



# Report of Audit Results 2005



## *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 understand 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 2005, we visited 52 University units: 37 as part of our planned scheduled audits, five at the request of management and 13 as part of special investigations. Total actual audit hours of 10,110 was 1,040 hours less than budgeted as the result of audit staff turnover and additional time needed for training.

Overall, we found departments generally had good control systems in place. Exceptions resulted primarily from management oversight rather than from problems systemic at the University level.

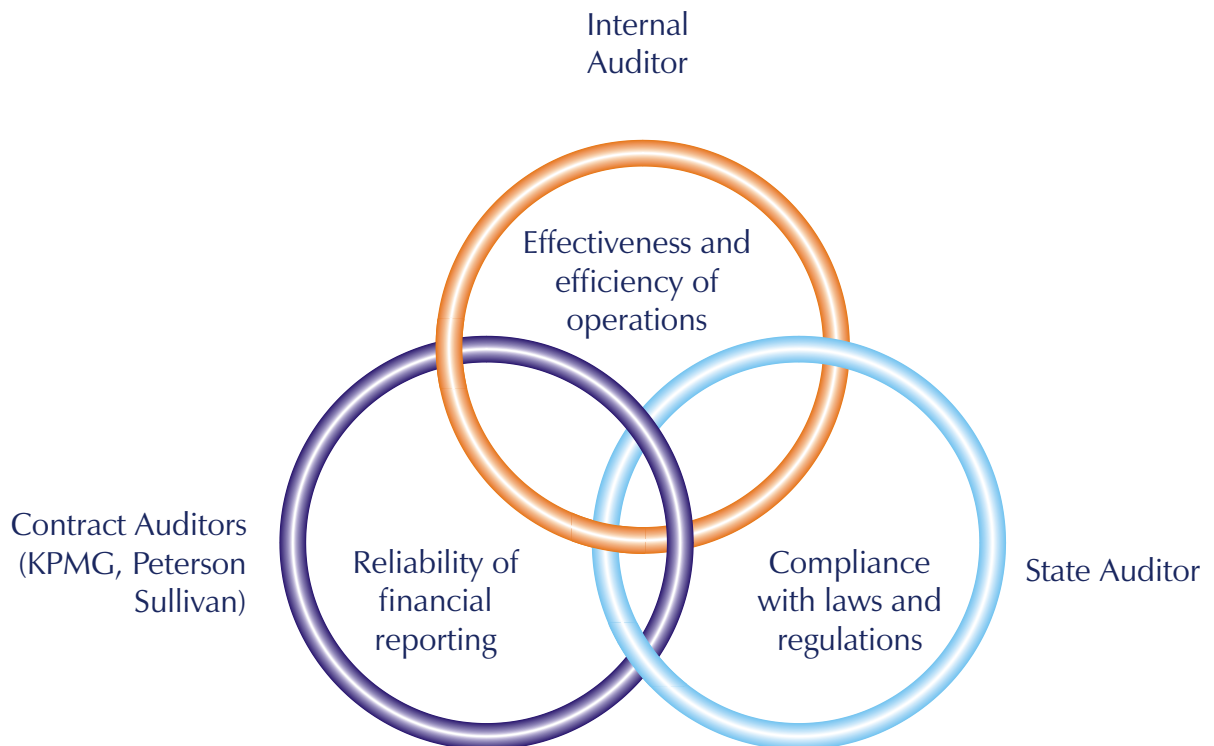
We continued this year to focus our information technology audits on departmental systems developed and operated to meet specific departmental needs. The systems we examined had not been audited before. Our audits revealed that departments need to strengthen controls related to system access and security, disaster recovery, and business continuity.

Internal Audit follows up every audit recommendation approximately six months after each audit report is issued. We followed up on a greater number of recommendations in 2005 than in 2004. The recommendation implementation rate was 68%, 10 points below the industry average of 78%. We attribute this not to unwillingness on the part of departments to accept findings, but rather to limited staffing, reorganizations, other higher priorities, and the complexities of implementing solutions. We continue to track recommendations until they have either been implemented or alternative solutions are found.



## 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 avoid duplication of effort. Each audit organization has a specific role:







## Work Accomplished in 2005

### Scheduled Department Audits\*

#### *Completed:*

Capital Projects  
 College of Forest Resources  
 Intercollegiate Athletics  
 Department of Surgery  
 Audit Follow-ups (37)

#### *In Progress:*

Department of Radiology

### Scheduled University-Wide Audits\*

#### *Completed:*

#### Endowments and Gifts

- College of Architecture and Urban Planning
- Genome Sciences
- Department of Orthopaedics and Sports Medicine
- Pulmonary and Critical Care, Medicine
- Department of Urology

#### Revolving Funds

- School of Law

### Management Requests

College of Education—Center for the Study and Teaching of At-Risk Students (Safe Schools and Drug Free grants)

Department of Communication (Dart Center for Journalism and Trauma)

Gastroenterology (conflict of interest)

Office of Intellectual Property and Technology Transfer (genetic test patent)

School of Oceanography (field advance)

### Special Investigations

Fraud (Total Losses \$9,000)

Grant Compliance

State Ethics Law Compliance

Financial Processes

### Training Provided

#### *University Training & Development*

- Faculty Grants Management (4)
- Internal Controls and Fraud Prevention (2)
- Work & Leave Records Maintenance (5)

#### *Departments*

Gifts (1)

Grants Management (4)

Overview of Internal & External Auditors (1)

State Ethics Law (9)

### Advisory Services

- Campus Security Advisory Committee
- Data Management Users Group
- Electronic Faculty Effort Certification Team (eFEC)
- Effort Reporting Team
- Environmental Health & Safety Committee
- Privacy Assurance & Systems Security Council
- System to Administer Grants Electronically Team (SAGE)
- Tax Strategy Team
- User Transitioner's Team

### External Relations

#### *Memberships*

#### State Committees

- Higher Ed Interinstitutional Internal Auditors

#### *Professional Organizations*

- Agora (IT Security)
- Association of College & University Auditors
- Association of Governmental Accountants
- Certified Fraud Examiners
- Information Systems Audit and Control Associations
- Institute of Internal Auditors
- Washington State Society of CPAs

\* See page 4 for Results of 2005 Scheduled Audits



## Results of 2005 Scheduled Audits

In 2005, the Department of Audits continued to emphasize the University's commitment to ensure that departments have solid control systems in place.

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.

### Endowments and Gifts

We reviewed one college and four departments as part of our University-wide audits of gifts and endowments. Overall, we found that the University is spending funds in compliance with donor intent. We recommended that organizations maintain appropriate gift documentation, strengthen procedures to ensure approvals are documented, and reconcile gift receipts to the financial activity reports.

### Capital Projects

We reviewed the Capital Projects Office's (CPO) compliance with pertinent state law and internal controls in the management of projects valued under \$5 million. We found that CPO was in compliance with state law and has a sound system of internal controls in place, but that controls in some areas were not always being followed. We recommended strengthening controls over the appointment of consultants, use of change orders and close out of projects.

### College of Forest Resources

We reviewed the college's system of internal controls over grants fiscal management, payroll, purchasing and petty cash transactions, restricted gifts and endowments, self-sustaining budgets, and information technology. We recommended that the college significantly strengthen controls over all areas audited.

### Intercollegiate Athletics (ICA)

We reviewed the department's system of internal controls over student-athlete eligibility, financial aid, investigations and self-reporting of rules violations, playing and practice seasons, and rules education for compliance with the National Collegiate Athletics Association (NCAA) bylaws and departmental policies. Over the past year we found ICA management has made significant improvements to monitoring and overseeing compliance. We recommended that ICA monitor the student-athlete participation in football's summer conditioning period to ensure that NCAA hour limits are not exceeded.

### Department of Surgery

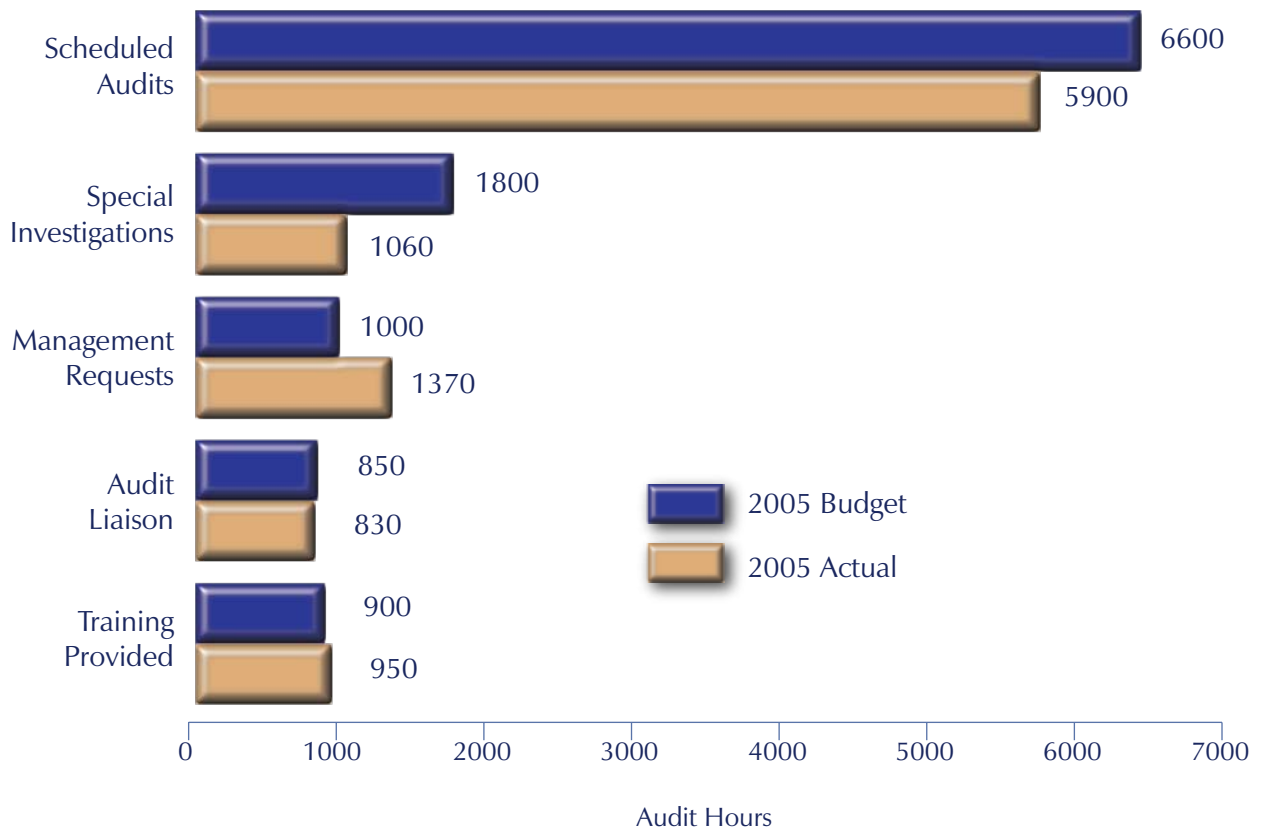
We evaluated the department's system of internal controls related to grants fiscal management, payroll, purchasing and travel, gifts, and information technology. We recommended the department strengthen controls over payroll, faculty effort certification, and information technology.

### School of Law

We reviewed the school's system of internal controls over its \$20,000 revolving fund. We recommended the department strengthen controls over the fund reconciliation.



### Audit Hours by Type of Audit—2005 Budget and 2005 Actual



Total budget hours exceeded actual hours by 1040 hours. This was a result of a vacant position and additional time needed to train new hires.

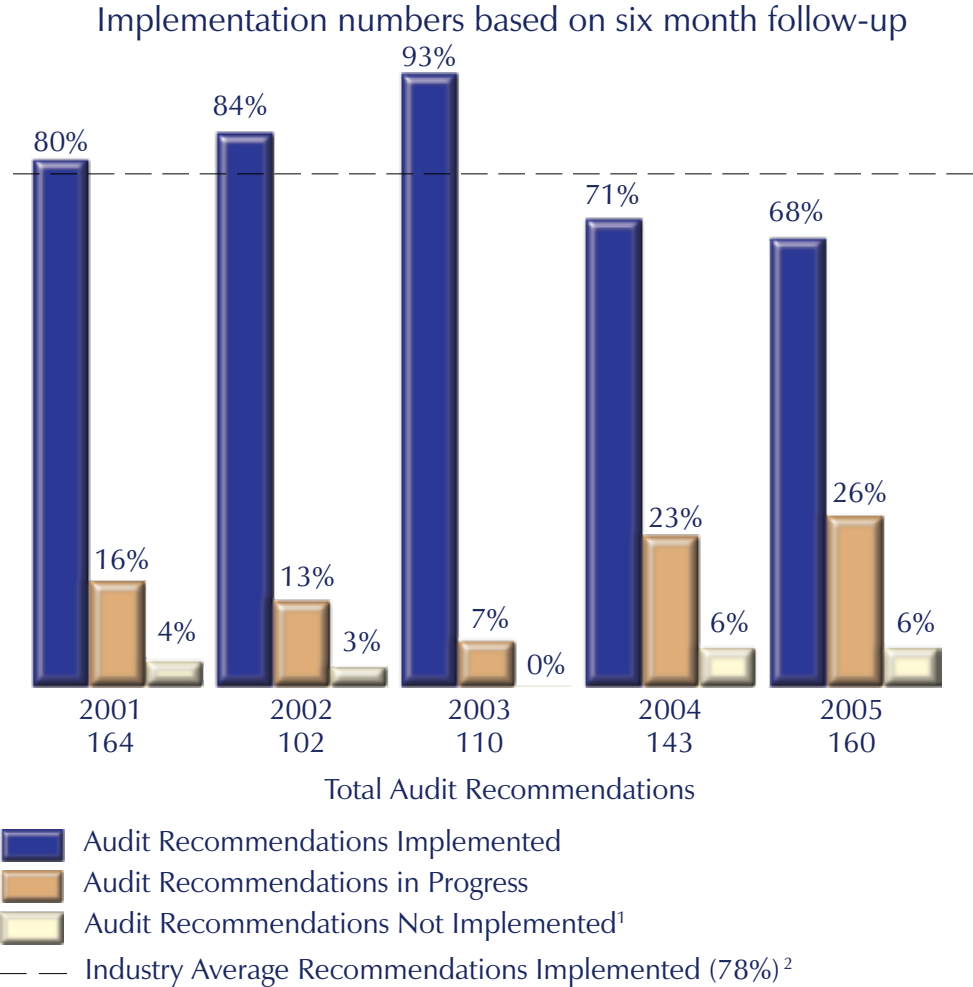


## Implementation of Audit Recommendations 2001–2005

Internal Audit conducts follow-up reviews to determine whether audit recommendations agreed to by management have been implemented. Follow-up reviews generally occur six months after an audit is completed.

Internal Audit performed thirty-seven follow-ups reviews in 2005. Seventeen were first time follow-up reviews, sixteen were second time follow-ups, and four were third time follow-ups. All the outstanding recommendations for the third time follow-ups have been implemented.

The following graph compares the percentage of recommendations implemented for the years 2001–2005.



<sup>1</sup> Management planned to implement the audit recommendations but had not done so at the time of our follow-up reviews. Audit recommendations had not been implemented because of staffing limitations, reorganizations, other higher priorities, or the complexities of implementing solutions.

<sup>2</sup> Source: The 1999 Analytical Benchmarking for Auditors in the College and University Sector (ABACUS).





## 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).

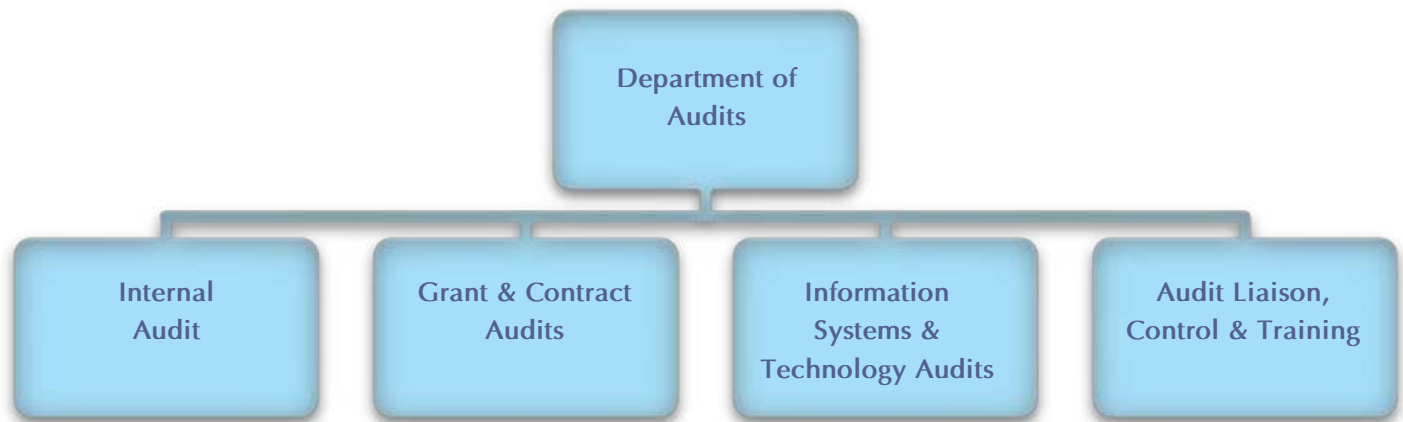


## Audit Services by Function

“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



## Contract Auditors on Campus During 2005

### **KPMG**

Financial statement audits for:

- University of Washington
- Intercollegiate Athletics
- Parking Services
- UW Medical Center
- UW Medical Center Consolidated Laundry
- UW Medical Center Service League
- Harborview Medical Center
- Harborview Sexual Assault Center
- Harborview Eastside Sexual Assault Center for Children

### **Peterson Sullivan**

- Metropolitan Tract Financial Statements Audit
- UNICO Properties—Lease Compliance
- Fairmont Olympic Hotel—Lease Compliance
- GVA Kidder Matthews—Operating Agreement

Financial statement audits for:

- Associated Students of the UW
- Graduate & Professional Student Senate
- Student Publications
- Student Union Facilities
- Housing & Dining System
- Retail & Remote Food Services



## External Auditors on Campus During 2005

### Office of the State Auditor

- *Compliance with state and federal regulations*
- *Statewide Single Audit of federal programs*
- *Whistleblower and citizen complaints*
- *Fraud investigations*

### U.S. Department of Health and Human Services

- *Review allegations regarding a post-doc's eligibility for the NIH loan repayment program (desk review)*
- *Applied Physics Laboratory—audit of costs claimed (desk audit)*

### Office of Naval Research

- *Property Control System Analysis*

### Defense Contracting Agency

- *Applied Physics Laboratory—review of prorated direct cost rate proposal*

### Air Force

- *Student Fiscal Services—third party billing (desk audit)*

### King County Public Health

- *Pediatrics –fiscal and administrative review of subcontract*

### National Oceanic and Atmospheric Administration

- *Joint Institute for the Study of the Atmosphere and Oceans—administrative review*

### City of Seattle

- *Intercollegiate Athletics—admissions tax audit*

### National Science Foundation

- *University-wide—NSF statistical analysis of improper payments (desk review)*
- *University-wide – NSF award monitoring site visit*
- *College of Education – site visit review*

### Children's Mercy Hospitals and Clinics

- *Neonatology—audit of costs claimed (desk audit)*

### U.S. Department of Education

- *Office of Minority Affairs—site review of the GEAR UP program*

### Johns Hopkins University

- *Civil Engineering—audit of costs claimed (desk audit)*

### U.S. Department of Environmental Protection Agency

- *University-wide – internal controls (desk review)*