



CALU

CHEYNEY
UNIVERSITY

CLARION
UNIVERSITY



EU
EDINBORO
UNIVERSITY



KUTZTOWN
UNIVERSITY



MANSFIELD
UNIVERSITY

Millersville
University



Slippery Rock
University

WCU
WEST CHESTER
UNIVERSITY

Fiscal Year 2016/17 Annual Report of Activities of the Office of Internal Audit and Risk Assessment



Pennsylvania's
STATE SYSTEM
of Higher Education

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MESSAGE FROM THE DIRECTOR

On behalf of the Office of Internal Audit and Risk Assessment (OIARA), I am pleased to present the *Fiscal Year 2016/17 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 fiscal year 2016/17 operating budget and work plan. The OIARA is governed by Board of Governors' Policy 1991-06-A: *State System Audit Policy*.

With support of the Board of Governors' Audit Committee, the System's chancellor, and presidential and executive leadership, the OIARA 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 and the Office of the Chancellor during the 2016/17 fiscal year. In addition to engagement clients, Audit Committee members are provided with final project 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 30 projects. Eight engagements ongoing as of June 30, 2016, carried forward providing a total of 38 proposed projects for completion in the current fiscal year. Efforts resulted in the issuance of 21 reports reflective of assigned engagements, providing 61 recommendations requiring management response for the consideration of leadership to strengthen operations and enhance internal controls. Thirteen projects contained in the work plan were not fulfilled due to inadequate available staff hours or other extenuating circumstances. As of June 30, 2017, work remains underway on four work plan engagements anticipated to conclude early in the first quarter of fiscal year 2017/18.

In addition to defined work plan responsibilities, the OIARA assumed six 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, 2017, work concluded on three of the six special projects with the issuance of final reports. The three remaining projects are anticipated to conclude early in the first quarter of fiscal year 2017/18.

During the year, the OIARA provided in-house training at the System's Budget and Accounting Directors' meeting focusing on the topic of National Collegiate Athletic Association Agreed-upon Procedures. Additionally, the OIARA was invited to present at the Association of College and University Auditors' 2016 Annual Conference. A presentation lead by an OIARA team member focused on a high-level review of information technology general controls within a university environment. The Association is the collective resource for higher education internal auditing, including regulatory compliance and risk management.

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 fiscal year 2017/18 work plan. My intent 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 166 WORK PLAN ENGAGEMENTS AND 86 SPECIAL PROJECT REQUESTS, THROUGH FISCAL YEAR 2016/17.



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.

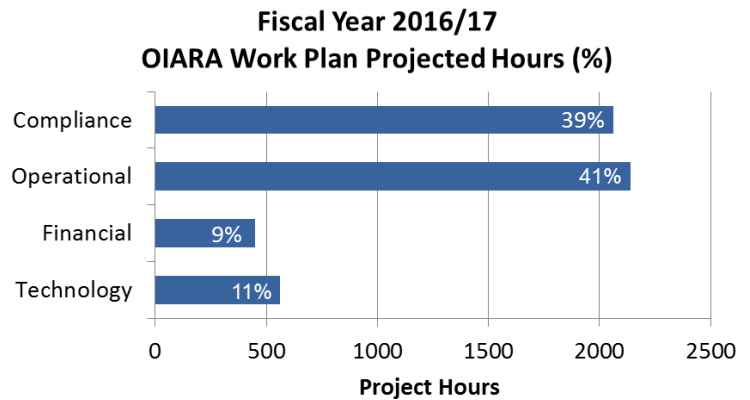
OVERVIEW OF FISCAL YEAR 2016/17 PROJECTS

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 chart below 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: Compliance, Operational, Financial, and Information Technology. OIARA work plan projected hour distribution by engagement category is shown in the chart below:



Results

The department achieved initiation of 57% of proposed fiscal year 2016/17 engagements as well as 100% completion of prior year carry-over projects, for an overall work plan attainment of 66%.

Additionally, 100% of special project requests have concluded or are underway increasing the total percentage of fiscal year 2016/17 project engagements initiated to 70%.

Project Source	Total Engagements	Number Concluded	Number Underway	Number Not Initiated	Percent Concluded/Underway
FY2016/17 Work Plan	30	13	4	13	57%
Prior Year Carry-over	8	8	--	--	100%
Work Plan Totals:	38	21	4	13	66%
Special Projects	6	3	3	--	100%
Cumulative Total:	44	24	7	13	70%

FISCAL YEAR 2016/17 WORK PLAN - PROJECT DETAIL

Supporting individualized project initiatives unique to the needs of each institution, prioritized risk-based planning identified 30 engagements comprising the OIARA fiscal year 2016/17 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 2017/18 Work Plan
Bloomsburg	Jeanne Clery Act		✓		✓
	Campus Safety and Security			✓	
California	Physical Access Management*			✓	
	Registrar Functions	✓			
Cheyney	Jeanne Clery Act			✓	
	Registrar Functions			✓	
Clarion	Protection of Minors			✓	
	IT User Access	✓			
East Stroudsburg	Physical Access Management			✓	
	Accounts Receivable	✓			
Edinboro	NCAA Agreed-upon Procedures			✓	
	Financial Aid Operations	✓			
Indiana	Contracting Authority/Procurement			✓	
	Campus Safety and Security	✓			
Kutztown	NCAA Agreed-upon Procedures			✓	
	Chincoteague Bay Field Station	✓			
Lock Haven	Protection of Minors	✓			
	Physical Access Management		✓		✓
Mansfield	Protection of Minors		✓		✓
	FinReport Accounting	✓			
Millersville	Jeanne Clery Act			✓	
	IT User Access	✓			
Shippensburg	NCAA Agreed-upon Procedures			✓	
	Enrollment Management	✓			
Slippery Rock	Textbook Management	✓			
	Student Mental Health	✓			
West Chester	Campus Safety and Security	✓			
	IT User Access		✓		✓
Office of the Chancellor	Employee Separation			✓	
	Purchasing Card			✓	

*Replaced Enrollment Management at request of university.

FISCAL YEAR 2015/16 CARRY-OVER PROJECTS

As of June 30, 2016, eight projects were ongoing that carried forward into fiscal year 2016/17 for completion. The projects comprised six prior-year work plan initiatives and two special project engagements. The following chart identifies the eight carry-over projects concluded during the period.

State System University	Project	Final Report Issued
Edinboro	Interim Presidential Transition	07/19/2016
Indiana	Jeanne Clery Act	09/26/2016
Lock Haven	Jeanne Clery Act	10/04/2016
Millersville	Pricing Flexibility Pilots	09/28/2016
Shippensburg	Jeanne Clery Act	08/30/2016
West Chester	Jeanne Clery Act	09/09/2016
	Golden Rams Aquatics	12/20/2016
Office of the Chancellor	IT User Access	03/07/2017

FISCAL YEAR 2016/17 SPECIAL PROJECTS

In addition to specifically identified annual work plan engagements, the Office of Internal Audit and Risk Assessment completes special project engagements 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 2016/17, the OIARA assumed responsibility for the completion of six special project engagements. Work on three of the six special projects concluded, with the remaining carrying forward for completion in fiscal year 2017/18.

Fiscal Year 2016/17 Special Project Engagements Comprised Projects Occurring at:

Bloomsburg University of Pennsylvania

Edinboro University of Pennsylvania*

Indiana University of Pennsylvania

Mansfield University of Pennsylvania*

Shippensburg University of Pennsylvania *

Slippery Rock University of Pennsylvania

* Project work concluded at June 30, 2017.

DEPARTMENT INITIATIVES

The Institute of Internal Auditors' (IIA) International Professional Practices Framework

What it is...

The Institute of Internal Auditors (IIA) provides standards and authoritative guidance for the practice of internal auditing known as the *International Professional Practices Framework*. In fiscal year 2015/16, the OIARA completed a self-assessment for compliance with the IIA's *Standards*. Outcomes identified a need for the OIARA to accomplish the following:

- Development of a charter defining OIARA activity
- Completion of a five-year external assessment of OIARA conformity to the *Standards*
- Adoption of an OIARA procedures manual

Fiscal Year 2016/17 Accomplishments

- An OIARA Charter was drafted and communicated with the Audit Committee in June 2016.
- A formal procedures manual was developed and adopted by the OIARA in September 2016.
- Anticipated future completion of an external assessment as funding becomes available.

CLIENT SATISFACTION SURVEYS

What are they...

Supporting an ongoing monitoring and quality assurance measurement of services provide by the OIARA, for engagements completed as part of the fiscal year 2016/17 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

94% Strongly Agree or Agree the engagement provided useful outcomes.

94% Strongly Agree or Agree the engagement provided overall value to the function/operation reviewed.

MANAGEMENT CORRECTIVE ACTIONS

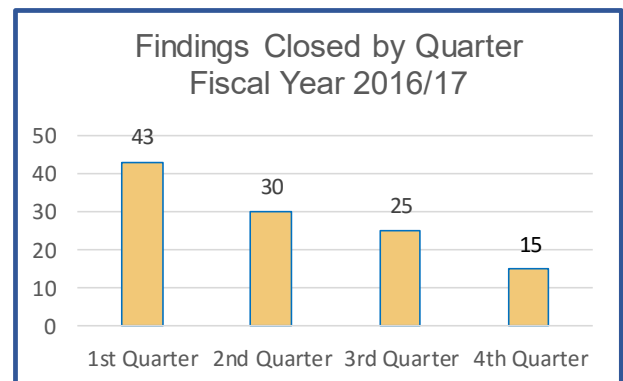
The Office of Internal Audit and Risk Assessment maintains a formalized process to follow-up on prior internal audit report recommendations and actions addressing the implementation of management responses. Each State System entity is provided a quarterly statement defining open internal audit items 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 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 fiscal year 2009/10, 768 recommendations, of which 646 require follow-up assessment, 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 fiscal year 2016/17, 547 (85%) of the 646 total audit recommendations requiring follow-up 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.

Summary of Corrective Action Activity Fiscal Year 2016/17

Total Recommendations Unverified as of July 1, 2016	133
New Recommendations Added Fiscal Year 2016/17	79
Prior Recommendations Verified as Resolved during Fiscal Year 2016/17	113
Total Recommendations Unverified as of June 30, 2017	99

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 for individuals 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 supports the existence 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.

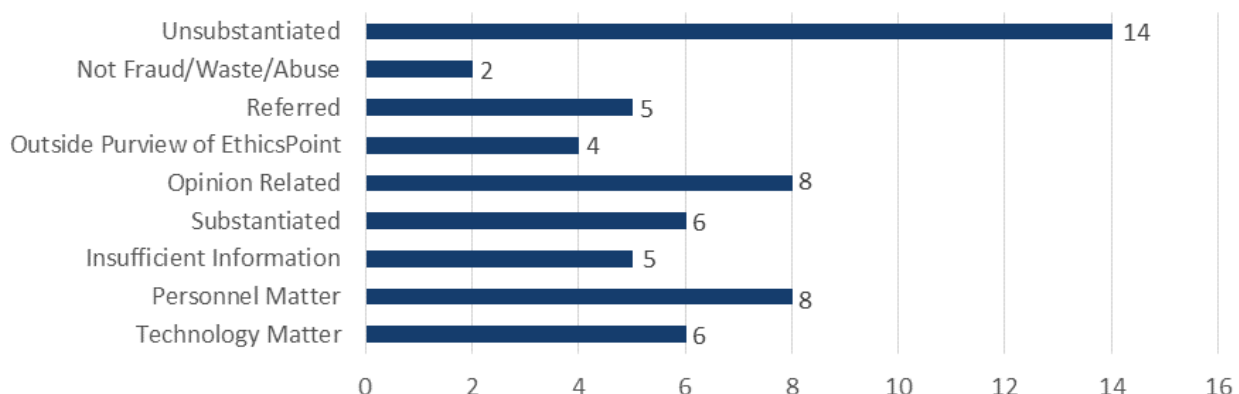
State System Procedure/Standard Number 2013-17: *Conducting Investigations Received through PASSHE's Incident Reporting System*, supports a uniform protocol to address investigation of reports received through the Incident Reporting System.

Case Management Fiscal Year 2016/17:

- University 77%
- OIARA 15%
- Legal Counsel 8%

Cumulatively for fiscal year 2016/17, 73 user reports were filed through the Incident Reporting System concerning various matters of System operations or activity. As of June 30, 2017, 58 of the user reports filed this fiscal year have been investigated and closed while 15 remain in process of review.

Fiscal Year 2016/17 Closed Case Outcomes



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, 2017

Thomas S. Muller, *Chair*

Daniel P. Meuser

Senator Judith L. Schwank

Cynthia D. Shapira (*ex officio*)

Harold C. Shields*

Francis L. Hendricks (*nonvoting president liaison*)

* Stepped down as Audit Committee Chair to assume duties as Chair of the Human Resources Committee.

Former Board of Governors' Audit Committee Members Serving During Fiscal Year 2016/17

Jonathan B. Mack, *Chair*

Guido M. Pichini (*ex officio*)

Staff/Professional Certifications Held

3 - Certified Public Accountant (CPA)

3 - Certified Internal Auditor (CIA)

3 - Certified in Risk Management Assurance (CRMA)

1 - Certified Information Systems Auditor (CISA)

1 - Certified Information System Security Professional (CISSP)

OIARA STAFFING

Dean Weber, CIA, CRMA Director

Dean has been with the State System for 24 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 12 years. She is a Certified Public Accountant. Kim earned her undergraduate and graduate degrees at Slippery Rock University of Pennsylvania.

Laurie Malatesta, CPA, CIA, CRMA Audit Senior

Laurie has been with the State System for 13 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 for 3 years. 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 8 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.

Stevi Sprenkle, MPA—(Hired May 13, 2017) Audit Senior

Stevi joined the State System in May 2017 coming from her prior position with the Pennsylvania Department of the Auditor General. Stevi earned her undergraduate degree from Millersville University and her graduate degree from the Pennsylvania State University.

Sylvia Thompson, CIA, CRMA Audit Senior

Sylvia has been with the State System for 8 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.

Shannon Keith, CPA, CFE Resigned January 2017

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