The Pennsylvania State University  
Committee on Audit and Risk  

Operating Guidelines

Purpose

The purpose of the Committee on Audit and Risk (the “Committee”) is to assist the Board of Trustees of The Pennsylvania State University (the Board) in fulfilling its oversight of:

- the financial reporting process
- the system of internal control
- the University’s management of significant risks that have been assigned to or brought to the attention of the Committee on Audit and Risk
- the performance of the University’s internal audit function and of the external auditor
- the qualifications and independence of the external auditor
- the University’s process for identifying and managing risks, including financial, compliance, control, and reputational risks

With respect to the above, the Committee on Audit and Risk serves as the focal point of open communication between the Board of Trustees, the external auditor, the internal auditor, the Chief Risk Officer, and the University administration. The Committee on Audit and Risk is dedicated to promoting and assuring a culture of strong internal controls for full financial disclosure and of risk awareness to identify and manage significant risks faced by the University. To assist and enhance its responsibilities for the oversight of management’s processes for identifying and managing risk a Subcommittee on Risk of the full Committee was established. This subcommittee has its own operating guidelines, meeting schedule and reports back after each meeting to the full Committee on Audit and Risk.

Composition

The Committee on Audit and Risk consists of a minimum of six members of the University’s Board of Trustees. The members of the Committee on Audit and Risk are appointed by the Chair of the Board of Trustees. The Chair of the Board of Trustees serves as an ex officio member of the Committee. Each member shall be free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise of independent judgment. A majority of the Committee members should also
not serve on the Finance Subcommittee. At least one member of the Committee on Audit and Risk should have basic expertise in financial management.

**Authority**

The Committee on Audit and Risk has the authority to authorize investigations into any matters within its scope of responsibility. It is further empowered to:

- Recommend to the full Board of Trustees a contract with the external auditor for the annual audit of the University.
- Pre-approve all auditing services to be provided by external auditors. The Chair of the Committee on Audit and Risk shall have the authority to approve such services individually up to an amount of five percent of estimated total external audit fees as stated in the engagement letter. The scope and amount paid for such services shall be reported by the Chair to the full Committee on Audit and Risk at its next meeting.
- Seek any information it requires from employees, all of whom are directed to cooperate with the Committee on Audit and Risk’s requests, or external parties.
- Review any disagreements between the administration and the external auditor regarding financial reporting.
- Meet with University officers, internal auditor, external auditor, or legal counsel, as necessary.
- Engage external auditors, outside attorneys, or other advisors, as necessary, to assist the Committee on Audit and Risk in special circumstances or investigations.
- Serve as an independent and objective party to monitor the University’s financial reporting process and system of internal controls.
- Consider and report or recommend to the Board on matters pertaining to the identification and management of risks including financial, compliance, control, and reputational.

**Meetings**

The Committee on Audit and Risk generally meets the same week as the University Board of Trustees, except for the November meeting, when the Committee will meet separately in advance of the full Board, usually in October, to review and recommend for approval the University’s audited consolidated financial statements. The Chair of the Committee on Audit and Risk has the authority to convene additional meetings as circumstances require. A quorum of the Committee on Audit and Risk is required to be present at the meeting. Meeting agendas will be prepared and provided in advance to members, along with the appropriate briefing materials. In addition, meeting minutes will be prepared. On an annual basis in conjunction with the October meeting, the Committee on Audit and Risk shall receive from the Associate Vice President for Finance and Corporate Controller an orientation to the University’s financial statements, the application of generally accepted accounting principles to those statements, and other financial governance issues.
In efforts to foster open communication, the Committee on Audit and Risk will meet privately with the internal auditor on a regular basis. In addition, the Committee on Audit and Risk will meet privately at least annually with the external auditor in a separate session to discuss any matters that the Committee on Audit and Risk, or the external auditor, believes should be discussed privately.

The Committee on Audit and Risk Responsibilities Matrix in Appendix I provides discussion items that should be included on the agenda for each recurring meeting and a checklist of additional responsibilities the Committee on Audit and Risk should address annually.

Responsibilities

The Committee on Audit and Risk has the following responsibilities:

Financial Statements and Other Reports

- Review and approve the external auditor engagement letter.
- Review with the Associate Vice President for Finance and Corporate Controller, Senior Vice President for Finance and Business/Treasurer and the external auditor the audited financial statements, significant accounting policies, and the results of the audit, including any difficulties encountered.
- Discuss significant adjustments proposed by the external auditor and complex or unusual transactions in highly judgmental areas.
- Discuss any related significant findings and recommendations of the external auditor, including management letter recommendations.
- Review with the Associate Vice President for Finance and Corporate Controller, Senior Vice President for Finance and Business/Treasurer, and the external auditor all matters required to be communicated to the Committee on Audit and Risk under generally accepted auditing standards.
- Review with University management the results of the annual Office of Management and Budget Circular A-133 Uniform Guidance report prepared by the external auditors.
- Review with University management all of the University’s and its related entities IRS Form 990’s and the University’s Right-to-Know information as required by the Commonwealth of Pennsylvania.

Internal Control

- Consider, in consultation with the external and internal auditors, the adequacy of the University’s internal financial controls. Among other things, these controls must be designed to provide reasonable assurance that the University’s financial statements are presented fairly and in conformity with generally accepted accounting principles.
- Obtain reports on significant internal control findings and recommendations, together with the administration’s responses.
Internal Audit
- Annually review and approve the Internal Audit Charter.
- Review and approve the annual internal audit plan.
- Review with and advise University Administration on the selection and/or removal of the internal audit director and his/her compensation.
- Review on a regular basis internal audit reports, significant issues, and recommendations made by internal audit, as well as the adequacy of management’s corrective actions.
- Meet privately with the internal auditor on a regular basis.

External Audit
- Discuss and review the external auditor’s proposed audit scope and plan.
- At least annually, meet separately with the external auditor to discuss any matters the Committee on Audit and Risk, or the external auditor, believes should be discussed privately.
- Review and confirm the independence of the external auditor.

Risk Management
- Review with the University Risk Officer, Associate Vice President for Finance and Corporate Controller, and Senior Vice President for Finance and Business/Treasurer, efforts to identify, quantify and manage significant risks faced in the operations of the University, and efforts to effectuate adequate controls to keep risks contained within ranges deemed acceptable by Senior Management and the Board of Trustees.
- Coordinate and distribute to other Board of Trustees Committees and Subcommittees the responsibility for oversight of selected risks, and report to the Board on the overall process of risk management.
- For those risks for which the Committee has been charged with oversight responsibility, at least once per year review with the Senior Administration individual(s) assigned for managing and monitoring those risks. Report to the full Board of Trustees the results of such review(s) on annual basis.
- Receive regular reports from the Subcommittee on Risk.

Reporting Responsibilities
- Regularly report and distribute minutes, to the Board of Trustees about the Committee on Audit and Risk activities, issues, and related recommendations.
- Provide an open avenue of communication between the external auditor, the internal auditor and the Board of Trustees.
- Review any other reports the University issues that relate to the Committee on Audit and Risk responsibilities.
Other Responsibilities

- Assess the Committee on Audit and Risk’s performance on a regular basis, specifically evaluating the achievement of the responsibilities noted in these Operating Guidelines.
- Review and reassess the adequacy of these Operating Guidelines annually and adopt any proposed changes as appropriate.
- Review with the Associate Vice President for Finance and Corporate Controller, Senior Vice President for Finance and Business/Treasurer, internal auditor, and the external auditor the effect of regulatory and accounting initiatives.
- Maintain and update procedures for the confidential and anonymous receipt and treatment of complaints regarding the University’s accounting, internal controls, audit, and other compliance matters. On at least an annual basis, receive a report from the University’s internal auditor of the complaints made about the University’s accounting, internal controls, audit, and other compliance matters.
- Ensure that the administration is enforcing a code of ethics by receiving an annual update from the Senior Vice President for Finance and Business/Treasurer and Associate Vice President for Finance and Corporate Controller on the University’s policies surrounding ethics and conflicts of interest.
- Approve the administration’s recommendation to hire an employee from the external auditor into a senior financial role at the University, if such a matter were to arise.
- Receive regular updates and reports from the University’s Chief Information Officer and/or Chief Information Security Officer with respect to the Information Technology (IT) operations and security at the University and other University-wide IT organizational matters.
- Receive an update from Intercollegiate Athletics (ICA) leadership on policies over and reporting requirements of outside organizations (booster clubs) with respect to their finance and fund-raising activities. Specifically these procedures and reports should address all funds raised and expended by booster clubs on behalf of ICA. Additionally, ICA should report on who at the University is responsible for oversight of the booster clubs.
- Review the "NCAA Agreed-Upon Procedures" report from Deloitte with respect to procedures performed by them as required by NCAA legislation.
- Receive and review a report from Management on the President’s discretionary budgets.
- Perform any other activities consistent with these Operating Guidelines, the University’s bylaws and governing law, as the Committee on Audit and Risk or the Board of Trustees deem necessary or appropriate.

While the Committee on Audit and Risk has the responsibilities and powers set forth in these Operating Guidelines, it is not the duty of the Committee on Audit and Risk to plan or conduct external audits or to determine that the University’s financial statements are complete, accurate and are in accordance with generally accepted accounting principles. This is the responsibility of the Senior Vice President for Finance and Business/Treasurer, the Associate Vice President for Finance and Corporate Controller, and the external auditor. The Committee on Audit and Risk recognizes that the Associate
Vice President for Finance and Corporate Controller, the Senior Vice President for Finance and Business/Treasurer, and the external auditor have more detailed knowledge and information about the University than do the members of the Committee on Audit and Risk; consequently, in carrying out its oversight responsibilities, the Committee on Audit and Risk is not providing any expert or special assurance as to the University’s financial statements or any professional certification as to the external auditor’s work. In addition, it is not the duty of the Committee on Audit and Risk to conduct investigations, to resolve disagreements, if any, between the administration and the external auditor, nor to assure compliance with laws and regulations.