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Auditing in a Global Environment

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Presentation content

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- Session objectives and overview
- Developing effective internal audit plans for international activities
  - Scoping
  - Risk assessment
  - Audit team
  - Audit planning
- Selected topics in global auditing
  - Sponsored research awards
  - Working with foreign agents
  - Foreign Corrupt Practices Act (FCPA)
  - Study abroad programs
- Appendix A: Best practices in establishing and operating international programs
- Appendix B: Other potential audit areas

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Session objectives and overview

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Session objectives

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1. Identify issues to include when planning and scoping international audits
2. Apply current and emerging international risk considerations into risk assessment and audit work plans
3. Report leading industry practices and auditing tips related to auditing international areas

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Overview

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International activities have increasingly become a part of the strategy for operating a higher education institution. Colleges and universities are striving to develop their students as successful global citizens and are now managing a diverse portfolio of activities at home and abroad.

Potential benefits of international activities include:

- Increased diversity
- Enhanced curricula offerings
- Brand growth
- New revenue opportunities
- Broader research collaborations

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Developing effective internal audit plans for international activities

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Developing effective internal audit plans – scoping

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In this global environment, internal auditors need to be aware of the scope of their institution's international operations and to work with management to support the evaluation and management of international risks and related processes and controls.

The first step when planning an international audit at your college or university is to create a full inventory of international areas. Specifically, auditors should inquire about:

- International campuses
- Partnerships with international institutions
- Study abroad programs
- Marketing and recruitment of international students
- Sponsored research awards funded by foreign governments or involving international travel or subawards
- Collaboration with international agents

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Developing effective internal audit plans – risk assessment

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Once you have an inventory of international activities, it is important to identify and assess the key risk areas of operating internationally.

The following considerations could potentially be considered as part of your risk assessment and scoping activities:

- Strategy and operations
- Financial
- Reputational
- Infrastructure
- Environment
- Compliance

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Developing effective internal audit plans – risk assessment

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Strategy and operations

- Physical separation
- Aligning activities with overall business strategy
- Identifying appropriate opportunity/location
- Staffing
- Roles and responsibilities – especially in decentralized environments
- Development and implementation of policies and procedures
- Insurance

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Financial

- Source(s) of funding and/or investment
- Establishment of necessary accounting and financial procedures and controls
- Budgeting
- Differences in financial reporting requirements
- Procurement of goods and services
- Signature authority
- Impact on facilities and administrative rates
- Currency exchange rate
- Taxes

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Developing effective internal audit plans – risk assessment

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Reputation

- Maintaining adequate quality reflective of brand
- Expanded constituency and market considerations
- Institutional agents with decreased level of centralized control
- Potential crisis situations

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Infrastructure

- Availability of appropriate facilities
- Connectivity and networking
- Data integrity and protection
- Reliability of utilities
- Emergency services

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Developing effective internal audit plans – risk assessment

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Environment

- Local competition
- Barriers to entry
- Unfamiliar cultural norms, customs, or practices
- Health and safety risks
  - Understanding country risk ratings
  - Understanding travel restrictions, emergency protocols, and evacuation procedures
  - Medical preparation, including medical insurance requirements
  - Country-specific health information
  - Understanding the culture to avoid conflict
- Potential corruption

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Compliance

- Understanding of local laws or regulations
- Impact of expanded/additional US regulations
  - Foreign Corrupt Practices Act (FCPA)
  - UK Anti-Bribery Act
  - Export controls
- Visas/immigration
- Intellectual property concerns
- Operating licenses

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Developing effective internal audit plans – audit team

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Once the audit scope has been determined, it is important to select the appropriate audit team to perform the work, which may need to include resources outside the internal audit group.

- Internal audit
  - Develop relationship and establish credibility before arriving on site
  - Communicate audit areas and required documents prior to arriving
  - If you think it will take a week, plan for two
- Use of in-country resources – cultural dynamics at play
  - Know the culture, know the local language
  - Communication of deliverables critical
  - Understand the knowledge, skills, and experience of staff; turnover contingency plans
  - Different mentality regarding management responses to issues
- Consider co-sourcing
- Coordinate with General Counsel if necessary to involve external counsel or consultants

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While international programs do present a unique set of risks, internal audits of international activities do not necessarily need to be more complicated. Like audits you are currently performing at your campus, audits of international activities can take many forms:

- Desk audit of policies and procedures
- Focus on specific program or operating process
- Inclusion of international activities as part of a broader risk-related audit (e.g., subrecipient monitoring)
- Subrecipient/vendor review
- Data analysis

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It is crucial to understand relevant criteria, including laws, regulations, and local policies and practices, in order to effectively perform the audit. The audit team should plan to perform adequate research before the audit, including the following considerations:

- Research local laws applicable to the international activity
- Review foreign contracts (e.g., foreign vendors or subrecipients)
- Determine auditable criteria
  - Do policies and procedures, either from the central institution or an international location, exist for the in-scope activities?
  - Have any significant changes occurred in operations?
- Have any unexpected events or new risks recently impacted the activity?

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Documentation for an international audit can be difficult to gather and will likely require flexibility on the part of the auditors. The team should consider the following when planning the audit:

- Plan for the possibility that files are not accessible online and will need to be reviewed in hard copy format
- Request for the client to gather documentation prior to the auditors' arrival on-site, if applicable
- Determine whether files can be removed off-site
  - Make arrangements for conducting follow-up work in advance if documentation must remain on-site

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Communication, during both fieldwork and reporting, can be a key challenge during an international audit. The team should consider the following to ease communication barriers:

- Define stakeholders with whom the auditor will need to communicate during each phase of the engagement
  - Will the auditor need to contact vendors, subcontractors, or subrecipients directly?
- Discuss how to work around time zone differences at the beginning of the engagement
- Determine whether there are any parties external to the institution that the auditor will need to report to (e.g., foreign governments)
- Decide upfront the reporting approach, format, timeline, and expectations for all parties

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Sponsored research awards

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Sponsored research – overview

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Even if a college or university does not have an operating international campus or partnership, international relationships may still exist. Research activities have become a global phenomenon, with institutions developing dedicated international research campuses or increasing their level of participation and collaboration with international organizations.

These collaborations may be formal, well-established, multi-year commitments, but may also include grant-specific subcontracts. Further, some research-related activities may have no direct tie to an international organization, but include portions of work being performed outside of the US.

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Sponsored research – overview

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Sponsored research awards with international components present unique risks to principal investigators (PIs) and departmental administrators. The following may be included when reviewing research departments or offices at the university:

- Cash advances for international travel
- Insurance requirements
- Travel and expense reimbursement
- Research compliance

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Sponsored research – cash advances

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Cash advances

- When is a cash advance permitted?
- Are there limits on cash advances, and how is that amount determined?
- What are the requirements for supporting documentation for cash advances?
- What are the guidelines for returning excess funds to the university?

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Sponsored research – insurance requirements

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Insurance requirements

- What does standard insurance cover?
- What safety or travel risks may require additional insurance?
- Who at the university should be responsible for identifying and communicating insurance needs?

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Sponsored research – travel and expense reimbursements

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Travel and expense reimbursements

- Was the travel required by the award?
- Did it receive appropriate approval?
- Was the cost reasonable?
- If necessary, did the travel carrier meet federal requirements (e.g., Fly America Act)?

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Research compliance

- What research compliance regulations apply, either from the US or foreign governments?
- How are international researchers trained in US research compliance regulations?
- How are the following research areas monitored:
  - Human subjects
  - Animal subjects
  - Stem cell research
  - Research with export controls considerations
  - Radiological safety and hazardous waster
  - Conflicts of interest

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Working with foreign agents

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Foreign agents – overview

When an institution has set up an international program, there is also a need to collaborate with foreign agents to carry out operations. Foreign agents can be used for:

- Expediting visas
- Marketing and recruitment of international students

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Foreign agents – overview

When evaluating a university's work with foreign agents, the following specific areas may present risks and should be considered:

- Roles and responsibilities of agent
- Invoicing processes
- Contract development

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Foreign agents – roles and responsibilities

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Roles and responsibilities

- What authority does the agent have to act on behalf of the university?
- Is the agent responsible for collecting payments for the university?

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Foreign agents – invoicing processes

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Invoicing processes

- When are the agents invoiced?
- What are the payment terms?
- If the foreign agent has the ability to invoice on behalf of the university:
  - When does the agent send the invoice?
  - What are the payment terms to the agent compared to the payment terms to the university?
  - Is the agent allowed to add on fees to the customer invoices?

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Foreign agents – contract development

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Contract development

- Who is responsible for creating a contract with a foreign agent?
- What level of review and approval is required?
- Does the contract include key risk areas?
  - Dispute resolution
  - Right to audit
  - Currency exchange
  - Insurance considerations

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Foreign Corrupt Practices Act

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Foreign Corrupt Practices Act (FCPA) – overview

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- Anti-bribery provision: Makes it illegal for any US organization or person to pay or offer to pay any foreign government official money or anything of value, with a corrupt motive, for the purpose of influencing that person's acts or decisions in order to gain or retain business
- Accounting provisions:
  - **Books and records** – Must make and keep books, records, and accounts, that, in reasonable detail, accurately and fairly reflect transactions (i.e., no "off the books" accounting)
  - **Internal controls** – Must devise and maintain a system of internal accounting controls sufficient to assure management's control, authority, and responsibility of the firm's assets
- Jointly enforced by the Department of Justice (DOJ) and the Securities and Exchange Commission (SEC)
- Enforcement can include fines up to $2,000,000, imprisonment for up to five years, and suspension or debarment from doing business with the Federal government

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FCPA – definitions

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"Anything of Value"

- Cash and cash equivalents
- Gifts
- Travel and entertainment
- Loans
- Property and property improvements
- Rewards
- Commission
- Finder's fees
- Stock

"Government Official"

- Officer or employee of a government
- Individual acting in an official capacity
- Employees of state-owned companies
- Officer or employee of a public, international organization
- Political partners or officials
- Public office candidates

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FCPA – exceptions

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- FCPA's anti-bribery provisions contain an exception for "facilitating or expediting payments" made in furtherance of routine government action
  - Does not include decision to award new business or to continue business with a particular party
  - Does not include acts within an official's discretion that would constitute misuse of an official's office
- FCPA also contains two affirmative defenses:
  - "Local" defense – the payment was lawful under written laws in the foreign country
  - "Reasonable and bona fide business expenditure" defense – the money was spent as part of demonstrating a product or performing a contractual obligation

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FCPA – overview

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When evaluating a university's compliance with the FCPA, the following specific areas may present risks and should be considered:

- Policies and procedures
- Training and certification
- Potential violations and/or exposure to FCPA
- Third party participation

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FCPA – policies and procedures

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Policies and procedures

- How are the key tenets of the FCPA summarized and communicated to the institution?
- Does the institution's policy accurately capture the tenets of FCPA, including specific examples relevant to the institution?
- Does the policy clearly state the institution's stance on FCPA exceptions (i.e., some institutions do not allow for facilitating payments)?
- Does the policy include information on how to report suspected violations of the FCPA?

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FCPA – training and certification

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Training and certification

- How does the institution identify those individuals who should undergo training on FCPA?
- Does the training program accurately capture the tenets of FCPA, including specific examples relevant to the institution?
- Does the training include a knowledge test, certification of compliance with FCPA, or other means of verifying understanding?
- How often must the identified individuals attend training?

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FCPA – violations and exposure

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Violations and exposure

- How does the institution identify foreign government officials?
- How does the institution identify instances where these officials were provided "anything of value"?
- Interview a sample of high risk individuals to ascertain their knowledge of FCPA and identify potential infractions
- Review a sample of costs charged to high risk programs to assess potential infractions, with a particular focus on high risk expense types (e.g., cash payments or petty cash, honoraria, travel expenses on behalf of nonemployees, consultant charges, miscellaneous charges, visa or customs payments)
- Nearly 65 percent of enforcement actions against FCPA violations were elicited by payments made by third parties acting on behalf of organizations (i.e., agents, brokers, lobbyists). How are these individuals identified, trained, and monitored?

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Study abroad programs

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Study abroad programs – overview

While many institutions have been enrolling foreign students for decades, the trend of domestic students going abroad for a portion of their education is still a developing area.

The number of US students studying abroad has tripled in the past 20 years, though still represents less than 10 percent of all students enrolled in domestic colleges and universities.

Source: Institute of International Education *Open Doors Survey* 2013

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Study abroad programs – overview

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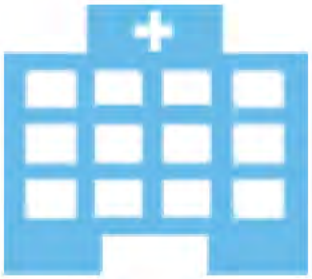
When evaluating a university's study abroad programs, the following specific areas may present risks and should be considered:

- Program development
- Purchasing and expense reimbursement
- Student health and safety



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Study abroad programs – program development

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Program development

- Who is responsible for developing/updating new and existing programs?
- What level of review and approval is required?
- What is the process and timeline for developing/updating programs?
- How are factors such as university initiatives and financial viability incorporated into the program development process?

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Purchasing and expense reimbursement

- Who is responsible for selecting vendors and what due diligence is performed?
- How are proper payment methods decided upon (e.g., cash advances, reimbursement, debit or credit cards, local bank account)?
- How is the budgeting and monitoring process handled?
- What level of review and approval is required for purchases?
- What documentation is required for foreign purchases?
- How are cash advances monitored and reconciled?

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Student health and safety

- Who is responsible for creating a student health and safety plan?
- How are health and safety considerations communicated to faculty, staff, and students? Is there a training mechanism?
- What is the communication and action plan for instances such as:
  - Medical emergencies
  - Mental/emotional health concerns
  - Terrorist or local political/military situations
  - Natural disasters

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ACUA resources

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- **Visit the ACUA webpage for Internal Audit Awareness Resources:** http://www.acua.org/ACUA_Resources/InternalAuditAwareness.asp
- **Promoting Internal Audit:** www.acua.org/movie
- **The ACUA Community (ACUA-C) forums have REPLACED the listserv!**
  - Using the link www.acua.org, navigate to "Networking" and select "Community"
  - Login and check it out!
- **ACUA-C Tip:** Login through the ACUA website and check the box for "Remember me." When you see a discussion in your email inbox which you would like to offer feedback or a response, just click on the link and it will take you directly to the desired discussion.

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- **Visit the Baker Tilly ACUA webpage for past ACUA webinars and additional insights**: http://bakertilly.com/insights/acua

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Appendix A: Best practices in establishing and operating international programs

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Best practices – governance structure

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- Establish an international forum that meets regularly
  - Include individuals from across the institution (e.g., Provost's office, Research, Finance, General Counsel, Compliance)
  - Determine strategic goals and business plan(s) for international activities
  - Identify key risks for international programs and assign an individual to monitor each
- Develop a common framework for evaluating international programs and assessing impact to the institution across various risk areas
- Determine and assign appropriate roles and responsibilities
- Utilize third party vendors with expertise in international laws, regulations, and/or customs as needed

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Best practices – operations

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- Develop and implement policies and procedures
  - Consider which policies and procedures should be leveraged from your main campus and which will need to be specific to the international program
  - Develop templates that can be used across geographies with only minor updates (e.g., budget, purchase orders)
- Develop a communications plan to maintain connection between U.S. and foreign operations
- Determine and assign appropriate roles and responsibilities
- Utilize third party vendors with expertise in international laws, regulations, and/or customs as needed

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Best practices – compliance

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- Establish a code of conduct/ethics that covers international programs
- Develop a vetting checklist for vendors, agents, and subrecipients to understand relevant risks and develop appropriate mitigating procedures
- Assign responsibility for key compliance items to knowledgeable individuals
- Understand when to engage legal counsel
- Document how challenging regulatory aspects or risks were resolved to provide organizational understanding and serve as a tool for similar challenges in the future

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Appendix B: Other potential audit areas

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Satellite campuses

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Certain institutions have decided to jump into internationalization with both feet, opening and operating full campuses in foreign countries. These satellite campuses are typically focused in areas with high demand for higher education where the local industry has not reached a level of maturity to be able to meet the demand – typically throughout Asia, Latin America, and the Middle East.

These satellite campuses are wholly operated by the domestic institution, making them a more complicated investment for most institutions. Key emerging markets include:

- China
- India
- Korea
- Mexico
- Saudi Arabia

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International partnerships

Many institutions have identified international partnerships as the desired method of entry into education markets outside the US This includes identifying established international colleges and universities where the domestic institution can lend pedagogical, financial, or strategic support. Typically, these partnerships will include the development of a new program designed to leverage the reputation and resources of the domestic institution while filling a gap in the existing international market.

These partnerships are often designed to mirror economic globalization, offering programs focused in business, science, and engineering.

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Other activities

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While not always considered as true international operations, there are several other areas that present many of the same challenges to higher education institutions.

- Enrollment of international students at home campus
- Hiring of international faculty and staff
- Distance education programs
- Alumni relations and development

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