

The State of Not-for-Profit & Higher Education in 2021

Tenth annual report



“After more than 20 years with a Big Four auditor, the March of Dimes decided to complete a competitive RFP in 2019. After an exhaustive process that included our CEO and our Finance Committee of the Board, it was unanimous that we move to Grant Thornton. The move was seamless and not only were the cost savings significant, but the service was exceptional as we finished the first-time audit on time and within budget. Grant Thornton's knowledge of the not-for-profit sector is second to none, and they partnered with us from the onset to achieve our goal.”

Dave Damond

Chief Financial Officer, March of Dimes



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The State of Not-for-Profit & Higher Education in 2021
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Introduction

This year's annual The State of Not-for-Profit and Higher Education report offers our practitioner-based perspectives, approaches and solutions to help organizations address the unique and nascent challenges confronting this industry and to embrace opportunities to ensure long-term success and relevance in a changing world.



Now more than ever, organizations must carefully evaluate their operating practices, delivery and effectiveness of mission, and long-term programmatic and financial strategies. Today's world demands a vigilance around mission relevancy and effectiveness, coupled with embracing a mindset of continuous innovation and improvement to meet the disparate and burgeoning needs of constituents. What worked well in prior years (as recently as a year ago) might need to be overhauled. The tenets of impactful collaboration – broader and more effective communications and an ability to adapt in flight – are the attributes organizations must proactively exhibit to position themselves for what comes next.

I am certain you will find this year's edition of particular interest and relevance. Much ink has been spilled by my colleagues to capture and describe the seemingly inconceivable experiences, learnings, frustrations and pains of this past year – feelings and experiences not easily explained due to the limitations of words. So many organizations expended significant efforts to inventory, understand and model the potential effects of the pandemic, perform extensive scenario planning, and apply for federal relief programs, among other impactful actions. Some of which at times felt like unchoreographed efforts to position an organization for sustainability and continued delivery of mission.

Although the financial, operational and emotional effects of this pandemic may not be fully understood and measured for years to come, it has certainly taken its place in history and left indelible marks on our psyche. In time, we will share much discourse among friends and strangers, expressing personalized experiences which will include losses and struggles; all hopefully balanced with shared stories of inspiration and gratitude.

As of the date of this letter, several positive signals are emerging, including the efficacy of multiple vaccines and a broadening of their availability, and various forms of federal economic stimulus programs. However, challenges still abound, and the strains introduced by the pandemic on the not-for-profit sector remain in force and have intensified, as the demand for mission-related services continues to rise.

This year's publication combines a number of key trends and insights across the various sub-sectors comprising the not-for-profit and higher education landscape, and offers some distinctly uncommon and new ideas for growth and transformation as we all look forward to a post-pandemic world and continued recovery.

The world in which we live in continues to evolve at an increasing rate. The expanding use of social media to promote change to address social, cultural, management and competitive issues also offers many new ideas, solutions and best practices to shape and inform decision-making and strategy. New and creative thinking will be vital to move into the future. We trust that our insights will help industry leaders like you do just that.

As a leader in the not-for-profit and higher education industries, we believe it is our responsibility to give back to this community that we serve and care so deeply about by providing our in-depth perspectives. We understand that enhancing quality, protecting reputation and maintaining operational sustainability are all essential to an organization's ability to achieve success and drive mission. Nowhere else will you find a collection of ideas and valued insights, penned specifically for the not-for-profit and higher education sectors, organized in a publication like this.

On behalf of the partners and professionals of Grant Thornton's Not-for-Profit and Higher Education Industry Practices, I am pleased to present The State of Not-for-Profit and Higher Education report in 2021. We hope that you find this to be a valuable resource.

Sincerely,

Dennis Morrone

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Something old, something new, something borrowed, something blue

Lisa Walkush, National Managing Principal, Industry

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What nonprofits can learn from other industries in their COVID response and recovery.

2020 passed by in a blur. While not-for-profit organizations and higher education institutions are not yet out of the COVID woods, they now have enough distance and perspective to identify lessons learned (and what we still need to learn) as an industry.

As we look forward, there are many opportunities to gain insights from each other in the not-for-profit industry. In addition, given the extreme diversity of our industry's business and operating models, there are also many analogous lessons to leverage from the commercial sector.

For those that wonder how COVID's impact on the shipping industry and supply chains can be applicable to nonprofits, just ask leaders of our national and local food banks in order to understand their recent challenges. For those that ask if it's possible for nonprofits to learn from the media and entertainment industry this past year, or those who ask how a movie theater is like a nonprofit, just ask executives at museums that closed their doors to the public as a result of the pandemic. The analogies are numerous, from technology's transformation of education, to membership management in associations, and to donor segmentation within charities.

At their core, nonprofits are (mission-driven) businesses that have struggled to survive, be operationally successful and maintain their relevance like many commercial entities, especially in these financially challenging times. As such, we can learn much from the leaders of for-profit companies that have successfully (and unsuccessfully) navigated through troubled COVID waters in order to enable nonprofits to continue serving their missions and remain afloat.

10 key success factors

As we look for best practices at for-profit companies, several key learnings arise that are relevant for nonprofits to consider:

1. It's all about the customer. Nonprofits commonly struggle to use the term "customer," choosing instead stakeholder, constituents or members. Shying away from commercial parlance may be part of our industry's culture, but it's critical not to lose something in translation. Has our target market changed because of COVID? Are we focused on new customer types or segments? Are we more or less penetrated into the total addressable market?

Whether you are a membership organization, a foundation or a charity, your customers' needs have changed over the past year, and so has the competition for them. It's more important now than ever to understand your customer and to map your products/services to their emergent needs. Insurance companies, banks and service companies all relearned a core and foundational lesson: It's not a time to look inward when consumer preferences change.

2. What's in your portfolio. To say it's common for nonprofits to add products and services without trimming the old and outdated is an understatement. Because of COVID, many commercial entities "cleaned out the garage" and stripped down to the bare essentials – to products that generated returns and those that had sturdy supply chains and clear customer engagement. Nonprofit organizations would be well served to follow suit and deliver those products and services that have high engagement and success, and sunset those that don't. COVID has forced us to focus on margin and mission, perhaps more than ever before; just ask retailers what positive impacts a targeted portfolio can have from an efficiency and effectiveness perspective.

3. People are your engine. It's rare for a nonprofit to find this statement false. However, are we truly living that commitment? We may have improved during COVID, but have we realized our human capital potential? For-profits have launched a series of programs enabling them to retain their top and diverse performers as the economy shows signs of heating up. While loyalty and tenure have generational complexity, we've seen intentionality and execution in many industries, from services to life sciences, that have set organizations on the right path to employee retention and productivity.

4. Agility = change. Being operationally efficient is only one element of being future-ready. Having an agile culture is truly the "X Factor" that enables change to occur. Change your product. Change your customer. Change your pricing. There are numerous stories from this year about companies, including restaurants, proactively shifting their business models, modifying offerings and profitably engaging their communities.

5. Partner to serve. While many nonprofits are embedded in their communities and benefit from engaged volunteers, partnering with other organizations to serve their mission is not yet at maturity. Over this period, we've seen many commercial organizations pursue aggressive partnerships, joint ventures and teaming strategies – sometimes with those previously considered to be competitors – to achieve a variety of goals and objectives (including shortening cycles for vaccine development and delivery).

6. Market to grow. In the nonprofit industry, are we allowed to invest in our marketing function, or does that sound too "commercial"? Strong brands are built. Strong marketing functions are built. Just ask the media industry what has happened to advertising (particularly online ads) with all the new captive, at-home viewers. This is a competitive age where the strong get stronger by engaging in marketing automation and outreach.

7. Go online. While the retail industry experienced a significant shift online, higher education has had an even steeper adoption curve. Although stories abound of nonprofits using the internet to increase their geographic reach during COVID, those that stumbled in this journey are also plentiful. It's not enough to be locally engaged, as national scale generates efficiency and mission success – and digital transformation is the engine to get there.

8. It's about internal technology too. While less visible than a nonprofit's online presence, internal technology also matters. In fact, those commercial organizations that invested in ERP, e-commerce, customer relationship management, robotics, analytics and other platforms before COVID, ended up generating efficiency, effectiveness and timely access to data to drive their success through the pandemic. Nonprofits and higher educational institutions have traditionally lagged their commercial counterparts and have been slower to invest in technology, which has led many to now commit to a "catch up" period as part of their COVID recovery activities.

9. Silver linings. There are things that we would have never done in the nonprofit industry had it not been for COVID. Significant budget reductions occurred, higher education catapulted online and customer reach was extended. We can say the same for commercial entities, where new business models ascended and prior trend lines accelerated. Have we learned from this period? Or will we revert back to our pre-pandemic ways and modalities, much like many did after the 2008 financial crisis?

This has been a challenging time like no other, but it also enabled significant change and mission delivery. After already digging deep and re-envisioning our operations, is it time to do another round? Are there limitations on our success that remain, and do we need to further reassess what continues to stand in our way of efficient and effective mission achievement?

10. Invest in your future. We are not yet at the end. While many commercial entities have prospered, just ask the commercial real estate market what the future holds. Many companies are still finding their place, and COVID truly taught us the difference between "hope" and "know." We hoped this would be all over in a matter of weeks, but successful commercial enterprises know that it's not done yet. Agility, sustainability and focus are all trademarks that have enabled success for companies that have survived, and those attributes will also be required in the nonprofit sector for the foreseeable future.

Moving ahead

During the past year, some companies were simply in the right place at the right time. Some made investments that generated insights and returns, while others were not so lucky – and all organizations that remain are seeking to find their footing in this unprecedented time. While it's critical to understand how we compare to peers and benchmarks within our own industry, we can also have future success by stealing pages from the playbook and mimicking the motions of the commercial sector.

The case for agility in times of turmoil

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Nonprofits of all missions and sizes are being called upon like never before to fill gaps created by directional shifts in donor philanthropy, diminished program revenue, insufficient federal relief programs, and constrained state and local funding. While the call to action is immense, COVID and the ripple effects it has had on society have hindered the availability and delivery of nonprofits' services to their chosen constituents. Simply put, the demand exceeds the readily available resources. Nonprofits are being challenged to be agile – to reinvent themselves, and to do more, much more, with their already constrained resources.

Nonprofits need to demonstrate greater agility to quickly pivot to address new issues, while simultaneously remaining faithful to their core mission.

This dexterity requires nonprofits to educate their donors and beneficiaries on how the organization is relevant in terms of meeting the needs of constituents. Nonprofits would be well served to increase their outreach to donors and stakeholders to better understand and respond to the needs arising from new challenges, and to scale operations and refine mission and service offerings as appropriate.

Nonprofits have unique opportunities to monitor, assess and respond to the evolving needs of their constituents, including those whose voices, rights and needs are insufficiently attended to, such as communities of color, the LGBTQ+ community and the economically disadvantaged, among many others. This requires that nonprofits (as grantees) increase their communication with foundations (as funders) to include more than just letters of inquiry and proposals. Channels for improved

communication with foundations include sharing knowledge and approaching conversations by defining problems and proposing solutions, incorporating best practices from across industries, having periodic briefings, conducting question and answer forums, and inviting donors and stakeholders to meet with and learn from grantees and program beneficiaries directly.

Foundations and other funders can also play an integral role in ensuring that nonprofits uphold their values and stay true to their missions. For example, while many nonprofits issue statements that support racial equity, it is essential that their actions align with their statements.

It is important to note that increasing the agility of a nonprofit often requires additional capital for expanded investments and risk taking. Since foundations serve as a major source of revenue for many nonprofits (grantees), foundations are continuing to toggle with the extent and size of the grants they are making so as to deliver optimal impact. To achieve this end, foundations have been expressing a greater willingness to provide increased funding for general operating support.

In June 2020, during the dual intensities of COVID and the movement for racial equity, several of the largest and most prominent U.S. foundations announced they would increase their giving by issuing debt. This action was in response to nonprofits' calls for additional capital in order to have a greater impact and fulfill needs. However, even as foundations increased the scope of their grant-making, a debate emerged regarding whether to statutorily require them to do more through increased payouts. As a result, a national conversation has started regarding the idea of temporarily increasing annual foundation giving to 10% of assets to provide billions of dollars in new funding to further empower nonprofits. A 10% giving requirement would be groundbreaking, as most foundations typically do not give more than the 5% that is currently required, with the average foundation giving about 7% of their assets annually.



While proponents of the increase to 10% have valid reasons for suggesting this bold move, there are legitimate questions regarding whether such a mandated increase in annual foundation giving is the right approach. Supporters maintain that while many have voluntarily increased their giving above the presently required 5%, perhaps temporarily doubling the required annual payout amount would ensure the heightened levels of giving would be adequately responsive in this current period of pronounced need.

Opponents fear that such an immediate doubling of the required minimum distribution (RMD) could result in wasteful spending, or could possibly impose a burden on some nonprofits who may not be able to scale quickly enough on account of having inefficient distribution channels that limit their ability to achieve the desired impact. Similarly, in a hurried response, some foundations may not have the necessary personnel required for disciplined grantee diligence and oversight rigor in their pre-grant evaluation and post-grant monitoring processes consistent with past practices. Still others may be unable to increase giving without also increasing their overhead expenses to untenable levels. Finally, there is a fear that a change to a 10% RMD may not in fact result in the desired outcome of more funding getting into the hands of operating nonprofits, because under current IRS regulations, those foundations that feel undue pressure from a doubled RMD may simply direct additional distributions to donor advised funds.

In any event, nonprofits of all missions must now think about how they can respond to the macro challenges they face today. They must recognize their missions are not immune to the broader changes occurring in society; and as a result of those changes, they must constantly search for new ways to serve

their constituents and measure the impact of their giving. It is important to note that the role of nonprofits as agile responders and agents of change with respect to current events comes with risks. However, the risks of inaction can be even more problematic. With adequate and appropriate support from foundations, nonprofits can obtain sufficient risk capital to respond to the great challenges that exist in these extraordinary times, to stay true to their mission, and to continue to be a positive part of the solution to the problems that face society now and in the future.



New challenges, new solutions: Innovative funding in the private foundation space

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Amidst the pandemic and social justice initiatives, 2020 produced new types of crises and a profound opportunity for grant-making foundations. While foundations previously focused on maximizing investment returns to provide long-term financial preservation and a sustaining level of grant-making, there is now an urgent demand from the public and the nonprofit sector to increase giving levels in response to these new crises today.

According to a 2019 Nonprofit Finance survey, only 25% of nonprofits have at least six months of cash reserves on hand, and in a recent survey by the Charities Aid Foundation of America, 73% of nonprofits have seen a stark decline in contributions.¹ Yet the emergence of new and innovative funding mechanisms coupled with philosophical shifts in grant-making have imbued private foundations with the ability to breathe life into the nonprofit sector and stoke their ability to effect change.

In recent years, foundations have become more aggressive in championing societal change, more innovative in their approach to grant-making and employing a wider range of tools to accomplish and monitor mission impact. Two areas gaining greater notoriety include the issuance of social bonds and impact investment strategies, including the use of program and mission-related investments.

Social bonds are a form of public debt that allow investors to raise funds for projects with positive societal outcomes. Although social bonds have existed for some time, in June 2020, the Ford Foundation generated significant attention, when it announced it would become the first private foundation

to issue a designated social bond to significantly broaden its grant-making activities.² The proceeds from its \$1 billion debt issuance will increase the Ford Foundation's endowment payout from 6% to 10% over the next two years, allowing the foundation to maintain its current investment portfolio, while also dramatically increasing its giving during this critical period of need.

The Ford Foundation issued its social bonds for the purpose of supporting civic engagement, gender, racial and ethnic justice, and climate change, among other causes.² Several other foundations similarly issued social bonds to dramatically augment their grant pay-out percentages over the ensuing years, including the Doris Duke Charitable Foundation and the John D. and Catherine T. MacArthur Foundation.³ This past October, the Minnesota-based Bush Foundation announced its \$100 million-dollar social bond issuance in order to meet the extraordinary needs of its local community as a result of the COVID crisis.

The actions of these foundations and the positive response by the financial markets and the general public to these debt issuances has opened up potential leverage-based strategies for other foundations looking to maintain their endowments, while concurrently increasing their payout percentage to bolster their short-term impact.

Program-related investments (PRI) and mission-related investments (MRI), although not new in design, are tools that are being used more frequently to assist communities and grantees by providing low cost capital to address priority

problems and provide resources to nonprofits to accomplish mission. MRIs are investment vehicles that provide risk-adjusted investment returns, while also supporting social, educational or environmental goals. Investments of this type have both investment and social return motivations and are considered part of foundations' investment activities.

PRIs are mission-driven investments that are more closely related to charitable grants. While both MRIs and PRIs have a social impact quotient, PRIs have a requirement to meet specific charitable standards, which include passing a three-part test. The three-part test mandates: 1) the primary purpose of the investment must be to further the foundation's exempt purpose; 2) the production of income or appreciation of property is not a significant purpose of the investment; and lastly, 3) the investment will not be made to influence legislation or participate in political campaigns on behalf of candidates. If an investment meets these requirements, the foundation benefits from improved tax treatment, including being able to treat the cash outlay of a PRI as a qualified distribution towards the foundation's annual distribution requirement.

Historically, the use of MRIs and PRIs has been relatively limited; however, there has been significant growth in both the number and size of such investments in recent years. Examples include investments made by the Kresge Foundation and Gates Foundation in underserved communities to address specific needs that are consistent with their overall missions.

The Kresge Foundation's work includes a goal to deploy at least \$350 million of its funds and to leverage at least \$1 billion from other investors by making mission-motivated investments in civic improvements, arts and culture, education, health and the environment.⁴ The Gates Foundation's strategic investment fund aligns with its programmatic strategies and charitable goals, not only by investing capital in these projects, but also by having

its investments matched by other sources of external capital at a leverage ratio of at least 1:1.⁵ For both the Kresge Foundation and Gates Foundation, strategic investments not only serve as a powerful deployment of the foundation's own funds, but also serve as a lever to increase additional funds provided by private enterprises and individuals, thereby multiplying the impact of their giving.

COVID and the momentum that the social justice movement gained over the past year continues to promote calls for foundations to significantly increase their annual pay-out to maximize their impact on communities and grantees during this time of great crisis and change. The good work that so many foundations have been doing is a call to action for the private sector to also find new ways to contribute and better resource charities and organizations to meet burgeoning societal needs. Developing new and embracing existing innovative tools and channels for programmatic impact and delivery and increased donor philanthropy is critical now more than ever.



¹ https://www.cafamerica.org/wp-content/uploads/2_CV19_Report_VOL2.pdf

² <https://www.fordfoundation.org/media/5308/ford-foundation-social-bond-framework-52920-vf.pdf>

³ <https://www.fordfoundation.org/the-latest/news/five-major-foundations-to-increase-support-with-over-17-billion-to-assist-nonprofit-organizations-in-wake-of-global-pandemic/>

⁴ <https://kresge.org/our-work/social-investment-practice/>

⁵ https://sif.gatesfoundation.org/wp-content/uploads/2018/02/MakingMarketsWorkforthePoor_Stanford.pdf

Driving value creation for nonprofit stakeholders

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Today's nonprofit organizations come in a variety of shapes and sizes.

They range in diversity from food banks to museums, from social services agencies to higher education institutions, and from small community-oriented missions to those executing on a global scale. As varied as the nonprofit landscape might be, they all share one commonality that transcends shape, size or macroenvironmental forces – the need to create value based on the unique needs of their stakeholder segments.

Exploring how a nonprofit organization could enhance and refine stakeholder value creation – whether those stakeholders are students, donors, program beneficiaries, members or religious faithful, for example – should be a perennial consideration. Given various challenges over the past year, coupled with shifting stakeholder sentiments and expectations, we see the most effective nonprofits placing greater emphasis and leadership attention on driving constituent relevance and value. Delivering consistent, high-quality services to make sure diverse stakeholders' needs are met enables organizations to strike the important balance between advancement of mission objectives and longer-term organizational sustainability.

The five building blocks of value creation

There is no one “secret recipe” to maximize value creation, but we believe there are five building blocks, or key attributes, that we see effective nonprofits considering:

1. Informational value

One of the most tangible benefits an organization can provide is access to information that is not readily attainable. Moving beyond programmatic informational offerings, these perspectives and insights are critical in providing access to a treasure trove of research, thought leadership and other resources.

Examples include: Websites, call centers, direct service professionals, social media, newsletters, periodicals, training programs, contact directories, conferences, and other vehicles and platforms to deliver unique information not found elsewhere.

2. Financial value

Nonprofits offer stakeholders the opportunity to reap direct or indirect financial benefits because of an ongoing relationship and/or through the consumption of programs and services. We see effective nonprofits delivering financial value in several ways, including value for core programs/services, preferred pricing for other (often third-party) offerings, and by increasing personal and/or business-level earning potential. Careful consideration of external market factors and a nonprofit's financial objectives and circumstances guide how to best create and share financial value with their stakeholders to help ensure long-term success.

Examples include: Dues pricing, financial aid, discounted pricing for various programs/services, relationships with third-party providers, degrees, certifications and networking events that offer potential for future income growth.



3. Experiential value

Nonprofits are uniquely positioned as they're asked to deliver meaningful and memorable experiences for their most important stakeholders. Experiences help nonprofits create a lasting positive impression and, often, long-term engagement and affinity. Some nonprofits consider themselves to be in the hospitality business, while also working ardently to advance their missions and programmatic objectives. Effective nonprofits develop an intimate understanding of what stakeholders are looking for, deliver experiences in a distinctive and customized way, and follow up with an appropriate level of customer intimacy to influence stakeholder acquisition, sentiment and retention.

Examples include: Day-to-day program delivery, first-hand experience and observation of the mission at work, educational offerings, networking events, conferences, social gatherings, trips, galas and virtual interactions.

4. Customer-centricity value

Like any other service organization, nonprofits are expected to keep pace with contemporary customer service standards. These expectations include balancing the more traditional elements associated with customer or stakeholder service, while also adapting programs and services to meet emerging stakeholder expectations. Nonprofits are increasing focus on striking a balance between meeting the unique needs of their stakeholder segments based on personas, preferences, consumption habits and engagement.

Examples include: Customization and personalization of delivery, ongoing refinement of programs and services, "customer service" offerings, self-service functionality, responsiveness, flexibility, ease of interaction, tone, nature and frequency of communications, and the ability to anticipate needs.

5. Reputational value

It has often been said, "it's the company you keep." Determining whether – and how – to engage with a nonprofit can rely on affiliation-type effects that come with the relationship. Some individuals get involved with nonprofits because of mission affinity, camaraderie, shared values, perceived prestige or exclusivity. By belonging to an organization and supporting its cause by wearing its logo or earning a certification/credential, one is inherently providing an endorsement of the organization and its works, which can be a mutually beneficial relationship and partnership.

Examples include: Citing memberships and certifications/credentials on resumes and professional biographies, following organizations on social media, getting access to "members-only" groups and events, and wearing branded gear.

A resilient and relevant nonprofit organization

Successful nonprofits are thoughtfully and diligently considering how to best redesign and drive value for their stakeholders through the lens of these five building blocks. We see effective evaluation of performance against these various dimensions in absolute terms, relative to others, and longitudinally with the passage of time. Ultimately, an organization's value creation and composite "value score" comes from any individual's unique weightings of the various criteria and their scoring of organizational performance against each. Adopting and employing a continuous improvement mindset for understanding stakeholder needs and delivering against them is vital for organizations to advance their missions and ensure long-term success.

Navigating the IRS during COVID

Scott Thompsonett, Managing Director, Tax Services, Not-for-Profit and Higher Education Practices

At certain points in time, we all confront daily inconveniences that sap the pep in our step, the vim in our vigor or our zest for life. Whether it's the stress of languishing in traffic during our daily commute or steeling ourselves for another dental cleaning, from the understudy to the Marathon Man, we all must endure the challenges of modern society. The most extreme of these challenges, perhaps, is a visit from a Revenue Agent: The dreaded IRS audit and its intrusive dissection of your financial operations and reporting practices. So feared is the IRS, that a majority of Americans, when surveyed, have admitted they would prefer a root canal to an IRS audit.

Is this fear rational? And if so, how does the IRS conduct an audit during a once-in-a-lifetime pandemic that has dramatically altered the manner in which we perform even the most routine of our business and social interactions? The answer

is that while an IRS examination can be time consuming and frustrating, it need not be feared. With the help of experienced tax controversy professionals, these exams can be resolved favorably. The IRS was forced to evolve how it conducts its exams this past year due to COVID, and we have helped many of our clients navigate this new terrain.

Like so many businesses throughout the country, the IRS shut down its Service Centers in March 2020 and resumed its operations in July 2020. This service disruption created a backlog of unprocessed mail while the IRS remained shuttered; and today the IRS is still struggling to recover from the backlog. Even pre-pandemic, the IRS had been working with a significantly reduced workforce. Moreover, the challenges of the pandemic have forced the IRS to change the way it works, and have made them more focused and more data-driven in exam selection.



Below, we present five nuggets of wisdom learned from our experience in assisting organizations with IRS examinations during COVID:

1. The IRS engages in more targeted, focused exams

Gone are the days when the IRS pulled a tax return for exam without focus and purpose. The IRS has been forced, due to budget cuts and personnel reductions, to be more targeted and purposeful when conducting exams. The IRS now relies more heavily on data analytics and a variety of metrics to identify areas of compliance concern. Before a Revenue Agent notifies a taxpayer of an exam, they are responsible for determining the scope of the audit, conducting a pre-contact analysis, including a thorough review of the case file, a review of the complete tax return(s), including line items, credits, the balance sheet, elections and schedules, as well as internal and external data sources.

Back on March 25, 2020, to help those facing the challenges of COVID, the IRS announced that it would not generally start any new examinations until July 15, 2020. Ongoing exams kept going, but at a reduced pace. The IRS has now adapted, just like many businesses, and has begun in earnest to conduct examinations. In addition, with a new IRS Commissioner, who was formerly a tax controversy attorney, and a renewed emphasis on hiring revenue agents, it appears examination activity will continue to increase.

2. The IRS faces hurdles in remotely conducting exams

The IRS has been reluctant to adopt new technology too quickly for a host of reasons, but security has remained a paramount concern. With the great increase in identity theft, the IRS is very sensitive to exchanging information online. For example, you must still send a Form 2848 Power of Attorney and Declaration of Representative by fax. In the world of COVID, the reluctance of the IRS to use new technology has slowly begun to fade out of necessity. The IRS now holds Appeals Conference via Cisco's Webex. The IRS has also been relaxing some of its wet signature requirements, allowing digital signatures in some instances. COVID has forced businesses to adapt, and the IRS is no exception.

3. Set up regular status calls

Given the volume of cases most agents are presently working, it is no surprise that an agent may go "radio silent" for an extended period of time. As a result, your procedure for managing the IRS should be no different than it is with your own internal teams; scheduling weekly or bi-weekly status calls ensures that both your organization and the IRS stay disciplined and on-target. Most agents are working from the comfort of their own home and are amenable to holding brief 10- to 15-minute calls. Being diligent, accessible and responsive is a smart taxpayer strategy.

4. Remember the Scout motto: "Be prepared"

Since the IRS agent will work the case remotely and likely not have access to their traditional tools of the trade, it behooves the organization to provide any responses to Information Document Requests (IDR) in as organized and easy-to-follow fashion as practicable. When sharing permanent documents (such as bylaws or IRS determination letters) and tax return work papers, one should collate them into binders that clearly identify the substance and purpose of the documents. Be open to providing the data in alternative formats, both in hard copy and via a zip drive, to facilitate the agent's analysis. In responding to an IDR, you are not required to produce or create documents that do not already exist. But you certainly can produce overviews and summaries that help clarify issues. Being professional, straightforward and responsive helps to more quickly bring an exam to a favorable resolution.

5. Consult with your tax specialists

Know that when you are selected for examination, you are the focus of an IRS investigation. How you respond to the IRS's inquiries will dictate the result. Take advantage of your access to specialists who routinely engage with the IRS, and who know the appropriate approaches and responses, when navigating the minefields of taxation.

Although no one relishes a visit from the IRS, heeding these recommendations can mitigate the imposition of undergoing an audit.

Social media trends and strategies in the digital age

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Today's nonprofits operate in one of the most unusual economic and social environments in modern history. With businesses shuttered and populations locked down across the globe, social media usage is escalating like never before. From news updates to food blogs and everything in between, the power of social media is far-reaching and in full swing.

Nonprofits need to adapt and embrace the digital age, develop a strategy for the long haul, and solidify their online presence and messaging to drive greater engagement with stakeholders and donors.

Social media platforms provide a tremendous opportunity for organizations to convey their ideas and unique service offerings, amplify needs and punctuate successes. Every channel is distinct and has the potential to reach different people at different times. A simple tweet or a well-timed Instagram post is viewed around the world and can quickly grow from awareness into action.

For example, R&B singer The Weeknd tweeted that he donated \$1 million to the organization MusiCares to support artists whose events were cancelled due to COVID. His thirteen million followers saw the tweet, and many reacted by re-tweeting and sharing it thousands of times, resulting in immense awareness and generating additional contributions for the cause.

Nonprofits have always used social media as a medium to communicate and promote upcoming events and generate buzz. Events are an important part of the nonprofit continuum, as they marshal members to engage, share knowledge and effect change. However, because of social distancing and group gathering restrictions, traditional galas, walks and events are not currently an option. Accordingly, we are now seeing organizations use social media in more creative ways, including hosting virtual events, to fill this gap. A virtual format opens events to a much broader audience, engaging participants across multiple geographies with live chat and fundraising functionality. Two examples of this include: The National Geographic Society, which launched an interactive series in 2020 on YouTube to raise awareness regarding cultural differences; and GLAAD – the LGBTQ+ media advocacy nonprofit – which hosted a series of weekly Instagram Live hangouts for its followers. In both instances, viewers could interact with one another through chat features and contribute directly to the organizations. Chat logs also show which users' friends or verified accounts – such as musicians or sports stars – are participating to further build excitement and heightened levels of engagement.

For cultural institutions such as zoos and museums – which are reliant on visitors to their facilities – the availability and design of virtual experiences has grown and morphed dramatically, and now goes well beyond just fundraising events. Institutions are adapting quickly to our new world, with virtual "Meet the Zookeeper" events at zoos and artist talks at museums.

The best-in-class experiences involve interactions (such as virtual guided tours) allowing for close connections in order to replicate an in-person experience. As organizations continue to improve the quality of their virtual experiences, they will increase their ability to monetize these experiences with both new and existing customers.

Nonprofits must have a coherent plan regarding their online persona. They must convey their story to grow and connect with the community and stakeholders. This is a great way to engage stakeholders, but they must execute precisely.

Nonprofits now more than ever need to be receptive to their stakeholders' feelings toward their organizations. Messaging about community and social reform – and other current trends – requires careful consideration before posting. Social media is an amplifier – and it amplifies both the good and bad. An ill-timed tweet can spread around the globe and trend for all the wrong reasons. Many platforms allow users to conduct pulse surveys, which can be used to gauge interest in future events and campaigns, and the overall mood and interests of stakeholders.

Today's donors want to see an immediate impact on their contributions – whether through pictures or financial information – to know they are making a difference. But transparency has

historically been lacking in tracking return on investment for nonprofits. With the help of technology, organizations now have the tools available to more easily manage donor relationships and share the impact of their contributions in real time. Whether it's sending personal emails to donors or posting status updates, nonprofits can utilize social media to share and promote results.

In addition, with the rise of websites such as DonorsChoose and GoFundMe, along with web-based payment platforms, such as PayPal and Venmo, individuals are more comfortable donating small dollar amounts and more frequently. Nonprofits can use similar types of direct engagement tools to capitalize on attracting more donors and showing immediate results.

Building buzz around an organization takes some experimentation, but having a dedicated strategy and following the recommendations outlined above will better position your organization to take advantage of a more effective online presence.



Tomorrow's working world: Envisioning remote work after COVID

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If we rewind only 3-5 years, working from home was rarely an option for employees in many industries. Even when technology allowed for it, the prevailing mindset and sentiment of leadership discouraged it. Back then, we did not have the technology we have today, and the belief was that offices were critical to productivity, culture and winning over the competition for talent. Organizations performed significant diligence in selecting just the right office space, and many focused on offering open-office designs, hoteling and co-working spaces that aligned with institutional culture and even mission.

As technology advanced, organizations began to offer added flexibility in terms of allowing their employees to work from home some portion of the workweek as an added benefit.

In light of COVID, many of us have become accustomed to working from home. With no clear timeline as to when offices will reopen and welcome employees back on a daily basis without restriction, it is important that organizations carefully evaluate the pros and cons associated with a remote working environment.

For many employees, the time and money saved on commuting, clothing, dry cleaning, meals and childcare has been an incredible benefit to working from home. Organizations have also benefitted by downsizing their physical workspace, when possible, which has helped them reduce operating costs. Moreover, employers are no longer geographically constrained when it comes to recruiting talent, as they can access a broader pool of professionals across diverse geographic areas, even internationally. Organizations may realize even greater productivity from employees as, according to Hubstaff, 65% of workers report they are more productive when working remotely, and 86% rate their productivity as being 'good' or 'excellent' when working from home.

There are of course a number of downsides to this new normal. Not everyone has the space to work from home, and some employees share their "home office" with a spouse and at-home learners – which may not be an ideal setting for promoting productivity and limiting distractions.

From an organization's perspective, information technology security is one of the greatest concerns when operating in a work-from-home environment. Wrongdoers continue to exploit cyber vulnerabilities in organizations of all sizes. Organizations must remain vigilant and consider methods to secure their data to combat nascent and sophisticated cyber risks, especially when their employees have transitioned to a remote work environment and are allowed to use personal devices – many with improper configurations.¹





There are five key areas to focus on while operating remotely to maintain an organization's defense against cybersecurity threats:

1. Security and procedures documentation

A formalized policy should include the form of remote access used, the devices permitted to use the remote access, and the level of access granted to employees (tiered levels of access is recommended based on specific job responsibilities and required system functionality). The policy should also contain details about the management and updating of the organization's remote access servers.¹

2. Security awareness training

For cybercriminals, humans are the easiest targets, so implementing periodic security awareness training is essential. Security awareness is an important non-technical component of information security. Instilling a training program to educate users can minimize potential security breaches due to negligence by or complacency of employees.

3. Multi-factor authentication (MFA)

While preventing all cybercrime is impossible, organizations can mitigate the risk of becoming a victim by taking precautionary steps such as implementing MFA, which adds an extra layer of security. With MFA in place, a cybercriminal would not only need a password, but would also require a second form of verification (such as a login code sent via text message to the employee's cell phone) to gain access to the system.

4. Strong encryption and user authentication

Information security managers can mitigate external security threats by encrypting data in order to protect the confidentiality and integrity of communications and to authenticate endpoints in order to verify identities.²

5. Telework client devices

Teleworker PCs, laptops and handheld devices should have the same local security controls as those organizational devices used onsite. For example, the NIST guide states, "if a personal firewall on a telework organizational device has a single policy for all environments, then it is likely to be too restrictive in some situations and not restrictive enough in others. Whenever possible, organizations should use personal firewalls capable of supporting multiple policies for their telework client devices and configure the firewalls properly for the enterprise environment and an external environment, at a minimum."²

As organizations begin to thoughtfully and safely plan to bring their employees back into their offices, they will need to consider the various benefits and risks that come with that decision. As many employees have grown accustomed to their work-from-home environment, some organizations will likely need to integrate remote work into their business plans and even their codes of conduct going forward. Assuming cybersecurity risks are well managed, an organization can offer both in-office and remote-work modalities to its employees that can allow for increased productivity and improved collaboration among co-workers and clients.

¹ <https://www.securityinfowatch.com/covid-19/article/21153766/5-ways-higher-education-can-optimize-data-security-during-a-pandemic>

² <https://www.govinfosecurity.com/5-steps-to-secure-remote-access-a-1247>



Cultural transformation in higher education

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The coronavirus pandemic has transformed business processes for all organizations, and perhaps for none more than higher education. The ebbs and flows of the spread of the virus and the changes in government policy and public perception have created turbulent times that are impossible to accurately predict. As a result, the pandemic has forced higher education institutions to balance divergent health and safety issues against the desired student experience, athletics programs, institutional culture and, of course, the current and long-term financial sustainability of the institution.

The immediate response by many institutions was a stark shift to remote learning, with health and safety as the priority. For students, a virtual education was not what was desired. They expected campus life, sporting events, robust social interactions – including fraternities and sororities – and access to faculty and campus resources to broaden and complement their educational experience. Faculty members also thrive on being in the classroom, leading laboratories and sharing their knowledge with engaged students. The virtual educational experience is demonstratively different than being immersed in an on-campus educational environment.



It is true that these times are unprecedented; however, higher education is no stranger to transformation and innovation.

- Prior to World War II, higher education was not broadly available to everyone. The enactment of the G.I. Bill was transformational and generated an influx of millions of war veterans enrolling in higher education institutions in the ensuing decades. This shift in the profile of the ‘traditional’ student required an evolution of the design and delivery of previous programs as well as campus culture. The new wave of students brought individuals with disparate life experiences, as a result of their involvement in the armed services, and many committed to taking full advantage of the education now made available to them. Their enthusiasm and work ethic set higher standards for everyone in the institution and caused a shift from the then existing curriculum to a wider range of disciplines and career paths. Historian James T. Patterson has called it, “the most significant development in the modern history of American education.”
- With the growth of racial and ethnic minority participation in advanced studies, higher education institutions adapted their admissions processes to be more equitable and diverse. This cultural shift became an imperative, not only as a part of campus life, but within the classroom. An example of an institution that embraced this change was the Center for Research on Learning and Teaching at the University of Michigan, which offers consulting services, seminars and workshops to faculty members who seek to learn how to integrate multiculturalism into the college classroom and how to develop a more welcoming and inclusive learning environment.
- Student demographics have shifted as well, and the full-time undergraduate student is no longer prevalent. Today’s students include working adults taking classes part-time, while juggling family responsibilities and/or employment. This changing student cohort expects an education that is not only relevant to today’s job market, but one that is also highly personalized and accessible.

- Schools in the United States have long been a top choice for international students to obtain an education, but the improvement of overseas institutions’ global rankings has created increased competition with these institutions, now luring top talent from across the globe. This has prompted U.S. institutions to develop branches overseas, including New York University in Abu Dhabi and Shanghai, Northwestern University in Qatar and Temple University in Japan, to name just a few.
- The advent of Google, Siri and similar technologies and platforms has forever changed the way people learn and how content is disseminated. No longer are students spending as many hours as they once did in libraries researching facts. Instead of memorizing information, students now focus on how and where they were able to find the data online.

Today’s institutions can not only take part in, but can also lead the next cultural and technological shift in higher education. Institutions must look beyond the methods of yesterday and embrace the opportunity to reimagine their culture and character. Doing so will enable them to protect the best of their existing programs, while also adapting their programs and curricula to benefit tomorrow’s students. This evolution and exploration of new programs is necessary to align with the evolving goals and aspirations of students, the future roles these students will play in our changing society, the jobs that will be available to them and the changing priorities of the institution.

Higher education institutions can be neither perfect nor all things to all people, but now is the time when it may be appropriate for them to consider all options for changing their programs, culture and character to better meet the needs and desires of their students today and in the evolving world in which we live.



Budgeting transformation in higher education

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2020 was an unprecedented year in higher education, and 2021 is shaping up to be unlike any other for the industry. As a result, colleges and universities have revisited and revised their budgets and frequently repeated that exercise (seemingly on a biweekly basis), with continued changes to budgets and supporting processes expected in the months ahead.

Budgeting is more than budgeting

Why have budgeting processes changed so much over the past year? At their core, budgets are a reflection of anticipated future outlays and expected returns. However, given the present lack of future predictability, long-range planning and short-term budgets have collided, causing budgeting to become of even greater strategic importance.

After the 2008 financial crisis, revenue streams and cost structures that had persisted for decades enabled institutions to recover and settle back into a traditional operating model. While 2020 forced demand-driven elements (housing, dining, auxiliaries, etc.) to fall precipitously and associated revenues to crater, in 2021 we are beginning to see the road to recovery, but the go-forward model remains unclear.

As a result, as institutions revisit their budgets, they are in effect examining which levers to pull in their end-to-end production function. Under the guise of “budgeting,” the fundamental examination of the underlying operating model is occurring within three key realms:

- 1. External demand** — Reading and responding to the market and its needs; positioning the institution within the higher education landscape; modifying external messaging to leverage and drive demand; and exploring new student/customer types.
- 2. Academic value creation** — Revisiting pedagogical modalities (e.g., in-person, hybrid, online) and their associated operational impacts; modifying the product portfolio (offerings and pricing) to generate academic value; and allocating institutional resourcing/expenditures to align with the provisioning of courses and supporting activities.
- 3. Institutional impact and achievement** — Determining key institutional outcomes and metrics, including those that are mission and financial performance related; measuring contributions by course/program; and understanding the resulting market position (an important input into External Demand).



EXTERNAL DEMAND

Macro-level drivers of demand:

- Student/market needs
- External trends
- Educational and employment trends
- Customer preferences

Micro-level drivers of demand:

- Consumer reach and strategy
- Marketing outreach and brand
- Perceived value



ACADEMIC VALUE GENERATION

Product levers:

- Course catalog
- Offerings by school/department
- Pedagogical modality (in-person, online, hybrid)
- Course frequency/scheduling
- Pricing and discounting

Customer levers:

- Student volume and mix

Resourcing levers:

- Resource allocation, institutional expenditures and operations



INSTITUTIONAL IMPACT & ACHIEVEMENT

Potential outcomes:

- Mission achievement
- Financial performance (margin by course/program, etc.)
- Market positioning

Many institutions will weather the current economic storm and proceed with traditional operating models. There will of course be capacity in the system for a number of institutions to continue providing in-person education to 18-22 year olds in one physical location. It can be argued that this historical model has not worked optimally for many institutions (and their potential customers) for some time. However, going forward, it will be increasingly challenging to solely operate in that manner and have a sustainable future.

The velocity of change over this past year was truly extraordinary, but the trajectory is far from complete. The rapid and forced “experiment” with full online education yielded key learnings. However, it is unclear as to what portion of those learnings will result in wholesale transformation going forward. Further, while institutions have already done significant belt tightening (programmatic rationalization, administrative reductions, etc.), they must continue reviewing the levers, as outlined above, to create an operating model that is more intentionally designed and applicable to the future.

The evolving budgeting process

In addition to repositioning and elevating the significance of budgeting by incorporating key strategic considerations, as outlined above, institutions are revising their end-to-end budgeting processes in a variety of ways, including:

- 1. An iterative mindset** – The pandemic forced institutions to rethink their traditional annual budgeting and forecasting models and the time horizon on which they were prepared. They focused on short-term objectives and scenario planning to shift and reallocate resources – particularly as revenue reductions became apparent, as operational requirements (e.g., COVID testing) were required, and as new pedagogical modalities (in-person to hybrid/online) became operating norms. By pursuing frequent reforecasting, institutions seemingly shifted their approach to a rolling forecast. While this came out of necessity, such a method does present advantages that could be embraced on a go-forward basis, as institutions seek to enhance the precision of financial projections through the recovery and beyond.
- 2. Focusing on the core** – To make it through the pandemic, colleges and universities reduced their budgets to a significant degree and with unprecedented speed. What would have traditionally taken months and involved significant stakeholder engagement, was performed in a

matter of weeks by a small steering committee. Through 2020’s budget reductions, institutions have effectively shifted to a zero-based budgeting approach – truly focusing on essential activities and services. Now that institutions have lived in this new austere normal for a number of months, forward-thinking leaders are taking another look at what was deemed to be essential and making further reductions with an eye toward strategic reallocation.

- 3. Adding back budget** – After cutting a tremendous amount from institutional expense budgets throughout 2020, it’s natural to receive pressure from internal stakeholders to boost spending levels as the pandemic wears on, patience with a diminished budget wears thin and students increasingly return to campus. Institutions have traditionally set aside strategic investment pools to be allocated as needed throughout each academic year. However, as a percentage of the overall operating budget, they have historically been quite small. Institutions are considering the degree to which these funds should materially grow in their annual budgets – acknowledging the uncertainty ahead, as well as opportunities to add back budget in key areas deemed to be strategic or of operational importance. Never before have reserves been seen as so critical to day-to-day operations and to seize any potential upside presented by the pandemic.

- 4. Strategically investing in the future** – Institutions were compelled to make a number of difficult decisions over the past year to ensure short-term sustainability. However, as we have moved into the Spring semester and are looking ahead, now is the time to revisit our strategies: customer (students), products/services, operations, marketing and pricing. The 2022 and 2023 Fall semesters will be materially different from the Fall of 2019. With a view towards the future, institutional leaders are looking beyond the current academic year, considering their place in the future higher education landscape and budgeting accordingly.

Budgeting for the future

Universities are revisiting budgets, streamlining operations, modifying course offerings and pedagogical modalities, and examining infrastructure needs. With a shifting higher education landscape and a precipitous enrollment cliff expected to target the industry beginning in 2026, institutions need to pull a variety of levers to create a financially stronger institution in the near term, while simultaneously providing the best possible student experience and long-term, institutional sustainability.



Caution ahead: The future for higher education administrators, students and faculty

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Since the onset of COVID, all industries have been facing unique and varying challenges, and institutions of higher education are no exception.

Following the 2008 recession, institutions of higher education focused heavily on amplifying their value and unique differentiators to students, parents, donors and constituents vis-à-vis their peers. With the onset of COVID, institutional leadership and board members faced an unprecedented, immediate challenge in shifting instruction to distance learning platforms and closing or suspending campus activities and dormitories for the health, safety and wellbeing of their students, faculty and staff.

It was the velocity in which the immediate effects of the pandemic took hold that presented the greatest challenge for institutional leadership. Most risk registers and detailed response plans did not contemplate an immediate shut down of campus and how existing technology to sustain operations in a virtual environment would need to be adapted; broadly speaking, the level of technological investment in institutions of higher education lags their commercial counterparts. As noted by the *Harvard Business Review*, “higher education has significantly lagged behind other industries in moving to a more digitally driven, outcomes-focused business model. One measure of this is that less than 5% of college budgets are dedicated to IT spending.”¹ Compared to the comfortable familiarity of in-person learning, adapting to full-time distance learning platforms introduced its own kinds of complexities. Institutions required students to learn and navigate multiple

technological hurdles, including wi-fi signal issues and personal hardware limitations, firewalls and other access rights restrictions. Evidence suggests that these technological barriers have elevated students’ anxiety and disproportionately impacted students in underserved communities, who likely don’t have access to adequate technological resources.

Besides academic challenges, the pandemic’s impact on social interactivity has also disadvantaged many students. Most employers expect and encourage team-based work and deep collaboration; but since students have been working in both physical and social solitude for what has now become a protracted period of time, many have begun to express concerns that entering a traditional work environment is a bit jarring. Working in-person alongside others helps create natural levels of collaboration and efficiencies, often difficult to replicate in digital workspaces. For students joining a remote workforce, forging new and authentic connections may be difficult, and working in isolation can also negatively impact one’s mental health, hamper productivity and quell creativity.

To begin to better identify and manage the mental stress of distance learning, many colleges have instituted specific anxiety-reducing measures, such as reduced course loads and pass/fail options, amongst other means to help students who may be struggling. Though such measures may help de-stress students in the short-term, they may also detract from students’ long-term academic growth, resulting in unintended consequences. For example, removing attendance requirements and grades may also reduce the incentive to strive for academic excellence. While a ‘pass’ on a transcript might not prevent a student from graduating, it may give potential employers pause. Typically, students with poor GPAs simply omit them from their resumes. Students with too many ‘pass’ grades might find themselves at a similar disadvantage to students with poor grades.

On the other hand, the disruption caused by COVID has driven innovation. COVID has accelerated the rate at which jobs are evolving. In response, for example, the Ad Council, a nonprofit media company, launched the Find Something New campaign (in collaboration with IBM, Apple and the White House) to specifically address this very issue. To keep pace with the evolving job market, institutions of higher education have hastened their own transformations to better assist students prepare for an ever-changing professional landscape, including providing students with more flexible or modularized course offerings. For example, Unity College in Maine transitioned from the traditional fall/spring, two-semester model to five, eight-week terms spread across the entire year.² New York University's Tisch School of the Arts, in collaboration with several partner organizations, including Yellowbrick, an online education platform, started an online certificate program related to careers in the film and television industry.³ Metropolitan State University of Denver launched Skills Lab, a free online service designed to help those laid off from work quickly retrain for a different career.⁴

Other institutions with programs that require traditional “hands-on” training (such as laboratory work, clinical rotations, art and cultural programs, etc.) have upended old methods and adjusted their curriculum and teaching techniques. As reported by *Time* magazine, “medical schools all over the world have had to adjust on the fly this year, in ways both practical and ideological.”⁵ Throughout this process, medical programs adapted to instill a generation of post-pandemic doctors with “webside” manner, as they train students to provide telehealth services and care for patients in this “new normal.”

While the long-term impacts of COVID remain uncertain, it's likely that many employers, including higher education institutions, will retain some form of a remote or hybrid work environment for the foreseeable future. In fact, employers with the technological infrastructure and savviness required to build and maintain an agile and effective work-from-home environment will likely retain a competitive advantage as today's students become the workforce of tomorrow. The Gen Z population comprising most current student bodies is very familiar with the technological challenges of our present remote-learning environment and have adapted and found ways to continue to thrive. These learnings will serve

them well as they eventually transition into a remote work setting. According to a recent study performed by UMASS, 48% of Gen Zers surveyed showed a preference for working remotely after their experience with COVID, making them highly adaptable to the future state of work.⁶

Though current students face several pandemic-related issues not encountered by previous generations, one thing is for certain: Today's students, by necessity, will be the most technologically advanced generation to enter the workforce. Their current educators and future employers must continue to adapt quickly to the ever-changing technological landscape in order to keep pace. With the emerging changes and the “new normal” evolving, higher education institutions will need to continue to innovate meaningful social touchpoints with students, faculty and communities and redefine measurements of success to incorporate qualitative dimensions in addition to the traditional quantitative measures often used. The concept of “on-campus” is similarly taking on a new meaning, and institutions are challenged more than ever to define and communicate their differentiators and the overall value of the unique student experience they can offer – whether online, in-person or by a hybrid model.



¹ <https://hbr.org/2020/09/the-pandemic-pushed-universities-online-the-change-was-long-overdue>

² <https://unity.edu/hybrid-learning/8-start-dates-a-year/>

³ <https://www.indiewire.com/2020/08/indiewire-nyu-tisch-rolling-stone-yellowbrick-online-film-tv-education-program-1234579845/>

⁴ <https://red.msudenver.edu/2020/ready-for-the-future-of-work.html>

⁵ <https://time.com/5914062/medical-schools-coronavirus-pandemic/>

⁶ <https://www.umassd.edu/cmrr/research/2020-baycoast-bank-white-paper-series.html>



Is online program management right for your institution?

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Higher education continues to grow more comfortable collaborating with third parties to provide services that were traditionally performed in-house. These services can include non-core functions associated with the student experience – such as student residences – or ancillary supporting functions, such as operating utility facilities. Of particular interest is a burgeoning sentiment of institutional open-mindedness to engage third parties to develop, market and produce online education programs – with cost, specialization and efficiency being among the most significant factors in the decision-making process. In particular, online program management (OPM) companies, which are designed to build, deliver and support the infrastructure associated with online education programs, have seen a dramatic increase in interest, as more colleges seek help to launch or grow existing online degree and non-degree programs to reach a broader cohort of students.

Institutions typically establish a revenue-sharing arrangement with their OPM company, while others are fee-based in nature. However, with recent federal scrutiny of the revenue-sharing model, fee-based arrangements are becoming more popular.¹ Typically, the contracts are long-term, allowing for the OPM to recover its initial investment. Typical service offerings include online course design, infrastructure support, call center support, enrollment management, marketing and recruitment.

We see online education programs experiencing higher growth rates than on-campus programs, as most models project in-person enrollments to decrease in many states over the next few years.² As the pandemic forces many institutions to launch or expand their digital capabilities, online and hybrid education (a combination of online and on-campus) models have become more prevalent, and it is likely this trend will continue after the pandemic abates.³

There is also increased interest in non-degree/certificate programs, which heavily leverage online platforms. As a result, OPM arrangements offer institutions rapid implementation and a broadening of their educational offerings in a modality that allows for wider consumption, while also reducing the required up-front financial investment most institutions cannot presently afford.

“The growth of distance enrollments has been relentless,” said Julia E. Seaman, research director of the Babson Survey Research Group. “They have gone up when the economy was expanding, when the economy was shrinking, when overall enrollments were growing, and now when overall enrollments are shrinking.”⁴ As a result of COVID, many institutions transitioned to virtual instruction, requiring some to make an unbudgeted significant investment to upgrade, safeguard and expand their technological capabilities and platforms, and are looking for additional opportunities to maximize that investment for the long-term.

As the approach to engaging OPM companies to provide services becomes a mainstay, institutions are continuing to find ways to broaden their involvement to reduce risk and minimize up-front investments. For example, the University of California Berkeley collaborated with an OPM to create a master’s program in information and data science. The university recovered its startup costs to a point where they now “have a steady stream of revenue to support the school” and “could not sustain a program of this scale without their [OPM company’s] expertise in marketing, content production, student support, tech support and operations.” While the OPM retains a large portion of the revenue, they found that it also provides “significant value for the money.”⁵



Are OPMs worth considering?

With the demand for online education accelerating, and the need for change occurring at light-speed, OPM offerings are expanding and adapting to respond to the market – becoming more flexible and tailoring themselves to the individual needs of each institution.

Some institutions operate their own online programs with OPM assistance. Schreiner University identified a need for an online Bachelor of Science degree in nursing; however, it did not want to make an up-front substantial investment and take on all of the risk. Accordingly, a fee-for-service approach allowed it to preserve its revenue and choose its desired services. To be successful, an institution must have a solid understanding of its business, target market and degree offerings.

Pros of OPMs

- Collaboration allows you to adapt quickly and effectively manage the change
- Capabilities can be enhanced and expanded
- Up-front investments can be reduced or avoided
- Revenue-sharing arrangements can benefit those without sufficient capital to invest up front to expand service offerings
- OPM experts can rapidly expand your digital footprint and breadth of instructional offerings

Cons of OPMs

- Reductions in transparency when control and design is ceded to the OPM
- Long-term financial commitment – even if enrollment expectations are not achieved
- Limited flexibility using OPM-proprietary technology platforms, that might not be easily branded or integrated with existing institutional platforms, systems and processes
- Revenue-sharing arrangements can be costly (OPMs may retain up to a 50% share of the revenues generated)
- Cultural fit issues may occur
- Performance risks
- Volatility in enrollment due to limited customer loyalty
- Cybersecurity risks can be higher

OPMs can assist institutions to rapidly enter an otherwise untapped or underserved market by limiting the barriers to entry, reducing upfront investment and controlling downside risks. OPMs leverage proven platforms and develop customized and tailored tools allowing institutions to expand their reach and appeal to a broader cohort of students. However, institutions need to carefully consider these relationships to ensure alignment with mission and culture and overall contribution toward margin.

As institutions look to the future, they will have an opportunity to reevaluate their online delivery and improve their online learning experience for their students. Online education will certainly play a significant role in higher education in the future – whether the infrastructure and support are provided in-house or through the use of a trusted third party.

¹ <https://www.insidehighered.com/news/2020/02/05/online-program-management-companies-face-washington-microscope>

² <https://www.babson.edu/about/news-events/babson-announcements/distance-education-state-enrollment-report/>

³ [https://onboardprodpublic.blob.core.windows.net/wgh7m40plpiteo6vjkmppf1bc7kwvu6sxhuq8lddda/yXivdPXw4T4HOft4frpZ32oNpJWfqdKlkdnxxJ5cYgA/Coronavirus%20will%20accelerate%20business%20model%20transformation%20with%20varied%20credit%20effects%20%20\(Aug%2026,%202020\).pdf](https://onboardprodpublic.blob.core.windows.net/wgh7m40plpiteo6vjkmppf1bc7kwvu6sxhuq8lddda/yXivdPXw4T4HOft4frpZ32oNpJWfqdKlkdnxxJ5cYgA/Coronavirus%20will%20accelerate%20business%20model%20transformation%20with%20varied%20credit%20effects%20%20(Aug%2026,%202020).pdf)

⁴ <https://www.babson.edu/about/news-events/babson-announcements/babson-survey-research-group-tracking-distance-education-report/#>

⁵ https://www.ischool.berkeley.edu/sites/default/files/mids_program_status_report_2016.pdf

About Grant Thornton's services to not-for-profit organizations and higher education institutions

Grant Thornton LLP has a well-earned reputation for understanding the needs of not-for-profit organizations and higher education institutions, providing them with in-depth knowledge to improve their operations, seize opportunities, address challenges and mitigate risks. When we assist them to become more effective at what they do, the benefits cascade through all the communities they serve.

More than 500 Grant Thornton industry professionals serve the audit, tax and advisory needs of approximately 900 not-for-profit organizations and higher education institutions. While we take pride in the number of clients we serve, what is more important is the prestige of our nonprofit clientele; we serve a noteworthy 50% of the top 10 organizations listed in *The NonProfitTimes*' Top 100, 60% of the top 100 organizations listed as America's Favorite Charities in *The Chronicle of Philanthropy*, and 50% of the top 10 organizations in *Forbes*' 100 Largest U.S. Charities list.

The not-for-profit and higher education industries are a strategic focus for our firm. Our commitment to these industries is reflected not only in the number of clients we serve, but also in our active support of and leadership in key industry associations and conferences aimed at strengthening not-for-profit organizational effectiveness and execution. We also demonstrate our industry leadership through our dedication to giving back to this community, and by sharing our best-practice experience via forward-looking thought leadership, including publications, articles, presentations, webcasts and training.



KEEPING YOU INFORMED ABOUT INDUSTRY TRENDS

We are committed to helping you stay up to date on industry developments. Visit gt.com/subscribe to join our Board and Executive Institute and regularly receive invitations to our latest educational forums and speaking engagements, articles and webcasts on current and emerging issues of interest to not-for-profit leaders. Explore gt.com/nfp to access our industry resources and thought leadership.

Our clients rely on us, and we respond to that trust by making continuous investments in our people so that we can provide our not-for-profit clients with the highest level of service. We are proud to have fully dedicated professionals — from staff to partners — who work exclusively with our not-for-profit and higher education clients. Our not-for-profit professionals provide our clients with information about relevant industry trends; accounting and regulatory pronouncements; practical insights and value-added recommendations; personal attention with timely, authoritative feedback and quick responses; and high-quality service with measurable results. When we support our clients to deliver on their missions, we deliver on ours.



Not-for-profit and higher education leadership team



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Sector contacts

In order to best serve the unique needs of our not-for-profit and higher education clients, Grant Thornton has organized our industry practice into seven key sectors — associations and membership organizations, higher education, religious organizations, Jewish and Israeli organizations, foundations, social services, and museums and cultural institutions. This sector structure allows our professionals to develop deep knowledge specific to our clients' individual business models and enables us to provide sector-specific best practices, trends and technical updates.

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2021 not-for-profit and higher education webcast series

Each year, leaders from Grant Thornton's Not-for-Profit and Higher Education practices provide learning opportunities through our webcast series. These sessions cover a wide variety of trending topics and regulatory updates relevant to not-for-profit and higher education executives and board members.

We welcome you to visit gt.com/nfp for more information about upcoming webcasts or to access past webcasts, which are archived for one year.



FEB 17

[Attracting diverse candidates to board and senior leadership positions](#)



AUG 11

[Nonprofit accounting, regulatory and Uniform Guidance update](#)



MAR 24

[State of the not-for-profit and higher education sectors](#)



NOV 17

[Applying a customer lens to measure your nonprofit's performance](#)



MAY 19

[The future of ERM in not-for-profit organizations](#)

All webcasts are 2-3:30 p.m. ET.





PURPLE PALADINS

Grant Thornton in the community

Grant Thornton's Purple Paladin program invests in, recognizes and celebrates early-stage nonprofit social entrepreneurs who tackle challenges like accessibility, hunger and inequality. Our firm supports these innovators and the nonprofits they lead by providing funding, volunteerism and business guidance, and by leveraging our platform and relationships to accelerate their work — helping take these emerging organizations from start-up to unstoppable.

Nominate a Purple Paladin

Do you know an organization that is changing their community? We constantly seek nominations for up-and-coming nonprofit organizations. To learn more about the criteria and to nominate, please visit gt.com/PurplePaladins



"Community isn't about place, it's about what we do for one another."

Brad Preber, CEO, Grant Thornton

Meet our Purple Paladins



Coming Up Rosies helps hospitalized children on their medical journeys by providing "smile kits" for them to create personal artwork that is turned into head scarves, neck scarves or superhero capes that kids can wear with confidence.



Sneakers for Soldiers sends new fitted athletic shoes to active military men and women serving in dangerous areas and combat zones.



Pal Experiences helps build more-inclusive communities by creating digital tools to make spaces, events and experiences more accessible for children with developmental disabilities.



Invisible Hands Deliver mobilizes volunteers to deliver groceries, prescriptions and essential supplies to those most vulnerable, so they can stay home and stay safe.



Weird Enough Productions creates comics that help combat media misrepresentations of minority communities. The organization's mission inspires kids to embrace a new cast of superheroes based on the idea that being yourself is powerful.



Hope in a Box seeks to help every student feel safe and included at school— regardless of their sexual orientation or gender identity. The organization gives schools books and curriculum that feature LGBTQ+ protagonists, and it coaches educators on themes of inclusivity.



Foster Nation supports and empowers foster youth aging out of the system to become self-sufficient. They focus on providing the community support and resources former foster youth need to graduate college and succeed as young adults.



About Grant Thornton LLP

Founded in Chicago in 1924, Grant Thornton LLP (Grant Thornton) is the U.S. member firm of Grant Thornton International Ltd, one of the world's leading organizations of independent audit, tax and advisory firms. Grant Thornton, which has revenues in excess of \$1.9 billion and operates 53 offices, works with a broad range of dynamic not-for-profit, public sector, privately owned and publicly listed clients.