

**Board of Governors
Procedures and Standards for University Operations**

**Procedure/Standard Number 2023-57
State System Audit Standards and Procedures**

Approved By:  Date: 8-1-23

History:

Revised:

Related Policies, Procedures, or Standards:

Policy 1991-06-A: State System Audit Policy

I. Purpose

1. To describe the activities by which the Audit, Compliance and Risk Committee and Internal Audit Function carry out the internal audit responsibilities of the State System.
2. To prescribe the requirements for the annual independent audits of the State System's consolidated financial statements and the separate financial statements for each university and the Office of the Chancellor.

II. Audit and Compliance Committee

B. Organization

1. The Audit, Compliance and Risk 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, Compliance and Risk Committee. The Audit, Compliance and Risk Committee shall meet at least twice a year. The chair of the Audit, Compliance and Risk Committee, however, shall have the authority to call a meeting whenever necessary. The System's chief counsel, Internal Audit, and other personnel as necessary, shall serve as staff to the Audit, Compliance and Risk Committee.

C. Procedures

Specific duties of the Audit, Compliance and Risk Committee shall include the following:

1. Review and approve the scope of Internal Audit's annual work plan. The annual workplan will typically follow the audit year of October 1st through September 30th. The annual workplan is typically finalized and approved during the October Audit, Compliance and Risk Committee meeting for the current fiscal year.
2. Request the performance of supplemental reviews or other audit procedures, including investigations when necessary.

3. Meet with the System's independent public accountants and Internal Audit to review the results of their annual work. This shall include:
 - a. A review, of the System's annual audit opinion, financial statements, and management letter;
 - b. A timely review of any significant risks, and disposition of findings and recommendations, including corrective actions taken or in progress;
 - c. Upon request, provide an opportunity for members of the Audit, Compliance and Risk Committee to meet with representatives of the independent public accounting firm and Internal Audit, without other System management personnel present; and
 - d. 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.
4. The results of the internal audits and annual independent audits shall be submitted to the Office of the Chancellor and presented to the Audit, Compliance and Risk Committee.
5. Annually report to the full Board of Governors on the Audit, Compliance and Risk Committee.

III. Internal Audit Function and Risk Assessment

A. Organization

1. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit serves the System by upholding the highest professional standards; providing high-quality, cost-effective audit and management services; and communicating value-added outcomes to the Board of Governors and senior management.
2. The System will outsource the internal audit function to public accounting and advisory firm, which will ensure the internal audit function remains objective and independent.

B. Procedures

1. Establish an ongoing, independent capability to review System operations, including affiliated organizations where appropriate, to:
 - a. Ensure compliance with statutes, regulations, and policies;
 - b. Review reliability and integrity of 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 Internal Audit and including each of the System universities and the Office of the Chancellor.
 - a. Internal Audit will facilitate conversations and exercises in a multi-layered risk assessment approach with university and System Office to identify potential risks. The process should incorporate a variety of sources representing multiple functions.
 - b. Identified operations with significant operating exposure to a university and/or the System Office, and where appropriate internal controls are not evident, will be defined as a potential high-risk exposure.
 - c. 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, with consideration given by the President and/or Chancellor for further evaluation of the risk exposure as part of a more detailed internal audit analysis.
 - d. 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.
3. Internal Audit conducts their internal audit services in accordance with relevant professional standards and frameworks.
4. Internal Audit has no direct responsibility or authority over the activities or operations that are subject to review, nor shall they develop or install procedures, prepare records, or engage in activities that would normally be subject to review. However, the internal audit function may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.
5. The evidential matter gathered from internal audits form the basis for furnishing opinions and other relevant information to the Audit, Compliance and Risk Committee of the Board of Governors, the chancellor, and other impacted members of senior management. Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures, and/or their effectiveness and efficiency in achieving organizational objectives. The internal auditor may also recommend courses of action for management to consider in improving efficiencies that have been identified through the completion of audit department engagements.
6. Internal Audit will be responsive to current needs of the State System. University presidents and the chancellor may request assistance from Internal Audit 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 Office as may be requested.
7. Engage as needed with the Department of the Auditor General and Office of Inspector General on System matters related to inquiries, referrals, and investigations.

C. Internal Audit Plan and Activities

1. Internal Audit will periodically submit to the Board an internal audit plan for review and approval.
2. The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of the Executive Leadership Group (ELG) and the Board as well as Internal Audit's independent assessment of risks. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.
3. Internal Audit will periodically report to the ELG and the Board on Internal audit's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

D. Report Distribution

1. Communication of completed audit engagement activity is presented in written documents comprising an executive summary, detailed report, and final report. The executive summary communicates the engagement's background, scope, objective, auditor finding(s), recommendation(s), and management's intended corrective action. The detailed report provides additional detail and context for project stakeholders (e.g., process owners, functional management). The final report provides a high-level summary overview of the completed engagement and project finding(s).
2. The executive summary and detailed report are considered work product and may be subject to all applicable privileges. The executive summary and detailed report are considered confidential and are not intended to be publicly shared or distributed to individuals external to the System organization. An executive summary may be released to an external party of the System at the discretion and responsibility of System and/or university leadership. Once released external to the System environment, the communication may no longer be protected by internal audit work product immunity.
3. The final report serves as the official correspondence of public record defining internal audit project outcomes. Portions of the final report may be subject to privilege and confidentiality for certain institutions only and will be marked as so.
4. University agnostic overarching report and university-specific appendices are reviewed by centralized points of contact designated for the review and respective university process owners associated with the review. University information is only shared with the respective university personnel and System representatives.

5. Once the report and appendices are confirmed with process owners, they are distributed to the appropriate university process owners, the centralized point of contact, chancellor, vice chancellor(s), necessary System leadership, and the respective university presidents.
6. A high-level version of the report will be distributed to the Audit and Compliance Committee.

IV. Annual Independent Audits

A. Definitions

1. **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.
2. **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.
3. **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.
4. **Governmental Accounting Standards Board (GASB)** - The organization that predominantly establishes GAAP for governmental entities such as PASSHE.
5. **Single 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

F. Procedures

1. The Office of the Chancellor, in consultation with the universities, shall conduct a competitive procurement periodically based on system standards/requirements 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 prior to the issuance of the consolidated financial statements.
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.