highly sensitive to tuition increases and financial aid levels as a key driver in enrollment decisions are together forming a downside risk for net tuition revenue.

Approximately 50% of public institutions and 42% of private institutions are likely to see their net tuition revenue grow less than inflation in FY 2015, according to a Moody's report.[1] We expect this to be a continuing trend. Additionally, a Moody's study of A-rated private colleges and universities shows only a cumulative 8.5% increase in net tuition for the four fiscal years 2010 to 2013.[2]

In response to these challenges, institutions are looking at ways to be more strategic in their revenue practices. They are seeking to mitigate risk, and provide for stability and potential growth in revenue. Long-term financial planning has become a vital component in this strategy.

Approximately 50% of public institutions and 42% of private institutions are likely to see their net tuition revenue grow less than inflation in FY 2015.

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[1] Moody's Investors Service. "Tuition Revenue and Enrollment Pressure Remain Acute for Many US Universities," Nov. 17, 2014.
   See www.cic.edu/News-and-Publications/Multimedia-Library/CICConferencePresentations/2015%20Presidents%20Institute/20150105-The%20Financial%20and%20Strategic%20Outlook%20for%20Private%20Colleges.pdf

[2] Moody's Investors Service. "Preliminary FY 2013 Medians Show Widening Stratification Among Rating Categories," April 10, 2014.
   See www.alacrastore.com/moodys-credit-research/Preliminary-FY-2013-Medians-Show-Widening-Stratification-Among-Rating-Categories-PBM_PBM167334 for the article.

Consider these four approaches as your institution formulates plans:

1. **Refine your fundraising strategy.**
   The profile of significant donors is changing. As entrepreneurial-minded individuals — including venture capitalists and technology executives — become increasingly active donors, many substantial gifts are straying from the traditional model of scholarship-driven endowments and funding for building construction. These individuals are more focused on high-engagement donations to programs that will have the most immediate impact or to areas considered innovative and forward thinking. As an example, according to *Harvard Magazine*, in 2014, Harvard's School of Public Health received a $350 million donation, a portion of which is designated seed money to promote pioneering ideas and underwrite research on emerging diseases in Africa.[3]

An institution does not need to be market-leading to experience this trend; colleges and universities of all sizes are increasingly receiving donations focused on research activities, innovation hubs and technology improvements. Consider adjusting your institution's model of fundraising for large gifts, and focus on the evolving nature of your alumni base.

2. **Monetize campus tangible and intangible assets.**
   For most institutions, campus facilities are valuable assets that at times are underutilized. Think of unique ways to monetize beyond the traditional sports camps, weddings and other gatherings. The real estate development of air rights — profiting from the bonus area above a building — is gaining interest, especially on urban campuses where there is high demand and limited supply for land use. Other non-higher education not-for-profits have capitalized in this manner; e.g., the 2014 air space licensing by the New York Museum of Modern Art for $14 million and by a New York City church for in excess of $70 million.[4]

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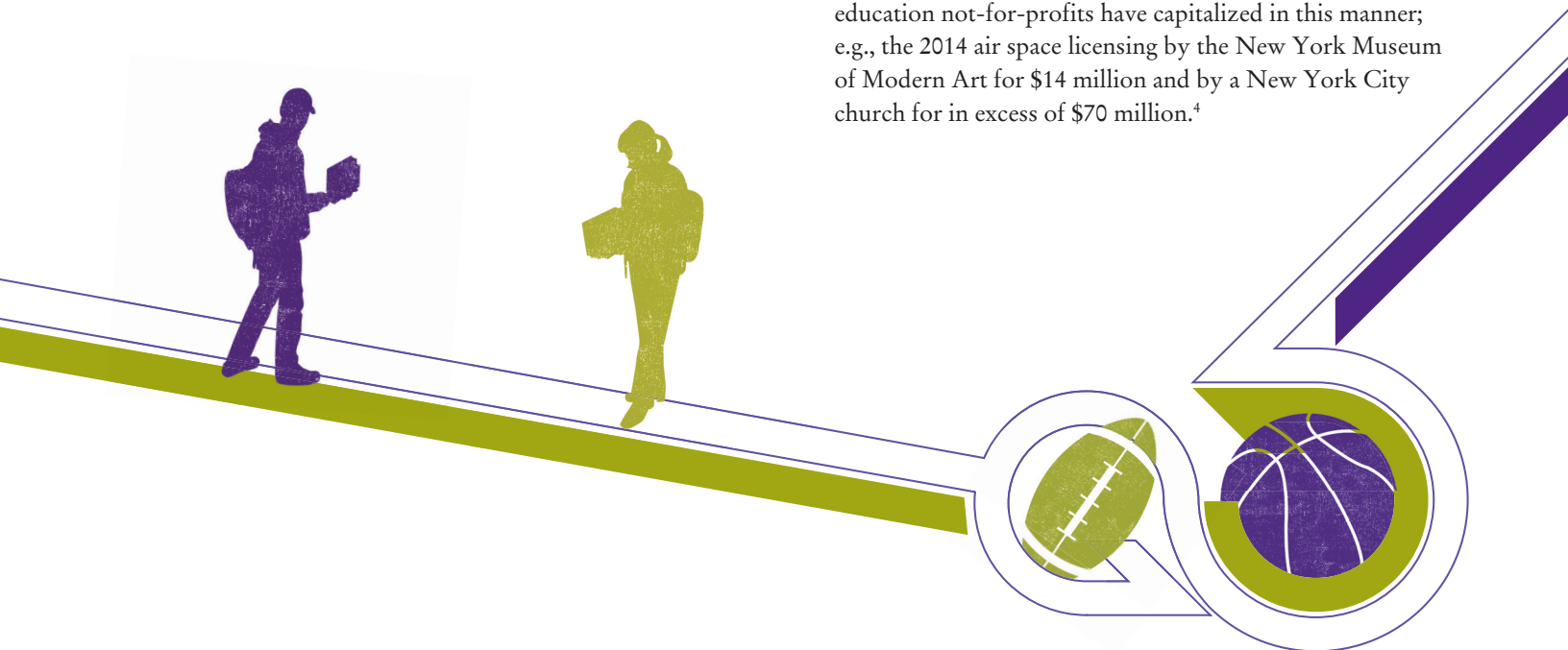
[3] *Harvard Magazine*. "Harvard Public Health's $350 Million Infusion." See http://harvardmagazine.com/2014/09/harvard-public-health-350-million-gift for the article.
[4] Weiss, Lois. "NYC Church Gets $71M for Air Rights Over Steeple," *New York Post*, Sept. 19, 2014. See http://nypost.com/2014/09/19/nyc-church-bags-71m-for-air-over-steeple/ for the article.

Other trends are emerging, as well. Public-private partnerships — particularly for R&D — in facility construction and usage are gaining traction. Institutions are also centralizing administration of facility usage, instead of allowing selection by department or school, to free up capacity, minimize the need to expand and, importantly, make space available for revenue-generating activities. Finally, colleges and universities are collaborating with other institutions and with for-profit companies on the development and monetization of research initiatives, including new drugs, technology and medical devices, which furthers the likelihood of successful commercialization of research.

3. **Modify admission and academic strategies for target demographics.**

Unique aspects of local markets can inspire varied responses to tuition challenges. Although overall declines are expected in enrollment industrywide, there are certain demographic segments that may represent a growing portion of potential enrollees. These include first-generation students, master's degree seekers, older adult populations and individuals in online classes. Re-examining your strategic target market demographics and fully understanding their needs will allow you to successfully modify admission and academic strategies. For example, you may elect to update student support systems to promote retention of first-generation students and, during recruitment, communicate the value of these systems.

Maximize retention by gaining a high level of understanding of the needs of your incoming and future students, and tailor communication strategies, including webinars and individual consultations. This may mean investing in expanding student readiness programs, more frequent communication with at-risk students through surveys and online connections, or improving communication about career connections.

These demographic trends may require you to be more flexible in discounting decisions while keeping within overall budgetary discounting parameters. This may mean providing higher discounts to key target demographics on a case-by-case basis and having less reliance on formula-driven discounting models. Additionally, consider modifying or investing in academic choices to target key populations, and demonstrating a clear linkage between these educational offerings and career placement and success.

4. **Put a laser focus on student retention.**
   Recruiting excellent students is already a costly process. When these students aren't retained, a captive revenue stream is lost, resulting in further financial pressure — both to replace lost revenue and the duplicative cost incurred as a result. Maximize retention by gaining a high level of understanding of the needs of your incoming and future students, and tailor communication strategies, including webinars and individual

consultations. This may mean investing in expanding student readiness programs, more frequent communication with at-risk students through surveys and online connections, or improving communication about career connections. Utilize data analysis to uncover risk factors relating to individuals leaving the institution; you can identify students by these red flags and tailor specific practices to improve their experience.

Most of all, be adaptable to change
Take an adaptive stance. Be ready to change even long-held beliefs about strategies if they are no longer effective. Be willing to experiment with new models. No one approach will work for every institution, and no singular solution will remediate all problems. But with informed planning and analysis, you can maximize your institution's revenue potential.

University cost management modeling: Moving beyond spreadsheets

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Achieving transparency and financial stability in the higher education business model is a complex and difficult task. Business lines intertwine and academic departments, auxiliaries and administrative functions all compete for finite resources. While the higher education operating model has always been multifaceted, changes in student demographics and state funding, fluctuations in graduation rates, low donation growth, and competition are making it increasingly challenging for colleges and universities to deliver a high-quality education in a fiscally sound manner. As a result, leading-edge institutions are implementing a university cost management model (UCMM) to achieve greater insight into their financial performance.

Other solutions — e.g., enterprise resource planning (ERP) systems and spreadsheet-based modeling initiatives — are typically centered on financial reporting requirements. Further, very few of these systems are forward-looking and, commonly, those that are can't be used to estimate future performance in a scenario-driven manner. Because of their varying levels of cost and performance analysis capability, these solutions have been found to be of limited value when attempting to optimize deployment of institutions' resources.

In contrast, a UCMM links general ledger, facilities, HR, student records and course schedule data to create a true management information system. These systems can both define historical costs and serve as a baseline for predictive analysis. A UCMM enables informed business decisions based on past performance and anticipated future changes within an institution's operating and business model.

Start with a current-state analysis

A UCMM solution provides detailed insights into institutional economics otherwise unavailable to university personnel. Looking across departments, courses and programs, student types, and enterprise-wide expenditure data, management gains an accurate understanding of the cost basis for operations, as well as corresponding revenues, delivering an appreciation for how various programs and operational elements affect margins and performance. Through this information-driven approach, management can adjust operations accordingly.
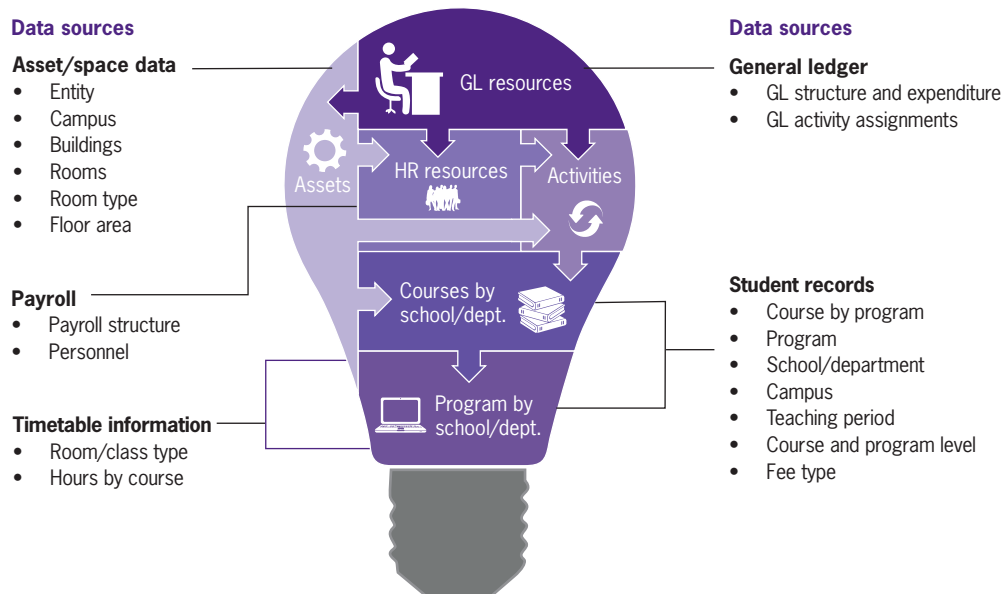
1. Course data
2. Program data
3. HR data
4. Student records
5. Financial data
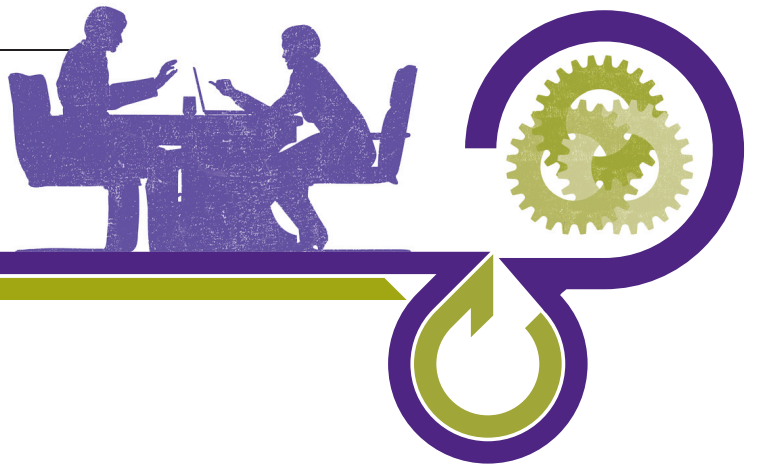
Well-configured UCMM implementations provide answers to current-state questions like these:

- Which programs and courses are unsustainable? What courses/programs are running at a loss?

- What is the minimum number of students needed for a course/program to break even?

- How much time is spent on course preparation as compared with course delivery, course grading and advising?

- What is the optimal class size?

- How much does it really cost to educate a student?

- What is a course's marginal student or section cost?

- What is the difference in attrition rates from course to course?

- What is the fully burdened cost of teaching? How much of the cost of a course or program is direct, and how much is overhead?

- To what extent is a school or one department supporting another?

- How are institutional facilities being utilized? Is there spare capacity? If so, where?

- What is the fully burdened cost of research?

University cost management model

Data sources

Asset/space data
- Entity
- Campus
- Buildings
- Rooms
- Room type
- Floor area

Payroll
- Payroll structure
- Personnel

Timetable information
- Room/class type
- Hours by course

GL resources

Assets

HR resources

Activities

Courses by school/dept.

Program by school/dept.

Data sources

General ledger
- GL structure and expenditure
- GL activity assignments

Student records
- Course by program
- Program
- School/department
- Campus
- Teaching period
- Course and program level
- Fee type

Move on to future-state projections

Most importantly, a UCMM enables management to review the future profitability impact of decisions and "what-if" scenarios.

Leveraging historical cost and revenue data from a UCMM provides an understanding of the relationships between resources and outputs. This facilitates development of UCMM predictive models covering a vast array of potential future scenarios, including their financial implications. As a result, institutions are using UCMM predictive models to answer future-state questions such as these:
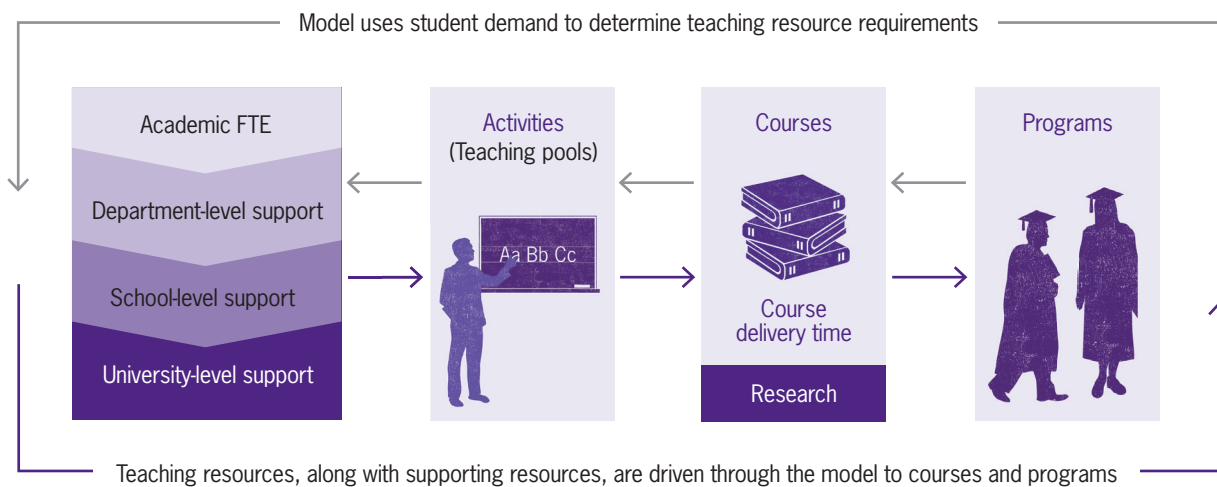
- What is the impact of changes to academic workload (teaching, research, community outreach, etc.) on available capacity of teaching pools and support for strategic initiatives?

- On a course or program basis, what are the effects of changing student-to-staff ratios in support of learner-centered initiatives?

- What is the sustainable balance of the ratio of full-time to adjunct faculty given effectiveness standards and accreditation requirements?

- What are the impacts of changes to academic offerings (courses and programs) on both faculty and staff support requirements, as well as overall university sustainability?

- Where can the institution grow to utilize its existing resources?

- Will the cost of expanding capacity be met by growth in revenue/margin?

5 steps to an efficient and effective UCMM

1. **Assess data availability, and define objectives.** A UCMM system is highly dependent upon good source data. Assessing data availability and quality, as well as determining overall objectives in building a UCMM, is crucial to a successful implementation. Identifying source data deficiencies allows you to adjust the UCMM methodology, or in some cases, delay building a UCMM while deficiencies are addressed.

2. **Build a draft current-state model.** A well-built UCMM makes strategic use of high-level business rules and assumptions based on data in existing systems. For example, workload profiles can be created to capture academic time spent on key activities, including teaching, research, community engagement and non-course-related administration. Further, more granular data can expand the "teaching" category and capture effort spent on course development, teaching, tutoring, advising, assessment and grading. In addition, a profile can be created for each course, with detailed information such as student numbers, credit hours, contact hours, course preparation time per hour of delivery, and grading/advising time per student. All this information can be used to establish a data-driven understanding of how university costs and revenues could be allocated across operations.

UCMM benefits
- Robust and transparent
- Reconcilable back to source data
- Rapid development with iterative improvements
- Extremely flexible and adaptable
- Highly automated/low maintenance
- Use of business rules and profiles
- Multiperiod comparisons
- Simultaneous financial and operational analysis
- Foundational for predictive scenario modeling

Model uses student demand to determine teaching resource requirements

Academic FTE

Department-level support

School-level support

University-level support

Activities
(Teaching pools)

Aa Bb Cc

Courses

Course
delivery time

Research

Programs

Teaching resources, along with supporting resources, are driven through the model to courses and programs

3. **Refine assumptions in coordination with key constituents.** Once the initial draft model has been developed, it can be used as the basis for discussions with interested stakeholders — typically, schools and departments. Review the model and its results to show how underlying assumptions affect the model's output. With constituents understanding the model, you can work together to adjust assumptions to achieve even higher accuracy. Further, leveraging validated, historical information will facilitate constituents' determination of data-driven relationships between support resources and key teaching measures, such as student numbers, credit hours and academic personnel numbers.

4. **Collaborate to analyze current-state economics.** There is no point in building a UCMM unless it is utilized to effect change. Using the model will promote familiarity with current-state economics, provide insights that may not have been previously available, and deliver immediate evidence that can be used to guide management's day-to-day academic, operational and financial decisions. For widespread acceptance and use, management should encourage analysis of model results through a cross-functional working group.

5. **Build a predictive model and create forward-looking scenarios.** The historical UCMM and its constituent-validated, data-driven relationships provide information essential to building a predictive model, such as academic workload profiles, course profiles and professor/adjunct ratios. Once a predictive model has been developed, you can use it to create any number of complex, forward-looking scenarios to evaluate anticipated or desired institutional future states (see "Predictive model uses"). Further, you can develop comparative scenarios to evaluate the economic impact of different options, providing information vital to decision-making.

Build your future from a historical and predictive vantage point

Universities and colleges are under increasing pressure to control costs without affecting agreed-upon service levels or their overall mission. They are turning to UCMMs to develop a comprehensive understanding of the cost to deliver — and the revenue generated by — teaching, research and auxiliaries, and to gain detailed insight into the drivers of institutional performance.

Through this understanding, decisions can be based on evidence and quantitative data, rather than on subjective judgment and emotions. Importantly, a UCMM produces decision-support evidence, saving time that can be applied to analysis and decision-making to shape future operations.

Predictive model uses
- **Assess current and future state:**
  - Cost to educate
  - Student enrollment numbers
  - In-state/out-of-state student mix and tuition rates
  - Resource requirements for new courses or programs

- **Build scenarios to analyze:**
  - Shifting student population
  - Effect of new courses or programs
  - Changes in tuition and fee rates
  - Inflationary changes
  - Tuition inflation assumptions
  - Wage change assumptions

Taking a hard look at what drives instructional costs

Mary Foster, Managing Director, Higher Education Practice

As institutions restate their mission in updated strategic plans and sharpen their identities, their focus is on enhancing academic offerings, facilities and student outcomes. These strategic areas require investments wholly or partially funded by ongoing operations. Given limited ability to raise tuition and fees, along with declining federal/state funding, institutions must focus on ways to free up funds through strategic cost reductions and reallocations.

In reallocating financial resources to meet these strategic needs, institutions must scrutinize the cost of academic departments to gain a full understanding of what is driving instructional costs. This self-examination is vital; colleges and universities in general spend about half their budgets on instruction, according to the 2014 Delta Data Update of the American Institutes for Research.[1]

Cost control is a continuing concern of higher education administrative management and provosts. Widely acknowledged, this concern has been confirmed in surveys and studies tracking higher education trends. Of all the potential solutions, simple cost-cutting is not one. Reducing administrative spending and slowing down new faculty appointments are not enough to achieve true cost control. Operations need to be restructured so that long-term financial sustainability, along with spending in new strategic areas, can be achieved.

> Given limited ability to raise tuition and fees, along with declining federal/state funding, institutions must focus on ways to free up funds through strategic cost reductions and reallocations.

Analyze the primary cost drivers: Faculty, facilities and instructional tools

For many institutions, the organizational design of academic departments creates silo authority that fosters inefficient use of faculty and facilities, erodes an institutional approach to sizing classes and investing in instructional technology and resources, and strains technological support. A collaborative approach to analyzing and understanding costs and the possible solutions to sustainable cost control can reduce silo decision-making. The framework outlined below works best when all academic departments/schools have a shared voice in the analysis and solution design.

To shed light on the cost of instruction and academic support at your institution, and to identify opportunities to reduce redundancies and inefficiencies, analyze the data and activities associated with curriculum development and delivery, and use of technology, classrooms and labs.

10-step framework

1. Establish a baseline of each major's cost.
2. Determine if new programs are eroding enrollment in existing programs.
3. Count how many academic units are teaching the same subject.
4. Find out how many online course platforms are being used.
5. Align new classroom teaching technology and class size.
6. Identify opportunities to leverage e-books and online portals.
7. Scrutinize development costs of new programs.
8. Optimize use of classroom and lab space.
9. Map out administrative staff structure in academic departments.
10. Analyze the impact on facilities and technology of programs of an older demographic.

[1] Desrochers D. and Hurlburt S. *Trends in College Spending: 2001–2011, A Delta Data Update*, p. 11, Figure 6. See www.air.org/resource/trends-college-spending-2001-2011 for the full report.

This 10-step framework can be your guide.

1. **Establish a baseline of each major's cost.** Activity-based costing tools will assist in capturing all costs — including those of the facility — by school, academic department and major. To fairly compare costs across academic units, develop costing principles for shared faculty, classrooms, labs and overhead costs (i.e., administrative/service costs).

2. **Determine if new programs are eroding enrollment in existing programs.** As your institution plans for new programs, identify existing programs and courses that may be affected, and establish their enrollment baseline. Develop a series of steps to be taken if enrollment in existing programs drops below specified levels (course erosion). To determine possible erosion, establish a period of time (number of semesters) for tracking enrollment in both new and existing courses. Ultimately, some existing courses/majors will be replaced by the new ones.

3. **Count how many academic units are teaching the same subject.** Although it is the norm to have academic departments, schools and colleges within a larger university establish their own curricula, the result has been course redundancy. Take an objective look at reducing the number of academic units offering the same subject, and allow the school or unit with the most expertise to deliver the course.

4. **Find out how many online course platforms are being used.** Move to a universal online platform to simplify support, training and maintenance activities — and reduce costs. Balance the cost-effectiveness of platforms with expectations of learning and achievement outcomes, so all academic units are satisfied that the instructional tool meets their quality standards.

5. **Align new classroom teaching technology and class size.** As more academic units combine lecture, online curriculum, hybrid course delivery and peer group sessions, the proportion of students to faculty can increase without sacrificing educational quality. A varied learning environment tailored to the subject matter's advanced or basic level can enrich learning and allow for a more flexible mix of full-time and adjunct faculty, guest lecturers, graduate assistants and teaching fellows.

6. **Identify opportunities to leverage e-books and online portals.** Minimize use of textbooks and simplify distribution of curricula and lessons. Technology can save dollars and time in ordering, procuring and updating materials, and in supporting faculty teaching activities.

7. **Scrutinize development costs of new programs.** An important part of quality programs is faculty and provost time spent on developing and reviewing curriculum and instructional materials for new programs and enhancements to existing programs. However, open courseware, open educational resources and shared programs are becoming increasingly critical elements in new curriculum design. Everything does not have to be invented by the institution. Save faculty and provost time, increase flexibility and open up new avenues for multidisciplinary and cross-institutional collaboration.

8. **Optimize use of classroom and lab space.** Traditionally, academic departments and schools have controlled their own block of classrooms and labs. New buildings often have been constructed while existing space is underutilized. The efficient use of academic space has a significant impact on facility costs. With needs increasing for investments in classroom and lab technology and multidisciplinary programs, facility use must be optimized. As a starting point, address inconsistent class start times and class duration across academic departments and schools. Determine the teaching space needs of each school as a whole and establish a centralized classroom reservation system. Consider how control over specific classrooms by academic departments reinforces silo authority.

9. **Map out administrative staff structure in academic departments.** In many cases, administrative staff is added to academic units in response to institutional compliance mandates, changes in administrative policies and procedures, and operating procedures. Coordinate a collaboration of institutional and academic administrations for an understanding of the needs so that implementation of these new policies and procedures can be streamlined.

10. **Analyze the impact on facilities and technology of programs of an older demographic.** Measure costs of programs for part-time and nontraditional hours or predominantly online instruction separately from costs of more traditional full-time programs. It is important to establish baseline cost data against which enrollment growth can be measured. To do this, extract from the system the cost of faculty, facilities, technology and academic support for the nontraditional student and compare it with the cost per student of the traditional programs. It is also important to identify new students' support services offered to the nontraditional demographic and online student.

Results of your analysis can guide your institution in decision-making about resource allocations that support strategic initiatives and the financial sustainability of your institution.
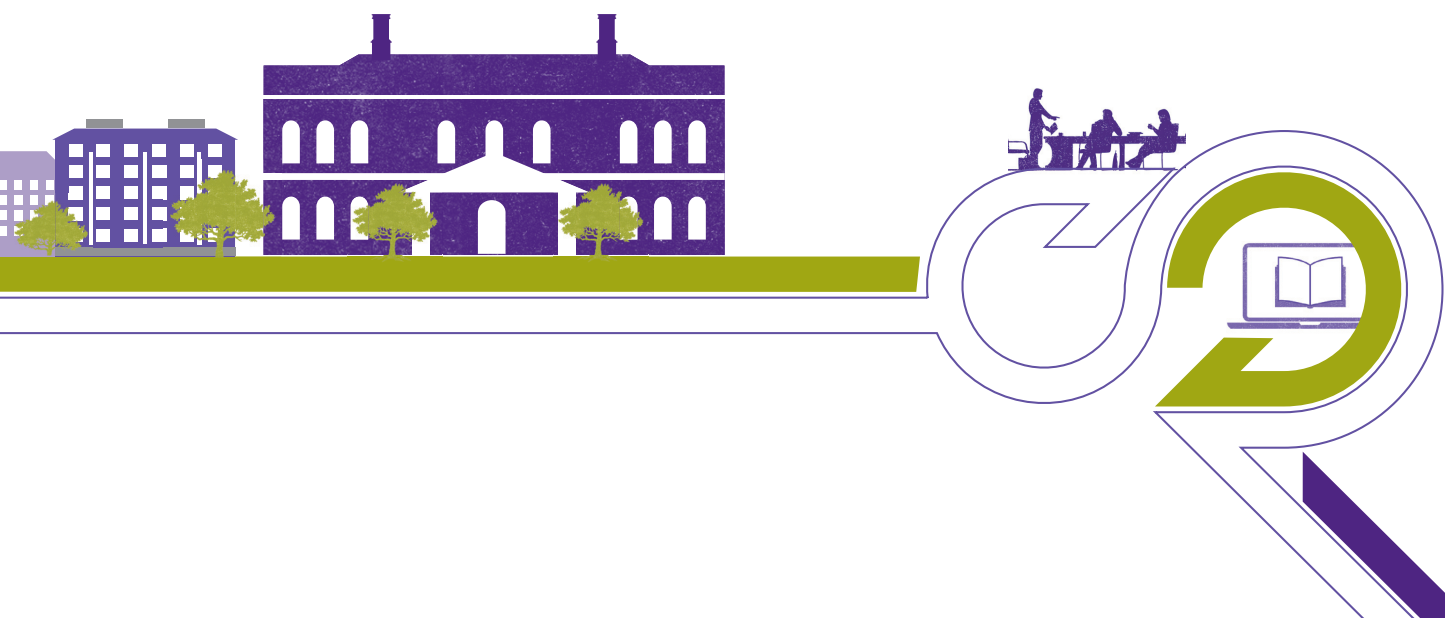
When 1 plus 1 is greater than 2

Katrina Gomez, Senior Consultant, Not-for-Profit and Higher Education Practices, Business Advisory Services
Joseph Mulligan, Manager, Not-for-Profit and Higher Education Practices, Business Advisory Services

Mergers, affiliations and collaborations in higher education

As far back as 1873, higher education institutions have embraced the concept of partnering or affiliating with other colleges or universities to more effectively advance mission objectives. Since Boston University's acquisition of Boston Female Medical College that fateful year, institutions have deployed these strategies to maintain financial viability, add depth and breadth to academic offerings, enhance reputation and brand, and reposition themselves for long-term success. In addition to considering the various benefits that could result from joining forces with another institution, preparing for such a major endeavor — evaluating the alignment of objectives, communicating with stakeholders and prudently performing due diligence — has proven critical in attaining eventual success.

Positioning for the future

In recent years, many large colleges and universities across the United States have taken deliberate action to identify smaller, specialized schools with the potential for adding strategic value to their academic and programmatic portfolios. In an era when top-line pressure and escalating costs are creating a challenging operating environment for entities of all sizes, larger players generally have greater scale and ability to successfully navigate such conditions. Operating from a position of relative strength and stability, larger institutions can typically make a compelling case to their smaller, more resource-constrained peers that a combined entity will better position both institutions for the highest probability of success. Some recent examples of such partnerships include:

- The consolidation of Thunderbird School of Global Management into Arizona State University (2014)

- Polytechnic University's affiliation with and subsequent acquisition by New York University (2008–2014)

- The consolidation of the University of Medicine and Dentistry of New Jersey (UMDNJ) into Rutgers, The State University of New Jersey (2013)

- University of Massachusetts School of Law-Dartmouth's acquisition of the Southern New England School of Law (2010)

Mutual gain from collaboration

Until recently, smaller, more specialized institutions — whether focused on international business, engineering/technology, dentistry, law or the like — have been the ones drawn to such affiliations; however, we anticipate this interest expanding to a broader pool of liberal arts colleges. It is important to recognize that exploring alternate operating models should not be viewed as a sign of defeat, but rather as a proactive and strategic assessment intended to help an institution better fulfill its mission objectives. Irrespective of discipline, institutions are drawn to an affiliation because of one or more anticipated benefits:

- Improved ability to attract students when aligned with a highly ranked, well-regarded institution

- Opportunities to enhance academic and programmatic offerings (e.g., interdisciplinary studies)

- Reduced costs and efficiencies across administrative functions

- Access to financial support and resources to improve financial position (debt coverage, financial ratings or ratios, etc.), enhance facilities, upgrade technology infrastructure and systems, and fortify recruitment and advancement functions

Large institutions are typically driven to explore such collaborations for a variety of reasons. Attempting organic program development is usually a slower, more costly, time-consuming and riskier growth strategy. Integrating operations with an established institution with a strong track record enables the larger player to diversify its operations and expand its reach in a fairly turnkey manner. As opposed to building from the ground up, collaborations enable institutions to readily acquire the expertise, infrastructure and credibility of a fully functioning program to provide students with access to greater academic variety (e.g., new minors, specializations, electives), enhanced infrastructure and expanded degree options (e.g., joint degree programs such as JD/MBA, MD/MPH).

Key considerations in exploring compatibility

No matter why an institution is interested in exploring a partnership with another entity, it is important to consider the significant level of effort required to implement such a collaboration. These initiatives require a tremendous amount of time, energy and commitment to accomplish the spectrum of required activities, including exploring the alignment of mission objectives, outlining the principal objectives of the partnership, assessing anticipated synergies, considering constituent feedback and receptivity, developing financial projections, drafting the necessary legal documents, and receiving the requisite approval from various accrediting bodies.

1. **Discuss what's best for the mission.**
   What is distinct about collaborations in higher education is the focus on maximizing the attainment of mission objectives. As compared to M&A activity in the for-profit space — where the principal focus is typically on maximizing stakeholder value — higher education boards and management must consider how to position their institution for mission, versus strictly financial, success in the future.

   While maintaining tradition is often a key priority for any board or institution, it is important that a well-intentioned appreciation for the past does not impair leadership's ability to look to the future.

University leaders who have implemented successful collaborations have paid careful attention to the sensitivities inherent in combining institutions and have found ways to establish agreement on new or revised institutional objectives. It is essential to perform a very thorough analysis of potential impacts to mission, stakeholders and finances, and to clearly articulate the vital importance and key advantages of a new direction going forward.

2. **Communicate with stakeholders: Listen and inform.**
   When exploring such ventures, it is critically important to solicit input from various stakeholders, including prospective and current students, faculty, administration, alumni, donors and governing/accreditation bodies. Identifying the various constituent groups that may be affected by or have opinions about an endeavor is an important first step to effectively informing and engaging the community.

   Anytime a collaboration, affiliation or merger is announced — even at the earliest stages of exploration — constituents will have opinions and concerns about the likelihood of success, anticipated benefits, risks, institutional motives and potential drawbacks. Open and transparent communication is critical while leading an institution through a period of transition. There are numerous examples of merger attempts that stalled due to stakeholder pushback; understanding constituent views and navigating this process with thoughtfulness and sensitivity are key to developing and executing an appropriate strategy.

3. **Be realistic in estimating anticipated benefits.**
   In exploring a potential collaboration, it is easy (and natural) for those individuals most in favor of the "marriage" to think about the many benefits that could result. As in the for-profit sector, nonprofit and higher education collaborations typically do not yield the full range or extent of benefits originally anticipated and outlined in the due diligence process. Those who are overly eager or enthusiastic about the prospects of such relationships are quick to evaluate possible outcomes and performance with an overly rosy view. Financial and nonfinancial benefits and costs should be evaluated with a critical eye and from an expected-value standpoint, with appropriate sensitivity analyses performed to foster an understanding of risks in potential outcomes. Cost savings, synergies and efficiencies frequently take much longer to materialize than expected.

Although many believe M&A activity in the higher education sector is a relatively new or infrequently occurring phenomenon, such partnerships and collaborations have been taking place for over a century. With varying objectives for pursuing these endeavors and many lessons learned over the years, boards and institutional leaders should remain open-minded about the prospect of collaborations as a means to better position their colleges and universities for future success. Finding the right partner, engaging constituents in the process and performing well-grounded due diligence are key to a smooth process.

Open new doors for your future student body

Larry Ladd, Director, National Higher Education Practice

We know that the future student in higher education is going to be very different from the traditional enrollee. He or she will more likely be a person of color.[1] He or she is more likely to require a flexible and accessible education, not limited to a schedule of four school years of daily classes. And he or she will not expect to be tied to one physical location to travel to or to live near.

If public policy and the efforts of many colleges succeed, the future student is also more likely than today to have a lower income.

What can you do to better serve the future student?

- Be explicit about what your college offers and be honest about whether it will help students achieve their goals. It may be that another kind of college is a better fit.

- Expose students to a greater range of opportunities than they may have imagined, especially if yours is a liberal arts institution. Don't just respond to what they say they need. Ask questions, prompting a conversation that can lead to a truly personalized choice.

- Tailor your support services to meet the diverse needs of students from many different cultural and economic backgrounds. Assess whether what you have is actually a "one-size-fits-all" model designed for white middle-income students; if that's the case, set a course for change.

- Provide strong mentoring programs. Provide students with at least one "coach" who is available to provide emotional, logistical and academic support as they navigate your institution and its offerings.

- Offer instructional programs in a variety of delivery systems — face-to-face, flipped, hybrid and purely online — so they can choose what best suits their learning styles and life patterns.

- Focus on affordability — keep costs low enough to attract and retain students for whom cost can be a deal-breaker.

Serving the future student — indeed, today's student — calls for exploring and implementing institutional changes in the delivery of academic offerings and student support services, and for fully understanding evolving student needs and interests. This will be essential to your institution's ability to continue to attract, retain and satisfy those students.

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[1] Aud, S., Fox, M.A., KewalRamani, A. *Status and Trends in the Education of Racial and Ethnic Groups* (NCES 2010-015). U.S. Department of Education, National Center for Education Statistics. Washington, DC: U.S. Government Printing Office, July 2010. See http://eric.ed.gov/?id=ED510909 for the report.

Cloud computing's next step — Recognizing, managing risk

Gabriela Merino, Director, Not-for-Profit and Higher Education Practices, Business Advisory Services
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The prevalence of cloud computing has increased to the point of transforming IT and business models in every industry, including higher education. Half of higher education institutions have at least one core information system in the cloud; half of those have two cloud implementations, and one-quarter have three, according to an EDUCAUSE Core Data Service survey.[1] In today's climate, institutional leaders are moving past just considering whether to implement the cloud, and on to planning appropriate ways to adopt it.

Sidestepping the risk management issues that other industries have confronted and resolved, higher education leaders have thus far generally chosen to start with areas that are not business critical or highly complex, and therefore do not pose undue risks. Examples include email, video streaming and office productivity tools.[2] However, this will change, driven by the desires of key constituents (e.g., students, faculty and researchers); the demands for greater collaboration, information sharing and mobile access; and the need to optimize investments in technology. In line with core mission support, there will be greater focus on instructional technology. As teaching and learning methods transform, your institution's risk management strategy must be evolve, as well.

As your institution adopts greater use of the cloud, learn from the pitfalls experienced by industries that have gone before by taking these steps to manage risk:

1. **Strengthen your IT organization.**
   Faculty and students are exploring newer and more innovative instructional and study methods, increasing their use of technology, and changing the ways it is used. Equip your IT organization to facilitate, support and sustain technologies that serve your institution's educational mission.

> **Cloud computing**
> The technology that enables access to a shared resource pool of information, applications, infrastructure and/or services
>
> Irrespective of whether the cloud is internal or external, and whether it is hosted by your IT staff or run by a third party, your institution must remain responsible for ensuring that appropriate controls are in place.

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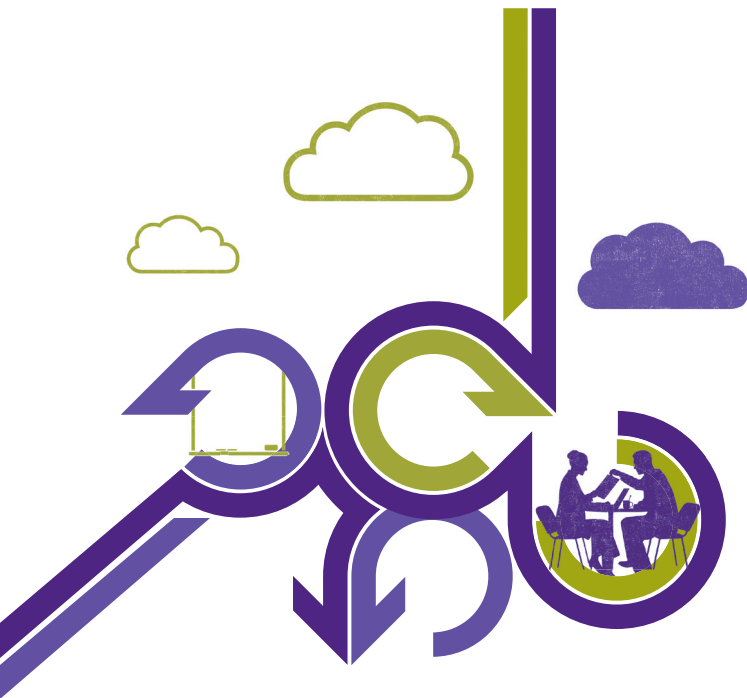
[1] Lang, Leah. "2013 CDS Executive Summary Report," EDUCAUSE, Feb. 18, 2014. See www.educause.edu/library/resources/2013-cds-executive-summary-report for the report.
[2] Grajek, Susan. "Top 10 IT Issues, 2015: Inflection Point," *Educause Review Online*, Jan. 12, 2015. See www.educause.edu/ero/article/top-10-it-issues-2015-inflection-point for the article.

To be successful within this complex reality, your IT organization needs the appropriate talent, along with the architecture and governance to provide solid support while offering a high degree of flexibility. Provide IT with the budget and personnel required to both manage external providers — outsourced services and applications — and operate and support the internal infrastructure, maintaining interfaces between the two environments and evaluating, selecting, developing and implementing new technology. The IT infrastructure and organization need to be adaptable to changing demands, and budgets need to reflect that greater investments in cloud technology may be needed to achieve downstream operational savings, generate new revenue streams, and to allow the institution to remain competitive in attracting and retaining students.

2. **Ensure that IT, academic and administrative areas are working closely together.**
   As with any business transformation, success in adopting cloud computing requires that efforts be orchestrated across the institution. Bring together IT, academic departments and administration to properly identify needs, manage risks and support change.

   While academic and administrative departments should drive the selection of cloud computing vendors, applications and services that shape instructional and business processes from a business requirements standpoint, IT must remain responsible for ensuring that any selection is compatible with the overall technology environment and architecture, and that potential solutions meet technical requirements of integrity, reliability, recoverability, etc.

3. **Guard information and privacy, and manage risk and compliance.**
   Even with the heightened focus on information security resulting from extensive media attention to recent breaches, only one-third of higher education institutions have adopted an IT risk management program or methodology.[3] The need to do so is only heightened when deploying cloud technologies and using resources that are the responsibility of third-party vendors.

   Your institution takes on regulatory and compliance risks by relying on a service provider's adherence to regulations such as those imposed by the Payment Card Industry Data Security Standard, the Family Educational Rights and Privacy Act, and HIPAA. Other noteworthy risks relate to business continuity (ensuring that key operations are not disrupted in system downtime), cybersecurity and malicious insider attacks, commingled data, and compatibility issues with existing infrastructure.

   To maximize protection of your institution and prevent breaches, consider privacy and security risks that are introduced when information leaves the confines of your campus security environment. Establish a comprehensive assessment structure for identifying, evaluating, and mitigating or managing IT risks, including potential for loss of control of data placed in cloud technologies. Make sure you understand how third parties secure your data and what controls remain your responsibility.

Adopting cloud computing brings benefits, but also challenges and risks. The protections you put into place will help your institution move more securely into a cloud environment.

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[3] "IT Risk Management Poll Results, April 2013," EDUCAUSE Center for Analysis and Research, April 2013. See net.educause.edu/ir/library/pdf/ECARpollAPR2013.pdf for the survey results.

Trends shaping the future of cloud computing in higher education

- **Hybrid cloud:** This is a computing environment in which an institution owns and manages some technology resources, either internally or hosted externally by a third party exclusively for the organization, and has others on the Internet provided by a public third-party vendor. Gartner states that "while actual hybrid cloud computing deployments are rare, nearly three-fourths of large enterprises expect to have hybrid deployments by 2015."[1]

  We expect that higher education technology deployments will be part of this trend. While certain systems and services will continue to be kept within institutions' internal infrastructure (or on private clouds) due to issues such as mission criticality, complexity, cost or risk, other services or applications will be shifted to external clouds. The need to develop, implement and maintain the interfaces between these two environments will become a key IT management challenge.

- **Data analytics and big data:** Institutions will benefit from leveraging analytics and big data to better understand student behavior, improve enrollment, enhance student performance, and increase faculty and curriculum effectiveness, etc. This can be accomplished by tapping into current institutional data and the data from various other sources, such as online courses, social media, blogs and surveys.

- **Collaborative learning:** Whether or not current group learning and online learning techniques (e.g., learning management systems and massive open online courses) are sustainable, the powerful concept of collaborative learning is here to stay. This approach encourages knowledge-sharing, problem-solving and innovation, regardless of the mode of delivery. The increased processing power and connectivity offered by cloud computing enables exactly the sort of contributions and behaviors required of faculty and students to make collaborative learning an effective, successful and sustainable educational model.

[1] Zeng, Evan, and Bittman, Thomas. "China Summary Translation: Private Cloud Matures, Hybrid Cloud Is Next," Gartner, Oct. 17, 2014. Gartner subscribers can read the report; see www.gartner.com/doc/2879517/china-summary-translation-private-cloud for more information.

Ensure business-driven DR/BCP

Matt Unterman, Senior Manager, Not-for-Profit and Higher Education Practices, Business Advisory Services

Disaster recovery/business continuity planning (DR/BCP) in colleges and universities has long been an exercise led by technologists. While IT specialists are still very much involved, leadership for these efforts is shifting toward the business side of higher education institutions.

While technology developments — including cloud computing — facilitate the delivery of DR/BCP solutions, successful initiatives reflect a shifting focus toward nontechnology factors related to the delivery of academic and administrative services. These business-driven and -led DR/BCP efforts can better engage the entire community and ensure that institutional needs are being met.

Recent college and university efforts have effectively employed the following techniques to conduct business-driven DR/BCP initiatives:

1. **Establish a cross-functional steering committee**, with the committee's leaders, as well as the bulk of its participants, coming from administrative functions and academic departments. That said, make sure IT still has a seat at the table.

2. **Identify a point person** from each area to serve as the subject matter expert and responsible party.

3. **Conduct a business impact analysis (BIA)** to help focus on functional requirements and to ensure there is adequate buy-in from the entire community.

4. **Socialize and achieve consensus on the BIA** before considering technical requirements, capabilities and limitations.

5. **Arrange for administrative and departmental personnel to write their own business continuity plans (BCPs)** to make certain they consider the institution-level and departmental functions and processes that would be critical in the face of a disaster, as well as how they would be conducted during an emergency and recovered subsequently.

6. **Perform walkthroughs** to test institution-level and departmental BCPs for all critical administrative functions and academic departments. If modifications are required, work with functional experts from the relevant areas to update plans.

7. **Schedule periodic refreshers** to make sure the DR/BCP stays relevant in the face of changing business circumstances, to train personnel in order to maintain readiness and to keep a DR/BCP mindset.

8. **Establish a non-IT owner** to make sure the BIA and BCPs are kept up-to-date going forward.

Look to internal audit to enhance performance evaluation

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Evaluation of institutional performance is of increasing importance to higher education institutions, and — or, it could be said, *because* — their constituents (e.g., donors, students/prospects) have also become more concerned with such assessments. Stakeholders, both internal and external, are increasingly relying on measurement of performance to make more informed decisions. To measure performance, institutions should begin where most organizations begin — by establishing and evaluating key performance indicators (KPIs) that facilitate assessment of performance toward achieving the organization's mission and strategic objectives.

To properly evaluate your institution's success in achieving its mission, you must be able to rely upon the integrity of key performance data that informs management decision-making. Internal audit (IA) can play a key role in providing comfort that all efforts related to your institutional performance evaluation process build a trustworthy foundation for decision-making and can also help your institution "raise its game" when targets are missed by understanding root causes and opportunities for improvement. IA can provide crucial assessments of the integrity and reliability of processes, practices and controls, and can be a partner in identifying opportunities to improve execution.

IA can enhance your performance evaluation process
While higher education institutions are increasingly focused on establishing metrics and measures to evaluate their performance, these activities aren't useful if management cannot rely on the accuracy, integrity and timeliness of reported data. Gaps in performance evaluation processes and controls may result in decisions based on inaccurate data. IA can play an invaluable role in identifying and resolving any such gaps, thereby providing comfort to management that KPIs serve as a solid foundation for institutional evaluation and decision-making.

Identify risks to achieving institutional performance measures — IA should ensure that its annual risk assessment process includes an evaluation of potential barriers to your institution achieving key performance metrics. IA should have a thorough understanding of the institution's KPIs, as well as the key drivers for these measures; the risk assessment process should evaluate potential threats to accomplishing these goals. The results of the risk assessment should drive the annual internal audit plan, which outlines the functions that IA will review.

Gaps in performance evaluation processes and controls may result in decisions based on inaccurate data.

The performance evaluation process

1. Relevant metrics are established

In order to measure performance, "success" must be defined, beginning with leadership's shared understanding of the mission and goals. Then, KPIs can be established to measure progress toward achieving these targets. The best KPIs are those that measure outcomes, not outputs or routine functions; assess organizational performance and progress toward mission; are not unduly complex to understand; and do not require significant effort to aggregate/calculate.

2. Data is collected and inventoried

With KPIs established, determination is made regarding how to best collect the necessary measurement data. Responsibility needs to be assigned (e.g., institutional research, administration, compliance or IT) for gathering data for both institutional reporting (e.g., for compliance) and performance evaluation.

A data and reporting governance committee may be tasked with enhancing collaboration, and oversight of performance evaluation and reporting activities. The committee may be responsible for establishing common definitions for key reporting terms and metrics, as well as for monitoring the "inventory" of key metrics and reports, including the data sources, risks and challenges associated with each. This committee can comprise key stakeholders and representatives from relevant departments, such as the executive office, finance, academic affairs, admissions, financial aid and development. By overseeing both internal and external reporting governance, the committee sets the tone for performance measurement, data gathering and reporting efforts.

3. Reporting tools are created

After appropriate metrics and data-gathering procedures are in place, a performance and reporting tool can be developed. The tool can range from a manually maintained spreadsheet to a customized Web-based dashboard that integrates with the institution's primary systems for real-time access to KPIs. Design decisions need to address management's desire for real-time data vs. periodic updates, the volume and complexity of agreed-upon KPIs, and management's desired investment in establishing these reporting tools. Additionally, thresholds need to be defined to indicate when performance is either exceeding or missing expectations. Dashboards can be established at different organizational levels (e.g., departmental management, senior management and board level). The real purpose of such tools is not to inform, but to allow decisions to be made and actions to be taken in response to performance that is either better or worse than planned.

Monitor data-gathering and reporting practices — Even if management has identified metrics that truly measure your institution's achievement of its goals and mission, the results are meaningful only if the data used to derive these metrics has integrity. The data used by management to evaluate institutional performance may be touched by numerous individuals and systems along the way, with calculations and other manipulations that can increase the risk of inaccuracy, both intentional and unintentional. IA can serve as a powerful resource in assessing every stage in the data-gathering and reporting process. In this arena, IA can, for example, assist with creating an inventory of all key metrics and the data sources for each, and evaluate risks, as well as key process and system controls that promote data integrity. In addition, IA can perform a post-implementation review of dashboard reporting tools in order to verify that they are properly compiling and summarizing key metrics for management review.

Identify opportunities to improve institutional performance — As a proactive measure, IA can perform operational audits of the business functions that drive your institution's KPIs in order to identify and mitigate risks to achieving key metrics. Alternatively, if your institution's performance against key metrics does not meet management's targets and expectations, IA can assist in the identification of improvements to these business functions that can help remediate deficiencies in key indicators. Finally, IA can assist management in determining if any negative indicators are a result of poor performance, or if expectations (and hence, KPIs) need to be adjusted.

IA assurance can facilitate mission focus

IA can assure management that the processes, practices and controls related to your organization's institutional performance evaluation activities are operating in accordance with expectations, allowing management to focus their efforts on continuous improvement toward achieving your institution's mission.

New financial reporting calls for smart communication

Mary Foster, Managing Director, Higher Education Practice

"Consistency and transparency!" in financial reporting was the rallying cry behind changes to not-for-profit and higher education reporting in the 1990s. Institutions adapted to those changes, some of which were controversial — e.g., recording pledges and tracking gifts, grants and endowment earnings through temporarily restricted revenues. The current standard does not mandate a specific operating measure; over time a practical but inconsistent measure of "operations" materialized. Now, 20 years later, an enhanced financial reporting model will emerge that defines a new operating measure. The new model will provide for comparability on results from operations among private colleges and universities, and will increase the comparability between private universities and public universities. But it will not lead to enhanced understanding of — i.e., transparency in — the cost of education. To achieve that level of insight, management will need to supplement financial reporting with a more robust management discussion and analysis (MD&A) of operations.

The proposed model will require endowment earnings to be shown as non-operating revenue and quasi-endowment gifts as reductions of operating revenue. This will make it harder for many institutions to achieve a positive net income from operations. As a result, institutions will have to do a better job of explaining how the education and student services they provide are funded, and in the process of doing so, strongly consider whether costs are sustainable.

Measurement and presentation will change
Users of financial statements in the past decade have called for simplification of financial reporting and disclosures. The proposal of the Financial Accounting Standards Board (FASB) is a somewhat simpler model, although there is still an abundance of complexity. New terminology is introduced to define the measures of operations: "Operating excess before transfers" and "Operating excess after transfers." The presentation of revenues is modified by requiring a new "Transfer of revenue" line to move gifts and endowment earnings from the non-operating to the operating category. The proposal also eliminates one of the classes of net assets by combining permanent and temporary restricted net assets into one category.

As for clarifying operating excess, the model proposes defining operating revenue based on two dimensions — mission and availability. On this basis, all legally available mission-related revenue and support would be presented as gross revenue in the statement of activities. Proceeds from investment activities (i.e., endowment earnings) would not be included in the operating measure unless the organization's primary mission was to generate a return on investments. Funds designated by the governing body for use in future periods would be shown as reductions from gross revenues. Funds previously unavailable but available for use in the current period, either by board action or the endowment spending rate, would be added to revenue through the transfer category. This presentation forms the basis for the measures of operations.

For the majority of private universities, a portion of endowment earnings has been included as operating revenue based on a board-approved spending rate. Typically, the rating agencies have calculated operating ratios based on their standard ratio (5%) of endowment earnings treated as operating revenues, regardless of the institution's specific spending rate. Treating a portion of endowment earnings as operating revenue resulted in most private universities presenting an operating surplus, because the endowment earnings covered a large portion of the institutions' financial aid and scholarships — the tuition discount. As noted above, this will have the effect of weakening the operating margins of institutions that rely heavily on endowment earnings to cover tuition discounts and endowed chairs.

On the plus side, eliminating investment earnings from operating revenue creates comparability between private and public universities. The endowment earnings treatment would become the same as that of public institutions under the Governmental Accounting Standards Board. In this way, the model will make it possible for private universities to show the comparison of their results against those of public universities.

The model is in the proposal stage with an official Exposure Draft to be released for public comment in April 2015. FASB was also the force behind the changes to the reporting model in the 1990s. FASB has been discussing the proposed model during the past year with the AICPA expert panel and the National Association of College and University Business Officers (NACUBO).

These changes create an opportunity to refresh how financial performance is communicated. Going forward, the CFO and the provost can supplement the financial statement presentation with an insightful MD&A that lays out the cost of education, cost of student services and auxiliary activities, use of operating and non-operating funds to cover these costs, and performance metrics of revenue and expense per student.

Internally, a private university will need to reconsider its measurement of operating performance. One of the standard measures of financial stability is the ability to cover expenses with tuition — how can a university scale operations so that net tuition revenue covers 100% of its education, academic and student support activities? Another standard measure is the net operating income of auxiliary services, fundraising activities and related health care entities, and the amount of operating subsidy required by research activities and public/community service. These operating measures should be considered when determining the presentation of operating expenses. FASB's proposal requires expenses to be presented by both functional and natural classifications, but it allows either format to be used in the statement of activities. The other format would be presented in a separate financial statement or in the notes to the financial statements.

Currently, the major operating performance differences among institutions are the amount of endowment earnings consumed in operations, the profitability of auxiliary and noncore activities, the success of fundraising campaigns, and the ability to designate operating surpluses to cover future years' budget deficits and strategic investments in programs and facilities. An institution's spending policy and the applicability of the policy to quasi-endowment funds can have a significant impact on financial strength and flexibility. So, too, the ability to garner significant philanthropic gifts. The past two years have seen record-breaking fundraising results for many universities. While many of the new multimillion-dollar gifts are for capital investments in new initiatives, the ability to raise this amount of interest-free capital significantly affects the institution's financial flexibility. A revised reporting model that redefines the operating excess presents an opportunity to explain the sources of revenues in a manner that enhances the consumers' understanding of the breadth and complexity of educational institutions. The benefit is deeper knowledge of how the instructional mission is funded, the scope of services provided to the community, the costs of maintaining a campus, the costs of investing in technology and equipment, and the cost of supporting student success inside and outside of the classroom.

Capitalize on the opportunity to tell the whole story

While many educational institutions include an MD&A in their published annual reports, this is usually a CFO's perspective on revenue growth, expense control, investment performance and capital plan initiatives. To truly convey the institution's financial strength, revenue opportunities and cost drivers, the academic enterprise needs to supplement this financial view by offering perspective on course offerings, student achievement, faculty development, facilities usage and operations of the academic departments. While the CFO can state the tuition discount rate and trends relative to prior years and to budget, the provost can explain how enrollment management is affecting class size, preparedness of students, and the competitive position of the schools and academic units. Most readers of college financial statements do not know what student services or academic or institutional support services are. Many can't differentiate student services from auxiliary services, or institutional support from overhead costs. The activities and outcomes of these areas can be explained in the MD&A. If regulatory mandates are driving up institutional support costs, this is the opportunity to explain, and to describe steps to streamline administrative and reporting functions. Communicating the difference between operating revenue and infusions of nonprofit capital in the financial statements and the MD&A can help consumers, funders and regulators better understand the revenue sources needed to sustain the institution and enhance the educational mission.

There's one more rallying cry, and it comes from consumers. In response to "Cost and value!" smart organizations will capitalize on the change in model format to communicate a more consistent, transparent and simple story about costs, price and value.

Prove community value to avoid a PILOT

Larry Ladd, Director, National Higher Education Practice

A growing number of city leaders have asked for and in some cases obtained new payments in lieu of taxes (PILOTs) from the colleges, universities, museums, and other large educational and cultural institutions based in their cities. With political pressure to seek income, if not strictly "taxes," from tax-exempt nonprofit organizations, financial burdens on those organizations have yet another source.

To the question of why colleges, churches and charities have tax exemption in the first place, the solid answer is that they provide a public good, often more effectively and less expensively than is done by a taxpayer-funded entity.

We believe that acceding to requests for PILOTs is a bad idea. Higher education institutions should prove their community worth in various ways:

- **Establish and maintain excellent relationships within the cities and towns where your institution resides, reinforcing the belief within the municipality that the institution is an important citizen contributing to and supporting community well-being.** Presidents should have good relationships with mayors, and senior officers should actively participate in Rotary Clubs, the chamber of commerce and other community groups.

- **Document the financial contribution your institution makes to the community.** Economic impact statements, updated regularly and publicized thoroughly, remind the community of the economic benefit of the institution's purchases, payroll and other contributions.

- **Remind city officials of the noneconomic value your institution brings.** If your institution was somewhere else and thinking of moving into the city, wouldn't the city make every effort to attract your college/university in exchange for the prestige and cultural enrichment your institution represents?

- **Be a good neighbor.** Make certain that off-campus student housing is safe, unobtrusive and nonexploitative. Hold students accountable for bad behavior off campus. Offer services, such as access to day care centers, at reduced cost. Where feasible, provide access to courses at no cost or lower cost.

It is incumbent upon higher education leaders to keep their community apprised of the multiple benefits enjoyed because of the presence of the institution. By proving value, they may well stave off the imposition of a PILOT.

Implementation tips: Federal uniform grant guidance

Kim McCormick, Partner, Not-for-Profit and Higher Education Practices,
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It's a new world of grant management for recipients of federal awards. They are operating under the changed framework of rules for awards received on or after Dec. 26, 2014. The new guidance — *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)* — has several purposes:

- Reduce administrative burden associated with grants management

- Eliminate duplicative and conflicting guidance

- Provide for consistent and transparent treatment of costs

- Strengthen oversight

- Reduce the risk of fraud, waste and abuse

The *Uniform Guidance* supersedes and streamlines requirements from the Office of Management and Budget (OMB) Cost Circulars A-21, A-87 and A-122; administrative rules in OMB Circulars A-102 and A-110; and audit requirements outlined in OMB Circulars A-50 and A-133. It consolidates these circulars into a format that aims to improve both clarity and accessibility.

As your organization considers its own implementation plan, see the following tips to guide you through your process.

Tip 1: Actually read the *Uniform Guidance***.** As daunting as it may seem, there is no substitute for going straight to the source. Familiarize yourself with the structure and content of the *Uniform Guidance*. Pay particular attention to Subparts D and E, which outline both new and existing administrative rules and cost principles.

Of particular interest: Cost principles
Subpart E of the *Uniform Guidance* outlines 55 items of cost, strengthens language under certain cost categories for clarification and adds new categories of costs. For example, new provisions have been added for family-friendly travel and social media. Some costs may be allowable, but only with the awarding agency's advanced approval.

Tip 2: Review your own internal chart of accounts against Subpart E. Ensure all allowable items of cost are captured and all disallowed costs are ineligible for coding to federal awards. To the extent costs may need preapproval from a granting agency, plan ahead for those approvals by asking for them in your grant applications.

Tip 1:
Actually read the
Uniform Guidance.

Tip 2:
Review your own internal chart
of accounts against Subpart E.

Of particular interest: Compensation — personal services

As opposed to the prescriptive rules in the OMB Circulars for supporting the cost of personal services, the new *Uniform Guidance* is principles-based instead of rules-based. The OMB was concerned that recipients, in their effort to conform with the old rules, had processes in place that appeared on the surface to be compliant, but in reality were not supported by a well-designed system of internal controls. Because of that concern, the *Uniform Guidance* specifies that personnel expenses charged to federal awards must be recorded within a system of internal control that provides reasonable assurance the charges are accurate, allowable and properly allocated. Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed.

Tip 3: Maintain a written policy for compensation practices. Maintaining written policies will be new to many organizations. In developing such documentation, consider not only operational processes such as payroll and compensation, but also common control matters such as cost transfers between awards, guidance to employees for correcting errors on submitted time sheets, the timeline for submission of all time reports, and an outline of the review and approval process.

Of particular interest: Indirect cost rates

These rules are among the more popular changes introduced. Federal agencies must now accept the federally negotiated indirect cost rate of an organization unless there is an exception by statute or regulation. Organizations that do not have or never have had a federally negotiated indirect cost rate may use a *de minimis* flat rate of 10% if it is used consistently for all federal awards. This *de minimis* rate can be used indefinitely or until an organization wishes to negotiate an indirect cost rate. Similarly, pass-through entities are required to accept an approved federally recognized indirect cost rate of a subrecipient; if a rate does not exist, the pass-through entity must either negotiate one or allow a *de minimis* rate of 10%. To reduce the administrative burden, organizations with federally negotiated rates can receive an extension of the current rate with no further negotiation for a period of up to four years, with possible renegotiation.

Tip 4: Decide now which route to take for indirect cost rates. If you do not want the administrative burden of negotiating a first-time rate, the 10% *de minimis* option might be attractive. Current applications for grants and budgeting should reflect your choice in this regard. Pass-through entities and subrecipients should ensure that subaward agreements and budgets are reflective of these changes.

Tip 3:
Maintain a written policy for compensation practices.

Tip 4:
Decide now which route to take for indirect cost rates.

Of particular interest: Subrecipient monitoring

Pass-through entities making subawards to subrecipients may have historically struggled to find the regulations applicable to their responsibilities toward subrecipients. Much of the historical guidance was included in OMB Circular A-133 — the audit guidance instead of the administrative circulars. Guidance has been consolidated and moved to Subpart D, focused on administrative requirements. Additions to existing rules about elements of subcontracts and monitoring include not only the indirect cost rates provision, but also a requirement for pass-through entities to conduct a risk assessment of subrecipients and include in the assessment information about the nature and amount of monitoring performed. In adding this requirement, the OMB acknowledges that not all subrecipients are created equal and the level of monitoring needs to be tailored to the specific risks of that subrecipient. For example, if a subrecipient is new to administering federal awards, has new personnel, or has substantially changed systems, the level of monitoring may be more robust than for a subrecipient that has a long history of administering federal awards successfully and consistent personnel and procedures. The single audit previously undergone under OMB Circular A-133 by some subrecipients may no longer be required, given the increased audit threshold from $500,000 to $750,000 of federal expenditures.

Tip 5: Tailor monitoring. Acceptable monitoring could include in-person site visits, desk reviews or agreed-upon procedures performed by an auditor, among other strategies. Pass-through organizations should start developing risk assessment criteria for subrecipients and craft their monitoring procedures based on the results of those risk assessments. To the extent reviewing OMB Circular A-133 audit results was part of their monitoring procedures, pass-through entities must now consider other methods of monitoring for subrecipients no longer subject to a single audit.

Of particular interest: Procurement standards

Nonprofit organizations and higher education institutions previously covered under OMB Circular A-110 will find the procurement requirements much more prescriptive. The *Uniform Guidance* specifies that procurement policies be documented and include written standards of conduct for conflicts of interest and the performance of employees engaged in the selection, award and administration of contracts. Further, organizations must use one of five stipulated methods of procurement.

Tip 6: Create or update documented procurement policies. If your organization doesn't have documented procurement policies, it should create them. If your organization does have them, they should be updated to include the five methods of procurements and other details such as standards of conduct, as outlined in the *Uniform Guidance*. For common types of procurements — e.g., those made with a purchase card or P-card — consider aligning purchase limits to the new micropurchase threshold.

Tip 5:
Tailor monitoring.

Tip 6:
Create or update documented procurement policies.

Of particular interest: Single audits

In addition to the increased single audit threshold, several other changes to the audit rules impact recipients:

To the extent a recipient receives audit findings, the corrective action plan (CAP) will have to be presented in a document separate from the auditor's findings. This differs from the guidance in OMB Circular A-133, which did not specify the form of the CAP. Further, both the CAP and summary schedule of prior audit findings must address findings related not only to the federal awards, but also to findings related to the financial statements required to be reported in accordance with Generally Accepted Government Audit Standards issued by the U.S. comptroller general. Single audit submissions to the Federal Audit Clearinghouse will now make public the entire Single Audit Package, not just the Data Collection Form.

Tip 7: Consider reputational and reporting concerns. Put mechanisms in place to make sure that management teams and governing boards are aware of the public nature of their single audit reports. Have plans ready in the event that your institution needs to respond to any public questions that may come from reviewing the data and any audit findings. Finally, ensure that no protected personally identifiable information is included in your submission.

Plan your implementation and prepare staff

For the best shot at successful adoption, ensure that senior management is aware of and supports your implementation plan. Include a representative cross-section of financial, programmatic and compliance personnel on the implementation team, and provide training to staff who need to be aware of the new rules, policies and procedures.

Visit **federalregister.gov/articles** and search for Uniform Guidance to learn more.

Tip 7:
Consider reputational
and reporting concerns.

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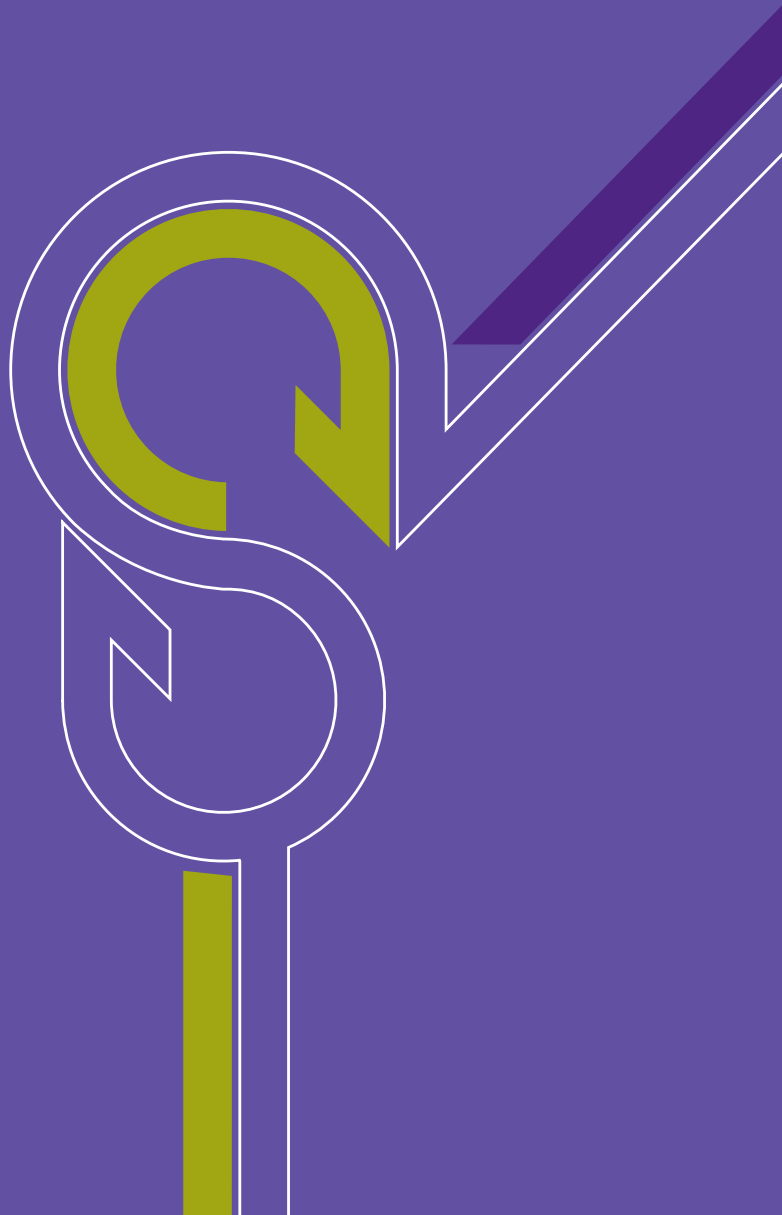
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