

THE PENNSYLVANIA STATE UNIVERSITY  
BOARD OF TRUSTEES

COMMITTEE ON AUDIT AND RISK  
MINUTES OF MEETING  
VOLUME AR 39

February 16, 2023

A meeting of the Committee on Audit and Risk was held on Thursday, February 16, 2023, at Noon.

The following members, constituting a quorum, were present: Rakowich, Brown, Bendapudi, Black, Cairns, de Levie, Hasenkopf, Lubrano, Pope and Schuyler. Also attending was the Governor's Representative Shipley and Constituent Representative DuFour. Staff members present included Brautigam, Feeman, Guadagnino, Harvey, Heist, Murawaski, Oziemblowsky, Pell, Raab, Schwartz, Smith, Stedelin, Stevens, Teachey, Thorndike, and Wagner.

The meeting was called to order by Chair Rakowich at 12:00 p.m.

Chair Rakowich called for a motion to approve the *Minutes* of the November 10, 2022, meeting of the Committee. A motion was put forward, seconded, and approved unanimously.

Next on the agenda, Chair Rakowich called upon Dan Heist to review the Committee's Roles and Responsibilities Matrix, who confirmed required operating guidelines were on track.

Chair Rakowich called upon Virginia Teachey to review the June 30, 2022 Deloitte Management Letter. Virginia Teachey informed the Committee they had copies of the fiscal year 2022 consolidated audit, management letter for Deloitte, and the university's formal response which ensures net asset balances are appropriately classified.

Chair Rakowich called upon Jen Stedelin and Keith Brautigam to provide an Information Technology update, who highlighted two significant projects to improve information security and decrease risk. First discussed was the university's Multi-Factor Authentication Migration project with a projected completion date of January 2024. It will enhance security within the university's existing Microsoft based login procedures. Second discussed was the Disaster Recovery and Ransomware project, which will increase resiliency to university information technology operating systems through rapid response and recovery from ransomware attacks as well as redundancy and back-up power and data storage centers.

Lastly, Chair Rakowich called upon Sara Thorndike to review and approve external auditors. The Committee considered and unanimously approved a motion to engage Plante Moran to perform audits and other engagements with the university, Penn State Health, and other entities for fiscal years 2023 through 2027.

Chair Rakowich adjourned the meeting at 12:21 p.m.

The Committee met in conference session at the conclusion of the public meeting.

Respectfully submitted,

Thomas Oziemblowsky, Associate Director  
Office of the Board of Trustees

# **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 at least four times per year as agreed to by the chair of the Committee and staff. In advance of the November Board of Trustees meeting the Committee will meet, 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 meetings. 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 Budget and Finance 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 Budget and Finance, 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 Budget and Finance, 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, 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 Budget and Finance, 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 financial compliance matters.
- 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 the engaged external auditors 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 Budget and Finance, and the external auditor. The Committee on Audit and Risk recognizes that the Associate Vice President for Budget and Finance, 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.

**PENN STATE UNIVERSITY  
INTERNAL AUDIT CHARTER  
May 4, 2023**

**Introduction**

Internal auditing is an independent objective assurance and consulting activity designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The objectives of internal auditing are to assist members of the University community in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

**Role of the Internal Audit Department**

The Internal Audit department is an established department within Finance & Business, and its responsibilities are defined in this charter which is approved by the Committee on Audit and Risk of the Board of Trustees. The Internal Audit Director reports administratively to the Senior Vice President for Finance & Business/Treasurer and reports functionally to the Chair of the Committee on Audit and Risk of the Board of Trustees. In addition, the Director has direct and full access to the President of the University, as necessary.

**Authorization**

Authorization is granted for full and complete access to any of the University's records (either manual or electronic), physical properties, and personnel relevant to an audit engagement. Also, authorization is given to allocate resources, set audit scope and apply techniques required to accomplish internal audit objectives. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them.

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not develop procedures and install or assist in installing systems, prepare records, or engage in activities that would normally be reviewed by internal auditors.

Recommendations on standards of control applicable to a specific activity may be included in the written report of opinions and audit issues that are given to operating management for review and implementation.

Internal Audit will conduct its responsibilities in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors and University policies and procedures.



## **Responsibilities**

The responsibilities of internal auditing encompass the following:

- Review the adequacy and effectiveness of internal control systems, both manual and electronic.
- Review established systems, policies and procedures to ensure the University is in compliance with laws and regulations.
- Receive reports from the University's Ethics and Compliance Hotline as assigned by the Office of Ethics and Compliance. For reports received, determine and transmit the appropriate response.
- Conduct investigations of allegations of financial and operational misconduct.
- Review means of safeguarding assets.
- Determine if resources are used efficiently and effectively.
- Evaluate University operations to identify process improvement and cost-saving opportunities.
- Assist in determining and then provide the needed amount of internal audit effort in connection with the performance of the annual financial audit conducted by the external independent accountants.
- Consult in the review of the design/development of new business and computer systems.
- Determine if significant financial, managerial and operating information is accurate, reliable and timely.
- Review the University's compliance guidelines for ethical business conduct.
- Evaluate plans and actions taken to correct Internal Audit report issues.
- Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness.
- Submit annual audit plans and status to the Senior Vice President for Finance & Business/Treasurer and the Committee on Audit and Risk.
- Maintain a professional audit staff with appropriate skills, knowledge, experience and certifications to meet the requirements of this Charter.
- Keep Senior Management and members of the Committee on Audit and Risk informed with respect to emerging trends and successful practices in the internal audit profession.

## **Reporting Accountabilities**

A written report will be prepared and issued by the Internal Audit Director following the conclusion of each audit and will be distributed as appropriate in accordance with University policy. The report will be issued to Senior Management of the area under audit, as well as their immediate supervisor. Senior Management of the activity or department receiving the internal audit report will incorporate a written response to each audit issue and recommendation within the audit report. This response will indicate what actions were taken or are planned in regard to the specific issues and recommendations in the internal audit report. If appropriate, a timetable for the anticipated completion of these actions will be included.

In addition, a written summary of all reporting activity, including a status report of audit findings and corrective action will be provided to the Senior Vice President for Finance & Business/Treasurer and presented to the Committee on Audit and Risk at its meetings.

\_\_\_\_\_ Date \_\_\_\_\_  
Chair of the Committee on Audit and Risk

**Subcommittee on Risk of the Committee on Audit & Risk  
Of the Board of Trustees, The Pennsylvania State University  
Operating Guidelines, as approved by the Committee on Audit & Risk  
May 4, 2023**

**Purpose:**

The Subcommittee on Risk is responsible to review on a regular basis the University's Enterprise Risk Management activity, with a goal of assisting in the fulfillment of the Committee on Audit and Risk's purpose of overseeing the University's processes for identifying and managing risks.

**Composition:**

The Subcommittee on Risk will consist of up to five members, including at least two drawn from members of the Committee on Audit & Risk, with the Board Chair and/or Vice Chair serving as *ex officio* members. The Director of Risk Management and Chief Risk Officer of The Pennsylvania State University will serve as staff support to this Subcommittee, in affiliation with the Senior Vice President for Finance and Business/ Treasurer, the Director of Internal Audit and the Vice President & General Counsel.

**Meetings:**

The Subcommittee shall meet at least three times each calendar year, or more frequently as needed at the discretion of the Chair. Scheduled meetings shall take place virtually during the Spring, Summer and Fall time frames as may be convenient for the members.

**Authority/Responsibilities:**

The Subcommittee will review the University's Enterprise Risk Management practices and advise the President, Senior Vice President for Finance and Business/Treasurer, other members of the University administration, and the Board of Trustees, on major aspects of the risk management functions of the University and associated policies and practices.

Specific responsibilities will include:

- 1) Review and provide insight into the University's processes for identification, categorization, management and monitoring of risks.
- 2) Review and provide insight into the list of risks under consideration for oversight of the Administration and various Committees of the Board of Trustees.
- 3) Manage the process for Board Committees to conduct their oversight responsibilities for assigned risks on a regular cycle.
- 4) Report on the Subcommittee's activities to the Committee on Audit and Risk.