



# Report of Planned Audit Activities 2006



## *Finance and Audit Committee Board of Regents*

Department of Audits  
University of Washington

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## Executive Summary

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

Internal Audit’s goals for 2006 are:

- Complete the top ten high risk audits.
- Complete a quality assurance review as required by professional standards.
- Continue participation in the development of the University-wide strategic risk management framework.

The University of Washington Internal Audit Plan for 2006 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 the annual risk assessment.



## 2006 Audit Focus

### Federal Regulatory Issues

#### *Effort Certification Process*

Faculty effort on research projects continues to be the subject of scrutiny by federal and state auditors. Faculty Effort Certifications (FECs) and Grant and Contract Certification Reports (GCCRs) document the faculty and staff's effort charged to sponsored projects. The FECs also document cost sharing. We will review controls to ensure effort certification reports are certified by the due date. We will also determine whether principal investigator efforts on sponsored projects are consistent with the level of commitment proposed to the federal government.

#### *Clerical and Administrative Salaries*

The Department of Health and Human Services Office of Inspector General's (HHS OIG) 2006 Work Plan includes a review of administrative and clerical salaries directly charged to federally sponsored projects. Federal regulations state such costs should normally be treated as indirect costs. We will determine whether clerical and administrative salaries are charged in accordance with University policy and federal regulation.

#### *Cost Transfers*

The HHS OIG's 2006 Work Plan includes a review of cost transfers on federal awards. At the University, there are several mechanisms to transfer costs. We will determine whether the proper mechanism is being used. We will also review controls to ensure that cost transfers are valid, properly supported and approved.

### Grants Management

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

### Capital Projects

The need to ensure that ongoing and new capital projects do not expose the University to major financial losses is a continuing internal audit focus. In 2006 we will focus on control systems that ensure construction project costs are accurately tracked, and that projects are completed on time and within budget.

### Internal Control Systems

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



## 2006 Audit Focus (continued)

Budget cuts and restraints on departmental and general operating funds force departments to make difficult decisions on resource allocations. As budgets shrink, pressures may result in the elimination of critical system controls. Without system checks and balances, departments have a higher exposure to financial irregularities and noncompliance with policies and regulations.

### **Gifts and Endowments**

During FY 2005, the University received more than \$150 million in gift and endowments. The University relies on individual departments to ensure that these funds are spent in accordance with donor intentions. In 2006, we will review departmental controls designed to ensure gift and endowment funds are expended according to donor intent.

### **Computing and Networking**

#### *Departmental Computing and Networking*

University departments often develop and operate their own computer systems because of special needs. Our focus is on identifying critical systems and networks managed at the departmental level so that we can ensure the security of the overall University computing environment. Toward this objective, we are working with departmental staff to promote awareness of risks and issues concerning internal security and uninterrupted operations.

#### *Data Security*

The University and its affiliated institutions acquire, generate, and maintain an enormous amount of data as part of business operations, education programs, and extensive research efforts. Data are stored in electronic form on a variety of information systems. Proper protection of data and information systems is determined by a combination of compliance requirements mandated by state and federal government statutes and regulations, accepted best practices, and institutional risk management decisions. In 2006 we plan to review information security controls designed to ensure the proper protection of University data and information systems.

#### *Washington Information Services Board*

The Washington Information Services Board (ISB) promulgates information technology (IT) security policy and standards to help ensure that state agencies have effective and secure IT security programs. The ISB requires the University to have a compliance audit once every three years. In 2006 we will perform this compliance audit.



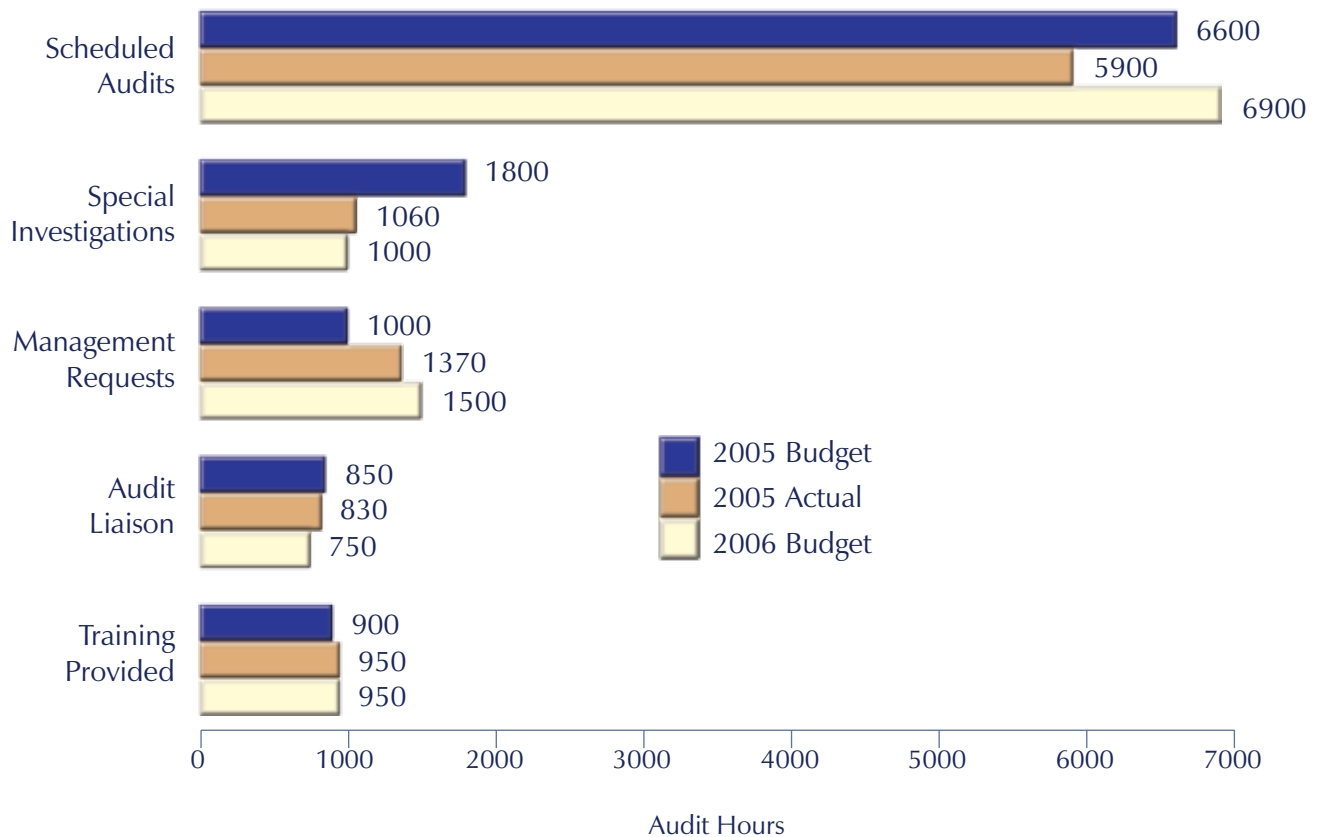
## 2006 Scheduled Audits

	Internal Controls	Compliance	Business Processes	Information Technology	Follow-Ups
Gifts and Endowments	•	•			
Faculty Effort Certifications (FECs)		•			
Grant & Contract Certification Reports (GCCRs)		•			
Grants and Contracts					
• Cost transfers		•			
• Clerical and administrative salaries		•			
Computing & Communications					
• Washington Information Services Board		•		•	
Student Database				•	
Health Sciences					
• Primate Center	•		•	•	•
Parking Services—cash receipts	•		•		
School of Social Work	•	•		•	
President's Office	•	•	•		
School of Medicine					
• Radiology	•	•		•	
• Genome Sciences	•	•		•	
College of Arts & Sciences					
• Speech & Hearing Sciences				•	
Intercollegiate Athletics	•	•			•
Educational Outreach	•		•	•	
Payroll	•				
Capital Projects	•		•	•	
Various Departments					•





## 2006 Planned Audit Hours



### 2005

- Staff turnover resulted in reduced audit resources available for scheduled audits
- Resources needed for management requests were balanced with those needed for special investigations.

### 2006

- Budget for scheduled audits and management requests increased in anticipation of a fully staffed internal audit department
- Budget for special investigations reduced to align with 2005 results



## Summary of Audit Coverage

The University departments listed below are ranked from high to low in terms of the relative risk they represent. A • in the columns to the right signifies the areas each auditing entity plans to audit in 2006. A ✓ represents the areas audited by other auditors in 2005.

Risk/ Rank	Organization	Internal Audit Dept.	Hospital Internal Auditor	State Auditor's Office	KPMG	Peterson Sullivan	Other Auditors
1.	School of Medicine	•		•			✓
2.	Harborview Medical Center		•	•	•		
3.	University Medical Center		•	•	•		
4.	Health Sciences	•					
5.	Computing & Communications	•					
6.	College of Arts & Sciences	•		•			
7.	College of Engineering	•					✓
8.	Grant & Contract Accounting	•		•	•		
9.	School of Business Administration	•					
10.	College of Ocean & Fishery Sciences			•			✓
11.	School of Public Health & Community Medicine			•			
12.	School of Social Work	•					
13.	College of Forest Resources						
14.	Treasury Office			•	•		
15.	Educational Outreach	•					
16.	Office of Research						✓
17.	School of Dentistry						
18.	Capital Projects	•		•			
19.	Payroll			•	•		
20.	Payables Operations			•	•		
21.	Financial Accounting			•	•		
22.	Facilities Services				•		
23.	Student Fiscal Services				•		✓
24.	Transportation				•		
25.	Housing & Food Services					•	
26.	Intercollegiate Athletics	•			•		✓
27.	Office of Development & Alumni Relations				•		
28.	Enrollment Services (Admissions & Records)						
29.	College of Architecture & Urban Planning						
30.	Bothell Campus						
31.	School of Law						
32.	Purchasing			•	•		





## Summary of Audit Coverage (continued)

The University departments listed below are ranked from high to low in terms of the relative risk they represent. A • in the columns to the right signifies the areas each auditing entity plans to audit in 2006. A ✓ represents the areas audited by other auditors in 2005.

Risk/ Rank	Organization	Internal Audit Dept.	Hospital Internal Auditor	State Auditor's Office	KPMG	Peterson Sullivan	Other Auditors
33.	UW Tech Transfer						
34.	Undergraduate Education						
35.	Equipment Inventory			•	•		✓
36.	School of Nursing						
37.	Graduate School						
38.	Real Estate/Metropolitan Tract Office					•	
39.	Student Financial Aid						
40.	University Libraries						
41.	Office of Sponsored Programs						
42.	Human Resources						
43.	Student Affairs						
44.	Provost						
45.	Daniel J. Evans School of Public Affairs						
46.	Tacoma Campus						
47.	Risk Management			•	•		
48.	University Police						
49.	Student Activities and Union Facilities					•	
50.	Media Relations and Communications						
51.	Business Services						
52.	College of Education						✓
53.	School of Pharmacy						
54.	Information School						
55.	Planning & Budgeting			•			
56.	ASUW/GPSS					•	
57.	Minority Affairs						✓
58.	Student Publications					•	



## Internal Audit Charter

### Mission

The mission of Internal Audit is to actively provide the Board of Regents and the University of Washington community with useful information that improves accountability through independent assurance, consulting and education services. This is accomplished through independent audits and consultations designed to evaluate and promote a strong system of internal controls, including effective and efficient operations.

### Authority

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

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

In performing the audit function, the Department of Audits has no direct responsibility for, nor 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 internal audit activity encompasses the examination and evaluation of the adequacy and effectiveness of the University's system of internal control and the quality of 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 Director of Audits is responsible to the Treasurer, Board of Regents, whose scope of responsibility and authority assures that audit findings and recommendations will be afforded adequate consideration and the effectiveness of action will be reviewed at an appropriate level. The Director of Audits has direct access to both the President and the Board of Regents, and may take matters to them that are believed to be of sufficient magnitude and importance to require their immediate attention.
- *Objectivity:* Because objectivity is essential to the audit function, an internal auditor does not develop and install procedures, prepare records, or engage in any other activity which the auditor would normally review and appraise and which could reasonably be construed to compromise the auditor's independence. The auditor's objectivity is not adversely affected, however, by determining and 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 Director of Audits has a responsibility to report at least annually to the Board of Regents Finance and Audit Committee and to inform the Board of any significant findings that have not been reasonably addressed by University management.

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

### Standards

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

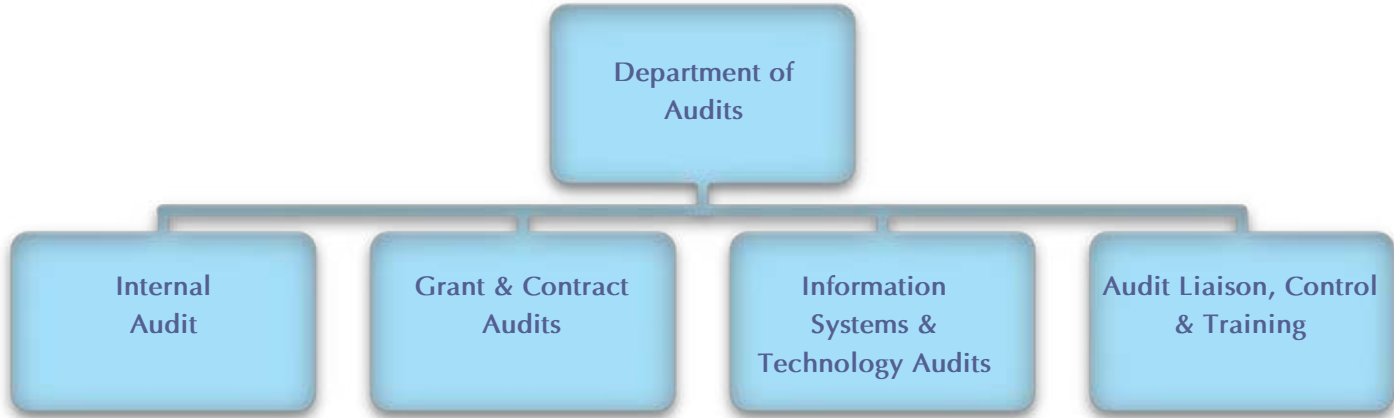


### Audit Services by Function

“The objective of internal auditing is to assist agency staff in the effective discharge of their responsibilities.”

Source: *State Administrative & Accounting Manual, O.F.M., Section 20.40.20, May 1, 1999*

We have changed our focus from a traditional transaction-based auditing model to a proactive risk-based model. We partner with campus management to analyze business processes and identify risk and improvement opportunities. To effectively carry out our responsibilities, the Department of Audits is organized into four functions:



**Internal Audit**

- Internal Control Systems
- Departmental Support
- Compliance
- Special Investigations

**Grant & Contract Audit**

- Grant Management Systems
- Special Investigations

**Information Systems & Technology Audits**

- Internal Control Systems
- Central Computing Systems
- Departmental Computing Systems

**Audit Liaison, Control and Training**

- Management Communications
- External Auditor Liaison
- Audit Resolution
- Audit Contracting
- Training and Development



## Risk Assessment

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

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

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

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

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

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



### Elements of the Audit Planning Process

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

*Universities contacted:*

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

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



### Audit Coverage Overview

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

