CSCU **Board of Regents**

AGENDA
Audit Committee
Monday, May 09, 2022 @ 10:00 a.m.
Conducted Via Remote Participation

Meeting will stream live at: http:// youtu.be/aAMT62_l-kg

1. Call to Order and Declaration of Quorum

2. Approval of Previous Audit Meeting Minutes – January 20, 2022

3. Discussion Items

   - APA Audit Update
   - Management Update
   - 2020 Bond Audit Planning Presentation - CohnReznick
   - CSU, CCC, COSC Financial Statement Audit Planning Presentation– Grant Thornton

4. Adjournment

Audit Committee members
Elease Wright, Chair
Aviva Budd
Rick Porth

CSCU Board of Regents

Audit Committee
Thursday, January 20, 2022 @ 10:00 a.m.
Conducted Via Remote Participation
https://www.youtube.com/watch?v=otDE8n1A_Vo

Meeting Minutes

AUDIT COMMITTEE MEMBERS	PARTICIPATING REMOTELY
Elease Wright, Chair	Yes
Aviva Budd	Yes
Rick Porth	Yes

CSCU STAFF PRESENT:
Ben Barnes, Chief Financial Officer
Melinda Cruanes, Controller
Pam Heleen, Recorder/Assoc. Director of Board Affairs
Mike Moriarty, CFO, Charter Oak State College

GUESTS:
Carolyn Kurth, Alexandra Marsh - CohnReznick
Claire Esten, Dennis Morrone, Matt McCormick, Chris Bradford, David Stoffel - Grant Thornton

1. **CALL TO ORDER**

With a quorum present, Chair Wright called the meeting to order at 10:06 a.m. Regent Wright introduced Regent Rick Porth who joined the Board and the Audit Committee in July 2021.

2. **APPROVAL OF JULY 13, 2021 AUDIT MEETING MINUTES**

With a motion from Regent Wright and a second from Regent Budd, the motion was approved with 2 yes votes and one abstention (Regent Porth).

3. **DISCUSSION ITEMS**

- **Update on audits of the Auditors of Public Accounts (APA) Audit Reports – Melinda Cruanes**

The State APA has released several reports for FY19/20, including SCSU, Charter Oak, and ECSU. They have released the FY18/19 Audit for CCSU. We have received and responded to a draft of the CSCU System Office for FY19/20. We are awaiting the release of the Community College report for FY18, FY19, and FY20.

- **Year-end Audit and Discussion**

  - 2020 Bond Audit fieldwork was completed during the summer of 2021. Deliverables were timely this year.

  - Foundation financial statements are included as a component unit of our financial statements. They were much timelier this year. All reports were unmodified. We are still waiting for the audited financial statement for Capital Community College Foundation.

  - The fiscal year 2021 financial statement closing process went smoothly. Management was pleased with the preparedness on each campus and commended the accounting departments at the System Office, the universities, and Charter Oak for their work. During the close for the colleges and universities, there were two adjustments discovered and corrected by management.

  - GASB 84 requires fiduciary activities of custodial accounts, (i.e., student activity funds) to be presented on the face of the statements and in a separate statement. The implementation guidance allowed management to evaluate the quantitative materiality and it was determined that the fiduciary funds were not material to the financial statements. Therefore, no change was made to the historical presentation this year. Materiality will be reviewed annually.

  - Claire Esten and colleagues of Grant Thornton presented the audit reports and required communications for the Connecticut Community Colleges, Connecticut State Universities, and Charter Oak State College for the year ended June 30, 2021. There were no deviations from the Audit plan discussed in July 2021. All three audit reports resulted in clean, unmodified opinions. Trends in higher education were also part of the report. (Attachment A)

  - CFO Ben Barnes provided a brief explanation of the GASB requirements to report pension and OPEB liabilities.

  - Grant Thornton reviewed the summary of adjustments – both corrected and uncorrected. They did not rise to a material level but were reclassifications and/or minor in nature. They did not affect the report that was issued. No material internal control weaknesses were found; one significant deficiency was found and discussed with management.

- **CSCU 2020 Construction Audit Report**

  - Cohn Resnick submitted a very clean opinion with no issues encountered, no disagreements with management, no material weaknesses and no systemic issues noted.

- **Audit Policy and Procedures for CT State Community College – Ben Barnes**

  - Ben Barnes provided an explanation of one of the required activities of the merger from 12 community colleges to CT State Community College. An introduction was provided to the process of reviewing all existing community college policies ensuring that financial policies conform to the new organizational structure. This is an expectation of NECHE.

- A general description of the policy and an index of the policies that are under review was provided in the committee packet. Three things are happening during the review:
    - Eliminating obsolete references (i.e., Chancellor → System President)
    - Removing detailed and/or obsolete procedures
    - Recommending substantive changes which will go to the Board through the Finance Committee

- It is hoped that the 2011 Community College Policy and Procedure Manual that currently exists will be completely overhauled and replaced by a new CT State Community College Policy Manual. Sections of the current manual were provided for discussion with an initial disposition of each policy. Revised policies will be brought through the Finance Committee for initial review.

Adjournment

There being no further business, on motion of Regent Budd, seconded by Regent Porth, the meeting adjourned at 11:22 a.m.

Attachment A

Grant Thornton

PRESENTATION TO THOSE CHARGED WITH GOVERNANCE

FY21 Annual Audit Required communications

Connecticut State Colleges and Universities

January 20, 2022

This communication is intended solely for the information and use of management and those charged with governance of the Connecticut State Colleges and Universities and is not intended to be and should not be used by anyone other than these specified parties.

Significant risks

The following provides an overview of the audit response to the significant risks previously communicated to you. Our audits were executed in accordance with the plan as communicated to this committee in July 2021 with no significant deviations other than those disclosed within the following pages.

Significant risk	Procedures & results
Tuition revenue, auxiliary enterprises and related receivables/deferred revenue	• Perform disaggregated revenue analyses analyzing student tuition, fee, and auxiliary revenue relative to enrollment data • Perform detailed testing of a sample of revenue and aid transactions, agreeing to source documentation • Perform deferred revenue testing to determine proper cut-off. • Tested a sample of student receivable balances by inspecting supporting cash receipt and/or ensuring management's reserve/collections policy was followed (only at COSC) • Gain understanding of the allowance methodology and, policy(ies) governing additional charges or other steps taken (e.g., cannot register) for lack of payment of student account. • Assess management's analysis of allowances for doubtful accounts for reasonableness, consistency with methodology and accuracy of inputs (only at COSC). **A reclassification of bad debt expense from expense to a reduction of revenue was identified in FY21 at CCC ($2.2m) and CSUS ($1.7m). No other exceptions noted.**

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Significant risks (continued)

Significant risk	Procedures and results
Management override of controls – (presumed fraud risk and therefore significant risk in all audits)	• Consider the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud. • Assess the ability of each entity to segregate duties in its financial reporting, information technology, and at the activity-level. • Conduct interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period. • Perform risk assessment for journal entries and detail test a sample of journal entries based on our risk assessments to ensure propriety of the entries. **No exceptions noted**

Grant Thornton

Other areas of focus

Area of focus	Procedures and results
Grant revenues	• Performed detailed transaction testing of revenue recognized in the current year • Tested a selection of grant receivable and deferred revenue balances **No exceptions noted**
Net position	• Tested net asset proof to ensure proper classification between net asset categories **In connection with the FY21 close process, management identified an error in the calculation of net investment in plant, restricted expendable and unrestricted net position. This error was also reported in FY20 and prior. Management corrected the error in the comparative FY21/FY20 financial statements and disclosed the nature and impact of the error. Grant Thornton did not modify our opinion with regard to this correction of an error. Refer to a discussion of the control finding reported as a result of this error on pages 10-11.**
Capital assets	• Rolled forward account balances to ensure completeness • Sampled current year additions by vouching capitalized amount to supporting invoices / contracts • Ensured reasonableness of depreciation expense recorded in the period **There is one unrecorded adjustment related to depreciation expense that should have been recorded in a prior year at CCC, as well as a management-identified unrecorded adjustment to depreciation expense at COSC. Refer to slide 8 for details.**
Debt	• Confirmed amounts outstanding • Tested management's analysis of the current year bond refunding to ensure proper accounting • Ensured reasonableness of depreciation expense **No exceptions noted**

Other areas of focus (continued)

Area of focus	Procedures and results
State appropriations	• Obtain detail of appropriations received from the state and reconciled to the GL • Confirm amounts with the state, agree to revenue recorded in the general ledger • Review receivable balance, reconcile the cash received to amounts outstanding based on confirmations **No exceptions noted**
Net pension & OPEB liabilities (and related deferred inflows / outflows and expense)	• Review the analysis of accrued postretirement benefit obligations • Assess the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others • Test participant census data **No exceptions noted**
Cash and cash equivalents	• Confirmed material balances and tested reconciliations to the GL **An error in the COSC cash balance was identified and corrected. Refer to slide 8.**
Adoption of GASB 84 – *Fiduciary Activities*	• Reviewed management's analysis of the impact of adoption • Ensured completeness and accuracy of disclosures within the financial statements **No exceptions noted**

Other areas of focus (continued)

Area of focus	Results
Accounting estimates	The preparation of the CSCU's financial statements requires management to make multiple estimates and assumptions that affect the reported amounts of assets and liabilities as well as the amounts presented in certain required disclosures in the notes to those financial statements. The most significant estimates relate to the net pension & OPEB liabilities, compensated absences liabilities, useful lives of depreciable assets, allocation of expenses among functional expense classifications, and allowances for student receivables. Our procedures were executed in part, to review these estimates and evaluate their reasonableness. **No exceptions noted other than those noted on slide 8 related to depreciation expense at CCC and COSC.**
Financial statement disclosures	Our procedures included an assessment as to the adequacy of the CSCU's financial statement disclosures to ensure they are complete, accurate and appropriately describe the significant accounting policies employed in the preparation of the financial statements and provide a detail of all significant commitments, estimates and concentrations of risk, amongst other relevant disclosures required by US GAAP. **No exceptions noted**

Summary of Adjustments

Entity	Corrected Misstatements	Uncorrected Misstatements	Disclosure Adjustments	Omitted Disclosures
CSUS	Yes – see pg. 8 for details	Yes – see pg. 8 for details	None noted	None noted
CCC	None noted	Yes – see pg. 8 for details	None noted	None noted
COSC	Yes – see pg. 8 for details	Yes – see pg. 8 for details	None noted	None noted

Summary of Adjustments (cont.)

Entity	Nature of Adjustment	Commentary
CSUS	Corrected & Uncorrected	• Management recorded an entry to reduce net investment in capital assets and increase restricted expendable and unrestricted net position by $116.7 million in FY20. No impact on total net position or "bottom line" • $1.7 million of bad debt expense should be recorded as a reduction of tuition and fee revenue rather than as an expense. There was no impact to the "bottom line" as a result of this reclassification and therefore it was not recorded.
CCC	Uncorrected	• During the FY21 close process, management identified certain CIP projects that were completed and placed in service in prior years. As a result, depreciation expense in prior years was understated. Management recorded a catch-up adjustment in FY21 of $5.8M (increasing depreciation expense). The uncorrected entry is a decrease to FY21 opening net position to remove it from the FY21 statement of changes in revenues, expenses and net position. • $2.2 million of bad debt expense should be recorded as a reduction of tuition and fee revenue rather than as an expense. There was no impact to the "bottom line" as a result of this reclassification and therefore it was not recorded.
COSC	Corrected & Uncorrected	• During the FY21 audit, a $450k adjustment to increase cash was identified and recorded by management. • Management identified a difference in depreciation expense of $113k between the Entity's books and the State's subledger. Due to immateriality, management booked to the State's amount, resulting in an understatement of depreciation expense.

Internal control matters

Responsibility

We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

Internal control matters (continued)

Definitions

The objective of the audit was to report on the financial statements as a whole and not to provide assurance on internal control over financial reporting.

Control deficiency

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis

Significant deficiency

A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the entity's financial reporting.

Material weakness

A deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Entity's annual or interim financial statements will not be prevented or detected on a timely basis.

Internal control matters (continued)

Significant deficiency

Our consideration of internal control was not designed to identify all deficiencies in internal control that, individually or in combination, might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the following identified control deficiency to be a significant deficiency.

Description of significant deficiency	Recommendations
<u>CSUS – adjustment to FY20 financial statements related to net position classifications</u> During the FY21 annual financial statement close process, management identified adjustments that were necessary to accurately present the components of net position (i.e., net investment in plant, restricted expendable and unrestricted net position). The historical calculations and related accounting did not conform to GAAP, and management review controls did not identify this improper application in a timely manner (although it was management who identified the error, it was after the FY20 and prior years financial statements had been issued).	We recommend that management implement additional account reconciliation and review controls to prove out the net position balances. A net asset proof schedule should be prepared in connection with the annual close process. This proof schedule should be reviewed by someone other than the preparer.

Quality of accounting practices

Accounting policies	Other than the adoption of GASB 84, there were no significant changes during the period. The impact of the adoption of GASB 84 (Fiduciary Activities) was not significant.
Accounting estimates	Significant estimates include: • Net pension and OPEB liability, and related deferred inflows / outflows • Liability for compensated absences • Useful lives of depreciable assets • Allocation of expenses among functional expense classifications • Allowance for student receivables
Disclosures	Disclosures within the financial statements are materially complete and accurate. There was disclosure of the correction of an error in the financial statements of the Universities.
Other related matters	None noted.

Other required communications

Professional standards require that we communicate the following matters to you, as applicable.

- Going concern matters
- Fraud and noncompliance with laws and regulations
- Significant deficiencies and material weaknesses in internal control over financial reporting
- Use of other auditors
- Use of internal audit
- Related parties and related party transactions
- Significant unusual transactions
- Disagreements with management
- Management's consultations with other accountants
- Significant issues discussed with management
- Significant difficulties encountered during the audit
- Other significant findings or issues that are relevant to you and your oversight responsibilities
- Modifications to the auditor's report
- Other information in documents containing audited financial statements

Appendix

Technical updates - GASB

GASB Statement 87, *Leases*

Summary

- The GASB issued guidance which resembles the FASB guidance on leases
- To determine whether a lease exists, a government should assess whether it has both:
    1) The right to obtain the present service capacity from use of the underlying asset as specified in the contract, and
    2) The right to determine the nature and manner of use of the underlying asset as specified in the contract
- For Lessees:
    1) In general, all leases will be reported on the statement of net position (the distinction between operating and capital leases is no longer relevant) as a "right of use" intangible asset and a corresponding lease liability within long term debt
    2) On the statement of changes, rent expense will be replaced by amortization expense of the right-of-use asset as well as interest expense on the lease liability (thus accelerating expenses in the beginning years of the lease term)
    3) There is an exemption for short term leases (those with a term of 12 months or less, including extension options) as well as leases that transfer ownership at the end of the term
    4) Disclosures regarding matters such as total leased assets by major class of underlying assets and related accumulated amortization (in total), principal and interest payments for each of the five subsequent fiscal years and in five-year increments thereafter and commitments under leases before a lease commencement period, among other items
- Effective in FY22 for CSUS, CCC and COSC. Management is actively assessing the impact of adoption.

GASB Statement 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*

Summary	Potential Impact

• This Statement improves financial reporting by providing users with more relevant information about capital assets and the cost of borrowing and enhancing comparability of information for both governmental activities and business-type activities.
• Financial statements prepared using the economic resources measurement focus:
  • Interest cost should be recognized as an expense in the period incurred.
• Financial statements prepared using the current financial resources measurement focus:
  • Interest cost should be recognized as an expenditure consistent with governmental fund accounting principles.
• Effective in FY22 for CSUS, CCC and COSC. Management is actively assessing the impact of adoption.
	• Universities may have varying amounts of interest incurred during periods of significant construction. With the implementation of this new guidance, complex calculations of interest to be capitalized will no longer be required, thus simplifying accounting requirements. The new accounting accelerates the expense impact for the construction period, which should be considered when preparing budgets for future periods.

Industry updates

Current higher education environment

Institutions of higher education are considering how the tenets of ESG will impact operations, delivery of mission and governance structures.

Flexibility in terms of working remotely will be critical to retaining employees looking for hybrid options.

Long-term strategic plans drafted in a pre-COVID world are being reviewed to ensure relevancy in a changing world.

The propensity of donors to give endured (and grew).

One stark reality of the pandemic is that it has significantly affected the mental well-being of students and employees.

Now is the time for all institutions to earnestly re-evaluate the "completeness" of their ERM risk registers.

We believe institutions will always operate best as a community of in-person students and faculty learning and collaborating in immersive campus environments. These changing times require that institutions be introspective to ensure they are adapting to the evolving expectations of stakeholders.

A greater emphasis should be placed on process re-engineering and innovation to drive economies of scale.

An increased focus on student retention combined with creating different channels to attract new student cohorts is crucial.

S&P's 2021* outlook for the Higher Education sector remains "negative"

S&P Global Ratings

"'Back To School' Will Take On New Meaning This Fall"

- COVID-19 led to unprecedented drops in college and university enrollment numbers
- However, impact varied widely with public universities faring better than private universities in general in fall 2020 and spring 2021
- Freshman classes decreased 2.7% overall at private universities as the most selective schools admitted fewer freshman year over year to keep acceptance rates very competitive
- Institutions anticipate that increased rate of vaccinations will reduce the spread of COVID-19 and ultimately help enrollments going forward
- Gaps in credit quality between higher rated and lower rated institutions continues to expand

*** Outlook as of May 2021**

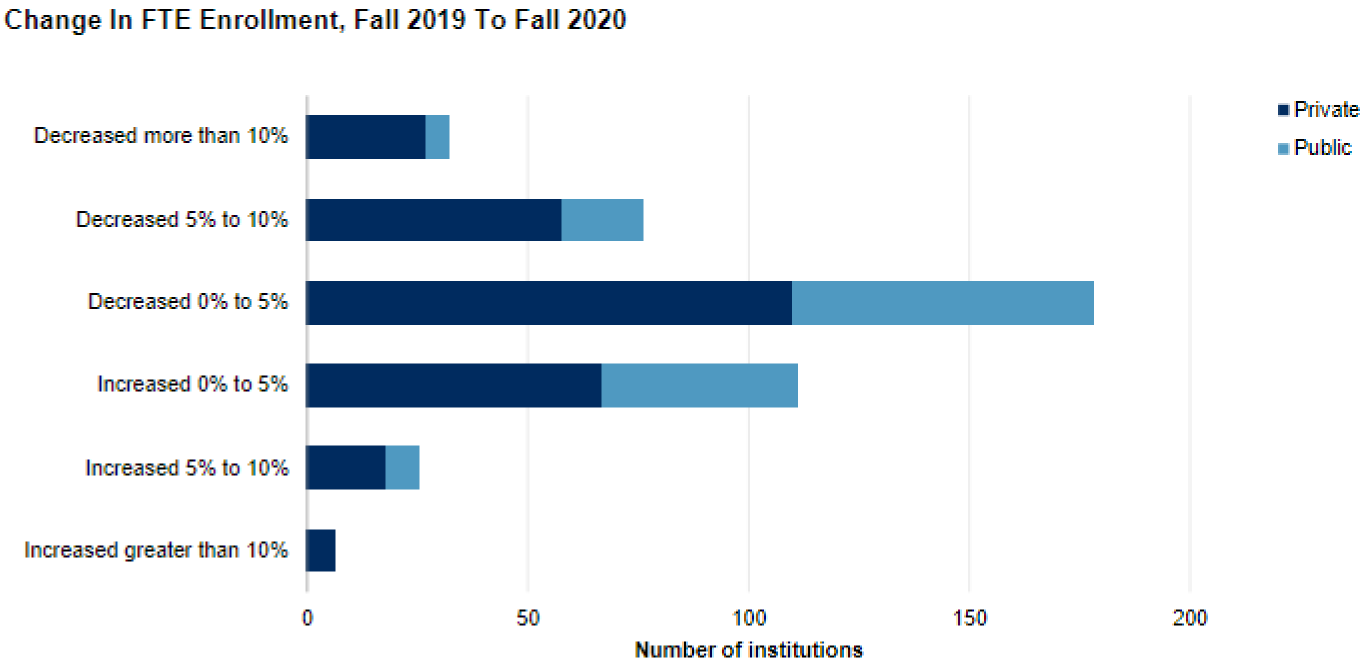
S&P Outlook Factors, continued

S&P Global Ratings

"Limited flexibility in financial operations, enrollment, resources or student draw will most likely weaken credit profiles in 2021 and beyond"

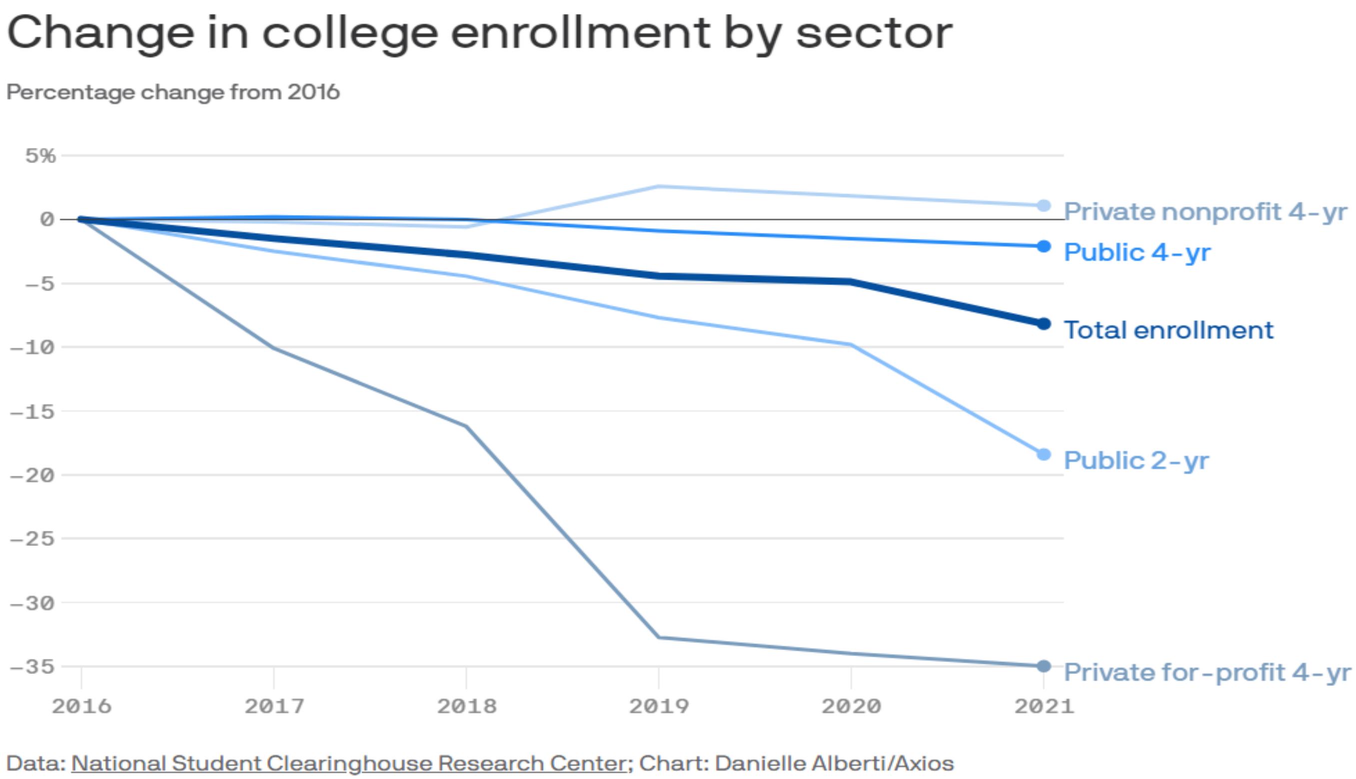
Over two-thirds of institutions experienced a decline in enrollment in Fall 2020 (68% of rated private institutions and 64% of public universities).

However, only 32 schools (27 private universities and 5 public universities) experienced very material enrollment declines (defined as 10% or greater).



Enrollment Changes – by sector

While total enrollment has decreased by 8% since 2016, the biggest impact has been felt by public 2-year and for-profit private 4-year institutions



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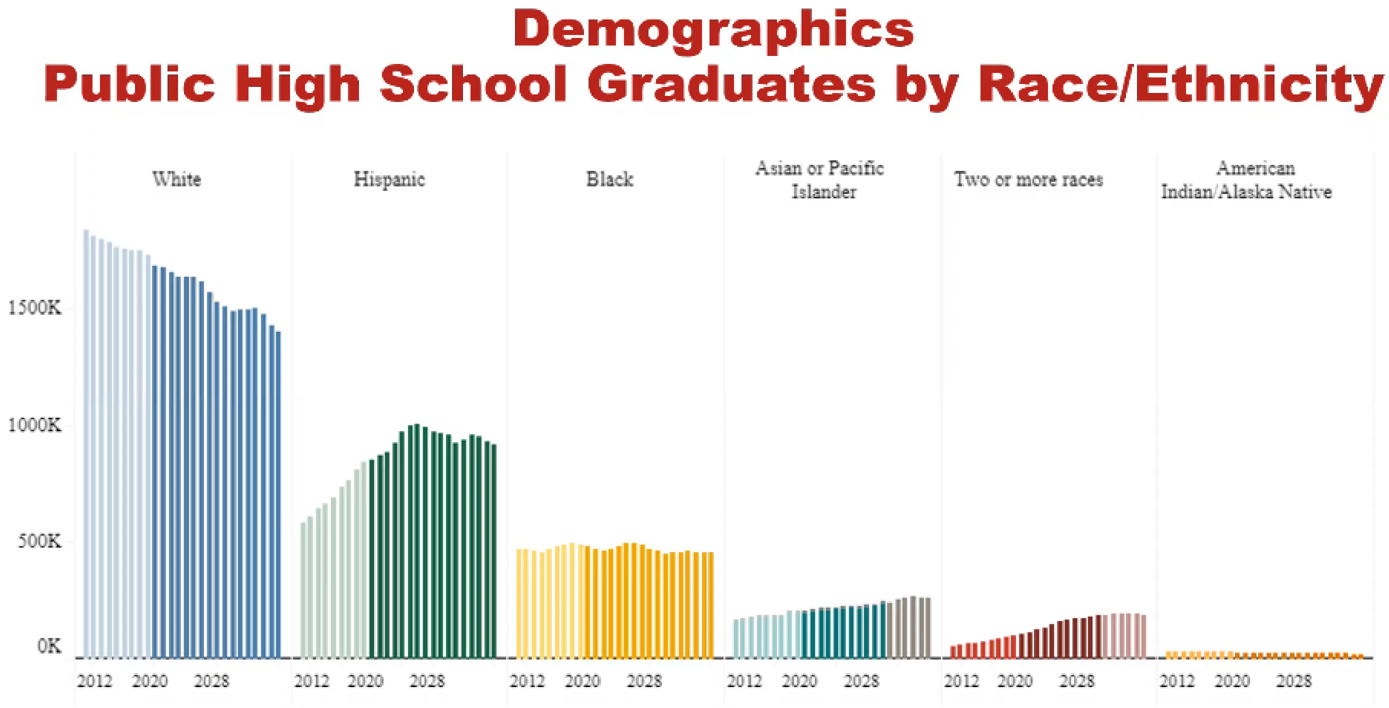
Enrollment Changes – by high school demographics

Total high school graduates continues to decline and as shown via the racial demographics small increases in Hispanic graduates will not offset the large declines in white high school graduates with projections shown through 2036

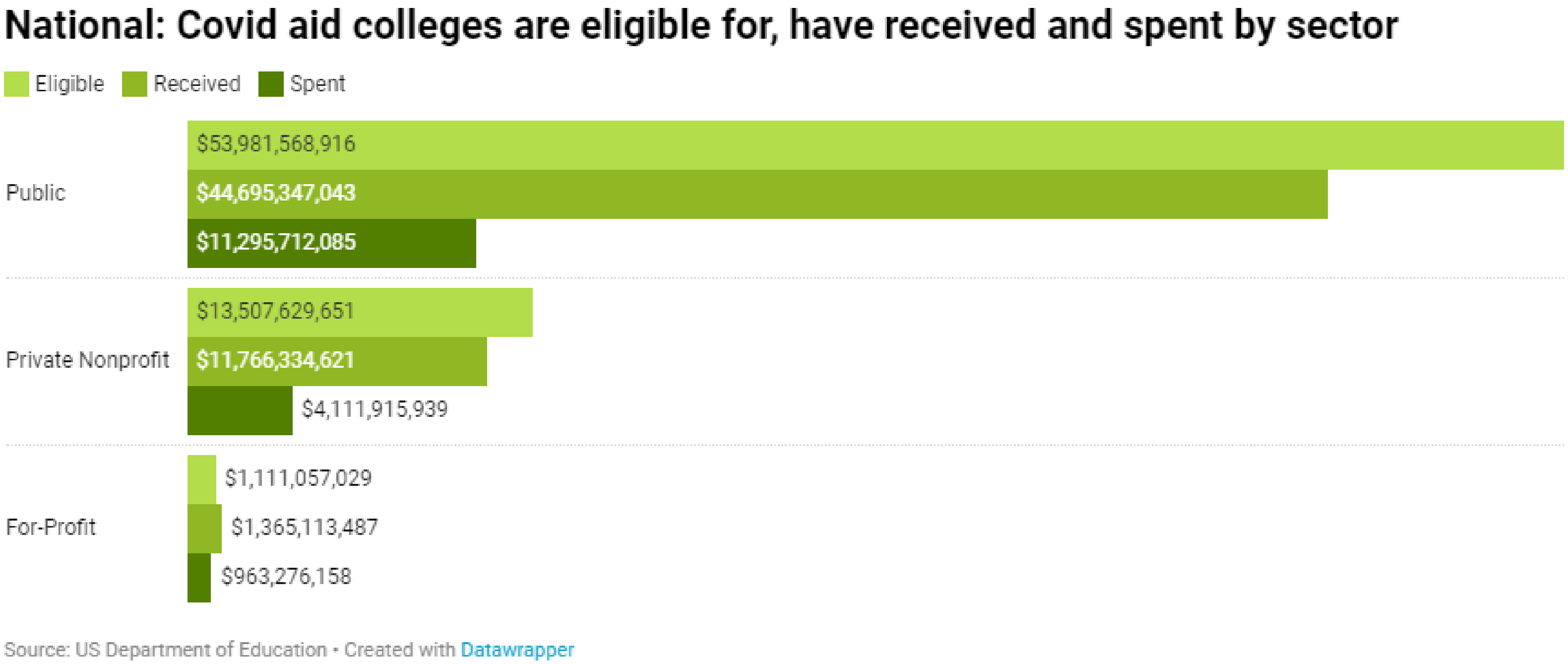
Pale columns are actuals, darker columns are projections.



Source: Western Interstate Commission for Higher Education, Knocking at the Door, 10th edition.

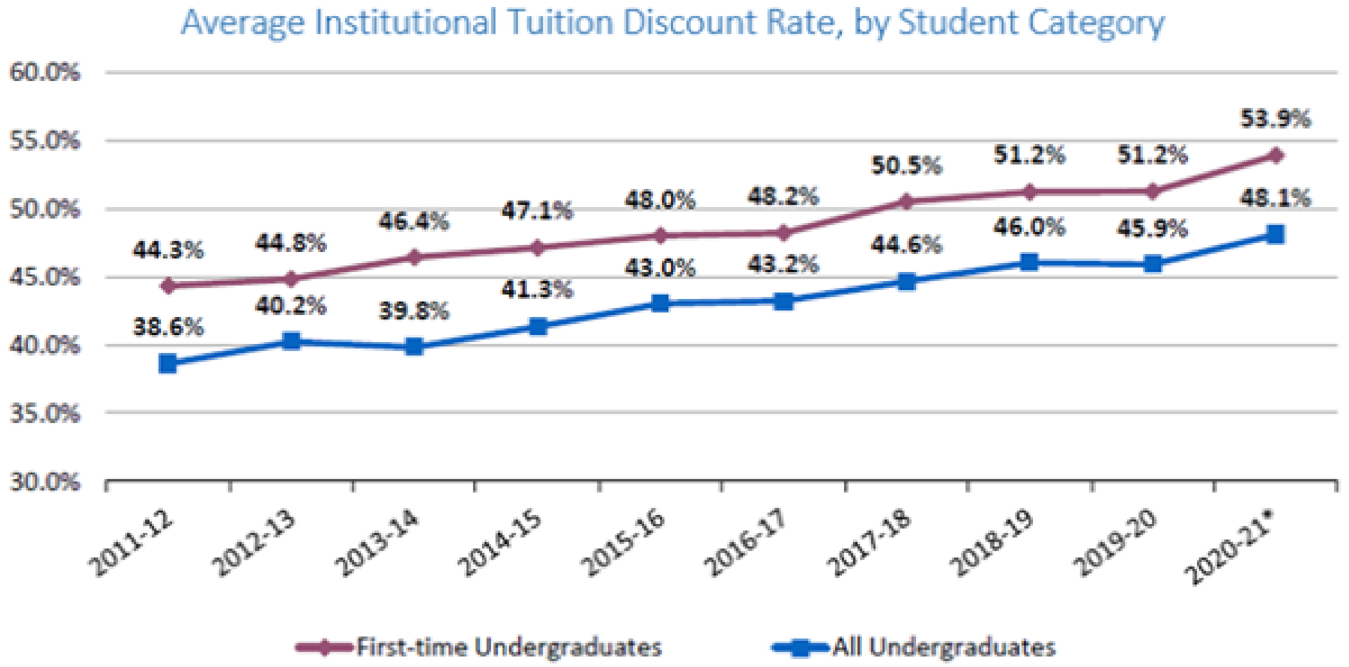
Washington Update

Approximately $69 billion of COVID relief funding has gone mostly to public colleges and universities, though vast amounts of funding have also gone to private non-profit and for-profit schools ($11 billion and $1.3 billion, respectively).



Trends in tuition discounting

Discount rates continue their steady climb to record highs projected for 2020-21



Source: NACUBO Tuition Discounting Study, data as of May 2021.
*Preliminary estimates.

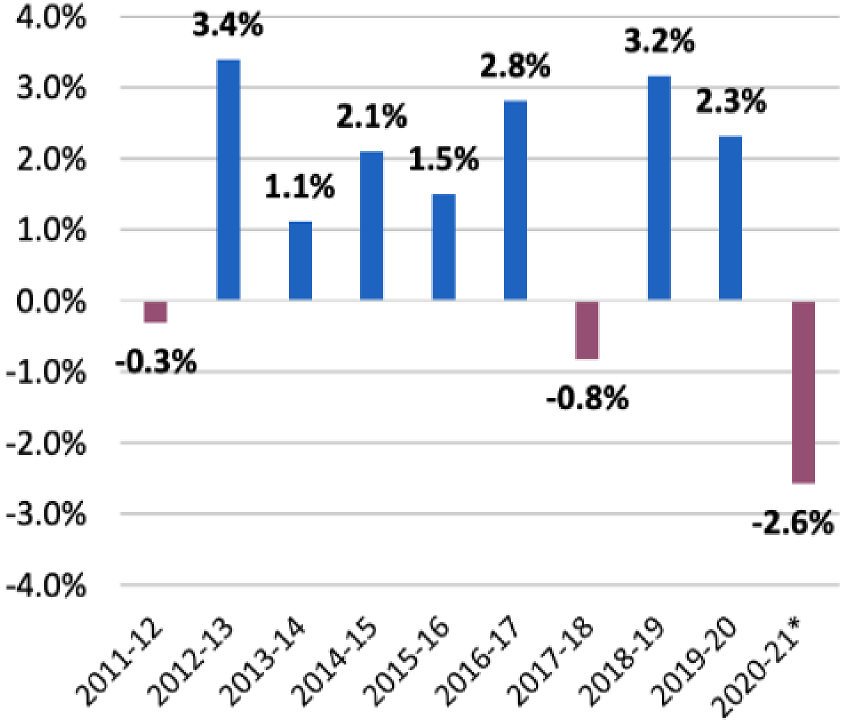
Trends in net tuition

2020-2021 preliminarily estimates show 2.6% decrease in net tuition revenue from first-time undergraduates.

This is the largest decline over the past 10 years and 7 of the past 10 years have shown net tuition increases.

The 2020-2021 decrease represents a combination of lower enrollment and higher discounting.

Figure 6: Annual Change in Net Tuition Revenue From First-time Undergraduates



Source: NACUBO Tuition Discounting Study, data as of May 2021. *Preliminary estimates.

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What presidents are saying:

"Confident my institution will be financially **stable**"

Over five years…

82%

All institutions "agree" or "strongly agree"

80%

Public universities "agree" or "strongly agree"

83%

Nonprofit private colleges "agree" or "strongly agree"

Over ten years…

79%

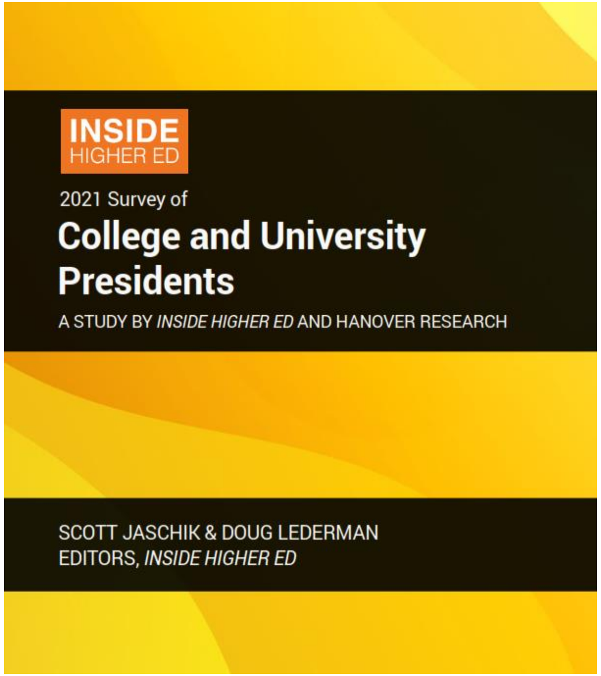
All institutions "agree" or "strongly agree"

77%

Public universities "agree" or "strongly agree"

82%

Nonprofit private colleges "agree" or "strongly agree"



This most recent survey was completed in **March 2021**

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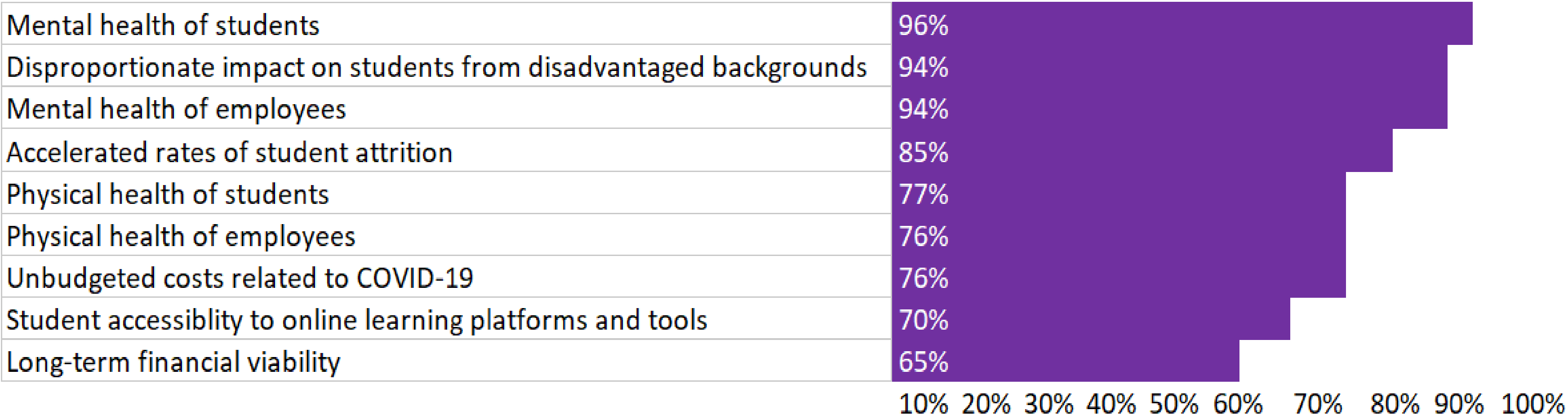
How would you rate your current level of concern related to the following issues in regard to COVID-19 (% reflects those responding “very concerned” + “somewhat concerned”)



- The top 3 concerns of President’s surveyed, and 5 of the top 6, relate to wellbeing of students and employees.
- Still over 65% surveyed are “somewhat” to “very” concerned about long-term financial viability

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Which of the following outcomes most closely reflect your view of how your institution will respond to the COVID19 pandemic and economic recession?

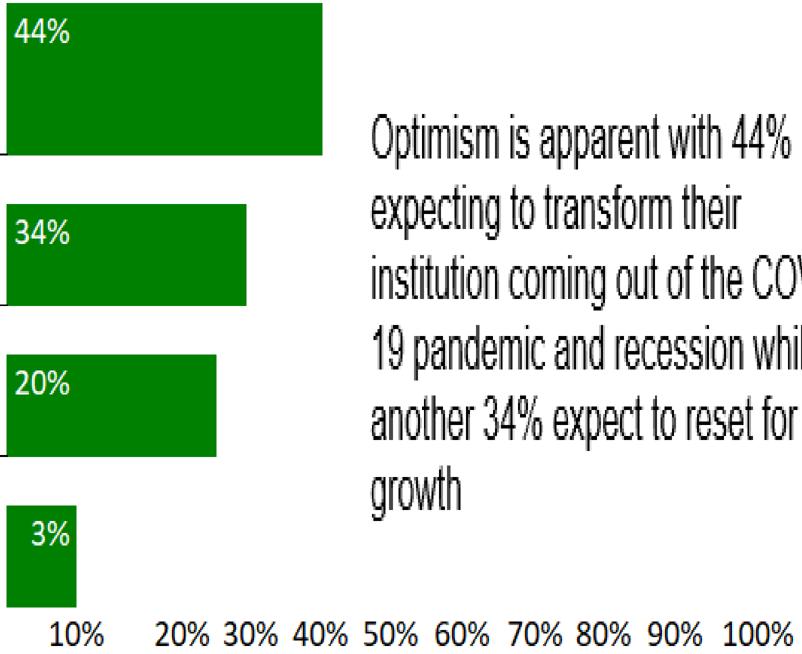
INSIDE HIGHER ED
2021 Survey of
College and University Presidents
A STUDY BY *INSIDE HIGHER ED* AND HANOVER RESEARCH

Transform institution:
My institution should use this period to make difficult but transformative changes in its core structure and operations to better position itself for long-term sustainability

Reset for growth:
My institution should use this period to focus more on what it does best so it can invest and grow in those areas once the recession ends

Return to normal:
My institution can ride out the current difficulties and return more or less to normal operations within 12-18 months

Shrink institution:
My institution should use this period to tighten its focus to come out of the recession smaller but better



Optimism is apparent with 44% expecting to transform their institution coming out of the COVID-19 pandemic and recession while another 34% expect to reset for growth

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What chief business officers say overall:

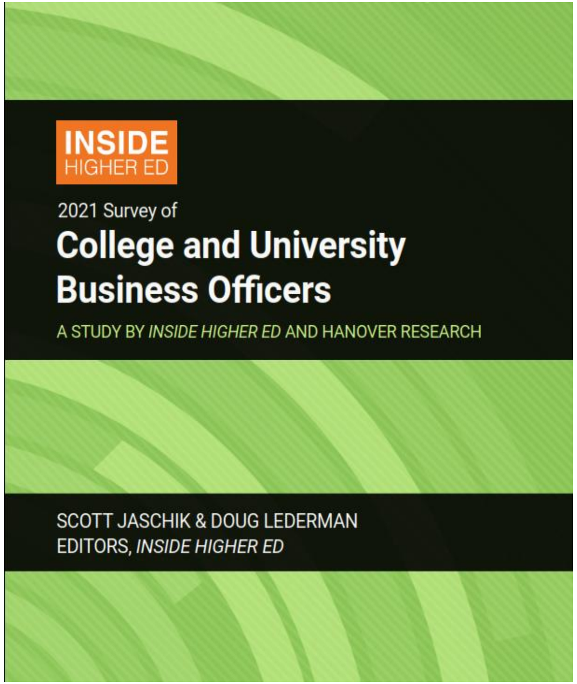
"Confident my institution will be financially **stable over ten years**"

73%
in 2021

53%
in 2020

50%
in 2019

Confidence has increased with a growing split between public (79%) and private (68%) with private baccalaureate colleges having the least ten year confidence at 65% while public doctoral is the highest at 88%.



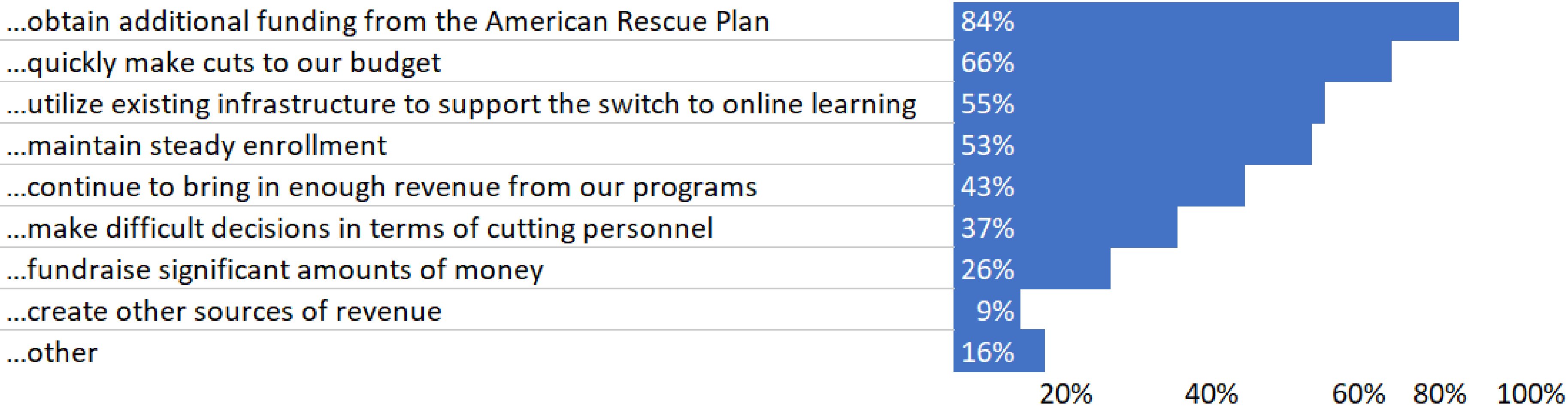
This most recent survey was completed in **July 2021**

INSIDE HIGHER ED
2021 Survey of
College and University Business Officers

What chief business officers say overall:

Why do you feel that your institution is in better financial shape now than it was a year ago?

My institution is in better financial shape now than a year ago because it was able to….



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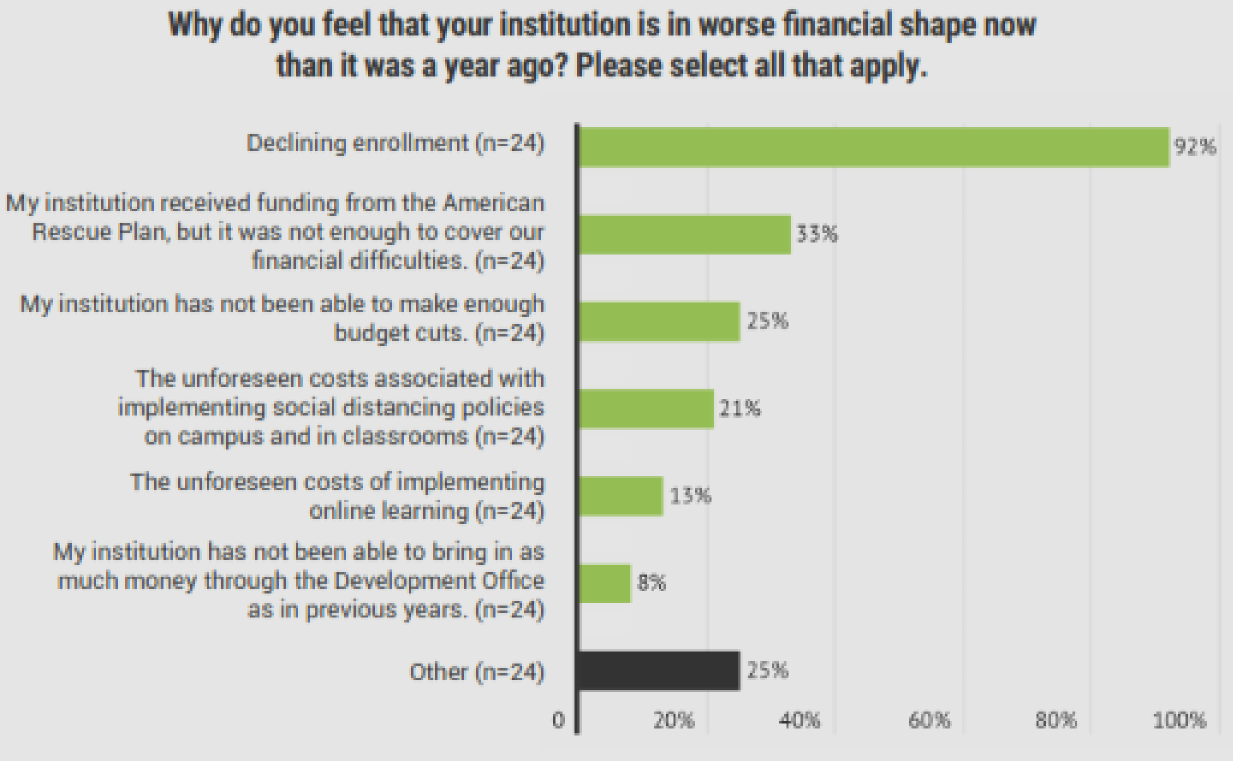
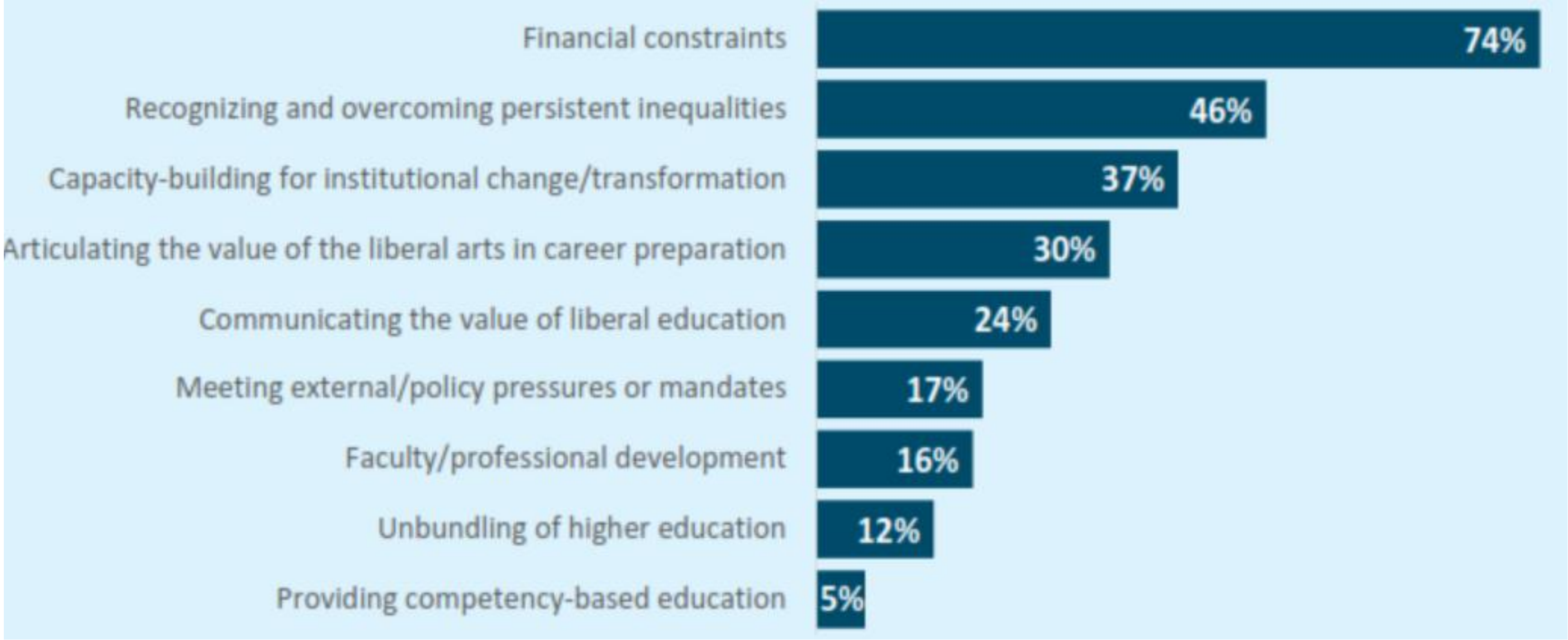
What chief business officers say overall:



Note only 26% of respondents who disagreed that their institution is in better financial shape received this question to respond to.

Grant Thornton

Top campus challenges



Survey of over 700 campus stakeholders administered by AAC&U in Fall 2020

Top strategic priorities

Improving student retention and completion	59%
Improving campus diversity, equity and inclusion	57%
Fostering a sense of belonging and inclusion on campus	36%
Increasing faculty diversity	34%
Expanding civic engagement/community-based learning	30%
Implementing and scaling high-impact practices	28%
Preparing students for long-term career success	26%
Implementing online learning technologies	26%
Ensuring equity in student outcomes	22%
Addressing campus climate issues	21%
Supporting student well-being	21%
Using assessment to improve teaching, learning and student success	21%
Fostering global learning	20%
Promoting effective teaching with technology	19%
Reforming general education	14%
Expanding faculty/professional development opportunities	13%
Integrating the liberal arts with STEM disciplines	7%
Reforming undergraduate STEM education	4%

Association of American Colleges and Universities

Grant Thornton

Survey of over 700 campus stakeholders administered by AAC&U in Fall 2020

CohnReznick
ADVISORY • ASSURANCE • TAX

Connecticut State Colleges and Universities System

2022 Audit Plan
Presented to:
CT Board of Regents for Higher Education

May 9, 2022

A member of Nexia International | CohnReznick is an independent member of Nexia International

May 9, 2022

Dear Members:

Thank you for the opportunity to provide professional services to the Connecticut State Colleges and Universities System ("CSCU System") again this year, an organization we are extremely proud to serve. We are pleased to meet with you today to discuss our plan to perform the audit of the expenditures paid during the year ended June 30, 2022 as reported in the schedule of CSCU 2020 Construction Expenditures - Cash basis (the schedule). This meeting will serve as a forum to validate our understanding of key issues, confirm your expectations, and make certain that our efforts are aligned with your expectations. We welcome your suggestions regarding areas of special concern and ideas to aid us in presenting the most appropriate and valuable reports to you.

Our audit is designed to express an opinion on CSCU System's 2022 Schedule. We will consider the CSCU System's current and emerging business needs, along with an assessment of risks that could materially affect the Schedule and design our audit procedures accordingly. Our audit will be conducted with the objectivity and independence that you and the entire Board of Regents expect. Rest assured that our unceasing commitment to quality is and will be reflected in every aspect of our work.

The attached report outlines the scope of our work and key considerations affecting the audit of the 2022 Schedule. If you have questions or comments on this material, please don't hesitate to contact Carolyn at 959-200-7055.

We look forward to working with you again this year.

Carolyn S. Kurth, CPA, CFE
Director
CohnReznick LLP

COHNREZNICK'S COMMITMENT TO YOU

- To provide forward-thinking solutions, service that exceeds expectations, and create opportunity, value, and trust for our clients, our people, and our communities.

- We will be a firm of excellence and innovation – providing invaluable services and insights to our clients; fostering a workplace culture that develops leaders and values diversity; and working to make our communities better.

Meeting the challenges. Providing value.

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SERVICES AND DELIVERABLES TO THE CSCU SYSTEM

Schedule of CSCU 2020 Construction Expenditures – Cash basis	• Express an opinion on the schedule of CSCU 2020 Construction Expenditures – Cash basis (the schedule)
	• Communicate matters in accordance with AU-C 265, “Communicating Internal Control Related Matters Identified in an Audit.
Non-attest services	• Assist in the preparation of the Schedule

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KEY MEMBERS OF THE ENGAGEMENT TEAM

Audit Resources

- Paul Ballasy, Not-for-Profit Engagement Partner
- Patricia McGowan, Higher Education Partner
- Carolyn Kurth, Director
- Alexandra Marsh, Manager

AUDIT PLAN CONSIDERATIONS

Understanding and Evaluating Controls

- Review accounting policies and procedures
- Understand internal control documentation and perform walkthroughs of key processes:
  - Cash receipts
  - Cash disbursements
  - Payroll
  - Revenue recognition
  - Journal entries
  - Financial reporting and closing

Significant Risks

- Management override of controls
- Improper recognition of and reporting of project costs and budgets

Key Audit Areas

- Direct Cost | Expenditures
- Labor Costs
- Ensure that the Schedule of Values (SOV) is based on management's original estimates and supported by the budget and bid documents.
- Make sure that the schedule is properly updated for any change order additions or deducts.
- Testing of the approved allocation methodologies utilized on the various projects for appropriate and accurate application.

USE OF TECHNOLOGY

Converge is CohnReznick's preferred method of sharing electronic information with our clients. We leverage Converge to securely and efficiently communicate with our clients. Our portal allows our clients to upload and download documents, share open items, and review project information.

Microsoft Office 365 Email Encryption is CohnReznick's method for sending protected emails to our clients. With this easy-to-use and proven service, our professionals can securely send clients sensitive, personal information, such as personally identifiable information ("PII"), protected health information ("PHI"), and credit card information, as regulated by the Payment Card Industry Data Security Standard ("PCI DSS").

CCH Engagement is a powerful trial balance and engagement workflow tool that not only allows us to automate financial statements, workpapers, and tax return preparation, but also provides the tools to manage and perform our engagements in a completely paperless environment.

WorkFlow enables our professionals to track entire tax processes, from the creation of an electronic tax folder, to the routing of client source documents, to the final delivery of the tax return reports to the client. It gives us convenient access to reports and the ability to easily monitor and manage project workflow.

IDEA data extraction software allows our professionals to gather and analyze financial information from your systems.

GoFileRoom is a Web-hosted document management service that maintains all paper and electronic files in a secure data center, allowing for convenient, 24/7 access from any location. CohnReznick professionals can access all client documents quickly and easily, which results in increased efficiency and quick response times for client requests. Other significant advantages of GoFileRoom include advanced document security and business continuity.

TeamMate Analytics data extraction software allows our professionals to gather and analyze financial information from your systems, aiding in the efficiency of our audit.

Artificial Intelligence Software Tool
CohnReznick uses Leverton, an artificial intelligence software tool, to automatically extract data from documents to create structured data for better data analysis and document management. Leverton is a time-saving platform that uses optical character recognition and data extraction to efficiently consolidate data from disparate sources. Once data is consolidated, it can be validated, accessed, analyzed, and exported.

TIMETABLE OF AUDIT SERVICES

	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT
Audit design and planning							
Planning meeting with audit committee and management							
Year-end field work							
Present draft of the Schedule and if applicable, management letter, to management & audit committee							
Issue Schedule and if applicable, management letter							

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The CohnReznick Commitment
Summary of Services
Audit Approach
Responsibilities
Summary of Fees
Accounting and Auditing Development

RESPONSIBILITIES

Management's Responsibilities*	• The preparation and fair presentation of the Schedule in accordance with the Cash Basis of accounting. • Designing, implementing, and maintaining of internal controls relevant to the preparation and fair presentation of Schedule that are free from material misstatement, whether due to fraud or error, fraudulent financial reporting, misappropriation of assets or violations of laws, governmental regulations, grant agreements, or contractual agreements. • Accepting responsibility for nonattest services, including identifying the proper party with the skills, knowledge, and experience to oversee the nonattest services provided. • Informing us of any known or suspected fraud affecting the entity involving management, employees with significant role in internal control and others where fraud could have a material effect on the Schedule. • Ensuring the accuracy and completeness of all information provided. • The audit of the Schedule does not relieve management or those charged with governance of their responsibilities.
Auditor's Responsibilities*	• Communicating with those charged with governance the responsibilities of CohnReznick regarding the audit of the Schedule and an overview of the planned scope and timing of the audit. • Obtaining from those charged with governance information relevant to the audit. • Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. • Promoting effective two-way communication between the auditor and those charged with governance. • Communicating effectively with management and third parties. • Forming and expressing an opinion about whether the Schedule has been prepared by management, with the oversight of governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework. • Establish the overall audit strategy and audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

**The complete terms of our mutual responsibilities are included in our engagement letter.*

EFFECTIVE ACCOUNTING AND AUDITING UPDATES

Auditing		
Effective Year Beginning Date for the Organization	Auditing Standards Number	Pronouncement Description
Effective	Auditing Standards 134	Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of the Schedule.

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KEY CHANGES TO THE AUDITOR'S REPORT

Current Auditor's Report	SAS 134 Changes - Auditor's Report
1. A title that includes the word independent 2. Addressee 3. A statement that the financial statements identified in the report were audited 4. Management's responsibility for the financial statements 5. Auditor's responsibility 6. Basis for opinion 7. Opinion 8. Other matters	1. A title that includes the word independent 2. Addressee 3. Opinion and identify the entity and financial statements audited 4. Basis for opinion 5. Going concern (if applicable) 6. Key audit matters (if engaged to communicate key audit matters) 7. Management's responsibility for the financial statements 8. Auditor's responsibility 9. Other matters

SAS 134 - Other Changes:

- Amends AU-C section 260, *The Auditor's Communication With Those Charged With Governance.*
- Expanded description of the auditor's responsibilities
- Clarifies the relationship between Emphasis-of-Matter (EOM) paragraphs and the communication of key audit matters.
- Amends various AU-C sections to focus auditor attention on disclosures throughout the audit process.

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PRESENTATION TO THOSE CHARGED WITH GOVERNANCE

2022 Annual Audit Planning Presentation

Connecticut State Colleges and Universities

May 2022

This communication is intended solely for the information and use of management and those charged with governance of CSCU and is not intended to be and should not be used by anyone other than these specified parties.

Audit timeline & scope

April 2022	Client continuance	• Client continuance • Conduct internal client service planning meeting, including coordination with audit support teams (IT, tax, actuarial)
May/June 2022	Planning	• Meet with management to confirm expectations and discuss business risks • Issue engagement letter • Discuss scope of work and timetable as well as identify current year audit issues • Initial Audit Committee communications
May/June 2022	Preliminary risk assessment procedures	• Develop an audit plan that addresses risk areas/identify significant risks & focus areas • Update understanding of internal control environment
June/July 2022	Interim fieldwork	• Perform walkthroughs of certain business processes and controls • Perform selective substantive testing on interim balances
September-December 2022	Final fieldwork	• Perform year-end fieldwork procedures • Meet with management to discuss results, including review of draft financial statements, misstatements (if any) and completeness/accuracy of disclosures • Present results to the Audit Committee
Report Issuance date	Deliverables	• Financial Statements • Listing of unrecorded/recorded misstatements and omitted disclosures (if any)

Significant risks and other areas of focus

The following provides an overview of significant risks and areas of focus based on our risk assessments.

Significant risk	Planned procedures
Management override of controls – (presumed fraud risk and therefore significant risk in all audits)	• Consider the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud. • Assess the ability of the University to segregate duties in its financial reporting, information technology, and at the activity-level. • Conduct interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period. • Perform risk assessment for journal entries and detail test a sample of journal entries based on our risk assessments to ensure propriety of the entries.

Significant risks and other areas of focus (continued)

Area of focus	Planned procedures
Tuition revenue, auxiliary enterprises and related receivables/deferred revenue	• Obtain an understanding of internal controls over student tuition and fees, including the awarding of federal and institutional aid • Perform reasonableness test on tuition and fees, student aid and auxiliary revenue amounts • Perform detailed testing of a sample of transactions, agreeing to source documentation • Review reserves on aged accounts receivable
Grant revenue and accounts receivable	• Test a selection of grant receivable and grant deferred revenue balances • Perform detailed transaction testing over grant revenue
Adoption of GASB 87- Lease Accounting	• Perform detail testing to ensure the completeness of leases considered for implementation • Select a sample of leases included in the population to capitalize and test accuracy of the entries related to those leases • Review management's methodology and journal entries to record the GASB 87 adoption entries

Significant risks and other areas of focus (continued)

Area of focus	Planned procedures
Net Pension and OPEB Liabilities (and related deferred inflows/outflows and pension/OPEB expense)	• Review management's methodology and journal entries to record pension/OPEB liability and related accounting • Review the reports issued by the Auditors of Public Accounts • Perform testing over the census data used by the actuary
State appropriations	• Reconcile amounts to the GL, including confirmation of certain amounts with the state
Capital Assets	• Test a rollforward of capital asset balances • Test additions on a sample basis (if material)
Cash and cash equivalents	• Confirm all material cash balances, and reconcile confirmed balances to the GL

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Use of the work of other auditors

Component	Response
Foundations	Each of the Foundations has a separate auditor. In our auditor’s report on each entity’s financial statements, we make reference to the audits performed by the other unaffiliated auditors.
Net Pension and OPEB Liabilities and related accounts	The State engages the State Auditor of Connecticut to perform the audit of the valuation prepared by independent actuaries as part of recording the Net Pension and OPEB Liabilities and related deferred inflows/outflows and pension/OPEB expense. Grant Thornton assesses the qualifications of the APA and takes responsibility for their work.

Independence

Non-audit services

CSCU has engaged GT Advisory to assist with extraction of data from lease agreements to a database to be used as a basis for the entries to be recorded in connection with the adoption of the lease accounting standard (GASB 87).

Risk

GT cannot audit its own work.

Safeguards

Management has project oversight, takes responsibility and will validate a sample of the extractions performed by GT.

Appendix

1) Higher education industry trends
2) Ethicspoint

Industry updates

S&P's 2022 outlook for the Higher Education sector* has changed to "stable" after four years of "negative"

S&P Global Ratings

"Out Of The Woods, But Not Yet In The Clear"

Positive Developments

- Substantial federal emergency funding to higher education provided major fiscal support (over $152 Billion awarded)
- Record fiscal 2021 investment returns
- Return to campus learning in Fall 2021 with corresponding increase in tuition and auxiliary revenues

Risks to Monitor

- Enrollment pressures from troubling demographic outlook and inflation concerns
- New COVID-19 variants will test effectiveness of health and safety measures
- Gaps in credit quality remain between higher rated and lower rated institutions

Bottom line→ higher education sector weathered the unprecedented crisis caused by the COVID-19 pandemic and no S&P rated colleges or universities defaulted on their debt

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*** Outlook as of January 2022**

S&P Outlook Factors, continued

S&P Global
Ratings

What We're Watching - Not-For-Profit Higher Education

Economic recovery

U.S. economy strengthens, but differentiated rates of recovery lead to disparate economic conditions.

Federal stimulus

Strong support for higher education provides financial flexibility; usage and reporting of funds will span several years.

State budgets

State operating appropriations are generally stable to growing for public universities, bolstered by extraordinary federal aid.

Inflationary pressures

Elevated inflation through 2022 could pressure budget expectations, even as tuition increases resume post-pandemic.

Financial flexibility

More stable state budgets, federal funds, and strong investment returns provide greater financial flexibility.

Enrollment and demand

New variants affecting in-person learning again. With entrance tests optional, applications have increased significantly, skewing selectivity.

Event risk

Cyber security breaches, social unrest, staffing issues, governance scandals, unforeseen economic events, will continue to affect credit in 2022.

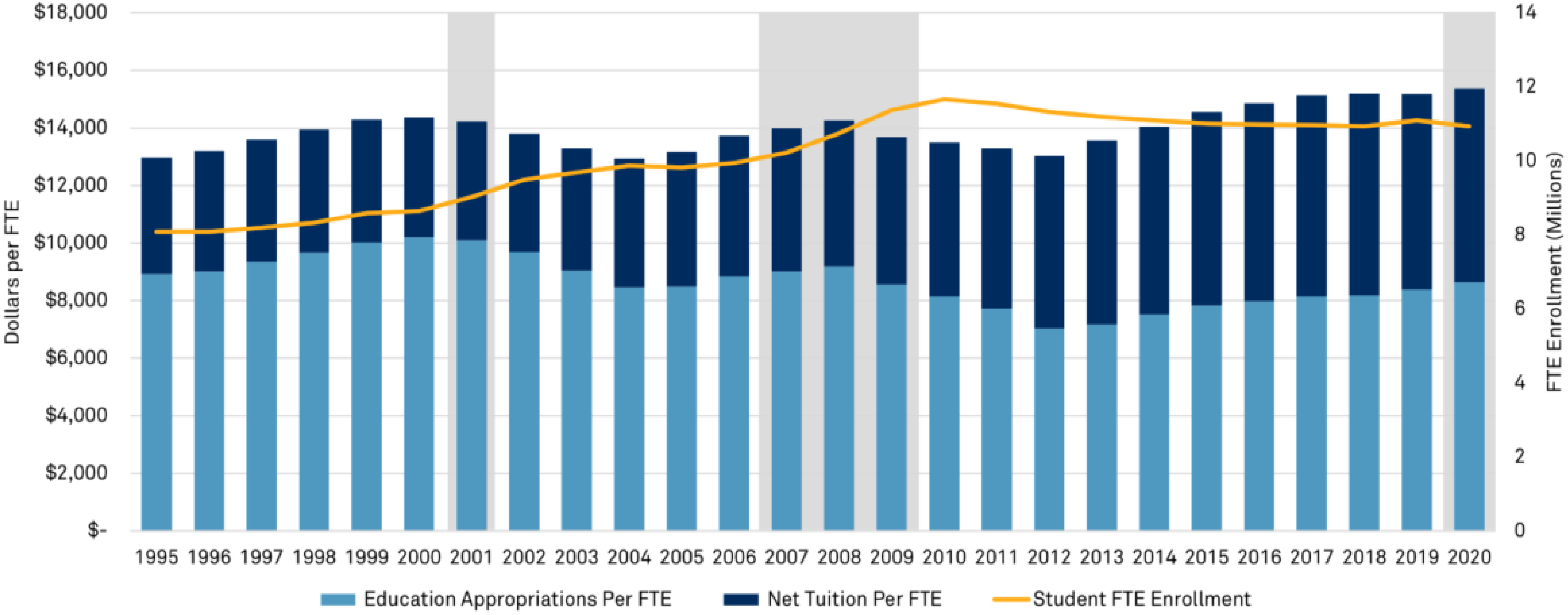
Credit quality bifurcation

There are winners and losers across the industry.

S&P Outlook Factors, continued

S&P Global Ratings

State funding and FTE enrollment trends



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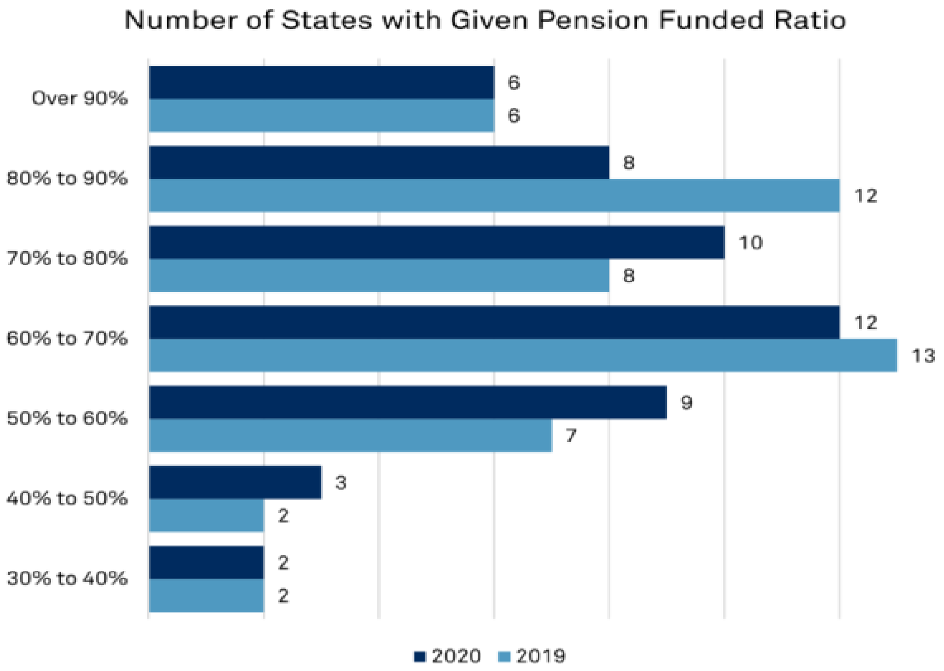
Source: State Higher Education Executive Officers Association: 2020 State Higher Education Finance Report

S&P Outlook Factors, continued

S&P Global Ratings

Pension funding status



State	Best 2020 Funded Ratio
Wisconsin	103%
South Dakota	100%
Washington	95.3%
Tennessee	92%
Utah	91.7%

State	Worst 2020 Funded Ratio
Illinois	37.5%
New Jersey	38.4%
Connecticut	43.1%
Kentucky	44.6%
New Mexico	50%

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Source: S&P Global Ratings. Data as of December 31, 2021

Moody's 2022 outlook for the Higher Education sector* has changed to "stable" from "negative"

Moody's

"Emergence from remote learning supports revenue growth"

Positive Developments

- Operating revenue projected to rise 4-6% following Fall return to campus
- Record fiscal 2021 investment returns strengthen financial positions and liquidity
- Substantial federal emergency funding to higher education aids rebound

Risks to Monitor

- Inflation and labor shortages will lead to higher costs and lower margins
- Social and cyber risks pose key risks
- Operating budgets for most institutions remained strained

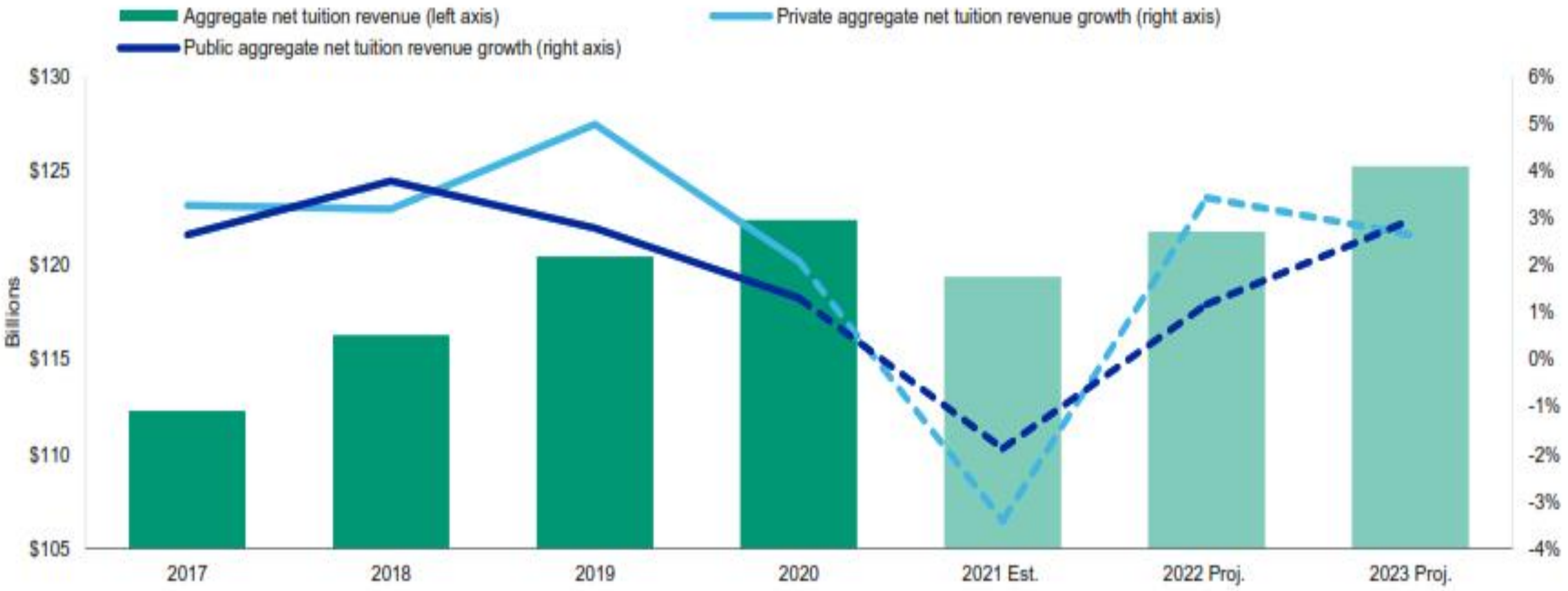
Outlook could turn negative if operating revenue growth falls substantially below inflation, constrained states' tax revenues lead to cuts in state appropriations, or new surges and variants with the coronavirus reverse the resumption of in-person operations.

*** Outlook as of December 2021**

Moody's Outlook Factors, continued

Exhibit 3

Net tuition revenue will improve in fiscal 2022, with private universities showing stronger gains

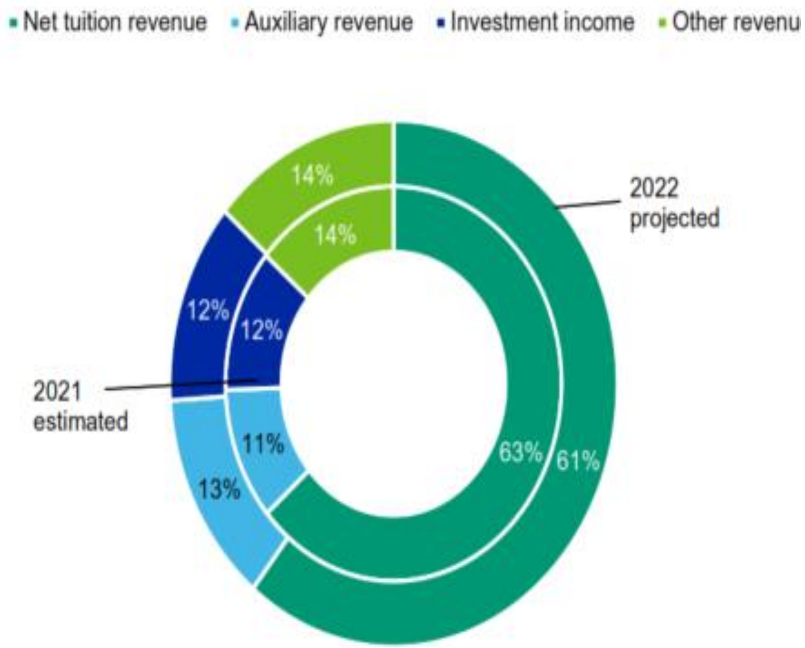


Source: Moody's Investors Service

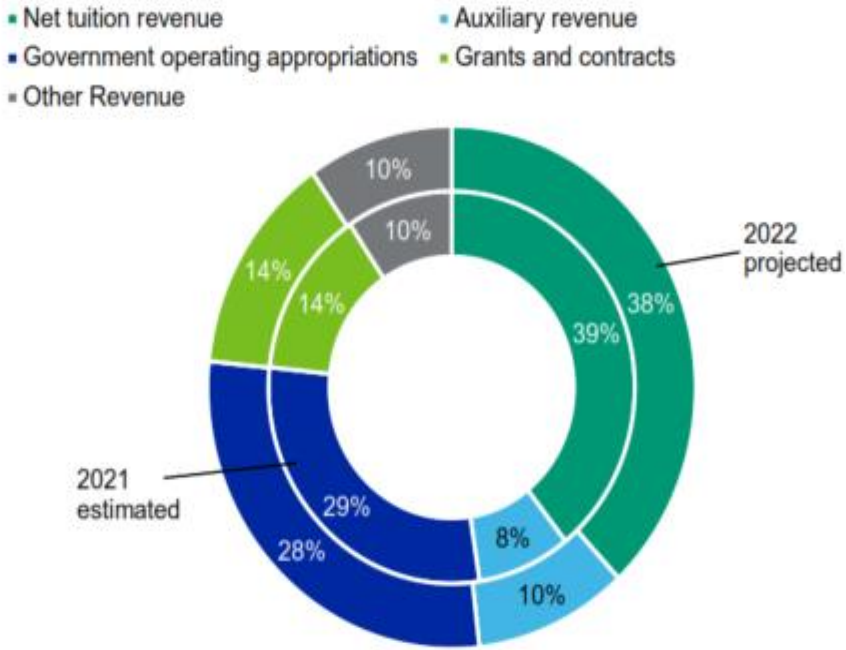
Moody's Outlook Factors, continued

MOODY'S

The proportion of auxiliary revenue will climb at private universities...



...and at public universities



Source: Moody's Investor Services

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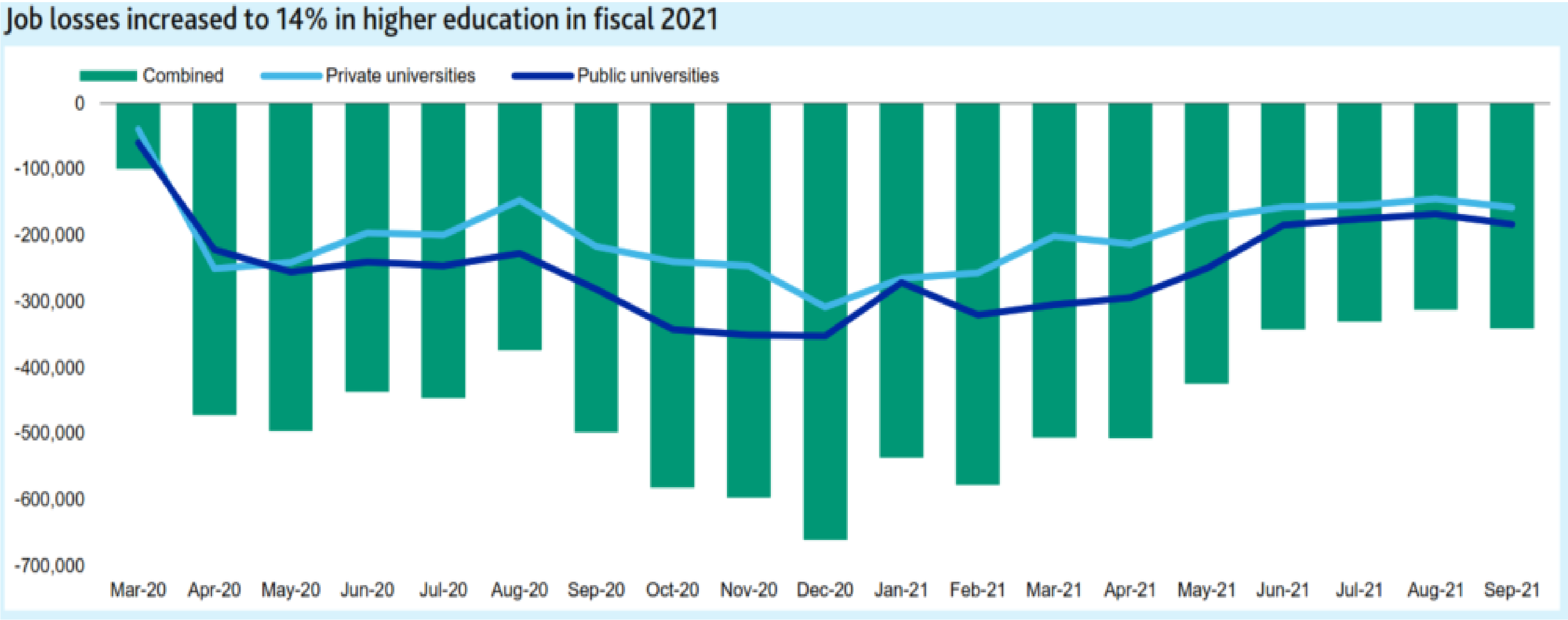
Moody's Outlook Factors, continued

MOODY'S



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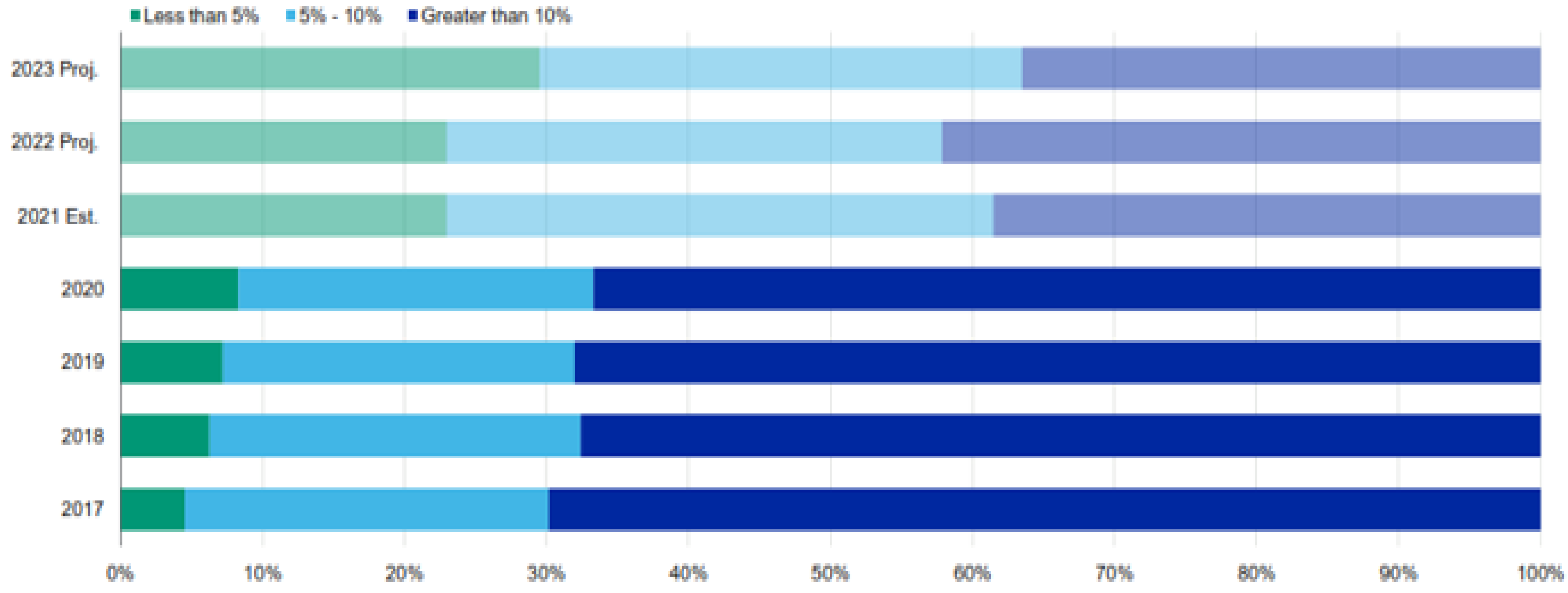
Source: Chronicle of Higher Education, November 5, 2021 (Bureau of Labor Statistics data)

Moody's Outlook Factors, continued

Exhibit 6

EBIDA margins will improve gradually but below pre-COVID levels

Public and private universities



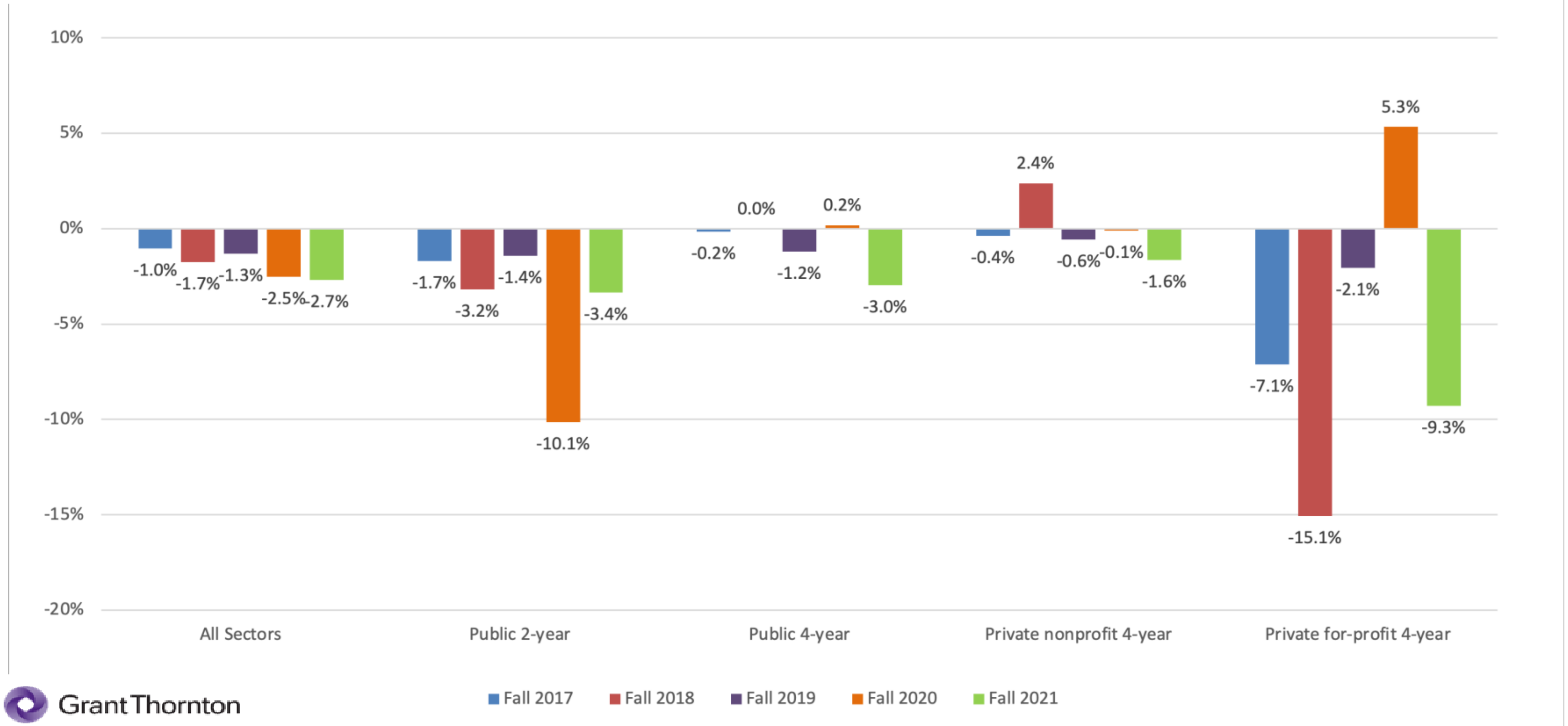
Source: Moody's Investors Service

ESG in Higher Education

1) S&P describes how credit ratings will now consider “ESG Factors”
2) SEC disclosure requirements related to ESG, will FASB/GASB follow suit?
3) Recently the Municipal Securities Rulemaking Board issued a Request for Information (RFI) regarding “disclosures of information regarding ESG-related risk factors and ESG-related practices” and “labeling and marketing of municipal securities with ESG designations”- any colleges/universities that list publicly traded debt securities could be subject to these disclosures in the future
4) Donors are paying more attention to ***how*** nonprofits conduct their work, focused on ESG, rather than simply ***what*** they do to effectuate mission
5) The Association for the Advancement of Sustainability in Higher Education (AASHE) has 1,000+ colleges and universities that participate in the “Sustainability Tracking, Assessment and Ratings System” (STARS) with 600+ in the “good” category (Platinum, Gold, Silver or Bronze), showing progress towards transparency. Maybe future expansion into social and governance metrics could be addressed in the future?

Enrollment Changes – by sector

Percent Change in Total Enrollment from Previous Year by Institutional Sector: 2017 to 2021



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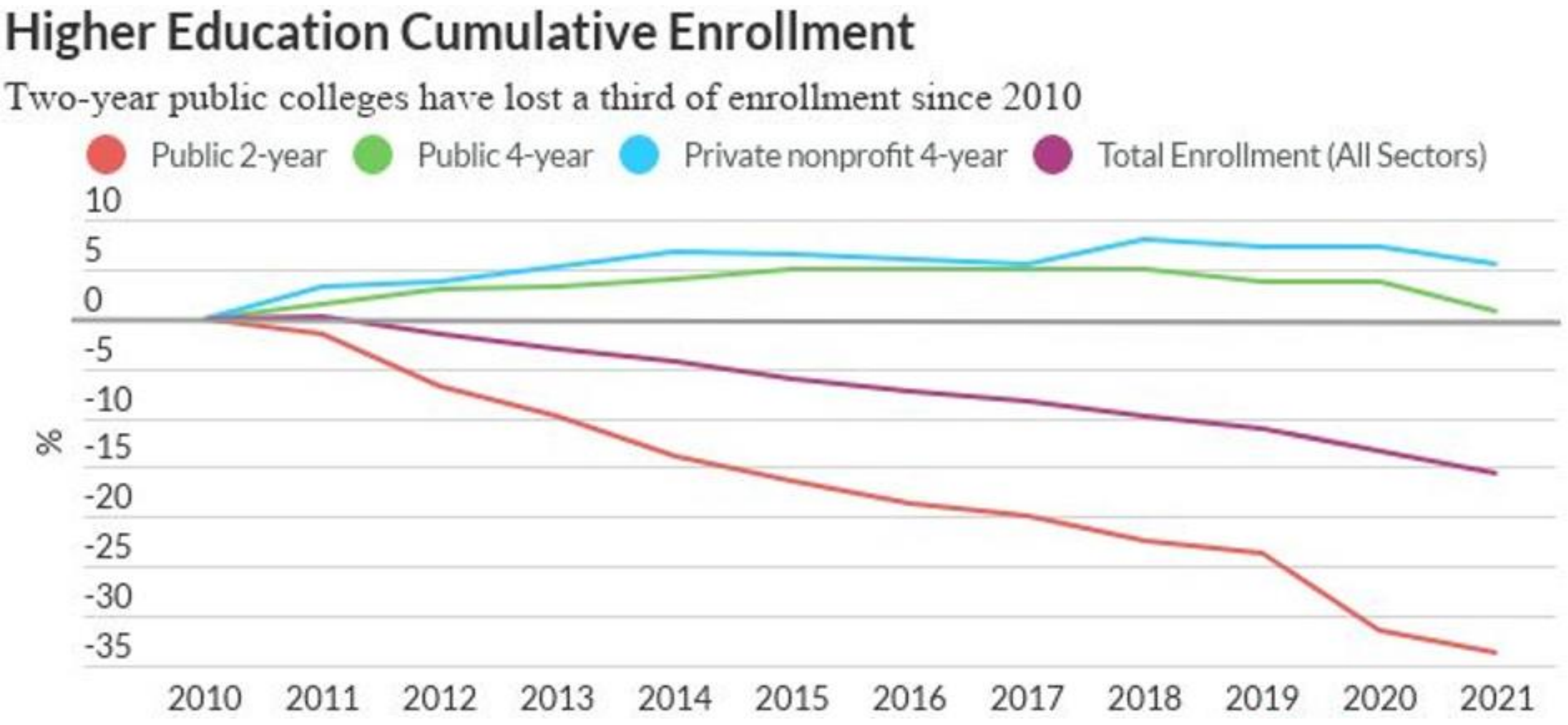
Enrollment Changes – by sector



Source: Fitch Ratings, National Student Clearinghouse

Washington Update

- ✓ Pell Award levels:
  - Increased by $400 to $6,895 for Academic Year 22-23
  - Biden’s FY23 proposed budget includes proposal to increase max Pell award to $8,670 for 2023-24 Academic Year

- ✓ FASFA Simplification Act implementation deadline extended one year, to be implemented in 2024-25 award year (requires changes to the FAFSA and student aid determinations)

- ✓ Dept of Ed is reviewing rules around Financial Responsibility regulations and focusing on transcript withholding practices of colleges and universities

What presidents are saying:

"Confident my institution will be financially **stable**"

"College Presidents Confident, With an Asterisk"

Over five years…

81%

All institutions "agree" or "strongly agree"

84%

Public universities "agree" or "strongly agree"

78%

Nonprofit private colleges "agree" or "strongly agree"

Over ten years…

77%

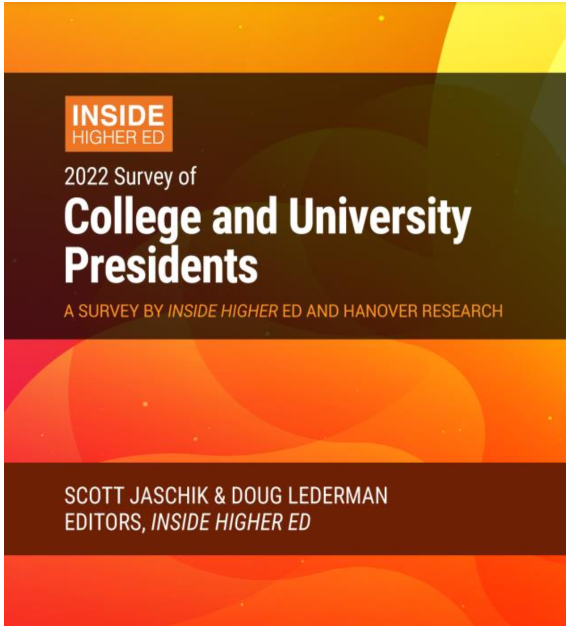
All institutions "agree" or "strongly agree"

76%

Public universities "agree" or "strongly agree"

79%

Nonprofit private colleges "agree" or "strongly agree"



This most recent survey was published in **March 2022**

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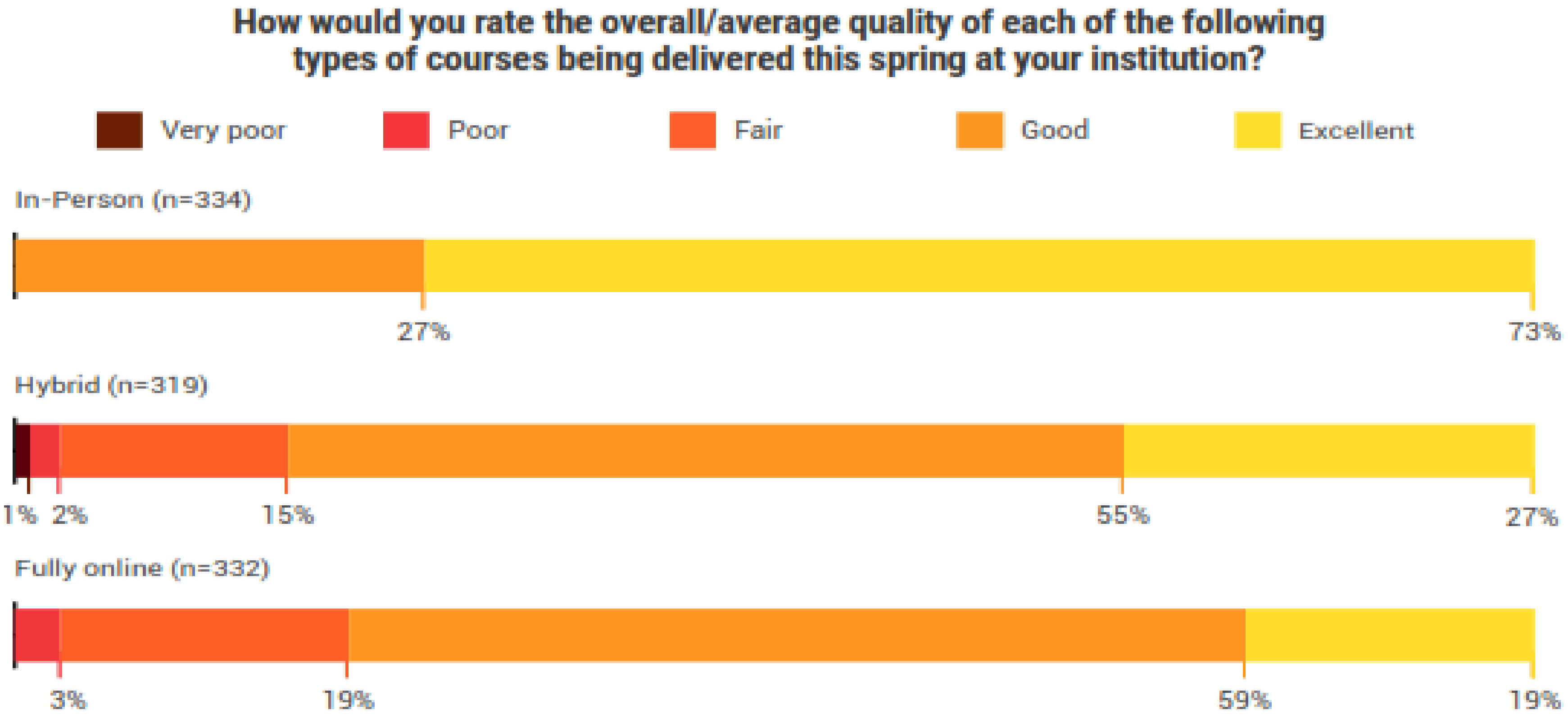
Quality of courses based on format



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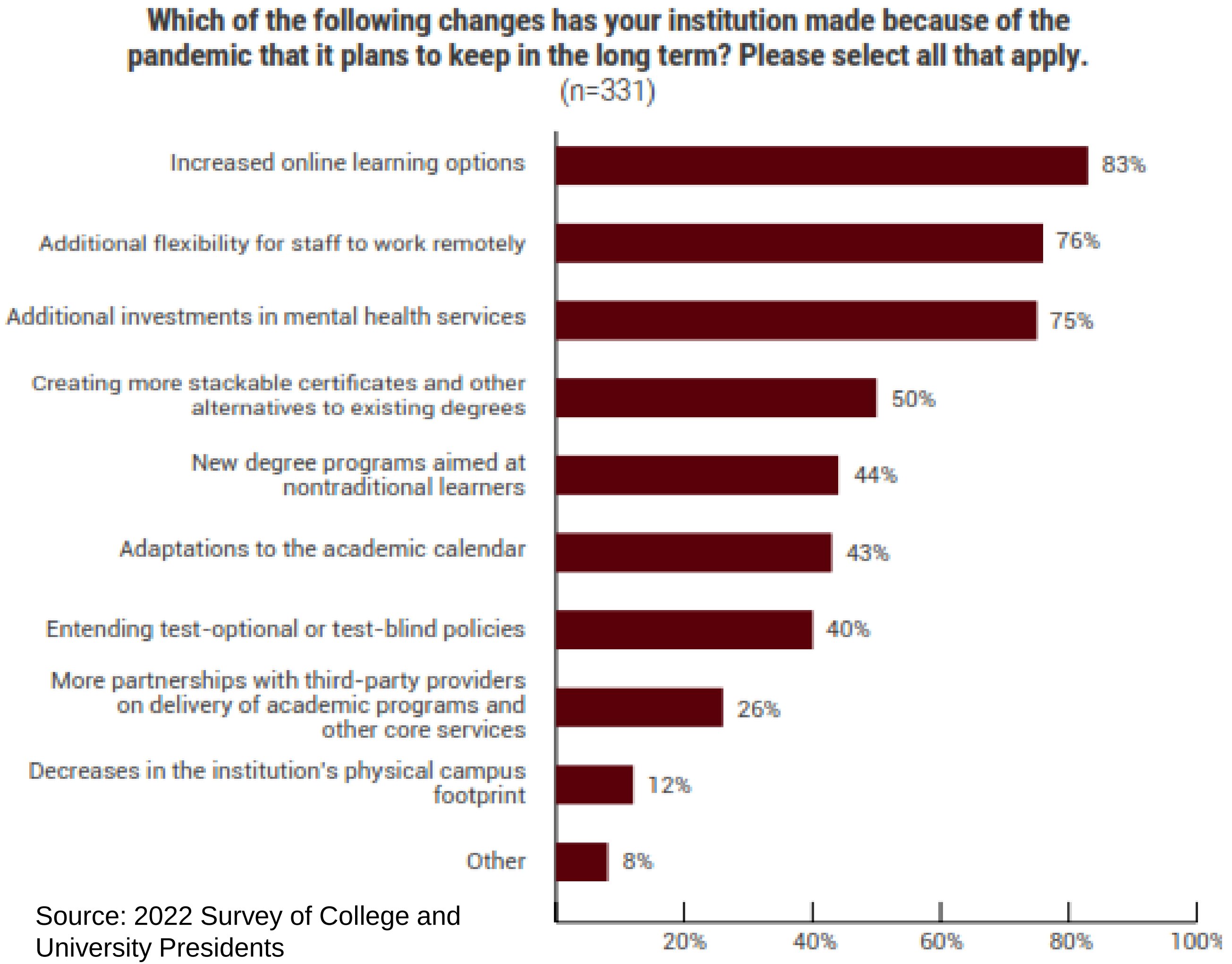
Source: 2022 Survey of College and University Presidents

Changes from the pandemic that institutions plan to keep



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Source: 2022 Survey of College and University Presidents

What chief business officers say overall:

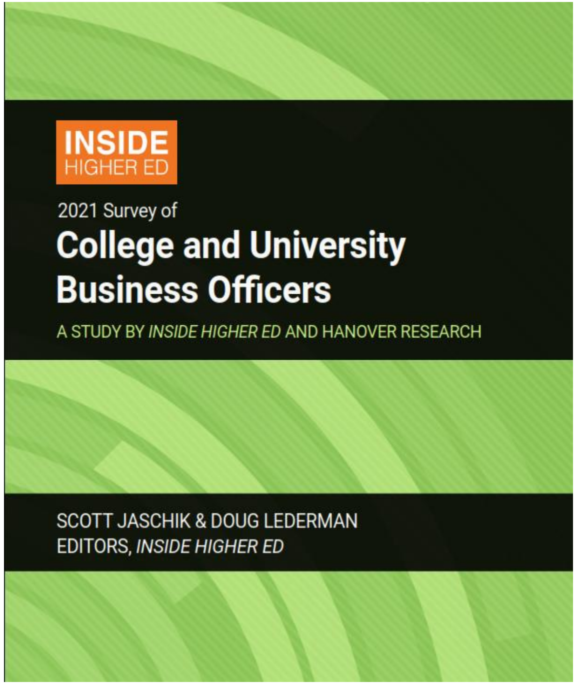
"Confident my institution will be financially **stable over ten years**"

73%
in 2021

53%
in 2020

50%
in 2019

Confidence has increased with a growing split between public (79%) and private (68%) with private baccalaureate colleges having the lowest ten-year confidence at 65% while public doctoral is the highest at 88%.



This most recent survey was completed in **July 2021**

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Commitment to promote ethical and professional excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.