



# PA State System of Higher Education Board of Governors

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**Effective:** January 21, 1986

Page 1 of 2

## **Policy 1986-01-A: Audit**

**See Also:**

**Adopted:** January 21, 1986

**Amended:** January 19, 2012

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### **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 & Compliance Committee, University Success Committee, or equivalents.