

University of
Michigan

Internal Controls Outlook

January, 2021



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The current higher education climate



A dynamic risk environment

Higher Education continues to operate in a dynamic risk environment, including regulator concerns, student demands, long-term trends in enrollment, and external threats to operations, safety, and security of a University. The role of a **local departmental controls continues to be relevant and important**. Below are some high-level trends that are impacting other decentralized peer institutions.

- **COVID-19 Impact on Controls:** Did local internal controls change? Has the design and operating effectiveness of those changes been evaluated? What about new business processes related to contact tracing, building access, and testing protocols.
- **COVID-19 Support Funds Compliance:** New federal programs to assist higher education, combined with access to FEMA support, may require new processes and controls to support compliance.
- **Foreign influence in research:** Evolving views and regulations on researchers with foreign ties, funding, and sharing of research, e.g., DOE, NIH. Reporting of foreign gifts and contracts to DoE.
- **Cybersecurity:** Increasing trend of higher education being the subject of sophisticated hackers, combined with decentralized environments translates to a wide group of individuals playing a key role in cyber defense. COVID-19 has accelerated these risks.
- **Research Compliance:** The importance of post award sponsored award compliance continues, with recent high profile settlements with the federal government emphasizing the financial, operational, and reputational consequences.
- **Ongoing financial pressures and commitments:** Public universities face continued erosion in state support, State of MI funding may not match inflation and need. Short and long-term decline in international enrollment impact on tuition revenue. Decentralized universities traditionally give significant independence on how unit/departmental funds are utilized.

Trends in higher education compliance



Challenges in decentralized environments

Risk of noncompliance with laws and regulations can be difficult to mitigate in decentralized universities. Disparate systems create limitations to efficiently monitor compliance on a proactive basis at a central level, which requires department administrators to play a key role in maintaining compliance.

- **COVID-19 Federal relief funds compliance:** FEMA, HERF, Employee Retention Credit, and CARES/Provider Relief Funds are among new programs with sometimes complex compliance requirements that require effective processes and controls at the departmental level.
- **Section 117 compliance:** Gift and contract transactions may be collected in a decentralized fashion, making it difficult to aggregate for DoE reporting purposes.
- **Research compliance:** Post-award compliance, export controls, lab safety, clinical trials, plus human and animal subject research (IRB/IACUC)
- **Data Use and Protection:** Adherence to data use agreements, and use of institutional data for research.
- **Privacy:** GDPR risk for many universities remains low; however, upcoming state privacy laws may have greater impact. Continued relevance of FERPA and HIPAA as applicable.
- **Human Resources:** Traditionally a decentralized responsibility, creates risk from a pay equity perspective, as well as diversity in hiring, retention, and promotion. Relevant due to potential reviews from the OFCCP and EEOC.
- **NCAA Compliance:** Traditionally the purview of the Athletics department, student academic/scholarship success requirements may intersect units/departments and divisions. Reputational risk is high with marquee division I programs.

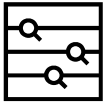
Areas of school and department administrator focus



How can institutional departmental administrators prudently and proactively respond:

- Areas of decentralized control/compliance attention
- Selected leading practices for school and departmental administrators
- The Department Administrator/Business Manager “Control Playbook”

Areas of school and department administrator focus



Areas of decentralized control/compliance attention:

Recent unfortunate publicized events, as well as traditional areas of importance:

- **Foreign Influence in Research**
 - 6/12/20 Fifty-four scientists have lost their jobs as a result of NIH probe into foreign ties
 - 10/21/20 Colleges under fire for foreign gift reporting (Section 117)
- **Sponsored award compliance**
 - 3/21/19 Duke University to pay \$112.5 million to settle claims of research misconduct
 - 4/27/20 Harvard University agrees to pay 1.3M to resolve allegations of overcharging NIH grants
- **Student employment:** timely I-9s, and timely on-boarding and payment
- **Procurement violations**
 - Delegation of authority infractions / procurement limits
 - Preferred vendor utilization
 - P.O.s generated after invoices are received
 - P-card usage over preferred procurement methods
- **Budget to actual reporting**, and use of restricted funds to cover operating deficits
- Untimely or insufficient **review of departmental expense activity**
- Maintaining financial or other key data in **shadow systems**

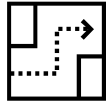
Areas of school and department administrator focus



Selected leading practices for school and departmental administrators:

- Reliance on School/Department “**annual certification process**”
- **Sponsored award compliance**
 - Timely review and approval of award activity, including award close-out.
 - Annual training on compliance requirements
 - Governance to prevent or report instances of PI/administrator abuse of sponsored funds
- **Student employment**
 - Increasing education and outreach to PIs and students about the importance of adding students to HR systems and bringing I-9 documentation to school.
- Annual **ethics and compliance training** and attestation, with support from departmental/school and University leadership.
- **Partnering** with functions in the “Center” to adopt leading practices locally, e.g., Cyber, Institutional Data, Human Resources. Especially when resolving local internal audit observations.
- Annual **procurement training** on appropriate procurement methods.
- **Truth in budgeting**, communicate in advance if restricted funds are anticipated to be expended to funds current year activities and budget overages.
- **Monthly review of expense activity**, as well as maintaining documentation of review. *“If it’s not documented did it happen?”*
- **Limiting use of shadow systems**, maintaining documentation the reconciles back to systems of record.

Areas of school and department administrator focus



The Department Administrator/Business Manager “Control Playbook”

- **Understand and Document** key business process and controls, including those responsible.
 - Budgeting
 - Sponsored award compliance
 - Procurement
 - Human Resources
 - Institutional Data Reporting (emphasis on professional schools)
- **Regular monitoring** of key controls - when possible utilize a data driven approach, including use of data visualization tools / interactive dashboards.
- Understand and document your **Information Technology General Controls (ITGCs)**,
 - University-wide system access provisioning/deprovisioning, maintaining use and security of local: servers, systems, data warehouses, and website properties
 - Local IT support vs central IT support for faculty, staff, and students
 - Robotic Process Automation (RPA) development and governance
- **Develop and maintain relationships** with central support resources
- Ensure adequate contemporaneous **documentation of control activities**
- **Conduct annual department risk assessments**, what could go wrong and how are we addressing those risks? Do we need to make adjustments to better address those risks in the future?

Thank you

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