Quarterly Compliance Report – Financial

INFORMATION

For information only.

BACKGROUND

In November 2015, Elizabeth Cherry, Associate Vice Provost, Compliance and Risk Services, presented a report on the University’s new Structural Compliance Program. Over an 18-month cycle, the Board of Regents will receive a quarterly report from each of the six key institution-wide compliance areas:

- Research
- Health & Safety
- Financial
- Information
- Special Areas (e.g. global activities)
- Civil Rights/Employment

Attachments
1. University of Washington Compliance Calendar – Cycle One: 2015-17
2. University of Washington Financial Compliance
3. University of Washington Financial Compliance Priority Item 1: Expenditure of State Provisos and Federal Funds
# UNIVERSITY OF WASHINGTON COMPLIANCE CALENDAR - Cycle One: 2015-17

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<th>Month</th>
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**Research**
- **Meeting 1:** Review research, budget, and compliance
- **Meeting 2:** Review compliance plans and priorities

**Health & Safety**
- **Meeting 1:** Review research
- **Meeting 2:** Review compliance plans and priorities

**Special Areas**
- **Meeting 1:** Review research
- **Meeting 2:** Review compliance plans and priorities

**Information**
- **Meeting 1:** Review research
- **Meeting 2:** Review compliance plans and priorities

**Financial**
- **Meeting 1:** Review research
- **Meeting 2:** Review compliance plans and priorities

**Civil Rights/ Employment**
- **Meeting 1:** Review research
- **Meeting 2:** Review compliance plans and priorities
To fulfill its teaching, research and service mission, today’s public research university must function as a multi-faceted business enterprise, interfacing with tens of thousands of students, faculty, staff, researchers, patients, and visitors – as well as grantors, vendors, and third-party contractors – in myriad daily financial transactions.

Like any large business, institutions of higher education follow generally accepted accounting principles and ethical corporate practices. They also grapple with a complex matrix of federal and state laws and regulations that attach to nearly every aspect of their fiscal operations. Financial compliance obligations are everywhere: processing student aid, collecting tuition, fundraising, planning of capital projects, procurement of goods and services, and administration of payroll and benefits are just a few examples. Universities must remain diligent stewards of taxpayer funds no matter the recipient: the Ph.D student, the anthropology professor, or the principal investigator performing medical research. They must also ensure that the institution’s financial transactions – the successful entrepreneur making a donation to her alma mater, the parent paying his freshman’s tuition, the department administrator purchasing supplies on a university credit card – are handled appropriately.

The University of Washington employs dedicated financial professionals within colleges and schools, as well as in central administrative units – Financial Management, Office of Planning and Budgeting, Procurement Services, Research and Student Accounting, Treasury, Internal Audit, and University Advancement among them. Because federal and state funds are subject to complex monitoring, auditing, reporting, and internal control requirements, these subject matter experts maintain up-to-date, detailed knowledge and skills relevant to the ever-evolving obligations of financial compliance. And because most of today’s business transactions are conducted electronically, the UW, through the work of its security and privacy experts, takes appropriate steps to protect its systems from external threats.

Compliance Services facilitates and supports compliance work across the institution by providing a unifying framework for the University’s diverse compliance obligations and subject matter experts. The framework is based on seven elements that characterize effective compliance programs: 1) leadership and oversight, 2) standards of conduct, policies and procedures, 3) education and outreach, 4) monitoring and auditing, 5) receiving reports and investigating, 6) accountability, incentives and corrective action, and 7) response and prevention.

Compliance Services convenes subject matter experts for facilitated assessments designed to identify strategies or initiatives that strengthen the maturity of the University’s compliance functions and emphasize continuous improvement.
Assessment

In October 2016, assessment sessions were held with financial compliance subject matter experts representing areas across the institution – benefits, tax, state budget compliance, debt management, grant and contract accounting, and enrollment management, among them. Through those meetings, two priority items were identified for focused attention over the next 18 months: 1) compliance with the Payment Card Industry Data Security Standard (PCI DSS); and, 2) Expenditure of State Provisos and Federal Funds.

The Financial compliance assessment was led by:
Ann Anderson | Associate Vice President and Controller, Finance & Facilities
Elizabeth Cherry | Associate Vice Provost, Compliance and Risk Services
Sarah Norris Hall | Associate Vice Provost, Office of Planning & Budgeting

Subject matter experts:
Jed Bradley | Higher Education Policy Analyst, Office of Planning & Budgeting
Robert Bradshaw | Manager, Financial Accounting
Sue Camber | Associate Vice President, Research & Student Accounting
Pramilla Chand | Director of Operations, Procurement Services
Christina Chang | Assistant Vice President, Finance & Administration, University Advancement
Mark Conley | Executive Director, Procurement Services
Cheryl DeBoise | Assistant Vice President, Financial Transformation, UW-IT Office of the Vice President
Richard Cordova | Executive Director, Internal Audit
Kirsten DeFries | Director, Grant and Contract Accounting, Research and Student Accounting
Walt Dryfoos | Associate Vice President, Advancement Services, University Advancement
Katy Dwyer | Executive Director, Benefits, Human Resources
Sarah Garland | Assistant Director, Banking & Accounting Operations
Mary Fran Joseph | Associate Dean for Administration and Finance, UW School of Medicine
Kay Lewis | Assistant Vice President for Enrollment and Executive Director of Financial Aid and Scholarships
Roy Lirio | Director, Student Fiscal Services
Chris Malins | Associate Vice President, Treasury
Ted Mordhorst | Director, Research Compliance & Operations
Kojay Pan | Director, Finance and Administration, College of Engineering
Kyle N. Richard | Director, Tax, Financial Management
Dan Schaaf | Associate Controller, Financial Management
Lupe Valencia | Director, Management Accounting and Analysis, Research and Student Accounting
Erik Winger | Assistant Director, Financial Accounting
Summary of Priority Items

Priority Item 1: Expenditure of State Provisos and Federal Funds
The University of Washington receives state appropriations and thousands of federally-sponsored grants, each of which requires compliance with complex conditions and limitations regarding expenditure. Failure to comply with funding requirements may result in expenditures being disallowed; funds not spent within the required timeline may expire; and administrative burden may increase due to strict, sponsor-imposed controls. Competition for federal and limited state resources is tight. The University must spend funds in accordance with legislative and funder intent, and within specified timelines, in order to maintain its reputation as a worthy investment for taxpayers and federal and state lawmakers.

Multiple projects are currently underway to strengthen internal controls, employ data analytics, and modernize University-wide financial systems in a broad-based effort to affect continuous improvement. This mitigation project focuses on developing coordinated, clear, customer-focused guidance and best practices regarding proper use of all funding, with special focus on federally-sponsored grants and state funds provided as provisos.

Priority Item 2: Payment Card Industry Data Security Standard (PCI DSS)
Processing of payment card transactions is critical to the University of Washington’s ability to conduct business, and protection of cardholder data collected through such transactions is crucial to the institution and its community. Protection is accomplished via significant information security and financial control requirements, which are codified in the Payment Card Industry Data Security Standard (PCI DSS). In 2015 alone, the Standard applied to five million transactions totaling more than $220M – at Meany Hall, UWMC, Parking Services, ICA venues, University Advancement, and Housing and Food Services, and hundreds of other locations across the UW.

To ensure sound and compliant functioning of payment card processing, the UW has launched a multi-faceted project which includes assessment of card processing functions across the organization and targeted strategies for long-term compliance with the evolving data security standard.
University of Washington Financial Compliance
Priority Item 1: Expenditure of State Provisos and Federal Funds

Challenge Statement
The University of Washington receives state appropriations and thousands of federally-sponsored grants, each of which requires compliance with complex conditions and limitations regarding expenditure. Failure to comply with funding requirements may result in expenditures being disallowed; funds not spent within the required timeline may expire; and administrative burden may increase due to strict, sponsor-imposed controls. Competition for federal and limited state resources is tight. The University must spend funds in accordance with legislative and funder intent, and within specified timelines, in order to maintain its reputation as a worthy investment for taxpayers and federal and state lawmakers.

Context
The state and federal funding types with the most stringent requirements include: 1) “provisos,” which are appropriated state funds with specific conditions and limitations. Most provisos take the form of language in a legislative budget bill that requires the University to spend a designated amount of its appropriation on a certain activity, and 2) federally-sponsored grants, awarded by the National Science Foundation or National Institutes of Health, for example, in support of University research, training, education and public service programs.

Although recipients are responsible for understanding and managing the compliance obligations regarding their own funds, central administrative units provide critical guidance and support. The Office of Sponsored Programs reviews, negotiates, approves, and provides administrative oversight of grant proposals and establishment of awards on behalf of the University of Washington, in accordance with applicable policies and regulations. The Office of Planning & Budgeting develops the University’s annual budgets; submits biennial and supplemental operating budget requests to the state; and budgets and distributes state funds and other resources to units, including interpreting and communicating conditions and limitations on those resources. Financial Management functions include Procurement Services, which integrates reviews, training for departmental units, and controls into procurement processes and systems to support compliance with grants and state funds, and Research Accounting and Analysis, which is responsible for grant account set-up, accounts receivable, financial reporting, invoicing and post-award financial compliance guidance and counseling.

The decentralized nature of these units creates a healthy system of checks and balances in their operational work. However, they also provide fund recipients with separate training and education, which could be made more effective with enhanced coordination and alignment.
Mitigation Plan
The Office of Planning & Budgeting, Procurement Services, and Research Accounting and Analysis will collaborate to:

1. Inventory existing training and outreach efforts, identify overlaps and gaps, and assess the effectiveness of different approaches being used to support compliant expenditure of funds – including written guidelines and policies, Administrator Toolkit, proviso letters, quarterly data analytics reports, and online and in-person trainings.

2. Develop clear, customer-focused guidance and best practices regarding proper use of all funding, with special focus on federally-sponsored grants and state funds provided as provisos. Information will be organized by funding type and span the period from receipt of funds through final reporting. The following elements will be incorporated: procurement guidelines/rules, ethics guidelines, UW policies, and best practices (e.g. spending on salaries, equipment and technology), as well as specific guidance on spending timelines and other requirements or restrictions. A user group of unit administrators will be convened to provide feedback as improvements are developed.

Project Leads
Jed Bradley, Higher Education Policy Analyst, Office of Planning & Budgeting
Pramilla Chand, Director of Operations, Procurement Services
Ted Mordhorst, Director, Research Compliance and Operations, Research Accounting and Analysis

Sample of Relevant Laws and Regulations
Federal
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: 2 CFR §200

State
- Ethics in Public Service: Chapter 42.52 RCW
- Use of State Resources: WAC 292-110-010
- Office of Financial Management: State Administrative & Accounting Manual (SAAM)

Related Initiatives
Although not part of the scope of this mitigation project, related University initiatives currently underway include:
- Internal controls – Assist units in establishing and documenting internal controls – following Committee of Sponsoring Organizations (COSO) principles – covering effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations. Led by Financial Management.
- Data analytics – Create detailed reports of transactions charged to federally-sponsored grants which have a higher than normal potential for disallowance. Reports encompass the entire
University, with data identified by college/unit and distributed to administrators on a quarterly basis. *Led by Research Accounting and Analysis.*

- Finance Transformation Project – Replace the University’s legacy systems, and modernize the core administrative and financial systems that support critical business operations. *Led by the Provost.*

### State and Federal Funds: Process, Central Administration Roles, and Initiatives

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- Data Analytics
- Internal Controls
- Education and Outreach
Challenge Statement
Processing of payment card transactions is critical to the University of Washington’s ability to conduct business, and protection of cardholder data collected through such transactions is crucial to the institution and its community. Protection is accomplished via significant information security and financial control requirements, which are codified in the Payment Card Industry Data Security Standard (PCI DSS). In 2015 alone, the Standard applied to five million transactions totaling more than $220M – at Meany Hall, UWMC, Parking Services, ICA venues, University Advancement, and Housing and Food Services, and hundreds of other locations across the UW.

The University’s decentralized operations, and a low barrier of entry for units that wish to accept the cards, pose challenges for the institution’s compliance with the PCI DSS. Non-compliance with its requirements and possible security breaches could result in fines levied by individual card brands, higher processing fees paid by the University, or, in rare cases, suspension of the ability to process payment cards altogether.

Context
The Payment Card Industry Security Standards Council, a consortium of the world’s major credit card companies (MasterCard, Visa, American Express, Discover, and JCB) was established in 2006 and monitors compliance with the PCI DSS. The Standard, most recently updated in April 2016, was created to align industry practices for accepting, processing, storing and transmitting payment card information in a secure environment. It serves to mitigate vulnerabilities in merchants’ environments and to protect cardholder data.

The PCI DSS includes 12 compliance requirements, organized into six control objectives: 1) build and maintain a secure network, 2) protect cardholder data, 3) maintain a vulnerability management program, 4) implement strong access control measures, 5) regularly monitor and test networks, and 6) maintain an information security policy.

Mitigation Plan
To ensure sound and compliant functioning of the UW’s payment card processing, Financial Management – in consultation with the Office of the Chief Information Security Officer (CISO) and other units – will lead a project to:

- Engage a consultant to help identify mitigation and risk reduction strategies, University resources (expertise, infrastructure), and operational issues (training, policies, procedures);
- Assess card processing functions across the organization;
- Complete and submit a University-wide “Self-assessment Questionnaire D,” as required by the UW’s merchant processor;
- Develop a communications plan for working with the merchant processor; and,
• Investigate and develop a strategy for long-term compliance that effectively balances the cost of compliance with risk, particularly given the evolving data security standard.

Project Leads
Sarah Garland, Assistant Director, Banking & Accounting Operations
Dan Schaaf, Associate Controller, Financial Management

Sample of Relevant Laws and Regulations
• PCI Data Security Agreement (PCI Security Standards Council, LLC License Agreement)
• Personal Information – Notice of Security Breaches: Chapter 19.255 RCW