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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 2007 are:

- Complete the top ten high risk audits
- Develop and staff the Medical Centers’ audit function
- Implement the quality assurance review recommendations
- Continue participation in the development of University-wide strategic risk management framework

The University of Washington Internal Audit Plan for 2007 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 our risk assessment.
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 faculty and staff efforts charged to sponsored projects. 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 (DHHS OIG) 2007 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 DHHS OIG’s 2007 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 2007 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.
Resource demands on departmental general operating funds force departments to make difficult decisions regarding resource allocations. Resource 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 2006, the University received more than $200 million in gifts and endowments. The University relies on individual departments to ensure that these funds are spent in accordance with donor intentions. In 2007, 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 2007, we plan to review information security controls designed to ensure the proper protection of University data and information systems.
## 2007 Scheduled Audits

<table>
<thead>
<tr>
<th>Category</th>
<th>Internal Controls</th>
<th>Compliance</th>
<th>Business Processes</th>
<th>Information Systems</th>
<th>Follow-Ups</th>
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<td>Student Database</td>
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<td>UW Medicine Information Technology Services</td>
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<td>UW Medicine – Pediatrics</td>
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<td>Health Sciences—Primate Center</td>
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<td>School of Medicine—Genome Sciences</td>
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<td>Metabolism, Endocrinology, and Nutrition Medicine</td>
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<td>Grants and Contracts</td>
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<td>• Faculty Effort Certifications (FECs)</td>
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<td>Gifts and Endowments</td>
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<td>Educational Outreach</td>
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<td>Grants and Contracts—Cost Transfers</td>
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<td>UW Medicine—Respiratory Care</td>
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<td>President’s Office</td>
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<td>Intercollegiate Athletics</td>
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<td>Capital Projects</td>
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<tr>
<td>Various Departments</td>
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</tbody>
</table>

- Scheduled Audits: 65%
- Training & Advisory Services: 8%
- Management Requests: 9%
- Audit Liaison: 9%
- Special Investigations: 9%
2007 Planned Audit Hours

2006
- Staff turnover and extended leave resulted in reduced audit resources available for scheduled audits

2007
- Budget for scheduled audits increased in anticipation of a fully staffed internal audit department
- Budget for management requests reduced to align with 2006 results
- Budget for audit liaison increased in anticipation of the external audit activity remaining high
### 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 2007. A ‡ represents the areas audited by other auditors in 2006.

<table>
<thead>
<tr>
<th>Risk/Rank</th>
<th>Organization</th>
<th>University Internal Audit</th>
<th>Hospital Internal Audit</th>
<th>State Auditor’s Office</th>
<th>KPMG</th>
<th>Peterson Sullivan</th>
<th>Other Auditors</th>
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<tr>
<td>1.</td>
<td>School of Medicine</td>
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<td>5.</td>
<td>Computing &amp; Communications</td>
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<td>Grant &amp; Contract Accounting</td>
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</table>
Summary of Audit Coverage (continued)

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Risk Assessment Methodology

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 Systems 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