

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Internal Audit 2011 Audit Plan and 2010 Audit Results

This item is for information only.

*Attachments*

Report on 2011 Audit Plan and 2010 Audit Results



UNIVERSITY *of* WASHINGTON

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# 2011 Audit Plan and 2010 Audit Results

Finance, Audit and Facilities Committee  
Board of Regents

Internal Audit  
University of Washington

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## Executive Summary

The *2011 Audit Plan and 2010 Audit Results Report* contains key information on our planned audit activity for 2011 and highlights of the results of our audit work completed in 2010.

### Audit Goals

Internal Audit's goals for 2011 are:

- Complete audits within twenty-five 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 Northwest Hospital and also consider expanding to newly created or acquired UW operations;
- Continue further implementation of modules included in our 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 2011

We completed our annual internal audit plan for the University, which focused on updating the 2010 biennial risk assessment. The plan documents presented include:

- Overview of the Audit Plan;
- Analysis of Audit Coverage by Combined Auditable Units from 2006 - 2011;
- 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 2010

As a result of the work completed in 2010, we issued 15 audit reports related to the 2008 through 2010 audit plans, provided controls and ethics trainings across campus, conducted follow-up audit procedures to "close" over 125 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:

Procurement Card

Subcontracting and Subrecipient Monitoring

UWMC / HMC Materials Management

School of Medicine - I-Tech

Student Data Base

Capital Projects Office

UW Tacoma - Financial Controls, Student Services

Educational Outreach

UWMC / HMC and UWP Charity Care

UW IT - Financial Controls

Intercollegiate Athletics Compliance

CHARMS / EPIC Pre-implementation

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 implementation of new systems and security of data stored in decentralized, department-owned systems. We found departments need to strengthen controls related to user access, security, and disaster recovery.

# 2011 Audit Plan

## Audit Plan

Internal Audit engages in three primary activities – audits, management 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 2011 are:

- Complete audits and audit procedures within twenty-five 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 Northwest Hospital and to other newly created or acquired UW operations;
- Continue further implementation of modules within our 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 2011 is designed to provide comprehensive audit coverage, deploying Internal Audit resources in an effective and efficient manner. 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 2011 we will expand our audit work at the medical centers to include Northwest Hospital and expect to include other UW Medicine organizations in 2012.

## 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.

COMBINED AUDITABLE UNIT	2011/2010		2009/2008		2007/2006	
	Rank	Audit Coverage	Rank	Audit Coverage	Rank	Audit Coverage
UW Medical Center	1	IA-10 & 11	3	IA	3	IA
Harborview Medical Center	2	IA-10 & 11	2	IA	2	IA
School of Medicine	3	IA-10 & 11	1	IA	1	IA
UW Physicians/Physicians Network	4	IA-10 & 11	-	Ext	-	Ext
Intercollegiate Athletics	5	IA-10 & 11	9	IA	19	IA
College of the Environment	6	IA-11	21	Reg	10	IA
Northwest Hospital	7	IA-11	-	Ext	-	Ext
Student Financial Aid	8	-	34	Reg	26	-
Office of Research	9	IA-10 & 11	23	IA	25	-
College of Engineering	10	IA-10	16	-	7	IA
Capital Projects	11	IA-10	13	-	15	IA
Finance	12	IA-10 & 11	24	IA	18	Ext
International/Global Programs	13	IA-10 & 11	28	IA	38	-
Grant and Contract Accounting	14	IA 10 & 11	18	Reg	8	IA
Treasury Office	15	Ext	30	Ext	23	Ext
Office of the President/Provost	16	IA-10 & 11	29	IA	28	IA
School of Dentistry	17	IA-10	7	-	14	-
Housing and Food Services	18	Ext	26	Ext	17	Ext
College of Arts and Sciences	19	IA-11	4	IA	6	IA
Educational Outreach	20	IA-10	5	IA	13	-
Health Sciences Administration	21	IA-10 & 11	6	IA	4	IA
School of Public Health	22	IA-11	8	-	11	IA
School of Nursing	23	IA-10	15	IA	27	IA
Office of Planning and Budgeting	24	IA-11	35	-	34	Reg
Graduate School	25	IA-11	27	-	37	-
Advancement	26	-	10	IA	20	-
UW Information Technology	27	IA-10 & 11	11	IA	5	IA
UW Tacoma	28	IA-10	14	IA	30	-
UW Bothell	29	IA-11	12	IA	22	-
College of the Built Environment	30	IA-10	31	-	21	-
School of Business	31	-	17	IA	9	IA
Facilities Services	32	IA-10	25	-	16	IA
College of Education	33	IA-11	33	-	31	IA
School of Pharmacy	34	IA-11	19	-	32	IA
School of Public Affairs	35	IA-11	32	-	29	IA
School of Law	36	IA-11	20	-	24	Reg
Student Life	37	IA-10	34	IA	36	Ext
School of Social Work	38	IA-11	22	-	12	IA
Affiliated / Public Service Organizations	39	Ext	37	Ext	35	Ext
Information School	40	IA-11	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

Likelihood	Ranking of 40 Major Units within University										
	Almost Certain										
	Likely										
	Possible										
	Unlikely										
	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 our updated risk assessment, we identified both audit units and university wide processes within which to focus our audit activities during 2011. Additionally, as part of our risk assessment, we were challenged by the President and Provost to look at processes which function in each College or School and/or departments therein; and consider audit projects whose results could be shared across the campus to improve control effectiveness. The audit units noted below represent components or system of a combined auditable unit identified in the risk assessment. We will conduct audits in the identified units. Additionally, based on risk and controls reviews conducted in the audit planning process, we may validate and/or expand upon the areas of focus and risks in each respective audit unit.

### Campuses

Audit Unit	Audit Focus
<b>School of Medicine</b>	Federal grant activities controls review - Anesthesiology
<b>School of Medicine</b>	Federal grant activities controls review – Metabolism
<b>ICA - 2011</b>	Eligibility, Extra benefits, Student athlete employment
<b>College of Arts &amp; Sciences</b>	Federal grant activities controls review
<b>UW Bothell</b>	Student fees – stewardship and expenditure controls
<b>International / Global Programs</b>	Site visit to Africa – financial controls review
<b>UW Information Technology</b>	Rate setting
<b>UW Information Technology</b>	President’s Report follow-up
<b>Multiple Audit Units / Finance</b>	Recharge / cost center audit
<b>Multiple Audit Units / HR</b>	Pay type controls
<b>Multiple Audit Units / Finance</b>	FEC reporting

### Medical Centers

Audit Unit	Audit Focus
<b>Northwest Hospital</b>	Risk assessment and planned audit
<b>Emergency Medicine</b>	HMC/UWMC Service capture, Billing, IT controls
<b>Anesthesiology</b>	HMC / UWMC / UWP Service capture, Billing
<b>Controller’s Office - Contractual Allowance</b>	HMC / UWMC / UWP - Compliance and consistency of application of policies across health system
<b>KRONOS</b>	Post implementation review / Business rules review
<b>CPOE</b>	Pre-implementation review
<b>Multiple Audit Units - Procard</b>	Compliance review with new policies and procedures
<b>Multiple Audit Units - EPIC</b>	Service capture across new billing system

## Audit Resources

The audit plan for calendar 2011 is based on a professional staffing complement of twelve FTE, a decrease of two and a half FTE over the plan for calendar 2010. The plan represents the anticipated minimum level of staffing in 2011 to account for the uncertainty around the budget discussions of the University and the expectation that Internal Audit will participate in any University wide cuts. The plan includes a UW Medicine approved increase of one staff person in acknowledgement of their growing organization. Additionally, Internal Audit plans to augment staffing with UW student interns in calendar 2011. This results in a slight decrease of planned audit hours as compared to time spent in 2010.

Approximately 50% 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 8% of the audit resource hours have been reserved for follow-up procedures performed to ensure implementation of updated control procedures (see chart on page 13).

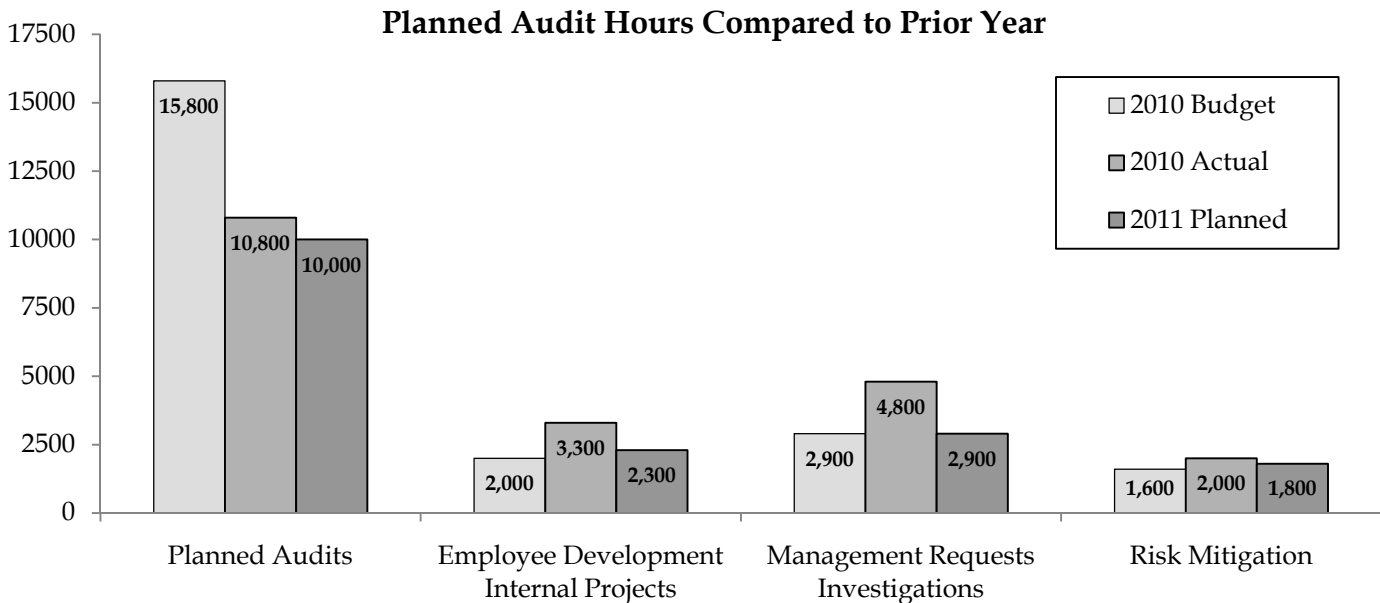
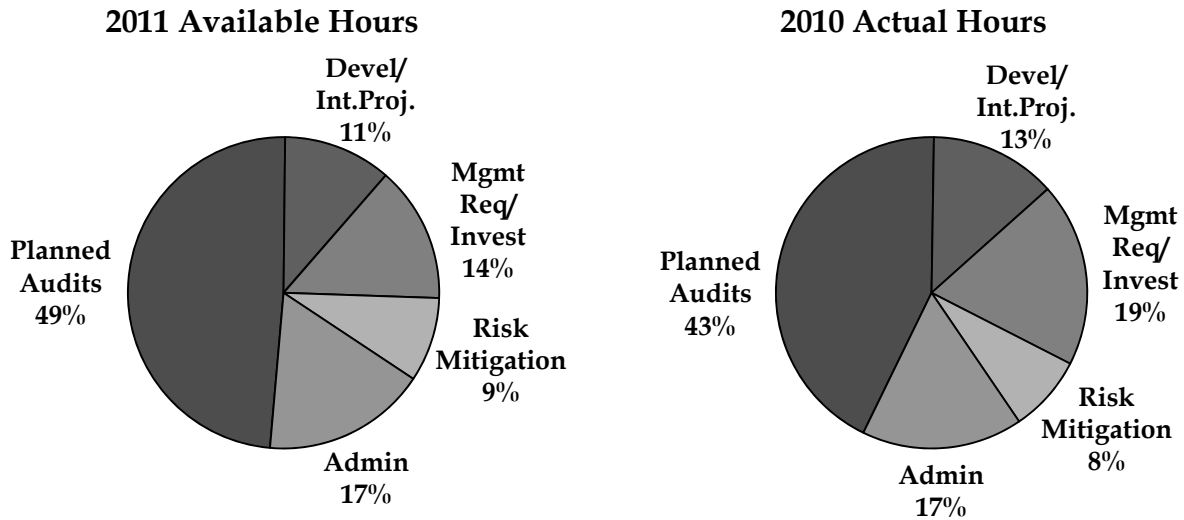
In selecting specific units/functions for inclusion in the audit plan we placed priority on providing coverage of higher risk units/processes, and areas of interest to University and Medical Center administrative leadership.

This year 10% of our resources will be needed to complete carry over work from our 2010 audit plan. Eight audit projects were in process at December 31, 2010, of these only three have remaining fieldwork as of February 28, 2011. The amount of carry over work is in line with a normal audit process where audits begun in the last few months of the year are completed and issued early in the following year.

The remainder of our FY 2011 audit resources is allocated as follows:

- 11% for employee professional development, internal quality improvement projects (LEAN), our Quality Assurance Review (QAR) and ongoing expansion and maintenance of our electronic work paper system.
- 14% to accommodate requests from the President, the Board, or other executive management and consultations with University departments. Additionally we plan to incur hours conducting investigations into whistleblower claims, regulatory, ethics and fraud allegations.
- 9% for risk mitigation efforts such as the audit liaison function for the University, training provided to University personnel, and University risk mitigation committee work.
- 17% has been further allocated for internal administrative functions, including employee performance evaluations, interviews of Internal Audit candidates and manager/staff meetings.

## Audit Resources (cont.)



Actual hours spent on 2010 planned audits was significantly under budget due to a large increase in our investigation hours (1,900 hours), the implementation and training of staff on our new electronic audit work paper system, increased professional education and initiation of our LEAN project (1,300 hours), increased liaison and committee activities (400) and staff vacancies (1,000 hours). Actual hours on management requests were slightly above the level expected in our 2010 audit plan.

Planned Audits budgeted for 2011 represents a decrease from our 2010 audit plan due to anticipated budget reductions and the allocation of time for our 2011 Quality Assurance Review. We do however expect increased efficiency from our on-going LEAN project and other quality improvement projects. Additionally, Internal Audit continues to expand the audits completed at the medical centers and will include Northwest Hospital and other UW Medicine organizations in 2011. We also expect decreased time to be spent on investigations throughout 2011, returning to the level we planned for in 2010.

# 2010 Audit Results

## **Audit Results**

In 2010, 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, poor understanding of specific reconciliation controls and increased pressure on departments which have recently downsized. We have not seen evidence of systemic problems at the University level; however, continued pressure on downsizing of administrative units and departments will increase the risk of significant control breakdowns.

Our information system audits focused primarily on the implementation of the new billing system within the Medical Center, security of data stored in decentralized, department-owned systems and access controls over department run systems audited in 2010. We found departments need to strengthen controls over user access, security and disaster recovery.

### **Summary of Key Areas Audited**

We completed a number of audits across both the Campus and Medical Centers during calendar 2010. 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.

#### **Procurement Card (ProCard)**

We reviewed ProCard controls in 10 departments to determine whether purchases are authorized, valid, supported, accurately recorded and comply with key University policies and procedures. We recommended improvements in the areas of authorization, reconciliation, documentation of business purpose, separation of duties, and retention of required purchasing documentation. In addition, we recommended improvements in central operations related to providing guidance to users, transaction limits, removal of access, and closing of accounts.

#### **Student Database**

We reviewed controls over compliance with the Family Educational Rights and Privacy Act (FERPA) related to securing, managing, modifying and authorizing access to student information, as well as data security of student information systems. We recommended improvements over encryption of data in transit, monitoring of production servers to provide effective security, network security, access and account administration, user authentication, and securing web applications from known vulnerabilities.

#### **Subcontracting and Subrecipient Monitoring**

We reviewed three central and five research departments to determine whether they are adequately monitoring subrecipients for compliance with subcontract requirements and federal regulations. We recommended improvements in the execution/modification of subcontracts, updating of policies/procedures, monitoring of subcontract audit reports, and invoice approval.

## **Summary of Key Areas Audited (cont.)**

### **I-TECH Recharge Centers and Field Advances**

We found that I-TECH (International Training & Education Center for Health) has good internal controls over the operation of its recharge centers; with the exception that one recharge center has not been submitting University required quarterly financial reports. We found controls over the use of field advances need to be improved in the following areas: reconciliation and liquidation, retention of all bank account records, and accuracy of expenditure coding.

### **Educational Outreach**

We reviewed controls related to instructor compensation, instructor selection, overhead allocation, and accounts receivable. Our review identified several opportunities for improvement related to use of excess and supplemental pay, allocation of salaries, academic appointments, accuracy and consistency of overhead allocations, and accounts receivable adjustments. In addition, we recommended changes in the monitoring of financial results, clearing of suspense accounts, and system access rights.

### **Inventory Management**

We reviewed supplies inventory procurement and management processes at UWMC and HMC. We recommended improvements at both in reviewing physical and systems access privileges, tracking consigned inventory, and encrypting back-up media. We also reviewed Operating Room (OR) inventories at both locations and recommended that physical inventory counts be documented at HMC, and that UWMC OR inventory requisitions be processed through the Purchasing and Inventory Management application, PMM.

### **Charity Care**

We reviewed the management of charity care processing at UWMC, HMC and UWP. Charity care processes are well managed and executed at all entities reviewed. However, we did recommend changes in certain procedures to provide for better consistency between entities.

### **UW-IT**

We performed a review of the oversight and management of the UW-IT budget. We found that UW-IT has made significant progress in introducing internal controls to facilitate effective financial control. We found that controls could be further enhanced by re-designing financial reports to include more detailed information by operating unit and an executive summary, timely reconciliations of budget reports, documentation of approved salary changes or allocations, and timely write-off of accounts receivable.

### **Capital Projects**

We reviewed the controls regarding procurement, contracts, payments, change orders, and monitoring of large projects, and found that Capital Projects' processes and controls are effective.

## **Summary of Key Areas Audited (cont.)**

### **Intercollegiate Athletics**

We reviewed internal controls over financial aid, playing and practice seasons, rules education, self-reported violations, and information technology self-assessment. We recommended strengthening controls in the areas of submission and review of practice logs, submission of Declaration of Playing and Practice Season forms, practice logs for football summer conditioning, and annual rules education to staff.

### **UW Tacoma**

We reviewed controls related to cash receipts, revolving funds and information technology at the Cashier's Office. We determined the Cashier's Office has adequate controls. We also reviewed controls over expenditure of funds and outside work at the Division of Student Affairs. We recommended management improve the control environment at Student Affairs; establish a working committee to oversee the Enrollment Confirmation Fee budget, document approvals and that student fees were expended in accordance with the intent of the fund, and separate incompatible duties.

### **Audits In-process**

During the course of calendar 2010, we started a number of audits which were in different phases of completion as of December 31<sup>st</sup>. As of February 28, 2011, a number of these audits have been completed and reports issued. These include Facility Services and the College of Civil and Environmental Engineering. Those 2010 audits which are ongoing as of February 28, 2011 are the American Recovery and Reinvestment Act (ARRA), School of Dentistry, HMC/UWMC Pharmacy, HMC/UWMC Pathology (reporting phase) and HMC Radiology, Human Subjects, and Intercollegiate Athletics (fieldwork phase).

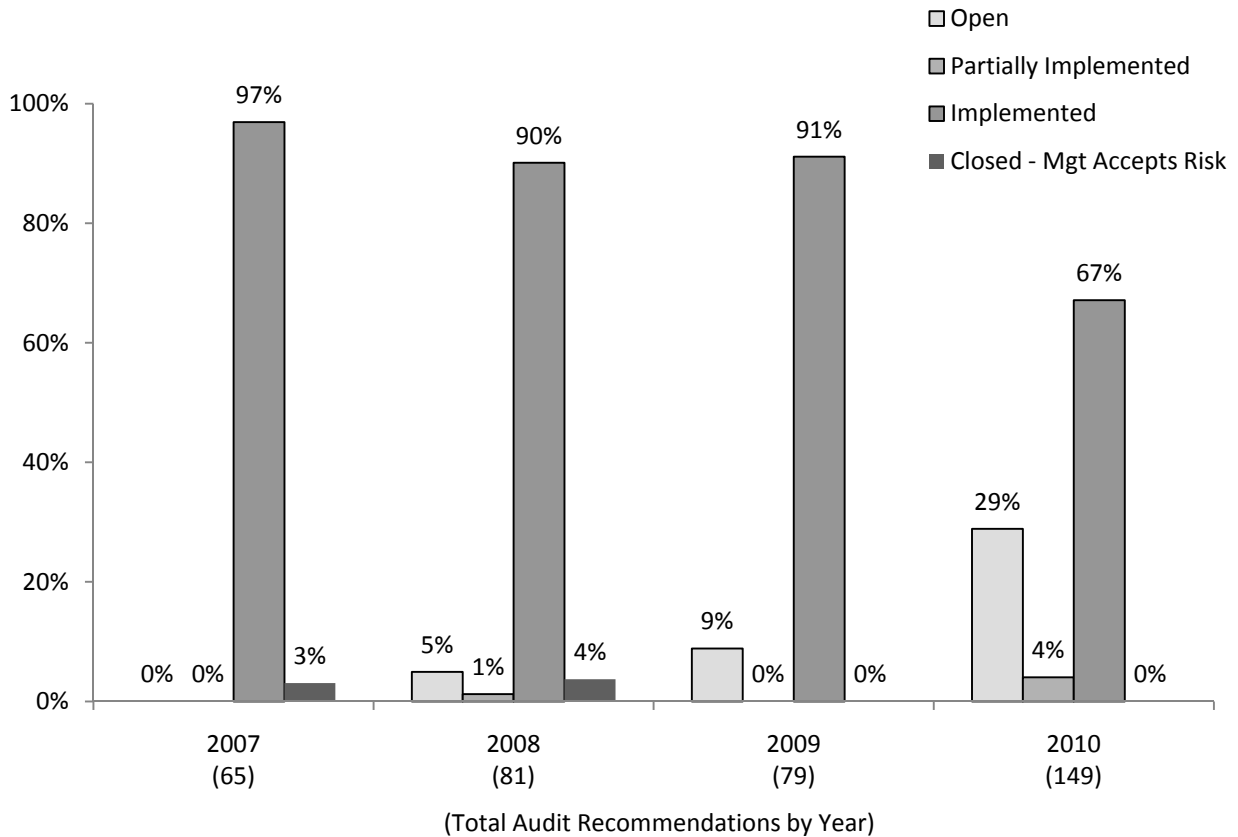
## Additional Contributions by Internal Audit

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 2007-2010





## **Additional Contributions by Internal Audit (cont.)**

### **Management Requests and Advisory Services**

During calendar 2010 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. The projects we participated on included: a pre-implementation review of controls and processes for the Medical Center's CHARMS project (new billing system), a review of ITS wireless security, a review of the controls surrounding the management of Student Technology Fees and a contract review for the College of the Built Environment.

### **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 in 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 2010.

### **Special Investigations**

Internal Audit received 40 complaints in 2010 that required our attention. Of these, we carried out 32 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 450 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 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 2010 to increase our productivity including:

- Initiation of a LEAN project to improve our audit process, improve client satisfaction, and improve overall time for an audit;
- Restructuring of our post audit follow-up process on audit findings;
- Implementation of an electronic work paper system;
- Introduction of electronic time reporting system;
- Initiating an Internal Audit Department Balanced Scorecard; and
- Introduction of new audit report format.

### **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.

### **Pacific Northwest Internal Audit Conference for Public Universities**

Internal Audit hosted, led and participated in the first annual Pacific Northwest Internal Audit Conference for Public Universities. We worked with Washington State University, Western Washington University, Evergreen University, Clark College and Oregon University System auditors to present a low cost training alternative and create an opportunity to share best practices amongst the audit departments.

# Appendices

## Risk Assessment Methodology / Development of Annual Plan

We use a two year risk assessment model to prioritize audit coverage and ensure timely reviews of high exposure areas.

In year two (calendar 2011), we gathered information about any significant changes in organizations, trends, or emerging risks, and obtained input from key senior management regarding high risk areas. We then evaluated the data and made any changes necessary to the risk rankings identified during year one. Our proposed audit projects for 2011 were then selected from the highest ranked combined auditable areas and individual audit units within these groupings. See full description below of the process used in year one.

In year one (calendar 2010), 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

## **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 – 2010

### Financial Statement and Agreed Upon Procedures Audits:

#### **KPMG**

University of Washington	Portage Bay Insurance
Harborview Medical Center	Commuter Services
UW Medical Center	UW Alumni Association
Internal Lending Program	UW Foundation
Intercollegiate Athletics	I-Tech Field Offices
UW Physicians	Northwest Hospital
UW Physicians Network	Seattle Cancer Care Alliance

#### **Peterson Sullivan**

Metro Tract  
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**

Review of HMC Public Safety Office

#### **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 Sciences

##### **Department of Agriculture**

Review of animal welfare

##### **Department of Education**

Audit of Title IX – Athletics

##### **Department of Health and Human Services**

Grant closing audit – Applied Physics Laboratory

##### **National Institute of Health**

Audit of costs claimed – Primate Center

##### **National Science Foundation**

Audit of ARRA reporting

##### **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 - 2010 (cont.)**

**State, Local and Private Agencies**

**Bahamas Ministry of Health**

Grants audit - I-Tech

**Cystic Fibrosis Foundation**

Desk audit of costs claimed - Department of Medicine

Grants audit - Pulmonary and Critical Care, Infectious Diseases

**King County**

Grants audit - Pediatrics, Adolescent Medicine, Maternal & Infant Care Clinic

**Puget Sound Clean Air Agency**

Grants audit - Environmental & Occupational Health

**Sandia National Laboratories**

Desk audit of costs claimed - (seven grants, five University departments)

**University of Texas, Galveston**

Desk audit of costs claimed - Immunology