



INTERNAL AUDIT

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UNIVERSITY *of* WASHINGTON

## 2018 Audit Results

Finance and Asset Management Committee  
Board of Regents

February 2019

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## Executive Summary

This report highlights the key goals and results of the internal audit work completed in 2018 for the University, including work completed across all of UW Medicine.

### Audit Goals

Internal Audit's major goals for 2018 were:

- Complete 30 audits focused on areas identified within Internal Audit's Risk Assessment;
- Provide the University with value added recommendations to improve controls, mitigate identified risks and increase efficiency of operations;
- Continue staff training & development, including our student intern program;
- Complete an internal self-assessment in advance of 2019's Quality Assurance Review;
- Continue to manage the University-wide financial fraud and ethics reporting hotline;
- Contribute and coordinate with the University Institutional Resilience Program managed within the Compliance & Risk Services; and
- Continue to participate on major system implementations as an advisor on oversight committees and complete pre/post implementation reviews.

### Audit Results 2018

As a result of the work completed we issued 25 audit reports, with another 9 reports issued to UW units "in draft" related to the approved 2017 - 2018 Internal Audit plans. We received and investigated 56 complaints from our financial fraud and ethics hotline and other sources in 2018. We also conducted follow-up audit procedures to "close" about 200 audit recommendations, provided audit liaison and management advisory services, provided controls and ethics trainings across all three UW campuses, participated in a review of the readiness phase of the new Financial Transformation Project, and participated in the Compliance Support Program throughout 2018. Finally, we continued our student intern program in 2018, and began our internal self-assessment in preparation for our external Quality Assurance Review in 2019.

Detailed information on the audit work completed and the results of our reviews can be found beginning on page 2 of this report and a listing of all audits and reports issued in Appendix A. Generally, we found the departments tested had good control systems in place. The control weaknesses identified primarily consisted of lack of sufficient management oversight and monitoring, and poorly identified roles and responsibilities. Internal Audit will continue to follow-up to ensure that all agreed upon corrective action plans are completed.

### Audit Advisory Committee

The Audit Advisory Committee (AAC) completed its fourth full year of operation in 2018, with Internal Audit continuing to report quarterly and provide support to the Committee. This Committee is charged with advising the Board of Regents on matters pertaining to external financial audits, internal audits and policies regarding internal controls.

## 2018 Audit Results

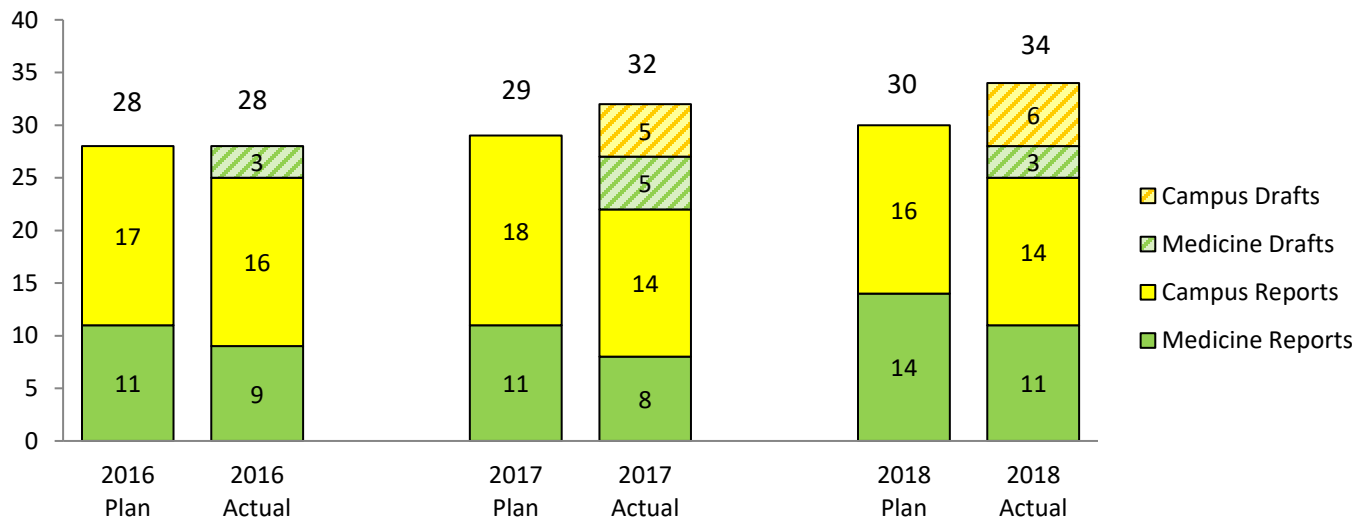
Internal Audit continued to emphasize the importance of strong systems of internal control in 2018. Generally, we found the departments tested had good control systems in place. The control weaknesses identified primarily consisted of lack of sufficient management oversight and monitoring, and poorly identified roles and responsibilities.

The Audit Advisory Committee (AAC) meets four times a year and is charged with advising the Board of Regents on matters pertaining to external financial audits, internal audits and policies regarding internal controls. At each meeting, the AAC received statistics and specific updates on how Internal Audit is executing on our 2018 audit plan, as well as a summary of the objectives and results of our audit work. The AAC also provided input and reviewed Internal Audit’s 2019 audit plan that was approved by the Board of Regents in November 2018. In addition, the AAC also reviewed the results of the 2018 financial statement audit, met with our external audit firm, KPMG, and reviewed the plans and work performed by Financial Accounting related to the implementation of a new program to implement a more structured system of internal controls over financial reporting. The AAC was also provided updates on the readiness phase of the Finance Transformation Project and information on our IT security systems.

The following sections of the report provide information on Internal Audit Productivity measures, other Internal Audit Projects and responsibilities along with appendices summarizing our audit reports and liaison activities.

### Productivity

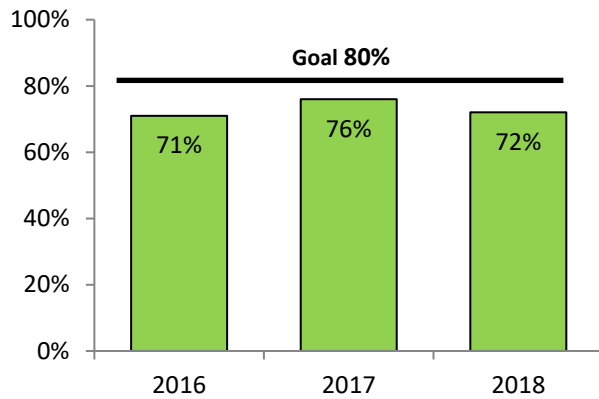
#### Audit Reports Issued compared to Plan



Our 2018 audit plan was approved by the Board of Regents at the November 2017 meeting and included 30 planned audits. As of December 31, 2018, we issued 25 audit reports and 9 “draft” audit reports awaiting management’s response, which are detailed in Appendix A.

## Productivity (cont.)

### Percentage of Hours Completed During Calendar Year on Respective Year's Audit Plan



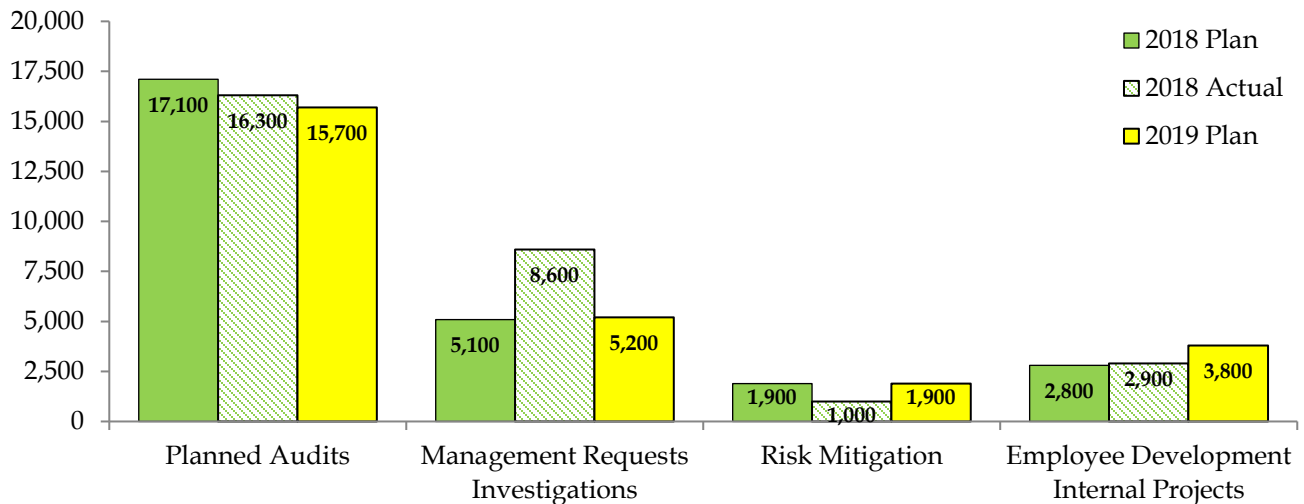
One metric used to measure productivity focuses on the completion of the current year's audit plan in the corresponding audit year. Most institutions target a goal of 80 - 90%. We will continue to focus our efforts on reducing carry over audits and improving our productivity, and set our goal at 80% for 2018 and strive to reach 90% within the next few years. **We fell short of our goal of 80% due primarily to the number of investigations in 2018.**

### Percentage of Hours Spent by Category

Another metric used by Internal Audit departments is one which measures how well they stay focused on the Audit Plan. To align with industry averages, our goal for 2018 was to spend 70% of our hours on "direct productivity"- defined as the time on planned audits (56%) and management requested audit projects / investigations (14%). **We exceeded our goal for 2018 with direct productivity at 76%.**



### Plan to Actual Audit Hours



## Productivity (cont.)

During 2018 we again issued a total of four more audit reports (in “final” or “draft”) than we issued in the previous year and met our Productivity Goals for the year regarding direct productivity and our total planned audit hours by category. However, we did not meet our goal regarding percentage of hours completed during the calendar year on the 2018 audit plan. The focus in 2018 on completing and issuing draft audit reports did not directly translate into more hours on planned audits than in previous years, but did result in more audit reports being issued in 2018 than 2017. As of December 31, we issued 25 final reports and 9 draft reports which will be issued as final in early 2019 (of which 4 were issued in January). Additionally, we have seven 2018 planned audits with field work well under way. The goal of issuing 30 audit reports was significantly impacted by our large increase in hours dedicated to investigations. In 2018 Internal Audit incurred 800 fewer hours on planned audits than projected and 3,500 more hours in the conduct of investigations (which equates to approximately seven planned audits).

We consider the year to be a successful one in which we continued to conduct value added audits and investigations. We had a slight drop in our actual time spent on 2018 audits compared to 2017. Our goal to reach 80% of our audit time focused on current year audits will continue in 2019 as we strive to improve on our 2018 performance. To reach this goal, we continue to reevaluate the changing risk environment and strive to amend our plan to reflect audits which are addressing the current risk environment. We have amended our plan this year to eliminate a number of audits in favor of addressing emerging risks in 2019.

As noted earlier, we experienced a significant increase in our actual hours incurred compared to plan for investigations. We planned for a stable year in terms of hours, as we had not experienced a significant increase in workload after implementation of the UW Financial Fraud and Ethics Hotline. In 2018, we experienced a number of larger more complicated investigations regarding (1) the conduct of individuals and departments involved in activities surrounding our University and State “outside work” rules and (2) situations involving time keeping inaccuracies. Even though the hours increased, the total number of complaints dropped from 67 in 2017 to 56 in 2018.

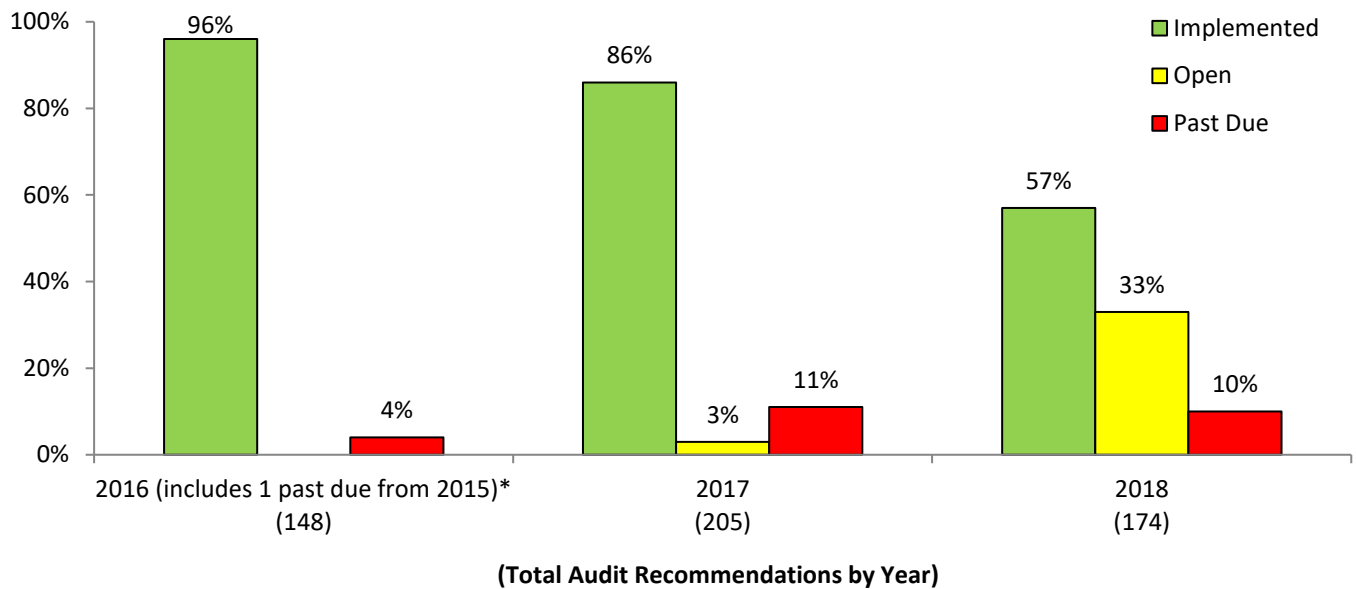
Internal Audit was also involved in a number of other activities to deliver value to the University. These activities included follow-up testing of previously issued audit recommendations, reviews of new IT systems (Finance Transformation), specific risk areas as requested by management, audit liaison services to the campus, training on internal controls, advisory work on key campus committees and internal quality improvement initiatives within Internal Audit. We also reinitiated the Internal Self-Assessment project as once every five years Internal Audit Departments must complete a quality assurance review for compliance with International Internal Audit Standards. We have summarized our involvement in these areas below.

## Additional Contributions by Internal Audit

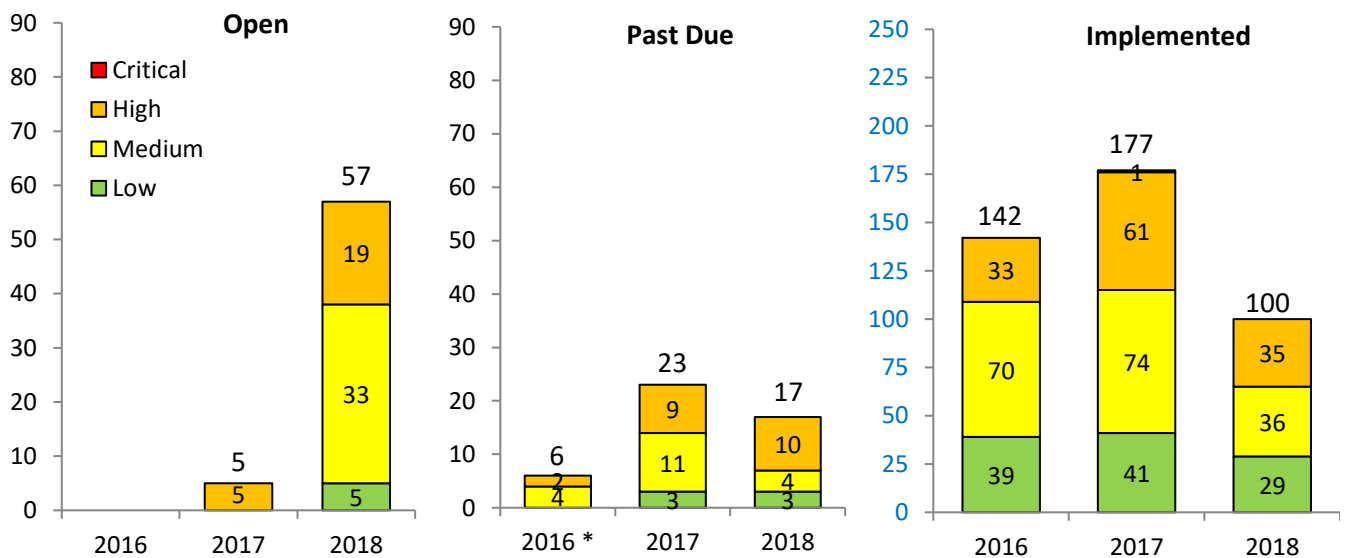
### Follow-up Audit Procedures

Semi-annually Internal Audit conducts follow-up audit procedures to ensure that management is implementing recommended controls, and provides a report to management with the results. We rank findings to provide management with Internal Audit’s perspective regarding the ongoing risk of not implementing controls to address the identified audit finding. If a management action plan is not implemented by the original target implementation date provided by management, it is considered “past due”. The following charts represent a summary of the status of recommendations across the University **as of December 31, 2018**:

### Percentage of Recommendations Implemented 2016-2018



### Status of Risk Ranked Audit Findings for 2016-2018



## **Additional Contributions by Internal Audit (cont.)**

### **Management Requests and Advisory Services**

During 2018 Internal Audit conducted a number of projects at the request of the Board of Regents and executive management. These focused on testing of controls in areas of management concern and/or consultations on controls for ongoing projects. The projects we participated in included direct assistance to KPMG with our external financial audit, assistance to the School of Medicine in evaluating the financial health of a self-sustaining unit, a software licensing review by Citrix, a ticket certification for Intercollegiate Athletics and general departmental consulting on internal controls questions.

### **Liaison Services**

Internal Audit serves as liaison between central administrative offices, University departments and external auditors (federal, state and financial). The department maintains a record of all external auditors on campus, ensures documentation and information requests are understood and met, assists University staff in responding to audit findings and facilitates communication and coordination between different groups of auditors to minimize disruption to departmental activities. Additionally, we attend entrance and exit conferences and act as a focal point for putting auditors in touch with the right people at the University to answer their questions. In 2018, we spent additional time with a number of Federal OIG audit groups reviewing grants from the Department of Justice and the National Science Foundation. Appendix B contains a listing of external audit organizations who conducted work at the University in 2018.

### **Special Investigations**

Internal Audit received 56 complaints in 2018 that required our attention (25 from the financial fraud and ethics hotline, and 31 from other sources). Of these, we referred six to other departments for resolution. Internal Audit conducted investigations related to whistleblower claims and regulatory, ethics and fraud allegations, and closed 56 investigations in 2018. We carry out many of these investigations as the proxy for the State Auditor's Office (whistleblower and fraud allegations), which allows Internal Audit to quickly identify control weaknesses and provide recommendations on ways to strengthen internal controls.

### **Trainings Provided**

One of our goals is to continue to assist the University in their endeavor to strengthen internal controls. As such, we deliver trainings in the areas of Internal Controls and Fraud Prevention, Grants Management, and State Ethics Laws. We believe these trainings which amount to some 100 hours of work in 2018 help strengthen the overall control environment while providing our staff with opportunities to meet with future audit clients and strengthen presentation skills. In 2018 we also participated in the continued revamping of the Faculty Grants Management class training materials to reflect significant changes that had occurred to Federal grant regulations.



## **Additional Contributions by Internal Audit (cont.)**

### **Participation in UW Committees**

Internal Audit provides advisory input into a number of key University initiatives through its participation on committees. Our participation on committees is solely as an advisor and does not extend to a management / decision making role on the specific initiatives. We provide thoughtful input on the challenges faced by the University through an Internal Audit “lens” and focus on how any initiative impacts the control structure of the University.

A sample of the committees we participate in are: the Privacy Assurance and Systems Security Council, the Compliance Coordination Committee, the Compliance Officers Group, and the UW Medicine Security Standards Steering Committee.

### **Quality Improvement Initiatives**

Additionally, we undertook a number of internal initiatives in 2018 to increase our productivity and effectiveness including:

- Major upgrade to TeamMate, our electronic workpaper system.
- Internal self-assessment in preparation for our external Quality Assurance Review in 2019.
- All day workshop with staff on improving the audit process, workpapers, and practices.
- Implemented sharing of audits performed/key results by Auditors at staff meetings.
- Reformatted Internal Audit Visual Board (metrics, status of audits).

### **Pacific Northwest Higher Education Internal Audit Conference**

Internal Audit participated in the ninth annual Pacific Northwest Higher Education Internal Audit Conference. This training was created to present a low cost training alternative to all Pacific Northwest Internal Audit departments, create an opportunity to share best practices amongst the audit departments and strengthen professional relationships at all levels. Other participants in 2018 included Washington State University, Western Washington University, Central Washington University, Oregon State University, Portland State University, University of Oregon, Southern Oregon University, Oregon Health Sciences University, University of Colorado, Montana State University, University of Montana, University Alaska, Idaho State, the University of Idaho, Southern Alberta Institute of Technology, and University of Lethbridge.

### **Internal Audit Internship Program**

Internal Audit began a student intern program in 2011 for students majoring in Accounting or related fields. The students work during the summer of their junior year and part-time during their senior year in Internal Audit. They assist in the performance of audits, investigations, risk assessments, and management advisory services. This provides the students with real life experience on what it is like to be an auditor. In 2018 we employed two students from the Foster School of Business as interns.

# Appendices

## Summary Status of Planned Audits

During the course of calendar year 2018, we completed a number of audits that were in progress at the end of 2017, and completed or began most audits planned for 2018. Below is a summary of the progress we have made to date. Additionally, in accordance with IIA standards, we are presenting a summary of changes to 2019 planned audits that were approved by the Board of Regents in November 2018.

### 2017 Carry-Over Audits

<b>Audit</b>	<b>Status</b>
Continuum College - Registration	Issued
College of Education - Business Operations/Centers	Issued
College of the Environment - Atmospheric Sciences	Issued
UW Bothell - School of Business Executive Education	Issued
UW Tacoma - SIAS (Replacement)	Issued
Advancement - Donor Expenditures	Issued
CoMotion - Labs & Maker Space	Issued
Facilities Services - IT Electronic Media Disposal	Issued
Intercollegiate Athletics - Compliance 2017	Issued
UWMC - Cardiology Clinic (Replacement)	Issued
UWMC/HMC/UWP - Data Analytics/Mining (Urology)	Issued
UWMC/HMC/NWHMC - Epic User Access	Issued
UWMC/HMC - IT Media Disposal (Replacement)	Issued
UWMC/HMC - Supply Chain	Issued
NWHMC - Charity Care/Accounts Receivable	Issued
NWHMC - Payroll/Kronos	Issued
VMC - Drug Diversion/Controlled Substances	Issued
VMC - Strategic Alliance Agreement	Issued
School of Medicine - Pharmacology Grants	Issued
School of Medicine - Physician Incentive Compensation (Replacement)	Issued (2 Reports)
Title IX	Draft Issued

### 2018 Planned Audits

<b>Audit</b>	<b>Status</b>
School of Law - Financial & Business Operations	Issued
School of Nursing - Grants	Issued
UW Bothell - Centers Business Operations	Issued
CoMotion - Global Innovation Exchange	Issued
UW Medicine - Contingency Fee Based Contract (Huron)	Issued
College of Built Environment - Shop Safety (Addition)	Draft Issued
School of Public Health - Grants	Draft Issued
Enterprise Services - Finance Transformation	Draft Issued
Intercollegiate Athletics - Compliance 2018 & Title IX	Draft Issued
UW Medicine - Quality Metrics (MIPS)	Draft Issued

**2018 Planned Audits (cont.)**

<b>Audit</b>	<b>Status</b>
UW Medicine - Social Media	Draft Issued
HMC Interpreter Services (Addition)	Draft Issued
NWHMC - Rehabilitation and Respiratory Therapy	Draft Issued
School of Dentistry - Financial Stability Plan	In Progress
UW Tacoma - Housing Business Operations	In Progress
UW Information Technology - Change Control	In Progress
UW Information Technology - Electronic Data Warehouse	In Progress
Student Life - Use of University Facilities	In Progress
Housing & Food Services - Residence Hall Access	In Progress
UW Medicine - ITS Change Control	In Progress
UW Medicine - Telemedicine IT Privacy/Security	In Progress
UW Medicine - Telemedicine Revenue Charge Capture	In Progress
UW Medicine - Underpayments	In Progress
School of Medicine - Radiation Oncology Grants	In Progress
School of Medicine - Shared Services	In Progress
Enterprise Services - Integrated Service Center (ISC)	Deferred to 2019
Health Sciences Administration - EH&S	Deferred to 2019
Office of President/Provost - Global Affairs Travel Safety	Deferred to 2019
UW Medicine - Financial Stability Plan	Deferred to 2019
UW Medicine - Patient Financial Services	Deferred to 2019
UW Medicine - Opioid Program Review	Cancelled
UW Medicine - Overlapping Surgeries	Cancelled

**2019 Planned Audit Changes**

<b>Audit</b>	<b>Status</b>
NONE	

## External Auditors – 2018

### Financial Statement and Agreed Upon Procedures Audits:

#### KPMG

University of Washington	UW Medicine Clinical Entities -
Internal Lending Program	UW Division
Intercollegiate Athletics	Harborview Medical Center
Commuter Services	Valley Medical Center
Housing and Food Services	Seattle Cancer Care Alliance
Portage Bay Insurance	I-Tech Field Offices
UW Alumni Association	

#### Peterson Sullivan

Metro Tract	Student Life
Student Apartments	

### Federal and State Regulatory Audits and Reviews:

#### State Auditor's Office

Audit of federal programs in accordance with the Single Audit Act  
 Whistleblower and citizen complaint investigations  
 Accountability audit of University compliance with state laws, and regulations

#### Federal Agencies

##### Department of Justice

Grant Fiscal & Programmatic Compliance, Biostatistics, Education &  
 Epidemiology

##### Department of State

Sub Recipient Monitoring Review, Global Health & UW Kenya

##### Office of Naval Research

Property Control Systems Analysis

##### National Science Foundation

Costs Claimed and Control Environment, Ocean Observatories Initiative,  
 Oceanography  
 Business Services Review, Ocean Observatories Initiative, Oceanography (review  
 performed by Woods Hole Ocean Institute)  
 University Wide Review of Costs Claimed

##### Sandia National Laboratories

Sub Recipient Monitoring Review, Chemical Engineering, Mechanical  
 Engineering

**External Auditors - 2018 (cont.)**

**State, Local, Foreign and Private Agencies**

**State Department of Early Learning**

Grant Fiscal Compliance, Education

**Cystic Fibrosis Foundation**

Grant Fiscal Compliance, Microbiology

**Cotton & Co.**

Grant Fiscal Compliance, Surgery

**Washington State Department of Health**

Contract Compliance - Healthcare for the Homeless Network, Ryan White