Pennsylvania State System of Higher Education

Office of Internal Audit and Risk Assessment

FY2013/14 Annual Report

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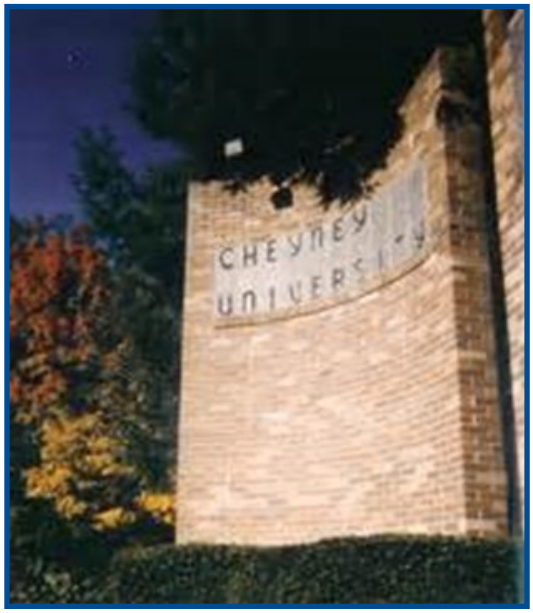
Bloomsburg University Husky



Clarion University Golden Eagle

MESSAGE FROM THE DIRECTOR

On behalf of the Office of Internal Audit and Risk Assessment (OIARA), I am pleased to present our fiscal year (FY) 2013/14 annual report. The purpose of this report is to demonstrate accountability to the Board of Governors' Audit Committee, chancellor, and Pennsylvania State System of Higher Education (PASSHE) universities that the internal audit and risk assessment function is operating as intended. The OIARA is governed by Board of Governors' Policy 1991-06-A: *State System Audit Policy*. The OIARA conducts audits in accordance with the professional practices of internal auditing.

The OIARA has concluded a productive year. I want to thank the staff for their hard work and dedication to this office and the PASSHE System. Likewise, I want to acknowledge support of the Board of Governors, chancellor, presidents, and university leadership affording for our effective completion of projects.

Throughout the year, staff worked on a variety of audits, risk assessments, consultations, and special projects. Efforts resulted in the issuance of 18 reports reflective of defined work plan engagements, providing 111 recommendations for the consideration of leadership to strengthen operations and enhance internal controls. As of June 30, 2014, work is underway on an additional nine work plan engagements anticipated to conclude early in the first quarter of fiscal year 2014/15.

In addition to defined work plan responsibilities, the OIARA assumed 20 special project assignments. Special projects supplement OIARA work load and arise from requests to address current needs, evaluate and assess specific matters, and perform investigations of credible accusations.

A departmental goal this year was to formalize a follow-up assessment process to evaluate and document closure to audit findings/recommendations identified in prior assessments. This resulted in the department's authenticating resolution of 236 (75%) of prior years' identified recommendations, bringing closure to the audit-cycle.

During the year, the OIARA provided several in-house training opportunities at various System events. The department works to share experiences and general audit observations from System projects among all PASSHE institutions for over-all awareness of potential internal control concerns, providing an opportunity for self-assessment. Additionally, the OIARA was again invited to present at the Association of College and University Auditors Annual Conference. This year's presentation focused on the topic of Jeanne Clery Act Compliance. The Association is the collective resource for higher education auditing, regulatory compliance, and risk management.

Moving forward into fiscal year 2014/15, the OIARA will continue to provide quality internal audit and risk assessment services to the PASSHE organization. Our efforts will employ a risk-based strategy ensuring departmental resources support the organization's strategic plan through a responsive and flexible audit plan. Thank you for your confidence and support in our work.

Dean A. Weber, CIA, CRMA
Director, Office of Internal Audit and Risk Assessment

MISSION STATEMENT

The mission of the Office of Internal Audit and Risk Assessment is to provide independent, objective assurance, and consulting services designed to add value and improve operations of the 14 PASSHE universities and the Office of the Chancellor. The OIARA helps the universities and the Office of the Chancellor accomplish their objectives in bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control structures, and governance processes.

The Office of Internal Audit and Risk Assessment is responsible for establishment of an ongoing, collaborative risk assessment process including each of the System universities and the Office of the Chancellor.

The Office of Internal Audit and Risk Assessment reports functionally to the Audit Committee of the Pennsylvania State System of Higher Education Board of Governors and administratively to the System's chancellor.

Edinboro University Fighting Scot

The Risk Assessment Process

In fiscal year 2013/14, the Office of Internal Audit and Risk Assessment (OIARA) concluded a multi-year process of conducting initial university-based risk assessments at each of the Pennsylvania State System of Higher Education universities. The risk assessment process was a collaborative approach facilitated by the OIARA with process ownership maintained by the universities. The assessments comprised a layered format involving senior leadership and management level personnel at each university and was inclusive of university-wide activities.

Project deliverables to the universities included results of participant surveys, summary reporting, presentations regarding risk management, and descriptive project outcomes.

A System-wide summation of results was developed providing a tool for the OIARA to focus audit priorities on areas where risk exposure is potentially the greatest. This information provides the OIARA with data for use in risk-based audit planning.

OVERVIEW OF FY2013/14 PROJECTS

The Office of Internal Audit and Risk Assessment works to reduce PASSHE's risk, or exposure to loss, ensure the adequacy of internal controls, assess compliance, and evaluate economies and efficiencies of operations. To that end, an annual audit plan is collaboratively developed each year through consultation with executive leadership, evaluation of risk assessment outcomes, and an awareness of the System's current operating environment. The work plan includes both broad departmental reviews as well as assessments of specific processes or controls. The Board of Governors' Audit Committee evaluates proposed engagements and approves the final version of the plan.

Our FY2013/14 work plan defined 37 projects. Additionally, six engagements ongoing as of June 30, 2013, carried forward providing 43 initiatives proposed for completion. Separately, 20 special projects were received during the course of the year, supplementing departmental workload.

The following chart summarizes this fiscal year's projects by new engagements, carry-over, and special projects. The number of projects concluded, underway, and not initiated, along with resulting percentages are shown.

Kutztown University Golden Bear

Results

The department achieved initiation of 73% of proposed FY2013/14 engagements as well as 100% of prior year carry-over projects. Of the 20 special projects requests received during the course of the year, 17 are concluded with work on the remaining three projects on-going.

Project Source	Total Engagements	Number Concluded	Number Underway	Number Not Initiated	Percent Concluded/Underway
FY2013/14 Work Plan	37	18	9	10	73%
Prior Year Carry-over	6	6	--	--	100%
Work Plan Totals:	43	24	9	10	77%
Special Projects	20	17	3	--	100%
Cumulative Total:	63	41	12	10	84%

WORK PLAN PROJECTS COMPLETED/UNDERWAY

Accounts Payable
Review and assess the operating procedures and internal control environment surrounding the accounts payable office's invoice processing and payment functions.

Campus Cash Collection
Obtain an understanding of miscellaneous cash/fund collections occurring on campus, the management and safeguarding of such funds, and the application of cash handling procedures supportive of appropriate internal controls.

Campus Safety/Security
Assess existing practices and internal controls supporting necessary precautions and safeguards to protect students, personnel, and visitors while on university property.

Classroom Space Utilization
Analysis to determine if instructional spaces were properly utilized (at targeted rates) as compared to recommended space guidelines as defined within the *PASSHE Facilities Manual, Volume VI*.

Facilities Inventory
Evaluate operating procedures and the internal control environment surrounding supplies and inventory maintained in storage within the facilities department. Inventory is used to handle routine maintenance duties and campus facilities emergencies.

Flexible Spending Program
Assess PASSHE's management and contract compliance of the flexible spending employee benefit elective, affording personnel the option to enroll in a pre-tax benefit program providing reimbursement for certain approved expense.

IT General Controls
Assess and identify potentially significant risks and control weaknesses associated with the university's information technology control environment.

International Education
Provide reasonable assurance that controls associated with processes and transactions related to international students are adequate and compliance with applicable regulations, laws, and university policies is maintained.

FY2013/14 Work Plan Projects by PASSHE Location

Bloomsburg
- Campus Cash Collection
- International Education
- IT General Controls Review

California
- Accounts Payable Audit

Cheyney
- IT General Controls Review

Clarion
- Campus Cash Collection
- IT General Controls Review

East Stroudsburg
- Jeanne Clery Act Review

Edinboro
- NCAA Agreed-upon Procedures
- IT General Controls Review
- Campus Cash Collection

Indiana
- Campus Cash Collection
- NCAA Compliance

Kutztown
- NCAA Agreed-upon Procedures
- IT General Controls Review

Lock Haven
- IT General Controls Review

Mansfield
- Campus Cash Collection

Millersville
- Classroom Space Utilization

Shippensburg
- NCAA Agreed-upon Procedures
- IT General Controls Review

Slippery Rock
- Campus Safety/Security
- IT General Controls Review

West Chester
- IT General Controls Review
- Accounts Payable Audit

Office of the Chancellor
- IT General Controls Review
- System-wide Leave Usage
- Flexible Spending Program

WORK PLAN PROJECTS COMPLETED/UNDERWAY

Jeanne Clery Act Compliance
Review institutional compliance against key provisions of the *Jeanne Clery Disclosure of Campus Security Policy and Crime Statistics Act,* a federal law which requires colleges and universities participating in federal student financial aid funding to disclose information about crime occurring on and surrounding the campus.

Leadership Transition
Review of the executive office when a change in executive leadership occurs, in order to provide assurance for the transitioning senior leader that assets managed and maintained under their direct authority have been properly accounted for and utilized.

National Collegiate Athletic Association - Agreed-upon Procedures
Assess Division II participants, through an independent audit, whether the Statement of Revenues and Expenses-Intercollegiate Athletics Department is in compliance with the National Collegiate Athletic Association (NCAA) Bylaw 6.2.3. Required once every three-year period.

National Collegiate Athletic Association - Compliance
Evaluate university compliance related to select articles of the *2011-12 NCAA Division II Manual* including eligibility, playing and practice seasons, and institutional control.

Risk Assessment
Develop a university-specific risk dictionary defining potential risk events of departmental operations and facilitating participant ranking of risk events resulting in a weighted risk events synopsis based on level of impact, probability of occurrence, existing internal controls, and past history.

System-wide Leave Usage
Analysis to evaluate compliance with existing policies and procedures governing leave entitlements afforded to PASSHE personnel.

FY2013/14 Carry-over Projects by PASSHE Location

California
Jeanne Clery Act Review
Cheyney
NCAA Compliance
Clarion
Jeanne Clery Act Review
Edinboro
Facilities Inventory Audit
Lock Haven
University Risk Assessment
Shippensburg
Leadership Transition

SPECIAL PROJECT REQUESTS

In addition to specifically identified annual work plan engagements, the Office of Internal Audit and Risk Assessment completes special project requests presented by the chancellor, university presidents, chief legal counsel, and Board of Governors' members. Additionally, special projects can result from information received through PASSHE's Incident Reporting System deemed to be most appropriately addressed by the OIARA. Special project requests supplement project efforts of those identified within the formally approved annual departmental work plan.

During fiscal year 2013/14, the OIARA assumed responsibility for the completion of 20 special project requests. Of this total, 16 projects were representative of matters presented through the Incident Reporting System and four were university generated.

FY2013/14 Special Project Requests Comprised Projects Occurring at:

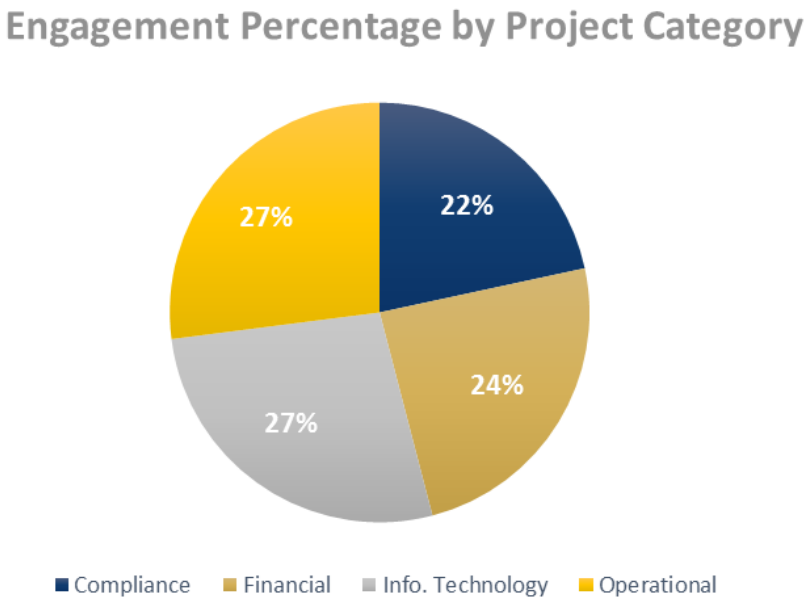
- California University of Pennsylvania
- Cheyney University of Pennsylvania
- East Stroudsburg University of Pennsylvania
- Kutztown University of Pennsylvania
- Slippery Rock University of Pennsylvania
- West Chester University of Pennsylvania
- Office of the Chancellor

OIARA INTERNAL AUDIT CATEGORIES DEFINED

Following guidelines supportive of professional internal audit planning, the Office of Internal Audit and Risk Assessment (OIARA) work plan defines project engagements within four distinct categories. The OIARA benchmarks project planning against the *Institute of Internal Auditor's* global internal audit planning perspective, providing industry standards of strategic business risk areas as related to annual work plan composition. In this regard, PASSHE's internal audit work plan encompasses projects defined within the following four strategic risk-based categories.

Compliance	Comprehensive review of adherence to regulatory guidelines
Financial	Verification of monetary reporting and accounting of transactions that have occurred
Information Technology	Examination of the electronic management system over particular information/assets
Operational	Systematic assessment of an organizational process evaluating effectiveness and efficiencies

Within the fiscal year 2013/14 work plan, proposed audit engagements by project category comprised a proportional spread among the four identified project categories.



MANAGEMENT CORRECTIVE ACTIONS

Beginning in fiscal year 2013/14, the Office of Internal Audit and Risk Assessment (OIARA) instituted a formalized process to follow-up on prior audit report recommendations and actions regarding implementation of management responses addressing completed engagements. Each PASSHE entity is now provided a quarterly statement defining open audit items as well as those closed during the period. This provides a management tool for each entity to use in managing outstanding issues.

Under this newly implemented process, OIARA staff work collaboratively with university personnel through discussion and review regarding actions taken to improve internal controls, enhance operations, and provide for effective utilization of resources.

Since the OIARA's restructuring in FY2009/10, 427 recommendations to enhance internal controls, provide compliance with governing policies/procedures, and strengthen operations were provided.

PASSHE SUCCESS……

THE FOLLOW-UP ASSESSMENT PROCESS HAS IDENTIFIED UNIVERSITIES ACTIVELY EMPLOYING CORRECTIVE MEASURES TO ADDRESS AUDIT REPORT RECOMMENDATIONS.

Results

Cumulatively through the end of FY2013/14, 236 of the 316 prior-years audit recommendations have been documented as closed. With a formalized process now in place, future efforts will continue focusing on the evaluation of preceding report recommendations to determine if corrective actions have been successfully implemented to address issue resolution.

Summary of Corrective Action Activity FY2013/14	
Total Recommendations Unverified as of July 1, 2013	316
New Recommendations Added FY2013/14	111
Prior Recommendations Verified as Resolved during FY2013/14	236
Total Recommendations Unverified as of June 30, 2014	191

PASSHE FRAUD/WASTE/ABUSE INCIDENT REPORTING SYSTEM

PASSHE's Commitment…

The Pennsylvania State System of Higher Education is committed to high ethical standards and the enforcement of policies, procedures, and legal requirements. The concerns of employees, students, and others within the university communities regarding matters of wrongdoing are important; therefore, an Incident Reporting System has been established as a means to confidentially identify situations believed to be inappropriate. Individuals can make an anonymous report electronically through the website of each PASSHE entity or may speak with an independent representative by calling the toll-free number, 855-298-5316.

West Chester University Golden Ram

The Pennsylvania State System of Higher Education Board of Governors' Audit Committee approved creation of an automated Incident Reporting System to receive, record, and track alleged instances of fraud, waste, and abuse of resources perceived as occurring with regard to PASSHE operations. A contract for services was executed with *NAVEX Global/EthicsPoint* providing an automated solution with the process becoming effective July 2013.

The Office of Internal Audit and Risk Assessment, with support of the PASSHE Office of Chief Legal Counsel, is responsible for administration of the Incident Reporting System. Each university and the Office of the Chancellor has appointed a liaison to manage case reports at the respective locations. Access to the Incident Reporting System and information on how to report allegations can be accessed from the website home page of each System university, as well as from the PASSHE website.

In support of uniform protocol addressing investigation of reports received through the Incident Reporting System, the OIARA participated in the creation of PASSHE Procedure/Standard Number 2013-17: *Conducting Investigations Received through PASSHE's Incident Reporting System*, approved August 7, 2013.

Cumulatively for FY2013/14, 89 user reports were filed through the Incident Reporting System related to various matters of System operations. As of June 30, 2014, 62 reports have been investigated and closed while 27 remain in process of review.

PASSHE BOARD OF GOVERNORS' AUDIT COMMITTEE

The primary mission of the Audit Committee is 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 is to support and oversee the activities of the Office of Internal Audit and Risk Assessment, maximizing the functions' operations and value across the State System.

GOVERNANCE….

"The Audit Committee is a permanent committee consisting of six 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 and director of the Office of Internal Audit and Risk Assessment shall serve as staff to the Audit Committee."

Policy 1991-06-A: *State System Audit Policy*

The Audit Committee:

- Promotes the development of an effective and continuously improving control environment.
- Oversees the System's internal control environment and risk assessment practices.
- Serves 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.
- Provides a direct channel of communication to the Board for the System's independent public accounting firm and Office of Internal Audit and Risk Assessment.

Board of Governors' Audit Committee Composition for fiscal year 2013/14 included:

Joseph F. McGinn, *Chair*

Christopher H. Franklin

Jonathan B. Mack

Senator John T. Yudichak

Guido M. Pichini, (*ex officio)*

Karen M. Whitney (July—May)
nonvoting president liaison

Francis L. Hendricks, (June)
nonvoting president liaison

OIARA STAFF

Dean Weber, CIA, CRMA
Director
Dean has been with PASSHE for 21 years. He is a Certified Internal Auditor and Certified in Risk Management Assurance. Dean is a graduate of Saint Francis College.

Kimberly Greco, CPA
Audit Senior
Kim has been with PASSHE for 9 years. She is a Certified Public Accountant. Kim earned her undergraduate and graduate degrees at Slippery Rock University of Pennsylvania.

Shannon Keith, CPA
Audit Senior
Shannon has been with PASSHE for 8 years. She is a Certified Public Accountant. Shannon is a graduate of Wilmington College and a veteran of the U.S. Air Force.

Laurie Malatesta, CPA, CIA, CRMA
Audit Senior
Laurie has been with PASSHE for 10 years. She is a Certified Public Accountant, Certified Internal Auditor, and Certified in Risk Management Assurance. Laurie is a graduate of Pennsylvania State University.

Marianne Pollack
Administrative Assistant
Marianne joined PASSHE in April 2014. She is a skilled professional assisting departmental staff. Marianne is a graduate of Central Pennsylvania Business College.

David Shissler, CPA, CISA, CISSP
Audit Senior
David has been with PASSHE for 5 years. He is a Certified Public Accountant, Certified Internal System Auditor, and Certified Information System Security Professional. David is a graduate of Oral Roberts University and Shippensburg University of Pennsylvania.

Sylvia Thompson, CIA, CRMA
Audit Senior
Sylvia has been with PASSHE for 5 years. She is a Certified Internal Auditor and Certified in Risk Management Assurance. Sylvia is a graduate of Shippensburg University of Pennsylvania and Temple University.

Staff/Professional Certifications

4 - - Certified Public Accountant (CPA)
3 - - Certified Internal Auditor (CIA)
3 - - Certified in Risk Management Assurance (CRMA)
1 - - Certified Information System Security Professional (CISSP)
1 - - Certified Information Systems Auditor (CISA)

Student Internship

The PASSHE Board of Governors' Audit Committee sponsored a summer 2014 student internship opportunity with the Office of Internal Audit and Risk Assessment. Students attending any of the 14 Pennsylvania State System of Higher Education universities and majoring in accounting were eligible to apply.

Based on a pool of qualified candidates, this year's internship opportunity was presented to Benjamin Hayhurst. Benjamin completed his junior year of study at Shippensburg University of Pennsylvania and is working toward a planned May 2015 graduation with dual majors in Accounting and Management Information Systems. Benjamin exhibits the high quality of PASSHE's students, leading the way in becoming tomorrow's leaders.

Summary OIARA Professional Staff Qualifications	
Total Years OIARA Auditor Experience	94
Total Years OIARA PASSHE Auditor Experience	58
Percent of Audit Staff with Bachelor's Degree	100%
Percent of Audit Staff with Advanced Degree	67%
Percent of OIARA Staff holding Professional Certifications	100%

Pennsylvania State System of Higher Education

www.passhe.edu

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