



INTERNAL AUDIT OFFICE

April 8, 2022

To: Members of the Board of Trustees
Fr: Wendi Johnston, Principal Auditor
Re: Approval of 2021 Annual Report

On behalf of the Internal Audit Office, the calendar year 2021 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. 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 2021 audit plan. While the plan was designed for five staff members, the plan was delivered by:

- Principal Auditor, Information Systems & Special Projects - **Wendi Johnston**, CRISC
- Lead Auditor, Information Systems & Special Projects - **Christina Eakins**, CPA, CIA, CRMA, MS in Accounting
- Lead Auditor - **Alex Quinn**, CPA
- Associate Auditor - **Michele Dekle**, MBA

The Director of Audits retired, effective February 26, 2021, which resulted in lower auditing time available for the Principal Auditor due to departmental operational duties. Staff met all continuing education requirements per the *Standards*.

Allocation of Professional Audit Resources

Staff delivered 4,855 hours (70%) of direct audit work, 528 hours (8%) in support of the anonymous reporting program, external audits, and enterprise risk management initiatives, and 1,564 hours (22%) in office initiatives, professional staff development, and research. As noted above, increased office duties resulted in lower direct audit hours performed by the Principal Auditor, in a Director's absence.

Audits Completed or In-Process

Thirty-two (32) audit reports were issued with 4 audits in-process at year-end. The hours dedicated to follow-up are included in the total 4,855 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. Four (4) of the audits were unplanned and included emerging issues. Totals for Operational audits have decreased as more Integrated audits are being performed.

Audit Coverage

Audit Type	PFW	PNW	PWL	System wide	Total	
Compliance	168.0	385.5	863.5	191.0	1,608.0	33.1%
Financial	473.5		420.5	120.0	1,014.0	20.9%
Integrated	182.0		639.5	594.0	1415.5	29.2%
Operational	9.5		87.0		96.50	2.0%
System Infrastructure			238.5	482.5	721.0	14.8%
Total	833.0	385.5	2,249.0	1387.5	4,855.0	100.0%
	17.2%	7.9%	46.3%	28.6%		100.0%
Reports Issued	3	3	17	9	32	
Audits in-process	0	0	2	2	4	

Audits in the table included, but were not limited to:

Compliance: contracts, research assessments, student reporting, and student financial aid.

Financial: cash and investments, foundations, financial statements, and revenue operations

Integrated: county extension, data integrity, remote procedures and property, student fees, and student housing.

Operational: athletic travel and personnel activity reports.

System Infrastructure: cloud design and implementation, remote work security, and research computing.

Comparison of the 2021 Annual Report to the Audit Plan

Thirty-two (32) of the 51 planned audits were completed or in-process at year-end. The disposition of the 19 audits planned, but not started, is as follows:

- No audit required for 2021 (athletics tickets): 2
- Projects not completed to review: 2
- Converted to audit advisory projects: 1
- Evaluated, scope modifications made or combined with other audits, implementation schedules assessed, and moved to the 2022 audit plan: 10
- Evaluated, replaced with other higher risks, not moved to the 2022 audit plan: 4

Anonymous Reporting Activity

Purdue is 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. This information is then provided to Internal Audit for appropriate action. During calendar year 2021, 111 reports were received of which 101 were unique and 10 were duplicated.

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 Enterprise Risk 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 Enterprise Risk Committee, 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 Enterprise Risk 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 Enterprise Risk 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 Enterprise Risk Committee, the Director of Audits shall make a written or oral report to the Chairman of the Audit and Enterprise Risk Committee without informing the Treasurer or any other University officer. Subject to the foregoing, the Treasurer shall attend the meetings of the Audit and Enterprise Risk 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.