



COVID-19: Potential impacts and considerations for higher education institutions



April 3, 2020

The resiliency and commitment of the higher education community is inspiring, considering the amount of adversity they continue to overcome, particularly with many research institutions and their academic medical centers on the front-lines of the fight against COVID-19. Whether it's moving rapidly to distance learning platforms, helping the neediest students with housing and food security, studying the epidemiology and potentially finding a cure, or even treating patients who have this disease, the industry is having to balance the short-term challenges with the longer-term impacts.

The following checklist, which is not intended to be all-inclusive, details matters to consider and actions that higher education institutions and their academic medical centers can take to help build business continuity plans.



Governance

- Changes to board and audit committee priorities, agendas
- Possible temporary ad-hoc committees
- Frequency and mode of meetings
- Faculty involvement and communications
- Opportunities for advocacy on emerging issues related to the crisis



Disaster recovery planning and mitigation funding

- Activation of emergency response plans
- Establishment of task forces to govern and manage financial impacts during pandemic response
- Process for seeking FEMA reimbursement as a sub-grantee to the designated state agency
- Consideration of federal stimulus relief provisions potentially available under the CARES Act
- Evaluation of additional opportunities to seek reimbursement or new grants for ongoing institutional activities related to the pandemic response



Changes to key business processes

- Changes to and challenges around engaging with constituents in a remote work environment
- Impacts on policies and internal controls
- Communications with and feedback from internal and external auditors
- Importance of contemporaneous documentation



Cash flow planning and budgeting

- Room and board refunds (and applicable financial aid)
- Ability to project/model incoming class of 2024; potential delayed admissions and related payments; potential melt from economic and travel (i.e., international students) concerns; reconsideration by some of campus-based vs. online learning; enrollment uncertainties impacted by affordability and proximity concerns; impacts on inclusion, diversity, gender, economic balance amid these concerns
- Impacts from potential delays to or changes in learning modes for future academic terms

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- Potential for changes in timing of certain receipts (student deposits and payment plans, federal and private grants, pledges, patient and clinical services, etc.)
- Potential incremental cash flows from stimulus provisions or insurance policies
- Healthcare and clinical services: supply chain, service priorities/mandates, payer rate trends, costs; impacts of deferral or cancellation of elective procedures
- Impacts of changes in workforce strategies (see research, workplace rules, etc., below)
- Procurement and payment protocols, as well as key vendor contracts
- Potential endowment and other liquidity constraints/obligations (see below)
- Access to lines of credit, impacts of variable-rate debt, constraints from debt covenants (see below)
- Impacts of delays and/or deferrals of capital projects
- Scenario analysis to evaluate impact of short and long-term risks
- Strategic enrollment planning to align future admissions strategy with current institutional capacity



Move to online/digital instruction

- Ability for socio-economically disadvantaged students to access hardware and/or broadband connectivity to ensure equitable access
- Documentation of changes to processes and protocols
- Testing protocols (e.g., “pass/no pass” instead of grades?); accreditation oversight
- Compliance under U.S. Department of Education (ED) and Uniform Guidance (UG) regulations— guidance likely to evolve for institutions and auditors
- Potential to unlock opportunities for hybrid programs
- Evaluation of opportunities for the acquisition of educational technology companies



Research enterprise

- Impacts on research activities: which projects are still active, which ones can't proceed or may be deferred (e.g., labs, human subjects/clinical trials, etc.); new partnerships and activities focused on COVID-19, etc.
- As to above, consideration of institution's existing policies (or changes thereto) for continuing to charge grants; effects on effort reporting and charging certain costs (guidance from OMB, COGR and others continues to evolve)

- Impacts of redeployment (or absence) of key personnel, including PIs, graduate assistants, and other research resources
- Unforeseen risks in supply chain, procurement protocols, and certain subrecipients
- Maintaining UG and private grant compliance in remote environment
- Continuity in and availability of funding of existing research activities, particularly those with significant existing investment
- Importance of maintaining documentation of any changes, policies, decisions, communications with granting agencies, etc., to support audit trail



Workplace rules and communications:

- Pandemic response management system
- Employees' physical presence (e.g., wet signatures for wire transfers, investments, etc.)
- Sufficiency of internet and phone service bandwidths
- Access to and ability to issue certain information (transcripts) for admissions and financial aid processes
- Operational, community, and HR considerations surrounding retention, pay, and benefits for hourly and other workers whose jobs are “on hold” or not portable, and challenges around communications in this area
- Adjustments to HR policies (sick and personnel time); temporary replacement of wages for certain workforce segments; unemployment vs. pay (i.e., self-insurance funds); communications with organized workforce groups, as appropriate
- Increased need for workflow management software and similar digital tools
- Challenges to virtualize traditional campus-based support systems (e.g., mental health counseling, other medical services)



Facilities management, capital planning and construction in progress

- Maintaining operations and maintenance functions while ensuring compliance with social distancing requirements
- Potential alternative use of facilities, including use of dormitories for overflow bed space or other purposes
- Lack of security at empty facilities, particularly urban campuses
- Assessment of contractual obligations for construction in progress

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- Evaluation of impact to and the prioritization of elements of the institutional capital program
- Assessment and evaluation of opportunities for, including potential monetization of, the management of campus civil infrastructure

Cybersecurity

- Continued vigilance, messaging to employees
- Heightened awareness of COVID-19 scammers and phishers
- Potential security enhancements amid remote teaching and work environments to ensure continued compliance with FERPA, GLBA, GDPR
- Security and privacy of information for employees working remotely in an unsecured environment

Insurance coverages and recoveries

- Review insurance arrangements (include legal counsel, consultants as necessary)
- Applicability and extent of business interruption provisions
- General liability protection: claims vs. capacity and ability to obtain excess re-insurance
- Healthcare and clinical activities
- IT infrastructure costs
- Certain other auxiliary operations

Fundraising

- Continuous communications with alumni and key stakeholders about COVID-19 impacts
- Emphasis and communications regarding existing campaigns (including annual fund)
- Ensure continued compliance with donor restrictions (some may ask donors to re-purpose certain funds)
- Reaching out to key grantors and donors to ensure continuing commitments (and acceleration of some)
- Establishing dedicated campaigns (i.e., student impact funds)

Debt and credit quality

- Access to lines of credit
- Variable-rate demand obligations (VRDOs)—higher interest rates and potential remarketing issues in volatile markets; access to letters of credit and other backstops
- Financial covenants, as applicable, and material adverse change clauses

- Bond disclosures, material event notice filings, etc., to EMMA and creditors
- Enhanced risks and uncertainties disclosures in exempt offerings
- Potential rating agency actions
- ED Financial Responsibility Standards—triggering events; ratio impacts for private institutions
- Distress within institutions already impacted by changing patterns of enrollment, particularly among smaller institutions, causing those institutions to seek partnerships or acquisitions by larger, well-funded universities

Defined benefit plans

- Effects of decreasing interest rates and declining market values on funded status
- Potential impacts on PBGC premium payments and funding strategies

Endowment spending rate change considerations

- Potential increases should consider constraints from UPMIFA, liquidity of underlying investments, underwater fund policies, narrowly restricted funds
- Impact of 2020 market value on future spending

Financial reporting considerations

Balance sheet:

- Valuation: investments; derivatives; receivables from students, donors, grantors, and patients
- Potential impairment considerations: equity method and joint venture investments; other assets
- Interest-rate swaps: counterparties and collateral
- Leases: concessions or other changes; fair value, discount rate, and impairment considerations; additional challenges around implementing new FASB *Leases* standard, effective for most in fiscal 2020
- Valuation of self-insurance obligations: premium deficiencies, IBNR, key assumptions
- Valuation of benefit plan obligations

Revenues:

- Adjustments for student refunds (and applicable student aid)
- Changes to sponsored research and similar activities and related reimbursement impacts
- For academic medical centers and clinical operations, impacts on implicit price concessions and variable consideration due to changes in trends; impacts of not charging for virus testing or patient care

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- Transactions from relief availed under stimulus programs (CARES Act, etc.) and state and local governments
- Business interruption insurance recoveries

Expenses:

- Presentation of incremental costs related to the institution's COVID-19 response
- Effects of changes, if any, to employee benefits and plans

Disclosures and other items:

- Impacts on guarantees, other contingencies
- Endowment disclosures regarding any changes in spending or other policies
- Debt: VRDOs, compliance with covenants
- Liquidity and availability of resources disclosures under ASU 2016-14 (FASB institutions)
- Refresh management's evaluation of entity's continuing ability as a going concern under FASB ASU 2014-15
- Impacts of tax relief provisions or other tax law changes
- Subsequent events and enhanced disclosures about risks and uncertainties—may depend on length and severity of market declines and other items impacted through and after fiscal year-end



Tax considerations

Compensation and benefit concerns:

- Telecommuting—payroll tax considerations for employees (including student employees) living and now working in another state

- Health plans and protected health information (PHI)—testing and provision of care of COVID-19 will not jeopardize plan status

Employers providing employee hardship assistance:

- Certain payments may not be characterized as compensation
- Sec. 139—Qualified disaster relief payments (QDRF)
- Use of charitable organizations, private foundations and/or donor-advised funds

Colleges, universities, and schools providing amounts and assistance to students:

- Refunds of room & board payments or scholarship amounts
- Stipends provided for emergency travel, switch to online learning, etc.

Filing deadlines:

- Form 990—filing deadline is not extended by Notice 2020-18
- Form 990-T—April 15 filing deadline is extended to July 15; May 15 filing deadline is not extended



Enterprise Risk Management

- Inability to meet stakeholder expectations and related reputational risks
- Incorporating lessons learned from readiness and response gaps
- Refreshing institutional risk processes, including disaster recovery plans
- Consider impacts on internal audit plan and revisit, as appropriate

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