



Report of Internal Audit Results 2006



Finance, Audit and Facilities Committee Board of Regents

Department of Audits
University of Washington

March 2007



Table of Contents

Executive Summary	1
Audit Coverage Overview	2
Work Accomplished in 2006	3–4
Results of 2006 Scheduled Audits	5–6
Audit Hours by Type of Audit—2006 Budget and 2006 Actual	7
Implementation of Audit Recommendations 2002–2006	8
Appendix	
Internal Audit Charter	9
Audit Services by Function	10
Contract Auditors on Campus During 2006	11
External Auditors on Campus During 2006	12



Executive Summary – Report on Results

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.

2006 Results

Audits

In 2006, we completed 7 of 10 planned audits of the highest risk areas identified in our 2006 plan. The remaining 3 audits are in process and will be completed in early 2007. We visited 67 University units; 56 as part of our planned scheduled audits, 3 at the request of management and 8 as part of investigations. Total actual audit hours of 9,880 were 1,220 less than budgeted as the result of staff turnover and time devoted to the quality assurance review.

Overall, we found departments generally had good control systems in place related to financial management, operations and federal compliance. Exceptions resulted primarily from the lack of sufficient management oversight rather than systemic problems at the University level.

Our information system audits focused primarily on the security of data stored on decentralized,

department-owned systems. We found departments need to strengthen controls related to user access, data integrity and security, business continuity, and strategic planning and budgeting for information systems.

Quality Assurance Review

We completed a quality assurance review required by internal audit standards in June, 2006. The review was conducted by chief audit executives from 4 peer institutions. The results of the review and Internal Audit’s action plan for addressing the report recommendations were communicated to the Regents in November, 2006.

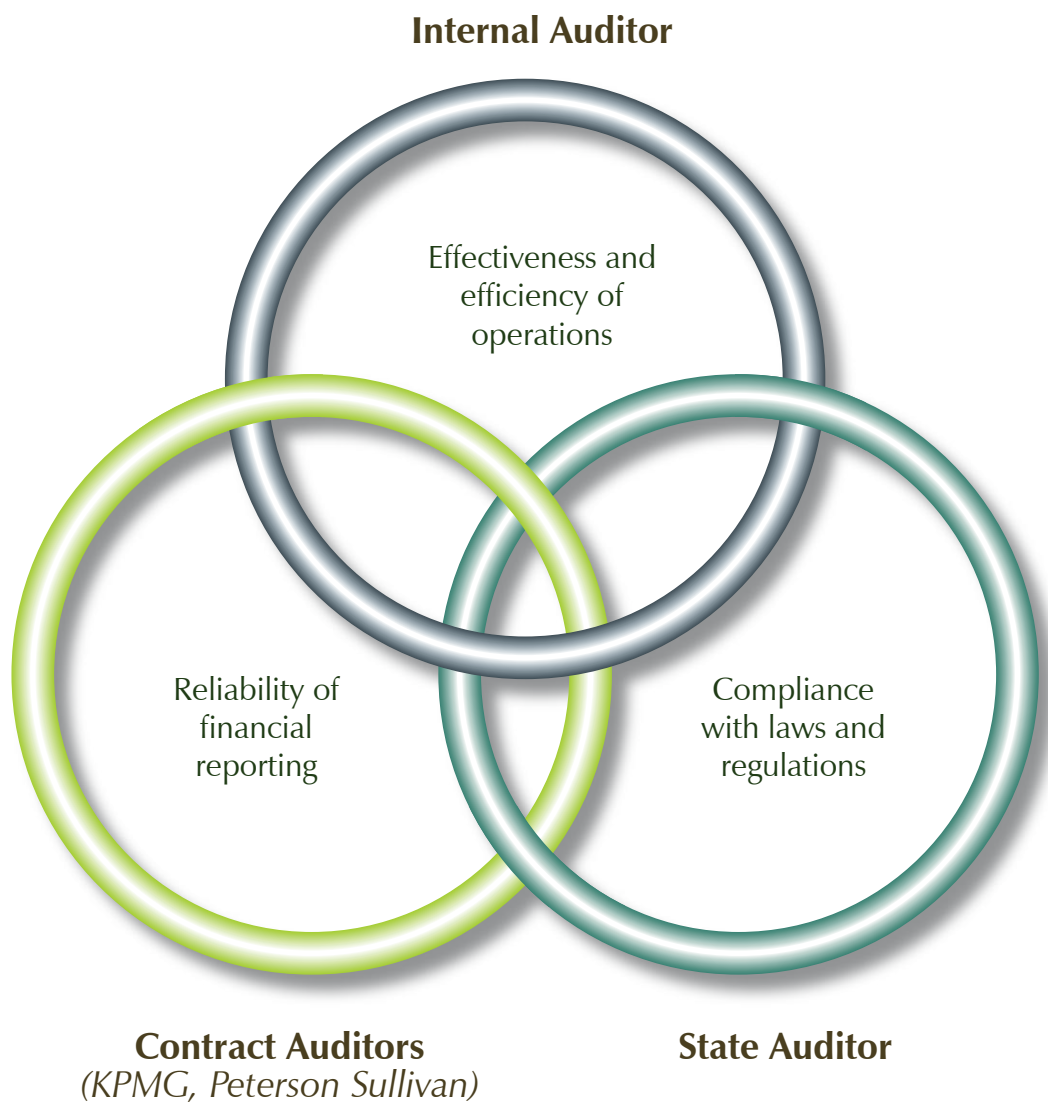
Enterprise Risk Management

Internal Audit continues to participate in the development of the University’s methodology to identify, assess and mitigate enterprise-wide risks. During 2006, the director coordinated the establishment of the University’s Compliance Council, and serves as its facilitator.



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 2006

Scheduled Department Audits*

Completed:

Capital Projects
 Computing & Communications:
 Washington Information Services Board
 Parking Services
 Department of Radiology
 School of Social Work
 UWMC Information Systems Security

- Inpatient Pharmacy Services

Audit Follow-ups (32)

In Progress:

Intercollegiate Athletics
 Office of the President
 UWMC Information Systems

- Pediatrics
- Respiratory Care

Scheduled University-wide Audits*

Completed:

Endowments and Gifts

- Computer Sciences & Engineering
- Electrical Engineering
- College of Engineering

Grant and Contracts—Payroll Certification

- Department of Aeronautics and Astronautics
- Department of Biochemistry
- Department of Bioengineering – University of Washington Engineered Biomaterials (UWEB)
- Department of Epidemiology
- Department of Genome Sciences
- Joint Institute for Study of the Atmosphere and Ocean

- Department of Medicine—Division of Cardiology
- Department of Medicine—Division of Metabolism, Endocrinology and Nutrition
- Department of Medicine—Division of Allergy and Infectious Diseases
- School of Medicine—General Clinical Research Center
- School of Oceanography
- Washington National Primate Research Center

Grants and Contracts—Cost Transfers

- Earth & Space Sciences
- College of Education
- Electrical Engineering
- Evans School of Public Affairs
- Health Services
- Department of Pharmaceutics
- Department of Psychiatry and Behavioral Sciences
- Department of Urology
- Washington National Primate Research Center

In Progress:

Grants and Contracts—Clerical and Administrative Salaries

Management Requests

Grant and Contract Accounting (new receivables software)

Intercollegiate Athletics (ticket certification)

Office of Student Life (service & activities fees)

Special Investigations

Fraud (1)

Grant Compliance (3)

Financial Processes (2)

Misuse of UW Assets (2)

* See pages 5 & 6 for Results of 2006 Scheduled Audits



Work Accomplished in 2006 (continued)

Training Provided

University Training & Development

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

Departments

- Grants Management (1)
- IT Audits (3)
- Preparing for Audits (1)
- State Ethics Law (6)
- State Whistleblower Law (1)

Advisory Services

- Campus Security Advisory Committee
- Compliance Council
- Electronic Faculty Effort Certification Team (eFEC)
- Environmental Health & Safety Committee
- Financial Desktop
- Global Support Committee
- President's Advisory Council on Compliance & Risk Management
- Privacy Assurance & Systems Security Council
- System to Administer Grants Electronically Team (SAGE)
- Tax Strategy Team

Internal Control Consultations (273)

External Relations

Memberships

State Committees

- Higher Education Interinstitutional Internal Auditors

Professional Organizations

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



Results of 2006 Scheduled Audits

In 2006, 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 two departments as part of our University-wide audit of gifts and endowments. Overall, we found that the University is spending funds in compliance with donor intent. We recommended some areas strengthen procedures to document approvals, and ensure gifts are properly classified.

Grant and Contracts—Payroll Certification

We reviewed two schools and ten departments as part of our University-wide audit of grant and contract certification reports (GCCRs). We recommended that controls be strengthened to ensure compliance with University and federal policies.

Grant and Contracts—Cost Transfers

We reviewed one college, one school and seven departments as part of our University-wide audit of cost transfers on federal grants. Overall, we found that departments are in compliance with federal and University policies relating to cost transfers. We recommended strengthening controls over the review of transfer requests and the amending of payroll certification reports.

UWMC Information Systems Security

We reviewed the Inpatient Pharmacy Services automated drug-inventory management system for control systems related to the security of protected health information. We recommended strengthening controls in the areas of user access, password administration, vendor contract management, and protection from malicious software.

Computing & Communications— Washington Information Services Board

We reviewed the University's compliance with the state's Information Services Board's (ISB) Information Technology and Security Policy and Standards. We recommended strengthening compliance with ISB requirements in the areas of business impact and vulnerability, threat and risk analysis, and personnel, physical data, network and access security.

Capital Projects

We reviewed the Capital Projects Office's construction project management system for information technology control systems related to data integrity and security. We recommended strengthening access controls to ensure data integrity and improve the physical security over the server.



Results of 2006 Scheduled Audits (continued)

Parking Services

We reviewed the department's system of internal controls over cash receipts in the accounting office. We recommended the department enhance controls to safeguard cash, document custodianship changes for cash, and separate cash and record keeping duties.

Department of Radiology

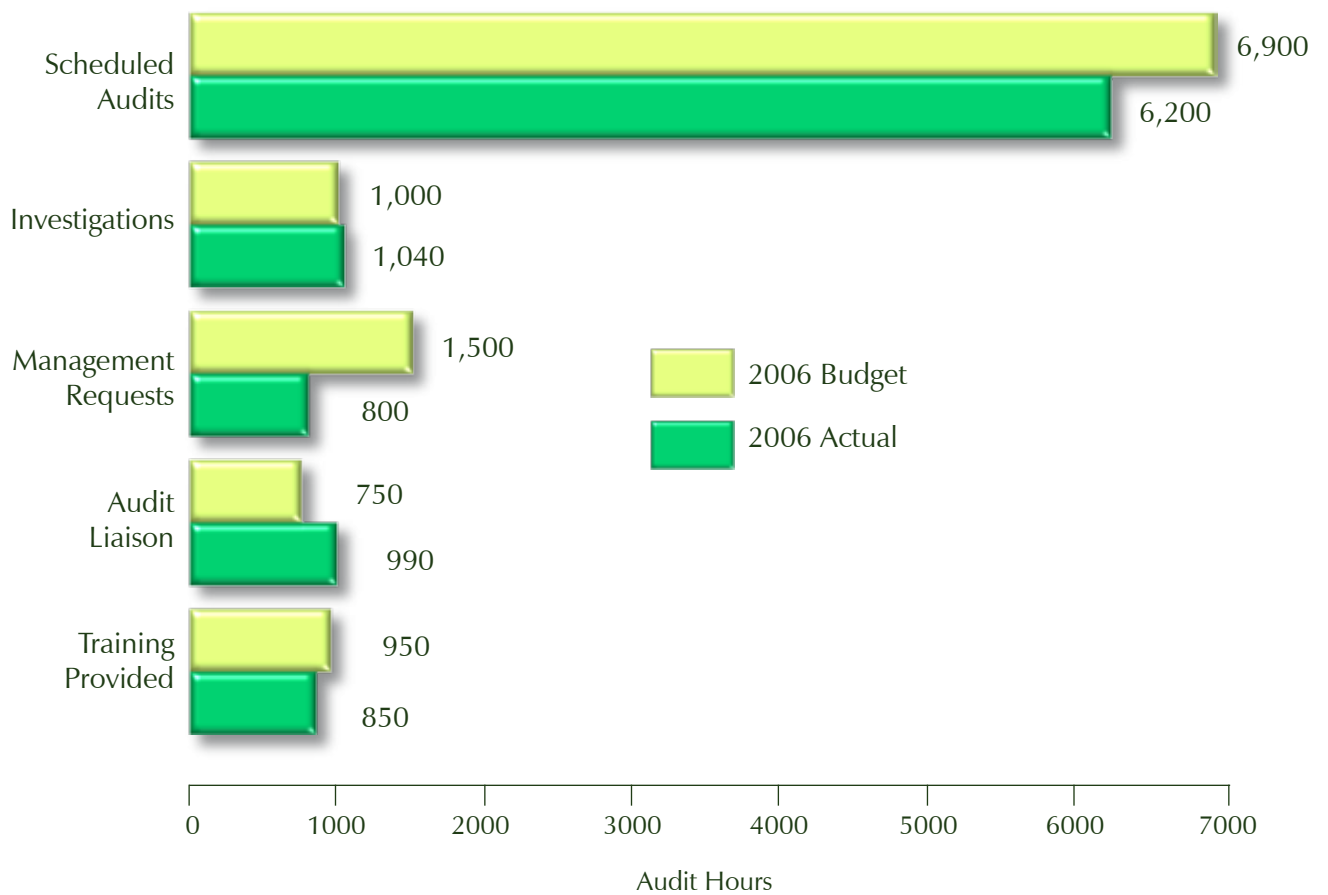
We reviewed the department's system of internal controls over grants fiscal management and management of information systems. We recommended the department strengthen controls over grant and contract certifications, payroll and information systems.

School of Social Work

We reviewed the school's system of internal controls over grants fiscal management. We recommended that the school strengthen controls over grant and contract certifications, interim funding and payroll.



Audit Hours by Type of Audit—2006 Budget and 2006 Actual



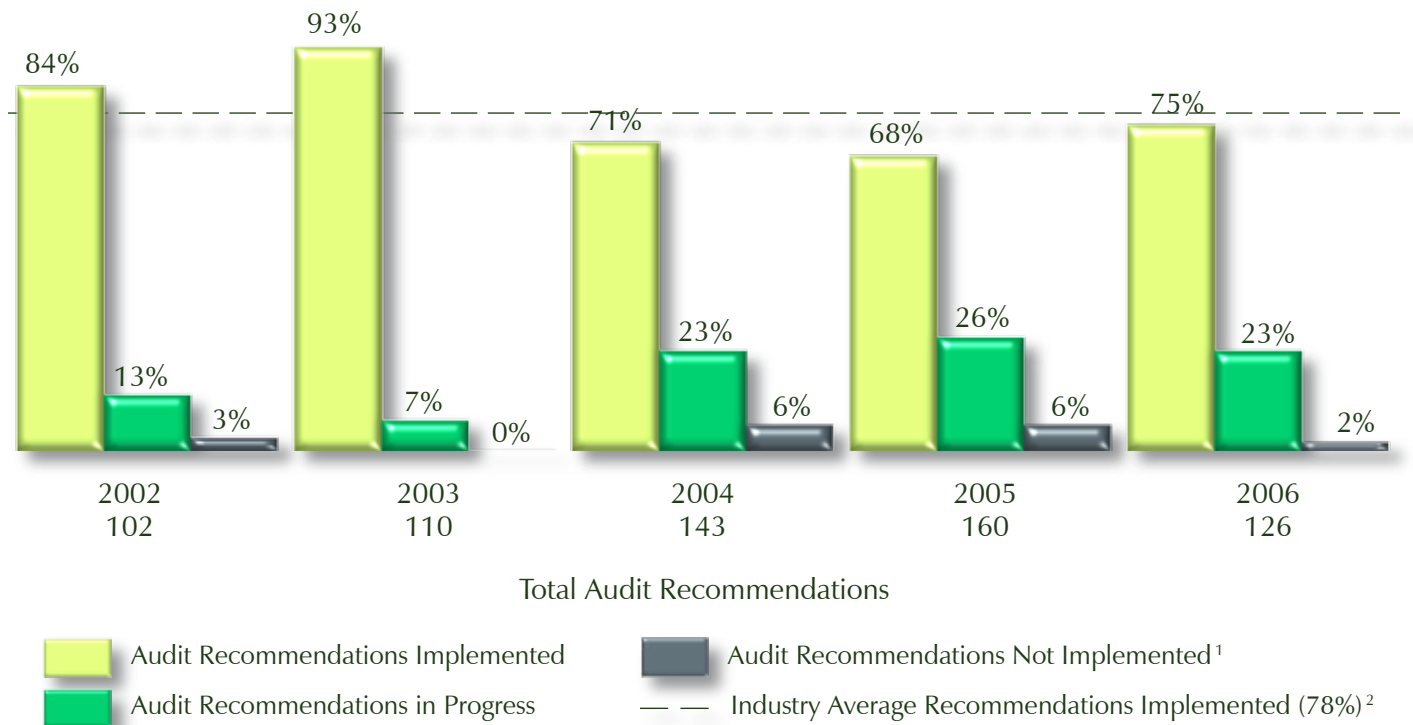
Total budget hours exceeded actual hours by 1,220 hours. This was a result of a vacant position and additional time needed for the quality assurance review.



Implementation of Audit Recommendations 2002–2006

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.

Percentage of Recommendations Implemented for the Years 2002–2006



¹ 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 and turnover, other higher priorities or the complexities of implementing solutions.

² 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 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

The Department of Audits functions under the authority of the Finance, Audit and Facilities 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, Audit and Facilities 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).

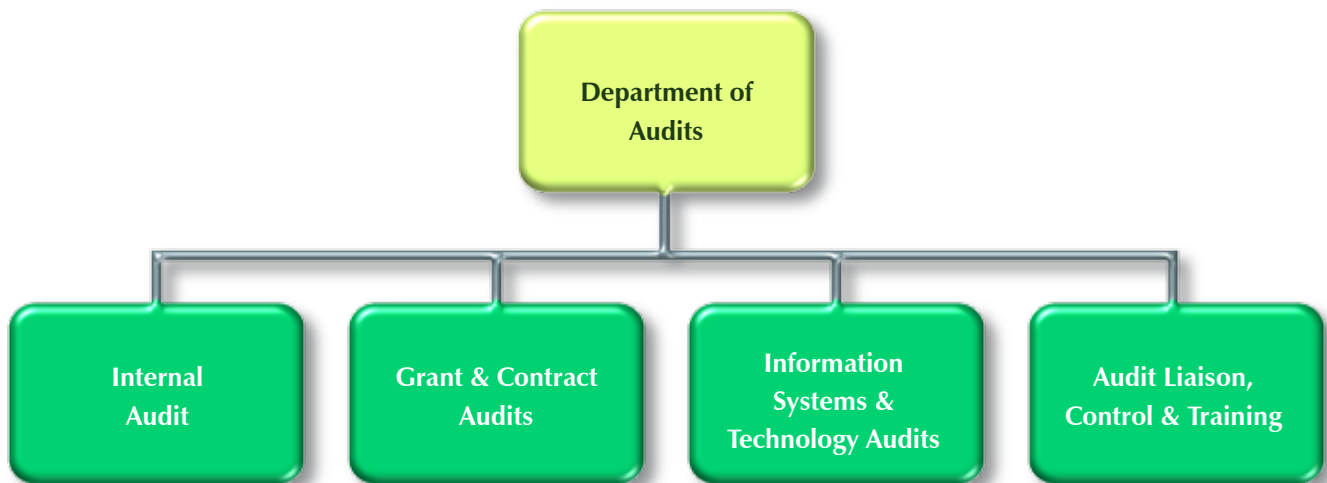


Audit Services by Function

“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 2006

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 2006

Office of the State Auditor

- Compliance with state and federal regulations
- State of Washington's annual financial statements audit in compliance with the Single Audit Act
- Whistleblower and citizen complaints
- Fraud investigations

U.S. Department of Health and Human Services

Closing Grant/Contract Audit

- Alcohol and Drug Abuse Institutes
- Applied Physics Lab
- Chemistry
- Electrical Engineering
- Mechanical Engineering
- Medical Genetics

Audit of graduate student compensation

Air Force Institute of Technology

Confirmation of tuition paid for students—Student Fiscal Services

Defense Contract Audit Agency

Audit of billing and accounting system and related controls - Grant and Contract Accounting, Applied Physics Laboratory

Audit of FY 2006 Prorated Direct Cost Rate—Applied Physics Laboratory

Audit of the Use of the Fixed Fee—Applied Physics Laboratory

Department of Energy

Request for report of costs claimed—Grant and Contract Accounting

Federal Aviation Administration Centers of Excellence

Site visit – Center of Excellence for Advance Materials in Transport Aircraft Structures

Food and Drug Administration

Not-for-cause inspection of the University Institutional Review Board – Human Subjects Division

National Aeronautics and Space Administration – Jet Propulsion Laboratory

Site visit—Office of Sponsored Programs

National Institute of Aging

Site visit—Shock Center Facility—Department of Pathology, Grant and Contract Accounting

National Institute of Allergy and Infectious Diseases

Site visits—Office of Sponsored Projects, Department of Immunology

National Science Foundation Office of Inspector General

Closing audit—Mechanical Engineering, Grant and Contract Accounting

Review of expenses claimed—Grant and Contract Accounting

Audit of University of Alaska-Anchorage subcontract—College of Engineering

Neighborhood House

Contract audit—Dept. of Environmental and Occupational Health, Grant and Contract Accounting

Office of Naval Research

Property Control System Analysis—Equipment Inventory Office

Contractor Purchasing System Review - Purchasing, Office of Sponsored Programs

Sandia Labs

University of Washington 2005 electronic cost claim—Grant and Contract Accounting

State of Washington Department of Transportation

Audit of the billing, job tracking and accounting information systems—Washington State Transportation Center (TRAC)