

**PENNSYLVANIA STATE SYSTEM OF HIGHER EDUCATION
BOARD OF GOVERNORS
AUDIT COMMITTEE**

MEMBER HANDBOOK

INTRODUCTION

The purpose of this handbook is to outline the responsibilities of the Pennsylvania State System of Higher Education's Audit Committee of the Board of Governors. The primary mission of the Audit Committee is to assist the Board of Governors exercise its due care and diligence in discharging System-wide oversight and monitoring responsibilities. The Audit Committee provides open lines of communication among the State System's independent public accounting firm, Office of Internal Audit and Risk Assessment, and management. An important objective of the Audit Committee is to support and oversee the activities of the Office of Internal Audit and Risk Assessment, thereby maximizing the function's operations and value across the State System.

AUDIT COMMITTEE RESPONSIBILITIES

- Review, revise, and recommend policies for adoption by the Board of Governors regarding the Audit Committee and Office of Internal Audit and Risk Assessment (Policy 1991-06-A), and an annual independent audit of the State System's fiscal resources (Policy 1986-01).
- Review, in advance of final issuance, the State System's annual audit opinion, financial statements, footnotes, and management letter prepared by the independent public accounting firm.
- Appoint the Director of the Office of Internal Audit and Risk Assessment.
- Review and evaluate the annual performance of the Director of the Office of Internal Audit and Risk Assessment and approve adjustments to his/her salary, in accordance with the State System's management performance and reward program.
- Alert the Director of the Office of Internal Audit and Risk Assessment to any significant operating, financial reporting, and compliance risks.
- Review and approve the Office of Internal Audit and Risk Assessment's annual budget, staffing, and status reports.
- Review and approve the Office of Internal Audit and Risk Assessment's annual work plan.

- Ensure changes to the Office of Internal Audit and Risk Assessment's work plan, requests for special projects, and investigations are appropriately approved before commencement of the work.

AUDIT COMMITTEE RESPONSIBILITIES (continued)

- Review the Office of Internal Audit and Risk Assessment's executive summaries and final reports, and decide whether management's responses to findings and recommendations are adequate.
- Monitor the adequacy and timeliness of corrective actions taken in response to audit activities.
- Review the Office of Internal Audit and Risk Assessment's annual report to the Audit Committee.
- Review the disposition of findings and recommendations contained in audit reports of the Department of the Auditor General, as well as other audits by outside agencies that arise.
- Report annually on the Audit Committee's activities to the Board of Governors.

SUGGESTIONS FOR EFFECTIVE AUDIT COMMITTEE MEETINGS

- Audit Committee meetings should last approximately ninety minutes.
- Meeting materials (packets) should be distributed to Audit Committee members no less than one week before the meeting date.
- Packets should include an agenda, minutes of the last Audit Committee meeting, any reports issued since the last meeting, a status report of significant findings and recommendations, a progress report on achievement of the annual work plan, proposed changes to the work plan, and other information that relates to agenda items.
- Audit Committee members should discuss audit findings and recommendations and decide whether management's responses are adequate.

Note: Audit Committee members should not attempt to change an audit report; audit reports reflect the findings, recommendations, and opinions of the Office of Internal Audit and Risk Assessment. The responsibility of the Audit Committee is to decide whether management's responses to audit recommendations are adequate. If not, the Audit Committee may wish to discuss the matter with appropriate State System management of the audited area/activity.

- The Audit Committee should ensure changes to the Office of Internal Audit and Risk Assessment's work plan, including requests for special projects, and investigations are appropriately approved before commencement of the work.
- Audit Committee members should communicate strategic plans and specific concerns to the Director of the Office of Internal Audit and Risk Assessment. Audit Committee

members should be active participants in the ongoing risk assessment and audit planning process.

DUTIES OF THE DIRECTOR OF THE OFFICE OF INTERNAL AUDIT AND RISK ASSESSMENT

The Director of the Office of Internal Audit and Risk Assessment reports functionally to the Audit Committee of the Board of Governors and administratively to the State System's Chief Counsel.

Specific duties of the Director of the Office of Internal Audit and Risk Assessment are:

- Develop an annual work plan.
- Include time in the annual work plan for follow-up of significant findings and recommendations from previous audits.
- Conduct special audits and investigations as requested, after receiving appropriate approval.
- Review operational areas for stewardship or resources and compliance with Board of Governors and State System policies and procedures.
- Review internal administrative and accounting controls designed to safeguard resources and ensure compliance with laws and regulations.
- Participate in manual and automated system design as an advisor on internal controls.
- Investigate reported occurrences of fraud, embezzlement, theft, waste, etc., and recommend controls to prevent or detect such occurrences.
- Prepare formal reports on the results of audit assignments, including any recommendations for improvement.

SIGNIFICANT AUDIT FINDING GUIDELINES

An audit finding and recommendation is significant and should be reported if it is material to the operation, financial reporting, or legal compliance of the audited activity and corrective action has not been fully implemented. A significant finding and recommendation would include an internal control shortcoming that does not reduce the risk of irregularity, illegal act, error, inefficiency, waste, ineffectiveness, or conflict of interest to a reasonably low level. A significant finding and recommendation would not include a recommendation to improve the existing design, execution, or effectiveness of an internal control system already deemed adequate.

Examples of significant findings and recommendations should include the following:

- Dishonest or fraudulent activities.
- Inadequate mission statement, goals, objectives, or performance standards.

SIGNIFICANT AUDIT FINDING GUIDELINES (continued)

- Inadequate controls to safeguard significant assets from theft, fire, improper or illegal activities, and exposure to elements.
- Inadequate separation of duties without mitigating controls.
- Material control weaknesses and/or errors in financial reporting.
- Noncompliance with laws or regulations, and significant noncompliance with operating plans, policies, or procedures.

COMMONLY ASKED QUESTION BY AUDIT COMMITTEES ABOUT INTERNAL AUDITING

How will the State System's Audit Committee of the Board of Governors know if the proposed annual work plan is the best use of the Office of Internal Audit and Risk Assessment's resources?

- First, resources should be committed to auditing key financial and operating information and the systems and processes that produce the information.
- Second, resources should be committed to testing compliance with high exposure laws and regulations and the systems and processes that ensure compliance.
- Third, resources should be reserved for fraud investigations, special projects, and operational audits of high-risk activities.

If the proposed work plan includes these types of audits and Audit Committee members agree with the Director's risk assessment methodology, then Audit Committee members should be comfortable with the proposed work plan.

AUDIT COMMITTEE STATEMENT OF RESPONSIBILITIES

The mission of the Audit Committee of the Board of Governors is to help the Pennsylvania State System of Higher Education fulfill its internal control responsibilities. Management is responsible for the overall design, execution, and effectiveness of internal controls. Internal controls are effective if the Board of Governors and State System management have a reasonable assurance that:

- They understand the extent to which operational goals and objectives are being achieved.
- Financial reports are being prepared reliably.
- Applicable laws and regulations are being complied with.

AUDIT COMMITTEE STATEMENT OF RESPONSIBILITIES (continued)

Effective internal control has five components:

1. A control conscious environment.
2. Comprehensive risk identification and analysis.
3. Policies and procedures that help ensure actions to manage significant risks are carried out properly and in a timely manner.
4. Good information and communication up, down, and across the organization.
5. Ongoing monitoring activities to assess internal control performance over time.

In short, the mission of the Audit Committee is to help State System management and the Director of the Office of Internal Audit and Risk Assessment effect a positive control environment and monitor internal control performance.

GUIDELINES FOR A SUCCESSFUL AUDIT COMMITTEE

The following checklist should be completed annually by the Audit Committee and discussed at one of its meetings. Although the Audit Committee may not be primarily responsible for all of the items listed, committee members should know the answers to all of the questions.

Question	Yes / No / NA	Primary Responsibility
Did the Audit Committee review the staffing and budget of the Office of Internal Audit and Risk Assessment to satisfy itself that internal auditing resources are adequate?		Audit Committee
Does the Audit Committee meet at least twice a year?		Audit Committee
Do Audit Committee members regularly communicate information about risks to the Director of the Office of Internal Audit and Risk Assessment?		Audit Committee
Did the Audit Committee approve the Office of Internal Audit and Risk Assessment's annual work plan?		Audit Committee
Did the Audit Committee review deviations to the annual work plan?		Audit Committee
Were requests for special audits and investigations appropriately approved?		Audit Committee
Does the Audit Committee review written audit reports?		Audit Committee
Does the Audit Committee discuss significant audit findings and recommendations?		Audit Committee
Do Audit Committee members take appropriate action when a follow-up audit report indicates management did not do what they said would be done?		Audit Committee
Do Audit Committee members attend meetings?		Audit Committee
Does the Audit Committee record minutes of its meetings?		Audit Committee
Does the Director of the Office of Internal Audit and Risk Assessment report directly to the Audit Committee of the Board?		Audit Committee
Does the Audit Committee conduct an annual performance appraisal of the Director of the Office of Internal Audit and Risk Assessment?		Audit Committee
Does the Audit Committee recommend the annual salary adjustment for the Director of the Office of Internal Audit and Risk Assessment?		Audit Committee
Does the State System employ an adequate number of internal auditors and support staff to implement an effective program of internal auditing?		Audit Committee
Are internal auditors free of all operational and management responsibilities?		Audit Committee
Do internal auditors have full, free, and unrestricted access to all System property, personnel, and records?		Audit Committee
Does the State System have an Audit Committee and Office of Internal Audit and Risk Assessment policy that has been approved by the Board of Governors?		Audit Committee

Does the Office of Internal Audit and Risk Assessment's annual work plan include audits to test the reliability of financial and operating information?		Director, IRG
Question	Yes / No / NA	Primary Responsibility
Does the annual work plan include audits of compliance with policies, procedures, laws, and regulations?		Director, IRG
Does the annual work plan include audits of the means to safeguard assets?		Director, IRG
Does the annual work plan include audits of economy and efficiency of operations?		Director, IRG
Does the annual work plan include audits of operations or programs to assess whether results are consistent with established goals and objectives?		Director, IRG
Does the annual work plan include sufficient time for unspecified special audits / investigations?		Director, IRG
Is there adequate time in the work plan to follow-up on significant findings from previous audits?		Director, IRG
Have copies of the approved work plan been distributed to appropriate State System officials?		Director, IRG
Do Audit Committee members receive adequate information in advance to prepare for meetings?		Director, IRG
Did the Director of the Office of Internal Audit and Risk Assessment prepare and submit his/her annual report to the Audit Committee?		Director, IRG
Does the Director of the Office of Internal Audit and Risk Assessment prepare an executive summary of all internal auditing activity for the Audit Committee on a periodic basis?		Director, IRG