February 11, 2015

To: Members of the Audit and Insurance Committee
   John Hardin, Chair
   Sonny Beck
   Vanessa Castagna

Fr: Peg Fish, Director of Audits

Re: 2014 Annual Report of the Director of Audits

On behalf of the Internal Audit Office, the calendar year 2014 annual report, reflecting the overall results of audit activities for the period, is enclosed. This report demonstrates Internal Audit’s accountability to the Board of Trustees and that the office is operating in accordance with the Bylaws of the Trustees of Purdue University.

The accomplishments of the Internal Audit Office would not have been possible without the dedication of its staff. The Internal Audit Office also wishes to acknowledge the effort of the leadership and management teams of the University for their responsiveness to the auditors’ requests and for their time and assistance. Audit staff received cooperation from management in all audits conducted.

Enclosure

c: Chairman Tom Spurgeon
   Vice Chairman Mike Berghoff
   President Mitch Daniels
   Treasurer William Sullivan
   Provost Deba Dutta
   Assistant Treasurer Jim Almond
   Corporate Secretary Janice Indrutz
   Legal Counsel Steve Schultz
Internal auditing provides independent and objective services that aid the University in accomplishing its strategic initiatives by focusing on opportunities and utilizing a systematic, risk-centric audit approach. The Internal Audit Office is a significant element of the University’s governance, risk management, and internal control structure. All audits were performed in accordance with the Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing (Standards).

Audit staff delivered over 12,900 hours of service, with 88% of these resources in client contact categories which include direct audit services and research.

Allocation of Audit Resources, Chart 1

A total of 72 audit reports were issued with seven (7) audits in-process at year-end. Follow-up hours for testing the actions taken as a result of recommendations are included in the direct audit hours. Audits of central systems, such as Ariba Procure-to-Pay, are listed under West Lafayette.

Percentage, Direct Audit Hours, and Number of Audits by Campus/Area, Chart 2

<table>
<thead>
<tr>
<th>Campus/Area</th>
<th>Hours</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calumet (7%)</td>
<td>796</td>
<td>5</td>
</tr>
<tr>
<td>Fort Wayne (14%)</td>
<td>983</td>
<td>5</td>
</tr>
<tr>
<td>Fort Wayne In-Process</td>
<td>509</td>
<td>3</td>
</tr>
<tr>
<td>North Central (7%)</td>
<td>752</td>
<td>5</td>
</tr>
<tr>
<td>West Lafayette (70%)</td>
<td>7,423</td>
<td>52</td>
</tr>
<tr>
<td>West Lafayette In-Process</td>
<td>208</td>
<td>2</td>
</tr>
<tr>
<td>External Coordination (2%)</td>
<td>196</td>
<td>5</td>
</tr>
<tr>
<td>External Coordination In-Process</td>
<td>11</td>
<td>2</td>
</tr>
</tbody>
</table>

For each audit, risks were identified based on Purdue’s enterprise risk model reflecting higher education risk categories. The scope of each audit typically covered multiple institutional risk categories. In determining whether risk mitigation levels were acceptable, the system of internal controls was evaluated. The framework used in reviewing internal controls is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model. COSO defines internal control as, “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” Key application internal controls were documented using the Global Technology Audit Guide (GTAG). This was completed for each of the four Banner student information systems. While these systems support the academic/student category, the audit effort is shown in information technology, as this is the primary risk category.
Completed Campus Audits Shown by Primary Higher Education Risk Category, Chart 3

Anonymous Reporting Activity
Purdue remains committed to providing an environment in which individuals may report suspected fraud, waste, or abuse of University assets, as well as regulatory noncompliance in a simple, anonymous way. An external firm manages the intake of information via telephone (866) 818-2620, or internet www.purdue.edu/hotline. After the intake is completed, a report is provided to designated University personnel for appropriate action. Forty-six (46) reports were received via the program during calendar year 2014. Forty (40) reports were referred to other University departments for action, and four (4) reports were analyzed by the Internal Audit Office. Two reports were without sufficiently detailed information to allow for review.

Internal Audit Process
Although every audit project is different, the audit process is similar and usually consists of the stages shown below. Audits are planned and conducted in accordance with the Standards and the Bylaws of the Trustees of Purdue University.

- **Preliminary Review**: University personnel, who are responsible for coordinating the implementation of recommendations, if any, are notified before the audit begins. An opening conference is held with the auditee to define the scope of the audit and identify any areas of concern noted by the auditee. Unannounced audits are initiated where appropriate.

- **Fieldwork**: Fieldwork is performed in accordance with the Standards adopted by the Internal Audit Office. Audit concerns are discussed with the auditee when identified. After the fieldwork is completed, University personnel who have the responsibility for areas audited receive a draft of the audit report. An exit (closing) conference is scheduled to review the report and respond to any questions prior to final issuance of the report.

- **Report Issuance**: The final audit report is issued. If recommendations are made, a response is expected within 45-days of the report issuance.

- **Closure**: Upon assurance that all recommendations have been satisfactorily addressed, the audit is closed.

- **Follow-up**: The follow-up may occur at the time of closure or at a future date. This phase allows for validation that actions were implemented accordingly.

**Other**
Staff met all continuing education requirements per the Standards.