

VII. STANDING COMMITTEE

B. Finance, Audit and Facilities Committee

2007 Audit Plans – KPMG, State Auditors and Peterson Sullivan

See Attached.



University of Washington



2007 Audit Plan

Ann C. Nelson
Client Service Partner
KPMG LLP
801 2nd Avenue, Suite 900
Seattle, WA 98104
Telephone • 206-913-4192
Fax • 206-913-4444
email • anelson@kpmg.com

Steven D. Huebner
Lead Engagement Partner
KPMG LLP
801 2nd Avenue, Suite 900
Seattle, WA 98104
Telephone • 206-913-6583
Fax • 206-260-7263
email • shuebner@kpmg.com



Contents

I.	Executive Summary	1
	Scope of Audit	1
	Coordination with Other Auditors	1
	Tentative Timetables.....	1
II.	Financial Reporting Entity.....	2
III.	Scope of Our Audits.....	4
	University Annual Report	4
	UW Medical Center	4
	Intercollegiate Athletics (ICA)	5
	Parking System	5
	All Other Audits.....	5
IV.	KPMG Team Overview	6
V.	KPMG Audit Process	7
	Overview of Audit Procedures.....	8
	Balance Sheet.....	8
	Statement Of Revenues Expense And Changes In Net Assets	10
	Coordination with Other Auditors	11
VII.	Tentative Timetable	12



I. Executive Summary

Scope of Audit

We will audit the balance sheet of the University of Washington (University) as of June 30, 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on the financial statements based on our audit, however we will not express any opinion on the effectiveness of internal controls over financial reporting.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we will express no such opinion.

Additionally, we will report separately on our audits for the UW Medical Center, Intercollegiate Athletics, and the Parking System.

Coordination with Other Auditors

We will coordinate and rely on audit testwork performed by the following other auditors: Peterson Sullivan, the Washington State Auditor's Office and the University's Internal Audit Department as considered necessary.

This coordinated approach allows us to reduce duplicative testwork during the audit of the University and increase overall efficiency.

Tentative Timetables

Our timetable is expected to be similar to that of the previous year. We will coordinate with the Office of Financial Management and Internal Audit for a more detailed schedule of events and prepare an outline of specific data requirements, timelines and individuals responsible.

II. Financial Reporting Entity

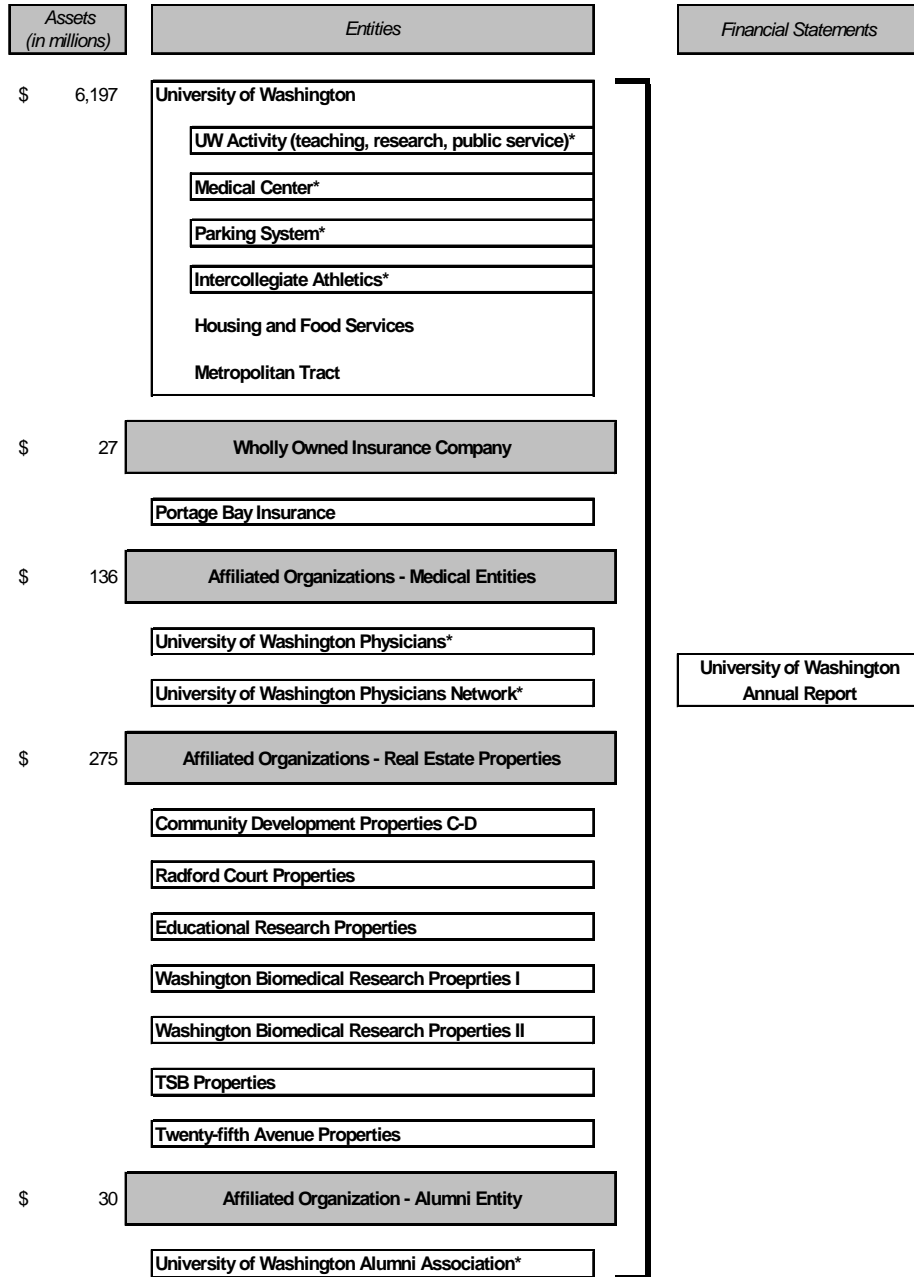
The financial statements of the University of Washington consist of (a) the University of Washington, (b) organizations for which the University is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. An entity is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the entity. An entity may also be financially accountable for governmental organizations that are fiscally dependent on it.

An entity has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the entity (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.



The following illustration depicts the entities included in the University of Washington Annual Report.



* Audited by KPMG

- Organizations Not included in
University of Washington Annual Report**
- Harborview Medical Center*
 - University of Washington Foundation *
 - Henry Gallery Association, Inc.
 - Washington Law School Foundation
 - Washington Pulp and Paper Foundation



III. Scope of Our Audits

University Annual Report

We will audit the balance sheet of the University as of June 30, 2007 and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we will express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In planning and performing our audit of the financial statements, we consider internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. If, however, during our audit we note matters involving internal control and other operational matters, they will be presented for your consideration. These comments and recommendations, all of which will be discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Universities internal control over financial reporting. According we express no such opinion.

This audit meets the needs of the Board of Regents and the administration to manage the University and assist in meeting the University's financial reporting requirements as a public agency and the State of Washington.

UW Medical Center

We will also audit the financial statements of the UW Medical Center as of June 30, 2007. We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. We will provide an audit



report on the UW Medical Center and will use our audit as support in our overall opinion on the University.

Intercollegiate Athletics (ICA)

An audit of the ICA will also be performed for the year ended June 30, 2007. This audit is designed to meet the requirements of the outstanding debt and will be in accordance with auditing standards generally accepted in the United States of America.

We will also be performing required agreed upon procedures to meet the requirements of the National Collegiate Athletic Association (NCAA).

Parking System

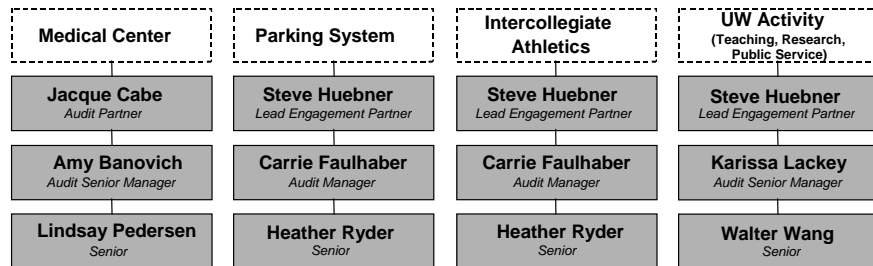
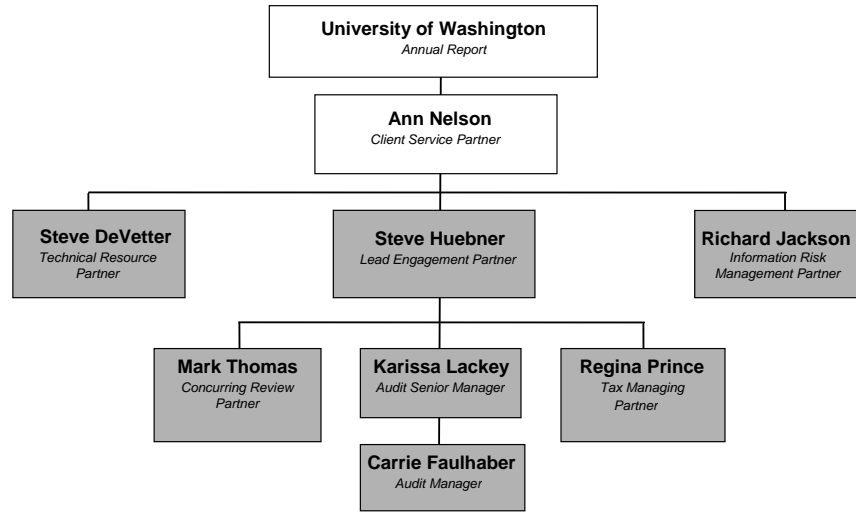
Our audit of the Parking System is designed to provide the necessary information to meet the compliance requirements of the outstanding debt associated with the parking system revenue bonds.

All Other UW Activity

All other UW activity consists of instruction, research, public service, and all other activities included in the University of Washington Annual Report, but not subject to separate reporting requirements.



IV. KPMG Team Overview



V. KPMG Audit Process

We apply our audit process through our three-step audit approach. Each step allows us to more clearly identify the University’s business risks, and hence our audit risks, and to focus our audit approach on the risks of material misstatements in the financial statements.

An overview of KPMG’s standard four-step audit approach follows:



1 Preliminary decision on controls or substantive approach for each audit objective

2 Confirm decision on controls or substantive approach for each audit objective

IT General Controls

Throughout the audit phases outlined above KPMG will be testing IT General Controls in Access to Programs and Data, Program Change Program Development, Computer Operations, and End-User Computing. In addition, when applicable, KPMG will also test IT application controls in the areas of; application access (segregation of duties), key reports, key calculations and interfaces (to ensure completeness and accuracy of data transfer).

Overview of Audit Procedures

Balance Sheet

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> Cash and Investments (\$3.1 billion)	<ul style="list-style-type: none"> Accounting for and control over cash and investments focused on the completeness, existence, accuracy and valuation. 	<ul style="list-style-type: none"> Test account reconciliations Confirm key cash and investment balances Procedures in accordance with the AICPA practice aid
<ul style="list-style-type: none"> Accounts Receivable- Patient Services (\$210 million)	<ul style="list-style-type: none"> Existence of receivables Reasonableness of contractual and bad debt allowances Collectibility of receivables 	<ul style="list-style-type: none"> Substantive audit and controls procedures to test reasonableness of accounts receivable contractual allowance and bad debt reserves Accounts receivable testing for existence of account balances Test account reconciliation
<ul style="list-style-type: none"> Accounts Receivable- Grants and Contracts (\$134 million)	<ul style="list-style-type: none"> Existence of receivables Accuracy of receivables Collectibility of receivables 	<ul style="list-style-type: none"> Coordination, review and reliance on the State Auditor testwork over grants and contracts Evaluate internal controls Assess the validity and collectibility of billed and unbilled receivables.
<ul style="list-style-type: none"> MetroTract (\$117 million)	<ul style="list-style-type: none"> Proper recording of net assets of MetroTract 	<ul style="list-style-type: none"> Obtain and review the audit report of Peterson & Sullivan

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> Capital Assets (\$2.4 billion) 	<ul style="list-style-type: none"> Proper capitalization and classification of assets Appropriate depreciation/amortization Safeguarding assets 	<ul style="list-style-type: none"> Review a reconciliation of capital asset activity Test and evaluate internal controls over capital asset additions Test a sample of significant additions and retirements by examining supporting documentation.
<ul style="list-style-type: none"> Accounts Payable and Accrued Liabilities (\$349 million) 	<ul style="list-style-type: none"> Recognition of transaction in proper accounting period Accuracy of amounts recorded and assessment of management's estimates 	<ul style="list-style-type: none"> Perform review of subsequent disbursements Review reasonableness of balances compared to expectations
<ul style="list-style-type: none"> Self Insurance Reserve (\$34 million) 	<ul style="list-style-type: none"> Valuation of management's estimates for legal liabilities 	<ul style="list-style-type: none"> Test the internal control system for monitoring litigation, claims, and assessments Obtain and review audit report of the captive insurance company.
<ul style="list-style-type: none"> Long-term liabilities (\$952 million) 	<ul style="list-style-type: none"> Proper classification Compliance with financial covenants 	<ul style="list-style-type: none"> Confirm balances Test disclosure and classification Test financial covenants
<ul style="list-style-type: none"> Net Assets (\$4.4 billion) 	<ul style="list-style-type: none"> Proper classification of restrictions 	<ul style="list-style-type: none"> Review reasonableness of balances compared to expectations



Statement Of Revenues Expense And Changes In Net Assets

Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> • Student tuition and fees (\$358 million)	<ul style="list-style-type: none"> • Accounting for and control over the tuition cycle • Proper accounting for scholarship allowances 	<ul style="list-style-type: none"> • Review reasonableness of balances compared to expectation • Test and evaluate internal controls
<ul style="list-style-type: none"> • Patient services (\$797 million)	<ul style="list-style-type: none"> • Proper recording of revenues • Proper cut-off of revenue between periods • Accuracy of recording of contractual deductions from revenue • Proper recording of charity care amounts in accordance with charity care policy 	<ul style="list-style-type: none"> • Charge capture testing for appropriate capture of revenues at set charge master rates • Revenue cut-off testing for appropriate revenue recognition • Test and evaluate internal controls
<ul style="list-style-type: none"> • Grants and Contracts revenue (\$989 million)	<ul style="list-style-type: none"> • Proper recording of revenues and collections • Accuracy of account balances 	<ul style="list-style-type: none"> • Coordination, review and reliance on the State Auditor testwork over compliance • Test and evaluate internal controls
<ul style="list-style-type: none"> • Auxiliary Enterprise revenue (\$123 million)	<ul style="list-style-type: none"> • Proper consolidation of entities 	<ul style="list-style-type: none"> • Obtain and review departmental and component unit statements for proper inclusion in the financial statements



Financial Statement Caption	Audit Considerations	Key Audit Procedures
<ul style="list-style-type: none"> Salaries and Benefits (\$1.9 billion) 	<ul style="list-style-type: none"> Recognized in proper accounting period Accuracy of amounts recorded 	<ul style="list-style-type: none"> Test and evaluate the internal controls Coordinate departmental reviews through work performed by the State Auditor Review reasonableness of balances compared to expectation
<ul style="list-style-type: none"> State Appropriations (\$376 million) 	<ul style="list-style-type: none"> Accuracy of amounts recorded 	<ul style="list-style-type: none"> Confirm balances with information provided from the state accounting system
<ul style="list-style-type: none"> Investment Income (\$294 million) 	<ul style="list-style-type: none"> Accuracy of amounts recorded 	<ul style="list-style-type: none"> Confirmation of amounts with the custodian Obtain and review the SAS 70 internal control report provided by the service organization.

Coordination with Other Auditors

When necessary we will coordinate and rely on audit testwork performed by the following other auditors.

Auditor

Peterson Sullivan

Washington State Auditor’s Office

University of Washington Internal Audit

University Component

Metro Tract, Housing & Food Services

Research – Compliance with Laws and Regulations

Statewide Debt

Various

This coordinated approach allows us to reduce duplicative testwork during the audit of the University and increase overall efficiency.



VII. Tentative Timetable

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Initial Planning Meetings	•									
Present Audit Plan to Board of Regents' Finance & Audit Committee		•								
Planning Meetings with University of Washington Finance Department			•							
Interim Fieldwork		•	•	•						
Final Fieldwork					•	•	•			
Financial Statements Preparation and Reporting							•	•	•	
Presentation of Financial Statement and Management Letter to Board of Regents' Finance & Audit Committee										•

We will coordinate with the controller's office a more detailed schedule of events which outlines specific data requirements, timelines and individuals responsible for each will be prepared.

F-6.1/205-07; 5/17/07

Executive Summary

Washington State Auditor's Office University of Washington Audit July 1, 2006 through June 30, 2007

The State Auditor's Office strives to ensure the best use of state resources. To this end, we make every attempt to avoid duplication of audit efforts by considering work performed by other auditors or oversight agencies, including the University's internal auditors, when appropriate.

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

Our scope of responsibility is primarily to audit financial records to ensure public funds are accounted for and controls are in place to protect public resources from misappropriation and misuse and secondly; legal compliance to ensure units of state and local government adhere to required laws and regulations relating to financial matters.

ELEMENTS OF THE AUDIT

- ***Compliance with laws and regulations:***

The State Constitution, Article 3, Section 20 (Audits of Public Accounts) establishes the Office as the auditor of public accounts, and to have such powers and perform such duties as may be prescribed by law. RCW 43.09 grants the auditor authority to examine the financial affairs of public agencies to ensure their integrity in the assessment, collection, and expenditure of public funds.

How? We examine the University's compliance with laws, regulations, and policies. To plan the audit we applied our professional knowledge and experience with University operations and analyzed electronic University data to identify areas at the highest risk for non-compliance, misappropriation or abuse. If, during the course of the audit, we identify other areas not scheduled for review, we consider adjusting our audit scope accordingly and notify University management.

Which areas?

- Dental Clinics
- Medical Clinics
- Intercollegiate Athletics
- Tacoma Campus
- Bothell Campus
- Parking
- Astro/Aero Cash Receipts
- School of Law Cash Receipts
- Housing & Food Services Catering
- Transcript & Testing Fees
- University Press, follow-up
- Conflict of Interest
- Open Public Meeting
- Construction Competitive Bid Law
- Procurement/Bid Laws other than Construction
- State Need Grants
- Scholarships & Tuition Waivers
- Childcare Centers
- Constituent Referrals
- General Disbursements, including travel, procard, petty cash/imprest funds
- Payroll
- Surplus/Scrap Sales

Planned computer assisted audit tests of payroll and vendor payment transactions may lead us to additional departments.

- **Single Audit:**

The State Auditor's Office is responsible for performing a single audit of the State of Washington, as required by the revised Single Audit Act and Office of Management and Budget Circular A-133. We have identified three major federal programs at the University that are scheduled for audit:

- Gaining Early Awareness and Readiness
- Maternal and Child Health
- Sea Grant Support

The federally funded transactions and related internal controls will be examined in the following departments:

- Office of Sponsored Programs
- Grant and Contact Accounting
- Management Accounting & Analysis
- Sea Grant
- Center on Human Development and Disability
- Health Services Office of Minority Affairs

- **Financial Statements:**

The State Auditor's Office is responsible for performing an audit of the financial statements for the State of Washington. University of Washington financial data is included in these statements. We will attest to the fairness of presentation of certain University account balances considered significant to the state's financial statements.

REPORTING

Any conditions considered significant enough to report as a finding will be included in one or two statewide reports:

- Single audit report (for all findings involving federal funds)
- Accountability report (for all findings)

We will also provide the University with a separate accountability report to include all University findings.

<p style="text-align:center">Peterson Sullivan PLLC University of Washington Metropolitan Tract Audit For the year ended June 30, 2007</p>

Peterson Sullivan PLLC has been providing audit services to the University of Washington for over fifteen years. We value our relationship with the University and welcome the opportunity to communicate with the Regents about our audit plan.

AUDIT CONTRACT

The fiscal year ended June 30, 2007, will be the fourth year we have conducted the financial audit of the Metropolitan Tract. This is “year four” in our original three year contract (*the first one-year extension option was exercised this year*) with the University of Washington for the Metropolitan Tract audit.

SUMMARY OF SERVICES PROVIDED

We perform the following audit services:

- Metropolitan Tract financial statement audit
- Rainier Tower sublease audit of the schedules of results of operations and net change in cash
- Fairmont Olympic Hotel audit of the schedule of gross rental income and percentage rent and lease compliance agreed upon procedures
- Unico Properties, Inc. audit of the schedule of gross rental income and percentage rent and lease compliance agreed upon procedures
- Cobb Building lease compliance agreed upon procedures (*new for fiscal year 2007*)

SUMMARY OF AUDIT PLANS

Metropolitan Tract

We focus our audit procedures in the areas deemed to be the highest risk. At the Metropolitan Tract we have determined that cash and revenue represent the largest dollar value, highest volume of activity and therefore, highest audit risks. We will also review the remaining costs that were capitalized as part of the Cobb building and the new lease and related compliance issues. We have prepared our audit programs to focus audit efforts in these areas.

Rainier Tower Sublease

The Rainier Tower sublease financial results are included in the Metropolitan Tract financial statements. We also audit the separate schedules of results of operations and net change in cash. The risk areas where we focus our audit procedures related to these two schedules are continue to be rental revenue recognition and capital expenditures.

Fairmont Olympic Hotel

The financial results from the Fairmont Olympic Hotel schedules of gross revenue amounts and percentage rentals are included in the Metropolitan Tract financial statements. We also audit the schedules on a stand-alone basis. We focus our audit procedures on revenue by

testing revenue recognition, completeness of reported revenue and proper classification and presentation of revenue. In addition, we perform and report on specific agreed upon procedures related to lease compliance. We will also ensure that the Fairmont obtained an audit of replacements and renewals expenditures as required by the lease (this was a finding last year since it was not done as of our audit completion date).

Unico Properties, Inc.

The financial results from the Unico Properties, Inc. schedule of gross rental income are included in the Metropolitan Tract financial statements. We also audit the schedule on a stand-alone basis. We focus our audit procedures on revenue recognition and revenue classification between commercial space and office space. We will also be selecting applicable tenants and testing the calculation of percentage rents since this was a finding last year. In addition, we perform and report on specific agreed upon procedures related to lease compliance.

AUDIT TIMELINE

Our audit procedures are expected to take place as follows:

Agreed upon procedures (Fairmont, Unico, Cobb)	Begins June 4, 2007
Metropolitan Tract audit	Begins July 30, 2007
Rainier Tower audit	Begins July 30, 2007

Reports for Fairmont and Unico are prepared for the year ended December 31, 2006, and will be issued the end of July 2007.

Reports for the Metropolitan Tract and Rainier Tower are prepared for the year ended June 30, 2007, and will be issued by September 15, 2007.

In addition, we will communicate any internal control related or other findings noted during our audits to the University in a management letter at the conclusion of the Metropolitan Tract audit.