



INTERNAL AUDIT

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UNIVERSITY *of* WASHINGTON

## 2014 Audit Results

Finance and Asset Management Committee  
Board of Regents

May 2015

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## Executive Summary

This report highlights the key goals and results of the internal audit work completed in 2014 for the University, including UW Medicine.

### Audit Goals

Internal Audit's major goals for 2014 were:

- Complete audits within fifteen of the highest risk ranked units of the University;
- Provide the University with value added recommendations to improve controls, mitigate identified risks and increase efficiency of operations;
- Complete internal control reviews of departments either as a request of management or due to losses of University resources;
- Continue to develop our student intern program;
- Implement a University-wide fraud, waste & abuse reporting hotline; and
- Provide training on internal controls, WA Ethics Law and other related subjects.

### Audit Results 2014

As a result of the work completed, we issued 18 audit reports related to the 2012-14 audit plans, conducted follow-up audit procedures to "close" over 165 audit recommendations, provided audit liaison and management advisory services, conducted investigations into ethics and/or fraud allegations, and provided controls and ethics trainings across campus. We continued to develop and expand our student intern program in 2014. We are in the process of procuring a third party vendor for our Fraud Waste & Abuse hotline.

Detailed information on the audit work completed and the results of our reviews can be found beginning on page 2 of this report. 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 insufficient security plans.

We did identify two critical issues related to the adequacy of the control structure in place and the oversight provided by the principal investigators for the Gear-Up grants in the Office of Minority Affairs and Diversity. Significant progress has been made to date to correct the weaknesses identified. Internal Audit will continue to follow-up to ensure that all agreed upon corrective action plans are completed.

### Advisory Audit Committee

During 2014 the Board of Regents approved the creation of a new Audit Advisory Committee. This Committee is charged with advising the Board of Regents on matters pertaining to external and internal financial audits, policies and practices for compliance with legal and regulatory matters and internal controls. Internal Audit has taken on the leadership role in providing support to the Committee.

## **2014 Audit Results**

In 2014, Internal Audit continued to emphasize the importance of strong systems of internal control. 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 insufficient security plans.

We found two critical issues in the course of these scheduled audits related to the adequacy of the control structure in place and the oversight provided by the Principal Investigators for the Gear-Up grants in the Office of Minority Affairs and Diversity. Significant progress has been made to correct the weaknesses identified. Internal Audit will continue to follow-up to ensure that all agreed upon corrective action is completed.

### **Summary of Key Areas Audited 2014**

We completed a 18 audits across the University including UW Medicine. We have summarized the key risks and controls reviewed in the audits below, as well as a brief summary of recommendations to strengthen controls.

#### **Office of Minority Affairs & Diversity - GEAR UP**

We reviewed the controls over the fiscal operations of the GEAR UP program. We identified critical issues related to the adequacy of the overall control structure in place and oversight provided by the principal investigators (PI) to ensure program financial objectives were being met in the most effective and efficient manner and that expenditures charged to the grants were reasonable and allowable. We also recommended strengthening controls over travel expenditures, use of grant funds, review of expenditures, purchasing methods, employment of minors, payroll, review of subcontractor invoices, effort reporting, and safeguarding of assets.

#### **Center for Commercialization**

We performed a review of the controls over the collection and processing of royalty revenues within the Center for Commercialization. We did not identify any control weaknesses that required corrective action.

#### **College of the Environment - Friday Harbor Laboratories**

We reviewed the controls over the business operations of the Friday Harbor Laboratories. We identified control improvement opportunities related to segregation of cash receipting duties, costs charged to gift budgets, safeguarding of credit card information, accountability and safeguarding of cash, timely cash deposits, management of invoice receivables, PI review of Budget Activity Report (BAR) reconciliations, payroll authorizations and reconciliations, purchasing authorizations, authorization and timely occurrence of expense transfers, segregation of equipment inventory responsibilities, and encryption of confidential data.

## **Summary of Key Areas Audited 2014 (cont.)**

### **Gift Expenditures**

We performed a review of the controls over gift budgets and expenditures at 11 schools, departments, and divisions (units). Controls were adequate within 8 of the 11 units reviewed. We recommended that the Burke Museum strengthen controls over the awarding of scholarships, the Department of History improve controls over the monitoring of budget balances to ensure timely utilization, and the School of Music improve controls over the performance of BAR reconciliations.

### **Intercollegiate Athletics - 2 reports issued in 2014**

We reviewed controls over NCAA compliance related to recruiting, self-reporting of violations, rules education, and security over the jump forward system for 2013. We recommended improving controls over the documentation of travel and approval of official visit forms, documentation of unofficial visits, defining of user roles/privileges, granting of user access, periodic review of access rights, use of administrator account passwords, and password complexity.

We reviewed controls over eligibility, academic performance, and amateurism for 2014. We recommended strengthening controls over certification of amateurism, retention of required forms, documentation of policies and procedures, positive confirmation from reviewers of academic progress and the graduation success rate reports.

### **I-TECH - Mozambique and Tanzania**

We conducted a site visit to Africa, and reviewed the controls over financial operations at the Mozambique and Tanzania field offices.

In Mozambique we identified control improvement opportunities over the procurement of computers and office equipment, tracking of assets, compliance with purchasing policies and procedures, settlement of travel advances, and authorization of payroll.

In Tanzania we recommended strengthening controls over the establishment of vendors in the on-line banking systems, monthly approval of payroll, and the inclusion of petty cash advances in the monthly surprise spot checks.

### **Office of Planning and Budgeting**

We performed a review of the controls over the Activity Based Budgeting allocation process. We did not identify any significant control weaknesses that required corrective action, but did identify a few low risk areas where there were opportunities for improvement.

## **Summary of Key Areas Audited 2014 (cont.)**

### **HMC & UWMC - Pharmacy**

We reviewed controls over the service capture process in Pyxis and PharmNet, chargemaster management, vendor management, and certain IT functions in Pharmacy. We recommended strengthening controls over the development of policies and procedures, processing of manual credits in PharmNet, and the identification of root causes for pharmacy charges that were not properly transmitted for billing.

### **Meaningful Use - HMC/UWMC, NWH, VMC**

We performed a review of the controls in place to ensure the medical centers complied with Meaningful Use requirements for Stage 1, and that controls are in place to ensure compliance with the requirements for Stage 2.

We recommended that HMC/UWMC improve controls over the accuracy and completeness of supporting documentation, and the use of free text in recording a patient's preliminary cause of death. We did not identify any control weaknesses that required correction related to the planning for Stage 2 compliance.

We recommended opportunities for NWH to strengthen controls relating to the following measures relating to immunization data submission, recording of smoking status, clinical lab test results and electronic exchange of clinical information. We did not identify any control weaknesses that required correction related to the planning for Stage 2 compliance.

We did not identify any control weaknesses that required corrective action at VMC.

### **NWH - Parking**

We reviewed controls over the operating, compliance and financial functions of the parking operations at NWH. We recommended that controls be strengthened related to strategic planning and goal setting, development of policies and procedures, compliance with their Traffic Management Plan, separation of duties, accountability and record keeping, safeguarding of assets, management oversight, performance of IT backups, and user access to systems.

### **HMC/UWMC - ICD-10**

The scope of our audit was to determine if all the critical components and the associated tasks for a successful conversion to ICD-10 had been identified, tracked, and the current status communicated to management. We identified no issues or concerns.

### **HMC/UWMC - Kronos Time Keeping System**

We reviewed general IT controls related to management oversight, security, data and systems integrity, and backup/recovery. We identified opportunities for control improvement related to the performance of a system level risk assessment, the periodic review of user access rights, and the documentation and testing of a disaster recovery plan.

## **Summary of Key Areas Audited 2014 (cont.)**

### **VMC - EPIC Charge Master**

We performed a review of the controls over the change management process for the three charge master tables utilized by the EPIC billing system. We did not identify any control weaknesses that required corrective action.

### **Housing & Food Services - Information Technology**

We reviewed general IT controls related to management oversight, security, data and systems integrity, and backup/recovery. We identified control improvement opportunities related to the development of an information security plan, user access reviews, encryption of data, change management, testing of system backups, documentation of policies and procedures, password configurations, and creation of a disaster recovery plan.

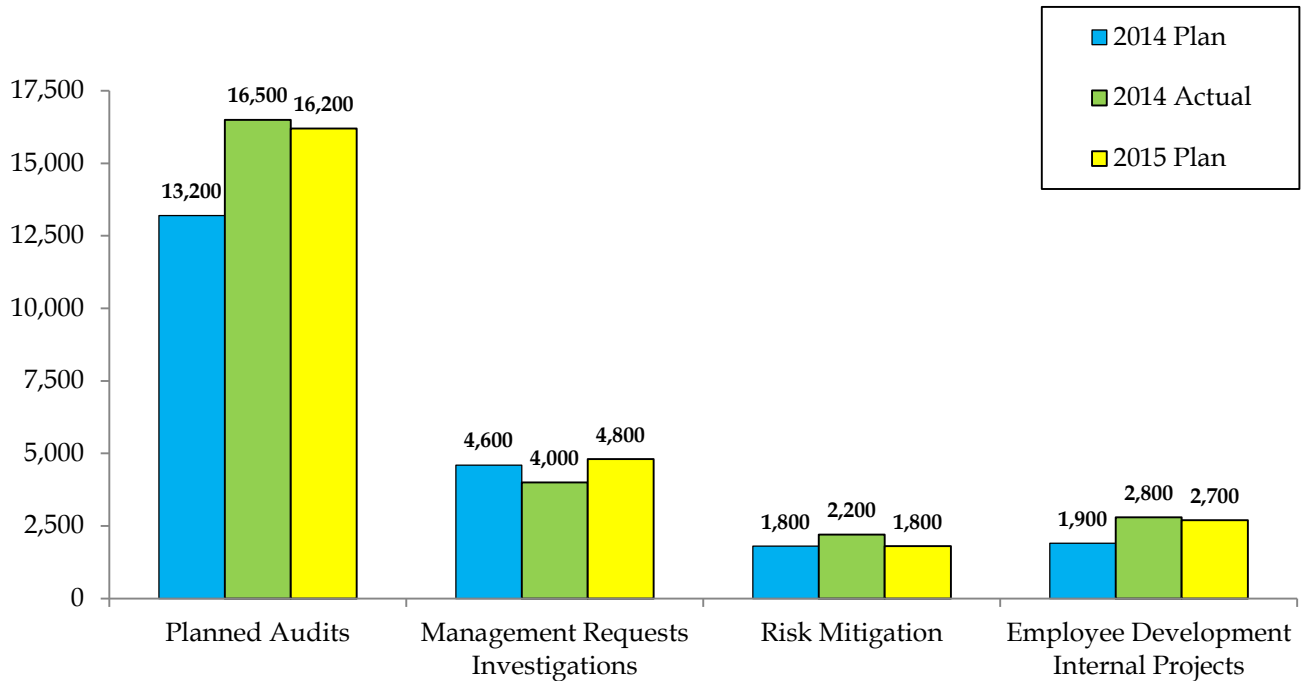
### **School of Social Work - Information Technology**

We performed a review of general IT controls related to management oversight, security, data and systems integrity, and backup/recovery. We recommended strengthening controls over the development of an information security plan, user access reviews, encryption of data, data center environmental and physical controls, patch management, firewall configuration, change management, and creation of a business continuity plan which includes IT disaster recovery.

## **Summary of 2015 Planned Audit Changes**

Our 2015 audit plan was approved by the Board of Regents at the November 2014 meeting. At this time we have no adjustments or planned changes.

## Plan to Actual Audit Hours



During 2014, Internal Audit significantly increased our total audit plan hours by some 4,200 hours across all areas of operation. The impact of adding two auditors during 2014 (one open position and an increase of one FTE funded by UW Medicine) allowed us to contribute approximately 2,300 hours of additional time on our planned audits resulting in the completion of four more audits in 2014. The remaining increase was due to expansion of our internship program from two to three students and unplanned overtime. The increase in Employee Development and Internal Projects was a result of continued emphasis on continuing education and other professional development opportunities and review of our internal operations as a result of the external Quality Assurance Review which was completed in January 2014.

The Audit Plan estimated hours for 2015 represents no significant increase over 2014's actual audit results, as noted above. We will continue our focus on our core activities. We have requested additional funds to begin a slow growth process to bring our staff in alignment with peer institution audit teams; however, at this time we have not yet been informed if that growth will begin in 2015 or 2016. We expect to continue our internship program with two or three interns in 2015. The program has successfully added to Internal Audit a group of talented UW students who have been involved in conducting audits, assisting the external auditors and revamping our web presence.

The planned volume of work included for investigations and management requests is at a level we consider to be reasonable based on historical averages, even though a bit higher than 2014. Additionally, we will continue to deliver trainings on internal controls, research compliance, and WA State Ethics Laws in an effort to increase awareness across the University. In 2015, we will also be working with other compliance professionals on campus to hold the first annual Compliance Summit.



## **Additional Contributions by Internal Audit**

Internal Audit is also involved in a number of other activities to deliver value to the University. These activities include work with the Audit Advisory Committee, the follow-up of previously issued audit recommendations, reviews of new IT systems and specific risk areas as requested by management, audit liaison services to the campus, internal investigations into fraud and ethics violations, training on internal controls, advisory work on key campus committees and internal quality improvement initiatives within Internal Audit. We have summarized our involvement in these areas below.

### **Advisory Audit Committee**

During 2014 the Board of Regents approved the creation of a new Audit Advisory Committee (the Committee). This Committee is charged with advising the Board of Regents on matters pertaining to external and internal financial audits, policies and practices for compliance with legal and regulatory matters and internal controls. Internal Audit has taken on the leadership role in providing support to the Committee. The Committee met three times in 2014 to review Internal Audit's 2015 Audit Plan, the audit results for the June 30, 2014 financial statements, external review of UW's Internal Audit function, and learn about the financial accounting processes and systems of the University. The Committee is in the process of creating an Audit Advisory Committee Charter and will be receiving presentations in 2015 from compliance organizations across the University as well as regular updates from Internal Audit.

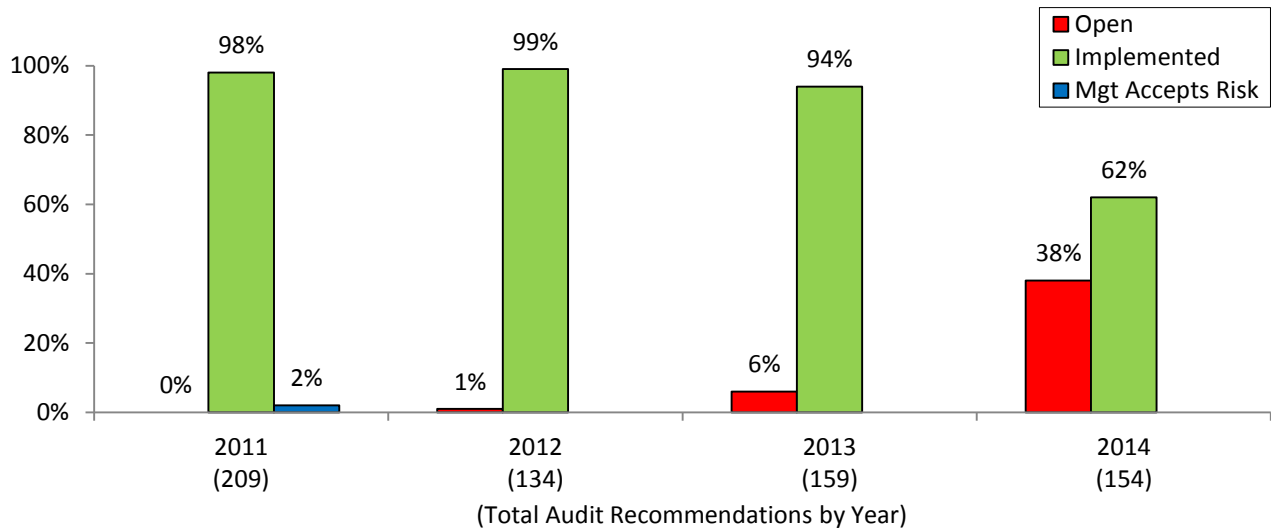
### **Follow-up Audit Procedures**

Semi-annually Internal Audit conducts follow-up audit procedures to ensure that management is implementing recommended controls. 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. Management has promptly addressed those areas identified as high risk, and Internal Audit has verified that all high risk findings from 2013 and prior have been implemented with the exception of one each from 2012 and 2013. In 2014 we closed three medium and low risk findings related to an audit report issued in 2011 as "management accepts risk", and reported these to senior management. A semi-annual report is provided to management with these same results.

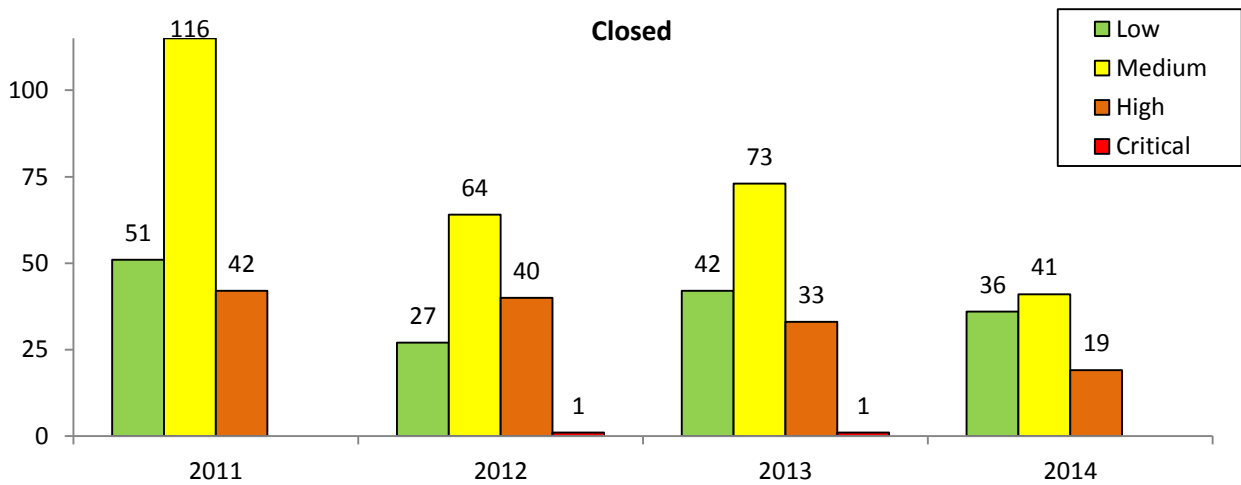
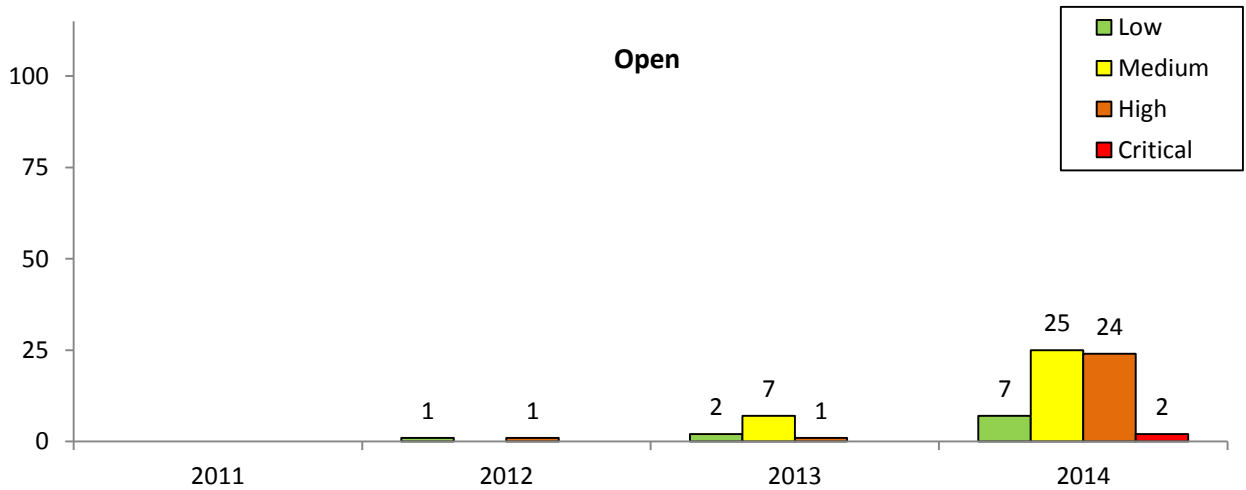
On the following page are three graphs that represent a summary of the status on Audit Findings and Percentage of Recommendations Implemented. These graphs assist Internal Audit in providing information to management on the status of the implementation of audit findings, but also provide a measure of how quickly the higher risk items are being addressed by management. Note that the large number of findings which remain open from audit reports issued in 2014 is a direct result of issuing audits reports in the second half of 2014 with over 60 audit findings. Also the fact that only 12 audit findings remain open from 2013 and prior, demonstrates that the management teams across UW are closing their recommendations timely.

## Additional Contributions by Internal Audit (cont.)

### Percentage of Recommendations Implemented for the Years 2011-2014



### Status of Risk Ranked Audit Findings for 2011-2014



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

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

During 2014 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, a European financial compliance audit for Immunology, a ticket certification for Intercollegiate Athletics, a review of the AG's allocation of legal fees to departments, validation of meaningful use data for UW Medicine, and general departmental consulting on internal control 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. Appendix B contains a listing of external audit organizations who conducted work at the University in 2014.

### **Special Investigations**

Internal Audit received 31 complaints in 2014 that required our attention. Of these, we carried out or are in the process of carrying out 30 investigations related to whistleblower claims and regulatory, ethics and fraud allegations. 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. In fact we successfully closed 29 investigations in 2014.

### **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 420 hours of work per year help strengthen the overall control environment while providing our staff with opportunities to meet with future audit clients and strengthen their presentation skills.

### **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.

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

A sample of the committees we participate in are: the President's Advisory Council on Enterprise Risk Management (PACERM), the Compliance, Operations and Finance Council (COFi Council), the Privacy Assurance and Systems Security Council, the Compliance Officers Group, Omni Guidance Core Team, Meaningful Use Committee, Ambulatory EHR Optimization Committee and the Tax Strategy Team.

### **Quality Improvement Initiatives**

Additionally, we undertook a number of internal initiatives in 2014 to increase our productivity including:

- Continuation of the development of LEAN visual boards to improve our audit process, improve client satisfaction, and improve overall time for an audit;
- Initiation of a new employee recognition program for outstanding contributions to Internal Audit.

### **Enterprise Risk Management**

Internal Audit continues to participate in the University's process to identify, assess and mitigate enterprise-wide risks through participation in the PACERM and COFi councils. Additionally, during the course of our IA risk assessment, we considered the University's identified highest risks, for consideration in crafting our audit plan.

### **Pacific Northwest Internal Audit Conference for Public Universities**

Internal Audit participated in the fifth annual Pacific Northwest Internal Audit Conference for Public Universities. We worked with Washington State University, Western Washington University, Oregon State University, and Portland State auditors to present a low cost training alternative and create an opportunity to share best practices amongst the audit departments. Other participants in 2014 included the University of Alaska, Evergreen College, Boise State University, University of Idaho, University of Montana, and Montana State University.

### **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 2014 we employed four students from the Foster School of Business as interns.

In 2014 we also employed one student from the I-School who has been instrumental in improving our on-line presence and in upgrading the web-pages for Internal Audit as well as the COFi Council.

# Appendices

## Audit Results

During the course of calendar year 2014, we completed a number of audits that were in progress at the end of 2013, and completed or began most audits planned for 2014. 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 2015 planned audits, approved in November 2014.

### 2012 Carry-Over Audits

Audit	Status
Housing Food Services IT Systems	Issued
Student Course Fees	Issued 2015 (6 reports)

### 2013 Carry-Over Audits

Audit	Status
Center for Commercialization	Issued
College of the Environment - FHL	Issued
Gift Expenditures	Issued (12 reports)
HMC/UWMC Kronos	Issued
HMC/UWMC Pharmacy	Issued
Intercollegiate Athletics Compliance 2013	Issued
NWH Meaningful Use	Issued
Office of Minority Affairs & Diversity Gear-Up	Issued
Office of Planning and Budgeting	Issued
School of Public Health/Medicine I-TECH Africa	Issued (2 reports)
VMC Meaningful Use	Issued
Federal Grant Allowable Costs	In Progress
HMC/UWMC Contact Centers	In Progress
HMC/UWMC Quality Metrics	In Progress
Office of Research FCOI	In Progress
School of Medicine - Anesthesiology	In Progress
School of Medicine/UWP Physician Compensation	In Progress
UW Information Technology EDW	Replaced by School of Social Work IT in 2014

## 2014 Planned Audits

<b>Audit</b>	<b>Status</b>
HMC/UWMC ICD10	Issued
HMC/UWMC Meaningful Use	Issued
Intercollegiate Athletics Compliance 2014	Issued
NWH Parking Operations	Issued
School of Social Work IT	Issued
VMC Epic Charge Master	Issued
College of Engineering	Issued 2015
UW Bothell Recharge Fees	Issued 2015
Finance Banking Operations	In Progress
Gift Expenditures	In Progress (7 of 13 reports issued)
Health Sciences Administration Clinics	In Progress
NWH CBO Clinic	In Progress
Office of Research Sub-Recipient Monitoring	In Progress
Professional Continuing Education IT	In Progress
School of Medicine - Psychiatry	In Progress
University Centers	In Progress
UW Information Technology Network	In Progress
UWP/Clinics Meaningful Use	In Progress
UWMC Regional Heart Center	In Progress
UWMC Eastside Clinic	In Progress
Student Financial Aid	Replaced by NWH Parking Operations

## 2015 Planned Audit Changes

<b>Audit</b>	<b>Status</b>
None at this time	

## External Auditors - 2014

### Financial Statement and Agreed Upon Procedures Audits:

#### **KPMG**

University of Washington	Harborview Medical Center
Internal Lending Program	UW Medical Center
Intercollegiate Athletics	Northwest Hospital
Commuter Services	Valley Medical Center
Housing and Food Services	UW Physicians
Portage Bay Insurance	UW Physicians Network
UW Alumni Association	Airlift Northwest
UW Foundation	Seattle Cancer Care Alliance
I-Tech Field Offices	Consolidated Laundry

#### **Peterson Sullivan**

Metro Tract	Student Life
Student Apartments	

### Federal and State Regulatory Audits and Reviews:

#### **State Auditor's Office**

- Audit of compliance with state laws and regulations
- Audit of federal programs in accordance with the Single Audit Act
- Whistleblower and citizen complaint investigations
- Audit of UW Fund Balance

#### **Federal Agencies**

##### **Department of Education**

Grant Admin, Program & Fiscal Controls - Rehab Medicine

##### **Health Resources and Services Administration**

- Grant Fiscal Controls Review - NW AIDs Center
- Grant Admin, Program & Fiscal Controls - I-TECH
- Grant Admin, Program & Fiscal Controls - HMC

##### **National Institute of Justice**

Grant Audit - Biostatistics

##### **National Science Foundation**

- University Wide Review of Grants Procedures
- University Wide Review of Final Invoices

##### **National Oceanic and Atmospheric Administration**

Grant Admin, Program & Fiscal Controls - JISAO



**External Auditors - 2014 (cont.)**

**Ocean Initiative Leadership**

Grant Admin, Program & Fiscal Controls - Oceanography, APL

**Office of Naval Research**

Property Control System Analysis - Equipment Inventory Office

Procurement - Procurement Services

**SANDIA National Laboratories**

Contract Audit - Mechanical Engineering, APL, Electrical Engineering

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

**Indiana University**

Sub Recipient Monitoring - APL

**King County Public Health**

Sub Recipient Monitoring - Pediatrics

Medical Respite Financial & Program Review - HMC

**LA County Public Health**

Sub Recipient Monitoring - Health Services