

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**University of Washington**

Audit Period  
**July 1, 2004 through June 30, 2005**

**Report No. 6498**

Issue Date  
**March 17, 2006**



Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag



**Washington State Auditor  
Brian Sonntag**

March 17, 2006

Board of Trustees  
University of Washington

***Report on Accountability for Public Resources***

Please find attached our report on the University of Washington's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

In addition to this work, we perform an annual audit of the statewide basic financial statements as required by state law (RCW 43.09.310). We also annually audit federal programs administered by the state of Washington for compliance with federal laws and regulations. The results of these audits are published in reports issued by the Office of Financial Management.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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# Audit Summary

## State of Washington University of Washington

### ***ABOUT THE AUDIT***

This report contains the results of our independent accountability audit of the University of Washington for the period from July 1, 2004, through June 30, 2005.

We performed audit procedures to determine whether the University complied with state laws and regulations, federal grant requirements and its own policies and procedures. Our work focused on specific areas that have potential for abuse and misuse of public resources.

### ***RESULTS***

In most areas, the University complied with state laws and regulations and its own policies and procedures. However, we identified conditions significant enough to report as findings:

- Certain University departments' controls are not working effectively to ensure Time and Effort Certification forms are completed in a timely manner and to ensure monthly certification of salaries and wages paid for federal programs are completed as required.
- The University did not submit financial status reports in a timely manner.
- The University paid contractors without Intent to Pay Prevailing Wage forms on file as required by state law.

We also noted certain matters that we communicated to University management. We appreciate the University's commitment to resolving those matters.

### ***RELATED REPORTS***

Our opinion on the state of Washington's basic financial statements is included in the state's Comprehensive Annual Financial Report. That report is issued by the Office of Financial Management in December of each year.

In accordance with the Single Audit Act, we annually audit major federal programs administered by the state of Washington. Rather than perform a single audit of each agency, we audit the state as a whole. The results of that audit are published in a report issued by the Office of Financial Management.

In addition to these reports, we issued a report pursuant to the State Employee Whistleblower Act (Chapter 42.40 RCW) which is available on our Web site.

### ***CLOSING REMARKS***

We appreciate the University's prompt attention to resolving prior audit issues and its commitment to ensuring compliance with conditions reported in this audit. We also thank University management and personnel for their assistance and cooperation.

# Description of the University

## State of Washington University of Washington

### **ABOUT THE UNIVERSITY**

Founded on November 4, 1861, the University of Washington is one of the oldest state-supported institutions of higher education on the Pacific coast. The University has three campuses, located in Seattle, Tacoma and Bothell, and 17 major schools and colleges. The Seattle campus has 220 major structures on 693 acres. The primary mission of the University is the preservation, advancement and dissemination of knowledge.

The University is governed by a 10-member Board of Regents appointed by the Governor and confirmed by the state Senate. The University's proposed budget for fiscal year 2005 was approximately \$2.5 billion. The primary revenue sources are tuition, grants and contracts, and medical services. The University employs approximately 6,100 instructional faculty and 27,600 faculty and staff members. Enrollment for the 2004 fall quarter was 43,619 students.

A highly rated research institution, the University generated more than \$900 million in grant and contract revenues during fiscal year 2005, with 76 percent of these awards coming from federal agencies. The University is the largest United States public education institution in receipt of federal assistance. The single largest sponsoring agency for the University is the U.S. Department of Health and Human Services, making approximately 54 percent of the total federal awards. Approximately 46 percent of those awards support programs in the School of Medicine. The University also has many self-sustaining business operations that include intercollegiate athletics, a dental clinic, parking operations, housing and food services, and a number of other specialized service facilities.

In fiscal year 2004, Moody's Investor Services assigned an Aa1 issuer rating to the University, reflecting its unsecured general obligation credit quality. According to University officials, this rating allows the University to negotiate the lowest costs for future financing. Only three other public universities have a higher rating, and three others have the same rating.

### **AUDIT HISTORY**

We audit the University annually. The past six audits have reported five audit findings, other than findings resulting from misappropriations of public funds, one of which was issued in the prior year. Prior year findings concerned compliance with federal cost principles for its research and development programs at the Radiology department and the Center for AIDS and STDs.

During the current audit, we followed up on this issue and found that management had established procedures to ensure compliance with federal cost principles for its research and development programs at the Radiology department and the Center for AIDS and STDs.

In response to various misappropriations and related conditions, the University offers classes designed to teach managers how to prevent fraud. In addition, it instituted a fraud reporting policy in 1997. We noted no large misappropriations during the current fiscal year.

# Audit Areas Examined

## State of Washington University of Washington

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

### **ACCOUNTABILITY FOR PUBLIC RESOURCES**

We evaluated the University's accountability and compliance with certain state laws and regulations and its own policies in the following areas:

- Cash receipting and revenues (student accounts, parking services, housing and dining, intercollegiate athletics, student activities and union facilities, recreational sports, publication services)
- Payroll
- Purchase of goods and services
- Expenditures, vouchers and credit cards
- Competitive bid law compliance
- Use of restricted funds
- Out-of-state bank accounts
- Conflict of interest
- Travel expense
- Procurement card use
- Constituent concerns
- Donations and endowments
- Open Public Meetings Act
- Tacoma campus: cash receipting over parking services and real estate revenues, and funds transfers
- Bothell campus: cash receipting over facility services revenues and funds transfers

### **FINANCIAL**

We perform an annual audit of the statewide basic financial statements as required by state law (RCW 43.09.310). These financial statements are included in the Comprehensive Annual Financial Report (CAFR) prepared by and available from the Office of Financial Management. The CAFR reflects the financial activities of all funds, organizations, institutions, agencies, departments and offices that are part of the state's reporting entity.

We tested the University's account balances and financial activity related to the following:

- Cash and cash equivalents
- Investments
- Bonds payable
- Higher education student services (charges for services)
- Charges for services
- Operating grants and contributions
- Federal grants-in-aid
- Education expenses
- Student services
- Salaries and wages
- Goods and services
- Depreciation of assets
- Buildings
- Furnishings and equipment
- Accumulated depreciation

## **FEDERAL PROGRAMS**

Federal grant audit work is performed on a statewide basis, in accordance with the revised Single Audit Act. We select federal programs for audit using risk-based criteria set forth in the U.S. Office of Management and Budget Circular A-133.

We evaluated internal controls and tested compliance with federal requirements, as applicable, for the following major federal programs at the University:

- Research and Development cluster
- Student Financial Aid cluster
- National Center for Research Resources and Infrastructure

In addition, we followed up on prior audit recommendations for the following federal programs at the University:

- Research and Development cluster

# Schedule of Audit Findings

## State of Washington University of Washington

- 1. Certain University departments' controls are not working effectively to ensure Time And Effort Certification forms are completed in a timely manner and to ensure monthly certification of salaries and wages paid for federal programs are completed as required.**

### Description of Condition

The University of Washington has approximately 500 organizational units that receive federal assistance for research and development programs. The Regional Primate Center also receives other federal assistance. Organizational units are used to account for financial information for the University. From July 1, 2004, through June 30, 2005, the University spent approximately \$621 million in federal funds for research and development programs and \$14 million in federal funds for the Regional Primate Center (CFDA 93.389).

Federal regulations require universities to establish a system that demonstrates allowable and allocable payroll costs charged to federal grants and sponsored agreements. To that end, the University distributes Faculty Effort Certification (FEC) forms and Grant and Contract Certification Reports (GCCR) to campus departments for faculty, staff and hourly employees whose compensation is charged to each grant and contract budget.

To comply with federal regulations, University policy requires faculty to verify the information on the FEC form, to certify and return the form to Management Accounting and Analysis (MA&A) within five weeks. University policy requires principle investigators to verify and certify GCCR forms within 60 days after receiving them. This is noted on the form.

During our 2004 audit, we communicated to management that the University was not complying with this requirement. For the 2005 audit, we reviewed 13 federal awards, which included 30 payroll transactions subject to FEC certification and 149 payroll transactions subject to GCCR certification. We found six awards with FEC noncompliance and five awards with GCCR noncompliance as follows:

### FEC Certifications

#### CFDA 93.389 National Center for Research Resources and Infrastructure:

- Three forms were certified by the faculty member and received by MA&A after the return due date.
- Three forms were certified by the faculty member by the due date, but were received by MA&A after the return due date.

#### CFDA 93.866 Aging Research:

- One form was certified by the faculty member by the due date, but we found no evidence as to when MA&A received it.



CFDA 93.846 Arthritis, Musculoskeletal and Skin Diseases Research:

- One form was certified by the faculty member and received by MA&A after the return due date.
- Two forms were certified by the faculty member by the due date, but were received by MA&A after the return due date.

CFDA 93.837 Heart and Vascular Diseases Research:

- One form was certified by the faculty member and received by MA&A after the return due date.

CFDA 93.864 Male Contraception Research Center:

- Three forms were certified by the faculty member and received by MA&A after the return due date.
- One form was certified by the faculty member by the due date, but received by MA&A after the return due date.
- One form was certified, but not dated by the faculty member, and submitted to MA&A after the due date.

CFDA 93.866 Aging Research:

- One of four forms was certified by the faculty member and received by MA&A after the return due date.
- Two forms were certified by the faculty member by the due date, but were received by MA&A after the return due date.

For all federal awards reviewed, 63 percent of FECs tested were submitted after the five-week deadline.

**GCCR Certifications:**

CFDA 93.389 National Center for Research Resources and Infrastructure:

- Four reports associated with 12 of 30 payroll transactions examined were either not dated or not signed within 60 days.

CFDA 93.837 Heart and Vascular Diseases Research:

- Three of four reports reviewed for internal control testing were not signed.
- Five reports associated with six of nine payroll transactions tested for compliance were not signed. Of the six instances, four transactions were the same reports reviewed during the testing of controls.

CFDA 93.856 Microbiology and Infectious Diseases Research:

- One report associated with four of 11 payroll transactions examined was not signed within 60 days.

CFDA 93.859 Biomedical Research and Research Training:

- Four reports associated with six of eight payroll transactions examined were reviewed and signed by the principle investigator but not dated. We found no evidence that the report was signed within 60 days.
- One report associated with one of eight payroll transactions examined was not signed within 60 days.

CFDA 93.864 Male Contraception Research Center:

- One report associated with one of 18 payroll transactions examined was reviewed and signed by the principle investigator but not dated. We found no evidence that the report was signed within 60 days.

### **Cause of Condition**

The departments did not follow procedures to ensure time and effort records were reviewed and approved in accordance with University policy over federal grants.

### **Effect of Condition**

Without proper time and effort records, the University cannot demonstrate allowable and allocable payroll costs charged to federal programs. Because the FECs were eventually submitted for certification, we are not questioning payroll costs charged to the federal programs.

### **Recommendation**

We recommend the University take steps to ensure monthly certifications of salaries and wages paid for federal programs are completed in accordance with University policy to ensure compliance with federal regulations.

### **University's Response**

**FEC Certifications:**

*The University concurs that some faculty effort was certified after the University's deadline. However, we note that federal guidelines have no defined deadline for effort certifications. The University of Washington established internal dates to encourage efficiency and establish a follow-up process. We believe that federal compliance is achieved when the PI signs the faculty effort certification (FEC) by the University's internal due date. We do not agree that those signed by the University's due date but received after the central office's due date are out of compliance with federal guidelines. Of the 30 payroll transactions tested, 20 were certified by the faculty member consistent with the University's internal due date.*

*We are engaged in a variety of projects that will improve the timeliness of faculty effort certification. Those projects include mandatory training of all faculty receiving effort reports (concluded 11/30/05). In addition, we are enhancing our follow up process to ensure FECs are certified and submitted in a timely manner. Also, individual departments cited in this finding will strengthen their monitoring and follow-up processes.*

*Finally, we are beginning a process to replace our manual system with an electronic effort reporting and certification system. Later this spring, we will begin an analysis that is expected to result in a decision to build or buy a new electronic effort reporting system. The new system will include enhanced tracking and follow-up capabilities.*

**GCCR Certifications:**

*The University concurs that some Grant and Contract Certification Reports (GCCRs) were signed after the University's deadline. The University is working with departments on a campus wide basis and specifically with those cited in this finding to strengthen controls that ensure GCCRs are signed in a timely manner.*

**Auditor's Remarks**

We thank University officials for the assistance we received during the audit.

**Applicable Laws and Regulations**

Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, Section J, subsection 2.e states:

For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, Section J, subsection 3 and 3.f states:

(3) Multiple Confirmation Records: Under this system, the distribution of salaries and wages of professorial and professional staff will be supported by records which certify separately for direct and F&A cost activities as prescribed below . . .

. . . (f) The reports will be prepared each academic term, but no less frequently than every six months.

Office of Management and Budget Circular A-21, *Cost Principles for Educational Institutions*, Section J, subsection 10, b.2.b states:

The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.

# Schedule of Audit Findings

## State of Washington University of Washington

### 2. The University did not submit financial status reports in a timely manner.

#### Description of Condition

Federal regulations and the University's grant contracts require financial status reports to be submitted to the granting agency within 90 days of the expiration date of the budget period.

During our 2001 audit of federal programs, we communicated instances in which the University did not comply with this reporting requirement.

In our current audit, we reviewed 13 awards and identified five awards that had financial reporting requirements. Based on our testing, we determined that, for three of the five awards, the University did not submit a financial status report to the sponsor within 90 days after the budget ended as follows:

- The National Center for Research Resources and Infrastructure program status report was submitted six months late.
- The Biomedical Research and Research Training program status report was submitted eight months late.
- The Male Contraception Research Center Grant status report was submitted two months late.

#### Cause of Condition

The Grants and Contract Accounting Office did not ensure financial status reports were submitted with the 90-day deadline due to significant turnover.

#### Effect of Condition

Federal grantors rely on the information submitted in these reports to assess program operations and to make decisions about future awards. Untimely submission of the financial status reports could result in the University losing federal funding for continued programs.

#### Recommendation

We recommend the University take steps to ensure financial status reports are submitted in accordance with federal regulations.

#### University's Response

*The University concurs that 3 financial status reports (FSRs) were not submitted in a timely manner. Grant and Contract Accounting (GCA) experienced a 50% rate of turnover in the fiscal positions responsible for preparing FSRs in 2005. GCA is working aggressively to hire and train new staff so that FSRs can be submitted in a timely manner.*

## **Auditor's Remarks**

We thank University officials for the assistance we received during the audit.

## **Applicable Laws and Regulations**

Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Section \_\_.51(b) states:

Except as provided in paragraph \_\_.51(f), performance reports shall not be required more frequently than quarterly or, less frequently than annually. Annual reports shall be due 90 calendar days after the grant year; quarterly or semi-annual reports shall be due 30 days after the reporting period. The Federal awarding agency may require annual reports before the anniversary dates of multiple year awards in lieu of these requirements. The final performance reports are due 90 calendar days after the expiration or termination of the award.

Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Section \_\_.52(a.1.iv) states:

The Federal awarding agency shall require recipients to submit the SF-269 or SF-269A (original and no more than two copies) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extensions of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

# Schedule of Audit Findings

## State of Washington University of Washington

### 3. The University paid contractors without Intent to Pay Prevailing Wage forms on file as required by state law.

#### Description of Conditions

The University spent approximately \$373 million on capital projects in 2005.

We selected four projects, totaling more than \$212.5 million, to examine for compliance with state bid laws. For three of the four projects, we found the contractor did not file Intent to Pay Prevailing Wages forms prior to receiving its first payment from the University as required by state law (RCW 39.12.40).

This condition was noted in the following projects:

- For Research and Technology Project number 10297, the initial payment of \$803,230 was released to the contractor approximately two months before the form was filed.
- For Bioengineering and Genome Sciences Building Project number 3615, the initial payment of \$1,827,896 was released to the contractor approximately eight months before the form was filed.
- For Conibear Shellhouse Renovation and Addition Project number 1915, the initial payment of \$82,755 was released to the contractor approximately two months before the form was filed.

#### Cause of Condition

University management did not fully understand the laws regarding the filing of the Intent to Pay Prevailing Wage forms by the contractor.

#### Effect of Condition

Failure to file the required certifications increases the risk that laborers are not paid the wages they are entitled to under state prevailing wage laws. The University could be held liable for any wages due to laborers that do not meet state prevailing wages.

#### Recommendation

We recommend the Univeristy develop policies and procedures to ensure compliance with state bids laws.

## University's Response

*The University concurs with the finding.*

*The University of Washington Capital Projects Office and the General Contractor/Construction Managers (GC/CM) in the projects mentioned above have used a different interpretation of the statutes authorized under (RCW 39.10.) for Alternative Public Works Projects. The UW interpretation, as well as the interpretation of the contractors who were under contract with the University, understood the intent to pay prevailing wages needed to be submitted to Department of Labor and Industries when and only when the (GC/CM) self performed under subcontractor bid packages. The intent to pay prevailing wages were filed in a timely manner for all subcontractor bid packages.*

*The Department of Labor and Industries interpretation of (RCW 39.12.40) is that the intent to pay prevailing wages is to be filed with the Department of Labor and Industries by the GC/CM prior to any payment being made to the GC/CM by the University.*

*The University has modified its practice and now requires a copy of the Intent to Pay Prevailing Wages be on file in the Capital Projects Office prior to making a progress payment to the GC/CM contractor.*

## Auditor's Remarks

We thank the University for its cooperation and assistance during the audit and acknowledge its commitment to improving the condition described. We will review the status of the finding during our next audit.

## Applicable Laws and Regulations

RCW 39.12.040 Statement of intent to pay prevailing wages, affidavit of wages paid--Duty of public agencies to require--Approval--Prerequisite to payment--Alternative procedure - states in part that:

. . . before payment is made by or on behalf of the state, or any county, municipality, or political subdivision created by its laws, of any sum or sums due on account of a public works contract, it shall be the duty of the officer or person charged with the custody and disbursement of public funds to require the contractor and each and every subcontractor from the contractor or a subcontractor to submit to such officer a "Statement of Intent to Pay Prevailing Wages".

RCW 39.12.042 - Compliance with RCW 39.12.040--Liability of public agencies to workers, laborers, or mechanics - states in part:

If any agency of the state, or any county, municipality, or political subdivision created by its laws shall knowingly fail to comply with the provisions of RCW 39.12.040 as now or hereafter amended, such agency of the state, or county, municipality, or political subdivision created by its laws, shall be liable to all workers, laborers, or mechanics to the full extent and for the full amount of wages due, pursuant to the prevailing wage requirements of RCW 39.12.020.

# Status of Prior Audit Findings

## State of Washington University of Washington

This status of findings contained in the prior years' audit reports of the University is provided below:

1. **The University of Washington did not comply with federal grant requirements for two of its research and development programs.**

University of Washington Accountability Report, dated January 28, 2005

### Background

As a result of our 2004 audit, we identified questioned costs charged to federal research and development grants in two of the departments, totaling \$36,509. The following costs were improperly charged to this federal program:

#### Center for AIDS and STD

- \$17,888 in salary and benefit paid to the Assistant Director that was not based on actual effort as required by federal regulations.
- \$2,104 in miscellaneous supplies and shipping charges that were not used to support the program.

#### Department of Radiology

- \$16,517 in salaries and benefits paid to the principal investigator and co-principal investigator that were not based on actual effort as required by federal regulations.

### Status

We did not identify any questioned costs charged to federal research and development grants during the current audit. We consider the finding resolved. The University has taken the following corrective action:

1. Questioned costs were removed from the federal grants and transferred to appropriate funding sources:
  - Center for AIDS/STD transfer July 8, 2004
  - Department of Radiology transfer August 23, 2004
2. New internal control mechanisms were implemented:
  - Center for AIDS/STD – August 15, 2004
  - Department of Radiology – November 10, 2004



3. Additional corrective action at the Center for AIDS/STD:

- New staff (1.5.FTE) was hired to provide additional oversight on financial activities – November 1, 2004
- Employees were cross-trained and responsibilities redistributed to provide additional back-up support – February 28, 2005

The state of Washington received a management decision letter dated September 16, 2005, stating the Office of Audit Resolution and Cost Policy, Health and Human Services has determined that the corrective action plan and subsequent comments satisfied the auditor's recommendation.