VII.   STANDING COMMITTEES

B.   Finance, Audit & Facilities Committee

Internal Audit 2010 Audit Plan and 2009 Audit Results

This item is for information only.

Attachments
Report on 2010 Audit Plan and 2009 Audit Results

UNIVERSITY of WASHINGTON

2010 Audit Plan
and
2009 Audit Results

Finance, Audit and Facilities Committee
Board of Regents

Internal Audit
University of Washington

May 2010

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Executive Summary

The *2010 Audit Plan and 2009 Audit Results Report* contains key information on our planned audit activity for 2010 and highlights of the results of our audit work completed in 2009.

Audit Goals
Internal Audit's goals for 2010 are:
- Complete audits within twenty of the highest risk ranked units of the University;
- Provide the University with value added recommendations to improve controls, mitigate identified risks and increase efficiency within operations;
- Expand our audit universe to include UW Physicians, UW Physicians Network and also consider expanding to newly created or acquired UW operations;
- Implement a new Internal Audit electronic work paper system;
- Continue to strengthen our audit team through focused industry training; and
- Continue to coordinate with and participate in the further development of the University-wide enterprise risk management framework.

Audit Plan 2010
We completed our annual internal audit plan for the University which includes:
- Overview of the Audit Plan;
- Analysis of Audit Coverage by Combined Auditable Units from 2006 - 2010;
- Heat Map of Combined Auditable Units;
- Planned Audit Projects;
- Allocation of Audit Resources; and
- Risk Assessment Methodology/Development of Annual Plan, included in Appendix A.

Audit Results 2009
As a result of the work completed in 2009, we issued 13 audit reports related to the 2008 and 2009 audit plans, provided controls and ethics trainings across campus, conducted follow-up audit procedures to "close" over 100 audit findings, provided liaison services to campus and conducted investigations into ethics and/or fraud allegations.

The audit reports issued related to work completed in the following areas:

UWMC/HMC/UWPN- HIPAA Compliance	School of Medicine and Nursing - Grant Mgmt.
UWMC Lab Medicine - Service Capture	School of Medicine - Recharge Processes
Speech & Hearing Clinic – Revenue, HIPAA	UW Bothell - Financial Controls
UWMC / HMC – Cash Handling Processes	Student Publications – Financial Controls
IT Security Controls	IT General Computing Controls

Overall, we found the departments tested generally had good control systems in place related to financial management, operations and federal compliance. The exceptions identified resulted primarily from the lack of sufficient management oversight and monitoring rather than problems systemic at the University or Medical Center 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, security, risk assessment, and disaster recovery.

2010 Audit Plan

Audit Plan

Internal Audit engages in three primary activities – audits, advisory services, and investigations. Our focus is to actively work with the schools, colleges and medical centers assisting management to address strategic, financial, operational, and compliance risks and exposures. Internal Audit focuses on both University wide and departmental level control systems and processes. In order to focus our audit resources, we consider the work completed by other audit professionals and compliance officers across the University such as KPMG LLP, Peterson Sullivan LLP, State Auditor's Office and other regulatory agencies in both setting our overall audit plan and in planning the work conducted on any specific project. Additionally, we provide liaison services between the University and external audit parties to assist in the effective conduct of outside auditor's projects.

Internal Audit's goals for 2010 are:
- Complete audits within twenty of the highest risk ranked units of the University;
- Provide the University with value added recommendations to improve controls, mitigate identified risks and increase efficiency within operations;
- Expand our audit universe to include UW Physicians, UW Physicians Network and also consider expanding to newly created or acquired UW operations;
- Implement a new Internal Audit electronic work paper system;
- Continue to strengthen our audit team through focused industry training; and
- Continue to coordinate with and participate in the further development of the University-wide enterprise risk management framework.

The University of Washington Internal Audit Plan for 2010 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.

A chart of the summarized audit universe is contained on the following page. During the completion of the risk assessment (see methodology attached as Appendix A), we created a matrix of some 280 auditable units of the University and Medical Centers. The units had varying degrees of autonomy; however, we created the units from listings of Colleges, Schools, Departments, and Auxiliary Organizations. We grouped these 280 auditable units into what we have identified as our 40 combined auditable units within the University. We ranked these across a number of different risk factors to capture the inherent risks to the institution and enable Internal Audit to compare the units and identify areas to focus our audit activities.

We have included a heat map representing the results of our risk ranking on page 5. Additionally, Internal Audit continues to respond to changes in the University and its related entities. In 2010 we will expand our audit work at the medical centers to include UW Physicians and expect to include other UW Medicine organizations in 2011.

Analysis of Coverage of Combined Auditable Units

The University combined auditable units listed below are ranked from high to low in terms of the relative risk based on the risk assessment performed by Internal Audit. Additionally we have included the relative ranking from previous risk assessments. The columns identify the relative risk ranking in each of those periods and the type of audit coverage.

	2010		2009/2008		2007/2006	
COMBINED AUDITABLE UNIT	Rank	Audit Coverage	Rank	Audit Coverage	Rank	Audit Coverage
UW Medical Center	1	IA	3	IA	3	IA
Harborview Medical Center	2	IA	2	IA	2	IA
School of Medicine	3	IA	1	IA	1	IA
UW Physicians/Physicians Network	4	IA	-	Ext	-	Ext
Intercollegiate Athletics	5	IA	9	IA	19	IA
College of the Environment	6	IA	21	Reg	10	IA
Northwest Hospital	7	Ext	-	Ext	-	Ext
Student Financial Aid	8	IA	34	Reg	26	-
Office of Research	9	IA	23	IA	25	-
College of Engineering	10	IA	16	-	7	IA
Capital Projects	11	IA	13	-	15	IA
Finance	12	IA	24	IA	18	Ext
International/Global Programs	13	IA	28	IA	38	-
Grant and Contract Accounting	14	IA	18	Reg	8	IA
Treasury Office	15	Ext	30	Ext	23	Ext
Office of the President/Provost	16	IA	29	IA	28	IA
School of Dentistry	17	IA	7	-	14	-
Housing and Food Services	18	Ext	26	Ext	17	Ext
College of Arts and Sciences	19	-	4	IA	6	IA
Educational Outreach	20	-	5	IA	13	-
Health Sciences Administration	21	Reg	6	IA	4	IA
School of Public Health	22	-	8	-	11	IA
School of Nursing	23	-	15	IA	27	IA
Office of Planning and Budgeting	24	IA	35	-	34	Reg
Graduate School	25	-	27	-	37	-
Advancement	26	-	10	IA	20	-
UW Information Technology	27	IA	11	IA	5	IA
UW Tacoma	28	-	14	IA	30	-
UW Bothell	29	IA	12	IA	22	-
College of the Built Environment	30	-	31	-	21	-
School of Business	31	-	17	IA	9	IA
Facilities Services	32	IA	25	-	16	IA
College of Education	33	-	33	-	31	IA
School of Pharmacy	34	-	19	-	32	IA
School of Public Affairs	35	-	32	-	29	IA
School of Law	36	-	20	-	24	Reg
Student Life	37	Ext	34	IA	36	Ext
School of Social Work	38	-	22	-	12	IA
Affiliated / Public Service Organizations	39	Ext	37	Ext	35	Ext
Information School	40	-	36	-	33	-

Legend: IA - Audited by Internal Audit
Ext – Audited by KPMG LLP or Peterson Sullivan LLP
Reg – Audited by Regulatory Agencies, including State Auditor's Office

Combined Auditable Units - Heat Map

Likliehood	Ranking of 40 Major Units within University				
Almost Certain					
Likely				4 7	
Possible	38	30 17 25 23 34 33 29 28	13 22 21 18 14	6 10 9 5 12 11 8	2 1 3
Unlikely	40	36 35 39 37	32 26 27 24 20 19 16 15 31		
Rare					
	Insignificant	Minor	Moderate	Major	Critical
	Impact				

Listing of Combined Auditable Units

(Numbers in chart below correspond to the chart above)

1	UW Medical Center	21	Health Sciences Administration
2	Harborview Medical Center	22	School of Public Health
3	School of Medicine	23	School of Nursing
4	UW Physicians / Physicians Network	24	Office of Planning and Budgeting
5	Intercollegiate Athletics	25	Graduate School
6	College of the Environment	26	Advancement
7	Northwest Hospital	27	UW Information Technology
8	Student Financial Aid	28	UW Tacoma
9	Office of Research	29	UW Bothell
10	College of Engineering	30	College of the Built Environment
11	Capital Projects	31	School of Business
12	Finance	32	Facilities Services
13	International / Global Programs	33	College of Education
14	Grant and Contract Accounting	34	School of Pharmacy
15	Treasury Office	35	School of Public Affairs
16	Office of the President / Provost	36	School of Law
17	School of Dentistry	37	Student Life
18	Housing and Food Services	38	School of Social Work
19	College of Arts and Sciences	39	Affiliated / Public Service Organizations
20	Educational Outreach	40	Information - School

Planned Audit Projects

Based on the work completed in our risk assessment, we identified the following audit units with corresponding areas of audit focus. These audit units are a significant activity, component or system from one of the combined auditable units identified in the risk assessment. We will conduct audits in the identified units. Additionally, based on risk and controls review conducted in the audit planning process, we will validate and expand upon the areas of focus and risks in each respective audit unit.

Campuses:

Audit Unit	Audit Focus
School of Ocean & Fisheries	ARRA Grants, Strategic Initiative - OOI
School of Medicine (3 audits)	Federal Grant Activities controls (2 depts.), Funds Flow
ICA	Recruiting, Extra Benefits controls
Student Financial Aid	Financial Aid Program controls
Office of Research	Human Subjects controls
Capital Projects	Construction audit of major project (>$50M)
Finance (2 audits)	MAA – FEC reporting, PCI, Red Flag rules
International / Global Programs	I-Tech Grant Management / site visit to Africa
Grant & Contract Accounting	ARRA Audit – reporting controls
School of Dentistry	Organizational controls / Dental Billing System
Office of Planning & Budgeting	Process/controls for Activity Based Budgeting, IT controls
College of Engineering	Grant Management and financial controls review
UW Bothell	Student Fees – stewardship and expenditure controls
Student Life	Student Fees – stewardship and expenditure controls
Human Resources	Pay type controls
UW Information Technology (2)	Budget and financial controls review, Rate setting
Facilities	Financial controls, FMAX system controls

Medical Centers:

Audit Unit	Audit Focus
UWMC Pharmacy	Service capture, Billing, Inventory, IT controls
HMC Pharmacy	Service capture, Billing, Inventory, IT controls
HMC Charity Care	Eligibility Process compliance review
UWMC Charity Care	Eligibility Process compliance review
UWP / UWPN Charity Care	Eligibility Process compliance review
UWMC Pathology	Service capture, IT controls
HMC Radiology	Service capture, IT controls
CHARMS – Pre-implementation review	Pre-implementation review and assistance with process documentation and control identification
CHARMS – Post-implementation review	Post-implementation review and control testing

Audit Resources

The audit plan for calendar 2010 is based on a planned staffing complement of 14.25 FTE professionals, approximately equal to the plan for calendar 2009. This results in a roughly equivalent number of available hours for internal audit work. However, this estimate is contingent upon no significant reduction in budget for FY 2010, whereby we would need to eliminate staff positions.

Approximately 62% of the Internal Audit's available resources are committed to the completion of planned audit projects and follow-up audit procedures. The annual audit plan is designed to provide appropriate coverage utilizing a variety of audit methodologies: audits of individual units both on Campus and at the Medical Centers, functional and process audits, University-wide reviews, and information system projects. Note that 3% of these hours have been reserved for follow-up procedures performed to ensure implementation of updated control procedures (see chart on page 13). The effort here is reduced from prior years as we have implemented new follow-up reporting procedures borne out of our 2009 Quality Improvement Project.
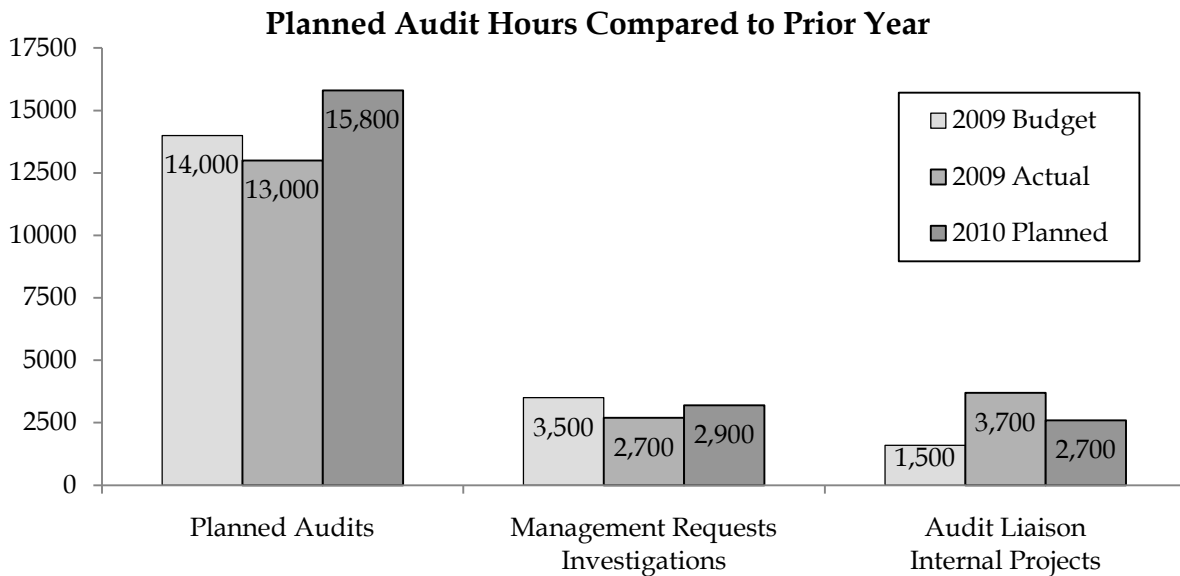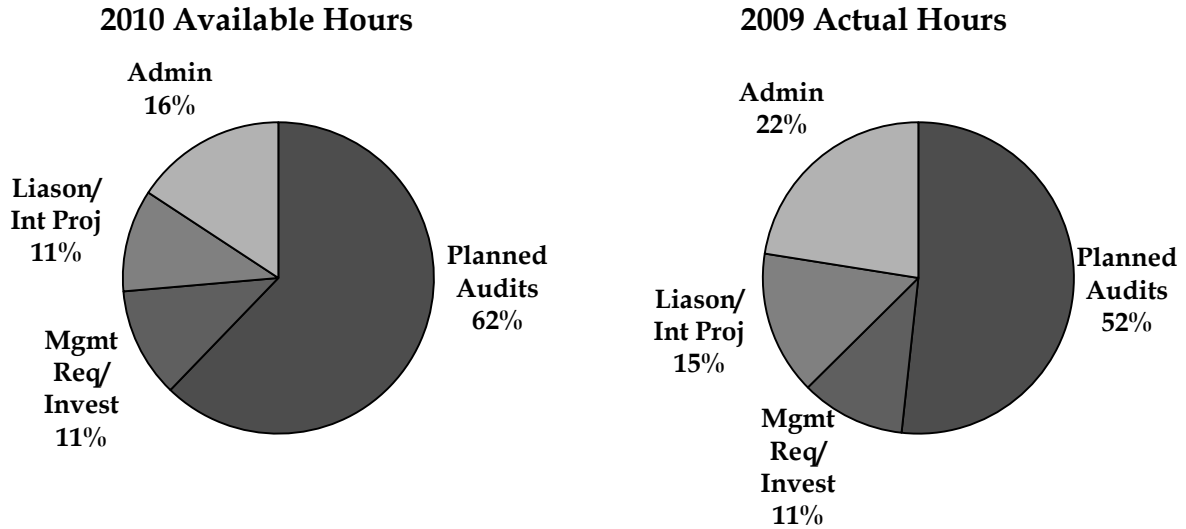
In selecting specific units/functions for inclusion in the audit plan we placed priority on providing coverage of higher risk units/processes, and areas of interest to University and Medical Center administrative leadership.

This year 15% of our resources will be needed to complete carry over work from our 2009 audit plan. Eight audit projects were in process at December 31, 2009, of these only two remain open as of April 2010. While the amount of carry over work exceeds what we normally expect, our approach to the FY 2009 internal audit plan was "back-loaded" to allow the new Executive Director to be on-boarded. We also have experienced delays in obtaining management responses, departmental information and access to personnel within departments as staffing levels have been reduced.

The remainder of our FY 2010 audit resources is allocated as follows:
- 11% to accomplish the audit liaison function for the University, training provided to University personnel, committee work, internal quality improvement projects and implementation of electronic audit work papers.
- 7% for investigations. The number of hours remains unchanged from 2009, a year we experienced an increase in required hours.
- 4% to accommodate requests from the President, the Board, or other executive management. This includes such projects as a pre-implementation review of process documentation for CHARMS.
- 16% has been further allocated for internal administrative functions, including training, employee development and manager / staff meetings.

Audit Resources (cont.)

2010 Available Hours

Admin 16%

Liason/ Int Proj 11%

Mgmt Req/ Invest 11%

Planned Audits 62%

2009 Actual Hours

Admin 22%

Liason/ Int Proj 15%

Mgmt Req/ Invest 11%

Planned Audits 52%

Planned Audit Hours Compared to Prior Year

Legend:
- 2009 Budget
- 2009 Actual
- 2010 Planned

	2009 Budget	2009 Actual	2010 Planned
Planned Audits	14,000	13,000	15,800
Management Requests Investigations	3,500	2,700	2,900
Audit Liaison Internal Projects	1,500	3,700	2,700

Actual hours spent on 2009 scheduled audits was under budget due to staff vacancies, time required for hiring and training new staff, and the shifting of time to quality improvement projects to revamp our audit follow-up process and implement a new electronic audit work paper system. Additionally, actual hours spent on management requests was significantly less than expected in 2009; however, this was offset by increased investigation hours.

The budget for 2010 scheduled audits increased in anticipation of a fully staffed audit department. We also expect increased focus and efficiency from completion of our quality improvement projects. Internal Audit continues to expand the audits completed at the medical centers and expects to continue this trend to include UW Physicians and other UW Medicine organizations in 2010. Additionally, we expect increased time to be spent on investigations throughout 2010, a continuation of recent experience.

2009 Audit Results

Audit Results

In 2009, Internal Audit 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.

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, security, risk assessment, and disaster recovery.

Summary of Key Areas Audited

We completed a number of audits across both the Campus and Medical Centers during calendar 2009. We have summarized the key risks and controls reviewed in these audits below as well as a brief summary of recommendations to strengthen our controls from these audits

Grants Management
We reviewed grants management controls at the Department of Laboratory Medicine and School of Nursing – Behavioral Nursing and Health Services.

We recommended Laboratory Medicine establishes processes to ensure federally required Grant and Contract Certification Reports (GCCRs) are reviewed and signed timely, delegation of signature authority forms are completed by each Principal Investigator, and subcontractors are submitting invoices to the University timely. We recommended the School of Nursing develops a system to monitor grant budget fund balances and status, improves authorization and documentation controls over payroll, purchasing, expenditure transfers transactions, and improves monitoring over grant compliance areas such as salary caps and GCCRs.

Recharge Centers
Recharge centers are units that provide goods and services primarily to internal University operations and charge more than $175,000 annually to federally sponsored agreements or incur more than $1,000,000 annually in total charges. We reviewed compliance with University and federal recharge center policies at the Departments of Laboratory Medicine and Comparative Medicine. The former provides lab tests to clinicians and researchers. The later provides animal housing and care services to researchers.

We recommended Laboratory Medicine establishes a formal process to ensure changes to the charge master are properly approved and entered into the system.   We recommended the Department of Comparative Medicine retains evidence of receipt of animals purchased and supervisory reviews of animal counts, and establishes maximum and minimum levels of animal supplies inventory. We also recommended that the Rodent Colony Management unit properly account for services performed by individuals, and support the proper allocation of salaries charged to grants.

Health Insurance Portability and Accountability Act (HIPAA)
HIPAA privacy and security rules provide federal protections for personal health information and specifies a series of administrative, physical, and technical safeguards to use to assure the confidentiality, integrity, and availability of electronic protected health information.   Internal Audit reviewed compliance with HIPAA rules at Harborview Medical Center (HMC), University of Washington Medical Center (UWMC), University of Washington Physicians and UW Medicine Information Technology Services.

We recommended UW Medicine develops a comprehensive privacy continuous monitoring program, develops a process to identify and review Business Associate Agreements and centralize the release of information process at UWPN. We further recommended improvements in enterprise system inventory and risk assessments, enforcement of security policies, system owner and operator training, disaster recovery and business continuity planning, and system administrator account administration.

Medical Center Service Capture
We performed an audit at UWMC Laboratory Medicine to determine whether laboratory charges are captured accurately, completely, and submitted for billing timely. We found the controls related to charges for services and related billings were functioning as designed.

UW Bothell
We reviewed controls related to the accuracy and completeness of financial management information provided to the Chancellor's Office for decision making purposes and the monitoring of budget deficits. Our review identified several opportunities to improve the quality of financial information provided to the Chancellor's Office. In addition, recommendations were made to formalize the process for monitoring of self-sustaining budgets.

Stewardship of Cash
We reviewed the cash receipting procedures at five locations at the UW Medical Center, four locations at Harborview Medical Center, and three locations within other schools or colleges on campus to determine the strength of our cash controls (an area of focus by the State Auditor). We identified a number of areas where controls could be improved. As such we worked with the various units to help identify and improve controls related to segregation of duties, limiting access, securing funds, restrictive endorsement, timeliness of deposits, and reconciliation of funds.

Summary of Key Areas Audited (cont.)

Information Technology

As part of the audits conducted at two School of Medicine units, one UW Medical Center unit, and two units within other schools or colleges on campus, we reviewed the controls over the IT systems that they maintain. We found that controls were adequate at two of the five units reviewed. In the remaining three, recommendations were made to improve controls over performance of risk and security assessments, limiting access to systems administrators, change management, and disaster recovery.

Student Publications

We reviewed controls related to payroll, purchasing, travel, petty cash, revenue, cash receipts, accounts receivable, and financial statement preparation. While we found improvements since a new fiscal staff was hired, we identified opportunities for further strengthening of controls and mitigation of risks in most areas.

Audits In-process

During the course of calendar 2009, we started a number of audits which were in different phases of completion as of December 31st. As of April 30, 2010, a number of these audits have been completed and reports issued. These include UW Procard, Subcontractor and Sub-recipient Monitoring, I-Tech cash advances, UWMC and HMC Materials Management and Educational Outreach. Those 2009 audits which are ongoing as of April 30, 2010 are Student Database FERPA controls, UW Tacoma Financial Controls and Intercollegiate Athletics Financial Aid controls (reporting phase) and School of Dentistry (fieldwork phase).
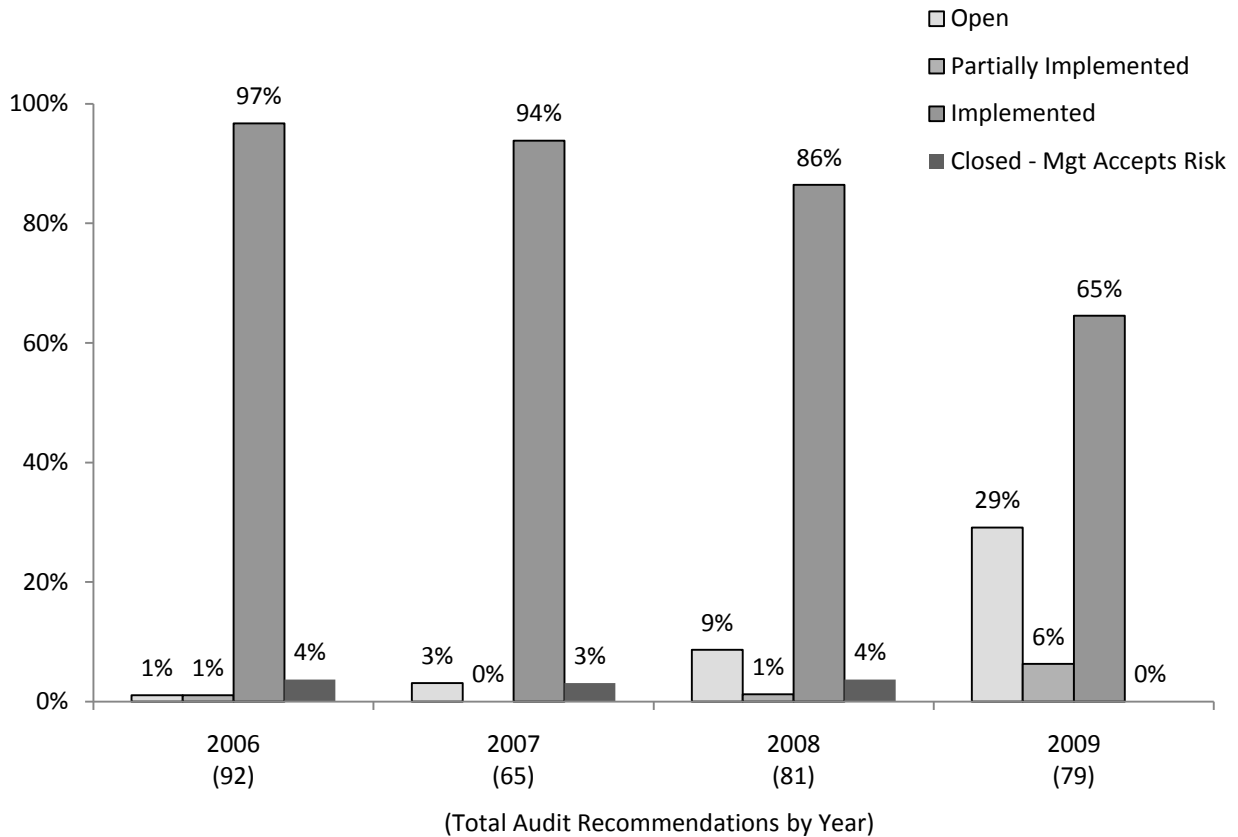
Additional Contributions by Internal Audit

Internal Audit is also involved in a number of other activities to deliver value to the University. These activities include the follow-up of previously issued audit recommendations, the conduct of internal investigations into fraud and ethics violations, pre-implementation reviews of new IT systems, review of specific risk areas as requested by management, audit liaison services to the campus, advisory work on key campus committees and internal quality improvement initiatives within Internal Audit. We have summarized our involvement in these areas below.

Follow-up Audit Procedures

Semi- annually Internal Audit conducts follow-up audit procedures to ensure that management is implementing controls as described within their responses to Internal Audit. As a result of these follow-up procedures, we were able to create the chart below to demonstrate how the University is implementing control recommendations. Additionally, Internal Audit has begun issuing a semi-annual report to management which includes the chart below and the status on all recommendations not yet implemented.

Percentage of Recommendations Implemented for the Years 2006-2009

Additional Contributions by Internal Audit (cont.)

Management Requests and Advisory Services

During calendar 2009 Internal Audit conducted a number of projects at the request of the Board of Regents and Executive Management. These focused on testing of controls in areas of management concern and/ or consultations on controls for ongoing projects. We participated on such projects as the review of controls and processes for the Medical Centers CHARMS project (new billing system) and ITS wireless security.

Liaison Services

Internal Audit serves as liaison between central administrative offices, University departments and external auditors (federal, state and financial). The department maintains a record of all external auditors on campus, ensures documentation and information requests are understood and met, assists University staff is responding to audit findings and facilitates communication and coordination between different groups of auditors to minimize disruption to departmental activities. Additionally, we attend entrance and exit conferences and act as focal point for putting auditors in touch with the right people at the University to answer their questions. Appendix C contains a listing of external audit organizations who conducted work at the University in 2009.

Special Investigations

Over the last few years and notably in the last six months of 2009 Internal Audit has experienced an increase in both complaint activity and related investigations. From 2006 to 2008, we averaged approximately 30 complaints a year; however, in 2009 this spiked to 51 complaints. Of these, we carried out thirty-six investigations related to whistleblower claims and regulatory, ethics and fraud allegations. We carry out many of these investigations as the proxy for the State Auditor's Office (whistleblower and fraud allegations), which allows Internal Audit to quickly identify control weaknesses and provide recommendations on ways to strengthen controls.

Trainings Provided

One of our goals is to continue to assist the University and Medical Centers in their endeavor to strengthen internal controls. As such, we lead, provide and deliver trainings to campus and medical center groups in the areas of Internal Controls and Fraud Prevention, Grants Management, State Ethics Laws and Work and Leave Records Maintenance. We believe these trainings which amount to some 300 hours of work per year help strengthen the overall control environment while providing our staff with opportunities to meet with future audit clients and strengthen their presentation skills.

Additional Contributions by Internal Audit (cont.)

Participation in UW Committees

Internal Audit provides advisory input into a number of key initiatives on Campus and at the Medical Centers through its participation on committees. Our participation on committees is solely as an advisor and does not extend to a management / decision making role on the specific initiatives. We provide thoughtful input on the challenges faced by the University through an Internal Audit "lens" and focus on how any initiative impacts the control structure of the University. We aspire to always maintain a voice that is consistent with the President's challenge to create a "Culture of Compliance" here at UW.

A sample of the committees we participate in are: the President's Advisory Council on Enterprise Risk Management (PACERM), the Compliance, Operations and Finance Council (COFi Council), the Privacy Assurance and Systems Security Council, the Global Support Committee, the Financial Risk Working Group, the Compliance Officers Group, the Data Management Users Group and the Tax Strategy Team.

Quality Improvement Initiatives

Additionally, we undertook a number of internal initiatives in 2009 to increase our productivity including:

- Restructuring of our post audit follow-up process on audit findings;
- Review of our audit planning process;
- Acquisition of an electronic work paper system;
- Initiation of a review of our reporting process; and
- Initiating a project to develop an Internal Audit Department Balanced Scorecard.

Fraud Reporting Hotline

Due to the budget crisis the University-wide anonymous fraud reporting hotline was eliminated from the budget in 2009. Internal Audit continues to serve as one of the named parties to receive "hotline" type calls and conduct investigations received via any medium.

Enterprise Risk Management

Internal Audit continues to participate in the University's process to identify, assess and mitigate enterprise-wide risks through participation in the PACERM and COFi councils.

Appendices

Risk Assessment Methodology / Development of Annual Plan

We used a risk assessment model to prioritize audit coverage and ensure timely reviews of high exposure areas. We began the process by utilizing information gathered from the University's Enterprise Risk Management (ERM) Reports and previous Internal Audit risk assessment documents. We identified the risk categories to be considered in the risk assessment and ensured alignment with those found in our ERM documents. The following risk categories were considered in the development of our annual plan:

- Strategic Risk - Impairment to the Strategic Mission of the University
- Operational Risk – Impairment of the ability to carry out day-to-day operations of the University
- Compliance Risk – Failure to comply with laws, regulations and internal policies designed to safeguard the University
- Financial Risk – Loss of financial resources or assets
- Reputational Risk – Risk that public image or reputation is damaged by actions of a unit or individual connected to the University

The risk assessment process included gathering and evaluating information from senior management, college and department administrators, medical center executives and utilizing the University's data warehouse for financial information.

We reviewed risk assessment models used by peer institutions and utilized their experience and knowledge of university and medical center operations to ensure our risk assessment model included factors relevant to the University of Washington and UW Medicine. We contacted the following Universities, many of which have Academic Medical Centers:

Universities Contacted	
University of California System	University of Florida
University of Illinois - Champaign	Indiana University
University of Michigan	Michigan State University
University of Minnesota	Northwestern University
Ohio State University	Oregon University System
Penn State University	Texas A&M University Systems
Washington State University	University of Wisconsin - Madison

We reviewed the organizational structure and financial budgeting information of the University and the Medical Centers to develop a comprehensive listing of possible auditable units. We defined this group as our audit universe. It contained over 280 separate possible auditable units. However, to manage the process, we combined these units into 40 Combined Auditable Units, such as School of Medicine, School of Arts and Sciences, UW Medical Center and Harborview Medical Center. We also broke out certain natural organizations from the units to include in our Combined Auditable Units – these included splitting Finance and Facilities into a number of separate units; however, we did not break down the Medical Centers, Colleges or Schools into separate departments.

Risk Assessment Methodology / Development of Annual Plan (cont.)

We ranked all 280 auditable units to assess their individual inherent risk to the University using the following risk factors: Reputational Risk to the Institution, Strategic Impact, Financial Significance, Management's Interest/Concerns, Significant Processes, Compliance Requirements, Information Systems Complexity, Control Environment Stability, Prior Audit Coverage, and International / Global operations.

Upon completion of this exercise we completed the same exercise at the Combined Auditable Unit level to ensure reasonable calibration for these units. This final calculation was used to create the heat maps and ranking of Combined Auditable Units within the audit plan.

We then returned to the audit universe to identify and select auditable units for inclusion in our proposed audit projects for 2010 from some of the highest ranked combined auditable areas and the individual audit units within these groupings. The list of the proposed audit projects is included in the audit plan on page 6.

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 – Internal Audit functions under the authority of the Finance, Audit and Facilities Committee of the Board of Regents of the University of Washington.

Internal Audit 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, Internal Audit 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 Internal Audit 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 Internal Audit 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 Internal Audit 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 Internal Audit will coordinate internal and independent outside audit activities to ensure adequate coverage and minimize duplicate efforts.

Standards – The responsibility of Internal Audit 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).

External Auditors – 2009

Financial Statement and Agreed Upon Procedures Audits:

KPMG
University of Washington
Harborview Medical Center
UW Medical Center
Internal Lending Program
Intercollegiate Athletics
Association of University Physicians (dba UW Physicians)
UW Physicians Network

Peterson Sullivan
Housing & Food Services
Student Life

Federal and State Regulatory Audits and reviews:

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

Department of Labor and Industries
Audit of Asbestos handling and training program

Federal Agencies

Center for Disease Control
Audit of selected agent handling programs at bio-safety 3 labs

Defense Contract Audit Agency
Pre-award audit – School of Ocean and Fishery Science

Department of Agriculture
Review of Animal Welfare

Department of Education
Audit of Title IX – Athletics

Department of Energy
Audit of Title IX – Physics

Environmental Protection Agency
Review of underground storage tanks, motor pool

National Science Foundation
Desk audit of Costs Claimed – Applied Physics Laboratory

Office of Federal Compliance and Contract Programs
Audit of Affirmative Action plan and non-discriminatory practices

Office of Naval Research
Property Control System Analysis – Equipment Inventory Office
Contractor Purchasing System Review - Purchasing

External Auditors – 2009 (cont.)

State, Local and Private Agencies

California Healthcare Foundation
Audit of costs claimed – Pediatrics

Cystic Fibrosis Foundation
Desk Audit of costs claimed – Department of Medicine
Grants Audit – Pulmonary and Critical Care, Infectious Diseases

University of Texas, Galveston
Desk audit of costs claimed - Immunology

State of California Attorney General Consumer Advocacy Group
Desk audit of costs claimed – General Internal Medicine

Sandia National Laboratories
Desk audit of costs claimed – (seven grants, five University departments)

Bahamas Ministry of Health
Grants Audit – I-Tech

King County
Grants Audit – Pediatrics, Adolescent Medicine

SBC Global
Grants Audit – General Internal Medicine