

 <div> PA TURNPIKE COMMISSION POLICY <i>This is a statement of official Pennsylvania Turnpike Policy</i> </div>		NUMBER: 1.03 APPROVAL DATE: 02-03-2025 EFFECTIVE DATE: 02-03-2025 REVISED DATE: 00-00-0000
POLICY SUBJECT: Audit Committee	RESPONSIBLE DEPARTMENT: Executive Office	

A. PURPOSE:

To establish the Pennsylvania Turnpike Commission (the "Commission") Audit Committee (the "Committee") and define its responsibilities as assigned by the Board of Commissioners (the "Commissioners"). The Committee will provide oversight of all material aspects of the Commission's financial reporting process, the audit process, the system of internal controls, and compliance with applicable laws and regulations.

B. SCOPE:

The Committee shall be composed of no more than two Commissioners, with the option to include one independent member. A member will not be considered independent if they have a material relationship with the Commission that, in the opinion of the Commissioners, could impair their independent judgment. Committee members must possess knowledge of the Commission's primary activities, the ability to read and understand fundamental financial statements, and an understanding of key operational and financial risks and related controls. At least one member must have accounting or financial management expertise. The Committee Chair will be selected by the members of the Committee.

C. GENERAL POLICY:

The Committee's primary responsibility as established by the Audit Committee Charter (Attachment 1) is to provide oversight of the Commission's financial reporting, internal controls, and audit functions, with a focus on risk management and ensuring compliance with legal and regulatory requirements. The Committee is authorized to recommend external auditors, evaluate the effectiveness of internal audits, and monitor the Commission's adherence to financial and compliance standards, while maintaining independence and coordination with management and other Commission committees.

D. DEFINITIONS:

Audit Committee Charter: The formal document that outlines the purpose, responsibilities, authority, and structure of the Audit Committee. It defines the scope of the Committee's oversight functions related to financial reporting, internal controls, audit processes, and compliance, as well as

the relationship with management, auditors, and other stakeholders. The Charter serves as a guiding framework for the Committee's operations and decision-making.

Financial Reporting: The process of preparing, presenting, and disclosing the Commission's financial information.

Internal Controls: Policies, procedures, and processes implemented by the Commission to ensure the integrity of financial reporting, safeguard assets, promote operational efficiency, and ensure compliance with laws and regulations. These controls help detect and prevent errors, fraud, and other financial irregularities.

Audit Functions: The activities and processes related to the systematic review and evaluation of the Commission's financial records, internal controls, and operations. This includes both internal and external audits designed to assess the accuracy of financial reporting, identify areas of risk, and ensure compliance with applicable laws and regulations.

Risks Management: The potential for financial loss, operational disruption, or reputational damage that may arise from factors such as market conditions, regulatory changes, operational inefficiencies, or unforeseen events. It encompasses both internal and external threats that could impact the Commission's ability to achieve its strategic objectives and maintain sustainable operations.

Compliance: The Commission's adherence to all applicable laws, regulations, standards, and internal policies. It ensures that the Commission conducts its operations ethically and legally, mitigating the risk of legal penalties, financial loss, or reputational harm.

Independence: The ability of the Audit Committee, its members, internal auditors, and external auditors to perform their responsibilities without any undue influence, bias, or conflicts of interest that could compromise their objectivity and impartiality. This ensures that all parties involved in oversight and evaluation functions can make decisions and assessments based solely on unbiased judgment, free from external pressures or personal interests.

E. PROCEDURES:

The Committee will meet at least twice annually, or more frequently if needed, as determined by the Committee or its Chair. The Committee will hold meetings with management, the internal auditor, and the external auditor as needed to discuss matters that require private discussion. Agendas and relevant materials will be provided to members in advance by the Director of Internal Audit. Minutes will be kept by a designated member or other appointee. A majority of members constitutes a quorum for meetings. The Committee may also establish rules and procedures to guide its activities and meetings as necessary.

This Policy Letter supersedes all previous Policy Letters on this subject.

Attachment 1

Pennsylvania Turnpike Commission Audit Committee Charter

I. Purpose

The primary purpose of the Audit Committee (the "Committee") of the Pennsylvania Turnpike Commission (the "Commission") is to carry out responsibilities established for it by the Board of Commissioners (the "Commissioners") in fulfilling their oversight of all material aspects of the Commission's financial reporting, internal controls and audit functions.

The Committee's role also includes a particular focus on the qualitative aspects of financial reporting and on organization processes for the management of business/financial risk and for compliance with significant applicable legal, ethical and regulatory requirements. The role further includes coordination with other Commission committees and maintenance of strong, positive working relationships with management, external and internal auditors, counsel and other advisors.

It is not the duty of the Committee to conduct audits, to determine that the financial statements are complete and accurate and in accordance with general accepted accounting standards, or to otherwise assure compliance with pertinent laws, rules and regulations. These are the responsibilities of (1) management, which for purposes of this Charter includes the Chief Executive Officer, Chief Financial Officer, Commission counsel, the Director of the Internal Audit; and (2) the Commission's external auditor, whose responsibility is to express an opinion on the financial statements in accordance with applicable auditing standards.

II. Authority

In discharging its responsibilities, the Committee is empowered to:

- Recommend the selection of external auditor(s), considering qualifications, independence and schedule of fees and compensation, for approval by the Board of Commissioners.
- Recommend the retention of independent counsel, accountants, or others to advise the Committee or assist it in the performance of its oversight responsibilities.
- Request the attendance of any officer or employee of the Commission at any meeting of the Committee or with any members of, or advisors to the Committee.
- Form and delegate authority to subcommittees consisting of one or more members to perform such duties and responsibilities under this Charter as the Committee may deem appropriate.
- Resolve any significant disagreements between management (including Finance and other relevant departments) and the external auditors regarding financial reporting or other audit related matters that cannot be resolved at the management level, with Finance playing a key role in addressing and resolving these issues before submitting them to the Audit Committee for final resolution.

III. Composition

The Committee shall be comprised of no more than two Commissioners and may also include a member who is independent of the organization. A member of the Committee shall not be deemed independent if the member directly or indirectly, has a material relationship with the Commission that, in the opinion of the Commissioners, would interfere with the exercise of independent judgment as a member of the Committee. All members of the Committee should have 1) knowledge of the primary activities of the Commission; 2) the ability to read and understand fundamental financial statements and 3) the ability to understand key operational and financial risks and related controls and control processes. At least one member of the Committee shall have accounting or related financial management expertise. The Committee chair shall be selected by Committee members.

IV. Structure and Processes

Appointment of Members

- The Committee members shall be appointed by the Commissioners.

Meetings

- The Committee shall meet at least twice annually or more frequently as considered necessary by the Committee or chair.
- The Committee shall periodically hold sessions with management; the internal auditor or the external auditor to discuss any matters that the Committee, management or the auditors believe should be discussed privately. Meeting agenda items will be proposed by staff and submitted by the Director of Internal Audit to members of the Committee in advance of each meeting, along with appropriate briefing materials.
- Minutes will be kept by a member of the Committee or a person designated by the Committee to do so.
- A quorum for the Committee shall be a majority of the members.

Rules and Guidelines

- The Committee may adopt rules and procedures for its meetings and other activities.

V. Responsibilities

The Committee shall have the following responsibilities:

Financial Reporting

- Review and discuss with management and the independent auditor the Commission's annual financial statements and any significant financial disclosures before they are released.

- Discuss, review and assess the key financial statement issues and risks, any impact or potential effect on reported financial information, the process used by management to address such matters, related auditors' views and the basis for audit conclusions.

Internal Controls

- Oversee the Commission's internal control systems, including the effectiveness of internal controls over financial reporting.
- Review significant internal audit reports and the adequacy of corrective actions taken by management.

External Audit

- Recommend the selection of the external auditor for approval by the Board of Commissioners.
- Review the independent auditor's audit plan, scope, and results.
- Monitor the auditor's independence and performance and address any issues regarding the auditor's independence.

Internal Audit

- Review and approve the Internal Audit Department's Charter, Policy and Audit Plan and ensure that the internal audit function is adequately resourced and has appropriate authority.
- Evaluate the performance of the internal audit function and ensure it is effective in meeting its objectives.

Compliance

- Review the Commission's compliance with legal and regulatory requirements, including any significant legal or regulatory matters.
- Establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal controls, or auditing matters.
- Obtain regular updates from management and Commission counsel regarding compliance matters and legal matters that may have a significant impact on the financial statements.

Risk Management

- Oversee the Commission's risk management processes, including the identification and assessment of significant financial and operational risks.
- Review and assess the Commission's system of internal controls for detecting accounting and financial reporting errors, fraud, legal and tax code violations and other noncompliance with the Commission's Code of Conduct.

Reporting

- The Committee shall report periodically, but at least semiannually, to the full Board of Commissioners of its activities, findings, and recommendations. The external auditors also may meet with the Board of Commissioners in executive session without management to discuss risks and other matters that could have a material impact on the financial statements.

Review of Charter

- Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Commissioners for approval.