

PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION



Fiscal Year 2014/15 Annual Report of Activities of the Office of Internal Audit and Risk Assessment



Pennsylvania's
STATE SYSTEM
of Higher Education

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Published June 30, 2015



MESSAGE FROM THE DIRECTOR

On behalf of the Office of Internal Audit and Risk Assessment (OIARA), I am pleased to present the *Fiscal Year 2014/15 Annual Report of Activities of the Office of Internal Audit and Risk Assessment*. The purpose of this report is to demonstrate accountability to the Board of Governors that the internal audit function is operating as intended.

The report highlights accomplishments of the System's internal audit and risk assessment function and use of resources consistent with our approved FY2014/15 operating budget and work plan. The OIARA is governed by Board of Governors' Policy 1991-06-A: *State System Audit Policy*. The OIARA performs its work in accordance with professional practices of internal auditing.

With support of the Board of Governors' Audit Committee, the System's chancellor, and presidential and executive leadership, the OIARA has concluded a productive year. I would also like to acknowledge the dedication of departmental staff and their commitment to sustaining the mission of the OIARA.

The OIARA carried out project assignments at all 14 State System universities during the 2014/15 fiscal year. In addition to engagement clients, Audit Committee members are provided with final reports as they occur. Additionally, local council of trustee chairpersons are notified of OIARA completed projects relative to their respective institution.

In summary, this year's work plan defined 31 projects. Twelve engagements ongoing as of June 30, 2014, carried forward providing a total of 43 proposed projects for completion in the current fiscal year. Efforts resulted in the issuance of 29 reports reflective of work plan engagements, providing 106 recommendations for the consideration of leadership to strengthen operations and enhance internal controls. Eight projects contained in the work plan were not fulfilled due to inadequate available staff hours or other extenuating circumstances. As of June 30, 2015, work remains underway on six work plan engagements anticipated to conclude early in the first quarter of fiscal year 2015/16.

In addition to defined work plan responsibilities, the OIARA assumed eleven special project assignments. Special projects supplement OIARA workload and arise from requests to address current needs, evaluate and assess specific matters, and perform investigations of credible accusations. As of June 30, 2015, work concluded on nine of the eleven special projects with the remaining two anticipated to conclude early in the first quarter of fiscal year 2015/16.

Looking ahead, work of the OIARA will continue to contribute to the efficient and effective operation of Pennsylvania's State System of Higher Education. I look forward to further enhancing internal audit services as we move forward in accomplishing initiatives defined within our FY2015/16 work plan. My goal is to promote internal audit projects based on recognized levels of risk and advance implementation of appropriate internal controls necessary to support the System's mission.


Respectfully,

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

SERVICE TO THE SYSTEM


The Office of Internal Audit and Risk Assessment is charged with enhancing State System operations by providing risk-based, objective and reliable assurance, advice, and insight. The OIARA accomplishes this by:

- Internal audit services in which planned compliance, operational, financial, and information technology engagements are completed.
- Follow-up assessments where prior audit findings are reviewed to determine if effective corrective measures have been implemented supportive of management responses to identified improvement opportunities.
- Special project engagements where System leadership requests consultative services to aid in evaluating risk and the adequacy of internal controls.
- Investigations addressing allegations of fraud, waste, conflict of interest, ethics violations, abuse of System resources, and other matters potentially in violation of governing policy, regulations, and requirements.



THE OFFICE OF INTERNAL AUDIT AND RISK ASSESSMENT WAS FORMALLY RESTRUCTURED IN JULY 2009 AS A CENTRALIZED FUNCTION REPORTING TO THE AUDIT COMMITTEE OF THE STATE SYSTEM'S BOARD OF GOVERNORS.

SINCE THAT TIME, THE OIARA HAS COMPLETED A TOTAL OF 130 WORK PLAN ENGAGEMENTS AND 64 SPECIAL PROJECT REQUESTS, THROUGH FISCAL YEAR 2014/15.



MISSION STATEMENT

The mission of the Office of Internal Audit and Risk Assessment is to provide an independent, objective assurance function and consulting services designed to add value and improve operations of the 14 State System 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 the 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's State System of Higher Education Board of Governors and administratively to the System's chancellor.

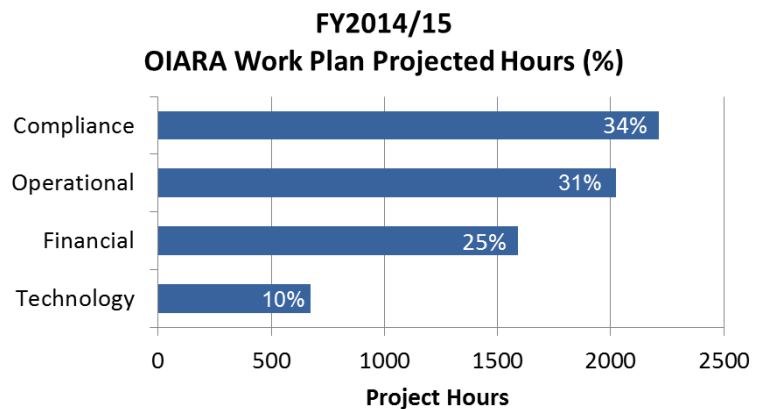
OVERVIEW/ACHIEVEMENT OF FY2014/15 PROJECTS

The Office of Internal Audit and Risk Assessment works to reduce the State System's exposure to adverse risk, ensure the adequacy of internal controls, assess compliance, and evaluate economies and efficiencies of operations. To that end, an annual work plan is developed each fiscal year through collaborative consultation with State System 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.

The following chart illustrates the number of projects concluded, underway, and not initiated, along with resulting achievement percentages.

The State System's internal audit work plan encompasses projects defined within the following four strategic risk-based categories: Operational, Compliance, Financial, and Information Technology. OIARA's work plan project hour distribution by engagement category is shown in the chart below:



Results

The department achieved initiation of 74% of proposed FY2014/15 engagements as well as 100% completion of prior year carry-over projects. Additionally, 100% of special project requests have concluded or are underway.

Project Source	Total Engagements	Number Concluded	Number Underway	Number Not Initiated	Percent Concluded/Underway
FY2014/15 Work Plan	31	17	6	8	74%
Prior Year Carry-over	12	12	--	--	100%
Work Plan Totals:	43	29	6	8	81%
Special Projects	11	9	2	--	100%
Cumulative Total:	54	38	8	8	85%

FISCAL YEAR 2014/15 WORK PLAN - PROJECT DETAIL

Supporting individualized project initiatives unique to the needs of each institution, prioritized risk-based planning identified 31 engagements comprising the OIARA fiscal year 2014/15 work plan.

The chart below identifies project initiatives by university, the status of field work, issuance of final reports, and those projects not completed due to insufficient OIARA staff hours available to complete the engagement or other extenuating circumstances.

State System University	Project	Project Not Completed	Field Work in Process or Concluded	Final Report Issued	Carryover to 2015/16 Work Plan
Bloomsburg	Expenditures of Public Funds		✓	03/19/2015	N/A
	IT User Access	✓			No
California	NCAA Agreed-upon Procedures		✓	12/15/2014	N/A
	Distance Education		✓	03/09/2015	N/A
Cheyney	NCAA Agreed-upon Procedures		✓	01/13/2015	N/A
	Expenditures of Public Funds	✓			No
Clarion	NCAA Agreed-upon Procedures	✓			No
	Distance Education		✓	06/26/2015	N/A
East Stroudsburg	NCAA Agreed-upon Procedures		✓	12/12/2014	N/A
	Expenditures of Public Funds		✓	06/04/2015	N/A
Edinboro	Student Financial Aid	✓			No
	Camp/Training Programs		✓		Yes
Indiana	NCAA Agreed-upon Procedures		✓	12/18/2014	N/A
	IT General Controls Review		✓	03/02/2015	N/A
Kutztown	International Education		✓	06/11/2015	N/A
	IT Disaster Recovery	✓			No
Lock Haven	NCAA Agreed-upon Procedures		✓	12/09/2014	N/A
	Camp/Training Programs		✓		Yes
Mansfield	Student Financial Aid	✓			No
	Expenditures of Public Funds		✓		Yes
Millersville	NCAA Agreed-upon Procedures		✓	12/11/2014	N/A
	International Education		✓		Yes
Shippensburg	Student Financial Aid		✓		Yes
	International Education		✓	10/22/2014	N/A
Slippery Rock	NCAA Agreed-upon Procedures		✓	12/17/2014	N/A
	IT User Access		✓		Yes
West Chester	NCAA Agreed-upon Procedures		✓	12/18/2014	N/A
	Camp/Training Programs		✓	06/22/2015	N/A
Office of the Chancellor	IT Disaster Recovery		✓	05/27/2015	N/A
	Academic Program Actions	✓			No
	Performance Funding	✓			No

CARRY-OVER PROJECTS FROM FY2013/14 WORK PLAN

As of June 30, 2014, there were 12 projects ongoing that carried forward into FY2014/15 for completion. The projects comprised nine prior-year work plan initiatives and three special project engagements. The following chart identifies the 12 carry-over projects concluded during the period.

State System University	Project	Final Report Issued
Bloomsburg	IT General Controls Review	09/16/2014
Cheyney	IT General Controls Review	09/10/2014
East Stroudsburg	Clery Act Compliance Review	07/14/2014
	Campus Cash Collections Special Project	08/28/2014
Edinboro	Campus Cash Collections	08/06/2014
	IT General Controls Review	09/25/2014
Indiana	NCAA Compliance Audit	10/06/2014
Kutztown	Presidential Transition Special Project	09/29/2014
Slippery Rock	IT General Controls Review	09/15/2014
West Chester	Accounts Payable Audit	11/05/2014
	EthicsPoint Case Special Project	09/05/2014
Office of the Chancellor	Flexible Spending Program Audit	08/08/2014

SPECIAL PROJECT REQUESTS FY2014/15

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. Furthermore, special projects may result from information received through the State System'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 departmental work plan.

During fiscal year 2014/15, the OIARA assumed responsibility for the completion of eleven special project requests. Of this total, six projects were matters presented through the Incident Reporting System and five were university requested.

FY2014/15 Special Project Requests Comprised Projects Occurring at:

Bloomsburg University of Pennsylvania

Cheyney University of Pennsylvania

Clarion University of Pennsylvania

Mansfield University of Pennsylvania

NEW DEPARTMENT INITIATIVES

The OIARA launched two new initiatives in FY2014/15 to include **OIARA INFORMATION BRIEFS** and **CLIENT SATISFACTION SURVEYS**. Both initiatives are intended to enhance departmental service to the System.

OIARA INFORMATION BRIEFS

What are they...

During FY2014/15, the OIARA produced three electronic distributions detailing common-themed findings/recommendations identified through the course of completed engagements at multiple site locations.

Value in Sharing Information...

- Support from State System's leadership to provide increased identification and recognition of internal control improvement opportunities.
- Enhanced communication initiative of the Office of Internal Audit and Risk Assessment to promote the value of internal auditing.
- Audit Committee's commitment to expand the sharing of information derived through the internal audit process.

Information Brief Topics Addressed in FY2014/15

- Miscellaneous Campus Cash Collections
- Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act)
- Information Technology General Controls Review

CLIENT SATISFACTION SURVEYS

What are they...

For engagements completed as part of the FY2014/15 work plan, satisfaction surveys were sent to engagement clients. Completed surveys provide a method of continuous quality monitoring of the internal audit process. Surveys evaluate and rate:

- Scope of the Internal Audit Work
- Internal Audit Process
- Engagement Satisfaction
- Option for Comment

Satisfaction Survey Outcomes

90% Strongly Agree or Agree the engagement provided useful outcomes.

86% Strongly Agree or Agree the engagement provided overall value to the organization.

MANAGEMENT CORRECTIVE ACTIONS

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

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

Since the OIARA's restructuring in FY2009/10, 553 recommendations have been provided through OIARA engagements to enhance internal controls, provide compliance with governing policies/procedures, and strengthen operations.

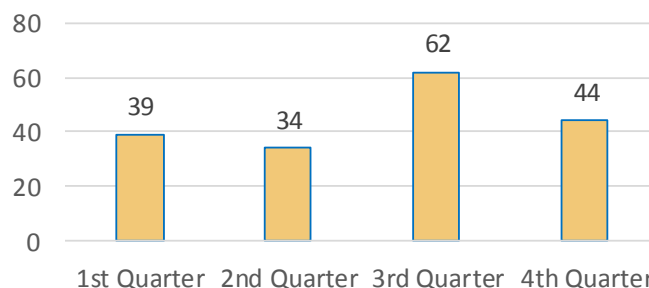
Results

Cumulatively, through the end of FY2014/15, 418 (76%) of the 553 prior-years' total audit recommendations to date have been documented as resolved. With a formalized process in place, future efforts will continue focusing on the evaluation of preceding report recommendations to determine if corrective actions have been successfully implemented to achieve issue resolution.

STATE SYSTEM SUCCESS.....

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

Findings Closed by Quarter for FY2014/15



Summary of Corrective Action Activity FY2014/15

Total Recommendations Unverified as of July 1, 2014	208
New Recommendations Added FY2014/15	106
Prior Recommendations Verified as Resolved during FY2014/15	179
Total Recommendations Unverified as of June 30, 2015	135

STATE SYSTEM'S INCIDENT REPORTING SYSTEM

State System's Commitment...

Pennsylvania's 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 exists as a means to confidentially identify situations believed to be inappropriate. Individuals can make an anonymous report electronically through the website of each State System entity or may speak with an independent representative by calling the toll-free number, 855-298-5316.

Pennsylvania's 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 within State System operations. A contract for services was executed with *NAVEX Global/EthicsPoint* providing an automated solution for this process.

The Office of Internal Audit and Risk Assessment, with joint support of the State System 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. 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 State System's website.

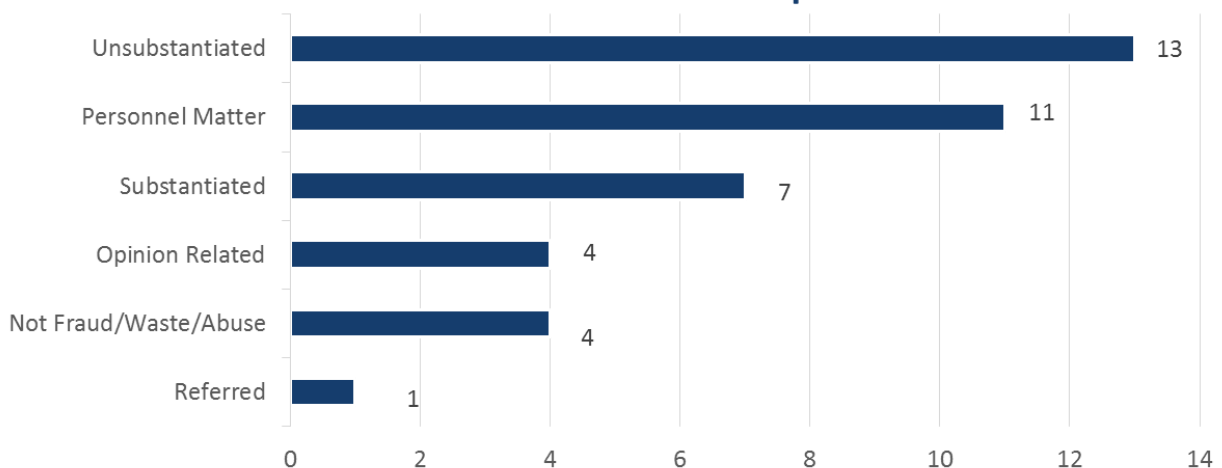
In support of uniform protocol addressing investigation of reports received through the Incident Reporting System, the creation of PASSHE Procedure/Standard Number 2013-17: *Conducting Investigations Received through PASSHE's Incident Reporting System*, was approved August 7, 2013.

Case Management FY2014/15:

- University 75%
- Legal Counsel 16%
- OIARA 9%

Cumulatively for FY2014/15, 63 user reports were filed through the Incident Reporting System concerning various matters of System operations. As of June 30, 2015, 40 reports have been investigated and closed while 23 remain in process of review.

Outcomes of Closed Reports



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.

Current Board of Governors' Audit Committee Composition as of June 30, 2015

Jonathan B. Mack, *Chair*
 Marie Conley
 Daniel P. Meuser
 Senator Judith L. Schwank
 Guido M. Pichini (*ex officio*)
 Francis L. Hendricks (*nonvoting president liaison*)

Former Board of Governors' Audit Committee Members who Served During FY2014/15

Joseph F. McGinn, *Chair*
 Todd M. Garrett
 Christopher H. Franklin
 Senator John T. Yudichak

OIARA STAFF

Dean Weber, CIA, CRMA Director

Dean has been with the State System for 22 years. He is a Certified Internal Auditor and Certified in Risk Management Assurance. Dean is a graduate of Saint Francis University.

Kimberly Greco, CPA Audit Senior

Kim has been with the State System for 10 years. She is a Certified Public Accountant. Kim earned her undergraduate and graduate degrees at Slippery Rock University of Pennsylvania.

Shannon Keith, CPA, CFE Audit Senior

Shannon has been with the State System for 9 years. She is a Certified Public Accountant and Certified Fraud Examiner. Shannon is a graduate of Wilmington University and a veteran of the U.S. Air Force.

Laurie Malatesta, CPA, CIA, CRMA Audit Senior

Laurie has been with the State System for 11 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 has been with the State System since 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 the State System for 6 years. He is a Certified Public Accountant, Certified Information Systems Auditor, and Certified Information System Security Professional. David earned his undergraduate degree at Oral Roberts University and his graduate degree at Shippensburg University of Pennsylvania.

Sylvia Thompson, MBA, CIA, CRMA Audit Senior

Sylvia has been with the State System for 6 years. She is a Certified Internal Auditor and Certified in Risk Management Assurance. Sylvia earned her undergraduate degree at Shippensburg University of Pennsylvania and her graduate degree at Temple University.

PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION



CALU



CLARION
UNIVERSITY



EDINBORO
UNIVERSITY



KUTZTOWN
UNIVERSITY



MANSFIELD
UNIVERSITY

Millersville
University



Slippery Rock
University

WCU
WEST CHESTER
UNIVERSITY



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