



PA State System of Higher Education Board of Governors

Effective: October 17, 1991

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Policy 1991-06-A: State System Audit Policy

See Also:

Adopted: October 17, 1991

Amended: July 12, 2001; October 12, 2006; July 16, 2009; April 7, 2016

I. Audit Committee

A. Purpose

The primary mission of the Audit Committee shall be to assist the Board of Governors in exercising its due care and diligence in discharging System-wide oversight and monitoring responsibilities. An important objective of the Audit Committee shall be to support and oversee the activities of the office of internal audit and risk assessment, maximizing the function's operations and value across the State System.

B. Organization

The Audit Committee shall be a permanent committee **comprised of no fewer than three** members of the Board of Governors. The chairman of the Board shall appoint the chair and other members of the Audit Committee. The Audit Committee shall meet at least twice a year. The chair of the Audit Committee, however, shall have the authority to call a meeting whenever necessary. The System's chief counsel, director of the office of internal audit and risk assessment, **and other personnel as necessary**, shall serve as staff to the Audit Committee.

C. Policy

The Audit Committee shall assist the Board of Governors in discharging its System-wide oversight and monitoring responsibilities by:

1. Promoting the development of an effective and continuously improving control environment to achieve the System's goals and objectives.
2. Overseeing the System's internal control environment and risk assessment practices.
3. Serving as a voice on the Board of Governors and other standing committees by relaying an audit perspective when related issues are brought before the committees.

4. Providing a direct channel of communications to the Board of Governors for the System's independent public accounting firm and office of internal audit and risk assessment.

D. Procedures

Specific duties of the Audit Committee shall include the following:

1. Approve the appointment of the director of the office of internal audit and risk assessment, and the department's annual budget and staffing, **in consultation with the Chancellor.**
2. Review and approve the scope of the office of internal audit and risk assessment's annual work plan.
3. Request the performance of supplemental reviews or other audit procedures, including investigations when necessary.
4. Meet with the System's independent public accountants and director of the office of internal audit and risk assessment to review the results of their annual work. This shall include:
 - a. A review, in advance of final issuance, of the System's annual audit opinion, financial statements, and management letter;
 - b. A timely review of any significant risks, and disposition of findings and recommendations, including corrective actions taken or in progress;
 - c. At least annually, provide an opportunity for members of the Audit Committee to meet with representatives of the independent public accounting firm and the director of the office of internal audit and risk assessment, without other System management personnel present; and
 - d. A review of the disposition of audit findings and recommendations contained in reports of the Department of the Auditor General, as well as other audits by outside agencies that may arise.
5. Annually report to the full Board of Governors on the Audit Committee's activities.

II. Office of Internal Audit and Risk Assessment

A. Purpose

To provide policy for establishment and support of a System internal audit and risk assessment function. In carrying out their duties and responsibilities, members of the office of internal audit and risk assessment shall have full, free, and unrestricted access to all System records, property, and personnel except where such access may be limited or barred by federal or state law, or the provisions of a relevant collective bargaining agreement. No private agreement between the System and a third party shall be used to limit the applicability of this section unless reviewed and approved by the Office of Chief Counsel.

B. Objectives

1. Establish an ongoing, independent capability to review all System operations, including affiliated organizations where appropriate, to:
 - a. Ensure compliance with statutes, regulations, and policies;
 - b. review reliability and integrity of financial data, operating information, and the means used to identify, measure, classify and report it;
 - c. make value-added recommendations for improvements regarding economy, efficiency, and effectiveness; and
 - d. perform appropriate follow-up procedures and assess the effectiveness of actions taken.

2. Establish an ongoing, collaborative risk assessment process managed by the office of internal audit and risk assessment and including each of the System universities and the Office of the Chancellor.
 - a. The office of internal audit and risk assessment will facilitate conversations and exercises in a multi-layered risk assessment approach initiating with a university president and senior management, then secondarily with line management and personnel in the identification of potential risks. The same multi-layered approach will be employed within the Office of the Chancellor.
 - b. The adequacy of internal controls supporting operations will be evaluated.
 - c. Identified operations with significant operating exposure to a university and/or the Office of the Chancellor, and where appropriate internal controls are not evident, will be defined as a potential high risk exposure.
 - d. Potential high risk exposures at an institution will be communicated and discussed with the university's president. Potential high risk exposures identified at the System level will be communicated with the Chancellor.
 - e. Consideration will be given by the President and/or Chancellor for further evaluation of the risk exposure as part of a more detailed internal audit analysis.
 - f. Risk assessment outcomes will be utilized in development of a prioritized annual internal audit work plan based on recognized levels of risk exposure and possible resulting liabilities.
 - g. Audit outcomes will include recommendations for consideration by a university president and/or the Chancellor to strengthen internal controls through a change in operational and/or financial practices, documented policies, guidelines, etc.

3. Serve as in-house management consultants to the System. University presidents and the chancellor may request assistance from the office of internal audit and risk assessment on an as needed basis to review special issues, including strategic plan initiatives, and/or conduct such audits on the campuses and in the System headquarters as may be requested.

4. Act as liaison to the Department of the Auditor General and Office of Inspector General on System matters related to inquiries, referrals, and investigations.

C. Policy

1. There shall be created an organizational element within the Office of the Chancellor known as the office of internal audit and risk assessment. The director of the office of internal audit and risk assessment shall report functionally to the Audit Committee of the Board of Governors and administratively to the System's Chancellor.
2. The office of internal audit and risk assessment shall serve as in-house management consultants to the System. University presidents and the chancellor may request assistance from the department on an as needed basis to review special issues, including strategic plan initiatives, and/or conduct such audits on the campuses and in the System headquarters as may be requested.
3. **Requests for assistance of the office of internal audit and risk assessment to conduct special reviews shall be communicated to the System's Chancellor and chief counsel by the director and approved by the Audit Committee chairperson.**
4. The office of internal audit and risk assessment shall follow the System's **Procedure/Standard Number 2013-17, *Conducting Investigations Received through the State System's Incident Reporting System.***
5. The office of internal audit and risk assessment's cost shall be funded as a Board of Governors expense to the legislative appropriation prior to allocation based on the System's funding formula.
6. The scope of work of the office of internal audit and risk assessment shall encompass all System operations, including affiliated organizations where appropriate, academic instruction by the faculty excepted.
7. University presidents and the chancellor may be requested to supplement the office of internal audit and risk assessment staffing with personnel who have special skills or training. This suggested "consultant" approach will help to minimize the permanent staffing of the department.
8. All completed reviews, special projects, and investigations conducted by the office of internal audit and risk assessment shall be made available to the Audit Committee, Chancellor, and to the **president and** local University Council of Trustees for issues applicable to their institution.