February 15, 2016

To: Members of the Audit and Insurance Committee
   John Hardin, Chair
   JoAnn Brouillette
   Tom Spurgeon

Fr: Peg Fish, Director of Audits

Re: Audit Plan for Calendar Year 2016

The projects planned for 2016 cover a wide array of risks and opportunities. The plan is intended to maximize internal audit resources and provide reasonable coverage that aids the Board of Trustees, leaders, and managers in discharging governance, executive, and management responsibilities.

The University’s audit universe consists of a dynamic multitude of objectives and activities, which have been considered accordingly.

The enclosed plan provides a summary of the anticipated use of internal audit resources during 2016. It is aligned with the University’s objectives and is designed utilizing a flexible approach to allow for adjustments based on the University’s continual state of change.

Enclosure

c: Chairman Mike Berghoff
   President Mitch Daniels
   Treasurer Bill Sullivan
   Provost Deba Dutta
   Assistant Treasurer Jim Almond
   Corporate Secretary Janice Indrutz
   Legal Counsel Steve Schultz
The purpose of this report is to communicate the breadth and depth of audit activities addressing financial, operational, compliance, strategic, and reputational risks of the University. The plan reflects the audit coverage with recognition of the complexity and multitude of higher education objectives. The complexity and rate of change associated with technologies bring opportunities to the institution and to the Internal Audit Office.

AUDIT PLAN DEVELOPMENT

The audit plan was developed with consideration of Purdue’s enterprise risk management and budget initiatives. Risk categories mirror those nine (9) higher education categories, which are: academic and student, athletics, engagement, financial, human resources, information technology, regulatory, research, and safety and facilities. In this model, impacts are measured as follows:

Risk Assessment Impact Measures

- Reputation
- Strategic (not aligned with the strategic plan)
- Safety (loss of life or injury)
- Interruption (in mission critical activities)
- Fiscal (incurred cost and lost opportunity)

Risk drivers considered in the development of the audit plan included:

- reputational risks
- strategic changes
- data integrity and security
- ineffective and inefficient data management
- research and intellectual property
- major changes in operations or systems
- new technologies
- unauthorized access to data
- human resources
- potential risk of financial and/or data loss
- size and complexity of operations
- major changes in programs, controls, or staff
- increased regulatory scrutiny and accountability
- operations subject to a high level of public scrutiny
- unexpected operating results
- information understanding and communication

The focus of the plan is on risk management and governance, with the internal controls providing a means to mitigate risks. The scope of the audits may be adjusted to address significant changes that occur throughout the year. The plan is designed with flexibility to facilitate unanticipated strategic or operational initiatives. The scope of the work of the external auditors has been considered in order to provide optimal audit coverage for the institution.

AUDIT RESOURCE PLANNED ALLOCATION

<table>
<thead>
<tr>
<th>Planned Allocation of Audit Resources,</th>
<th>Estimated Project Hours</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits (Planned)</td>
<td>11,200</td>
<td>79%</td>
</tr>
<tr>
<td>Audits (Unplanned)</td>
<td>1,725</td>
<td>12%</td>
</tr>
<tr>
<td>Client Research</td>
<td>375</td>
<td>3%</td>
</tr>
<tr>
<td>Non-Client Contact</td>
<td>875</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>14,175</td>
<td>100%</td>
</tr>
</tbody>
</table>

Total audit coverage (planned and unplanned) is estimated at 91%. Twelve percent (12%) of total projected audit resources have been reserved for unplanned audits. This will allow for flexibility in addressing emerging risks, anonymous allegations, and requests by governance bodies, management, and others.

Approximately three percent (3%) of staff total resources are budgeted for client research. This category includes providing risk or control input to various University areas, determining the impact of regulations or standards, researching specific information at management’s request, support for external audit groups, and overseeing the anonymous reporting program.

Non-client contact, six percent (6%), consists of office support, compliance with the Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing (Standards)*, business continuity planning, and meeting professional development expectations.
Strategic, regulatory, technological, and emerging trends in higher education dramatically affect what is audited. Emerging expectations for alignment of internal audit with enterprise risks and objectives exist. Trends in the profession of internal auditing include globalization, talent and organizational issues, and technological advancement. Information provided by the Institute of Internal Auditors (IIA), the Association of College and University Auditors (ACUA), the American Institute of Certified Public Accountants (AICPA), the Association of Certified Fraud Examiners (ACFE), and the Information Systems Audit and Control Association (ISACA) also aid staff in gaining knowledge of current trends and issues impacting higher education.

**Planned Percentage, Audit Hours, and Number of Audits by Campus/Area**

<table>
<thead>
<tr>
<th>Planned Percentage, Audit Hours, and Number of Audits by Campus/Area</th>
<th>Planned Audit Hours</th>
<th>Planned Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fort Wayne (8%)</td>
<td>890</td>
<td>6</td>
</tr>
<tr>
<td>Fort Wayne Follow-up</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Northwest Unification (13%)</td>
<td>1,450</td>
<td>9</td>
</tr>
<tr>
<td>Northwest Unification Follow-up</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>West Lafayette (79%)</td>
<td>8,655</td>
<td>59</td>
</tr>
<tr>
<td>West Lafayette Follow-up</td>
<td>175</td>
<td>11</td>
</tr>
</tbody>
</table>

Seventy-four (74) audits are included in the plan, 70 new and four (4) in-process. Follow-up hours for audit responses and actions that are planned are shown separately. An increase in audit activity in support of major initiatives including Northwest unification and the West Lafayette Campus data center move are reflected in the plan.

The rollout of data warehouses related to human resources and financial data, as well as the integration of data mining tools into the auditing and operational processes, will facilitate analyses of large risk populations with greater efficiency.

The audit plan was developed with consideration of enterprise risks, referred to as a risk centric approach, and with consideration of the budget model, an objective centric approach. Audits may cover multiple categories; however, the 74 audits have been classified by the primary budget category and summarized below. The general audit description and associated numbers of planned audits are shown with brackets [ ].

**Fort Wayne Planned Audit Coverage**
- Academic Support, 31%, [campus security authorities 1, foundation financial statements 1]
- Administrative Infrastructure, 14%, [vulnerability management 1]
- Student Aid, 17%, [scholarships 1]
- Student Fees, 21%, [tuition revenue 1]
- Supplies and Service, 17%, [contracts 1]

**Northwest Unification Planned Audit Coverage**
- Academic Support, 50%, [system applications 4]
- Administrative/Infrastructure, 16%, [technology infrastructure 2]
- Student Fees, 14%, [tuition revenue 1]
- Student Support, 10%, [admissions 1]
- Supplies and Service, 10%, [contracts 1]

**West Lafayette Planned Audit Coverage**
- Academic Support, 18%, [clinics 1, foundations 3, startup funding 1, distributed information technology infrastructure 3, conflict of interest 1, lab safety 1]
- Administrative/Infrastructure, 46%, [construction 1, data analytics 2, information technology infrastructure and applications 17, record retention 1, compliance (research, I-9, and tax) 3, assets 1, cash reconciliation 1]
- Athletics, 3%, [compliance 1, financial 2]
- Colleges, 1%, [cooperative extension 1]
- Fringe Benefits, 2%, [benefits 1]
- Gift Income, 2%, [gifts 1]
- Grants and Contracts, 6%, [effort reporting 1, contracts 3]
- Investment, Endowment, and Interest, 5%, [investment allocation 1, valuation 1, and cash 1]
- Other Income, 2%, [patents 1]
- Room and Board, 2%, [room and board fees 1]
- Salary and Wages, 2%, [employment 1]
- Service and Retail Income, 3%, [operational audits 2]
- State Appropriations, 1%, [appropriations income 1]
- Student Aid, 3%, [study abroad 1, foundation 1]
- Student Fees, 2%, [tuition 1]
- Student Support, 2%, [contract administration 1]

A comparison of the risk centric model for all locations is shown below:

The audit plan budgets are based on six current staff with the two unfilled positions anticipated to be filled by April.

**INITIATIVES, GOALS, AND PRIORITIES**
Initiatives for 2016 include continued alignment with risk oversight, orientation with institutional objectives, facilitating the University’s enterprise risk management program, monitoring of the anonymous reporting program, and synchronizing the University’s external audits to maximize audit coverage.