Perspectives in higher education

Spring 2021

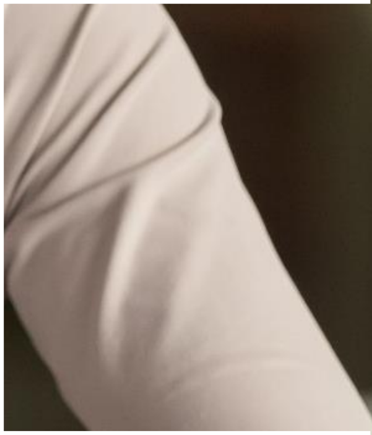


Table of contents

Introduction

To say the past year has been a challenge for higher education would be a gross understatement. From COVID-19 testing and contact tracing, to pivoting to fully remote or hybrid learning, to the financial fallout from the pandemic, colleges and universities have been pushed to respond to myriad new situations. As a return to normalcy starts to evolve with the daily increase in the share of the population that is being vaccinated, institutions are quickly planning for their future.

In the 2021 edition of “Perspectives in Higher Education,” we start with thoughts on what colleges and universities should be considering as they begin to move beyond the pandemic, including the most effective use of campus space, the role of distance learning, and diversification of revenue streams. We then highlight such societal topics as diversity and inclusion; student mental health; and environmental, social and governance issues. Additionally, we provide our annual Washington Update and conclude with key items that board committees should be considering.

PwC also conducts an annual evaluation of internal audit plans and related risk themes. As an appendix to the 2021 edition of Perspectives in Higher Education, we include a summary of our survey.

This publication shares our insights on the challenges and opportunities facing higher education institutions, while offering a point of view on how colleges and universities might respond. As a market leader in providing audit, tax and advisory services to the higher education industry, we are honored to work with many of the nation’s premier educational institutions in addressing their most pressing challenges.

While this document is not meant to be comprehensive, it draws upon our understanding of the diverse nature of higher education institutions that have complex educational, research and clinical activities, and can serve as a broad platform for discussing these issues in a proactive and collaborative manner.

Please feel free to contact Chris Cox at (508) 259-1557 or christopher.cox@pwc.com, or Tom Gaudrault at (207) 232-0499 or thomas.k.gaudrault@pwc.com, with any questions or comments.

Chris Cox
National Higher Education Assurance Leader

Tom Gaudrault
National Higher Education Chief of Staff

Moving beyond the COVID-19 pandemic

Structural shifts in higher education were underway before the pandemic, but COVID-19 has acted as an accelerant, increasing the speed and magnitude of change that is reshaping the industry. Successful institutions will apply lessons learned from the past year to reposition for the future.

The challenge ahead

COVID-19 has taken a significant financial toll on higher education. In the fall of 2020, the American Council on Education sent a letter to the House of Representatives that tallied financial losses for two- and four-year schools at far above its earlier estimate of $120 billion from the start of the pandemic.[1] Since that letter arrived in Washington, the pandemic progressed and expenses to deliver education in both hybrid and on-campus models have undoubtedly surpassed that amount. Some institutions have adjusted with furloughs, reductions in student amenities and other cost-cutting measures. Other industries have started to rebound as vaccines increase and restrictions on certain businesses and travel decrease. Unfortunately, higher education's recovery may not be so robust or immediate. Many two-year and regional public and private schools have experienced a reduction in enrollment and applications over the past year as many high school graduates on the lower end of the economic spectrum did not enter college.[2] Typically, a poor economy bodes well for education, as those leaving the workforce opt in to enhance their résumés. Unfortunately, this cycle does not appear to be following that historical trend, with a fracture occurring between the "haves" and the "have-nots." Large universities throughout the country have experienced different impacts on enrollment, with some admissions offices reporting application declines of 20%. Other top-rated institutions have seen increases in applications. These varying application trends indicate that the impact of the pandemic will not be felt equally across all universities.

Compounding the situation are headwinds brought on by long-term trends in population decline and related decreases in high school graduates. This will increase competition for traditional students. The pandemic and policies from the prior administration have also curtailed international students from entering the US education system. These students typically pay full tuition and are highly sought after, as one international student can provide two to three times the revenue of a US student who may be receiving institutional scholarships.

Reorganizing for success

With more American families on tight budgets because of the pandemic, students are increasingly worrying about college affordability. Colleges should think about constructing smarter and more efficient campuses that are less expensive and can shift the functionality of existing spaces according to the needs of students and faculty. Expectations of decreasing budgets will only exacerbate these pressures and accelerate the reimagining and condensing of real estate, course offerings and other key services. In anticipation of an increasing number of online students, colleges will also have to readjust financial planning to account for a greater need in specialized IT spaces that are capable of hosting both in-person and virtual classes. However, despite the increased focus on remote learning, colleges should still plan for many students to value the on-campus experience. Thus, the college of the future must think of its campus as a place that can go beyond just hosting its students and faculty and actively connect them, both virtually and physically, with greater efficiency and flexibility than ever.

The rise of virtual learning, increasing student demands for value for their degree, and margin compression are forces that will compel universities to take a hard look at the bottom line. For years, colleges have focused on driving efficiencies through administrative services. However, it is now time to start reviewing the curriculum with an eye toward attracting the right student at an optimized cost. The first step is to identify and offer programs and majors that appeal to the type of student the institution wants to attract and determine which programs will build a differentiating brand. For these programs, institutions can fortify their position in the market by overinvesting in faculty and facilities that will drive incremental enrollment. Simultaneously, institutions should look to deliver programs at the most economical cost. This could include shifting certain classes to online only or a hybrid model and eliminating sections, classes, majors and perhaps even programs. This should be done with an understanding of the staffing needs of faculty, both full time and adjunct. Given that faculty can make up to 30% to 40% of a university's expenses, a small improvement can have a material bottom-line impact.

[1] Ted Mitchell, letter to Nancy Pelosi and Kevin McCarthy, September 25, 2020, https://www.acenet.edu/Documents/Letter-House-Fall-COVID-Supplemental-092520.pdf.

[2] Madeline St. Amour, "Few Positives in Final Fall Enrollment Numbers," *Inside Higher Ed*, December 17, 2020, https://www.insidehighered.com/news/2020/12/17/final-fall-enrollment-numbers-show-pandemics-full-impact.

Curriculum redesign will require support from the faculty, so thoughtful change management will be required.

Diversifying revenue streams

Universities have likely explored and implemented the obvious and immediate ideas to reduce expenses and preserve legacy revenue streams. However, given the financial uncertainty that lies ahead for many colleges and universities, consideration should be given to exploring new revenue streams to diversify income. Novel approaches to paying tuition, such as income share agreements (ISAs), are expected to flourish and compete with traditional student loans as viable methods for funding education. ISAs can be offered through a partnership with a third party and structured based upon a student paying a set percentage of their post-graduate income in return for financial aid in the present. Other forms of partnerships could include academic programs themselves; through collaboration with employers, universities could offer discounted degrees or certification courses for busy professionals. While schools will undoubtedly need to navigate uncertainty, successful institutions will begin identifying, piloting and ultimately adopting and gaining real value from creative relationships. These relationships can be developed with private industry to supplement potential lost revenue and to recruit students who might not have enrolled under traditional payment methods.

COVID-19 forced colleges and universities to adopt online learning at a breakneck pace, a reflection of an already burgeoning pre-pandemic trend that saw many institutions enter the online education market. A transition to more online classes and coursework can help colleges meet their students' academic needs regardless of physical location, while the implementation of flexible pricing models will further aid students' financial obligations through a differentiation between on-campus and online costs. Some universities already employ flexible pricing strategies that base price on the method of learning (on-campus versus online) as well as the number of credits completed. Regardless of the approach, colleges should expect to price online and on-campus experiences to reflect a competitive market that requires creative and flexible strategies that save students money.

The concept of a lifelong learner is not new, but the pandemic has accelerated a shift toward lifelong e-learning due to the recent focus on remote and online learning. This shift is expected to be sustainable long after the pandemic. Lifelong learning is important on three levels. First, for individuals, it increases their knowledge and skills and, in turn, their employability. Second, for organizations, it is a source of innovation. Jobs are being transformed by the technologies of the Fourth Industrial Revolution, and over 1 billion people will need to be reskilled by 2030.[3] Lastly, for society, it increases the likelihood that key societal and environmental challenges are resolved. Higher education institutions should closely consider the concept of a lifelong learner as they explore their marketing and development efforts. Colleges and universities have an opportunity to tap into a new market and keep current students returning as they look for more credentials or résumé enhancements, such as badges. A new type of donor could emerge among these students, who may develop a stronger affinity for their schools as their experiences translate into a more direct benefit on employability than ever.

[3] Saadia Zahidi, "We Need a Global Reskilling Revolution—Here's Why," World Economic Forum, January 22, 2020, https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills.

Closing perspective

Institutions that are successful will have developed an academic experience and culture that is in line with the type of students they plan to attract. Building a campus, be it physical or online, that attracts and retains students will be a strategy that will lead to long-term success. Given the reduction and shifting expectations of traditional students, colleges and universities should begin to reposition their cost structure, campus experience and overall degree offerings that will allow their current and future students to succeed in the post-pandemic job market. Institutions should organize how they spend limited financial and leadership resources on the capabilities that will lead to long-term academic and financial success. This will mean a process of identifying these capabilities and shifting investments toward them.

Additional resources

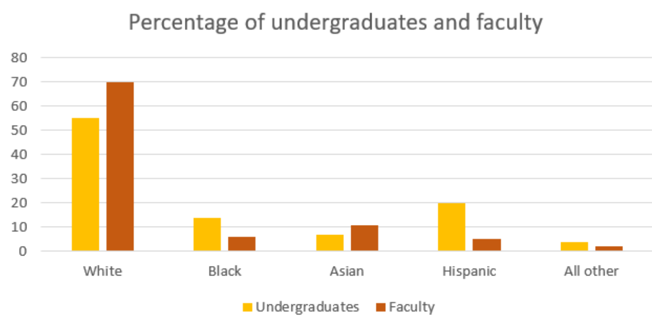
"Emerging Stronger from COVID-19: What US Business Leaders Need to Know":
https://www.pwc.com/us/en/library/covid-19.html
"Your Post-Pandemic Business Won't Look Like Your Past—Or Your Present":
https://www.pwc.com/us/en/services/consulting/library/pdf/post-pandemic-workforce-considerations.pdf

Diversity and inclusion

The past year will be remembered not only as the year the world changed because of a global pandemic, but also as the year a spotlight was placed on social injustice. Conversations around dinner tables, in board rooms and in classrooms have focused on systemic and institutional racism as well as opportunities to promote equity across several areas, including higher education.

Colleges and universities continue to emphasize diversity and inclusion in their mission and strategic planning, as well as to reexamine the ways they can be more transparent with their stakeholders. Diversity in higher education is generally considered to mean the representation of minorities in the faculty and student body. Inclusion, however, can vary from institution to institution and can range from encouraging minority representation among majors to providing support and equitable opportunities for post-matriculation success. However, most institutions agree that the main tenet is creating an environment where all feel encouraged and comfortable to learn and teach.

While racial and ethnic diversity has increased among faculty at institutions over the past 20-plus years, the faculty is still more likely to be white than the students.[1]

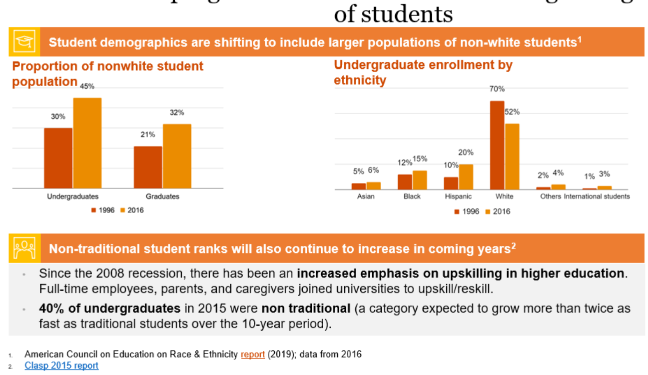


Studies have shown that representation matters, especially at the faculty level.[2] Given the current social climate, institutions will need to sustain and increase efforts to aim for more diverse faculty and staff in order to reach the levels of representation that mirror their student body, as well as the US population.

Several institutions are pledging significant funding for these efforts and are creating multipronged strategies to improve faculty diversity. Initiatives include an array of programs aimed at attracting and supporting diverse scholars, including mentoring programs at various career stages, fellowship programs, increased training on conscious and unconscious biases, and developing programs that provide increased salary funding to appoint diverse faculty.[3] Many universities are also looking for opportunities to increase their pipeline of new scholars.

In addition to creating strategies around improving and sustaining the faculty pipeline, higher education institutions are continuing to focus on the composition of the student body.

Changing demographics are forcing universities to assess and refine programs and services to meet the growing diversity of students



While enrollment at higher education institutions has declined about 4%-5% because of COVID-19, the pandemic has also negatively impacted recent gains made in enrollment of Black and Latinx undergraduates.[4] The pandemic has affected these groups from a health standpoint at significantly higher rates, which correlate with other areas such as education, housing and employment.

Many factors contribute to the decline, including increased financial challenges and hardships caused by the economic downturn accompanying the pandemic. This feeling of uncertainty is causing some to rethink the norm of the educational stepladder (such as “will a degree matter, what areas will be profitable, and which ones will be obsolete?”).

[1] “U.S. College Students Are Twice as Likely as Faculty to Be Black, Four Times as Likely to Be Hispanic,” Pew Research Center, July 31, 2019, https://www.pewresearch.org/fact-tank/2019/07/31/us-college-faculty-student-diversity/ft_19-07-22_facultydiversity_1/.

[2] Jonathan R. Alger et al., *Does Diversity Make a Difference?*, American Council on Education and American Association of University Professors, 2000, http://teach.ufl.edu/wp-content/uploads/2016/07/DIVREP.pdf.

[3] Colleen Flaherty, “Not Just ‘Musical Chairs,’” *Inside Higher Ed*, September 19, 2016, https://www.insidehighered.com/news/2016/09/19/beyond-well-funded-individual-campus-initiatives-experts-urge-collaboration.

[4] “Stay Informed with the Latest Enrollment Information,” National Student Clearinghouse Research Center, Spring 2021 Enrollment, https://nscresearchcenter.org/stay-informed/.

Forced adoption of a virtual setting for many institutions has diminished student engagement in high school and secondary institutions for lower socioeconomic levels and underrepresented minorities. Desire for and access to higher education face many barriers, including poor internet and technology access and environments that are not conducive to learning. Institutions will need to find ways to provide appropriate access to help foster student success, especially for minorities, in this period of varied instruction models.

Virtual learning has highlighted the definition of equality versus equity. While students have equal opportunity to join online learning, doing so in a supportive environment with the proper tools can be challenging. In-person learning, at a minimum, provided an opportunity for students to learn and study in the same environments, even if support tools were not accessible to all. It will be important for faculty and staff to look at their students' individual needs, backgrounds and circumstances to help reduce the likelihood of falling behind during the pandemic. As institutions drive action at their organizations, these changes in curriculum delivery and demographics are propelling shifts in the student population's intellectual, emotional and health needs. Being able to pivot appropriately and to successfully serve the student population will be paramount to the success of institutions in the future.

Diversity and inclusion are areas of focus for companies in all sectors. The complexities in higher education include pressures from faculty, staff, students, vendors, trustees and various other constituents. As institutions navigate this new world, it will be important to focus efforts and dialogue on diversity and inclusion. Institutions will need to balance resources for their efforts to emerge stronger while keeping diversity and inclusion as a top priority.

Additional resources

CEO Action for Racial Equity:

https://www.ceoaction.com/

PwC 2020 Transparency Report:

https://www.pwc.com/us/en/about-us/pwc-llp-transparency-report.html

PwC's 2021 CEO Survey: US findings:

https://www.pwc.com/us/en/library/ceo-agenda/ceo-survey.html

"Forecast 2021: Practical Ideas to Turn Purpose into Action" (podcast):

https://www.pwc.com/us/en/cfodirect/accounting-podcast/forecast-2021-practical-ideas-purpose-action.html

Student mental health

Colleges and universities identify mental health challenges as one of the highest risk areas in enterprise-wide risk assessments. Consequently, mental health remains a significant area of focus. Mental health challenges are impediments to academic life and success for college students. COVID-19 has exacerbated the mental health crisis, as preliminary studies conducted during the pandemic reveal increases in depression and anxiety. With mental health conditions on the rise, a greater percentage of students are reporting difficulties accessing mental health care, highlighting the need for colleges and universities to reassess their mental health strategies.[1]

Addressing mental health problems can be a complex matter. While mental health issues were seemingly rare several decades ago, many students now enter college with a clinical diagnosis of such a condition or with undiagnosed or untreated mental health issues.[2] For some students, such conditions manifest for the first time during college. The growing possibilities of factors that can trigger student mental health issues highlight reasons for the demand in mental health services provided by colleges and universities. As campuses completely reopen, institutions of higher education may struggle to keep up with the greater number of students requiring their services.

26% of Americans ages 18 and older live with a mental health disorder [2]

42% of college students report feelings of significant depression that made it difficult to function

50% of all serious adult psychiatric illnesses including major depression, anxiety and substance abuse start by 14 years of age

75% of mental health disorders are present by 25 years of age

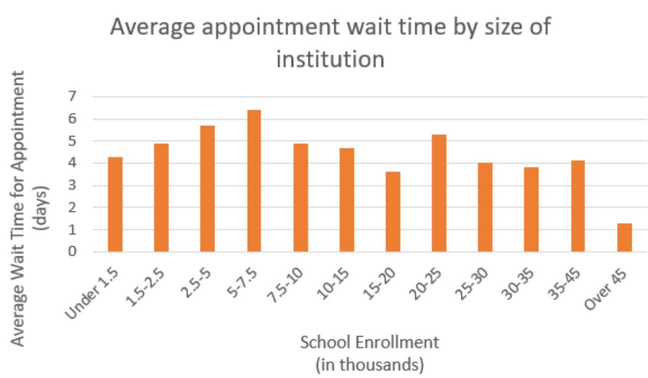
What's driving the increased demand for student mental health services	
Traditional stresses for students	**COVID-19-related stresses for students**
• Leaving home for the first time	• Abrupt transitions
• Easier access to alcohol and drugs	• Social and physical isolation
• Rigorous academic curriculum	• Health and safety concerns
• Desire to build new friendships/relationships	• Death of family members/friends during the pandemic
• Pervasiveness of social media and connected devices	• Distance learning obstacles
• Future after college	• Unemployment and strained financial resources
	• Uncertainties of school or course closures
	• Social injustice

[1] "Position Statement 73: College and University Response to Mental Health Crises," Mental Health America, 2019 https://www.mhanational.org/issues/position-statement-73-college-and-university-response-mental-health-crises.

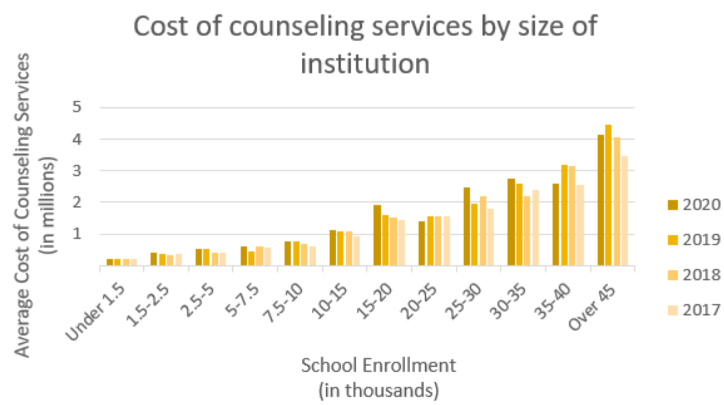
[2] Ibid

Addressing mental health conditions is a multifaceted challenge for institutions of higher education. Requests for more on-campus behavioral health professionals, as well has high prescription costs, out-of-pocket expenses, and copays, have caused mental health services to become increasingly expensive for both students and institutions of higher education. Often, the necessary services are not entirely covered by traditional student fees, leaving colleges and universities to absorb higher costs required to provide essential on-campus mental health services. [3]

Along with financial constraints, the availability of resources to serve students with mental health conditions remains a pain point. A shortage in mental health professionals at colleges and universities can result in longer wait times to obtain appointments and receive treatment, and may deter students from seeking assistance altogether.[4]



Due to overall limitations on existing resources at institutions, many mental health professionals are now burdened with providing both counseling services and physical safety services, such as COVID-19 testing and contact tracing. The competing financial and operational demands will only continue to grow, but the cost of ignoring the increased need for mental health services is too great for higher education institutions to bear.



In this moment of great ambiguity, institutions have an obligation and unique opportunity to reflect, innovate and build upon existing mental health initiatives. As colleges and universities move beyond the pandemic, greater awareness, technological advances and strategic business partnerships will likely be the cornerstones of mental health initiatives.

[3] " Kimberly S. Gorman et al., *Annual Survey: 2020*, Association for University and College Counseling Center Directors, March 5, 2021 (Annual Survey 2017-2020), https://www.aucccd.org/assets/documents/Survey/2019-2020%20Annual%20Report%20FINAL%20March-2021.pdf.

[4] Ibid

Increase mental health awareness and training

The necessity remains for institutions of higher education to increase mental health awareness and training. Efforts to do so should acknowledge that both the number and types of stressors affecting student mental health have increased since the onset of the pandemic. Ongoing education and awareness should incorporate a combination of the following:

- Confirming that students, faculty and staff are familiar with the signs and signals of mental health-related conditions, understand and know how to access the range of supporting services available, and know what procedures to follow during a crisis.
- Providing additional education and awareness platforms to discuss mental health, including student wellness programs, workshops, community forums, student-led task forces and websites.
- Creating campus-wide awareness programs and campaigns designed to decrease the stigma of mental health-related conditions and promote recognition of signs and signals of students who may be experiencing anxiety, depression or suicidal thoughts.

Use technology as a catalyst for improving mental health and wellness

Excessive use of technology and social media has often been criticized for adverse effects on student mental health and wellness, but colleges and universities have an opportunity to use rapid technological advances as a cost-effective solution to address limitations in mental health resource capacity. Incorporation of technology into higher education mental health and wellness strategies can take on many forms, including, but not limited to, the following:

- Smartphone applications that allow students to perform periodic self-assessments of their mental well-being and receive access to professional help or other wellness resources depending on their results.
- Online peer support groups where students may reveal their identity or remain anonymous.
- Expanded use of teletherapy, permitting students an avenue for round-the-clock, on-demand support.

Form strategic partnerships

Strategic partnerships, both internally and externally, can be a viable option to aid traditional counseling centers in recognizing potential at-risk students and providing necessary services. Examples of effective strategic partnerships include:

- Internal steering committees comprising representatives from various academic and supporting units as a means of identifying students who have experienced recent or ongoing mental-health stressors.
- Centralized referral listings containing targeted provider recommendations based on insurance type, location and provider expertise.
- Outsourcing or co-sourcing with healthcare providers to offer students a wider range of mental health services, as well as more comprehensive care plans.

Higher education institutions are making strides in addressing student mental health challenges, but more work remains to be done. As colleges and universities move beyond the pandemic, they should renew their commitment to student advancement, success and achievement by dedicating essential resources to student mental health and wellness initiatives.

Additional resources

"Medical Cost Trend: Behind the Numbers 2021":

https://www.pwc.com/us/en/industries/health-industries/library/assets/hri-behind-the-numbers-2021.pdf

"Consumer Health Behavior and the COVID-19 Pandemic: What We've Learned":

https://www.pwc.com/us/en/industries/health-industries/library/assets/hri-2021-consumer-survey-Insight-chartpack.pdf

Environmental, social and governance

Background

Environmental, social and governance (ESG) metrics and reporting are fast becoming a business imperative. Increased scrutiny from investors, shifts in consumer and stakeholder expectations, and policy changes under the Biden administration mean higher education institutions are facing new pressure to measure, disclose and improve on ESG-related issues, including the following:

- **E** (environmental): Carbon emissions, water and waste management, toxic emissions and climate change vulnerability
- **S** (social): Diversity, equity and inclusion, talent attraction and labor management, data privacy and security, and community relations
- **G** (governance): Board governance, business ethics and intellectual property protection

Stakeholders see ESG as a window into an institution's future. ESG reporting and metrics are an important indicator of an organization's overall health, and ESG reports can lay the foundation for a compelling story about the impact an institution is making in the community and the world. Tying all three elements of ESG into consolidated reporting and to broader strategy indicates that an institution is taking the necessary steps to be viable and relevant for the long run.

Forward-thinking institutions are integrating values, goals and metrics into their overall strategies to mitigate ESG risks, including seizing the opportunity to innovate and reduce costs. This starts with reporting that follows commonly accepted standards which stakeholders know and trust. Leading institutions use this reporting as a baseline to identify their strengths and weaknesses, and to tell an effective story. The most common frameworks used in ESG reporting are as follows:

- **Global Reporting Initiative (GRI)**: The GRI Standards focus on the economic, environmental and social impacts of an organization, and hence its contributions—positive or negative—toward sustainable development. Users of the GRI Standards identify issues that are of primary importance to their stakeholders.
- **Sustainability Accounting Standards Board (SASB):** SASB's industry-specific standards identify the subset of sustainability-related risks and opportunities most likely to affect an organization's financial condition, operating performance or risk profile.
- **Morgan Stanley Capital International (MSCI):** MSCI seeks to bring greater transparency to financial markets. Specifically, MSCI leverages alternative data sets to provide unique insights on organizations' ESG risk exposure and performance by providing ESG indexes, analytics, ratings and metrics.

Market perspective

There is a significant acceleration around ESG including a focus on investments, including endowments. Stakeholders are interested in how institutional strategy aligns with their donations and the overall community. SASB adoption, while still slow, is progressing with pressure from investors for standardized disclosures. There is also increased interest by stakeholders over ESG reporting, making nonfinancial data quality more important than ever.

An estimated two-thirds of institutional investors believe that within the next five years, ESG will become "industry standard."[1] There also will be continued investor pressure on standardized disclosures to be utilized in institutional reporting and an enhanced expectation around quality of disclosures by third-party raters and investors when assessing institutional performance. Universities will need to obtain a read on donors and community values to align their views to the institution's strategy. At one major university, donors are making specific restrictions related to sustainability and net-zero emissions. Additionally, students are demanding that institutional investment strategies consider environmental and social issues.

The challenge around ESG reporting is that it often uses different frameworks. Additionally, institutional data is frequently disaggregated, creating challenges in both comparing institutions and determining a strategy. Institutions should take inventory of what matters to their stakeholders to assist in developing their strategy. Questions to ask include "How do stakeholder values align to the institution?" and "How does the investment strategy align to donors?" By creating transparent reporting utilizing a publicly known framework, an institution will be able to describe what matters and how it aligns with stakeholders.

Institutional investors are pressing asset managers to integrate ESG factors into their investment processes to better manage risk. In turn, asset managers have dramatically increased transparency around their ESG efforts. Obtaining confidence over an organization's investing policy can help build trust with investors and drive competitive advantage. Given the 2020 congressional inquiry regarding the use of women- and minority-owned asset management firms by colleges and universities for the 25 largest endowments, there will continue to be pressure to have better insight into management practices.

Areas for consideration

In order to embrace change, institutions may want to consider the following steps:

- Conduct an ESG assessment to establish the top priorities for the university and a related analysis to identify the topics most important to stakeholders.
- Inventory current ESG and sustainability efforts and understand what data and metrics are available today and how those efforts align to the results of the analyses performed.
- Explore ESG standards and the reporting frameworks appropriate for the higher education industry and conduct a current state assessment to identify gaps.
- Conduct a readiness assessment of processes, procedures and internal controls to see what investments are needed to make reporting "investment grade."
- Assess whether the right governance and operating model is in place to confirm that ESG strategy is executed with accountability.
- Assess the future vision for ESG efforts.
- Consider public disclosure and commitments on ESG efforts.

Additional resources

"What Is ESG Reporting and Why Does It Matter Today?":

https://www.pwc.com/us/en/services/audit-assurance/esg-reporting.html?WT.mc_id%27CT3-PL300-DM1-TR1-LS3-ND30-PRG7-CN_ESG-Google&gclid=Cj0KCQiAv6yCBhCLARIsABqJTjaMMUsspLfMvPBwvjb6s0SJ9BZnyeKTeiLmLhtRyMNor11E96T7Js4aAuVSEALw_wcB&gclsrc=aw.ds

ESG Pulse:

https://www.pwc.com/us/en/products/esg-pulse.html?WT.mc_id%27CT3-PL300-DM1-TR1-LS3-ND30-PRG7-CN_ESG-Google&gclid=EAIaIQobChMI_IKErqa78AIVgoNbCh0syg4QEAAYASADEgLlxfD_BwE&gclsrc=aw.ds

[1] "Looking for the Best of Both Worlds," Natixis Investment Managers, 2019, https://www.im.natixis.com/us/resources/esg-investing-survey-2019

Washington update

Since our last update, the COVID-19 pandemic has significantly disrupted higher education activity and a new administration has come to Washington. While hope is on the horizon for the end to the pandemic, the Biden administration also brings a shift in higher educational policy. The following seven areas are key items that affect the higher education industry.

COVID-19 response: Higher education institutions received about $14 billion and $22 billion in the March and December 2020 COVID-19 response bills, respectively.[1] This is notably less than the $120 billion requested by industry groups.[2] The allocations were overwhelmingly directed to public and nonprofit entities, with less than $1 billion available to for-profit colleges. On March 11, President Biden signed into law his COVID-19 relief package, the American Rescue Plan, which includes $39 billion for institutions of higher education.[3] Public and private nonprofit institutions receiving new funds will be required to spend at least 50% of such funds on emergency financial aid grants to students. These grants are intended to prevent hunger, homelessness and other hardships that students are facing as a result of the pandemic. Efforts to safely return to in-person learning were the subject of several congressional hearings in 2020 with agency officials, representatives from industry groups, and school leaders participating. Such hearings can be expected to continue through 2021.

Higher Education Act reauthorization: Efforts to reauthorize the Higher Education Act (HEA) stalled during the last Congress as the pandemic and the November elections pulled focus from nonemergent legislative business. New leadership in the Senate Health, Education, Labor and Pensions (HELP) Committee may lead to more fruitful negotiations, with Patty Murray (D-WA) and Richard Burr (R-NC) now serving as chair and ranking member, respectively. Though Democrats could advance a partisan HEA reauthorization out of the HELP Committee absent bipartisan support, they would still need to secure 10 Republican votes to end debate on the measure, setting up the potential for continued gridlock. House Education and Labor Chair Bobby Scott (D-VA) and ranking member Virginia Foxx (R-NC) remain in their roles from the 116th Congress and will likely resume efforts to reauthorize the HEA. The College Affordability Act, Scott's proposed HEA reauthorization, may serve as a blueprint for Democrats' priorities in future rounds of negotiations, but it is unlikely to attract enough Republican support to be viable in the Senate.

Funding for higher education: As part of President Biden's "Build Back Better" agenda, he released his American Jobs Plan, a $2 trillion proposal that focuses on traditional infrastructure priorities as well as investments in green energy and affordable housing.[4] Additionally, he outlined the American Families Plan, which proposes $1 trillion in spending proposals and $800 billion in tax cuts for low- and middle-income families.[5] For higher education institutions, the plan recommends providing:

- $217 billion for institutions of higher education
- $80 billion to the Pell Grant program to help address college affordability
- An increase in the maximum Pell Grant by about $1,400 per student
- $109 billion to offer two years of free community college to all Americans
- $62 billion for a grant program for completion and retention activities at institutions of higher education that serve low-income students
- $39 billion for two years of subsidized tuition for students whose families earn less than $125,000 a year and are enrolled in four-year historically Black colleges and universities (HBCUs), tribal colleges and universities (TCUs) or minority serving institutions (MSIs)
- A $5 billion increase in institutional aid grants to HBCUs, TCUs and MSIs. These funds are in addition to the $45 billion in HBCU, TCU and MSI investment called for under the American Jobs Plan

Student loan considerations: President Biden supports making public colleges and universities free for households with incomes below $125,000 and doubling the maximum value of Pell Grants to increase access to the program. However, he would prefer to leave direct student loan relief measures up to Congress.[6] Many congressional Democrats, including Senate Majority Leader Chuck Schumer (D-NY), support a proposal to

[1] "CARES Act: Higher Education Emergency Relief Fund," US Department of Education, https://www2.ed.gov/about/offices/list/ope/caresact.html.

[2] Ted Mitchell, letter to Nancy Pelosi, Kevin McCarthy, Mitch McConnell and Chuck Schumer, October 19, 2020, https://www.acenet.edu/documents/Letter-Congress-October-COVID-Supplemental-101920.pdf.

[3] American Rescue Plan, HR 1319, 117th Cong., 2021, https://www.congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf.

[4] "Fact Sheet: The American Jobs Plan," the White House, March 31, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/.

[5] "Fact Sheet: The American Families Plan," the White House, April 28, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/.

[6] "The Biden Plan for Education Beyond High School," Democratic National Committee, July 1, 2020, https://joebiden.com/beyondhs/ .

cancel up to $50,000 of federal student loans.[7] The idea is backed by over a dozen Democratic state attorneys general; however, in February, President Biden indicated that he would support only $10,000 in forgiveness. Congressional Republicans have historically resisted direct loan forgiveness measures. On the Public Service Loan Forgiveness (PSLF) program, President Biden supports the What You Can Do for Your Country Act, a Democratic bill that would make various reforms to the PSLF.[8] The pause on student loan repayments established in spring 2020 was extended repeatedly throughout the year and into 2021, with a current expiration date of Sept. 30, 2021.

Immigration: US Immigration and Customs Enforcement made several changes to the Student and Exchange Visitor Program (SEVP) ahead of the fall 2020 semester, including initially barring international students taking only online courses from remaining in the United States. Dozens of colleges and universities filed suit against the rule change and were joined in opposition by several major technology companies. Many states also challenged the change, and it was ultimately rescinded. SEVP guidance remained the same for the spring 2021 semester.[9]

Tax: In December, Congress approved and President Trump signed the Consolidated Appropriations Act of 2021 to fund the federal government through Sept. 30, 2021, provide $900 billion of additional COVID-19 relief, and extend certain expiring tax provisions.[10] The act contained additional Paycheck Protection Program (PPP) loans, expansion of the employee retention tax credit, a second round of direct payments to individuals, unemployment assistance, and additional tax relief measures. The act extended to the end of 2021 several provisions in the CARES Act that increased incentives for charitable giving. The "above the line" charitable contribution deduction for non-itemizers was extended into 2021, with a cap of $300 for individuals and $600 for joint-return filers. The appropriations act also extended to the end of 2021 an increase in the limitations for certain charitable contribution deductions—to up to 100% of adjusted gross income for non-itemizing individuals and up to 25% of taxable income for corporations. As under the CARES Act, both the above-the-line deduction and the increased limitations would require the contribution to be made in cash and to a public charity or foundation described in Section 170(b)(1)(A), other than a supporting organization or a donor advised fund.

Biden administration personnel: Miguel Cardona was confirmed on March 1 to succeed Betsy DeVos as the 12th secretary of education. He was most recently education commissioner of Connecticut. Cindy Marten was confirmed on May 11 as deputy secretary of education. She was a teacher for 17 years before becoming superintendent of the San Diego Unified School District. Robert Cameron remains as the Consumer Financial Protection Bureau's (CFPB) private education loan ombudsman, a post he has held since 2019. Richard Cordray, former director of the CFPB, has been nominated as the top official overseeing the federal government's $1.6 trillion portfolio of student loans and array of financial aid programs.

While President Biden has been in office only a few months, there have already been early shifts in federal higher education policy. The administration has quickly moved to stake out its education agenda through several executive actions, including establishing a Council of Advisors on Science and Technology that will advise the president on various public policy issues, including education, and the creation of a federal "Best Practices Clearinghouse'' to support educational institutions as they reopen.[11] Congress is also likely to spend much of the spring and summer attempting to move the American Families Plan and the American Jobs Plan, either together or separately. Democratic leadership and the White House will soon need to determine if they wish to compromise on these policy priorities and move the packages in regular order via various committees or push forward through the reconciliation process. Higher education institutions should engage with policymakers on these and other policy priorities that could affect them.

---

[7] "Schumer, Warren: The Next President Can and Should Cancel Up to $50,000 In Student Loan Debt Immediately; Democrats Outline Plan for Immediate Action in 2021," office of Sen. Elizabeth Warren, September 17, 2020, https://www.warren.senate.gov/newsroom/press-releases/schumer-warren-the-next-president-can-and-should-cancel-up-to-50000-in-student-loan-debt-immediately-democrats-outline-plan-for-immediate-action-in-2021.

[8] "The Biden Plan for Education Beyond High School," Democratic National Committee, July 1, 2020, https://joebiden.com/beyondhs/ .

[9] Elizabeth Redden, "Federal Guidance on Foreign Students Remains Same for Spring," *Inside Higher Ed*, December 9, 2020, https://www.insidehighered.com/quicktakes/2020/12/09/federal-guidance-foreign-students-remains-same-spring.

[10] Consolidated Appropriations Act, 2021, HR 133, 116th Cong., 2020, https://www.congress.gov/116/bills/hr133/BILLS-116hr133enr.pdf.

[11] Kasia Kovacs, "An Overview of Biden's Higher Education Agenda," Best Colleges, February 19, 2021, https://www.bestcolleges.com/blog/biden-higher-education-agenda/#:~:text=Biden%20also%20signed%20an%20executive,impact%20on%20all%20U.S.%20schools.

Board committees: Renewing board focus

Board committees play a vital role in helping an institution chart a course that aligns with the institution's mission and strategy, advising on emerging risks and supporting management in confronting them. Reflecting on an unprecedented 2020, these are some of the leading trends that boards are prioritizing in 2021.

Taking action on board composition

The demands placed on boards to fulfill their fiduciary role in serving institutions continue to expand. The myriad challenges that will continue to unfold present institutions with new and unfamiliar risks. Board committees have a critical role in helping the institutions they serve navigate those risks. The following are certain actions being considered to meet today's challenges and maintain a well-rounded and high-functioning board:

- Conducting periodic assessments of board performance, including preparation and engagement in meetings
- Recruiting board members with a particular skill or attribute, such as risk, communications, technology, crisis management or digital skills
- Continuing to improve board diversity to bring unique perspectives
- Enhancing regular board education, leveraging internal and outside experts to keep the board informed and upskilled on emerging risks, such as cybersecurity, equity, health and safety, and regulatory matters
- Developing specific responsibilities for looking ahead to emerging risks and strategic opportunities

According to PwC's Annual Corporate Directors Survey, directors want to see board turnover, with almost half of directors (49%) saying that one or more of their fellow board members should be replaced.

Navigating the risk landscape

Boards are continuing to collaborate with management to enable greater strategic resilience to anticipate and be better prepared for risk events. Understanding management's process for identifying and managing risk is not new, but new risks have a potential to disrupt an institution's strategy. Some of the actions that boards are taking to refine their oversight role, and bring further insight, include:

- Continuing to evaluate reporting to allow greater understanding of comprehensive institutional risks, responsibility and accountability within the organization
- Understanding management's process for refreshing key risks, including external risks that an institution cannot control but could have a significant impact on business strategy
- Considering risk, audit and compliance plans to ensure that they are evolving to address emerging risks
- Incorporating discussions on management's scenario planning, including the impact of risks and the ability for the institution to pivot to new business models
- Bringing a risk perspective to agenda topics and prioritizing topics with the most risk at the top of the agenda

PwC's Annual Corporate Directors Survey showed that management wants boards to be more engaged, not less. Respondents say boards should be more willing to challenge management in areas like crisis management (48%) and risk management (37%).

Integrating ESG oversight

Boards have increased focus on ESG issues and are developing action plans that include the following steps:

- Obtaining a comprehensive baseline understanding of the organization's current focus and status of key, relevant ESG risks and opportunities
- Understanding the organization's gap analysis regarding what the company is doing compared with what the stakeholders are now looking for
- Reevaluating oversight of various ESG goals across board committees and the reporting process

PwC's Annual Corporate Directors Survey showed a noticeable uptick in the directors who said ESG issues were a regular part of the board's agenda, (rising from 34% in 2019 to 45% in 2020).

Modernize board agendas and materials

Board agendas require flexibility to address new issues and challenges as they arise. Prioritizing agendas and bringing a risk lens to the discussions are increasingly important given the changing business and risk environment, and disruptions to business as usual.

Prioritizing agendas while taking a fresh look at the materials and volume of information distributed to boards will enable greater focus on significant areas. Reduced volume of information will facilitate navigation through the material, allowing members to be better prepared. Leveraging better data visualization and providing dashboard reporting reduces the volume of materials and can help to make board meetings more productive with focused attention on priority areas. Particular areas where dashboards can be helpful include ethics and compliance reporting, internal audit status, cybersecurity, and diversity, equity and inclusion insights. In order to monitor these challenging areas, boards should be provided with consistent reporting of baseline data to assess periodic updates and track progress toward milestones and goals.

PwC's Annual Corporate Directors Survey showed only 5% say that members of the board come to meetings fully prepared.

Focus on change and emerging stronger

The COVID-19 pandemic challenged boards to keep pace with the unprecedented economic conditions and uncertainties that introduced new teaching and business models, along with new complexities and risks. At the same time, institutions are leveraging lessons learned and finding new opportunities to operate differently. Boards can lead by challenging their institutions to seize the opportunity to learn from the experience and redefine business as usual. Considering new learning models, enhancing work arrangements to allow for remote working, exploring how supply chains can be made more resilient, and finding ways to accelerate digital transformation to be more efficient may define a strategy to stay competitive and emerge stronger.

Additional resources

"Returning to the Workplace after COVID-19: What Boards Should Be Thinking About": https://www.pwc.com/us/en/services/governance-insights-center/library/covid-19-returning-workplace-boards.html

"ESG Oversight: The Corporate Director's Guide": https://www.pwc.com/us/en/services/governance-insights-center/library/esg-corporate-directors-guide.html

"Did Your Company's Response to COVID-19 Stack Up? Time for a Critical Assessment": Https://Www.Pwc.Com/Us/En/Services/Governance-Insights-Center/Library/Covid-19-Company-Response.Html

"Board Effectiveness: A Survey of the C-Suite": https://www.pwc.com/us/en/services/governance-insights-center/pwc-board-effectiveness-a-survey-of-the-c-suite-final.pdf

Appendix

Risks in higher education

On an annual basis, PwC analyzes the internal audit plans and risk themes of participating colleges and universities to assess where the industry is focusing its internal audit activity and to identify key risk themes. Our analysis for 2021 included data from 33 institutions, which represented a near-even mix of public and private institutions, with the majority of them classified as R1 research institutions (doctoral universities with very high research activity) by the Carnegie Classification of Institutions of Higher Education.

Respondent summary

	Institution type	
Research classification	Private	Public
R1	15	14
R2	1	1
Other	0	2
Total: 33 institutions		

Research Classification system as defined by the Carnegie Classification of Institutions of Higher Education

R1: Doctoral universities with very high research activity

R2: Doctoral universities with high research activity

Our analysis identified the following trends in the frequency of internal audit project types from 2020 to 2021.

- **Safety and security** projects increased 77%. Sample projects included COVID-19 return to campus and business continuity audits.
- **Operations** projects increased 83%. Sample projects included school and unit general controls reviews and reviews of nonfinancial controls.
- **Academic and research** projects decreased 42%, and strategic projects decreased 59%.

Additionally, our analysis identified the following:

- 60% of institutions updated their internal audit plans to react to pandemic-related risks. Example projects included COVID-19 emergency relief funding, COVID-19 emergency response after-action reviews, return to campus compliance and contact tracing.
- 42% of institutions had projects on their plan related to foreign influence in research. Example projects included foreign influence control reviews, Section 117 reporting reviews (Department of Education requirement to report foreign gifts and contracts), conflict of interest and export controls.
- 91% of institutions had at least one IT operations or cybersecurity project.

Our perspective: Audit activity does not always align proportionally to risks

While **financial management** was the most commonly identified risk area in our sample, we continue to see a disproportionate share of internal audit activity dedicated to those risks. Within this year's audit population, there was a mix of traditional financial management audits as well as those that were tailored to address COVID-19 risks.

Conversely, institutions continue to identify cybersecurity as a key risk theme at a high rate. However, the number of projects performed was relatively low. We also noted that only a small portion of projects were identified related to performing internal audit work before a significant system implementation. Pre-implementation projects, either system development life cycle or independent verification and validation engagements, provide significant value to institutions. Pre-implementation reviews can help remedy significant control issues before they are placed into production, and more broadly help to identify and resolve risks that may prevent a system from reaching its planned outcome.

The relatively low level of internal audit activity to address cybersecurity risks and system implementation projects suggests that institutions may not have the capabilities to conduct these technical projects at the frequency that would be desired.

Future risk trends in higher education

Looking forward through 2021 and beyond, we believe that the following risk areas are trending upward:

- **Foreign influence in research and conflict of interest:** The federal government continues to investigate and prosecute cases of potential foreign influence, conflicts of interest, and theft of federally funded research by foreign nationals. Institutions have been updating their internal policies and procedures; however, additional changes and requirements from the government may be on the horizon.
- **Data privacy and security:** Universities remain in the spotlight over data breaches, including those associated with third parties. Additionally, we are seeing certain federal sponsors outline minimum data security requirements as a prerequisite for future federal funding.
- **Technology and system upgrades:** Significant system implementations, including enterprise resource planning (ERP), development and human resources, are being planned for or implemented. Given the significant cost and resource allocations associated with these implementations, institutions need to make sure that their investments in these systems achieve their planned outcomes from functionality, timing and budget perspectives.
- **Compliance:** Recent high-profile compliance issues in higher education, including Section 117 reporting to the Department of Education, conflict of interest and commitment issues, and Section 508 digital accessibility, have highlighted enhancement opportunities in compliance functions. Institutions are revisiting the structure and governance of their compliance programs while trying to avoid significant investments in additional headcount.
- **Procurement fraud and related remote work considerations:** Universities have been increasingly the target of procurement fraud. There has also been concern that lack of defined policies and procedures around use of procurement cards for home office expenditures could lead to improper use of university funds. Lastly, with the switch to remote work environments continuing in some capacity for the long term, internal controls related to procurement may need to be evaluated from both a design and an operating effectiveness perspective.

For the full analysis that was performed in 2021, please reach out to a member of your PwC team.

Contributors

Kim Anderson

Danielle Bartlett

Chatham Bray

Will Cobb

Maria Esposito

Shea Fowler

Chris Hoffman

Paul Korte

Jenna Milman

Leah Morelle

Travis Patton

Ann Pike

John Powers

Nicole Quick

Ben Scott

Leigh Ann Solomon

Kelly Thornton

Alex Vaughn

David Woodall

Thank You

pwc.com