



OHSU Public Finance & Audit Committee Meeting

**Friday, June 21, 2024
9:00-11:00am**

YouTube:

<https://youtube.com/live/8rmvrVrWMgk?feature=share>

Dial-In:

+1-503-388-9555 Portland Oregon Toll

Access code: 2633 220 0166

Additional call-in numbers: <https://ohsu.webex.com/ohsu/globalcallin.php>



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Agenda

1. FY24 YTD Financial Results & Proposed FY25 Budget
2. Renewal of IT Services Contract
3. Audit & Advisory Services Update
4. KPMG's Plan for FY24 External Audit



June 17, 2024

To: Members, OHSU Finance & Audit Committee

From: Lawrence J. Furnstahl
Executive Vice President & Chief Financial Officer

Re: Materials for April 21st Meeting

Enclosed are the materials for this Friday's public meeting of the Finance & Audit Committee, on June 21st at 9 am by WebEx. The agenda items are discussion of FY24 May year-to-date financial results and the proposed FY25 operating and capital budget; renewal of a contract with Cisco Systems for network and other IT services; an Internal Audit report; and KPMG's approach for the FY24 external audit of OHSU's financial statements.

The FY24 operating loss through 11 months is \$(64)m, including the one-time \$44m gain from Medicare's national 340b settlement. Complexity-weighted activity is now within -1% of the target set a year ago, after lagging more earlier in the year. Improving Financial Performance (IFP) efforts have helped close this gap to about \$25m but do not yet offset cost inflation that has not matched by payment rate growth.

Salary & benefit expense exceeds budget by \$100m, largely in patient-facing areas. Areas outside the clinical enterprise continue to perform better than budget, in part due to delays in spending from the ramp up of new education and research programs. Taking out one-time items and areas ahead of budget then annualizing to 12 months shows a \$151m lift from today's run-rate to achieve break-even next year.

The FY25 budget plan implements the Strategic Alignment principles discussed in April, closing most but not all the current run-rate gap because of the part-year impact of corrective actions now underway that will take several months to realize. The proposed budget targets revenues of \$5.5 billion and a \$(25)m deficit for a -0.5% operating margin, balanced from a cash flow perspective by holding back a corresponding amount of annual capital spending.

Between FY23 actual and FY25 budget, patient revenue is expected to grow by 24% as we reallocate beds, ORs and other capacity to meet Oregon's demand for academic health center-level care. Over this same 2-year timeframe, salaries & benefits are projected to increase by 24% compared to a 7% for depreciation & interest, reflecting prioritization of investment in patient-facing people & programs over capital spending (places & things).

After review at the Finance & Audit Committee, the full Board will consider and vote on the proposed budget at its June 28th public meeting.

Following the budget discussion, Maulin Patel, SVP for Finance & Treasurer, will review a request for approval (at the upcoming full Board meeting) to execute the renewal of a service contract with Cisco Systems that provides critical components for the OHSU IT network. The cost of this contract is included in the proposed FY25 budget.

However, due to a recent change in accounting standards that results in such service contracts being treated as equivalent to debt, OHSU policy requires specific Board approval for this renewal. Given the likely growth in the number of these types of contracts, we plan to return to a future meeting with a comprehensive recommendation on how to allow for Board consideration within our overall budget process, rather than on a case-by-case basis.

Joe Holmes, Director of Audit and Advisory Services (A&AS), will provide an update on the FY24 internal audit plan, risk theme analysis, proposed FY25 first half plan, follow-up priorities, and the A&AS strategic plan. Finally, Drew Corrigan, OHSU's lead KPMG partner, and his colleagues will discuss the strategy and plan for the external financial audits for the year ending June 30, 2024.



OHSU Onward: FY24 May YTD Results & Proposed FY25 Operating & Capital Budget

OHSU Finance & Audit Committee / June 21, 2024

Table of Contents

	<u>Page</u>
Introduction & Overview	2 – 6
FY24 May YTD Results	7 – 16
Conditions for Financial Sustainability	17 – 22
Strategic Alignment in the FY25 Budget	23 – 40
FY25 Capital Budget & Cash Flow	41 – 44
Conclusion	45

Introduction

- This document presents an update on FY24 YTD financial results and proposes the operating & capital budget plan for FY25, implementing the Strategic Alignment principles discussed in April.
- The FY24 operating loss through May (11 months) is \$(64)m, including the one-time \$44m gain from Medicare's national 340b settlement.
- Complexity-weighted activity is now within -1% of the aggressive target set a year ago; Improving Financial Performance (IFP) efforts have helped close this gap to about \$25m but do not yet offset cost inflation that is not matched by payment rate growth.
- Salary & benefit expense exceeds budget by \$100m, largely in patient-facing areas.
- Areas outside the clinical enterprise continue to perform better than budget, in part due to delays in spending from the ramp up of new education & research programs.
- Taking out one-time items and areas ahead of budget then annualizing to 12 months shows a \$151m lift from today's run-rate to achieve break-even next year.
- Our FY25 budget plan closes most but not all this gap because of the part-year impact of corrective actions now underway that will take several months to realize.
- We recommend a \$(25)m operating loss, balanced by holding back \$25m of annual capital spending. After review at the Finance & Audit Committee, the full Board will consider and vote on the proposed budget at its June 28th public meeting.

Overview of Proposed FY25 Budget

- The FY25 budget targets revenues of \$5.5 billion and a \$(25)m deficit for a -0.5% operating margin.
- Between FY23 actual and FY25 budget, patient revenue is expected to grow by 24% as we reallocate beds, ORs and other capacity to meet demand for AHC-level care.
- Over this same 2-year timeframe, salaries & benefits are projected to increase by 24% compared to a 7% for depreciation & interest, reflecting prioritization of investment in patient-facing people & programs over capital spending (places & things).

OHSU Revenue & Expense (millions)	FY23 Actual	FY24 Budget	FY24 May Estimate*	FY25 Proposed	2 Yr Growth FY25 / FY23
Net patient revenue	\$3,069	\$3,417	\$3,434	\$3,811	24%
All other revenues	1,504	1,479	1,573	1,657	10%
Operating revenues	4,573	4,896	5,007	5,468	20%
Salaries & benefits	2,739	3,013	3,145	3,409	24%
Rx & medical supplies	860	949	997	1,089	27%
Other services & supplies	670	676	693	725	8%
Depreciation & interest	252	258	254	270	7%
Operating expenses	4,520	4,896	5,088	5,493	22%
Operating income (loss)	\$53	\$0	\$(81)	\$(25)	
<i>Operating margin</i>	<i>1.2%</i>	<i>0.0%</i>	<i>-1.6%</i>	<i>-0.5%</i>	
<i>EBITDA margin</i>	<i>6.7%</i>	<i>5.3%</i>	<i>3.5%</i>	<i>4.5%</i>	
<i>*FY24 estimate based on May results annualized with known one-time items.</i>					

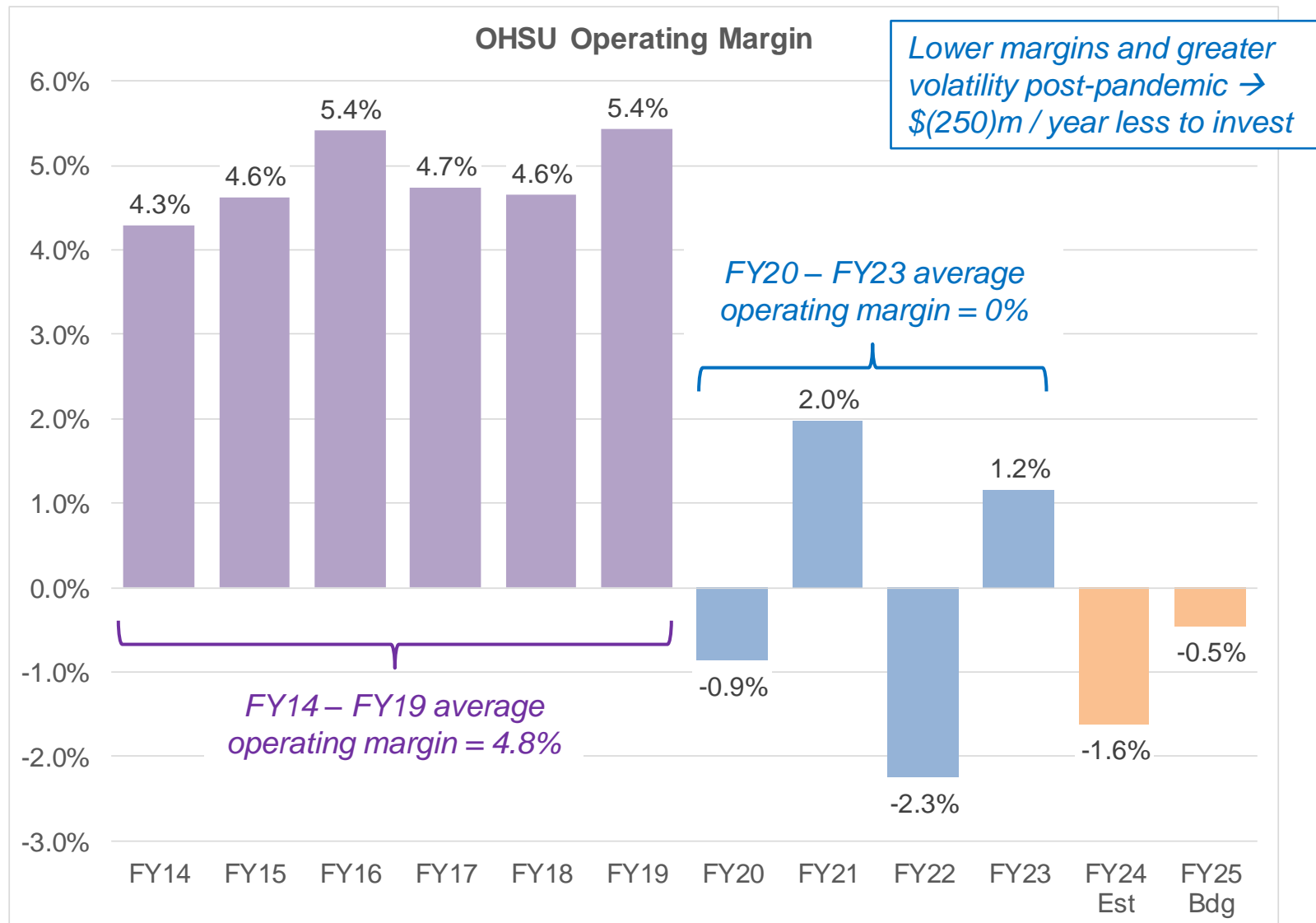
Strategic Alignment Principles in FY25 Budget

- Lead the healthcare sector in patient-facing staffing and pay to retain & recruit front-line clinicians and provide the complex care our patients need (~\$175m investment)
- Invest \$25m from incremental IGT funds in Behavioral Health
- Sustain the OHSU Tuition Promise with 2% increase for entering students
- Budget for Schneider Report recommendations.
- Fund salaries & benefits for faculty and staff that increase by an average of 6.1% next year, exceeding the projected growth in payment rates from patient care (average 4.3%), research (flat NIH budget), and education (2% tuition increase).
- Care for patients promptly with right care, in right setting & at right cost structure
- Advance OHSU toward regional leadership in tertiary/quaternary care that requires an academic health center with a national-class cancer center (~\$55m gain).

Strategic Alignment in FY25 Budget (continued)

- Continue construction on the Inpatient Addition (IPA) with start of interior buildout, using FEMA dollars in place of operating income to supplement bond funds borrowed in December 2021.
- Make permanent reductions in the number of staff, largely in non-patient facing areas and focusing first on administrative & support positions, together with reductions in programs that are non-essential and not fully funded (~\$75m savings)
- Cut spending, eliminate duplication and streamline functions across communications & marketing, supply chain, revenue cycle, and central finance functions (~\$20m savings)
- Mitigate operational risk by increasing financial risk: \$(25)m operating deficit balanced by a corresponding holdback in annual capital budget.

Margin to Invest in People, Programs & Places



FY24 YTD: Major Budget Impacts through May

- From FY13 to FY23, OHSU patient activity increased by 4% per year. To meet patient demand while balancing the FY24 budget, we targeted nearly 7% growth through May. With IFP efforts, we are now within 1% or \$25m of this goal.
- Taking out **one-time** items and areas **ahead of budget** (largely due to program ramp up) then annualizing shows a \$151m lift from today's run-rate to balance next year.

FY24 May YTD Variance from Budget (millions)

- \$ (5) Budgeted operating income (seasonally spread through May)
- (25) Revenue impact of -0.8% lower complexity-weighted activity
- (107) Greater than budgeted investment in patient-facing pay & staffing
- +38 Provost, CRO & Central areas ahead of budget (program ramp up)
- +44 Medicare 340b settlement (one-time)
- (8) One-time expense items, net
- (1) All other, net
- \$(64) Actual operating income (FY24 May YTD – 11 months)
- \$(151) Annualized loss taking out both **one-time** items and **positive variances**

Dollar Change from May YTD Last Year

- Another way of looking at May results is to compare dollars of revenue and expense to the prior year.
- Revenues are up \$429m but expenses are up \$551m, for a \$(122)m negative swing in operating income for 11 months.

OHSU Operating Income (millions)	FY23 May YTD	FY24 May YTD	Dollar Change
Operating revenue	\$4,165	\$4,594	\$429
Operating expense	4,107	4,658	551
	<hr/>	<hr/>	<hr/>
Operating gain (loss)	\$58	\$(64)	\$(122)

FY24 May YTD Loss at \$(64)M with -1.4% Margin

May YTD (11 Months) (millions)	FY23 Last Year	FY24 Budget	FY24 Actual	Actual - Budget	Actual / Last Year
Net patient revenue	\$2,783	\$3,134	\$3,152	\$18	13.3%
Medical contracts	150	169	168	(0)	12.4%
Grants & contracts	508	512	527	15	3.8%
Gifts applied	89	102	109	6	21.8%
Tuition & fees	75	77	75	(2)	-0.5%
Sales, services & other	256	237	296	59	15.8%
State support*	304	259	266	7	-12.3%
Operating revenues	4,165	4,491	4,594	103	10.3%
Salaries & benefits	2,494	2,774	2,877	103	15.3%
Rx & medical supplies	783	867	914	46	16.7%
Other services & supplies	602	618	634	16	5.4%
Depreciation	189	198	194	(4)	2.6%
Interest	39	38	39	1	-0.2%
Operating expenses	4,107	4,496	4,658	162	13.4%
Operating income (loss)	\$58	\$(5)	\$(64)	\$(59)	
<i>Operating margin</i>	<i>1.4%</i>	<i>-0.1%</i>	<i>-1.4%</i>	<i>-1.3%</i>	
<i>EBITDA margin</i>	<i>6.9%</i>	<i>5.2%</i>	<i>3.7%</i>	<i>-1.5%</i>	
<i>*State support in FY23 included \$57.5m of funds related to the State's mid-biennium rebalance. Of this, 11 / 12 is included in FY23 May YTD.</i>					

FY24 budget is breakeven across 12 months but due to seasonality earnings for interim periods varies slightly above or below zero, including \$(5)m through May.

Volume Metrics Up but Size-Weighted Activity Off

Patient Activity	FY23	FY24	FY24	Actual	Actual
May YTD (11 Months)	Last Year	Budget	Actual	/ Budget	/ Last Year
Inpatient admissions	25,048	25,435	25,400	-0.1%	1.4%
Average length of stay	7.08	7.00	7.04	0.6%	-0.6%
Average daily census	487.0	481.6	492.5	(2.3%)	1.1%
Day / observation patients	41,763	43,025	44,522	3.5%	6.6%
Surgical cases	32,045	33,437	34,148	2.1%	6.6%
Emergency visits	50,162	50,476	51,551	2.1%	2.8%
Ambulatory visits	1,037,307	1,077,645	1,112,632	(3.2%)	7.3%
Casemix index (CMI)	2.51	2.50	2.51	0.4%	0.0%
Outpatient share of activity	56.1%	57.8%	58.3%	0.9%	3.9%
CMI/OP adjusted admissions	143,303	150,569	152,861	1.5%	6.7%
Rate-adjusted gross charges	6,365	6,799	6,745	(-0.8%)	6.0%

Healthcare Growth Against Budget & Last Year

- Services to meet AHC-level demand were targeted to grow the fastest in FY24. These are up strongly from the prior year (+11.5%) but not yet as much as planned (+14.3%).
- During the year, IFP work has narrowed this gap, closing it completely for non-hospital pharmacy services such as home infusion.

May YTD Volume Growth by Service Area (FY24 / FY23)	% of Hosp. Charges	Budgeted Growth	Actual Growth	Actual vs Budget
Non-hospital pharmacy	27%	16.5%	17.2%	0.6%
Professional (imaging, lab, etc.)	18%	8.7%	5.1%	-3.3%
Oncology services	5%	25.1%	7.4%	-14.2%
Subtotal - higher growth areas	50%	(14.3%)	(11.5%)	-2.4%
Surgery & procedural	21%	3.7%	2.9%	-0.8%
All other hospital services	29%	-2.4%	-0.3%	2.1%
Subtotal - lower growth areas	50%	0.1%	1.0%	0.9%
Rate-adjusted gross charges	100%	6.8%	6.0%	-0.8%

- This pattern highlights the opportunity attached to better meet patient needs by allocating more physical and staffing capacity (such as beds & ORs) to cancer care and other subspecialty programs unique to Oregon's only academic health center.

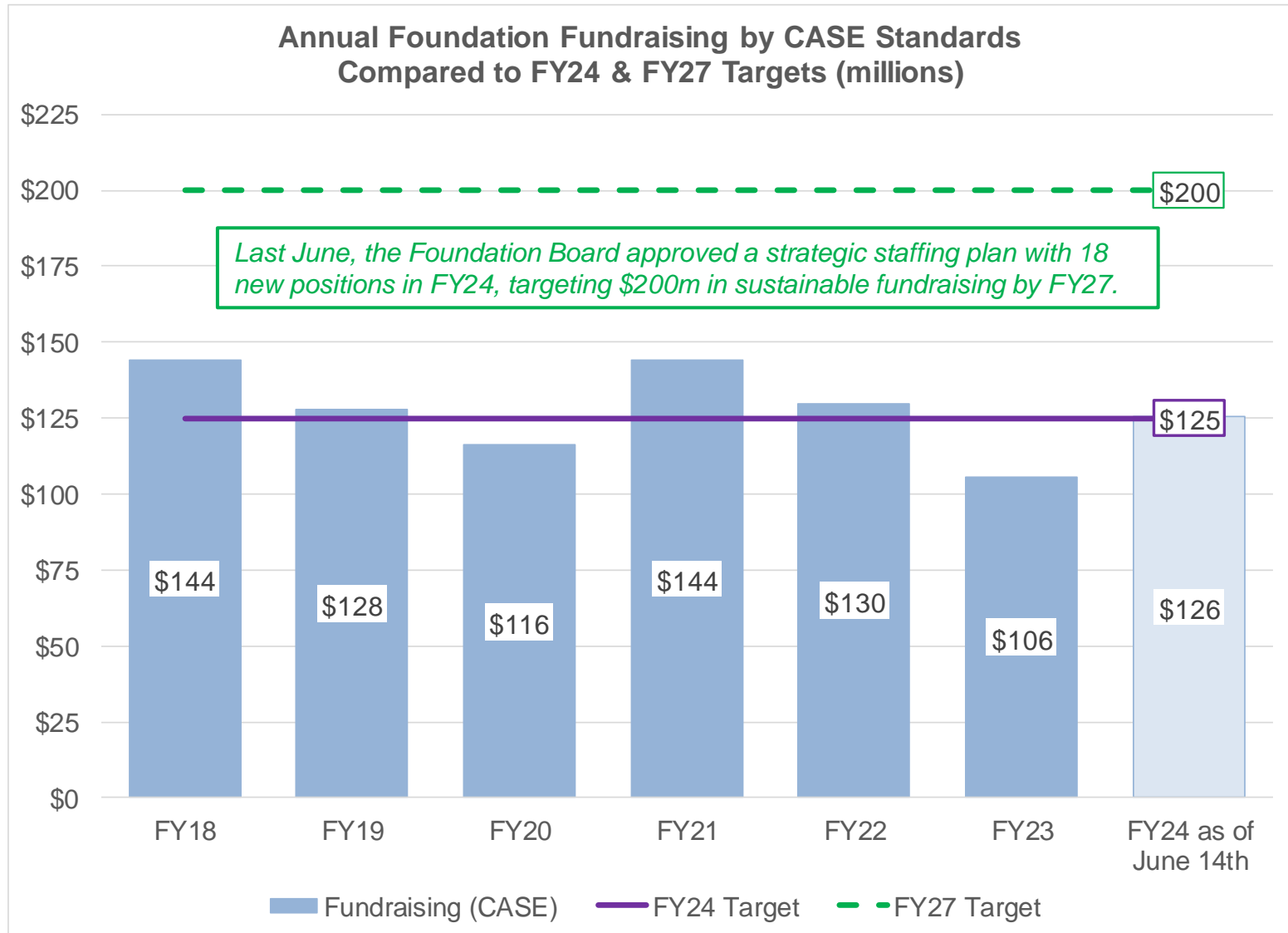
Current Pay & Staffing Compared to Pre-COVID

From March 2020 (just before COVID hit Oregon) through this May, inflation has averaged 4.7% per year. Annualized pay rates have increased by this amount or more across OHSU's employee groups. (Note that House Officers also now receive a new \$3500 housing allowance.)

Average Annual Pay for Major Employee Groups*	Biweekly Pay Date		Dollar or FTE Growth	Percent Growth	Ave Annual Growth
	3/20/20	5/24/24			
Faculty pay	\$221,998	\$289,349	\$67,350	30%	6.5%
Faculty FTEs	2,510	2,804	294	12%	2.7%
UA (manager) pay	\$107,224	\$131,539	\$24,315	23%	5.0%
UA FTEs	1,781	2,293	512	29%	6.2%
ONA (nursing) pay	\$118,664	\$157,685	\$39,021	33%	7.0%
ONA FTEs	2,264	2,811	547	24%	5.2%
AFSCME (other hourly) pay	\$65,312	\$81,453	\$16,141	25%	5.4%
AFSCME FTEs	6,489	7,878	1,389	21%	4.7%
House Officer pay	\$67,351	\$81,702	\$14,352	21%	4.7%
House Officer FTEs	859	966	107	12%	2.8%
Research (non-faculty) pay	\$57,595	\$73,486	\$15,891	28%	6.0%
Research FTEs	1,647	1,786	139	8%	1.9%

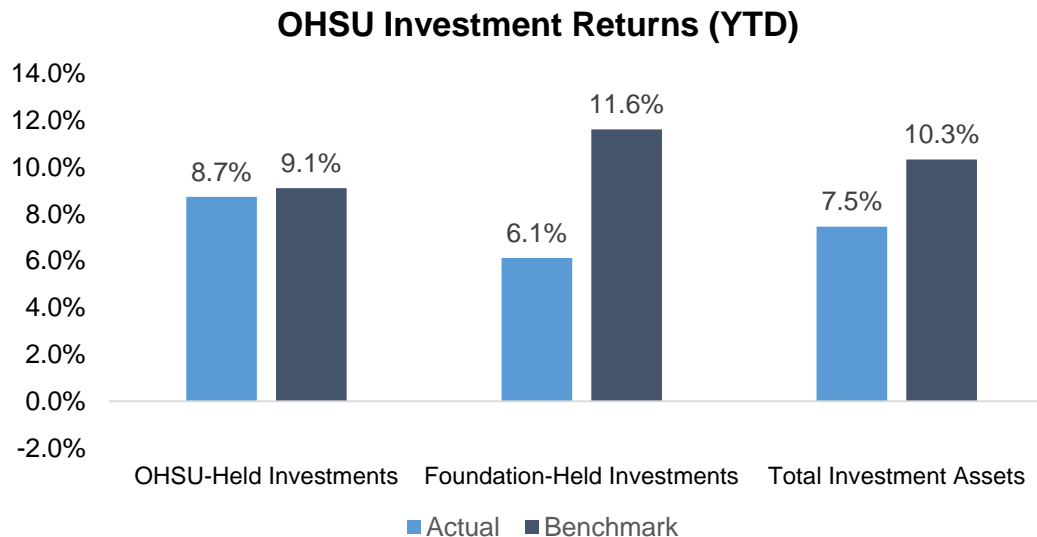
*For staff paid hourly, annual pay based on 2,080 hours. Includes wages only; does not include benefits or new house officer housing allowance. FTE growth includes new services at OHSU and partner sites. Period spans 4 years + 10 weeks with average CPI inflation of 4.7% per year.

Foundation Targets \$200M Gift Level by FY27



Consolidated Investment Returns Up 7.5%

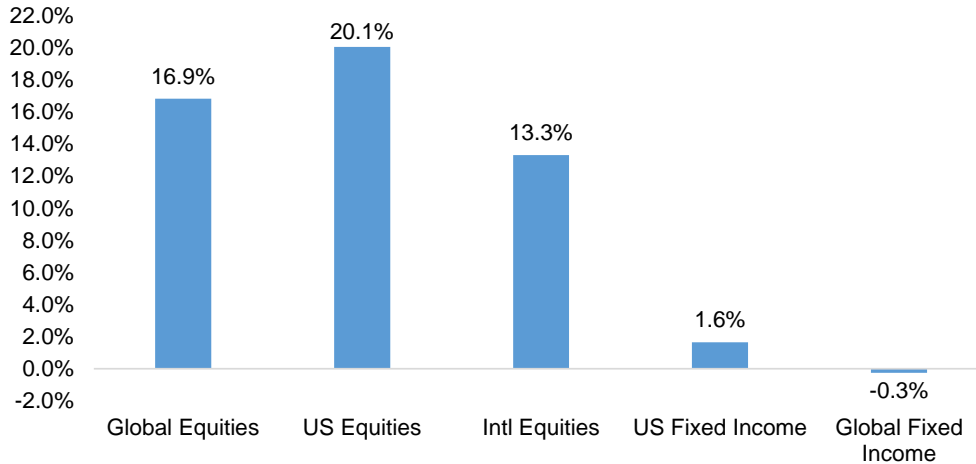
- Global equities and fixed income posted positive returns during May. Inflation continued to ease, reducing fears of a “higher for longer” scenario.
- Global equities returned 4.0% in May, with US outperforming international markets.
- Corporate earnings for the S&P 500 grew by 6.0%, well above the early market expectation of 3.4%. US Fixed Income increased 1.7% as yields fell across the curve, while credit spreads remained historically tight.
- *Foundation’s endowment returns may lag benchmark during periods of rapid public market growth, due to a long-term strategy focused on returns to illiquid & private assets. Over 7.5 years endowment returns have outperformed benchmark by 1.7%.*



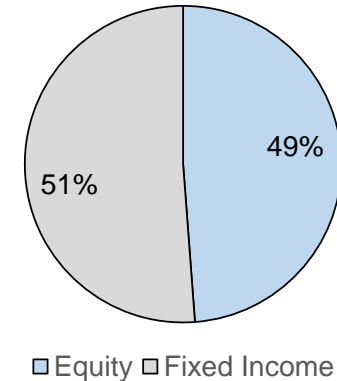
Foundation preliminary actual and benchmark return calculated by OHSUF staff with net asset value (NAV) sourced from investment managers.

Investment Returns (continued)

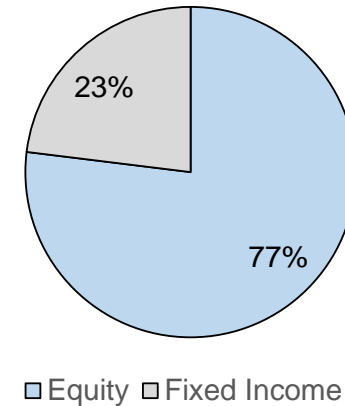
Major Index Returns (YTD)



Asset Allocation – OHSU-Held Funds



Asset Allocation – Foundation-Held Funds



Asset Pool	6/30/2023 Balance	5/31/2024 Balance	FY24 YTD TR (%)	Benchmark YTD TR (%)
OHSU-Held Funds				
Short-Term Asset Pools	536,897	489,834	4.7%	4.7%
Long-Term Asset Pools	1,081,776	1,130,722	10.3%	10.9%
Other Asset Pools	102,582	113,236	12.1%	12.1%
Total OHSU Assets	\$1,721,256	\$1,733,792	8.7%	9.1%
Foundation-Held Funds				
Non-Endowment Asset Pools	238,524	202,547	6.6%	6.1%
Endowment Assets	1,367,038	1,439,046	6.1%	12.5%
Total Foundation Assets	\$1,605,562	\$1,641,593	6.1%	11.6%
Total OHSU Investable Assets	\$3,326,818	\$3,375,385	7.5%	10.3%

Foundation preliminary actual and benchmark return calculated by OHSUF staff with NAV sourced from investment managers.



Net Worth Up \$208M or +5.1% in FY24 May YTD

- OHSU's days cash on hand are 171 on 5/31/24, down from 184 at last year-end and compared to the most recent benchmarks of 261 (Moody's) and 254 (S&P).
- Note that \$1.5 billion of Foundation assets are largely donor given and directed.
- \$109m of FEMA assistance has been approved by the government this year. These funds mitigate extra costs from the pandemic and will be used to cover the shortfall in operating income to fund the \$650m Inpatient Addition project.

Balance Sheet (millions)	6/30/23	5/31/24	11-Month Change
OHSU-held cash & investments	\$1,386	\$1,480	\$93
OHEP construction fund	236	149	(87)
Net property, plant & equipment	2,219	2,342	123
Interest in OHSU Foundation	1,536	1,550	14
Long-term debt	(1,370)	(1,345)	24
PERS pension liability	(396)	(396)	0
Working capital (A/R) & other, net	485	526	41
Consolidated net worth	\$4,097	\$4,305	\$208
Operating income (loss)			(64)
FEMA public assistance			109
OHSU investment return at 10.5%			151
Grant & gift funded capital			0
Foundation gain (loss)			14
Other non-operating items			(1)
YTD change in net worth			\$208

FY24 May YTD Cash Flow	(millions)
Operating income	\$(64)
Depreciation	194
FEMA public assistance	109
Investment return	151
Construction funds applied	87
Grant & gift funded capital	0
Sources of cash	477
Long-term debt repaid	(24)
Capital spending	(317)
Patient A/R & other, net	(42)
Uses of cash	(384)
Net cash flow	\$93
<i>6/30/23 Days cash on hand</i>	<i>184</i>
<i>5/31/24 Days cash on hand</i>	<i>171</i>
<i>Moody's 2023 Aa median</i>	<i>261</i>
<i>S&P 2023 AA median</i>	<i>254</i>

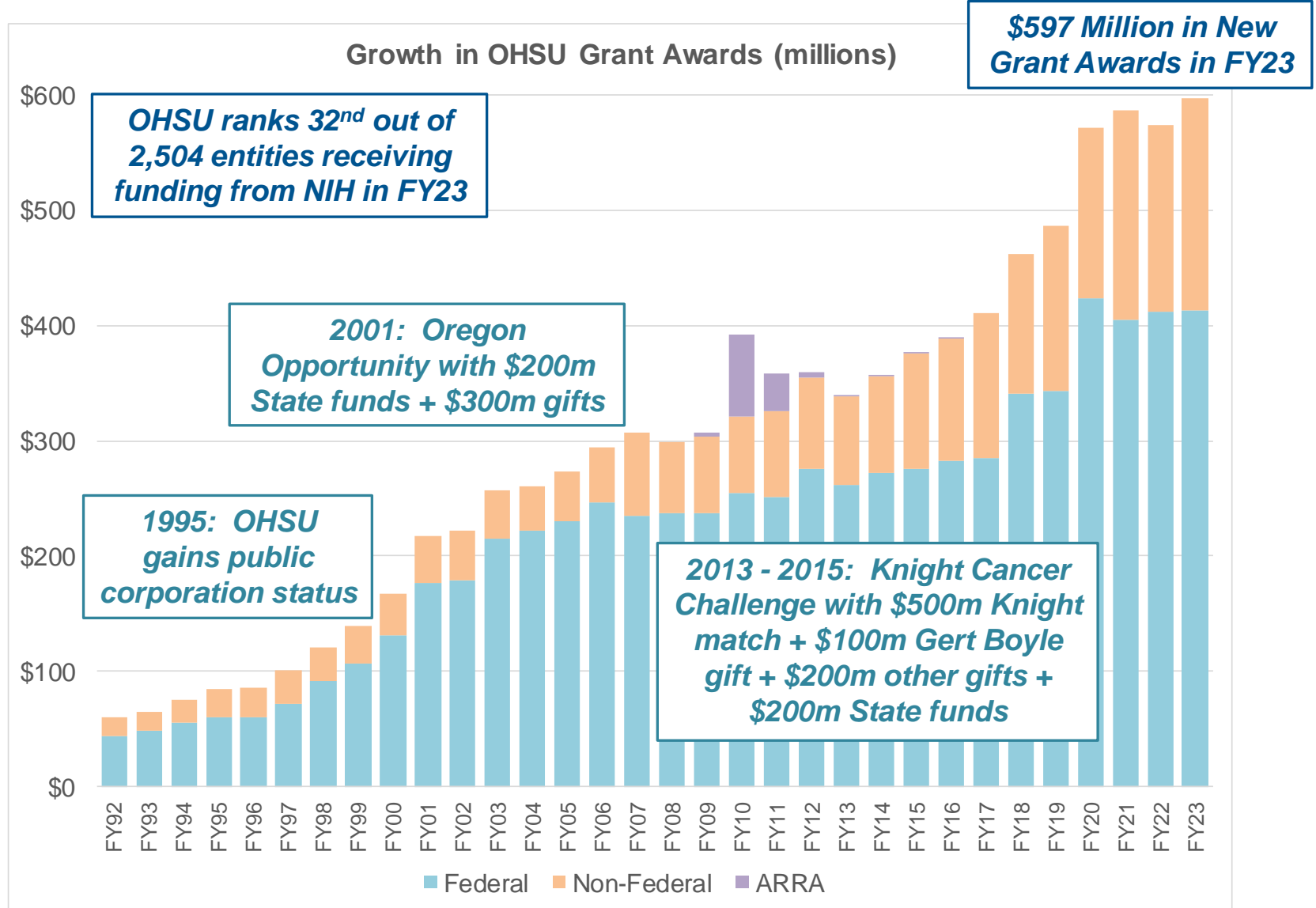
Conditions for Long-Term Financial Sustainability

- Since the Oregon Legislature approved the creation of OHSU as a public corporation in 1995, OHSU has been able to expand exponentially.
- Revenues grow by an average of 8% per year compounded for 30 years—from \$500m in 1995 to \$5.5 billion next year—substantially increasing patient services, research, education and outreach programs offered to Oregonians.
- OHSU’s “superpower” is our ability to recruit and retain faculty & staff to build programs unique to Oregon’s only health sciences university.
- OHSU’s economic model depends on growth: doubling revenues every 9 years.
- Financing continued growth at this pace requires ongoing investment in people, programs, places and things.
- This in turn requires operating income, investment income and major gifts, together with State support.
- For example, the OHSU Hospital Expansion Project—the IPA under construction at \$650 and the Perinatal Addition under design in the range of \$350m—will require approximately \$1 billion in resources from earnings, gifts, investment returns and debt.

Conditions for Financial Sustainability (continued)

- From June 2010 through May 2024, OHSU did in fact generate and secure \$2.6 billion of resources—\$1 billion from operating income and \$1.6 billion of investment returns and net gifts for endowment and capital.
- However, of the \$1 billion from earnings, \$1,031m was generated during the 9 years pre-COVID (FY11 through FY19) offset by a net loss of \$(58)m since then (FY20 through FY24 May YTD).
- Conditions for sustained growth across missions and financial stability include:
 - *Competitive pay to retain and recruit the best faculty and staff*
 - *Revenue > expense by 3% - 5%*
 - *Growth in revenue >= growth in expense*
 - *Growth in net worth (physical + financial capital) = growth in revenue & expense.*
- We met these conditions pre-pandemic but not since.
- The Strategic Alignment launched for the FY25 budget is a major step toward getting OHSU back on the path toward long-term sustainability.

32-Year Path to National Scale in Research

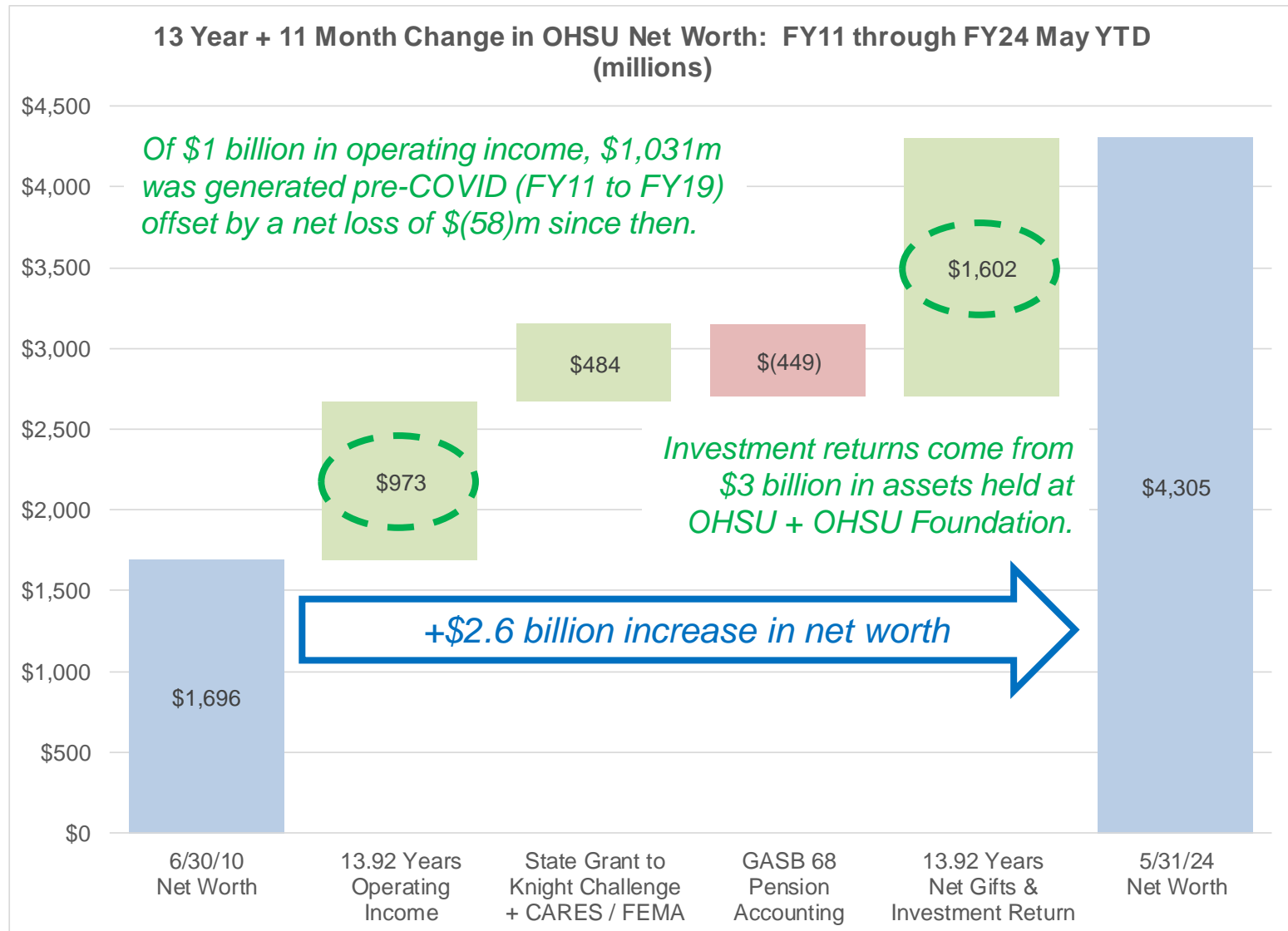


Demand for OHSU Care Grows 2x Other Hospitals

- Over 5 years from 2018 to 2023, OHSU’s hospital net patient revenue has grown by 63%, more than twice that of all other Oregon hospitals.
- This reflects the demand for OHSU’s unique specialty/subspecialty services as Oregon’s academic health center combined with our ability to recruit faculty and build programs.
- These factors have resulted in a 2.5% annual increase in casemix or complexity per year, which offset OHSU’s shortage of inpatient beds—to be alleviated by the Inpatient Addition and, if approved, the Legacy combination.

Net Patient Revenue (millions)	OHSU Hospital	All Other Oregon	OHSU % All Other
January to December 2018	\$1,682	\$11,191	15%
January to December 2023	\$2,744	\$14,511	19%
5-year percent growth	63%	30%	

Growth Requires Capital: 6.9% Net Worth CAGR



Earnings to Invest in People, Programs & Things

- In FY19, OHSU had an operating gain of \$176.5m. If we had kept just this dollar level of earnings for the next 6 years (FY20 through FY25 budget), cumulative earnings would be \$1,059m—and higher if calculated on a percent of revenue basis.
- In fact, operating income is a cumulative loss of \$(100)m, offset by \$144m of CARES Act and \$140m of FEMA support booked “below the line” per GASB accounting.
- The actual net is a gain of \$185m or \$(874)m below the pre-pandemic dollar level.

Oper. Income & Federal Support (millions)	Actual Gain (Loss)	FY19 Earnings Comparison
FY20 operating loss	\$(29.2)	\$176.5
FY21 operating gain	72.4	176.5
FY22 operating loss	(89.7)	176.5
FY23 operating gain	53.0	176.5
FY24 operating loss (estimate)	(80.9)	176.5
FY25 operating loss (proposed)	(25.0)	176.5
Subtotal - 6 years oper. income	(99.5)	1,058.9
CARES Act / FEMA assistance	284.4	
Total - oper. income & fed. support	184.9	1,058.9
Shortfall from FY19 dollar earnings	\$(873.9)	

Strategic Alignment in FY25 Budget & Beyond

- Investment in patient-facing staff:
 - The pandemic proved the importance of robust staffing and pay to retain and recruit nurses, pharmacists, technicians, house officers and other front-line caregivers.
 - FY25 budget invests over \$175m per year and nearly 500 positions in patient-facing staff compared to FY23 actual levels adjusted for inflation and volume: a combination of higher staffing levels and higher than prior trend pay.
 - This investment is essential for both our patients and our clinical staff; is consistent with the new Oregon hospital staffing bill that OHSU supported; and reflects recent collective bargaining agreements and current labor market conditions.
- OHSU's unique role as Oregon's public academic health center:
 - OHSU's multi-year financial strategy aims to advance into the position of the Tertiary/Quaternary Destination for a geography spanning north to Seattle, south to Sacramento and San Francisco, east to Salt Lake City, and west to Honolulu.
 - Within this position, we have a National-Class Cancer Center drawing patients from an even wider geography.
 - \$650m Inpatient Addition project opens in Spring 2026, adding 128 beds focused on these programs. Design for the Perinatal Addition is nearing completion.

Strategic Alignment in FY25 Budget (continued)

- OHSU's unique role as Oregon's AHC (continued):
 - This strategy includes firmly designating bed and OR capacity to meet the demand from patients (including those waiting at other hospitals) who need advanced cancer, neuro, cardiovascular and complex surgical services that leverage multi-disciplinary teams and technological assets of Oregon's academic health center.
 - It also requires optimal placement and management of patients who are stable for transfer to OHSU programs at partner sites such as Hillsboro Medical Center and Adventist Health Portland—caring for each patient promptly with the right care at the right place and at the right cost structure.
 - The FY25 budget includes \$55m of revenues above direct costs from relocating 50 beds of community hospital-level care from OHSU Hospital to Adventist and Hillsboro, redeploying those 50 beds for cancer and complex surgical patients. This counts a half-year impact due to the complexity of implementation, now in planning.
- Inflation-appropriate payment rates:
 - From this position, we will secure inflation-appropriate payment rates that fully recognize the value of our members and cover the costs of our services, together with a stable balance of commercial and government payers so that in future years the growth rate in payment rates covers the growth rate in costs.

Strategic Alignment in FY25 Budget (continued)

➤ Rigorous cost reduction:

- We are using these principles to treat all expenditures as strategic investments and retain only what is essential:
 1. Prioritize and fully fund key capabilities that drive success
 2. Allocate minimum necessary resources to meet industry standards
 3. Fund basic operational costs to maintain functionality
 4. Cut non-essential spending.
- We will optimize procurement to secure the lowest total cost for the supplies & services required for OHSU's advanced programs.
- Research & education will be scaled to available funding from grants, tuition, gifts & State support (which together grow ~2-4% / year) until sufficient clinical earnings are generated toward the end of the decade.
 - *This highlights the importance of philanthropy and investment returns.*

Strategic Alignment Process to Date

- In April and May, select senior leaders across our missions completed a comprehensive audit of all current expenses, projects and roles. The executive leadership team reviewed the results and made final decisions about the next steps as one university—decisions incorporated into the proposed FY25 budget presented here.
- These include permanent reductions in the number of non-patient facing staff, focusing first on administrative & support positions, and in programs that are non-essential and not fully funded: approximately \$75m of savings from \$16m in vacancies, \$40m of reductions in force, and \$19m of program reductions.
- Although reductions in force have proven necessary, the intent of this work is to shift our overall strategy to ensure the highest and best use of the services that distinguish OHSU from others and on which Oregon depends.
- OHSU's distinctive capabilities include innovative primary and rural care delivery system development that are also part of our State-mandated mission. With the planned Legacy combination, we anticipate opportunities to advance this work at a sustainable, population health level that strengthens OHSU Health in the marketplace.
- Managing change effectively means embracing tough choices while maintaining our commitment to the culture that makes OHSU a beacon in health care, research and education. We strive to proceed with discipline and compassion, understanding each decision impacts lives and livelihoods.

Budget to Budget Changes in Revenue & Expense

Compared to the FY24 budget approved by the Board last June, the FY25 plan has \$573m more revenues, 73% from patient care, and \$598m more expense, 66% invested in salaries & benefits for our members and 23% in pharmacy & medical supplies for our patients.

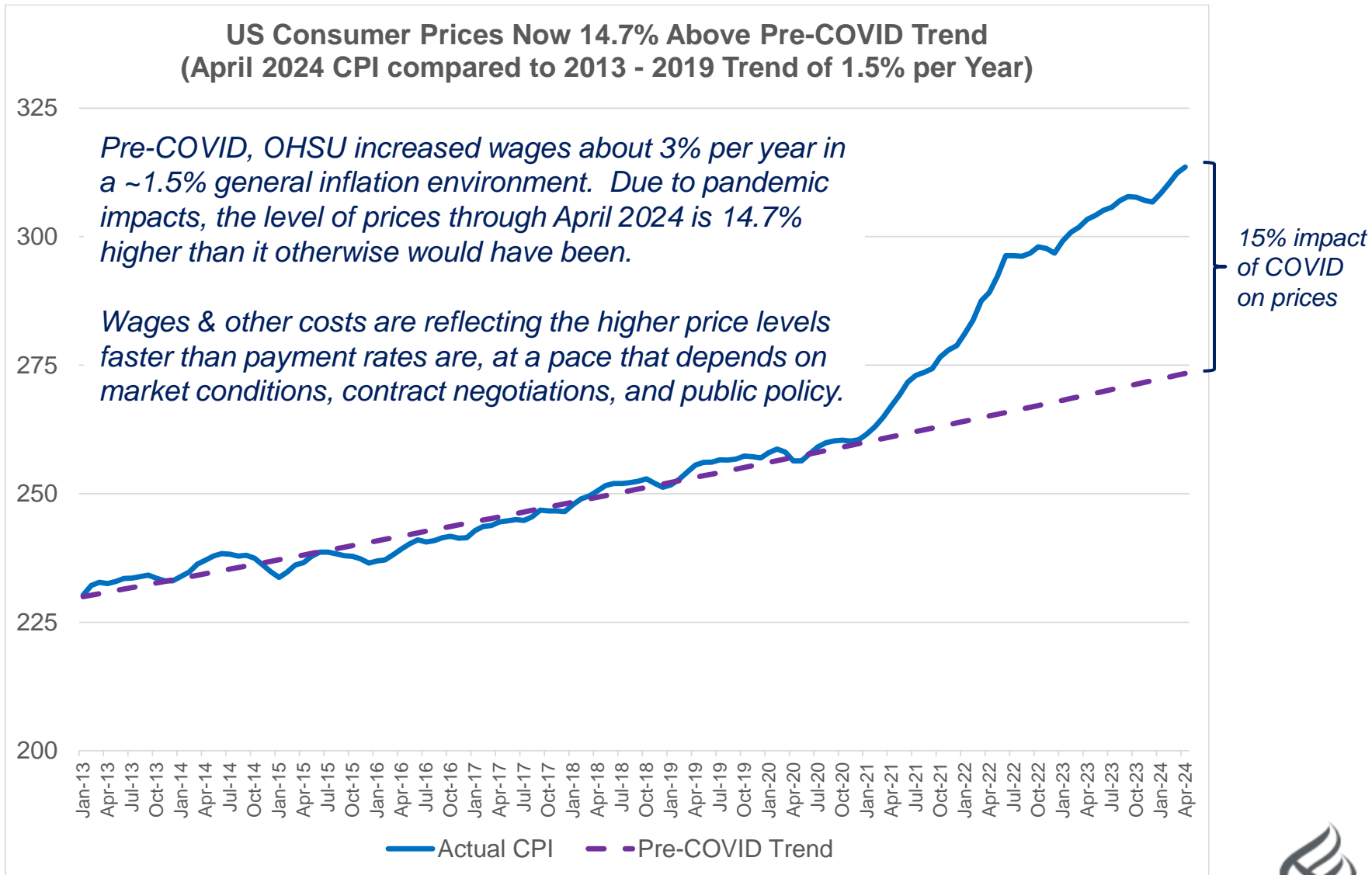
FY25 Plan vs FY24 Budget (millions)	FY24 Budget	FY25 Proposed	\$ Change Bdg to Prop	FY25 Prop / FY24 Bdg
Net patient revenue	\$3,417	\$3,811	\$394	11.5%
Medical contracts	184	207	23	12.3%
Grants & contracts	557	591	34	6.2%
Gifts applied	113	129	16	14.5%
Tuition & fees	83	84	1	1.2%
Sales, services & other	259	266	7	2.6%
State support	283	380	98	34.6%
Operating revenues	4,896	5,468	573	11.7%
Salaries & benefits	3,013	3,409	396	13.2%
Rx & medical supplies	949	1,089	140	14.8%
Other services & supplies	676	725	49	7.3%
Depreciation	217	228	12	5.4%
Interest	42	42	0	0.9%
Operating expenses	4,896	5,493	598	12.2%
Operating income (loss)	\$0	\$(25)	\$(25)	0.0%
<i>Operating margin</i>	<i>0.0%</i>	<i>-0.5%</i>		
<i>EBITDA margin</i>	<i>5.3%</i>	<i>4.5%</i>		

\$175M Investment in Patient-Facing Hospital Staff

- FY25 OHSU Healthcare plan includes 5,657 FTEs in major categories of patient-facing clinical staff with a total budget of \$997m (purple line). In FY23, these same groups had 4,933 FTEs with salaries & benefits of \$706m (blue line).
- Adjusting FY23 levels for volume growth and inflation results in adjusted levels of 5,170 FTE and \$821m of salaries & benefits (green line). To this adjusted base, the FY25 budget adds 487 FTEs and \$176m, representing the new investment to retain & recruit clinicians to better meet the complex needs of OHSU's patients (red line).

Major Categories of Patient-Facing Clinical Staff in OHSU Healthcare		
FY25 Budget for FTEs and Total Salaries & Benefits with Growth from FY23		
Job Category	FTEs	(millions)
Registered Nurses	2,740	\$622.9
Residents (House Officers)	885	94.4
Pharmacists & Pharmacy Technicians	463	84.5
Medical Assistants	326	28.2
Radiology Therapists & Technologists	262	47.5
Certified Nursing Assistants	206	17.0
Lab Technologists & Technicians	184	21.3
Surgical Technologists & Technicians	169	21.1
RT, PT, OT & Other Clinical Staff	423	59.6
FY25 Budget - Major Categories of Clinical Staff	5,657	\$996.6
FY23 Actual for Same Categories in OHSU Healthcare	4,933	\$706.2
FY23 to FY25 Adjustment for Volume Growth & Inflation	4.8%	16.2%
FY23 Staffing Adjusted to FY25 Infl & Volume	5,170	\$820.7
Incremental Investment in Patient-Facing Staff	487	\$175.9

Inflation, though Cooling, Has Added 15% to Prices



Data source: Bureau of Labor Statistics



Average Increase in Wages & Payment Rates

- FY25 budget includes a weighted average increase in wages & benefits per employee of 6.1%, including 5.9% growth in wages and 8% growth in health benefits.
- Keeping health benefit cost growth to 8% will require increased cost sharing while not adding additional coverage for new services that many employees would like.
- The 6.1% average compensation growth continues to exceed payment rate growth of flat for the NIH budget to 2% for tuition and 4.3% for patient care (averaging commercial, Medicare and Medicaid rates).

FY25 Weighted Average Increase in Salaries & Benefits		
	% of Total \$	Increase
Faculty	25%	5.5%
AFSCME (most other hourly)	20%	5.0%
ONA (nurses)	14%	8.5%
Unclassified Administrative	9%	5.0%
House Officers (residents)	2%	8.5%
All Other Groups	6%	5.0%
Weighted average wage increase	77%	5.9%
Retirement benefits & FICA	13%	5.9%
Health & other benefits	10%	8.0%
Average salary & benefit increase	100%	6.1%
<i>Comparison revenue growth rates:</i>		
<i>Patient care payment rates</i>		4.3%
<i>Tuition</i>		2.0%
<i>NIH budget</i>		Flat

2% Proposed Tuition Increase + Tuition Promise

FY24 budget keeps tuition increases for entering students to 2%. For programs in the OHSU Tuition Promise, continuing students have no tuition increases (see next 2 pages).

Select Programs	Tuition Increase	Resident Tuition	Non-Resident Tuition	OHSU Fees	Resident 2024-25 Total	Non-Resident 2024-25 Total
Medicine – MD ¹	2%	\$48,012	\$73,804	\$10,263	\$58,275	\$84,067
Dentistry – DMD ¹	2%	\$49,924	\$80,576	\$20,160	\$70,084	\$100,736
Medicine – Physician Assistant ¹	2%	\$44,136	\$44,136	\$11,031	\$55,167	\$55,167
Medicine – Human Nutrition & Dietetic Internship ²	2%	\$32,214	\$32,214	\$8,682	\$40,896	\$40,896
Medicine – Radiation Therapy ¹	2%	\$22,704	\$27,324	\$10,009	\$32,713	\$37,333
Nursing – Undergraduate 3-Year Bachelor ³	2%	\$15,624	\$28,656	\$8,682	\$24,306	\$37,338
Nursing – Undergraduate Accelerated Bachelor ¹	2%	\$35,940	\$48,000	\$11,031	\$46,971	\$59,031
Nursing – Graduate Nurse Practitioner ³	2%	\$25,164	\$32,688	\$8,682	\$33,846	\$41,370
Nursing – Graduate Nurse Anesthesia ⁴	2%	\$41,856	\$43,584	\$11,031	\$52,887	\$54,615

¹Based on four terms of enrollment

²Based on three terms of enrollment

³Based on three terms of enrollment at 12 credits each — actual enrollment may vary

⁴Based on four terms of enrollment at 12 credits each — actual enrollment may vary

Proposed 2024-25 Increases in Full-Time Tuition

Tuition Promise Programs (Returning)

	Approx. Terms of Attendance	Percent Increase	Resident Tuition	Non-Res Tuition
MD 2nd Year	4	0%	\$11,768	\$18,089
MD 3rd Year	4	0%	\$11,537	\$17,734
MD 4th Year	4	0%	\$11,311	\$17,387
MD/MPH 2nd Year	4	0%	\$10,831	\$16,623
MD/MPH 3rd Year	4	0%	\$10,619	\$16,297
MD/MPH 4th Year	4	0%	\$10,411	\$15,980
MD/MPH 5th Year	4	0%	\$10,210	\$15,668
DMD 2nd Year	4	0%	\$12,236	\$19,749
DMD 3rd Year	4	0%	\$11,996	\$19,361
DMD 4th Year	4	0%	\$11,761	\$18,982
Human Nutrition	4	0%	\$7,290	\$7,290
Physician Assistant	4	0%	\$10,818	\$10,818
Radiation Therapy	4	0%	\$6,072	\$7,308
Undergraduate Nursing Accelerated Bachelor	2	0%	\$7,056	\$9,420
Undergraduate Nursing	3	0%	\$5,112	\$9,372
Graduate Nurse Practitioner	4	0%	\$6,174	\$8,019
Graduate Nurse Anesthesia	4	0%	\$7,695	\$8,019

Tuition Promise Programs (First Year Students)

MD	4	2%	\$12,003	\$18,451
MD/MPH	4	2%	\$11,033	\$16,942
DMD	4	2%	\$12,481	\$20,144
Human Nutrition	3	2%	\$7,434	\$7,434
Physician Assistant	4	2%	\$11,034	\$11,034
Radiation Therapy	4	2%	\$6,192	\$7,452
Undergraduate Nursing Accelerated Bachelor	3	2%	\$7,188	\$9,600
Undergraduate Nursing	3	2%	\$5,208	\$9,552
Graduate Nurse Practitioner	3	2%	\$6,291	\$8,172
Graduate Nurse Anesthesia	4	2%	\$7,848	\$8,172

Proposed 2024-25 Increases in Full-Time Tuition

Non-Tuition Promise Programs	Approx. Terms of Attendance	Percent Increase	Resident Tuition	Non-Res Tuition
Dental Graduate	4	2%	\$12,249	\$14,590
Dietetic Internship	4	2%	\$7,434	\$7,434
Food Systems & Society	3	2%	\$6,687	\$6,687
SoM PhD	3	2%	\$7,262	\$7,262
Biomedical Informatics On Campus	3	2%	\$6,795	\$8,127
Biomedical Informatics Distance Learning	3	2%	\$7,556	\$8,914
Clinical Research or Human Investigations	3	2%	\$5,193	\$5,193
MBA or MS in Healthcare Administration	3	2%	\$5,931	\$5,931
Medical Physics	3	2%	\$5,940	\$9,486
Undergraduate Nursing RN/BS	3	2%	\$3,780	\$3,780
Nursing PhD, DNP in Nursing, Health Systems Org Leadership, Nursing Education	3	2%	\$6,183	\$8,019
On-Campus MPH or Programs in Biostatistics	3	2%	\$4,293	\$6,543
SPH PhD	3	2%	\$5,553	\$6,480
Online MPH or Certificate in Public Health	3	2%	\$5,670	\$7,335

Trend in OHSU Adult Admissions by Source

- Since the pandemic, as adult admissions from the Emergency Department have risen by +28%, regular or scheduled admissions (such as inpatient surgeries at the start of cancer treatment) have declined by -18% overall, while total transfers from other hospitals to OHSU have fallen by one-third.
- These trends have hampered our ability to fulfil our unique state-wide role as Oregon's only major academic health center.

Adult Admissions	FY19	FY20	FY21	FY22	FY23	FY23/FY19
Regular admissions	11,313	10,156	9,212	8,926	9,268	-18%
Direct transfers	3,935	3,519	3,091	2,524	2,105	-47%
Transfers through ED	970	1,140	1,318	1,091	1,179	22%
Total transfers	4,905	4,659	4,409	3,615	3,284	-33%
ED admissions	6,480	6,261	6,254	7,652	8,283	28%
SNF admissions	80	231	117	97	63	-21%
Total adult admissions	22,778	21,307	19,992	20,290	20,898	-8%
ED admissions / total	28%	29%	31%	38%	40%	

Change in Relative Share of Surgical Volume

Compared to FY19 pre-COVID activity, total CMI & outpatient adjusted admissions at OHSU are up 21%, while inpatient surgical cases are down -14%.

OHSU Hospital Volume Metrics	FY19 Actual	FY24 Annualized *	Percent Change
Inpatient surgical cases	13,553	11,676	-14%
Outpatient surgical cases	<u>23,527</u>	<u>25,576</u>	<u>+9%</u>
Total surgical cases	37,080	37,252	0%
Emergency visits	47,856	56,237	+18%
Average daily census	475.8	492.5	+4%
CMI/OP adj. admissions	137,995	166,757	+21%
<i>IP surgical cases % adj. adm.</i>	9.8%	7.0%	

*FY24 May YTD x 12/11

Distribution of US Health Care Spending

US GDP	\$23 trillion
Health care %	x 18%
	<hr/>
US health care spending	\$4.1 trillion
US population	/ 331 million
	<hr/>
Health care / person	\$12,500

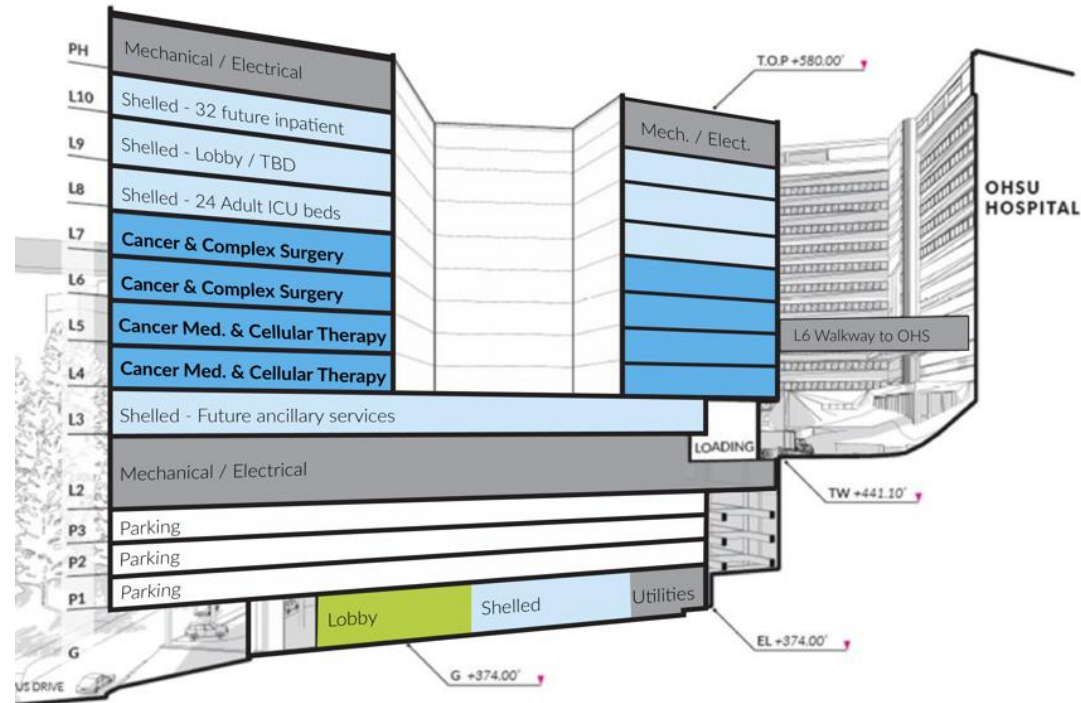
50% population	5% spending	\$1,250 / person
45% population	45% spending	\$12,500 / person
5% population	50% spending	\$125,000 / person

*OHSU Hospital focuses on the third segment:
5% of OHSU Patients → 63% of Hospital Cost*

The Inpatient Addition will increase state-wide capacity to care for these patients who need the unique resources of an academic health center.

IPA in May 2026: 128 New Beds + 4 Shelled Floors

- The \$650m Inpatient Addition (IPA) will add 128 new beds, bringing OHSU's total from 549 to 677 beds, with 4 shelled floors.
- We completing design for a ~\$350m perinatal addition using budget authority approved in FY24.



Level	Unit	Beds
7	Cancer & Complex Surgery	32
6	Cancer & Complex Surgery	32
5	Cancer Medicine & Cellular Therapy	32
4	Cancer Medicine & Cellular Therapy	32
		128

Inpatient Addition Funding	(millions)
Bonds issued in December 2021	\$350
FEMA funds in place of earnings	140
IPA fundraising target	160
Total IPA funding	\$650

Partner Support to HMC & AHP in FY25 Budget

- OHSU provides operating support to Hillsboro Medical Center based on their earnings including FEMA funds and to Adventist Health Portland based on the relative EBITDA of AHP and OHSU Hospital adjusted for capital investments.
- Both partnerships are critical to next year's reallocation of beds across the OHSU Health system to care for each patient promptly with the right care in the right place.
- The FY25 budget includes \$6m of partner support to each for \$12m in total.
- Hillsboro's operating loss is budgeted decrease significantly due to OHSU surgical program growth next year. They also expect cumulative FEMA funds of about \$21m by the end of FY25.

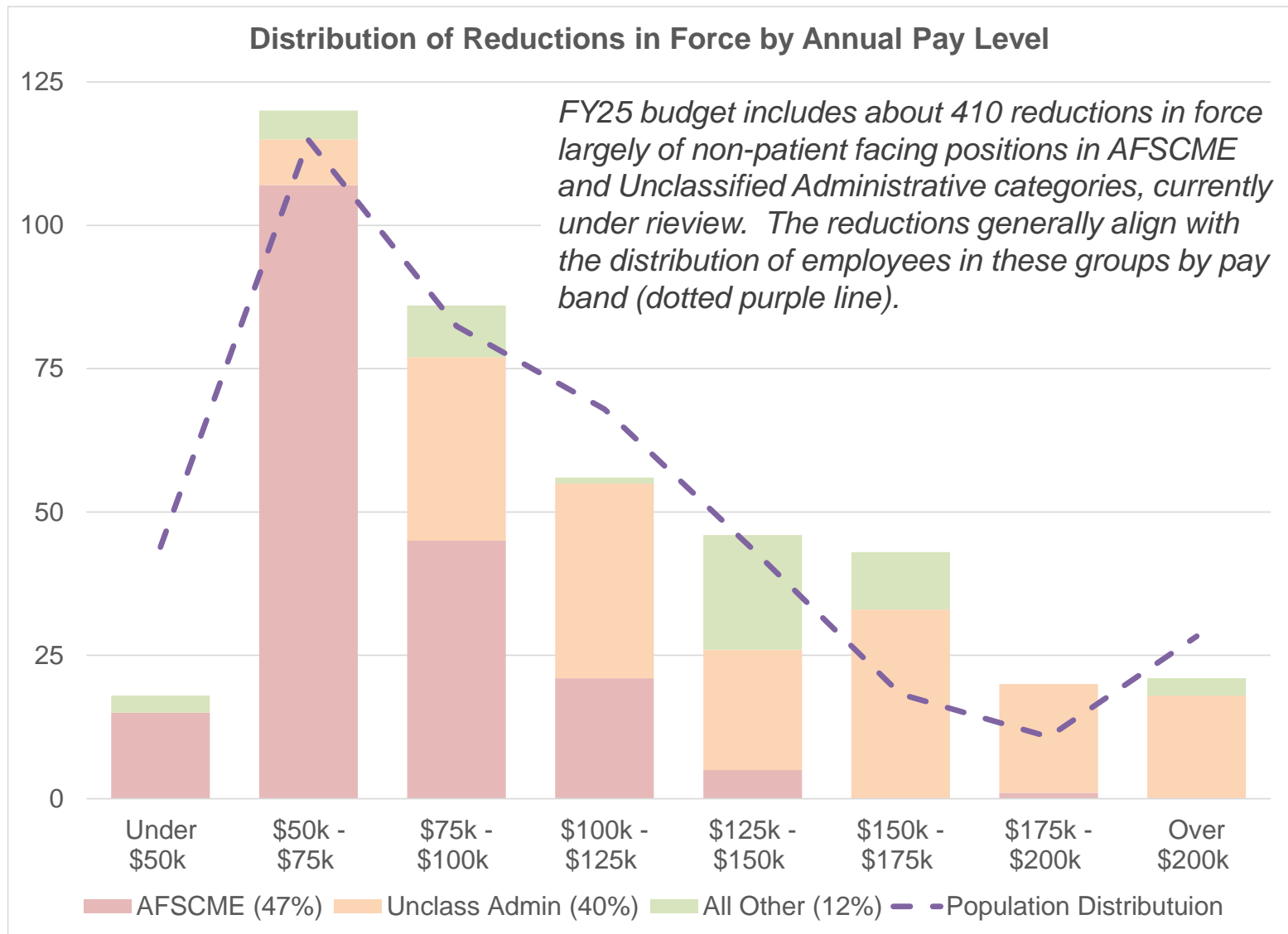
Hillsboro Medical Center (millions)	FY23 Actual	FY24 Estimate	FY25 Budget	FY25 Bdg / FY24 Est
Net patient revenue	270.3	299.3	342.6	14%
Other revenues	8.6	7.8	9.5	21%
Operating revenues	279.0	307.1	352.1	15%
Salaries & benefits	152.5	156.0	171.5	10%
Services & supplies	142.7	157.9	178.7	13%
Depreciation & interest	8.4	8.0	7.9	-2%
Operating expenses	303.6	322.0	358.1	11%
Operating loss before FEMA or OHSU operating support	(24.6)	(14.8)	(6.0)	-60%
<i>Operating margin</i>	<i>-8.8%</i>	<i>-4.8%</i>	<i>-1.7%</i>	
<i>EBITDA margin</i>	<i>-5.8%</i>	<i>-2.2%</i>	<i>0.5%</i>	

Reductions in Filled & Vacant Positions for FY25

- The Strategic Alignment process results in the elimination of 516 full-time equivalent positions or about 2.7% of OHSU's current staffing level. This is before additions for patient-facing clinical staffing.
- 373 FTEs are reductions in force, although these impact approximately 410 individual people (or headcount). This reductions are currently under review by HR and Legal. Another 143 FTEs are unfilled positions that are being removed from the budget.
- The largest percentage reduction occurs in communications, marketing and other services within the Chief of Staff / Chief Administrative Officer areas, including positions previously funded from the Healthcare budget.

Filled & Vacant Positions Eliminated through Strategic Alignment Process					
Full-Time Equivalents (FTEs) (not headcount)	Reductions In Force	Vacancies Eliminated	Total Reductions	Total FTE in Area	Reductions % Total FTE
OHSU Healthcare	180	74	254	9,894	2.6%
School of Medicine	133	38	171	5,734	3.0%
Provost Areas	3	0	3	975	0.3%
Chief Research Officer Areas	5	1	6	1,070	0.6%
Chief Financial Officer Areas	36	18	54	866	6.2%
Chief People Officer Areas	0	8	8	104	7.7%
Chief of Staff / CAO Areas	15	3	18	65	27.7%
Institutional Affairs / GC Areas	1	1	2	81	2.5%
Total OHSU	373	143	516	18,789	2.7%

Reductions in Force Track Staffing by Pay Bands



Overview of Proposed FY25 Capital Budget

- The annual capital budget for FY25 is proposed at \$125m, holding back \$25m from the current year's allocation to balance the \$(25)m deficit.
- The holdback is largely taken from new capacity projects to maintain infrastructure spending to the extent possible.
- We also plan to spend \$269m on OHEP Inpatient Addition construction, funded by the remaining \$134m of bond funds borrowed in December 2021 and \$135m of the \$140m in FEMA funds that covered extra pandemic costs, in place of regular earnings.
- Perinatal Addition design will be completed with budget authority approved in FY24.

Capital Budget Components (millions)	FY24 Budget	FY25 Proposed
Healthcare infrastructure	\$33	\$34
Healthcare new capacity	38	27
Other University infrastructure	40	39
Other University new capacity	39	24
Total annual capital	150	125
OHEP Inpatient Addition	230	269
OHEP Perinatal Addition design	25	
Real estate opportunities	20	
Total capital budget	\$426	\$394

Proposed FY25 Capital Budget Projects

Proposed FY25 Capital Budget (000)	OHSU Healthcare	Other University	Total OHSU		OHSU Healthcare	Other University	Total OHSU
Infrastructure				New strategic priorities			
Infrastructure / replacement	\$33,593	\$18,583	\$52,176	Visage Imaging PACS replacement	\$319	-	\$319
Library materials / Academic areas	815	5,850	6,665	Epic Cupid software implementation	490	-	490
Space committee (relocation & repurposing)	-	1,475	1,475	Epic Home Infusion software implementation	979	-	979
Research equipment replacement	-	1,075	1,075	Alaris pump replacement	5,098	-	5,098
Flexible workspace	-	925	925	OR lights, booms & integration replacement	7,043	-	7,043
School of Medicine equipment replacement	-	845	845	Parking garage C (ED) infrastructure updates	-	2,200	2,200
Public Safety and Administration	-	750	750	Kronos UKG Dimensions software upgrade	-	1,978	1,978
Institutional contingency / infrastructure	-	9,322	9,322				
				<i>Subtotal new strategic priorities</i>	<i>13,930</i>	<i>4,178</i>	<i>18,108</i>
<i>Subtotal infrastructure / replacement</i>	<i>34,408</i>	<i>38,825</i>	<i>73,233</i>	Total FY25 annual capital allocation			125,000
Strategic pre-committed				OHEP: Inpatient Addition (IPA)*			269,038
Robertson Life Sciences Building - Cryo-EM remodel	-	3,420	3,420	Total FY25 capital budget			\$394,038
PGE feeder utility connection	-	500	500				
Security cameras for parking structures	-	1,000	1,000				
OHSU 2025 initiatives	-	527	527				
Research equipment from grants	-	5,000	5,000				
RLSB - Knight Cancer / Dentistry lab build-out	-	7,169	7,169				
Marquam Hill nonconforming site improvements	-	1,200	1,200				
Partnership project (lease consolidation)	-	1,000	1,000				
West Campus drain piping replacement	-	500	500				
Knight Cancer / Legacy Collaborative (Comm Hem-Onc)	(1,554)	-	(1,554)				
Mt. Hood cancer infusion clinic expansion	3,871	-	3,871				
GI Lab relocation (Hatfield Research Center 11)	8,527	-	8,527				
Emergency department expansion - programming	2,500	-	2,500				
<i>Subtotal strategic pre-committed</i>	<i>13,343</i>	<i>20,316</i>	<i>33,659</i>				

**Prior-year capital allocations are sufficient to complete design of the Perinatal Addition.*

Multi-Year Projects in FY25 Capital Budget

Multi-Year Strategic Capital Projects (000)	Total Project*	FY25 Capital Budget	FY26 & Beyond
<i>Healthcare initiatives</i>			
Mt. Hood infusion clinic expansion (Community Hem-Onc)	\$9,052	\$3,871	\$247
GI Lab relocation (Hatfield Research Ctr 11)	16,930	8,527	6,000
OR lights, booms & integration replacement	14,085	7,043	7,043
<i>Other University initiatives</i>			
PGE feeder utility connection	\$4,800	\$500	\$3,000
Marquam Hill nonconforming site improvements	16,700	1,200	12,600
Kronos UKG Dimensions upgrade (timekeeping system)	6,749	1,978	4,771

**Total project includes prior-year components.*

Projected FY25 Cash Flow

- The proposed operating and capital budgets result in a projected drawdown of OHSU-held cash & investments of \$(81)m next year (blue line).
- This cash loss reflects \$269m of spending on the IPA that exceeds the remaining \$134m in OHEP bond funds borrowed in 2021.
- The difference will be covered by FEMA funds, largely received this year.
- This projection depends on the 6% expected investment return on OHSU-held funds.
- However, this return has a standard deviation of plus or minus 12%.
- This means that two-thirds of the time one could expect next year's cash flow to be as high as positive \$88m or as low as negative \$(250)m, depending on financial markets.

FY25 Cash Flow	(millions)
Operating loss	\$(25)
Depreciation	228
Investment return at 6%*	85
OHEP bond funds applied	134
Capital grants & gifts	5
Sources of cash	427
Principal repaid	(48)
Annual capital (\$25m holdback)	(125)
IPA capital spending	(269)
Working capital & other, net	(66)
Uses of cash	(508)
Sources less uses of cash	\$(81)
<i>*Impact of investment volatility</i>	<i>Cash Flow</i>
<i>Plus 1 standard deviation</i>	<i>\$88</i>
<i>Median (6% +/- 12% std dev)</i>	<i>(81)</i>
<i>Minus 1 standard deviation</i>	<i>\$(250)</i>

Achieving the New Post-Pandemic Equilibrium

- Our financial strategy has been to continuously grow patient activity to meet the needs of Oregon and the Pacific Northwest while spreading fixed costs across a wider base.
- We focus on highly specialized programs that leverage research and draw patients with complex diseases who need AHC-level care from throughout Oregon and beyond.
- Growth requires earnings, investment income and gifts to invest in people, programs, places and things.
- To balance the step-function increase in wages & other costs post-COVID, we will:
 - Care for each patient promptly in the right setting and cost structure
 - Invest in patient-facing staff
 - Secure inflation-appropriate payment rates
 - Implement rigorous cost savings while increasing capacity
 - Hold fixed costs fixed with growth to capture economies of scale
 - Expand revenue sources such as philanthropy and pharmacy services
 - Serve the health & well-being priorities of the State of Oregon (e.g., behavioral health and workforce development) to sustain OHSU's public support.
- Strategic alignment at this challenging time will protect and enhance OHSU's unique role as Oregon's public health sciences university with statutory state-wide missions in education, research, patient care and outreach.



Date: June 16, 2023
To: OHSU Finance & Audit Committee
From: Maulin P. Patel, SVP for Finance & Treasurer
Re: Cisco Software License & IT Service Contract Financing

MEMORANDUM
3181 S.W. Sam Jackson Rd.
Portland, OR 97239

Maulin P. Patel
t: 503-957-4089
e: patelma@ohsu.edu

In this memorandum, I seek approval for OHSU to execute the renewal of a service contract with Cisco Systems that provides critical core components for the OHSU network and voice services. The cost of this service contract is included in the proposed FY25 budget. However, due to a recent change in accounting standards that results in such service contracts being treated as equivalent to debt, OHSU policy requires specific Board approval for this renewal.

The total contract is nearly \$20m over 5 years, a price increase of 4.7%. Provided services are:

- **Networking:** Includes the necessary hardware for physical and wireless networking that provides OHSU employees with the ability to stay connected to their work applications from various devices whether logged in on campus or in a mobile setting.
- **Hardware and Software support:** Keeps the software that runs the network up to date and secure.
- **User Licensing:** Provides licensing for all the networking components.
- **Telecommunications & WebEx Suite:** On-premises system for communications in processing of over 150,000 calls daily and the platform for virtual meetings, webinars, and events.
- **DUO Security Services:** Duo provides OHSU user authentication, reducing the risk of unauthorized access to sensitive patient data and critical systems.

The accounting treatment for these types of service contracts falls under the scope of two recently adopted (in FY22) accounting standards, GASB 87 and 96. As a result of these new standards, this contract renewal, which was last signed in FY19, now falls under an OHSU debt-related policy where specific Board approval is required.

Given the likely growth in the number of these types of contracts over time, we plan to return to a future Board meeting with a comprehensive recommendation on how to allow for Board consideration within our overall budget approval process, rather than on a case by case basis.

Summary terms of the contract renewal and associated financing with Cisco / Presidio are:

Term:	5 years
Interest Rate:	0%
Maturity Date:	June 30, 2029
Annual Payment Amount:	\$3.97 million
Total Principal Amount:	\$19.87 million

For reference the recently adopted accounting Standards are described below:

- *GASB 87*
 - *The objective of the Standard is to better meet the information needs of financial statement users by improving the accounting and financial reporting for leases by governments. Increases usefulness by requiring recognition of certain lease assets and liabilities for leases previously reflected as operating expenses.*

- *GASB 96*
 - *The objective of the Standard is to improve the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement defines an SBITA, establishes that an SBITA results in a right to use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments (including implementation costs of an SBITA), and requires note disclosures regarding an SBITA.*



Audit and Advisory Services Update

Finance and Audit Committee

DATE: June 21, 2024

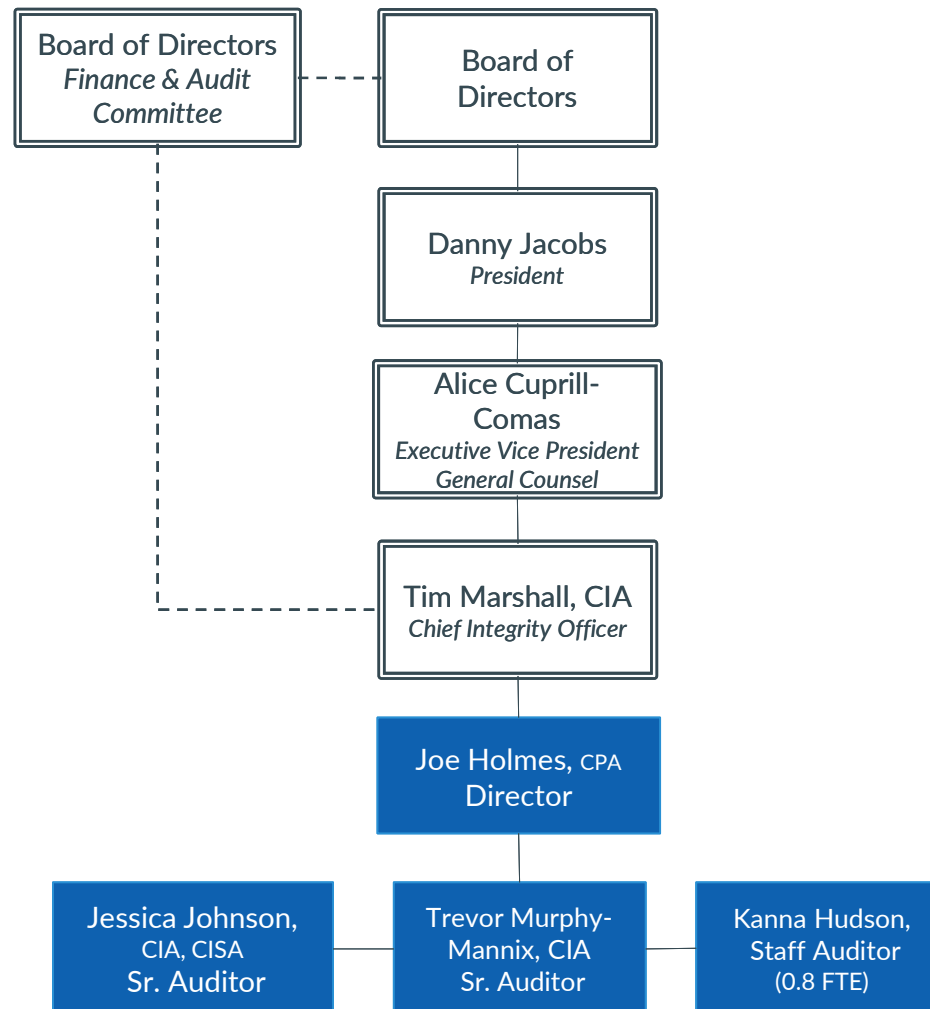
PRESENTED BY: Joe Holmes, Director of Audit and Advisory Services

Agenda

- A&AS Organization Chart
- FY24 Audit Plan Update
- Updated Risk Theme Analysis
- Proposed FY25 Q1Q2 Audit Plan
- FY25 Follow Up Project Priorities
- A&AS Strategic Plan Update
- A&AS Commendations
- Open Discussion & Wrap Up



A&AS Organization Chart

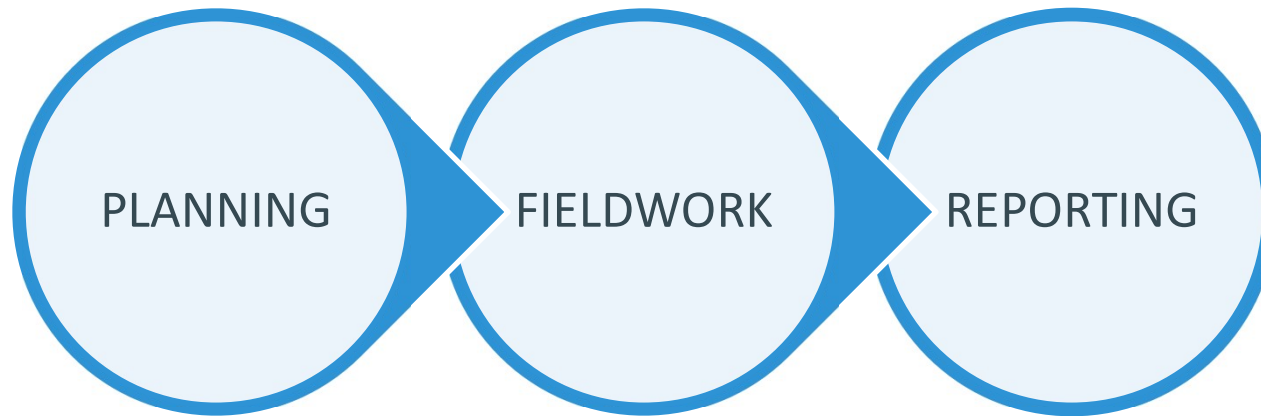


CIA: Certified Internal Auditor
CISA: Certified Information Systems Auditor
CPA: Certified Public Accountant

The background of the slide is a photograph of a large stadium seating bowl, likely at a university. The seats are arranged in a curved, tiered pattern, and the bowl is filled with green trees and foliage. In the distance, several multi-story buildings are visible, including a prominent one with a glass facade. The sky is clear and blue. A white rectangular text box is centered over the upper portion of the image.

FY24 Audit Plan Update

Typical Phases of an A&AS Project



- Kickoff and entrance meetings
- Process walkthroughs
- Risk and control assessments
- Scope, timing, and project objective(s) finalization
- Development of testing procedures

- Documentation requests and review
- Control testing and substantive procedures
- Data analysis and analytic procedures
- Development of initial conclusions and findings

- Draft report issued to process level owners
- Conclusions and findings validated, and management responses requested
- Exit meetings with stakeholders
- Final report Issuance

FY24 Q3Q4 Audit Plan Update

As of June 7, 2024

Project	Status	Project Objective	% Complete	Notes
Advisory Service Sunshine Data Annual Review	COMPLETE	To obtain and format CMS data and perform analysis to support the Conflict of Interest (COI) program, in collaboration with Research Integrity.	100%	Data analysis completed and delivered to Research Integrity in September.
Audit No Surprises Act/ Patient Consent Balance Billing**	COMPLETE	Assessment of compliance with patient obligations as required by the No Surprises Act.	100%	Audit report issued 3/1/24.
Advisory Service Leased/Cloud Software Tax Analysis	COMPLETE	To assess multistate tax implications associated with the use of cloud-based software.	100%	Risk analysis memo issued and exit meeting held 2/21/24.
Advisory Service Student Business Functions*	COMPLETE	Assessment of current state student business functions across OHSU for risk identification and enhancement opportunity purposes.	100%	Results report, risk log, and benchmarking resource analysis issued 5/20/24.
Advisory Service Qgenda Implementation Support*	COMPLETE	Miscellaneous advisory service support implementation of Qgenda and associated planned processes and controls.	100%	Ad hoc support provided in Q3Q4. See appendix for details.
Advisory Service GASB 96 Process Assessment	REPORTING	Assessment of changes to policies and procedures for tracking and reporting leases to achieve compliance with GASB 96.	97%	Draft report complete. Exit conference scheduled for the last week of June 2024.
Advisory Service Clinical Integrity Support: Durable Medical Equipment**	REPORTING	To provide support to Healthcare Clinical Integrity's review of durable medical equipment processes.	95%	Ad hoc support provided in Q3Q4. See appendix for details. No A&AS hours planned for FY25.

* Collaboration with Healthcare Clinical Integrity

** See executive summary in Appendix for project results

FY24 Q3Q4 Audit Plan Update

As of June 7, 2024

Project	Status	Preliminary Objective	% Complete	Notes
Audit Hospital Expansion Project	PLANNING	Assessment of controls to ensure the project is being appropriately administered, and in compliance with applicable regulatory requirements. *	25%	Preliminary focus of testing to be on progress reporting and expenses incurred to-date associated workforce and supplier diversity goals. Fieldwork and reporting will carry forward into FY25.
Audit Bayh-Dole IP Confidentiality/ Tech Transfer	PLANNING	Focus is on adherence to Bayh-Dole Act requirements, such as disclosure and patent processes, ensuring that inventions arising from federally funded research are efficiently commercialized for public benefit. *	30%	At request of management, project will be paused upon completion of the planning phase. Project will resume in Q2 FY25.
Audit Medical Record Requests	PLANNING	Assessment of policies and procedures associated with subpoena requests, as well as review of fee and collection processes associated with record requests. *	5%	Project will carry forward into FY25, with a target completion in August.

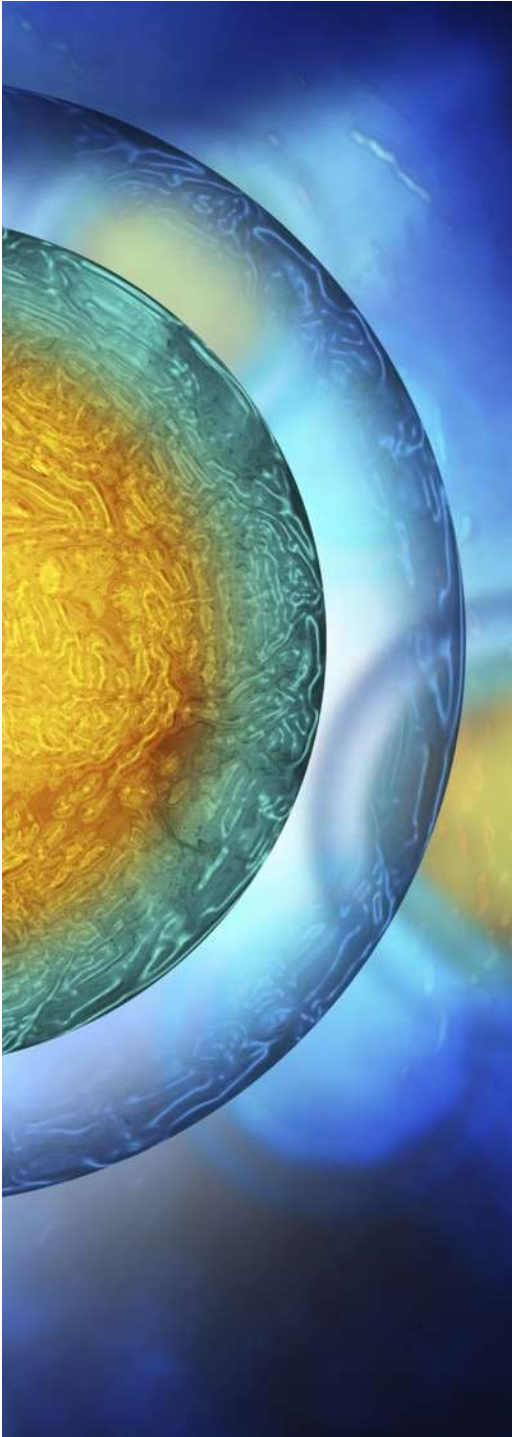
*Final scope to be determined during planning meetings with management

FY24 Audit Plan: Schedule Estimate
As of June 2024

			FY24 Q3Q4						FY25 Q1Q2					
Project	Lead Auditor	% Complete	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Audit No Surprises Act/ Patient Consent Balance Billing	Kanna Hudson	100%	█											
Advisory Service Student Business Functions	Jessica Johnson	100%	█											
Advisory Service GASB 96 Process Assessment	Trevor Murphy- Mannix	97%	█											
Advisory Service Clinical Integrity Support: Durable Medical Equipment	Trevor Murphy- Mannix	95%	█											
Advisory Service Qgenda Implementation Support	Trevor Murphy- Mannix	100%		█										
Audit Hospital Expansion Project	Jessica Johnson	25%				█								
Audit Bayh-Dole IP Confidentiality/ Tech Transfer	Kanna Hudson	30%			█							█		
Audit Medical Record Requests: HIPAA Subpoena Compliance, Processing Fee Review	Trevor Murphy- Mannix	5%						█						



Updated Risk Themes



Risk Assessment Process

A&AS employs a rolling audit plan driven by ongoing risk assessment, allowing adjustments to be made in the changing risk environment faced by the institution.

The goal of the A&AS process is to drive prioritization of projects to provide audit coverage across mission areas and deploy A&AS resources in an effective and efficient manner.

The process incorporates research from nationwide trends and emerging risks in higher education and healthcare, review of internal resources, information from past engagements and investigations, and institutional knowledge.

The risk assessment process in support of the audit plan will continue throughout the course of FY25.



Updated Risk Theme List

- **Cybersecurity and Privacy:** Healthcare specific cyber threats are becoming more prevalent, requiring robust cybersecurity measures, operational resilience, and privacy protections.
- **Economic Pressures and Resource Constraints:** Ongoing economic challenges, including inflation and budget constraints, may impact financial sustainability and operational efficiency and effectiveness.
- **Workforce Relations and Talent Management:** Attracting, developing, and retaining skilled personnel remains critical.
- **Regulatory Compliance and Legal Risks:** Adapting to evolving regulations and ensuring compliance with legal requirements remains crucial to avoid penalties and maintain operational integrity.
- **Enterprise Trust:** Expectations continue to be high for organizations to act with integrity, comply with regulations, and uphold its commitments to ethical and responsible practices.
- **Disruptive Technology:** Rapid technological changes, including the use of AI, pose new challenges in maintaining operational effectiveness.

*Sources: Risk Assessment Meetings, IIA, Gartner, Protiviti, KPMG, PwC, Deloitte, ACUA, Baker Tilly, AuditBoard, peer auditor inquiry



Updated Risk Theme List (cont.)

- **Third Party and Vendor Management:** Inadequate oversight and management of third-party vendors and suppliers.
- **Student Success and Placement:** Ensuring high levels of student satisfaction and successful placements is vital for reputation and long-term viability.
- **Environmental, Social, and Governance (ESG) Issues:** Addressing ESG concerns, including sustainability initiatives and social responsibilities, is becoming increasingly important for institutional reputation and compliance.
- **Patient Experience and Satisfaction:** Enhancing patient care quality and satisfaction is essential for maintaining trust and meeting healthcare delivery standards.
- **Fraud and Exploitation of Operational Processes:** Preventing fraud and ensuring the integrity of operational processes are key to maintaining financial health and operational efficiency.

*Sources: Risk Assessment Meetings, IIA, Gartner, Protiviti, KPMG, PwC, Deloitte, ACUA, Baker Tilly, AuditBoard, peer auditor inquiry



A&AS Project Level Thematic Observations

The following themes were observed during the execution of A&AS projects in FY24:

Single Points of Failure: Reliance on individual staff members and isolation of knowledge and duties without sufficient backup planning.

Inefficient Manual Processes: Inefficient manual processes that are prone to human error.


Compliance Gaps: Non-compliance with industry regulations, internal policies, and legal requirements due to lack of awareness, training, and/or monitoring.

Unclear Process Goals and/or Objectives: Absence of clear goals and objectives resulting in lack of monitoring and/or governance controls.

Ineffective Communication Channels: Poor communication leading to misunderstandings and inefficiencies in operations.

Inconsistent Performance Metrics: Lack of standardized metrics for evaluating, monitoring and improving performance within processes.

Inadequate Documentation: Lack of documentation and poor process level audit trails resulting in an inability to provide assurance on performance.

A scenic view of a city from a high vantage point, likely a cable car station. In the foreground, a cable car is suspended from a cable, moving across the frame. Below it, a cityscape is visible, featuring a large body of water, a roller coaster, and various buildings. The background shows a hazy, mountainous landscape under a clear blue sky.

Proposed FY25 Q1Q2 Audit Plan

FY25 Q1Q2 Proposed Audit Plan

DRAFT – FOR DISCUSSION PURPOSES ONLY

Project Name	Type
FY24 carry forward: Hospital Expansion Project Audit - Phase 1	Audit
FY24 carry forward: Bayh-Dole Disclosure and Patent Testing	Audit
FY24 carry forward: Medical Record Requests	Audit
Sunshine Data Annual Review	Advisory
Miscellaneous Cash Handling & Posting	Audit
Vendor & Contract Management	Advisory
Anti-Fraud Data Analytics Tests	Advisory
Hospital Expansion Project Audit - Phase 2	Audit

See FY25 Q1Q2 Audit Plan Summary in appendix for project details.

A photograph of a modern building complex with glass facades and a cable car in the background. The image shows several interconnected buildings with large glass windows and a prominent glass-enclosed tower. A cable car is visible on the right side, suspended from a cable. The sky is blue with some clouds.

FY25 Follow Up Project Priorities

FY25 Follow Up Project Priorities

The below projects will be prioritized with dedicated time allocated in FY25. All open A&AS issues will be evaluated on a quarterly basis.

Project Name	Observations
FY20 Opioids Prescription Management	9
FY20 Clinical Contract Management Review	15
FY22 Clery Act Compliance	See note*
FY23 No Surprises Act/Patient Consent Balance Billing	11
FY23 Charge Description Master	26
FY24 Vendor File Analytics	8

* Time will be devoted in FY25 towards refining focus for open issues and working with management to obtain near term action plans.

A&AS Strategic Plan Update





A&AS FY25 Objectives

The following FY25 objectives will form the initial basis of the A&AS strategic plan, which will continue to be refined and updated on an annual basis.

- 1) Provide OHSU with recommendations to improve operational efficiency, strengthen controls, enhance risk management, and foster a culture of continuous improvement.
- 2) Execution of more broad institutional risk awareness activities, equipping departments with the knowledge and tools to self-identify, assess, and manage risks effectively.
- 3) Implementation of a formal A&AS strategic plan, in alignment with OHSU objectives, including continued development and coordination of an integrated risk assessment methodology and process with fellow OHSU assurance functions.
- 4) Provide excellent customer service to our internal and external customers.



A&AS FY25 Objectives

5) Implementation of enhanced reporting and monitoring of engagement level performance metrics, with a goal to provide better project insights on implementation of recommendations, productivity, and risk trends.

Proposed engagement level metrics include:

- Audit cycle time: elapsed time from kickoff meeting to fieldwork completion, and elapsed time from fieldwork completion to report issuance.
- Planned vs. actual hours.

Proposed post audit metrics:

- Number of risks, and number of findings identified.
- Audit satisfaction ratings.
- Number of enhancement opportunities.

Proposed follow up metrics:

- Percent of recommendations implemented.
- Number of open findings past agreed upon implementation dates.



A&AS FY25 Objectives

6) Participate, provide leadership, and volunteer time in professional associations

A&AS staff are members and volunteers of several organizations, including:

- Association of College & University Auditors (ACUA)
- Association of Healthcare Internal Auditors (AHIA)
- The Institute of Internal Auditors (IIA) Portland Chapter
 - Board Member Representation
- AICPA (American Institute of Certified Public Accountants)
- ISACA (Information Systems and Audit and Control Association)
- PNWHEIA (Pacific Northwest Higher Education Internal Audit)
- HECC (Higher Education Coordinating Commission)
 - Audit Committee Representation

A&AS staff regularly attend continuing education, conferences/webinars, read professional periodicals, and stay connected through professional association listservs.

A&AS Commendations

A scenic view of a city from a high vantage point, likely a cable car station. In the foreground, a cable car is suspended from a cable, moving across the frame. The city below is densely packed with buildings, including a prominent roller coaster structure. A large body of water is visible in the middle ground, and the background shows rolling hills under a clear blue sky. The overall atmosphere is bright and clear, suggesting a sunny day.

A&AS Commendations

Positive feedback received during FY24 included:

- “I appreciated how the final report had clear and actionable recommendations and next steps. It was helpful to have included senior leadership looped into the final conversation about the audit, so awareness could be brought to issues that we had been experiencing for a long time.”
- “I value your partnership and approach. I think this team leads with compassion and understanding and makes it comfortable for my teams to share information openly and in a safe environment. I would much rather any findings happen internally than externally, so appreciate that you make this process not intimidating. Thank you very much.”
- “I have been in a lot of audits and feel so very strongly that the way your team conducts them is TOP SHELF.”
- "I would like to THANK YOU for all the work that has been done on this internal audit. I truly appreciate everything you have done for us!"

Open Discussion & Wrap Up





Thank You

Appendix





Q1Q2 FY25 Audit Plan Summary

Overview

As outlined in the Audit and Advisory Services (A&AS) charter, A&AS is an independent and objective assurance and consulting program within OHSU guided by a philosophy of adding value to improve the operations of OHSU. A&AS assists OHSU management in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk, and internal control processes.

In order to meet this responsibility, A&AS has developed an audit plan which considers potential projects across the organization, deploying A&AS resources to perform risk-based engagements, utilizing the skill sets of each staff member. The following audit plan summary provides an overview of planned audit and advisory service activities for the first two quarters of fiscal year 2025 (FY25).

A&AS FY25 Objectives

- Provide OHSU with recommendations to improve operational efficiency, strengthen controls, enhance risk management, and foster a culture of continuous improvement.
- Execution of more broad institutional risk awareness activities, equipping departments with the knowledge and tools to self-identify, assess, and manage risks effectively.
- Implementation of enhanced reporting and monitoring of engagement level performance metrics, with a goal to provide better project insights on implementation of recommendations, productivity, and risk trends.
- Implementation of a formal A&AS strategic plan, in alignment with OHSU objectives, including continued development and coordination of an integrated risk assessment methodology and process with fellow OHSU assurance functions.
- Provide excellent customer service to our internal and external customers.
- Participate, provide leadership, and volunteer time in professional associations.

Services

A&AS performs the following types of services as part of its program:

1. Audit services

Audit services are projects that are included in the audit plan and are typically risk-based. The audit plan is managed with a rolling format so audit projects may be re-evaluated throughout the year to react to changes in OHSU's risk profile and any other unscheduled project requirements.

2. Advisory services

A&AS is available to respond to requests from management for services that are more advisory in nature than traditional audits. These types of advisory services may include services such as consultations, special projects, internal control reviews, and system

development projects. In the context of advisory services, A&AS staff will rely upon their expertise to provide best practices and consultative advice to the OHSU community.

3. Investigation services

Investigation services include looking into suspected financial irregularities whether reported by concerned parties, uncovered in the course of regular audits, or based upon concerns conveyed by management. When investigating suspected or alleged misuse of OHSU resources, A&AS objectives are to verify facts, provide an objective and confidential review, and recommend corrective actions to ensure similar actions do not occur in the future.

Risk assessment

A&AS conducts ongoing risk assessment meetings with key stakeholders and leaders across missions to discuss issues and concerns in their business units as well as challenges and risks facing the institution as a whole. The risk assessment process incorporates research from nationwide trends and emerging risks in higher education and healthcare, review of internal resources, information from past engagements and investigations, and institutional knowledge. The risk assessment process in support of the audit plan will continue throughout the course of FY25.

In order to prioritize the risk areas and issues, A&AS uses a standardized method for the review process, utilizing defined risk criteria to assess and measure impacts by risk category (reputation, safety, operations, legal/regulatory, and financial) and likelihood or expected frequency of occurrence. This assessment of the identified risk topic areas assists in the prioritization of the audit plan to provide audit coverage across mission areas and deploy A&AS resources in an effective and efficient manner.

FY25 Audit plan development process

A&AS employs a rolling, flexible audit plan driven by ongoing risk assessment meetings throughout the course of the year. This allows A&AS to adjust the audit plan and be responsive to the rapidly changing risk environment faced by the institution. A&AS will continue to conduct risk assessment meetings and socialize the upcoming audit plans in the spring and fall of each fiscal year. Risk assessment updates will be provided on a quarterly basis to the A&AS Steering Committee and semi-annually with the Finance and Audit Committee of the Board of Directors.

FY25 Q1Q2 Audit plan

The following projects are scheduled for the A&AS audit plan for the final two quarters of FY24.

Review area	Mission	Project purpose	Service type
FY24 carry forward: Hospital Expansion Project Audit: Phase 1	Healthcare/ Central Services	To assess the effectiveness of internal controls in order to ensure that the Hospital Expansion Project is being appropriately administered, and in compliance with applicable regulatory requirements.	Audit

Review area	Mission	Project purpose	Service type
FY24 carry forward: Bayh-Dole Disclosure and Patent Testing	Research	The purpose of this audit is to evaluate adherence to Bayh-Dole Act compliance requirements, such as disclosure and patent processes, ensuring that inventions arising from federally funded research are efficiently commercialized for public benefit.	Audit
FY24 carry forward: Medical Record Requests	Healthcare/ Central Services	Assessment of policies and procedures associated with subpoena requests, as well as review of fee and collection processes associated with record requests.	Audit
Sunshine Data Annual Review	Research	To obtain and format Centers for Medicare & Medicaid Services data and perform analysis to support the Conflict of Interest (COI) program, in collaboration with Research Integrity.	Advisory
Miscellaneous Cash Handling & Posting	Central Services	To evaluate the adequacy and effectiveness of the controls over miscellaneous cash handling, receipts, and posting processes to ensure accuracy, completeness, and compliance with relevant policies and regulations.	Audit
Vendor & Contract Management	Central Services	To assess the efficiency and effectiveness of the vendor and contract management processes on a sample basis, ensuring compliance with policies, mitigation of risks, and optimization of value for the organization.	Advisory

Review area	Mission	Project purpose	Service type
Anti-Fraud Data Analytics Tests	Central Services	The purpose of this review is to proactively identify, assess, and mitigate potential fraud risks. Through data analysis and examination, the project will aim to enhance effectiveness of detection measures, strengthen controls, and safeguard assets and reputation against potential fraud schemes and risks.	Advisory
Hospital Expansion Project Audit: Phase 2	Healthcare/ Central Services	The purpose of this project is to expand upon the initial audit by incorporating testing of new scope areas identified for scrutiny. The audit will aim to ensure reliability of reporting, financial integrity, and provide strategic recommendations to enhance efficiency, compliance, and project success.	Audit

Follow-up reviews

The below projects will be prioritized with dedicated time allocated in FY25. All open A&AS issues will be evaluated on a quarterly basis.

Review area	Mission	Project purpose	Service type
Opioids Prescription Management	Healthcare	To follow up on the status of the remaining management action plans developed for the FY20 Opioids Prescription Management review.	Follow up
Clinical Contract Management Review	Central Services	To follow up on the status of the remaining management action plans developed for the FY20 Clinical Contract Management Review.	Follow up
Clery Act Compliance	Academic	To follow up on the status of management action plans developed for the FY22 Clery Act Compliance review.	Follow up

No Surprises Act/Patient Consent Balance Billing	Healthcare/Central Services	To follow up on the status of management action plans developed for the FY23 No Surprises Act review.	Follow up
Charge Description Master: Change Management	Healthcare/Central Services	To follow up on the status of management action plans developed for the FY23 CDM: Change Management review.	Follow up
Vendor File Analytics	Central Services	To follow up on the status of management action plans developed for the FY24 Vendor File Analytics review.	Follow up

Potential project list

The A&AS team maintains a list of potential engagements that will be considered for future inclusion in the A&AS rolling audit plan. Projects may be removed or added to the list based on ongoing risk assessment activities. This potential project list will be leveraged for FY25 Q3Q4 audit planning purposes.

Other activities

Activity	Description
Participation on OHSU committees and taskforces	A&AS team members serve on standing university committees in an advisory capacity as requested by leadership.
Annual risk assessment	The annual risk assessment forms the basis of the audit plan. The International Standards for the Professional Practice of Internal Auditing (IIA Standards) require A&AS to conduct an annual risk assessment to conform to standards. A&AS continues to employ an ongoing and agile risk assessment process, with a rolling audit planning process to provide flexibility and responsiveness in the current environment.
Quality assessment review	An external quality assessment review (QAR) of the internal audit activity is required by IIA Standards at least once every 5 years. The last external QAR was completed in 2011. Revised IIA Standards have been issued, effective January 1, 2025. In FY25, A&AS will update processes and practices to conform with new standards, where applicable, in preparation for an external QAR.

Activity	Description
Involvement with professional organizations	<p>Professional organizations help A&AS to stay current on hot topics and emerging risks and connect with other internal audit professionals. A&AS staff are members and volunteers of several organizations, including:</p> <ul style="list-style-type: none"> • Association of College & University Auditors (ACUA) • Association of Healthcare Internal Auditors (AHIA) • The Institute of Internal Auditors (IIA) <ul style="list-style-type: none"> ➤ Board Member Representation, Portland IIA Chapter ➤ Academic Relations Chair • American Institute of Certified Public Accountants (AICPA) • Information Systems and Audit and Control Association (ISACA) • Pacific Northwest Higher Education Internal Audit (PNWHEIA) • Higher Education Coordinating Commission (HECC) <ul style="list-style-type: none"> ➤ Audit Committee Representation <p>A&AS staff regularly attend conferences/webinars, read professional periodicals, and stay connected through professional association listservs.</p>

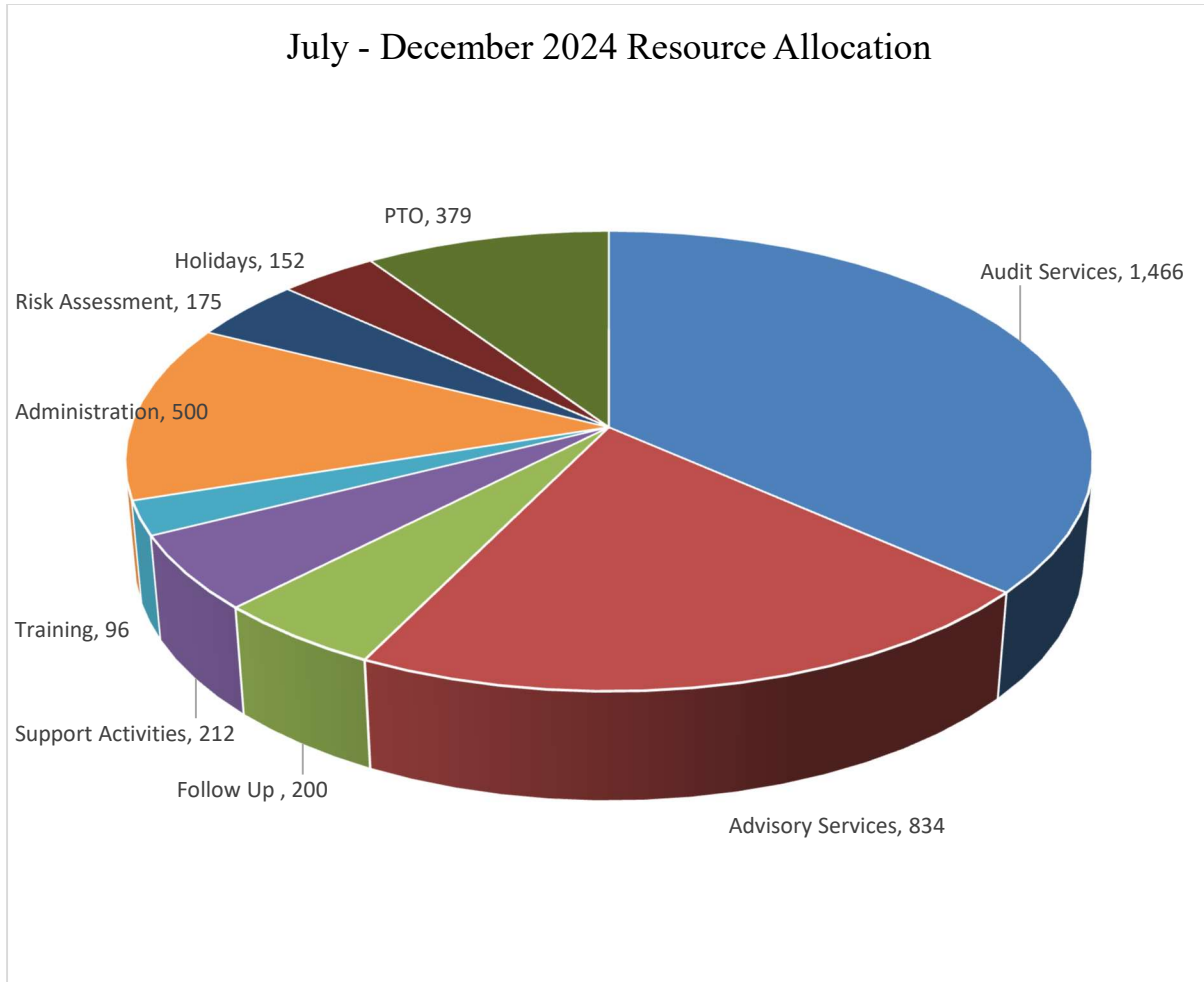
Audit resources

The audit plan for FY25 is based on a team of **3.8 FTE** audit professionals. The A&AS team is comprised of a Director, two Senior Auditors, and one Staff Auditor. As part of the FY25 audit plan, the Clinical Enterprise Integrity office has been consulted to identify opportunities to collaborate and co-source on projects.

Based on the expected staffing level as of June 2024, approximately **4,013 hours** were available for FY25 from July through December 2024, based on a semi-annual budget of 1,056 hours per FTE for available work effort in FY25. Hours were allocated to Audit and Advisory Service projects and administration, training, and paid leave activities during the year as described below.

- Audit services: Planned audits and completion of prior year audits.
- Advisory services: Projects that are consultative in nature, including special projects and internal control assessments. Investigation services are included in this category for reporting purposes.
- Follow-up reviews: Follow up on management action plans for previously completed reviews.
- Risk assessment: Risk assessment activities to develop annual plan.
- Administration: A&AS audit plan management, team meetings, strategic plan development and execution, recruiting time, and any other non-project activities.
- Training: Continuing professional education, self-development, and professional organization involvement.
- Paid leave: Benefit time for holiday and PTO (parental leave, vacation and sick time)

As part of the FY25 audit plan budget, approximately **440** hours have been allocated between July and December 2025 towards completion of FY24 projects. Approximately **65%** of available resources have been committed to the completion of planned audit and advisory service projects. A contingency/discretionary budget has been included of approximately 140 hours in the Audit Services and Advisory Services budgeted hours to allow flexibility for unplanned management requests and investigations. The following chart provides an approximate allocation of planned hours:





Oregon Health & Science University Discussion with the Finance & Audit Committee

Audit plan and strategy for the year ending June 30, 2024

June 21, 2024



Audit scope

KPMG deliverables:

Auditors' report on the financial statements for the following entities as of and for the year ended June 30, 2024:

- Oregon Health & Science University
 - University Hospital/Doernbecher Children's Hospital
 - University Activity
 - Faculty Practice Plan
 - Research Activity
- Oregon Health & Science University – Family Medicine at Richmond
- Oregon Health & Science University Foundation
- OHSU Insurance Company (InsCo)
- Tuality Healthcare, Inc.
- Single Audit (federal grant audit)
- OHSU – Institute on Development & Disability (IDD) Supplement
- Debt compliance letters



FY 2024 audit fees

Fee discussion



Audit fees are consistent with those that were issued in the audit proposal, approved by OHSU contracting.

Audit fees for 2024 include the IDD Supplemental procedures, the audit of Richmond Clinic, and the audit of OHSU Insurance Company, in addition to the baseline financial statement audit of OHSU and the single audit under the Uniform Guidance.

Audit fees for the OHSU Foundation and for Tuality Healthcare will be approved by their separate Finance and Audit Committees.

The audit for the 2024 Single Audit assumes one major program (R&D). If an additional program is required, additional fee would be set at a blended rate, using the rate approved from the proposal.



Required communications to the Finance and Audit Committee



Audit plan required communications and other matters

Our audit of the financial statements of Oregon Health & Science University and its subsidiaries (the University) as of and for the year ended June 30, 2024 will be performed in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Performing an audit of financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.

We will also perform a single audit over federal expenditures in accordance with the Uniform Guidance as of and for the year ended June 30, 2024.

Matters to communicate		Response
Role and identity of engagement partner	✓	Lead audit engagement partner is: Drew Corrigan
Significant findings or issues discussed with management	X	No matters to report
Materiality in the context of an audit	✓	Page 5
Our timeline	✓	Page 7
Risk assessment: Significant risks	✓	Page 8
Risk assessment: Additional risks identified	✓	Pages 9 — 10
Involvement of others	✓	Page 11
Newly effective accounting standards	✓	Pages 12
Independence	✓	Page 13
Responsibilities	✓	Page 14
Inquiries	✓	Page 15

✓ = Matters to report X = No matters to report

Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:

<p>Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.</p>	<p>Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.</p>	<p>Judgments about materiality involve both qualitative and quantitative considerations.</p>
<p>Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.</p>	<p>Determining materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements.</p>	<p>Judgments about the size of misstatements that will be considered material provide a basis for</p> <ol style="list-style-type: none">Determining the nature and extent of risk assessment procedures;Identifying and assessing the risks of material misstatement; andDetermining the nature, timing, and extent of further audit procedures.

Our timeline

May – June

Planning and risk assessment

- Planning and initial risk assessment procedures, including:
 - Involvement of others
 - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the University and its environment
- Inquire of the Finance and Audit Committee, management and others within the University about risks of material misstatement
- Perform process walkthroughs and identification of process risk points for certain processes

June

Interim

- Ongoing risk assessment procedures, including:
 - Identification and assessment of risks of misstatements and planned audit response for remaining processes
- Communicate audit plan
- Identify IT applications and environments
- Evaluate design and implementation (D&I) of entity level controls and process level controls for certain processes
- Perform process walkthroughs and identification of process risk points for remaining processes
- Perform interim substantive audit procedures

August – October

Year-end

- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Audit closing meetings with management

October – November

Year-end

- Present audit results to the Finance and Audit Committee and perform required communications
- Issue opinion on InSCO
- Issue opinion on Foundation
- Issue opinion on Tuality
- Issue opinion on OHSU
- Issue opinions on remaining audits (Richmond Clinic and Single Audit)
- Issue required auditor communications letters
- Communications provided to State of Oregon auditor

Filing date: Issue audit reports on October 27 (estimated) for the OHSU financial statements.

Significant risks

Significant risk

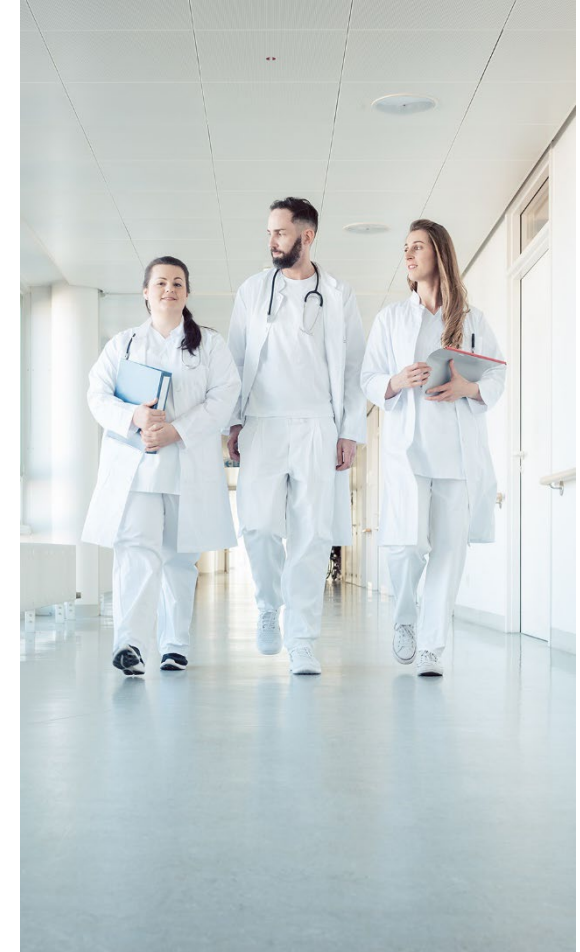
Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

Susceptibility to:

Error	Fraud
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Yes



Additional risks identified

Other risk identified	Risk	Relevant factors affecting our risk assessment
Valuation of patient accounts receivable	Elevated	Significant management judgment and estimation is involved in determining contractual and bad debt allowances for patient accounts receivable. The engagement team procedures include a retrospective lookback on the prior year allowance, perform an independent calculation of allowances, and sample patient balances to assess aging and reserves.
Investments	Base	Alternative investments are subject to increased estimation risk due to lack off availability of observable market activity. The engagement team procedures will include confirmation, evaluation of recent audit reports of the funds, and benchmarking of returns against publicly available information. Non-alternative investments also may have estimation risk. The engagement team procedures will include confirmation and comparison of share values against pricing databases.
Pension	Base	Pension risks relate to valuation and existence. The engagement team will involve a KPMG specialist to assess the key assumptions used in the valuation of the liability and to review the presentation of GASB 68 liabilities and related footnotes. Additionally, the engagement team will select a sample from census data utilized by the actuaries.
Debt	Base	Debt also represents a significant account on the statement of net position. Key procedures include confirmation of outstanding balances with third-party trustees, and evaluation of compliance with debt covenants.
Grant Revenues	Base	Grant revenues are typically recognized when qualifying expenditures are incurred in accordance with grant agreements. Procedures include comparison of revenue recognized to expenditures incurred for a sample, and analytical comparison of current period revenues to prior period revenues.

Additional risks identified (continued)

Other risk identified	Relevant factors affecting our risk assessment
<p>Tuality risk assessment summary</p>	<p>Significant risks include:</p> <ul style="list-style-type: none"> • Management override of controls (risk of fraud) <p>Elevated risks include:</p> <ul style="list-style-type: none"> • Valuation of accounts receivable (risk of error) <p>Other key audit areas include:</p> <ul style="list-style-type: none"> • Financial reporting under FASB standards • Pension valuation • Net patient service revenues • Operating expenses, including payroll and general disbursements <p>Audit report is anticipated to be issued in advance of issuance of OHSU primary government report</p>
<p>Legacy Affiliation</p>	<p>Discussions with Legacy are on-going. The affiliation will not occur before June 30, 2024. We will continue discussions with management regarding the affiliation and any necessary subsequent event disclosures throughout our audit.</p>

Involvement of others

Audit of financial statements	Extent of planned involvement
KPMG professionals with specialized skill or knowledge who are involved in performance of audit procedures	<ul style="list-style-type: none">• Jim Lancaster – Exempt organization tax specialist review• Abednigo Sibanda – Actuarial review of pension liability

Newly effective accounting standards

Statements to be adopted in FY24

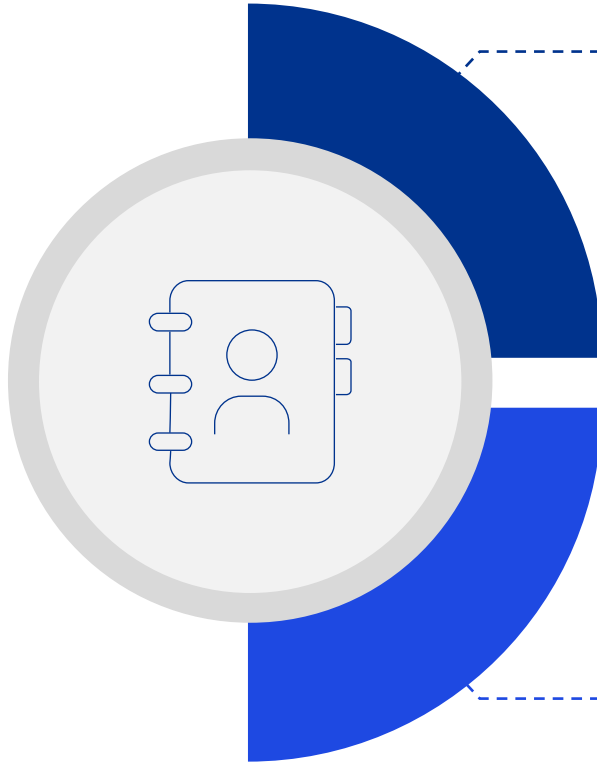
GASB statement 100: Accounting Changes and Error Corrections

- Effective for period ending June 30, 2024
- Enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.
- The statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity.
- Requires that changes in accounting principles and error corrections be reported retroactively by restating prior periods
- Requires changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period
- Requires changes in accounting estimates be reported prospectively by recognizing the change in the current period
- No anticipated impact upon adoption

Statements to be adopted in future years

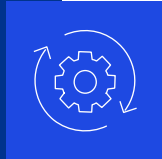
GASB statement 101: Compensated Absences

- Effective for periods ending June 30, 2025
- Updates the recognition and measurement guidance for compensated absences
- Requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not paid in cash or settled through noncash means
- Amends the disclosure requirements to allow disclosure of only the net change in the liability
- Management is currently evaluating the impact of GASB 101



Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, those charged with governance, and KPMG each play an important role.



System of Independence Quality Control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules)
- New officers or directors with the ability to affect decision-making, individuals who are beneficial owners with significant influence over the University, and persons in key positions with respect to the preparation or oversight of the financial statements

Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- The University or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.

Responsibilities

Management responsibilities



- Communicating matters of governance interest to the Finance and Audit Committee.
- The audit of the financial statements does not relieve management or the Finance and Audit Committee of their responsibilities.

KPMG responsibilities – objectives



- Communicating clearly with the Finance and Audit Committee the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from the Finance and Audit Committee information relevant to the audit.
- Providing the Finance and Audit Committee with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and the Finance and Audit Committee.
- Communicating effectively with management and third parties.

KPMG responsibilities – other



- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
- Withdraw from the audit engagement when possible under applicable law or regulation;
- Communicate the circumstances to the Finance and Audit Committee, and
- Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight the Finance and Audit Committee, are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- Communicating any procedures performed relating to other information, and the results of those procedures.

Inquiries

Are the Finance and Audit Committee aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Do the Finance and Audit Committee have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the University?
 - If so, have the instances been appropriately addressed and how have they been addressed

Additional inquiries:

- What are the Finance and Audit Committee's views about fraud risks in the University?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and those charged with governance?
- What are the University's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are the Finance and Audit Committee's attitudes, awareness, and actions concerning (a.) the University's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b.) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has the University entered into any significant unusual transactions?
- Whether the entity is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?



Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at www.kpmg.com/ACI

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