



Board of Governors

Audit and Compliance Committee

Agenda

Friday, June 30, 2023 – 3:00 p.m.

ITEM

1. Revisions to Policy 1991-06-A: State System Audit Policy and rescission of Policy 1986:01-A: Audit (ACTION)

Committee Members: Janet L. Yeomans (Chair), Senator Judith L. Schwank, Robert W. Bogle, William Gindlesperger, Cynthia D. Shapira (*ex officio*), Christopher M. Fiorentino (*nonvoting president liaison*)

For further information, contact Molly Mercer at mmercerc@passhe.edu.

Board of Governors
Audit and Compliance Committee Meeting
June 30, 2023

SUBJECT: Revisions to Board Policy 1991-06-A: State System Audit Policy and rescission of Board Policy 1986:01-A: Audit (ACTION)

UNIVERSITIES AFFECTED: All

BACKGROUND: In the State System's transition to an updated, risk-based model of internal audit services delivered through a third-party provider, revisions were needed to the associated policy, 1991-06-A: State System Audit Policy, to reflect how the audit activities would be conducted. This revised policy provides a robust framework reflecting the objectives for internal audit activities, the associated risk assessment activities, and roles and responsibilities of the audit and compliance committee as well as the internal audit function.

In addition, external audit activities had previously been reflected in a separate policy, 1986:01-A Audit. These policy requirements have been incorporated into Policy 1991-06-A: System Audit Policy, which is now comprehensive and encompasses both internal and external audit activities.

Operational guidance for both internal and external audit has been incorporated into a new procedure/standard.

MOTION: The Board of Governors approve the revisions to State System Audit Policy (1991-06-A) and the rescission of the Audit Policy (1986:01-A), to be incorporated in the preceding policy.

Supporting Documents Included: Policy 1991-06-A: State System Audit Policy and Policy 1986:01-A Audit, with associated mark-up.

Other Supporting Documents Available: N/A

Reviewed by: Executive Leadership Group and Fiscal and Administrative Vice Presidents

Prepared by: Molly Mercer

Contact: mmercerc@passhe.edu



PA State System of Higher Education Board of Governors

Effective: October 17, 1991

Page 1 of 4

Policy 1991-06-A: State System Audit Policy Red lined version with proposed edits in tracked changes

See Also:

Procedure-level details have been incorporated in a new associated procedure/standard

Adopted: October 17, 1991

Amended: July 12, 2001; October 12, 2006; July 16, 2009; April 7, 2016, and July 20, 2023

I. Audit and Compliance Committee

A. Purpose

The primary mission of the Audit and Compliance 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 and Compliance Committee shall be to support and oversee the activities of the ~~office of~~ internal audit function (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.~~

B. Policy

~~1.~~

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

a. Promoting the development of an effective and continuously improving control environment to achieve the System's goals and objectives.

~~b-a.~~ _____

• Overseeing the System's internal control environment and risk assessment practices.

~~e.~~ b.

~~e.~~ 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.

~~d.~~ Providing a direct channel of communications to the Board of Governors for the System's independent public accounting firm and Internal Audit.

3.2. The Audit and Compliance Committee shall review and approve the scope of the System's internal audit annual work plan.

~~Procedures~~

~~Specific duties of the Audit Committee shall include the following:~~

~~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.**~~

~~Review and approve the scope of the office of internal audit and risk assessment.~~

~~Request the performance of supplemental reviews or other audit procedures, including investigations when necessary.~~

~~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 review, in advance of final issuance, of the System's annual audit opinion, financial statements, and management letter;~~

~~A timely review of any significant risks, and disposition of findings and recommendations, including corrective actions taken or in progress;~~

~~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 Internal Audit, without other System management personnel present; and~~

~~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.~~

~~Annually report to the full Board of Governors on the Audit Committee's activities.~~

~~II. Office of Internal Audit and Risk Assessment~~ Internal Audit Function and Risk Assessment

~~D.~~A. Purpose

To provide policy for establishment and support of a System internal audit function and risk assessment, and pursuant to a resolution exercising the fiduciary responsibilities of the Board of Governors (Board) for efficient, effective, and financially sustainable universities (date/reference). In carrying out their duties and responsibilities, members of ~~the office of internal audit and risk assessment~~ Internal Audit 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.~~

~~A.~~ 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 with the approval of the Audit Committee.~~
- ~~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.~~

F.B. 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~~ Internal Audit ~~shall report functionally to the Audit and Compliance Committee of the Board of Governors and administratively to the System's Chancellor through the Chief Financial Officer to achieve organizational independence. Internal Audit will have unrestricted access to and communicate and interact directly with the Audit and Compliance Committee.~~
- 2. The internal audit function shall be independent and will remain free from interference by any element in the institution, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independence and objectivity. Internal Audit will confirm to the board, at least annually, the organizational independence of the internal audit function.
- 3. Internal Audit will keep the Audit and Compliance Committee, chancellor, and necessary university executive leadership informed of performance relative to its annual work plan and unusual transactions or other matters of significance identified through the course of internal audit work.

~~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.~~

- ~~4. Requests for assistance of the office of internal audit and risk assessment~~ Internal Audit ~~to conduct special reviews~~ activities can be made at the

university and System level at any time. ~~shall be communicated to the System's Chancellor and chief counsel by the director and approved by the Audit Committee chairperson.~~

5. Internal Audit conducts their internal audit services in accordance with professional standards and frameworks, such as:

~~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.~~

~~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~~ Internal Audit shall encompass all System operations, including affiliated organizations where appropriate, academic instruction by the faculty excepted.

7. Internal Audit, with strict accountability for confidentiality and safeguarding of records and information, is authorized 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, legal privilege, or the provisions of a relevant collective bargaining agreement.

8. Internal Audit will handle all information obtained during a review in the same prudent manner as the original custodian of the information. Internal audit respects the value and ownership of information received and shall not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

9. The System's internal audit function shall subscribe to the mandatory Code of Ethics established by The Institute of Internal Auditors, as well as adhere to governing policies of the System; the applicable policies of the Commonwealth of Pennsylvania, as well as applicable laws such as the Public Official and Employee Ethics Act.

10. Internal Audit fees shall be funded as Systemwide Program as outlined in Policy 1984-06-A: Allocation Formula.

III. Implementation

1. Procedure/Standards, and guidelines will be issued to address operational details and implementation of this policy.



PA State System of Higher Education Board of Governors

Effective: January 21, 1986

Page 1 of 2

Policy 1986-01-A: Audit

Procedure-level details have been incorporated in a new associated procedure/standard

Redlined/Rescinded Policy

See Also:

Adopted: January 21, 1986

Amended: January 19, 2012

A. Purpose

~~To prescribe the requirements for the annual independent audits of PASSHE's consolidated financial statements and the separate financial statements for each university and the Office of the Chancellor.~~

B. Definitions

~~**Component Units** – Separately incorporated affiliated organizations that are considered to be so closely related to the universities that their financial activity must be presented in the universities' financial statements. GASB Statement 39, Determining Whether Certain Organizations Are Component Units (GASB 39), establishes the criteria for determining whether a university affiliate is a component unit and prescribes how the information is to be reported. Most university foundations and student government associations are component units.~~

~~**Financial Statements Audit** – Independent assurance as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of an entity and its discretely presented component units in conformity with accounting principles generally accepted in the United States of America.~~

~~**Generally Accepted Accounting Principles (GAAP)** – The set of rules, conventions, standards, and procedures widely accepted in the United States of America for reporting financial information.~~

~~**Governmental Accounting Standards Board (GASB)** – The organization that predominantly establishes GAAP for governmental entities such as PASSHE.~~

~~**Single or A-133 Audit** – The audit required by the Federal Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (OMB Circular A-133), of entities that expend federal funds. The Single Audit encompasses both financial and compliance components.~~

C. ~~Procedures~~

- ~~1. The Office of the Chancellor, in consultation with the universities, shall conduct a competitive procurement to select an independent certified public accounting firm to audit PASSHE's annual financial activity for the fiscal year beginning July 1 and ending June 30.~~
- ~~2. The financial statements of PASSHE, each university, and the Office of the Chancellor shall be prepared in accordance with GAAP, as prescribed by GASB, and any accounting guidance issued by the Office of the Chancellor in the form of manuals, standards, procedures, guidelines, etc.~~
- ~~3. To ensure an efficient financial statement consolidation process and audit, the universities shall prepare and submit their respective annual financial statements in the format and timeline prescribed by the Office of the Chancellor.~~
- ~~4. The independent auditor shall conduct annual audits of PASSHE's consolidated financial statements as well as the financial statements of each university and the Office of the Chancellor. The audits shall be conducted in accordance with auditing standards generally accepted in the United States of America.~~
- ~~5. In accordance with GASB, the universities shall provide the separately audited financial statements of all discretely presented component units to the independent auditors and the Office of the Chancellor in a timely manner.~~
- ~~6. The independent auditor shall conduct a consolidated Single Audit of federal funds, as prescribed by OMB Circular A-133 and in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and OMB Circular A-133.~~
- ~~7. To ensure an efficient and timely Single Audit consolidation process and audit, each university shall prepare a Schedule of Expenditures of Federal Awards (SEFA) in the format and timeline prescribed by the Office of the Chancellor. Further, the universities shall participate in PASSHE's rotation schedule for the audit of student financial aid, which provides that each university's student financial aid programs are audited only once every three years, unless the independent auditor's assessment of the audit risk of a university determines that a more frequent audit is required for that university.~~
- ~~8. The results of all audits shall be submitted to the Office of the Chancellor and presented to the Board of Governors Audit Committee, Finance Committee, or equivalent.~~

Effective: October 17, 1991

Page 1 of 4

Policy 1991-06-A: State System Audit Policy **Clean version with proposed edits incorporated**

See Also:

Adopted: October 17, 1991

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July 16, 2009; April 7, 2016, and July 20, 2023

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 - a. Promoting the development of an effective and continuously improving control environment to achieve the System's goals and objectives.
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 - c. 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.
 - d. Providing a direct channel of communications to the Board of Governors for the System's independent public accounting firm and Internal Audit.
2. The Audit and Compliance Committee shall review and approve the scope of the System's internal audit annual work plan.

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3. Internal Audit will keep the Audit and Compliance Committee, chancellor, and necessary university executive leadership informed of performance relative to its annual work plan and unusual transactions or other matters of significance identified through the course of internal audit work.
4. Requests for assistance of Internal Audit to conduct special activities can be made at the university and System level at any time.
5. Internal Audit conducts their internal audit services in accordance with professional standards and frameworks.
6. The scope of work of Internal Audit shall encompass all System operations, including affiliated organizations where appropriate, academic instruction by the faculty excepted.
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10. Internal Audit fees shall be funded as a Systemwide Program as outlined in Policy 1984-06- A: Allocation Formula.

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