

BOARD APPROVED
February 5, 2021

Janice Indrutz
Corporate Secretary



INTERNAL AUDIT OFFICE

January 25, 2021

To: Members of the Board of Trustees

Fr: Peg Fish, Senior Director of Audits

Re: Approval of 2020 Annual Report of the Director of Audits

On behalf of the Internal Audit Office, the calendar year 2020 annual report, reflecting the overall results of audit activities for the period, is enclosed. This report demonstrates accountability to the Board of Trustees and that the office is operating in accordance with the *Bylaws of the Trustees of Purdue University*.

Internal Audit is committed to the professional conduct and quality of its work, productive use of its resources, and the professional competence of its staff. Appendix A, the Internal Audit Charter, reflects these commitments.

Internal Audit has recognized stakeholders' expectations and priorities, and has continued to adapt to changes in technology, legislation, and organizational strategic priorities. The pandemic, as is the case with every aspect of our universe, has brought about many challenges and uncertainties. To address the velocity of these often unanticipated changes, adaptability and flexibility have been incorporated into the audit approach.

The accomplishments would not have been possible without the dedication and professionalism of the staff. The Internal Audit Office also wishes to acknowledge the vision and direction of the Board of Trustees, the President, executive leadership, and the management teams throughout the University.

Enclosure

c: President Mitch Daniels
Treasurer Chris Ruhl
Provost Jay Akridge
Assistant Treasurer Jim Almond
Corporate Secretary Janice Indrutz
Legal Counsel Steve Schultz

A flexible program of work, spanning various institutional units and activities, was delivered identifying key internal controls that aid in risk mitigation. All audits were executed in accordance with the Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing (Standards)*. A risk-based approach was used to determine the scope of each audit, and all significant findings were reported. Cooperation was received from management in all audits conducted.

Audit Professionals

Staff are recognized for their contribution, dedication, and professionalism in providing quality audit services, flexibility, and maximum coverage of the 2020 audit plan. The plan was delivered primarily by:

- Auditor Principal Information Systems **Robert Oxender***, CISA, CISSP, CPA, MS in Computer and Information Science
- Auditor Principal Information Systems & Special Projects **Wendi Johnston**, CRISC
 - Auditor Lead Information Systems & Special Projects **Christina Eakins**, CPA, CIA, CRMA, MS in Accounting
- Auditor Lead, **Becky Gutwein***, CPA, MS in Accounting and Finance
- Auditor Senior **Alex Quinn**, CPA
 - Auditor Associate **Michele Dekle**, MBA

Staff met all continuing education requirements per the *Standards*. Two members* of the team left prior to year-end. An organizational change was made to combine applications and system infrastructure. In addition, a new position was posted in December.

Allocation of Professional Audit Resources

Staff delivered 8,364 hours (76%) of direct audit work, 731 hours (7%) in support of the anonymous reporting program, external audits, and enterprise risk management initiatives, and 1,952 hours (17%) in office initiatives, professional staff development, and research. Internal Audit partnered with Information Technology at Purdue (ITaP) on a cybersecurity maturity assessment for five technology areas utilizing specific industry standards:

- National Institute of Standards and Technology Cybersecurity Framework (version 1.1)
- Cybersecurity Maturity Model Certification Framework (version 1.0)

Audits Completed or In-Process

Forty-nine (49) audit reports were issued with 8 audits in-process at year-end. The hours dedicated to follow-up are included in the total 8,364 hours of direct audit work; however, these activities do not typically result in an audit report so are not included in the audit report count. Three (3) of the 57 audits were unplanned and included emerging issues.

Audit Coverage

Audit Type	PFW	PNW	PWL	System wide	Total	
Compliance	229.0	544.0	636.0		1,409.0	16.8%
Financial	534.0		1,572.0		2,106.0	25.2%
Integrated			552.0		552.0	6.6%
Operational	151.0	374.0	831.0	89.0	1,445.0	17.3%
System Infrastructure	233.0	600.0	1,271.0	748.0	2,852.0	34.1%
Total	1,147.0	1,518.0	4,862.0	837.0	8,364.0	100.0%
	13.7%	18.1%	58.1%	10.0%		100.0%
Reports Issued	4	6	36	3	49	

Appendix A Internal Audit Charter

Mission

The Internal Audit Office is dedicated to aiding the University in accomplishing its strategic and operational initiatives by providing independent, objective assurance, and consulting services with respect to evaluating risk management, control, and governance processes.

Role

The Internal Audit Office serves as a resource to examine and evaluate University activities in service to the Board of Trustees and management. Internal Audit has no direct operating responsibility or authority for management processes, internal controls, or any of the activities or operations it reviews; thereby, maintaining its independence and objectivity.

Purpose and Responsibilities

The purpose of the Internal Audit Office is to determine whether the University's control, risk management, and governance processes, as designed and implemented by management, are adequate and functioning to ensure that:

- Strategic objectives and plans are achieved
- Risks are appropriately identified and managed
- Interaction with various governance groups occurs as needed
- Quality and continuous improvement are promoted in the University's control processes
- Resources are acquired economically, used efficiently, and adequately protected
- Financial, managerial, and operational information is accurate, reliable, and available
- Actions comply with University policies and applicable laws and regulations
- Significant legislative and regulatory issues impacting the University are recognized and appropriately addressed
- Information technologies are integrated and aid in accomplishing University objectives

Responsibilities include:

- Developing a flexible audit plan utilizing an appropriate risk-based methodology
- Ensuring inclusion of resources for unplanned audits when developing the audit plan
- Allocating resources, setting timelines, determining scope of work, and applying the techniques required to accomplish the audit objectives
- Communicating audit results, assessing management responses, and conducting follow-up accordingly
- Maintaining sufficient knowledge, skills, and other competencies to achieve the engagement objectives and to meet the requirements of this Charter
- Administering the anonymous reporting program
- Considering the scope of work of the external auditors or regulators for purposes of providing optimal audit coverage to the institution
- Monitoring, on an ongoing basis, the performance of the internal audit activity

All audit activity is governed by the mandatory guidance of the Institute of Internal Auditor's (IIA) *International Professional Practices Framework*, which includes the definition of Internal Auditing, the Code of Ethics, and the *International Standards for Professional Practice of Internal Auditing*. Consulting procedures generally follow the same processing as assurance audits. Final reports include the scope, testing limitations, and outcome.

Reporting

The Internal Audit Office reports administratively to the Treasurer of the Corporation and functionally to the Audit and Risk Management Committee of the Board of Trustees. This structure is in accordance with *The Bylaws of the Trustees Article IV, Section 6*:

“The Treasurer of the Corporation shall maintain an internal audit office independent of any other office of the Corporation or of the University. The Director of Audits shall submit to the Board annually a written report on the work of the internal audit office for the preceding calendar year. In addition, the Director of Audits, prior to the presentation of the written annual report, shall make an annual oral presentation concerning the work of the internal audit office to the Audit and Risk Management Committee¹, which shall be made in the presence of the Treasurer. Immediately following the completion of each oral presentation, the Director of Audits shall confer with the Audit and Risk Management Committee, outside the presence of the Treasurer or any other officer of the University on any subject germane to the area of responsibility of the internal audit office. The written annual report to the Board shall be made at a stated meeting selected by the Audit and Risk Management Committee, but in no event shall it be deferred beyond July 1 of each year without the consent of the Chairman. In addition, at any time when in the judgment of the Director of Audits circumstances warrant or in response to a request from the Chairman of the Audit and Risk Management Committee, the Director of Audits shall make a written or oral report to the Chairman of the Audit and Risk Management Committee without informing the Treasurer or any other University officer. Subject to the foregoing, the Treasurer shall attend the meetings of the Audit and Risk Management Committee and serve as its Secretary and keep a record of its proceedings”.

Authority

The Internal Audit Office provides system-wide audit coverage and has unrestricted access to all University functions, records, property, and personnel, subject to state and federal law.

¹Consistent with changes to the committee’s charter approved in December 2020, and pending a corresponding amendment of these bylaws proposed for February 2021, the name of the committee is now the “Audit and Enterprise Risk Committee.”