# On the 2025 higher education audit committee agenda

January 2025

Audit committees can expect their institution's reporting, compliance, risk, and internal control environment to be put to the test in 2025. While industry outlooks from Moody's and S&P for the year ahead indicate a continued bifurcation of credit based largely on institutional profile[1], certain pervasive challenges—from cybersecurity attacks, advances in artificial intelligence (AI), and growing regulatory burdens, to geopolitical instability, waning public confidence in higher education, and the looming demographic cliff—will continue to warrant attention by most colleges and universities and could impact strategies. In addition, federal policy shifts from the new administration and Congress could impact the operating and risk environment that institutions must navigate. Once again, higher education boards and audit committees will need to refine and diligently monitor their risk-driven agendas.

Drawing on insights from our interactions with higher education audit committees and senior administrators, we've highlighted six objectives to consider as audit committees consider and carry out their 2025 agendas:

**Help ensure the institution's enterprise risk management (ERM) program is keeping pace with the rapidly changing environment.**

**Clarify the audit committee's oversight of generative AI (GenAI), cybersecurity, and data governance.**

**Monitor emerging regulations and standards impacting the institution.**

**Stay focused on leadership and talent in finance and other functions.**

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

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

[1] Source: Higher Ed Dive: How will colleges fare financially in 2025? It depends., December 9, 2024.

# Help ensure the institution's ERM program is keeping pace with the rapidly changing environment.

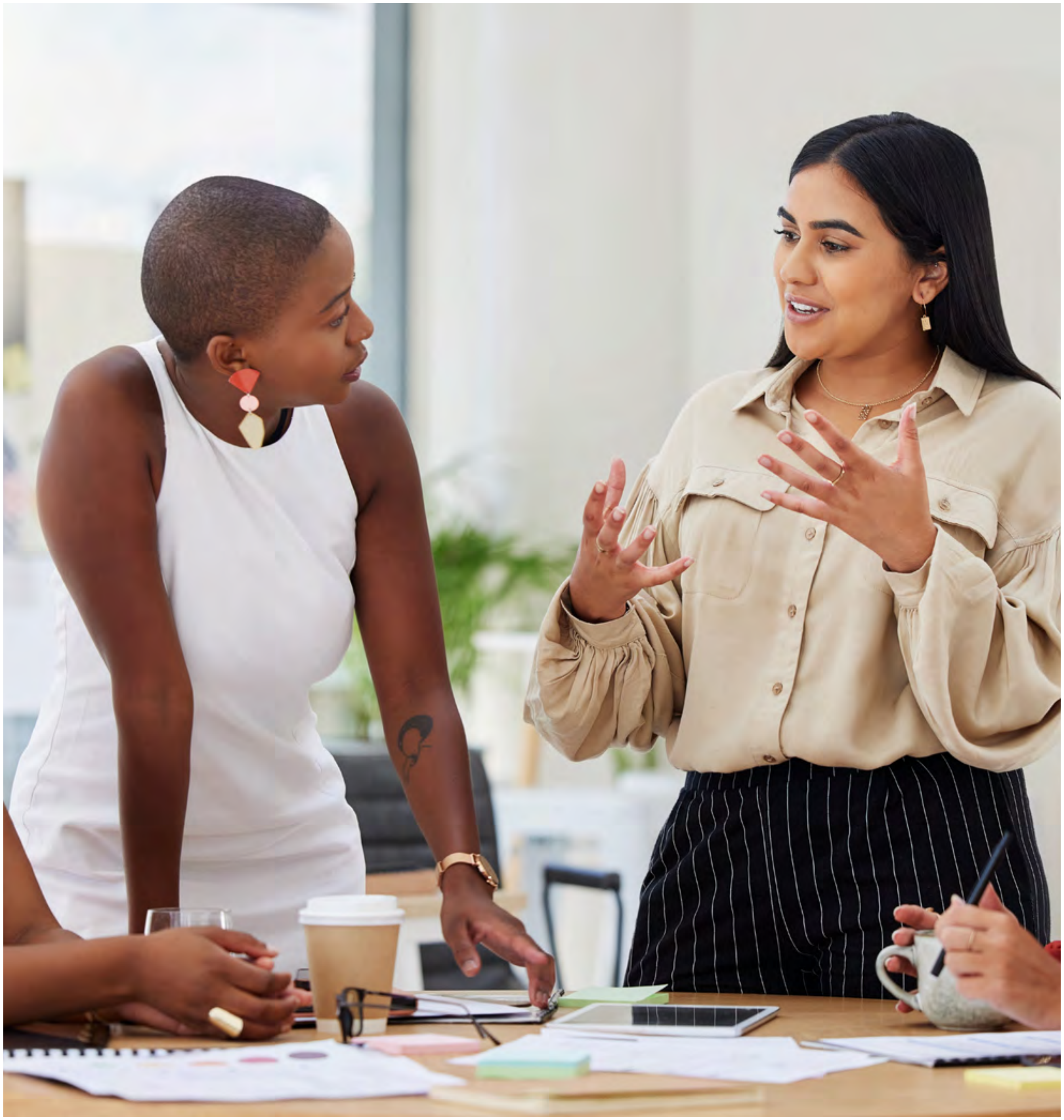
In 2025, the magnitude, complexity, and velocity of many institutional risks—and their interconnectedness—will require more proactive and holistic risk management, as well as effective oversight by the audit committee. In addition to ongoing risks, several executive and legislative priorities of the new administration and Congress have the potential to create new risks or amplify existing ones in the institution's ERM profile. Among those potential issues the industry is watching (and that are developing quickly) are:

- Pauses on federal grants and loans and stop-work orders
- Redirection of research priorities, reductions of certain research funding, and additional grant restrictions
- Changes to immigration and international travel policies
- An increase in targeted investigations under the False Claims Act, including as to foreign influence
- Changes to the federal endowment tax, other taxes, and IRS mandates
- Changes to student financial aid programs and other U.S. Department of Education regulations (e.g., Title IX)
- Impacts of rolling back Biden-era student loan forgiveness programs
- A pivot away from clean energy and climate change initiatives and regulations
- Gridlock affecting the federal debt ceiling and budget, as well as legislation
- Evolving regulations around the control and use of AI
- For academic medical centers and employee health plans, changes to Medicare and the Affordable Care Act
- Geopolitical developments that could intensify campus disruption and federal scrutiny amid protests and permitted speech concerns.

The degree to which some of these risks or other initiatives could materialize in the year ahead—and how they might affect colleges and universities—is uncertain. It is clear, however, that a robust ERM program can facilitate an institution's ability to monitor and assess these and other fast-changing risks and opportunities based on their likelihood over time. Recognize also that low-probability, high-impact events could quickly materialize (as several have in recent years), and their interaction with other risks could magnify impacts. While building and maintaining such a program can be difficult, the goal should be to transform ERM from a transactional risk register to a high-maturity program, allowing the institution to go beyond operational resilience to using risk to create opportunity and competitive advantage.

A successful ERM program starts with fundamentals. Outside higher education, sometimes the full board has primary responsibility for ERM, with the audit committee overseeing risks within its scope and other committees having responsibilities tied to their scope. In our experience, a leading practice in the higher education sector is to assign responsibility for oversight of the risk management process to the audit committee and oversight of risk areas to appropriate board committees (including the audit committee for risks within its scope). Also fundamental to an ERM program are mechanisms to ensure that risk information is reaching the full board. The board should receive regular reports on risk, especially "mission-critical risks": in hindsight, organizational crises and failures are often traced to inadequate board oversight of such risks. In what is expected to be a very active year ahead in terms of risk identification and mitigation, the audit committee can help the institution advance ERM effectiveness by asking:

- How rigorous are management's processes to identify and assess risks, including emerging risks? Who is involved, and who is championing management's effort? How far down in the organization does it go? For example, does the institution have a chief risk or compliance officer? In the absence of such a role, does the responsible official have capacity and authority to move the ERM program forward?
- Do we have a complete understanding of the risks in our institution's strategy and our risk profile, as well as how the profile is changing? Are there emerging risks that are not being addressed? Scenario planning, tabletop exercises, and updating crisis response plans may be critical.
- If a risk event were to occur, how quickly would it adversely affect operations? Is a process in place to monitor changes in the environment that might alter key assumptions?
- How do individual risks aggregate and interrelate to determine the top risks that require senior management's focus and merit presentation to the board?
- Are our resources being applied as efficiently and effectively as possible to achieve a risk outcome commensurate with our risk appetite?
- Are our risk, compliance, and internal audit functions aligned with respect to risk identification and mitigation throughout the institution?
- How effective are we and other committees in coordinating and communicating risk oversight activities? Does the full board understand the nature of committee-based oversight activities and the top risk areas?



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

Data Security ranked near the top of United Educators' December 2024 Top Risks Survey of colleges and universities, while respondents identified AI as both an emerging risk and opportunity.[2] These results align with increasingly disruptive cyberattacks in the sector, which may be exacerbated by extensive digital infrastructures at many institutions. They also appear to reflect a deepening recognition that GenAI has the potential to modernize and enhance back-office processes and the student experience, but also to enable cyber criminals to launch more sophisticated and targeted attacks—using GenAI's ability to write code and mimic voices in verification techniques. Indeed, many institutions have already integrated AI to improve learning and operational efficiency, and some are adopting AI-driven threat detection systems and zero trust strategies to bolster their cybersecurity. However, a recent survey revealed that only 13% of universities globally had established institutional policies or formal guidance regarding use of GenAI applications.[3]

The growth in the use of GenAI across multiple platforms in often-decentralized campus environments necessitates a focus on data quality, having a responsible use AI policy, complying with evolving privacy, intellectual property, and AI laws and regulations, and rigorously assessing data governance practices or, in some cases, developing data governance practices. As a result, audit committees at colleges and universities should be probing whether the institution's data governance framework and interrelated AI, GenAI, and cybersecurity governance frameworks are keeping pace. In addition, a key question for boards is how to structure oversight of these areas at the full board and committee levels, including the audit committee. In assessing the audit committee's oversight responsibilities in these areas, we recommend the following areas of focus:

*Assessing audit committee oversight responsibilities for GenAI.* As they seek to understand GenAI's potential impact on strategy and the operating model, many boards are still considering how best to oversee AI and GenAI, including the appropriate roles of the full board and standing committees. As we discuss in On the 2025 board agenda, oversight in many companies is often at the full board level—where major strategic and transformational business issues are typically addressed. In the higher education industry, the full board should be discussing issues such as GenAI's impact on the institution's strategy and operating model. However, some audit committees, including at colleges and universities, may already be involved in overseeing specific GenAI issues, and it is important to clarify the scope of the audit committee's responsibilities. GenAI-related issues for which audit committees may have oversight responsibilities include:

- Oversight of compliance with evolving AI, privacy, and intellectual property laws and regulations.
- Use of GenAI in the preparation and audit of financial statements, as well as in other regulatory filings.
- Use of GenAI by finance, internal audit, sponsored research, admissions, institutional advancement, and other administrative functions, and whether personnel involved have the necessary talent and skill sets.

[2] Source: United Educators, Top Risks Report: Insights for Higher Education, December 2024.

[3] *Source: KPMG, GenAI in higher education: Four steps to help turn disruption into advantage, October 2024*

- Development and maintenance of internal controls and procedures related to AI and GenAI, as well as controls around data, including the potential for inadvertent biases in algorithms (e.g., admissions).
- Consistent with cybersecurity awareness and training for faculty, staff, and students, deployment of comprehensive AI training programs focused on ethical use, practical applications, and security.

Some audit committees may have broader oversight responsibilities for GenAI, including overseeing various aspects of the entity's governance structure for the development and use of the technology. How and when is a generative AI system or model—including a third-party model—developed and deployed, and who makes that decision? What GenAI risk management framework is used? Given how fluid the situation is and the audit committee's bandwidth and skill sets—and with GenAI gaining rapid momentum—the allocation of oversight responsibilities to the audit committee may need to be revisited.

*Assessing audit committee oversight responsibilities for cybersecurity and data governance.* At most institutions, the board's oversight responsibility for cybersecurity and data governance largely resides with the audit committee. Nevertheless, given the explosive growth in GenAI and significant risks posed by the technology, boards should rigorously re-assess their data governance and cybersecurity frameworks and processes. Given the audit committee's heavy agenda, should a subcommittee be established to focus on and assist in the oversight of data governance and perhaps cybersecurity?

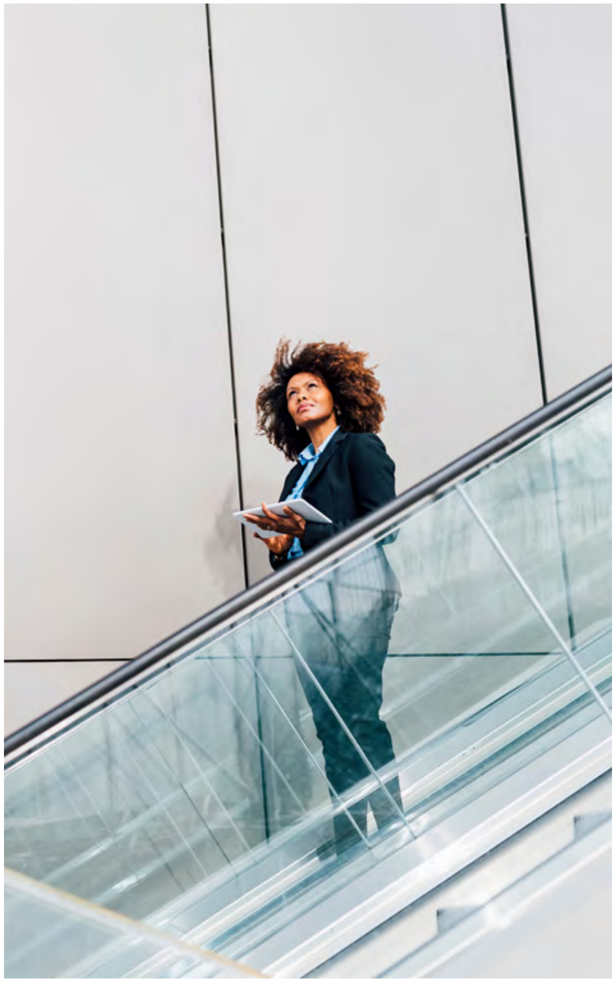
# Monitor emerging regulations and standards impacting the institution.

In its recent Top Risks Survey, United Educators noted that increased attention by federal and state governments to higher education may have caused Regulatory and Legal Compliance (Non-VAWA/Title IX) to move from the eighth-highest risk in 2023 to the fifth-highest risk in 2024, the largest increase of any risk.[4] Although changes to financial reporting standards affecting the industry are expected to be limited, certain other reporting and compliance requirements at the federal level will be in focus for institutions in 2025. As it is possible that the new administration's plans could affect these and other regulations, institutions should closely monitor executive orders and announcements by federal agencies.

**U.S. Department of Education (ED) enhanced related party disclosures.**

As noted in our 2024 Agenda publication, in 2023, ED amended Title 34 Part 668 of the Code of Federal Regulations (CFR) relating to standards for institutions participating in federal student aid programs, effective for filings on or after July 1, 2024. For institutions with fiscal years ended June 30, 2024, the first filing under the new requirements will be due by March 31, 2025.

Among other things, the CFR clarifies that institutions must disclose all related party transactions in annual audited financial statements filed with ED. This requirement anchors to the related party definition in U.S. generally accepted accounting principles (GAAP), which is largely principles-based and involves significant judgment. Nevertheless, officers, board members (some of whom may be significant donors), and their immediate families are common examples of related parties. However, whereas GAAP provides latitude to determine the specificity of related party disclosures in the context of the overall financial statements, the CFR requires disclosure of the nature and amount of any transactions,



financial or otherwise, between the related party and the institution, as well as the party's name, location, and description. In 2024, ED specified that it expects an institution to have a system of internal controls adequate to provide reasonable

[4] Source: United Educators, Top Risks Report: Insights for Higher Education, December 2024.

assurance for compliance with its regulations, including related party relationships and transactions.[5]

Given the heightened focus on and sensitivities around related party reporting, the audit committee should understand and monitor how the institution is meeting ED's new requirement. Are there systems, processes, and internal controls to capture and evaluate information needed to comply? Absent materiality, is the institution consistent in its application of related party standards in its audited financial statements for general use and those including the incremental disclosures required by ED? How will personally identifiable information factor into the disclosures? Such considerations may be complicated, requiring careful assessment and perhaps communication with affected parties. As achieving compliance in this first submission under ED's new requirement remains interpretive, it is important to understand how a rejected filing could impact the institution. Working closely with general counsel and auditors as the institution navigates these issues is essential. The institution should also continue to monitor and consider any additional guidance provided by ED.

**ED's Financial Responsibility Standards (FRS).**

Dear Colleague Letter Gen-24-11 (Letter), *Long-Term Debt Used for Property, Plant, and Equipment—Treatment of Non-bond and Bond Indebtedness, and Treatment of Leases*, issued in December 2024, largely supersedes ED's Electronic Announcement issued on April 9, 2020, on these topics (Q&A). Among other things, the Letter attempts to clarify how refinanced "pre-implementation" long-term debt is treated in composite score calculations required for not-for-profit and proprietary institutions. Upon ED's implementation of revised FRS requirements in 2020, ED allowed institutions to treat long-term debt that originated prior to the implementation as a favorable component in the composite score. However, the Q&A indicated that if excess proceeds are received in a subsequent refinancing of such debt, the debt no longer qualifies for such treatment. The clarified guidance in the Letter may allow institutions that refinance bonds in which excess proceeds are received to effectively preserve the favorable treatment of the original bonds if both the original and refinancing bonds are restricted to be used for capital assets and meet other specified conditions, subject to submission of supporting documentation to ED.

Institutions should also be aware that on May 20, 2024 (updated on January 14, 2025), ED published Electronic Announcement GENERAL-24-61, *Frequently Asked Questions Now Available on Financial Responsibility and Certification Procedures*, which among other things addresses certain frequently asked questions on FRS and related party reporting requirements.

**2024 Revisions to Uniform Guidance.**

In April 2024, a Federal Register was updated to revise portions of the Uniform Guidance, which were generally effective October 1, 2024. The revisions clarify existing regulations, are intended to reduce agency and recipient burden, and impact both auditees and auditors. Among the key revisions are increases to certain audit thresholds (applicable to Single Audits with periods ending on or after September 30, 2025), changes to certain areas of cost principles, removal of written approval for certain cost items, an increase in the threshold for defining capital expenditures, an increase in the amount of subaward costs excluded from the application of indirect cost recoveries, and an increase in the de minimis indirect cost rate. The revisions also clarify that recipient and subrecipient entities must establish, document, and maintain effective internal controls.

Institutions should note that federal agencies were granted flexibility in adopting revisions relative to existing awards as described in M-24-11 that was issued by the Office of Management and Budget (OMB) on April 4, 2024. Attention should be paid to agency requirements in amendments and new awards, as well as related impacts to any subawards. Moreover, revisions generally took effect on October 1, 2024, i.e., during most institutions' fiscal 2025, and certain revisions (e.g., change in capital expenditure threshold) may require resubmission of indirect cost rate proposals in order to adopt, which could take time. Accordingly, differences in the timing and application of certain revisions may result in different policies, compliance requirements, and controls in the same fiscal year, which could make compliance and auditing more challenging.

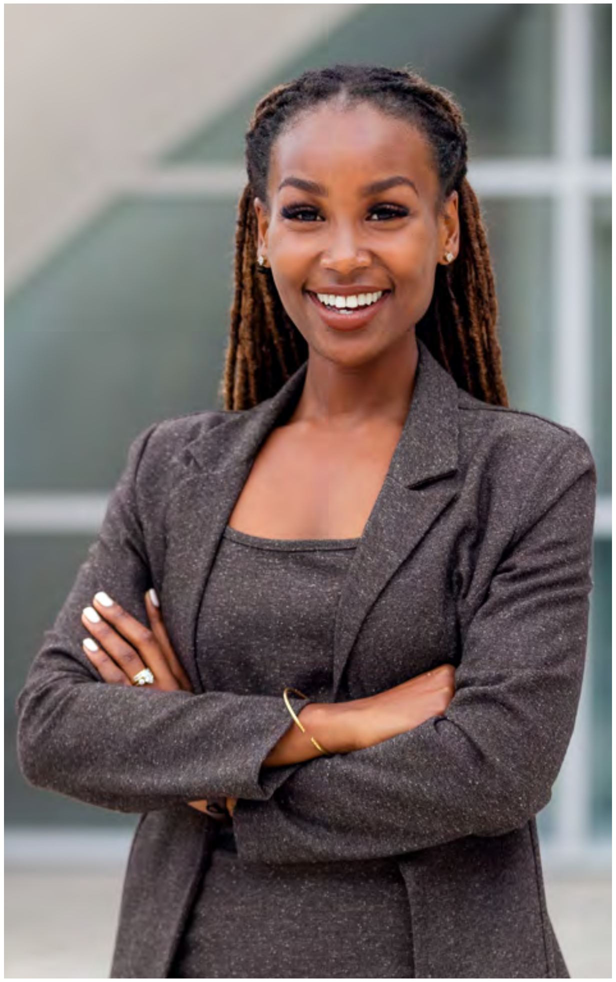
[5] Source: ED Electronic Announcement GENERAL-24-127, *Disclosure of Related Party Transactions in Financial Statements*, October 31, 2024.

# Stay focused on leadership and talent in finance and other functions.

During the COVID crisis, the workloads of many college and university administrators increased significantly. Other industry pressures since then have only intensified and perhaps added to the strain, with many institutions seeing burnout as an emergent risk. While a recent KPMG survey shows that remote and hybrid work modes have become common for some[6]—providing flexibility and easing the burden—administrative roles in the industry generally have become more demanding.

Recruitment of top talent in finance and other administrative functions remains a risk at many institutions, especially those limited by traditional compensation structures. Budget constraints and an aging demographic in senior roles continue to contribute to this risk. While hiring pressures have abated over the last few years, filling certain finance, IT, risk, compliance, and internal audit roles continues to be challenging for some institutions. As chief business officers seek to transform the institution's business processes with more robust technologies, including GenAI, audit committees can help ensure that the talent and technical acumen needed to support operations, risk management, and new strategies—as well as appropriate succession planning—are in place. The audit committee should consider the following questions to help monitor and guide the institution's progress:

- While bolstering recruitment, retention, and wellness programs may result in higher costs—which could add financial strain to the institution—employee workloads and morale, as well as internal controls, could be adversely impacted if the institution is unable to attract and keep the appropriate talent. Does the audit committee understand how the institution is addressing risks in these programs and how it is managing any staffing issues, particularly as to specialized roles in IT, compliance, and other areas?
- Do we have the appropriate infrastructure to monitor and manage the tax, compliance, culture, and cybersecurity ramifications of remote work arrangements?
- Are our finance and internal audit functions attracting, developing, and retaining the talent and skills needed to match their increasingly sophisticated digitization and other transformational strategies?



- Do our chief business officer, chief compliance officer, chief audit executive, and chief information security officer have the sufficient institutional authority and stature, organizational structure, bench strength, and succession planning to be effective moving forward?

[6] Source: KPMG, *Unlocking the future of higher education: Insights from our higher education remote work survey,* August 2024.

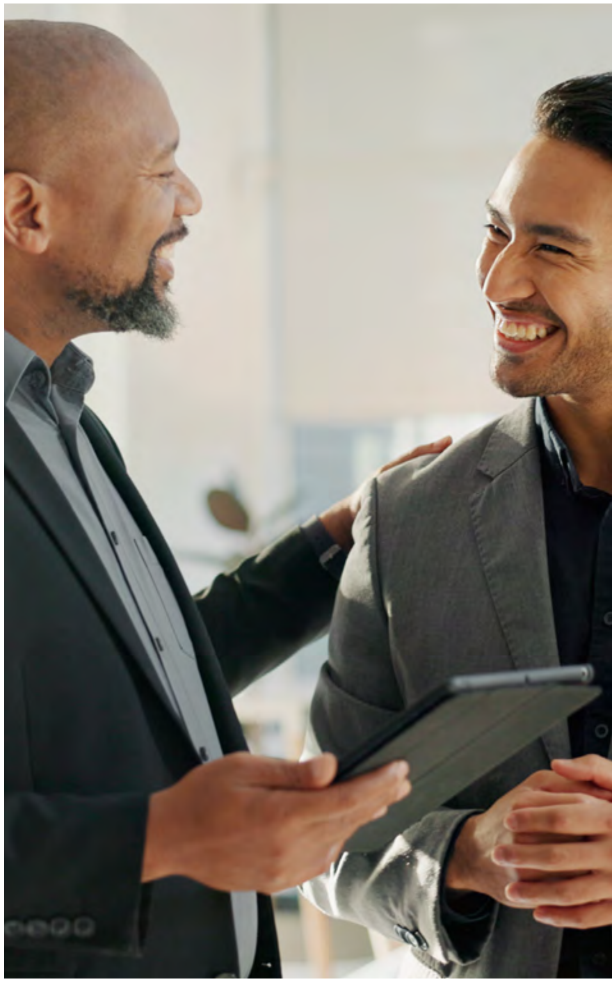
# Help internal audit stay attentive to the institution's key risks and be a valuable resource for the audit committee.

As we have observed, at a time when audit committees are wrestling with weighty agendas and putting risk management at the forefront, internal audit should be a valuable resource and a crucial voice on risk and control matters. This means focusing not only on reporting and compliance risks, but also on critical operational and technology risks and related controls, as well as sustainability and reputational risks.

Is internal audit's annual plan risk-based and flexible, and does it adapt to changing operational and risk conditions? Internal audit must be able to effectively pivot to address unanticipated issues and risks, as well as ongoing institutional risks highlighted in the audit plan. The audit committee should work with the chief audit executive and chief risk officer to help identify areas in which significant risks to the institution's reputation, strategy, and operations exist or could arise, such as tone at the top and culture; emerging applications for GenAI; supply chain management; research compliance and conflicts; workforce and wellness programs; international activities; third-party vendors; data governance (including data quality and integrity) in sustainability and ranking processes; and other areas. Expect the internal audit plan to address these emerging issues, reconcile to the institution's business processes and risks, and incorporate a multi-year perspective on focus areas—how does the current plan compare to last year's and what has changed or could change in the year ahead?

Set clear expectations and ask whether internal audit has what it needs to succeed. In terms of ERM, clarify internal audit's role—which is not to manage risk, but to help guide its audit priorities and provide an important sanity check on the adequacy of management's risk identification and mitigation processes. Does internal audit have the skills and resources needed to handle the fast-evolving IT and GenAI issues affecting the institution? Internal audit is not immune to talent pressures. Help the chief audit executive think through the impacts of advanced technologies on internal audit's workload and effectiveness—using tools such as dashboards to enhance risk assessment and routines for real-time auditing. What is internal audit doing to be a valued business advisor to other departments?

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



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

In our interactions with higher education institutions across the country, we've observed that evaluating the audit committee's effectiveness in a specialized sector and in the context of each institution's unique operating profile can be difficult. Compared to audit committees at public companies—which are regulated and for which industry benchmarking on board activities and executive education opportunities are more common—college and university audit committees have a different focus and scope (e.g., not-for-profit accounting, research compliance, etc.) and are less regulated and more insular, complicating determination of optimal practices. External and internal auditors and industry organizations such as the Association of Governing Boards of Universities and Colleges (AGB) and the American Institute of Certified Public Accountants (AICPA) may offer relevant and objective guidance. Additionally, administrative executives in the higher education sector frequently discuss common emerging issues through consortia and other industry groups (e.g., the National Association for College and University Business Officers (NACUBO))—and there may be similar opportunities for audit committee chairs to learn from other institutions.

We recommend the following questions to consider (including as part of the committee's annual self-evaluation):

- Does the committee's charter align with and reflect the actual goals and work of the committee?
- How many members have direct experience with financial reporting, compliance, and internal controls? Is the committee relying too heavily on one member to do the "heavy lifting" in overseeing these areas?
- Does the committee include members with experience necessary to oversee emerging areas of risk that the audit committee has been assigned—such as GenAI and data security? Is there a need for a fresh set of eyes or deeper (or different) skill sets? The committee may also need to periodically engage outside specialists to navigate certain areas (e.g., forensic audits).

- Does the committee spread the workload by allocating oversight duties to each audit committee member, rather than relying on the committee chair to shoulder most of the work?
- Are committee meetings streamlined by insisting on quality premeeting materials (with attention paid to their volume and expectations they have been read), use of consent agendas, and reaching a level of comfort with management and auditors so that certain activities can become routinized (freeing up time for more substantive issues facing the institution)? A best practice is for the chair to summarize key focus areas for committee members when distributing meeting materials.
- Is the chair spending sufficient time outside the boardroom with management and auditors to plan for committee meetings, get a fuller picture of the issues, and enhance the productiveness of committee meeting time?
- Are separate executive (nonpublic) sessions with management, internal auditors, external auditors, and members only at the beginning or end of meetings scheduled? Establishing a regular cadence of such meetings helps ensure that sensitive matters, if any, can be addressed without raising unnecessary flags and allows for more open sharing of ideas and perspectives.
- Do members have access to robust orientation and continuing education programs? Are they provided with relevant industry information sourced from outside the institution? Has the committee chair explored mechanisms to learn what counterparts at comparable institutions might be doing, including through guidance issued by the AGB, AICPA, and other organizations?

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