



Fiscal Year 2017/18 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 2017/18 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 State System's internal audit and risk assessment function and use of resources consistent with our approved fiscal year 2017/18 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 and Compliance Committee, the System's chancellor, and presidential and executive leadership, the OIARA concluded a productive year. The OIARA carried out project assignments at State System universities and the Office of the Chancellor during the 2017/18 fiscal year. In addition to engagement clients, Audit and Compliance 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 28 projects. Seven engagements ongoing as of June 30, 2017, carried forward providing a total of 35 proposed projects for completion in the current fiscal year. Efforts resulted in the issuance of 23 reports reflective of work plan engagements. Nine projects contained in the work plan were not fulfilled due to inadequate available staff hours or other extenuating circumstances. As of June 30, 2018, work remains underway on three work plan engagements anticipated to conclude early in the first quarter of fiscal year 2018/19.

In addition to defined work plan responsibilities, the OIARA assumed thirteen special project assignments arising from requests to address current needs, evaluate and assess specific matters, and perform investigations of credible accusations. As of June 30, 2018, final correspondence was issued for nine of the thirteen special projects. The four remaining projects are anticipated to conclude early in the first quarter of fiscal year 2018/19. From completed work plan and special projects, 58 recommendations that required a management response were provided to leadership addressing operations and enhanced internal controls.

The OIARA director provided Ethics training at the System-wide Budget and Accounting Directors' meeting highlighting ethical workplace conduct. The OIARA, in conjunction with the Office of Chief Counsel is responsible for the System-wide administration of the organization's Incident Reporting System. During the fiscal year, 54 reports were received and processed evaluating various areas of potential concern expressed by students, staff, faculty, and members of the public related to System-operations.

Supporting System REDESIGN of the Board of Governors committee structures, the former "*Audit Committee*" was renamed the "*Audit and Compliance Committee*." This encompasses recognition of the importance of providing Board-level oversight regarding compliance regulations and associated risks. In response, the OIARA completed a draft comprehensive assessment of the external compliance landscape impacting higher education entities through analysis of published governance. From this exercise a draft matrix summarizing external compliance requirements, including formal reporting expectations, was developed for the System. The matrix provides an important tool supporting compliance risk evaluation and internal audit planning.

In the coming year, the OIARA will work toward accomplishing initiatives defined within the fiscal year 2018/19 internal audit work plan; whereby, advancing recommendations for 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 AND COMPLIANCE COMMITTEE OF THE STATE SYSTEM'S BOARD OF GOVERNORS.

SINCE THAT TIME, THE OIARA HAS COMPLETED A TOTAL OF 186 WORK PLAN ENGAGEMENTS AND 99 SPECIAL PROJECT REQUESTS, THROUGH FISCAL YEAR 2017/18.



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 and Compliance Committee of the Pennsylvania's State System of Higher Education Board of Governors and administratively to the System's chancellor.

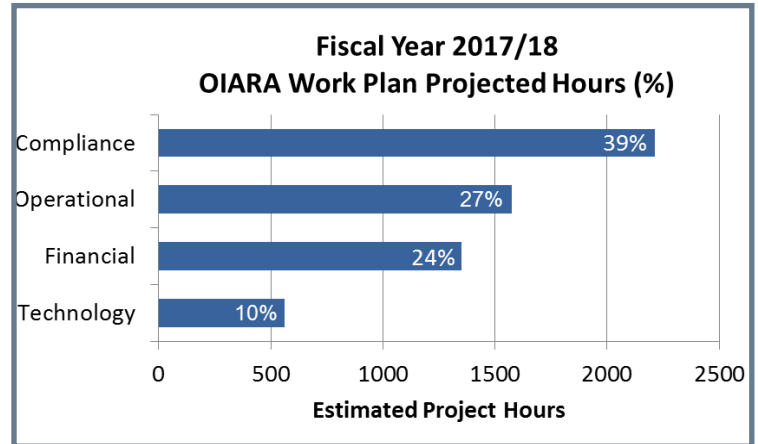
OVERVIEW OF FISCAL YEAR 2017/18 PROJECTS

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 and Compliance 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 68% of proposed fiscal year 2017/18 engagements as well as 100% completion of prior year carry-over projects, for an overall work plan attainment of 74%.

Additionally, 100% of special project requests have concluded or are underway increasing the total percentage of fiscal year 2017/18 project engagements initiated to 81%.

Project Source	Total Engagements	Number Concluded	Number Underway	Number Not Initiated	Percent Concluded/Underway
FY2017/18 Work Plan	28	16	3	9	68%
Prior Year Carry-over	7	7	--	--	100%
Work Plan Totals:	35	23	3	9	74%
Special Projects	13	9	4	--	100%
Cumulative Total:	48	32	7	9	81%

FISCAL YEAR 2017/18 WORK PLAN - PROJECT DETAIL

Supporting individualized project initiatives unique to the needs of each institution, prioritized risk-based planning identified 28 engagements comprising the OIARA fiscal year 2017/18 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 Location	Project	Project Not Completed	Field Work in Process or Concluded	Final Report Issued	Carryover to 2018/19 Work Plan
Bloomsburg	University Library Operations	✓			
	Performance Center			✓	
California	NCAA Agreed-upon Procedures			✓	
	IT User Access		✓		✓
Cheyney*					
Clarion	Student Payroll	✓			
	Faculty Overload **			✓	
East Stroudsburg	NCAA Agreed-upon Procedures			✓	
	Leave Payout Calculations		✓		✓
Edinboro	Jeanne Clery Act		✓		✓
	Facilities Access Controls			✓	
Indiana	NCAA Agreed-upon Procedures			✓	
	University Parking/Ticketing	✓			
Kutztown	Protection of Minors			✓	
	Student Tuition Assistance	✓			
Lock Haven	NCAA Agreed-upon Procedures			✓	
	Department of Nursing	✓			
Mansfield	Jeanne Clery Act			✓	
	IT User Access	✓			
Millersville	NCAA Agreed-upon Procedures			✓	
	University Library Operations	✓			
Shippensburg	Facilities Access Controls	✓			
	IT User Access			✓	
Slippery Rock	NCAA Agreed-upon Procedures			✓	
	Jeanne Clery Act			✓	
West Chester	NCAA Agreed-upon Procedures			✓	
	Facilities Access Controls			✓	
Office of the Chancellor	System Executive Travel	✓			
	Purchasing Card			✓	

* Work Plan projects not defined due to University restructuring.

** Replaced Department of Library Science at request of university.

FISCAL YEAR 2016/17 CARRY-OVER PROJECTS

As of June 30, 2017, seven projects were ongoing that carried forward into fiscal year 2017/18 for completion. The projects comprised four prior-year work plan initiatives and three special project engagements. The following chart identifies the seven carry-over projects concluded during the period.

State System Location	Project	Final Report Issued
Bloomsburg	Jeanne Clery Act	11/21/2017
	Presidential Transition	07/31/2017
Indiana	Business Incubator/Management Services	09/12/2017
Lock Haven	Physical Access Management	08/14/2017
Mansfield	Protection of Minors	08/31/2017
Slippery Rock	Presidential Transition	09/08/2017
West Chester	IT User Access	09/14/2017

FISCAL YEAR 2017/18 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 2017/18, the OIARA assumed responsibility for the completion of thirteen special project engagements. Work on nine of the thirteen special projects concluded, with the remaining carrying forward for completion in fiscal year 2018/19.

Fiscal Year 2017/18 Special Project Engagements Comprised Projects Occurring at:

California University of Pennsylvania (3 projects)
Cheyney University of Pennsylvania
Clarion University of Pennsylvania
Edinboro University of Pennsylvania*
Indiana University of Pennsylvania* (2 projects)
Lock Haven University of Pennsylvania
Mansfield University of Pennsylvania
Millersville University of Pennsylvania*
Shippensburg University of Pennsylvania
Office of the Chancellor

* Project work on-going at June 30, 2018.

DEPARTMENT INITIATIVES

COMPLIANCE LANDSCAPE ASSESSMENT

What is it...

Higher education operations are impacted by numerous external regulatory guidelines and requirements of which institutions of higher learning must operate within. Aiding in support of a culture of compliance, risk mitigation, and accountability, the OIARA completed a draft assessment of the external compliance landscape whereby documenting regulatory governance and required external reporting expectations necessary to sustain compliance.

Outcomes of this exercise produced a *Draft Compliance Matrix* for the System detailing the numerous governing bodies, related compliance expectations and reporting requirements, statutes, regulations, and statutory summaries dictating operational compliance expectations.

Draft Compliance Matrix

- Listing of key federal laws and regulations governing colleges and universities.
- Data obtained from publicly available government websites and relevant secondary sources of expertise.
- Supports the State System's goal of advancing development of a Compliance Program affording institutional support in managing the vast compliance landscape.

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 2017/18 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

100% Strongly Agree or Agree the engagement provided useful outcomes.

95% 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, 837 recommendations, of which 704 require follow-up assessment, have been provided through OIARA engagements to enhance internal controls, provide compliance with governing policies/procedures, and strengthen operations.

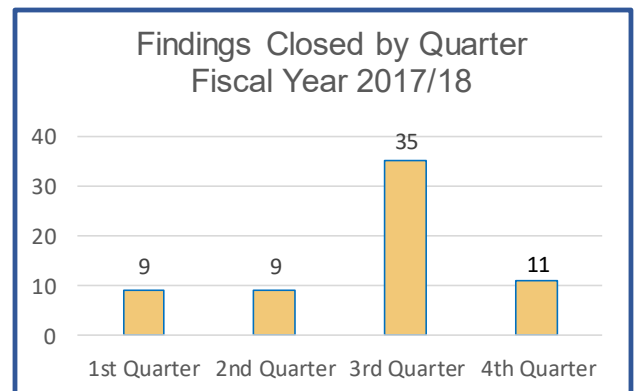
Results

Cumulatively, through the end of fiscal year 2017/18, 611 (87%) of the 704 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 2017/18

Total Recommendations Unverified as of July 1, 2017	99
New Recommendations Added Fiscal Year 2017/18	58
Prior Recommendations Verified as Resolved during Fiscal Year 2017/18	64
Total Recommendations Unverified as of June 30, 2018	93

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 AND Compliance 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.

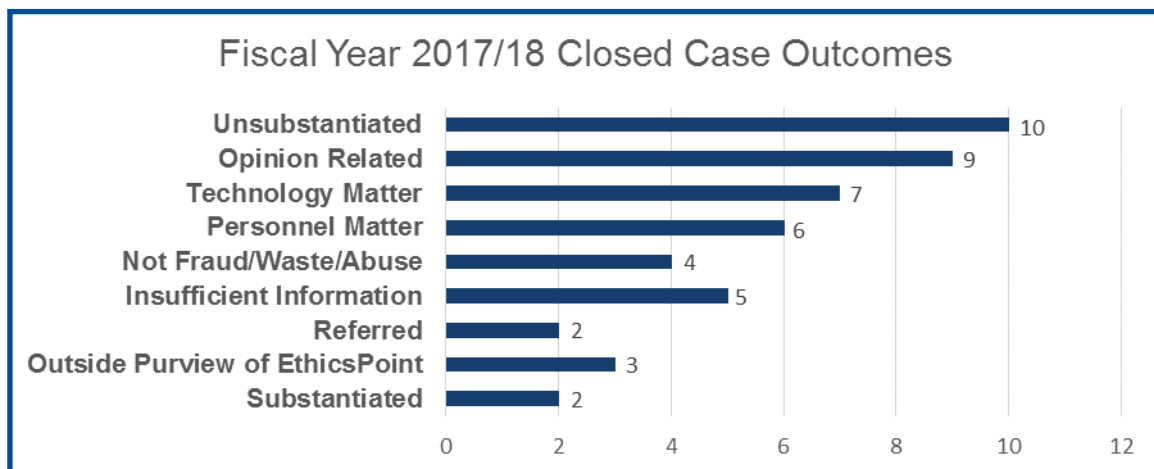
The Office of Internal Audit and Risk Assessment, with joint support of the State System Office of Chief Legal Counsel, is responsible for administration of the Incident Reporting System. Each university and the Office of the Chancellor has appointed a liaison to manage case reports at the respective 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 2017/18:

- Referred to University 80%
- OIARA 15%
- Legal Counsel 5%

Cumulatively for fiscal year 2017/18, 54 user reports were filed through the Incident Reporting System concerning various matters of System operations or activity. As of June 30, 2018, 48 of the user reports filed this fiscal year have been investigated and closed while 6 remain in process of review.



BOARD OF GOVERNORS AUDIT AND COMPLIANCE COMMITTEE

The primary mission of the Audit and Compliance 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 and Compliance 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 and Compliance Committee

Composition as of June 30, 2018

Samuel H. Smith, *Chair*

Senator Judith L. Schwank

Cynthia D. Shapira (*ex officio*)

Harold C. Shields*

Christopher M. Fiorentino (*nonvoting president liaison*)

* Stepped down as Audit and Compliance Committee Chair assuming chair duties of another committee.

Former Board of Governors Audit and Compliance Committee Members Serving During Fiscal Year 2017/18

Thomas S. Muller (Chair)

Daniel P. Meuser

Francis L. Hendricks (*nonvoting president liaison*)

OIARA STAFFING

Dean Weber, CIA, CRMA Director

Dean has been with the State System for 25 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 13 years. She is a Certified Public Accountant. Kim earned her undergraduate and graduate degrees at Slippery Rock University of Pennsylvania.

Laurie Malatesta Staley, CPA, CIA, CRMA Audit Senior

Laurie has been with the State System for 14 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 4 years. She is a skilled professional assisting departmental staff. Marianne is a graduate of Central Pennsylvania Business College.

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)

David Shissler, CPA, CISA, CISSP Audit Senior

David has been with the State System for 9 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, CIA, CRMA Audit Senior

Sylvia has been with the State System for 9 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.

Stevi Sprenkle, MPA Audit Senior

May 2017 through September 2017

PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION



CALU



CLARION
UNIVERSITY



Pennsylvania's
STATE SYSTEM
of Higher Education

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