

**Minutes of the Meeting
of the
Oakland University Board of Trustees
Audit Committee Meeting
October 18, 2024**

Present: Chair David Kramer; and Trustees Dennis Muchmore, Colleen Ochoa Peters and Trina Scott

Also Present: President Ora Hirsch Pescovitz; Chief of Staff and Secretary to the Board of Trustees Joshua D. Merchant; Interim Executive Vice President for Academic Affairs and Provost Kevin J. Corcoran; Senior Vice President for Finance and Administration and Treasurer to the Board of Trustees Stephen W. Mackey; Vice President for Legal Affairs and General Counsel Boyd C. Farnam; Senior Vice President for Student Affairs and Chief Diversity Office Glenn McIntosh; and Student Liaison Xavier Iriarte

Also Present: External Auditors Greg Soule and Kate Farwell, Andrews Hooper and Pavlik; and Interim Director of Internal Audit Lisa Hutchins

A. Call to Order

Chair David Kramer called the meeting to order at 9:06 a.m. in Banquet Rooms A and B of the Oakland Center.

B. New Items for Consideration

1. Approval of Minutes of the Audit Committee Meeting of April 12, 2024

Chair Kramer seconded by Trustee Scott moved approval of the Minutes of the Audit Committee Meeting of April 12, 2024 and the motion was unanimously approved by those present.

2. Draft Financial Statements, June 30, 2024 and 2023

3. Schedule of Expenditures of Federal Awards, Year Ended June 30, 2024

Vice President Mackey provided the Audit Committee with a few FY24 highlights. The financial statements are prepared by and are the responsibility of management and they are audited by Andrews Hooper and Pavlik. As of June 30, the University's endowment was valued at \$151M versus FY23, which was approximately \$137M. This increase was due to favorable market conditions and the endowment investment pool is well diversified and has a strong track record of positive investment performance. During FY24, a total of \$4.7M was distributed from the endowment pool for scholarships and

other endowed purposes according to the wishes of the donors in the endowment agreements. Investment income for the fiscal year totaled over \$42M due to favorable outcomes in the market and the endowment returns were 13.7% net of fees and working capital also had a great year at 8.4% return on investment net of fees. These investment income returns account for the majority of nearly \$14M growth in the endowment for FY24. In May 2024, OU refunded the Series 2014 bonds, which will result in a debt servicing savings of approximately of \$2.6M over the remaining 15 years of the bonds. The true interest cost on that is 3.75%. The University's net position increased by \$63M in FY24. This is primarily due to investment income of \$42M: \$18M in capital appropriations for South Foundation Hall, \$12M increase in the state appropriation, \$7M increase in grants and contracts, and \$3M additions to permanent endowments. These increases were offset by about \$21M increase in operating costs.

From the Schedule of Expenditures of Federal Awards, federal grants and federal financial aid totaling \$122M were accounted for in FY24, with federal financial aid including PAL grants, college work study and direct loans accounting for over \$107M of the total. The remaining \$15M is a combination of federal research grants of \$11M and the TRIO program and other federal programs for just under \$4M. The single audit report did not have any findings.

Vice President Mackey introduced Andrews Hooper Pavlik partner on the engagement, Greg Soule, and Senior Manager, Kate Farwell, who presented the results of the audit. Following the presentations, we'll be happy to answer any questions you may have. Thank you.

The auditors noted that Oakland University has a long history of exceptionally clean audit results and 2024 is no different. They provided several reports as part of their audit. Attachment A contained required communications with the Audit Committee and it was reported that all required communications were in the affirmative. Attachment B contained the University's financial statements including a report as the University's independent auditors. The report is unmodified or a clean opinion meaning that based on their procedures. They did not identify any material misstatements on those financial statements and those financial statements materially represent the underlying financial activity of the University.

The University's financial statements and footnotes are prepared by management and audited by Andrews Hooper Pavlik. Andrews Hooper Pavlik do not assist with the preparation of those financial statements. 2024 was Andrews Hooper Pavlik's first year as the University's auditors and first-year audits always take more time on the part of both the auditee and the auditor and the engagement for the University this year was no different.

Andrews Hooper Pavlik had identified several areas that we considered to be significant risks of material misstatement, including management's ability to override internal control, improper recognition of revenue, and maintaining compliance with complex federal programs. As part of our audit, Andrews Hooper Pavlik audited each of those areas consistent with that higher assess level of risk and we noted no matters that were required to be reported to the Audit Committee.

Andrews Hooper Pavlik also commented on the approach they took to understanding the University's IT environment as the Audit Committee's rightly concerned about the University's exposure to cybersecurity risk. As part of any audit, the auditor has an obligation to obtain an understanding of the IT system to the extent that IT is used as part of the entity's overall financial reporting. Clearly, in a university the size and complexity of Oakland, IT plays a key role. For each key transaction cycle, we consider the extent to which IT systems are relied upon and the controls that are part of that IT system for the overall transaction processing. In addition, Andrews Hooper Pavlik have a separate IT specified questionnaire and request list that is directed specifically to Oakland University's University Technology Services group or UTS. Andrews Hooper Pavlik then met with UTS personnel to discuss the questionnaire and the documents and results provided. Of particular interest to the Committee is that we noted that the University has periodic scans for system vulnerabilities as well as annual cybersecurity testing performed by a third-party vendor. Andrews Hooper Pavlik reviewed those reports as well as the scope, and follow up, and noted that things were scoped and followed up appropriately.

Andrews Hooper Pavlik communications also contained some information on significant estimates and disclosures. The University's financial statements contained many estimates, but some of those more significant estimates include valuation of investments, derivative interest rate swap agreements and the valuation of other postemployment benefits. Andrews Hooper Pavlik audited each of those estimates and the factors and assumptions used in developing the amounts and noted no items that should be reported to the Audit Committee. In addition, Andrews Hooper Pavlik had no disagreements with management, no difficulties encountered in performing the audit, there were no consultations with other independent accountants, there were no major issues discussed prior to our retention, and there were no additional fees for non-audit services.

Additionally, as part of our audit, Andrews Hooper Pavlik performed an examination of the University's expenditures of federal awards. Included in that agenda Attachment A, are reports in accordance with those requirements and the management prepared Schedule of Expenditure of Federal Awards and supporting footnotes. The University expended a total of \$122M in federal awards during the year and \$107M of that being student financial assistance. Andrews Hooper Pavlik audited two major programs in accordance with the uniform guidance requirements. The student financial assistant cluster and a congressional directives program administered by the US Department of Health and Human Services. Andrews Hooper Pavlik also performed some additional procedures related to the Perkins Loan closeout process that has been winding down over the past several years. As part of the federal program audit, we issued clean opinions and compliance in each major federal program.

Trustee Kramer asked for questions and discussion ensued.

Trustee Scott asked about cybersecurity, particularly if Andrews Hooper Pavlik have an opinion or recommendations for the University to further our efforts in cybersecurity?

Mr. Soule responded noting the extent that Andrews Hooper Pavlik look at it for financial reporting, they didn't identify any cyber risks that warranted an additional audit response or additional audit work. Cybersecurity is one of those challenges because there's always more that you could do. There's always more that you could no matter what organization there is. Where is that cost benefit between for writing a functional system that's accessible and able to be used by students, faculty and staff, but also secured enough to continue the day-to-day operation of the University. It's a very delicate balance. It's a very challenging area that continues to evolve.

Trustee Muchmore asked if the audit function in Andrews Hooper Pavlik estimation allow OU to use those students and allow OU to use graduate students and undergraduate students in that kind of IT program or does that compromise the integrity of the IT security?

Mr. Soule stated that there is an opportunity for UTS to use University students or graduate students as part of their cybersecurity efforts. However, he did note that he was not the appropriate person to speak to that.

Trustee Muchmore clarified that he was looking for an outside auditor viewpoint.

Mr. Soule responded by stating that from his perspective it would not replace having a professional outside third party firm involved in that because there's certainly an educational element of cybersecurity, but there's also practical experience, there's following a rigorous approach, there's lots of different pieces to performing a cybersecurity assessment that an outside third party professional firm may bring that using a student that hasn't really gone through that or had that practical experience may not have.

Trustee Kramer asked if it was Mr. Soule's experience, either with universities or other larger institutions, to be common practice to bring in outside third party cybersecurity consultants to do an outside auditor review?

Mr. Soule noted that it using third parties was very common.

TRUSTEE OCHOA PETERS ARRIVED AT 9:23 a.m.

Trustee Scott asked about the changes in GASB and if there was a timeline yet to determine its impact on the financial statements?

Mr. Soule responded by stating that GASB 101, which is Compensated Absences, is something that the Controller's Office is looking at. They're well aware of.

Trustee Kramer asked for a motion to accept and recommend to the full Board the Financial Statements dated June 30, 2024 and 2023?

Moved by Trustee Scott, with support from Trustee Ochoa Peters. Motion passed.

Trustee Kramer asked for a motion to accept and recommend to the full Board the Schedule of Expenditures of Federal Awards for the year ended June 30, 2024?

Moved by Trustee Scott, with support from Trustee Muchmore. Motion passed.

4. Internal Audit Department Audit Charter

Lisa Hutchins, Interim Director of Internal Audit presented updates to the Audit Charter noting that most changes were minor, such as reporting changes, timelines, etc.

Trustee Kramer asked for a motion to accept the changes to the Audit Charter.

Moved by Trustee Ochoa Peters, with support from Trustee Scott. Motion Passed.

Trustee Kramer moved to adjourn the public session and go into closed session with the Auditors.

C. Other Items for Consideration that May Come Before the Committee

There were no other items for consideration presented to the Committee.

D. Adjournment

The meeting adjourned into closed sessions at 9:28 a.m.

Respectfully submitted,

Approved,

Joshua D. Merchant, Ph. D.
Chief of Staff and Secretary to the
Board of Trustees

David Kramer
Chair of the Audit Committee of the
Board of Trustees