

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

2008 Internal Audit Results and
Report of Planned Audit Activities for 2009

Attachments: Report of Internal Audit Results 2008
 Report of Planned Internal Audit Activities 2009



Report of Internal Audit Results 2008



Finance, Audit and Facilities Committee Board of Regents

Department of Audits
University of Washington

April 2009

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Executive Summary – Report on Results

Internal Audit engages in three primary activities – audits, investigations and advisory services. Our focus is to assist schools and colleges in understanding financial, operational, strategic and compliance risks and exposures. Rather than duplicate the financial and compliance auditing performed by KPMG and the State Auditor’s Office, Internal Audit concentrates on departmental control systems and processes.

Audits

In 2008, we completed ten planned audits in the following high risk areas:

- Cash handling
- Faculty effort certification
- Grants and contracts management
- Information systems security and governance
- Intercollegiate Athletics
- Medical Center service capture
- Payroll and Human Resources
- Rate setting and billing

Two additional audits are substantially complete and seven more are in progress.

Overall, we found departments generally had good control systems in place related to financial management, operations and federal compliance. Exceptions resulted primarily from the lack of sufficient management oversight rather than problems systemic at the University level.

Our information system audits focused primarily on the security of data stored in decentralized, department-owned systems. We found departments need to strengthen controls related to user access, data integrity and security, and risk assessments.

Medical Centers

New staff was hired to round out the audit team in 2008 and provide needed expertise. Three audits were completed during the year and another one is in process.

Fraud Reporting Hotline

Implementation of a University-wide anonymous fraud reporting hotline was discussed with key management personnel throughout the University and presentations were made by peer universities on their hotlines. Work is underway to develop the guiding principles and operating procedures for the hotline.

Enterprise Risk Management

Internal Audit continues to participate in the University’s process to identify, assess and mitigate enterprise-wide risks.

Work Accomplished

Scheduled Audits *

Completed:

Cash Handling

- College of Forest Resources – UW Botanic Gardens
- Undergraduate Academic Affairs – Classroom Support Services

Faculty Effort Certification

Department of Genome Sciences – School of Medicine

Information Technology Services

Intercollegiate Athletics

Medical Centers' Payroll and Human Resources

Department of Otolaryngology – School of Medicine

UWMC Radiology Service Capture

Washington National Primate Research Center – Health Sciences

Audit Follow-ups (32)

In Progress:

Bothell Campus – Chancellor's Office

Department of Global Health – International Training and Education Center on HIV

Educational Outreach (substantially completed)

Grants and Contracts – Subrecipient Monitoring

Medical Centers' Laboratory Medicine Charge Capture

School of Nursing

School of Medicine-Laboratory Medicine

Student Database

Student Publications (substantially completed)

Management Requests

Foster School of Business (outside work reporting)

Intercollegiate Athletics (ticket certification)

International Programs and Exchanges (fiscal operations) *

Advisory Services

Internal Control Consultations (170)

* See page 4 and 5 for results of 2008 Audits

Work Accomplished (continued)

Special Investigations

Fraud (3)
Ethics (7)
Regulatory (2)
Operations (6)

Training Provided

Grants (5)
Internal Controls and Fraud Prevention (4)
State Ethics Law (5)
Work & Leave Records Maintenance (4)

UW Committees

- Campus Security Advisory Committee
- Compliance, Operations & Finance Council
- Data Management Users Group
- Global Support Committee
- President's Advisory Council on Enterprise Risk Management
- Privacy Assurance & Systems Security Council
- Tax Strategy Team

Memberships

State Committees

- Higher Education Interinstitutional Internal Auditors

Professional Organizations

- Agora (Information Systems Security)
- American Institute of Certified Public Accountants
- Association of Certified Fraud Examiners
- Association of College & University Auditors
- Association of Healthcare Internal Auditors
- Information Systems Audit and Control Association
- Institute of Internal Auditors
- Pacific Northwest Chapter of Certified Fraud Examiners
- Washington State Society of CPAs

Results of Audits

In 2008, the Department of Audits continued to emphasize the importance of strong systems of internal control.

Overall, we found that internal controls are sufficient to ensure compliance with applicable regulations and policies, and to ensure that business objectives are achieved. We found no flagrant deficiencies in the course of these scheduled audits. Audit exceptions resulted primarily from lapses in management oversight and not from systemic problems at the University level.

Cash Handling

We reviewed two departments as part of our University-wide audit of cash handling. We recommended that controls be strengthened for depositing cash receipts timely and separating conflicting cash handling functions.

Faculty Effort Certification

We reviewed controls over the certification of faculty effort on sponsored programs. We found the University had good controls in place to ensure effort reports are accurate, certified timely and available for review. We recommended strengthening controls over reporting salary transfers and comparison of actual to committed effort.

Department of Genome Sciences

We evaluated the system of internal controls over grants fiscal management, payroll, purchasing, procurement cards, travel, revolving funds, and operations of a self-sustaining unit. Overall we found the department had good internal controls. We recommended principal investigators review and approve their monthly budget activity.

Information Technology Services

We reviewed IT Services strategic planning process, organization structure, and project intake and oversight processes. We recommended enhancing communication with customers regarding ITS roles, responsibilities and processes and strengthening project tracking for mid-size projects to better manage resources and account for budget to actual costs and efforts.

Intercollegiate Athletics

We reviewed internal controls over sports camps and clinics, student employment, self-reported violations, rules education, coaching staff limits and contracts, student-athlete eligibility, and cash handling. We recommended strengthening controls in the areas of sports camps and clinics, student employment, volunteer coach appointments, and cash handling.

Results of Audits (continued)

International Programs and Exchanges

We reviewed controls relating to the use and management of operational and program budgets, and the awarding of scholarships and tuition waivers. We recommended strengthening controls in the areas of collection of fees, allocation of costs, financial management and monitoring, and the awarding of scholarships and tuition waivers.

Medical Centers' Payroll and Human Resources

We reviewed internal controls over time collection, application access security, management of leave and overtime, employee payroll changes, and accuracy of gross pay. We recommended strengthening controls in the areas of timesheet approval, user access, leave management, records retention and separation of employees.

Department of Otolaryngology

We reviewed controls over grants and contracts, gifts and endowments, human resources, payroll, purchasing, information technology (IT) management and entity administration. We recommended strengthening controls in the areas of grant and contract certification reports, Online Work Leave System, procurement card, revolving fund, IT assets management, IT risk assessments and system certifications and training. We also recommended the department clarify its authority and responsibility over the Virginia Merrill Bloedel Hearing Research Center.

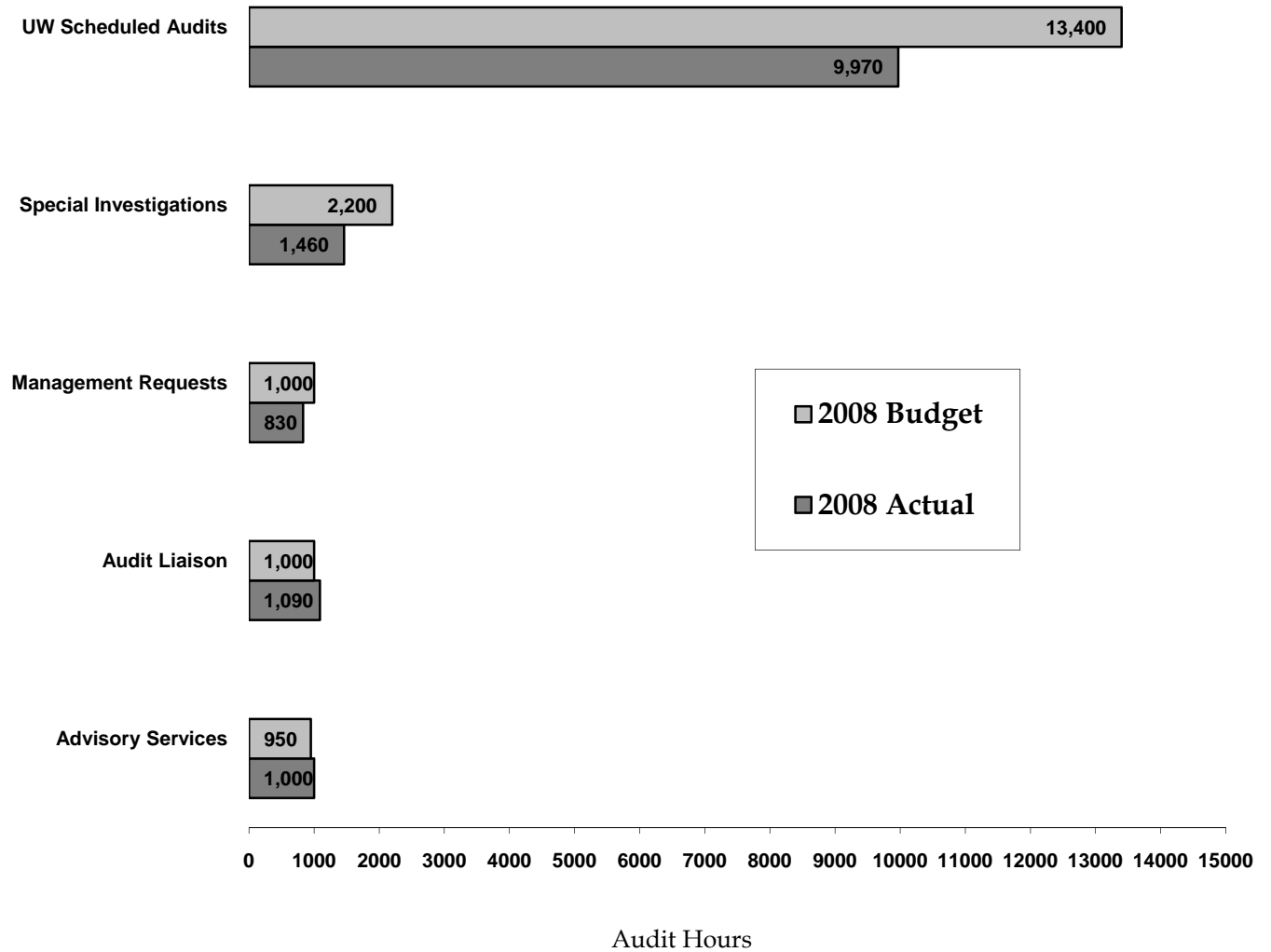
UWMC Radiology - Service Capture

We reviewed internal controls over the service capture process and the security, integrity and availability of data. We recommended strengthening controls related to accounting for transaction numbers, receipt and retention of physician orders, user access management and performance of annual IT risk assessments.

Washington National Primate Research Center

We reviewed internal controls over rate setting, billing and revenue collection, IT security, systems access, data management and software project management. We recommended strengthening controls for billing, IT security, system access, data management and software project management.

Audit Hours by Type of Audit - Budget and Actual



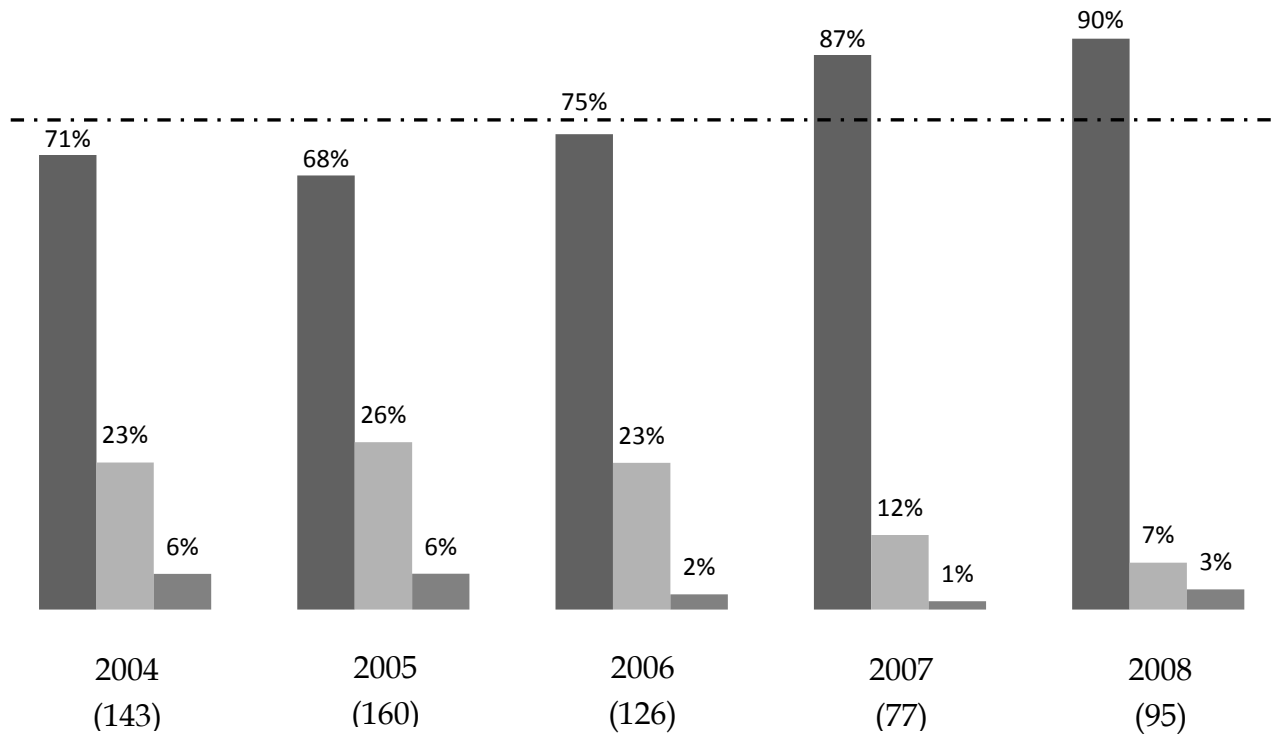
Actual hours spent on scheduled audits was under budget due to staff vacancies experienced during the year and time required for hiring and training new staff.

Actual hours spent on special investigations was less than anticipated.

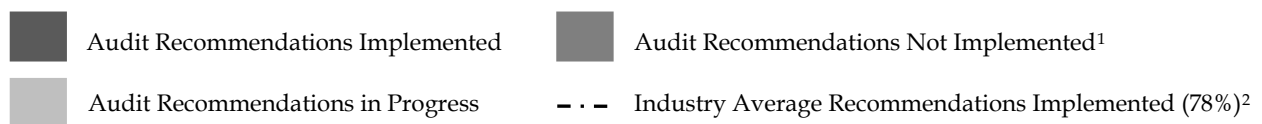
Implementation of Audit Recommendations

Internal Audit conducts follow-up reviews to determine whether audit recommendations agreed to by management have been implemented. Follow-up reviews generally occur six months after an audit is completed.

Percentage of Recommendations Implemented for the Years 2004-2008



Total Audit Recommendations by Year



¹ Management planned to implement the audit recommendations but had not done so at the time of our follow-up reviews. Audit recommendations had not been implemented because of staffing limitations and turnover, other higher priorities or the complexities of implementing solutions.

² Source: The 1999 Analytical Benchmarking for Auditors in the College and University Sector (ABACUS).

Internal Audit Charter

Mission -The mission of Internal Audit is to assist the Board of Regents and University management in the discharge of their oversight, management and operating responsibilities. This is achieved by providing independent assurance, consulting and education services to the University community. Our services add value by improving the control, risk management and governance processes to help the University achieve its business objectives.

Authority - The Department of Audits functions under the authority of the Finance, Audit and Facilities Committee of the Board of Regents of the University of Washington.

The Department of Audits is authorized to have full, free, and unrestricted access to information including records, computer files, property, and personnel of the University. Internal Audit is free to review and evaluate all policies, procedures and practices of any University activity, program or function.

In performing the audit function, the Department of Audits has no direct responsibility for, or authority over any of the activities reviewed. Therefore, the internal audit review and appraisal process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

Scope - The scope of the internal audit activity encompasses the examination and evaluations of the adequacy and effectiveness of the University's system of internal control and the quality of the performance in carrying out assigned responsibilities including appropriate training and consulting assistance. Internal auditors are concerned with any phase of University activity in which they may be of service to management. This involves going beyond the accounting records to obtain a full understanding of operations under review.

Independence - To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. This independence is achieved through organizational status and objectivity.

Organizational Status: The Executive Director of Audits is responsible to the Treasurer, Board of Regents, whose scope of responsibility and authority assures that audit findings and recommendations will be afforded adequate consideration and the effectiveness of action will be reviewed at an appropriate level. The Executive Director of Audits has direct access to both the President and the Board of Regents, and may take matters to them that are believed to be of sufficient magnitude and importance to require their immediate attention.

Objectivity: Because objectivity is essential to the audit function, an internal auditor does not develop and install procedures, prepare records, or engage in any other activity which the auditor would normally review and appraise and which could reasonably be construed to compromise the auditor's independence. The auditor's objectivity is not adversely affected, however, by determining or recommending standards of control to be adopted in the development of systems and procedures under review.

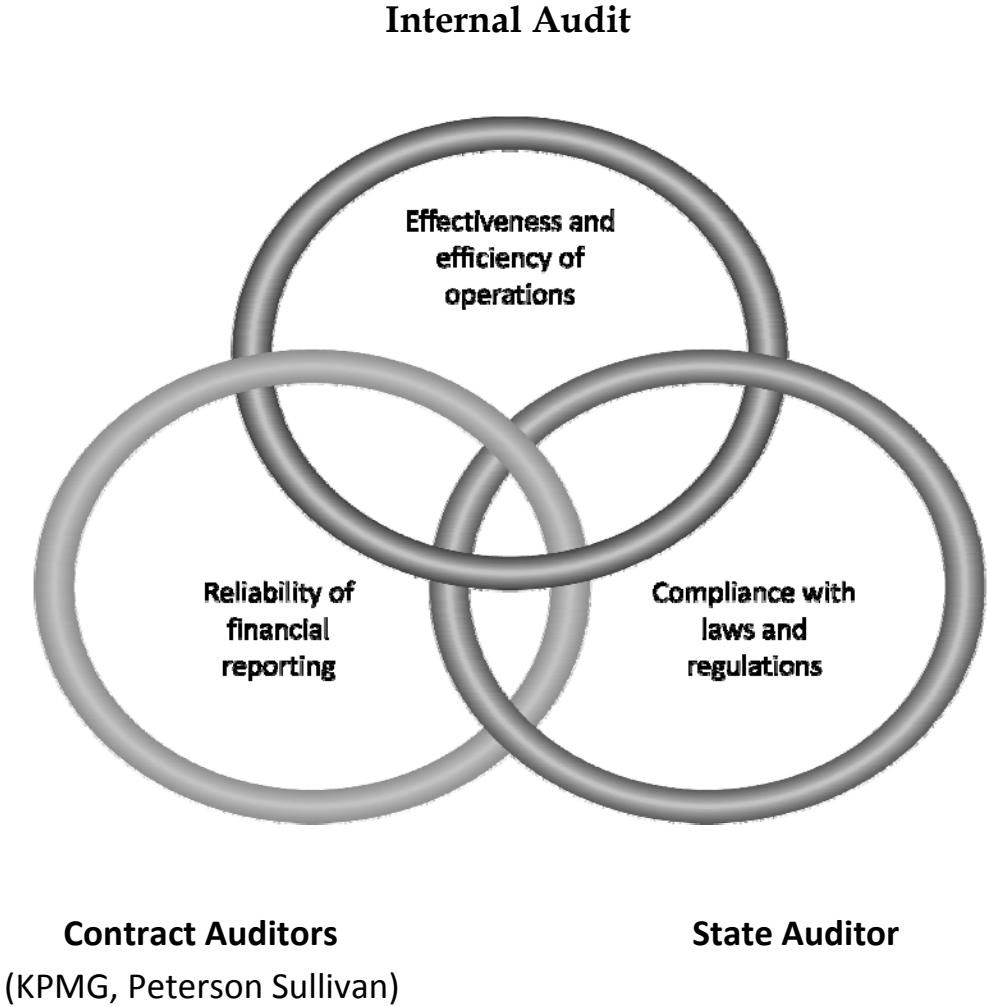
Responsibility - The internal audit staff has a responsibility to report to University management on the areas examined and to evaluate management's plans or actions to correct reported findings. In addition, the Executive Director of Audits has a responsibility to report at least annually to the Board of Regents Finance, Audit and Facilities Committee and to inform the Board of any significant findings that have not been reasonably addressed by University management.

The Executive Director of Audits will coordinate internal and independent outside audit activities to ensure adequate coverage and minimize duplicate efforts.

Standards - The responsibility of the Department of Audits is to serve the University in a manner that is consistent with the standards established by the internal audit community. At a minimum it shall comply with the relevant professional audit standards and code of conduct of the Institute of Internal Auditors (IIA) and the Association of College and University Auditors (ACUA).

Audit Coverage Overview

As part of the coordinated audit approach adopted in 1990, the Department of Audits works closely with contract auditors and the State Auditor to maximize audit coverage and to avoid duplication of effort. Each audit organization has a specific role:



Contract Auditors – 2008

KPMG

Financial Statement audits for:

- University of Washington
- Intercollegiate Athletics
- Parking Services
- UW Medical Center
- UW Medical Center Consolidated Laundry
- Harborview Medical Center
- Association of University Physicians (dba UW Physicians)
- UW Physicians Network

Peterson Sullivan

- Metropolitan Tract Financial Statements
- UNICO Properties - Lease Compliance
- Fairmont Olympic Hotel - Lease compliance
- GVA Kidder Matthews - Operating Agreement (Rainier Tower Sublease)

Financial statement audits for:

- Associated Students of the UW
- Graduate and Professional Student Senate
- Student Publications
- Student Union Facilities
- Housing and Dining System
- Retail and Remote Food Services

External Auditors – 2008

State Auditor's Office

Audit of compliance with state laws and regulations
Audit of federal programs in accordance with the Single Audit Act
Whistleblower and citizen complaint investigations

Federal Agencies

Department of Education

Follow up on State Auditor finding – Office of Minority Affairs
Audit of costs claimed – Rehabilitation Medicine

Department of Health & Human Services Office of Inspector General

Audit of costs claimed – Oceanography
Cash management – Grant and Contract Accounting

Department of Labor

Desk audit of Affirmative Action – Equal Opportunity Office

Defense Contract Audit Agency

Audit of prorated direct cost rate – Applied Physics Laboratory

National Aeronautics and Space Administration Audit and Compliance Office

Desk audit of costs claimed – Earth and Space Sciences

National Institute of Health Office of Biotechnology Activities

Oversight of Recombinant DNA Research – Environmental Health and Safety

National Science Foundation Office of Inspector General

Special investigation of compliance with laws, regulations and conditions pertaining to
NSF awards – Materials Science and Engineering
Desk audit of participant support costs – Computer Science and Engineering

Office of Naval Research

Property control system analysis – Equipment Inventory Office

California Healthcare Foundation

Audit of costs claimed – Pediatrics

King County

Desk audit of systems and controls – Pediatrics, Adolescent Medicine

San Francisco State University

Desk audit of costs claimed – Forest Resources

Sandia National Laboratories

Desk audit of costs claimed – Electrical Engineering, Bioengineering, Mechanical
Engineering, Chemical Engineering, and Chemistry

Singapore Agency for Science, Technology and Research

Desk audit of costs claimed – Bioengineering



Report of Planned Internal Audit Activities 2009



Finance, Audit and Facilities Committee
Board of Regents

Department of Audits
University of Washington

April 2009

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Executive Summary

Internal Audit engages in three primary activities – audits, advisory services, and investigations. Our focus is to actively work with campus schools and colleges, assisting management to address financial risk and exposures. Rather than duplicate the financial and compliance auditing performed by KPMG and the State Auditor’s Office, Internal Audit concentrates on departmental control systems and processes. In this way, audit resources are maximized.

Internal Audit’s goals for 2009 are:

- Complete the top ten highest risk audits
- Refine the Medical Centers risk assessment process
- Implement a University-wide fraud reporting hotline
- Continue to participate in the development of University-wide enterprise risk management framework

The University of Washington Internal Audit Plan for 2009 is designed to provide comprehensive audit coverage, deploying Internal Audit resources in an effective and efficient manner. As in years past, we will continue to focus on the high risk areas as identified by our risk assessment.

Audit Focus

Cash Handling

Over a billion dollars in cash is received each year at multiple locations throughout the University. We will continue to review controls in high risk cash handling locations to ensure University assets are properly accounted for and adequately protected against misappropriation.

Data Security

The University acquires, generates and maintains significant information to support business operations, education programs and extensive research efforts. In 2009, we plan to review information security controls designed to ensure only authorized persons access University data and information systems. This will include the compliance audit that is required every three years by the Washington Information Services Board (ISB).

Departmental Computing and Networking

University departments often develop and operate specialized computer systems to support their own unique information processing needs. Our focus is to identify critical systems and networks managed at the department level, to evaluate relevant information security and controls and minimize the risk of processing interruptions.

Federal Programs

We anticipate continued federal interest in research and program accountability. The University can be proud of its award-winning grants management program. Internal Audit will continue to identify high risk departments and work with the departmental management to provide reasonable assurance of compliance with applicable regulations.

Health Insurance Portability and Accountability Act (HIPAA)

Compliance with HIPAA is required by federal regulations, and is necessary to ensure the protection of identifiable health information. An established compliance group has oversight responsibilities to ensure adherence to HIPAA requirements throughout the medical centers. We will work with the HIPAA compliance team to evaluate the University's compliance activities to ensure conformance with HIPAA.

Hospital and Clinical Billing

The ability to capture services and bill them in a timely manner is critical to the University's ability to collect revenue from its payers. We will perform a review to evaluate whether controls are sufficient to ensure timely and accurate billing.

Audit Focus (continued)

Internal Control Systems

The University continues to move its central systems away from pre-approval controls toward post audit controls. Internal Audit provides advisory services and training to ensure departments continue to have a sound basis for establishing and monitoring internal control systems. It is more important than ever that departmental management understand the risks and responsibilities associated with operating in a decentralized post audit control environment. As more versatility is delegated to departments, oversight is required to ensure that controls are in place and serve the intended purpose.

Resource demands on departmental general operating funds force departments to make difficult decisions regarding resource allocations. Resource pressures may result in the elimination of critical systems of controls. Without appropriate checks and balances, departments have a higher exposure to financial irregularities and noncompliance with policies and regulations.

Medical Centers Materials Management

Our audit focus will be on controls that ensure inventory is properly accounted for and safeguarded against theft and loss.

Medical Centers Software Change Controls

Critical information system projects are in progress at the Medical Centers. Considerable software maintenance activities are also performed. Effective software change controls are important to ensure the quality and continued processing accuracy of information systems. We will review the controls in place to minimize risks of processing errors introduced by changes in software.

Subrecipient Monitoring

The monitoring of subrecipients of federal funds continues to be scrutinized by federal and state auditors. When the University is awarded federal funds to perform research or other projects, it may choose to subcontract a portion of the work out to other organizations. The University is responsible for monitoring subrecipients to ensure they comply with federal regulations and achieve program objectives. We will review controls to ensure that subrecipient monitoring is performed in accordance with federal regulations.

Scheduled Audits

Bothell Campus - Chancellor's Office *

Tacoma Campus - Chancellor's Office

College of Arts & Sciences - Speech & Hearing

School of Dentistry - Billing system

School of Medicine

- Comparative Medicine - Recharge center
- Laboratory Medicine - Grants management and self sustaining activities *
- Metabolism and Endocrinology
- Pathology - Purchasing system

School of Nursing - Grants management and data security *

School of Public Health - International Training and Education Center on HIV - Grants management *

Medical Centers

- HIPAA - Compliance
- Laboratory Medicine - Charge capture *
- Information Technology Services - Change management
- Materials Management

Cash Handling

Educational Outreach *

Facilities - Purchasing and inventory

Grants and Contracts - Subrecipient monitoring *

Intercollegiate Athletics - NCAA compliance and payroll

Student Database - Data security and privacy *

Student Publications *

Systems Development Reviews - Various systems

UW Technology

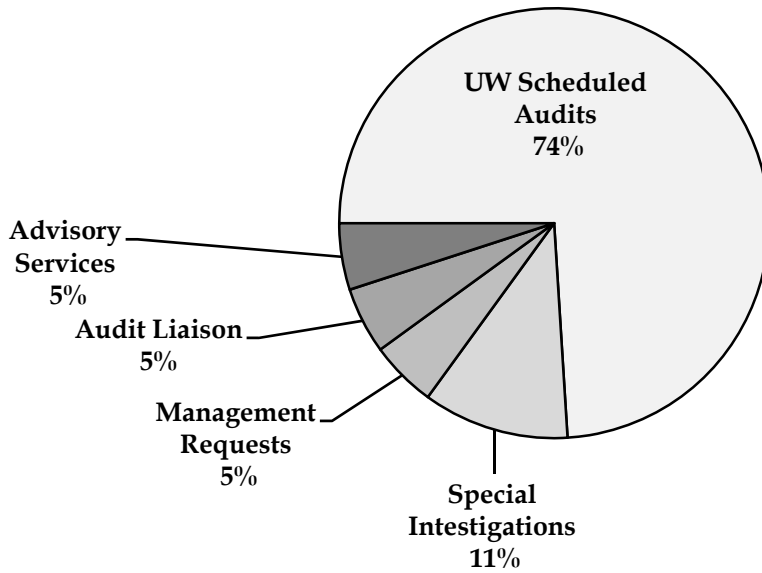
- Business/Administration
- Nebula - Data security
- UW Net ID / ASTRA - Data security
- Required compliance review - Washington Information Services Board

Various Departments - Follow-ups

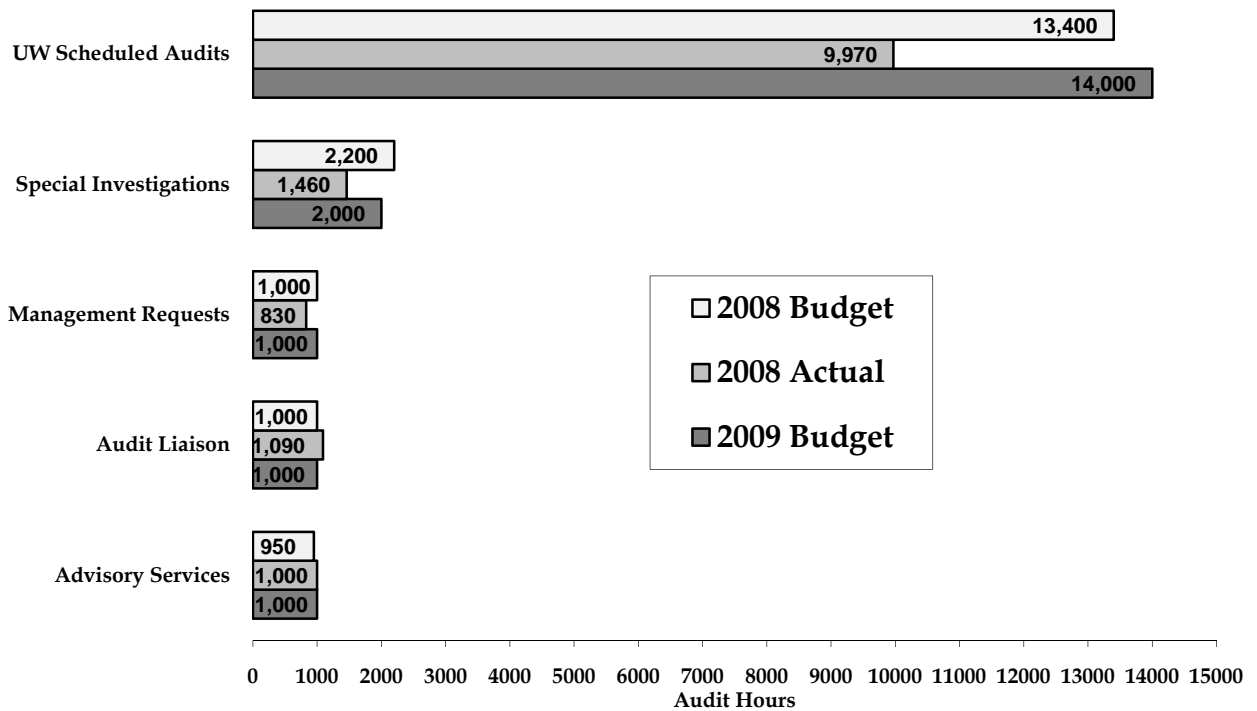
* In progress

Planned Audit Hours

By Category



Compared to Prior Year



2009

Budget for scheduled audits increased in anticipation of a fully staffed audit department.

Summary of Audit Coverage

The University departments listed below are ranked from high to low in terms of the relative risk they represented based on the two year risk assessment performed by Internal Audit. The columns to the right identify the areas audited in 2008 or to be audited in 2009 by each respective audit entity.

Risk/ Rank	Organization	Internal Audit	State Auditor' s Office	KMPG	Peterson Sullivan	Other Auditors
1.	School of Medicine	•	•			○
2.	Harborview Medical Center	•	•	•		
3.	University Medical Center	•	•	•		
4.	College of Arts & Sciences	•				○
5.	UW Technology	•	•	•		
6.	Educational Outreach	•				
7.	Health Sciences	○				○
8.	School of Dentistry	•	•			
9.	School of Public Health & Community Medicine	•				
10.	Intercollegiate Athletics	•	•	•		
11.	Office of Development & Alumni Relations			•		
12.	Facilities Services	•		•		
13.	Bothell Campus	•				
14.	Capital Projects		•	•		
15.	Tacoma Campus	•				
16.	School of Nursing	•				
17.	Purchasing		•	•		
18.	College of Engineering					○
19.	School of Business Administration					
20.	College of Ocean & Fishery Sciences					○
21.	Payables Operations		•	•		
22.	Grant & Contract Accounting		•	•		○
23.	University Police		•			
24.	School of Pharmacy					
25.	Human Resources					
26.	University Libraries					
27.	Payroll		•	•		
28.	UW Tech Transfer					
29.	Office of Sponsored Programs		•			

• Plan to audit in 2009 ○ Audited in 2008

Summary of Audit Coverage (continued)

The University departments listed below are ranked from high to low in terms of the relative risk they represented based on the two year risk assessment performed by Internal Audit. The columns to the right identify the areas audited in 2008 or to be audited in 2009 by each respective audit entity.

Risk/ Rank	Organization	Internal Audit	State Auditor' s Office	KMPG	Peterson Sullivan	Other Auditors
30.	Student Publications	•			•	
31.	School of Law					
32.	School of Social Work					
33.	College of Forest Resources	○				○
34.	Student Fiscal Services		•	•		
35.	Treasury Office			•		
36.	Housing & Food Services		•		•	
37.	Graduate School					
38.	Financial Accounting		•	•		
39.	Real Estate/Metropolitan Tract Office				•	
40.	Office of Research		•			
41.	Office of Information Management					
42.	Minority Affairs					○
43.	Undergraduate Education	○				
44.	College of Built Environment					
45.	Daniel J. Evans School of Public Affairs					
46.	Transportation			•		
47.	Enrollment Services (Admissions & Registrar)	•	•			
48.	Student Financial Aid		•			
49.	College of Education					
50.	Equipment Inventory			•		○
51.	External Affairs					
52.	Provost					○
53.	Planning & Budgeting					
54.	Risk Management			•		
55.	Information School					
56.	Student Life					
57.	ASUW/GPSS				•	
58.	Student Activities and Union Facilities				•	

• Plan to audit in 2009 ○ Audited in 2008

Risk Assessment Methodology

We use a risk assessment model to prioritize audit coverage and ensure timely reviews of high exposure areas. We define risk to include:

- Loss, unauthorized use and misappropriation of University assets
- Violation of laws and regulations
- Adverse publicity involving the University

The risk assessment process includes gathering and evaluating information from senior management and college and department administrators, and utilizing the University's data warehouse for financial information. We use the following risk factors to help identify high risk areas.

- Business Exposure
- Compliance Requirements
- Control Environment Stability
- Audit Coverage
- Financial Impact
- Information Systems Complexity
- Management's Interest
- Auditor's Interest

We review risk assessment models used by peer institutions and utilize their experience and knowledge of university operations to ensure our risk assessment model includes factors relevant to the University of Washington.

We develop our two year audit plan based on the results of the risk assessment survey, management input, planned external audit coverage and issue currently affecting universities nationwide.

Elements of the Audit Planning Process

- Interviews of senior University management for key concerns
- University-wide assessment of risk
- Consideration of the changing environment and identification of issues that could affect the University
- Evaluation of issues of concern to other universities

Universities contacted:

University of Arizona
University of California – Berkeley
University of California – San Diego
University of California System
Colorado State University System
Cornell University
University of Florida
University of Georgia
Georgia Institute of Technology
University of Georgia System
University of Illinois – Urbana-Champaign
Johns Hopkins University
Massachusetts Institute of Technology
University of Michigan
University of Minnesota
University of New Mexico
University of North Carolina – Chapel Hill
Ohio State University
Oregon University System
University of Pennsylvania
Stanford University
Texas A&M University Systems
University of Texas System
University of Utah
University of Wisconsin – Madison

- Integrated planning with external auditors
- Assessment of cyclical audit coverage for high-risk organizational units identified in our risk assessment.