

VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

2009 Audit Plans – KPMG, Peterson Sullivan, and State Auditor’s Office

For information only.

Attachments:

KPMG University of Washington, 2009 Audit Plan

Peterson Sullivan LLP, University of Washington Metropolitan Tract
Audit For the Year Ended June 30, 2009

Executive Summary, Washington State Auditor’s Office, University of
Washington Audit, July 1, 2008 through June 30, 2009



HIGHER EDUCATION

University of Washington 2009 Audit Plan

AUDIT



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I. Executive Summary

Scope of Audit

We will audit the balance sheet of the University of Washington (University) as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on the financial statements based on our audit, however we will not express any opinion on the effectiveness of internal controls over financial reporting.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we will express no such opinion.

Additionally, we will report separately on our audits for the UW Medical Center, Intercollegiate Athletics, the Parking System and the Internal Lending Program.

Coordination with Other Auditors

We will coordinate and rely on audit testwork performed by the following other auditors: Peterson Sullivan, Shallo, Galluscio, Bianchi and Fucito, the Washington State Auditor's Office, and the University's Internal Audit Department as considered necessary.

This coordinated approach allows us to reduce duplicative testwork during the audit of the University and increase overall efficiency.

Tentative Timetables

Our timetable is expected to be similar to that of the previous year. We will coordinate with the Office of Financial Management and Internal Audit for a more detailed schedule of events and prepare an outline of specific data requirements, timelines, and individuals responsible.



II. Financial Reporting Entity

The financial statements of the University of Washington consist of (a) the University of Washington, (b) organizations for which the University is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete if excluded.

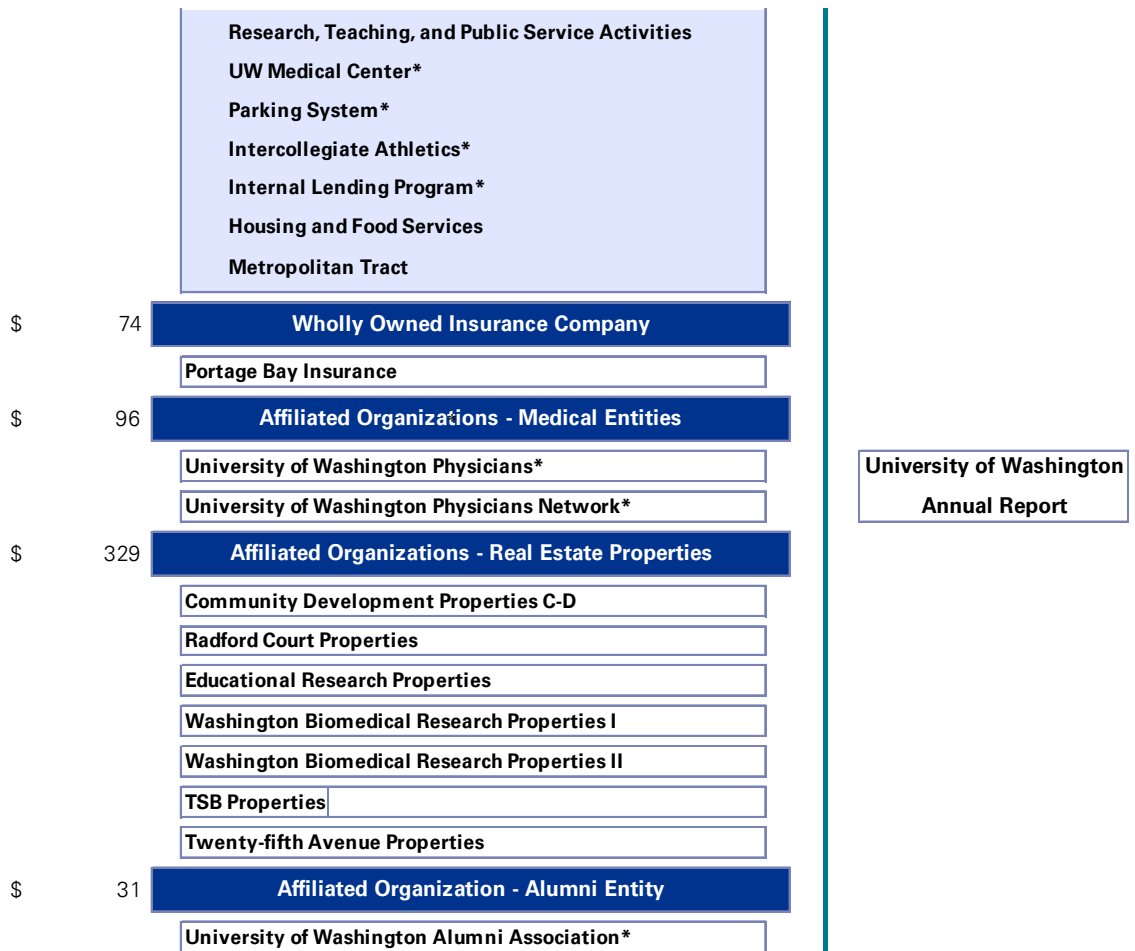
The definition of the reporting entity is based primarily on the notion of financial accountability. An entity is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the entity. An entity may also be financially accountable for governmental organizations that are fiscally dependent on it.

An entity has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the entity (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.



II. Financial Reporting Entity

The following illustration depicts the entities included in the University of Washington Annual Report.



* Audited by KPMG LLP (KPMG)

Organizations Not included in University of Washington Annual Report
Harborview Medical Center*
University of Washington Foundation *
Henry Gallery Association, Inc.
Washington Law School Foundation
Washington Pulp and Paper Foundation



III. Scope of Our Audits

University Annual Report

We will audit the balance sheet of the University as of June 30, 2009 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America U.S. GAAP. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we will express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In planning and performing our audit of the financial statements, we consider internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. If, however, during our audit, we note matters involving internal control and other operational matters, they will be presented for your consideration. These comments and recommendations, all of which will be discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion.

This audit meets the needs of the board of regents and the administration to manage the University and assist in meeting the University's financial reporting requirements as a public agency and the State of Washington.

UW Medical Center

We will also audit the financial statements of the UW Medical Center as of June 30, 2009. We will conduct our audit in accordance with U.S. GAAP. We will provide an audit report on the UW Medical Center and will use our audit as support in our overall opinion on the University.



III. Scope of Our Audits

Intercollegiate Athletics (ICA)

An audit of the ICA will also be performed for the year ended June 30, 2009. We will conduct our audit in accordance with U.S. GAAP.

We will also be performing required agreed-upon procedures to meet the requirements of the National Collegiate Athletic Association (NCAA).

Parking System

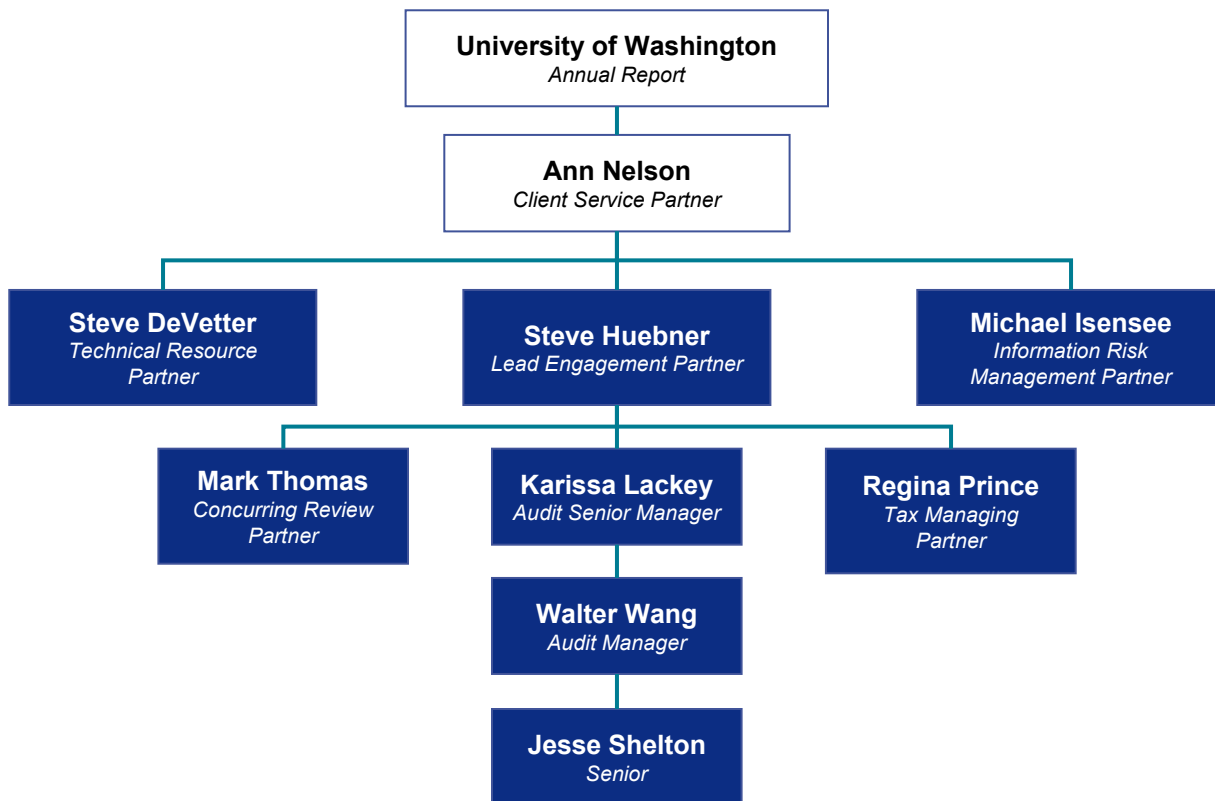
An audit of the Parking System will also be performed for the year ended June 30, 2009. We will conduct our audit in accordance with U.S. GAAP.

Internal Lending Program

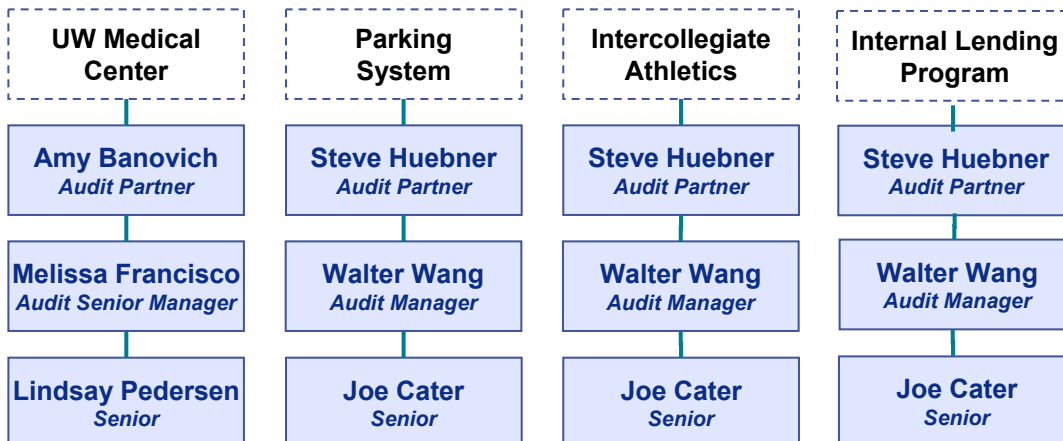
Procedures over the Internal Lending Program will also be performed for the year ended June 30, 2009. We will conduct our audit in accordance with U.S. GAAP.



IV. KPMG LLP (KPMG) Team Overview



Individual Auxiliary Audits:



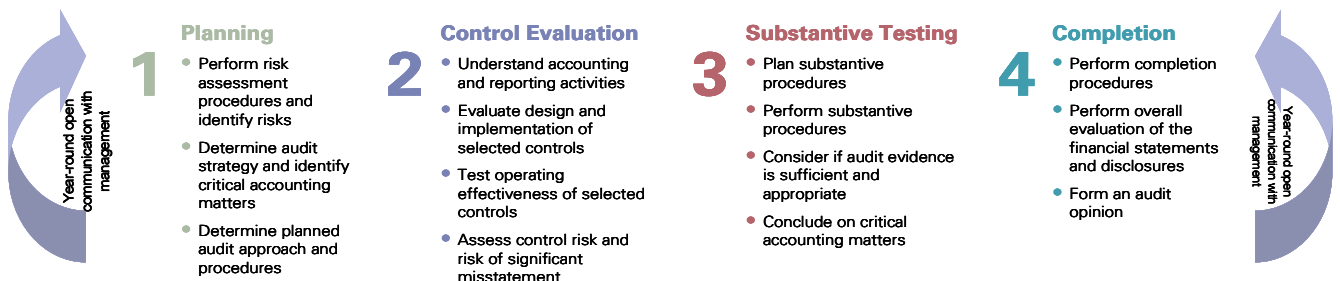


V. KPMG Audit Process

We apply our audit process through our three-step audit approach. Each step allows us to identify more clearly the University's business risks, and hence our audit risks, and to focus our audit approach on the risks of material misstatements in the financial statements.

An overview of KPMG's standard four-step audit approach follows:

KPMG's Four-Step Audit Methodology



IT General Controls

Throughout the audit phases outlined above, KPMG will be testing IT General Controls in Access to Programs and Data, Program Change, Program Development, Computer Operations, and End-User Computing. In addition, when applicable, KPMG will also test IT application controls in the areas of; application access (segregation of duties), key reports, key calculations, and interfaces (to ensure completeness and accuracy of data transfer).



V. KPMG Audit Process (Continued)

In Scope Applications

University of Washington

Audit Program, and relevant audit objective references	Application Name
Student database	SDB
Human Resources and Payroll	Higher Education Payroll and Personnel System (HEPPS)
General Ledger	FAS/FIN
Expenditures	eProcurement
Expenditures	PAS

UW Medical Center

Audit Program, and relevant audit objective references	Application Name
General Ledger	PFM
AR/Billing	PFS

Harborview Medical Center

Audit Program, and relevant audit objective references	Application Name
General Ledger	PFM
AR/Billing	PFS



V. KPMG Audit Process (Continued)

Overview of Audit Procedures

Balance Sheet

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> • Cash and Investments • (\$3.7 billion) 	<ul style="list-style-type: none"> • Accounting for and control over cash and investments focused on the completeness, existence, accuracy, and valuation. 	<ul style="list-style-type: none"> • Test account reconciliations • Confirm key cash and investment balances • Procedures in accordance with the AICPA practice aid to test the existence and valuation of investments with special emphasis on alternative Investments, subprime, Auction Rate securities, and other hard-to-value investments
<ul style="list-style-type: none"> • Accounts Receivable – Patient Services • (\$236 million) 	<ul style="list-style-type: none"> • Existence of receivables • Reasonableness of contractual and bad debt allowances • Collectibility of receivables 	<ul style="list-style-type: none"> • Substantive audit and controls procedures to test reasonableness of accounts receivable, contractual allowance, and bad debt reserves • Understand any changes in reserve methodology • Accounts receivable testing for existence of account balances • Test account reconciliation
<ul style="list-style-type: none"> • Accounts Receivable – Grants and Contracts • (\$138 million) 	<ul style="list-style-type: none"> • Existence of receivables • Accuracy of receivables • Collectibility of receivables 	<ul style="list-style-type: none"> • Evaluate internal controls • Select a sample and agree to underlying contracts. • Assess the validity and collectibility of billed and unbilled receivables.
<ul style="list-style-type: none"> • MetroTract • (\$120 million) 	<ul style="list-style-type: none"> • Proper recording of net assets of MetroTract 	<ul style="list-style-type: none"> • Obtain and review the audit report of Peterson & Sullivan



V. KPMG Audit Process (Continued)

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> ● Capital Assets ● (\$2.7 billion) 	<ul style="list-style-type: none"> ● Proper capitalization and classification of assets ● Appropriate depreciation/ amortization ● Safeguarding assets 	<ul style="list-style-type: none"> ● Review a reconciliation of capital asset activity ● Test and evaluate internal controls over capital asset additions ● Test a sample of significant additions and retirements by examining supporting documentation.
<ul style="list-style-type: none"> ● Accounts Payable and Accrued Liabilities ● (\$319 million) 	<ul style="list-style-type: none"> ● Recognition of transaction in proper accounting period ● Accuracy of amounts recorded and assessment of management's estimates 	<ul style="list-style-type: none"> ● Perform review of subsequent disbursements in management's liability estimation method. ● Review reasonableness of balances compared to expectations
<ul style="list-style-type: none"> ● Self Insurance Reserve ● (\$48 million) 	<ul style="list-style-type: none"> ● Valuation of management's estimates for legal liabilities 	<ul style="list-style-type: none"> ● Obtain and review KPMG audit report of the captive insurance company
<ul style="list-style-type: none"> ● Long-term liabilities ● (\$1.1 billion) 	<ul style="list-style-type: none"> ● Proper classification ● Compliance with financial covenants 	<ul style="list-style-type: none"> ● Confirm balances ● Test disclosure and classification ● Test financial covenants
<ul style="list-style-type: none"> ● Net Assets ● (\$5.1 billion) 	<ul style="list-style-type: none"> ● Proper classification of restrictions 	<ul style="list-style-type: none"> ● Review reasonableness of balances compared to expectations



V. KPMG Audit Process (Continued)

Statement Of Revenues, Expense, And Changes In Net Assets

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> • Student tuition and fees • (\$420 million) 	<ul style="list-style-type: none"> • Accounting for and control over the tuition cycle • Proper accounting for scholarship allowances 	<ul style="list-style-type: none"> • Review reasonableness of balances compared to expectation • Test and evaluate internal controls
<ul style="list-style-type: none"> • Patient services • (\$924 million) 	<ul style="list-style-type: none"> • Proper recording of revenues • Proper cut-off of revenue between periods • Accuracy of recording of contractual deductions from revenue • Proper recording of charity care amounts in accordance with charity care policy 	<ul style="list-style-type: none"> • Charge capture testing for appropriate capture of revenues at set charge master rates • Revenue cut-off testing for appropriate revenue recognition • Test and evaluate internal controls
<ul style="list-style-type: none"> • Grants and Contracts revenue • (\$1.1 billion) 	<ul style="list-style-type: none"> • Proper recording of revenues and collections • Accuracy of account balances 	<ul style="list-style-type: none"> • Coordination, review, and reliance on the State Auditor testwork over compliance • Test and evaluate internal controls • Test accuracy and eligibility of sampled expenditures that drive revenue recognition
<ul style="list-style-type: none"> • Auxiliary Enterprise revenue • (\$146 million) 	<ul style="list-style-type: none"> • Proper consolidation of entities 	<ul style="list-style-type: none"> • Obtain and review departmental and component unit statements for proper inclusion in the financial statements
<ul style="list-style-type: none"> • Salaries and Benefits • (\$2.1 billion) 	<ul style="list-style-type: none"> • Recognized in proper accounting period • Accuracy of amounts recorded 	<ul style="list-style-type: none"> • Test and evaluate the internal controls • Review reasonableness of balances compared to expectation



V. KPMG Audit Process (Continued)

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> State Appropriations (\$388 million) 	<ul style="list-style-type: none"> Accuracy of amounts recorded 	<ul style="list-style-type: none"> Confirm balances with information provided from the state accounting system
<ul style="list-style-type: none"> Investment Income (\$77 million) 	<ul style="list-style-type: none"> Accuracy of amounts recorded 	<ul style="list-style-type: none"> Confirmation of amounts with the custodian Obtain and review the SAS 70 internal control report provided by the service organization.

Coordination with Other Auditors

When necessary we will coordinate and rely on audit testwork performed by the following other auditors.

Auditor	University Component
Peterson Sullivan	Metro Tract, Housing and Food Services
Washington State Auditor's Office	Research – Compliance with Laws and Regulations Statewide Debt
University of Washington Internal Audit	Various
Shallo, Galluscio, Bianchi and Fucito	Various Real Estate Component Units

This coordinated approach allows us to reduce duplicative testwork during the audit of the University and increase overall efficiency.



VI. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 52, Land and Other Real Estate Held as Investments by Endowments

The requirements of this Statement are effective for the University of Washington as of July 1, 2008.

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by the University. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

We are working with management to understand the requirements and their application in the University's financial statements for this fiscal year.



VII. Tentative Timetable

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Initial planning meetings	●										
Present audit plan to board of regents' finance and audit committee			●								
Planning meetings with University of Washington finance department	●										
Interim fieldwork			●								
Final fieldwork							●	●	●		
Financial statements Preparation and reporting									●	●	
Presentation of financial statement and management letter to board of regents' finance and audit committee											●

We will coordinate with the controller's office a more detailed schedule of events, which outlines specific data requirements, timelines, and individuals responsible for each will be prepared.



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Peterson Sullivan LLP
University of Washington Metropolitan Tract Audit
For the Year Ended June 30, 2009

Peterson Sullivan LLP has been providing audit services to the University of Washington Metropolitan Tract for six years. We value our relationship with the University and welcome the opportunity to communicate with the Regents about our audit plan.

SUMMARY OF SERVICES PROVIDED

We perform the following audit services:

- *Metropolitan Tract:* This is the bulk of the audit work we perform and incorporates all of the properties within the Metro Tract.
- *Rainier Tower Sublease:* We also audit the results of operations specifically associated with the Rainier Tower sublease.
- *Fairmont Olympic Hotel:* We audit the schedule of gross rental income and percentage rent. We also perform lease compliance agreed-upon procedures
- *Unico Properties:* We audit the schedule of gross rental income and percentage rent. Again, we perform lease compliance agreed-upon procedures
- *Cobb Building:* We perform certain lease compliance agreed-upon procedures

SUMMARY OF AUDIT PLANS

Metropolitan Tract

A series of new audit standards were implemented last year which required:

- Increased reviews of internal controls and accounting procedures through better documentation and transaction walk-throughs.
- Increased communication with those "charged with governance."

We focus our audit procedures in the areas deemed to be the highest risk. At the Metropolitan Tract, we have determined that cash, accounts receivable from Unico, and the rental revenue stream represent the largest dollar value and the highest volume of activity and, therefore, the highest audit risk. Also, the Metropolitan Tract is completing the conversion to a new accounting system, which includes a new fixed asset system. We will review whether the conversion has been completed properly during our review of the internal control. We prepare our audit programs to focus audit efforts in these areas.

Rainier Tower Sublease

The Rainier Tower sublease financial results are included in the Metropolitan Tract financial statements. We audit this activity and also audit the separate results of operations for the Rainier Tower. We expect to focus our audit procedures on rental revenue recognition and capital expenditures.

Fairmont Olympic Hotel

The financial results from the Fairmont Olympic Hotel are included in the Metropolitan Tract financial statements. We also audit the financial results related to the revenue and percentage rentals on a stand-alone basis. We focus our audit procedures on Fairmont revenue as this is the driver as to amounts paid to the Metro Tract. We test revenue recognition, completeness of reported revenue, and proper classification and presentation of revenue. In addition, we perform certain agreed-upon procedures related to the Fairmont activity. These procedures include testing to ensure that the Fairmont classifies revenue properly in accordance with the lease.

Unico Properties, Inc.

The financial results from the Unico Properties are included in the Metropolitan Tract financial statements. We audit this activity and also audit the financial results related to the gross rental income and percentage rentals on a stand-alone basis. We focus our audit procedures on revenue recognition and revenue classification between commercial space and office space. We particularly focus on the ground level space in all buildings to determine if it is properly classified as commercial versus office space. We will also select applicable tenants and test the calculation of percentage rents. In addition, we will perform certain agreed-upon procedures related to lease compliance. These procedures include, but are not limited to, lease compliance with the Cobb lease and the allocation of parking revenue.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

- Agreed-upon procedures (Fairmont, Unico, Cobb) begins early June 2009
- Metropolitan Tract audit begins early August 2009
- Rainier Tower audit also begins early August 2009
- Reports for Fairmont and Unico are prepared for the year ended December 31, 2008, and will be issued in August 2009 or sooner.
- Reports for the Metropolitan Tract and Rainier Tower are prepared for the year ended June 30, 2009, and will be issued by September 30, 2009.

Executive Summary

**Washington State Auditor's Office
University of Washington Audit
July 1, 2008 through June 30, 2009**

The State Auditor's Office strives to ensure the best use of state resources. To this end, we make every attempt to avoid duplication of audit efforts by considering work performed by other auditors or oversight agencies, including the University's internal auditors, when appropriate.

In keeping with general auditing practices, we do not examine every portion of the University's financial activities during each audit. The areas examined are those areas we have determined have the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years.

Our scope of responsibility is primarily to audit financial records to ensure public funds are accounted for and controls are in place to protect public resources from misappropriation and misuse and secondly; legal compliance to ensure units of state and local government adhere to required laws and regulations relating to financial matters.

ELEMENTS OF THE AUDIT

Compliance with laws and regulations:

The State Constitution, Article 3, Section 20 (Audits of Public Accounts) establishes the Office as the auditor of public accounts, and to have such powers and perform such duties as may be prescribed by law. RCW 43.09 grants the auditor authority to examine the financial affairs of public agencies to ensure their integrity in the assessment, collection, and expenditure of public funds.

How? We examine the University's compliance with laws, regulations, and policies. To plan the audit we applied our professional knowledge and experience with University operations and analyzed electronic University data to identify areas at the highest risk for non-compliance, misappropriation or abuse. If, during the course of the audit, we identify other areas not scheduled for review, we consider adjusting our audit scope accordingly and notify University management.

Which areas?

- Small and attractive assets
- Central systems - disbursements
- Central systems – payroll
- Institutional overhead
- Pharmaceutical inventory – Hall Health
- Open Public Meetings Act
- Payroll
- General disbursements
- Travel
- Competitive bid law
- Accounts receivables
- Petty cash and revolving funds
- Department review:
 - Office of Global Affairs - UW China Branch
 - Primate Center
 - UWMC - Medical Specialty Clinic
 - Robinson Center for Young Scholars
- Purchase cards
- FTE enrollment reporting
- Rental income
- Contracts and agreements
- Cash receipting:
 - School of Dentistry
 - Intercollegiate Athletics
 - Burke Museum
 - Husky Union Building
 - Recreational Sports
 - UW Bothell Facilities Operations
 - Associated Students of UW (ASUW)
 - Parking and Commuter Services
 - Foster Library
 - Rubenstein Pharmacy – Hall Health

Planned computer assisted audit tests of payroll and vendor payment transactions may lead us to additional departments.

Single Audit:

The State Auditor's Office is responsible for performing a single audit of the State of Washington, as required by the revised Single Audit Act and Office of Management and Budget Circular A-133. We have identified two major federal programs at the University that are scheduled for audit:

- AIDS and Education and Training Centers
- Research and Development Cluster

The federally funded transactions and related internal controls will be examined in the following departments:

- Office of Sponsored Programs
- Grant and Contract Accounting
- Management Accounting and Analysis
- I-Tech

Departments for the Research and Development Cluster will be determined in May 2009

Financial Statements:

The State Auditor's Office is responsible for performing an audit of the financial statements for the State of Washington. University of Washington financial data is included in these statements. We will attest to the fairness of presentation of certain University account balances considered significant to the state's financial statements. We have identified 16 material financial statement accounts at the University that are scheduled for audit:

- Cash and cash equivalents
- Investments, noncurrent
- Investments
- Education
- Depreciable asset, net of depreciation
- Building
- Furnishings, equipment and collections
- Accumulated depreciation
- Federal grants-in-aid
- Goods and services
- Charges for services
- Education charges for services
- Higher education operating grants and contributions
- Higher education student services
- Salaries and wages
- Obligations under security lending agreement
- Bonds payable

REPORTING

Any conditions considered significant enough to report as a finding will be included in one or two statewide reports:

- Single audit report (for all findings involving federal funds)
- Accountability report (for all findings)

We will also provide the University with a separate accountability report to include all University findings.