



INTERNAL AUDIT

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UNIVERSITY *of* WASHINGTON

## 2017 Audit Results

Finance and Asset Management Committee  
Board of Regents

March 2018

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## Executive Summary

This report highlights the key goals and results of the internal audit work completed in 2017 for the University, including work completed across all of UW Medicine.

### Audit Goals

Internal Audit's major goals for 2017 were:

- Complete 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 our student intern program;
- Implementation of Internal Audit Strategic Plan;
- Operate and refine processes regarding the newly implemented University-wide financial fraud and ethics reporting hotline;
- Contribute to the Compliance Support Program through participation as an advisor on the Compliance Coordination Team; and
- Continue to participate on major system implementations as an advisor on oversight committees and complete pre/post implementation reviews.

### Audit Results 2017

As a result of the work completed we issued 22 audit reports, with another 10 reports issued to UW units "in draft" related to the approved 2015 - 2017 Internal Audit plans. We received and investigated 67 complaints from our financial fraud and ethics hotline and other sources in 2017. We also conducted follow-up audit procedures to "close" over 100 audit recommendations, provided audit liaison and management advisory services, provided controls and ethics trainings across all three UW campuses, participated in review of the implementation of the new HRP system, and participated in the Compliance Support Program throughout 2017. Finally, we continued our student intern program in 2017.

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 insufficient security plans. We did identify one critical control weakness related to the general control environment over financial operations at the School of Dentistry. 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 third full year of operation in 2017, with Internal Audit taking a leadership role in providing 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.

## 2017 Audit Results

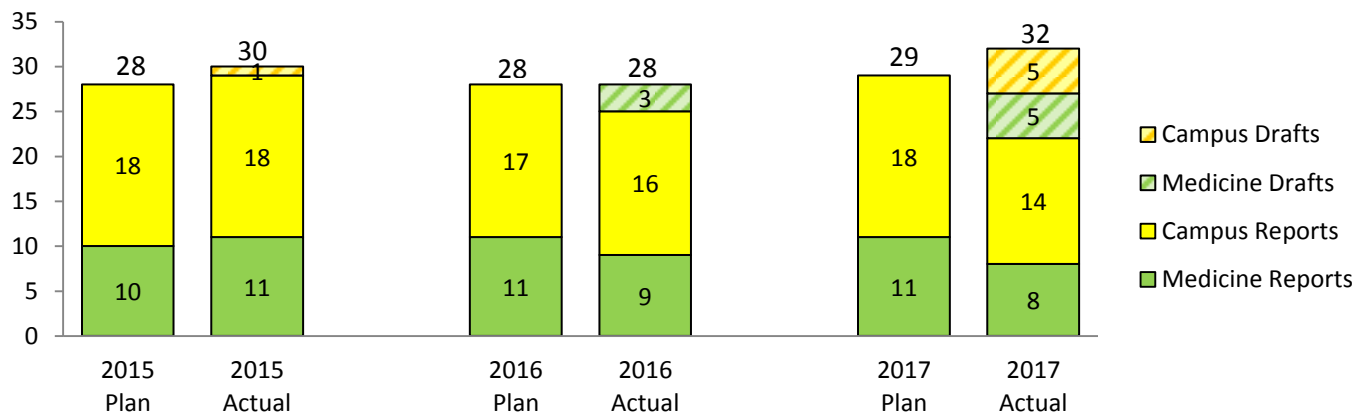
Internal Audit continued to emphasize the importance of strong systems of internal control in 2017. Generally, we found the departments tested had good control systems in place. The control weaknesses identified primarily consisted of lack of sufficient management oversight and monitoring, and insufficient security plans. We did identify one critical control weakness related to the general control environment over financial operations at the School of Dentistry that required reporting to the Board of Regents via the Audit Advisory Committee.

The Audit Advisory Committee (AAC) meets five 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 2017 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 2018 audit plan that was approved by the Board of Regents in November 2017. In addition, the AAC also reviewed the results of the 2017 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 HRP system implementation, 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

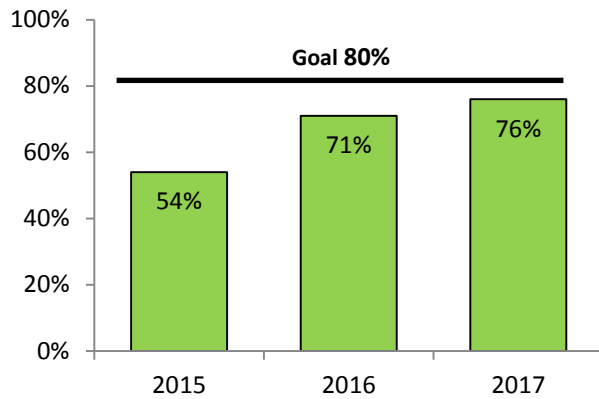
**Audit Reports Issued compared to Plan**



Our 2017 audit plan was approved by the Board of Regents at the November 2016 meeting and included 29 planned audits. As of December 31, 2017, we issued 22 audit reports and 10 “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



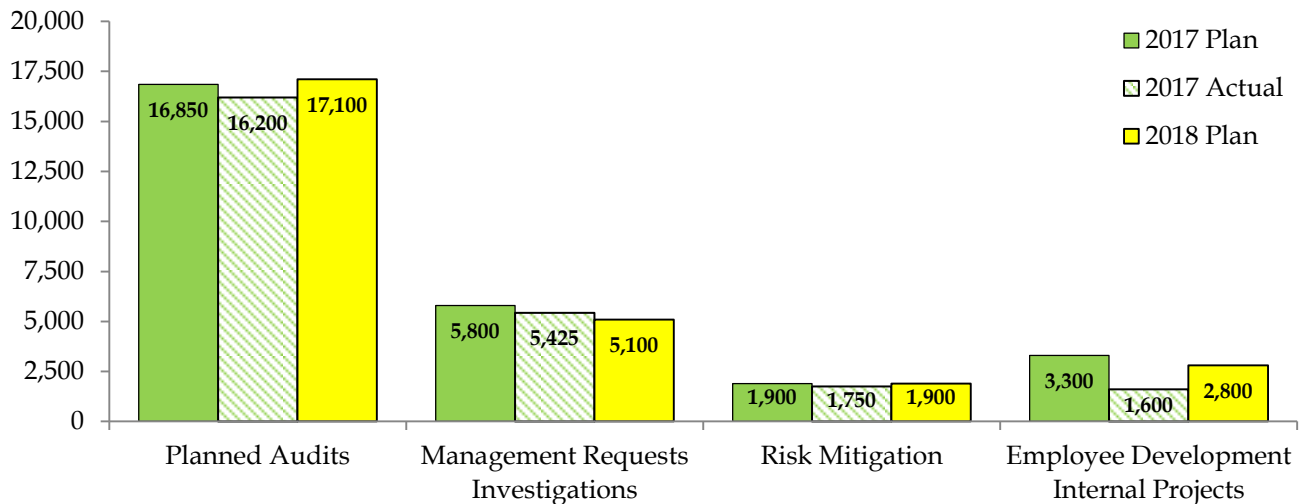
One metric used to measure productivity focuses on the completion of the current year's audit plan in the corresponding audit year. Most institutions target a goal of 80 - 90%. We will continue to focus our efforts on reducing carry over audits and improving our productivity, and set our goal at 80% for 2017 and strive to reach 90% within the next few years. **We fell slightly short of our goal of 80% for 2017.**

### 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 2017 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 2017 with direct productivity at 75%.**



### Plan to Actual Audit Hours



## Productivity (cont.)

During 2017 we issued a total of four more audit reports (in “final” or “draft”) than we issued in 2016; met most of our Productivity Goals for the year and improved on our overall focus regarding the completion of the 2017 Audit Plan. In 2017 Internal Audit incurred 650 fewer hours in the conduct of planned audits than projected. The reduced hours was mainly due to having one to two open positions throughout 2017, which was offset by the unplanned overtime the department worked in 2017 (approximately 1,900 hours). Additionally, Internal Audit delayed from late 2017 to 2018, the UW IA Self-Assessment project budgeted at 700 hours included in the “Internal Projects” project category. The Self-Assessment project is a once every five year self-assessment of compliance with International Internal Audit Standards. The focus in 2017 on completing and issuing draft audit reports did not directly translate into more hours than in previous years, but did result in more audit reports being issued in 2017. As of December 31, we issued 22 final reports and 10 draft reports which will be issued in early 2018, and have another 8 audits with field work nearing completion.

Ultimately, we consider the year to be a successful one in which we have positively progressed towards our goal of spending 90% of our audit hours on current year audits. We increased this percentage from 54% in 2015 to 71% in 2016 and now to 76% in 2017, and have a goal of 80% for 2018. In order to continually look at improving our processes we have identified all of our audits which were “over budget” and are going through a process to re-evaluate the underlying causes to see that we can improve on this result in the future.

We experienced a slight decrease in our actual hours incurred compared to plan for Investigations in 2017. We had planned for an additional 1,100 hours over what we incurred in 2016 due to 2017 being the first full year of the new UW financial fraud and ethics hotline. The actual increase was only 600 hours (15%). This increase was because we experienced a higher number of complaints received year over year; however, we did see the increase plateau in late 2017. Also in terms of average monthly total complaints received since the hotline began, we have experienced a slight increase. The total number of hotline complaints increased from 25 in the first seven months of the hotline to 46 in calendar year 2017; while total complaints received from the hotline or other sources over the same periods increased from 36 (seven months) to 67 (one year), an average of approximately 5 complaints per month. We believe this is due to the communication campaign related to the hotline.

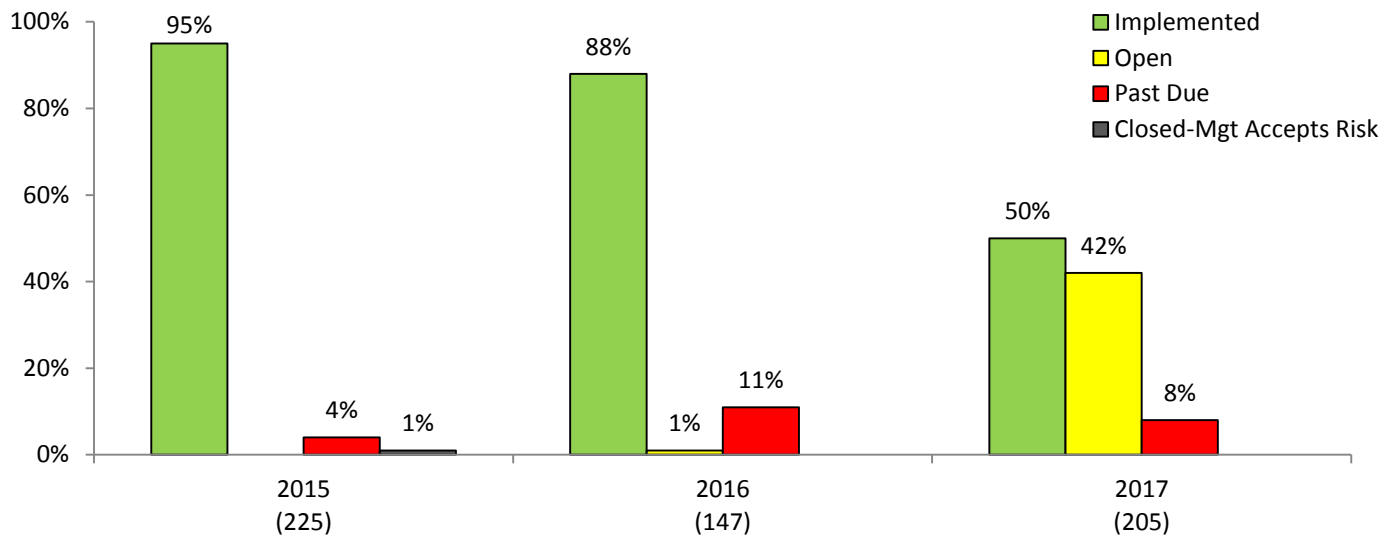
Internal Audit is also involved in a number of other activities to deliver value to the University. These activities include follow-up testing of previously issued audit recommendations, reviews of new IT systems and specific risk areas as requested by management, audit liaison services to the campus,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

## Additional Contributions by Internal Audit

### Follow-up Audit Procedures

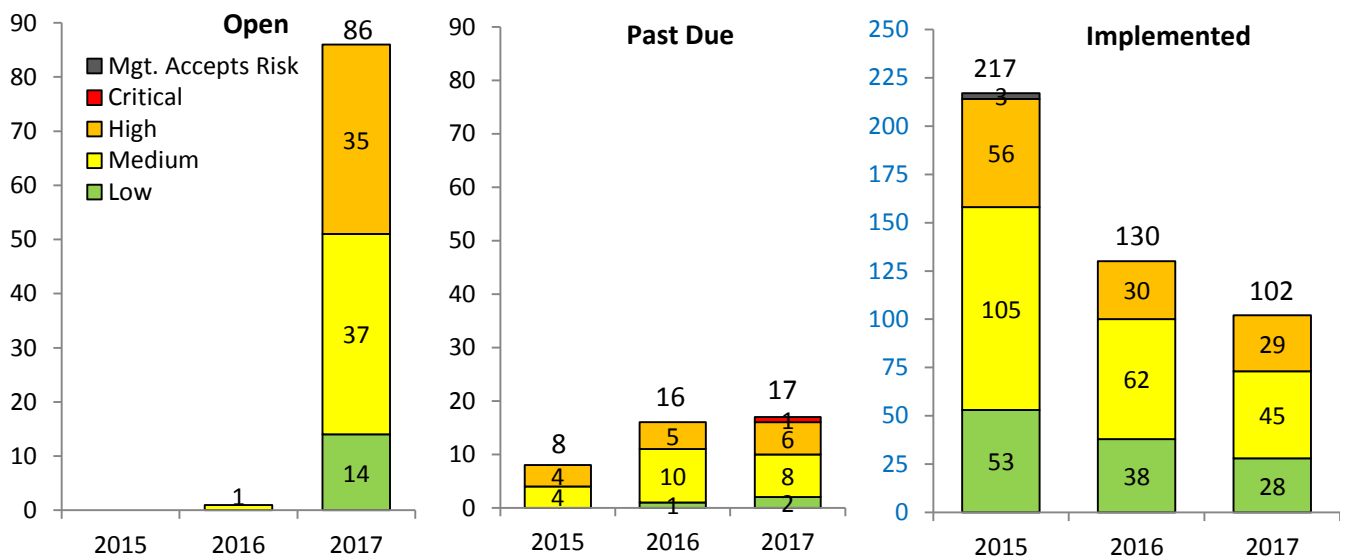
Semi-annually Internal Audit conducts follow-up audit procedures to ensure that management is implementing recommended controls, and provides a report to management with the results. We rank findings to provide management with Internal Audit's perspective regarding the ongoing risk of not implementing 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, 2017**:

### Percentage of Recommendations Implemented 2015-2017



(Total Audit Recommendations by Year)

### Status of Risk Ranked Audit Findings for 2015-2017



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

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

During 2017 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, two European financial compliance audits for the School of Medicine, 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 2017 Internal Audit continued assisting the School of Medicine in an ongoing audit by the State Auditor's Office on the cost of medical education, including testifying before the State Legislature. Appendix B contains a listing of external audit organizations who conducted work at the University in 2017.

### **Special Investigations**

Internal Audit received 67 complaints in 2017 that required our attention (46 from the financial fraud and ethics hotline, and 21 from other sources). Of these, we referred 10 to other departments for resolution. Internal Audit conducted investigations related to whistleblower claims and regulatory, ethics and fraud allegations, and closed 61 investigations in 2017. 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 120 hours of work in 2017 help strengthen the overall control environment while providing our staff with opportunities to meet with future audit clients and strengthen presentation skills. In 2017 we also participated in the total 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, Meaningful Use Committee, and the UW Medicine Security Standards Steering Committee.

### **Quality Improvement Initiatives**

Additionally, we undertook a number of internal initiatives in 2017 to increase our productivity and effectiveness including:

- Revising our standardized risks and controls matrix for use in our grant audits.
- Continuing to refine policies and procedures for handling complaints received via our financial fraud and ethics hotline as well as other sources.
- Changing the content and presentation of information contained in our semi-annual report to management on the status of audit recommendations implemented.
- Updating our Internal Audit website.

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

Internal Audit participated in the eighth 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 2017 included Washington State University, Western Washington University, Community Colleges of Spokane, 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, and the University of Idaho.

### **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 2017 we employed three students from the Foster School of Business as interns.

# Appendices

## Summary Status of Planned Audits

During the course of calendar year 2017, we completed a number of audits that were in progress at the end of 2016, and completed or began most audits planned for 2017. 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 2018 planned audits that were approved by the Board of Regents in November 2017.

### 2015 Carry-Over Audits

<b>Audit</b>	<b>Status</b>
Minors on Campus	Issued

### 2016 Carry-Over Audits

<b>Audit</b>	<b>Status</b>
College of Arts & Sciences - Psychology	Issued
School of Dentistry - Clinics (Replacement)	Issued
College of Engineering - Electrical Engineering	Issued
UW Bothell - Expenditures	Issued
Finance Management - Procurement	Issued
Student Life - Clery Act	Issued (2 Reports)
UW Medicine - Practice Transformation Network (Replacement)	Issued
UW Medicine - Supply Chain	Issued
HMC - Sponsored Programs Compliance	Issued
NWHMC - Drug Diversion (Replacement)	Issued
NWHMC - Operating Room	Issued
2016 School of Medicine - Physician Incentive Compensation	Issued (3 Reports)
School of Medicine - WWAMI	Issued
IT Business Continuity Planning	Issued (4 Reports)

### 2017 Planned Audits

<b>Audit</b>	<b>Status</b>
Capital Planning and Development - Oversight	Issued
College of Engineering - Wind Tunnel (Replacement)	Issued
School of Pharmacy - HIPAA	Issued
Human Resources - HRP Implementation	Issued
Award Payments - 14 Units (Replacement)	Issued
Office of Research - Human Subjects (Replacement)	Issued
VMC - Operating Room	Issued
College of Education - Business Operations/Centers	Draft Issued
College of the Environment - Atmospheric Sciences	Draft Issued
UW Tacoma - SIAS (Replacement)	Draft Issued

**2017 Planned Audits (cont.)**

<b>Audit</b>	<b>Status</b>
Facilities Services - IT Electronic Media Disposal	Draft Issued
Intercollegiate Athletics Compliance 2017	Draft Issued
UWMC/HMS/UWP - Data Analytics/Mining (Urology)	Draft Issued
NWHMC - Charity Care/Accounts Receivable	Draft Issued
VMC - Drug Diversion/Controlled Substances	Draft Issued
VMC - Strategic Alliance Agreement	Draft Issued
2017 School of Medicine - Physician Incentive Compensation (Replacement)	Draft Issued (2 Reports)
Continuum College - Registration	In Progress
UW Bothell - School of Business Executive Education	In Progress
Advancement - Travel & Entertainment	In Progress
CoMotion - Oversight of Outside Organizations	In Progress
Title IX	In Progress
NWHMC - Payroll/Kronos	In Progress
UWMC - Cardiology Clinic (Replacement)	In Progress
UWMC/HMC/NWHMC - Epic User Access	In Progress
UWMC/HMC - IT Media Disposal (Replacement)	In Progress
UWMC/HMC - Supply Chain	In Progress
School of Medicine - Pharmacology Grants	In Progress
College of Engineering - IT General Controls	Replaced by College of Engineering Wind Tunnel
School of Nursing - Grants	Replaced by Award Payments
UW Tacoma - Course Fees	Replaced by UW Tacoma - SIAS
Health Sciences Administration - CHDD	Replaced by 2017 School of Medicine - Physician Incentive Compensation
Office of Research - Office of Sponsored Programs	Replaced by Office of Research - Human Subjects
UWMC/HMC - Radiation Oncology	Replaced by UWMC/HMC - IT Media Disposal
VMC - Epic Rover (mobile device system)	Replaced by UWMC - Cardiology Clinic
School of Public Health - Health Services Grants	Cancelled

**2018 Planned Audit Changes**

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

**External Auditors – 2017**

**Financial Statement and Agreed Upon Procedures Audits:**

**KPMG**

University of Washington  
 Internal Lending Program  
 Intercollegiate Athletics  
 Commuter Services  
 Housing and Food Services  
 Portage Bay Insurance  
 UW Alumni Association

UW Medicine Clinical Entities -  
 UW Division  
 Harborview Medical Center  
 Valley Medical Center  
 Seattle Cancer Care Alliance  
 I-Tech Field Offices

**Peterson Sullivan**

Metro Tract  
 Student Apartments

Student Life

**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  
 Cost of medical education

**Federal Agencies**

**Office of Naval Research**

Contractor Purchasing Review, UW Procurement

**National Science Foundation**

Property Controls, Ocean Observatories Initiative, Oceanography  
 University Wide Review of Costs Claimed

**Health Resources and Services Administration**

Grant Admin, Program & Fiscal Controls – Mountain West AETC

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

**Cystic Fibrosis Foundation**

Grant Fiscal Compliance, Pediatrics

**City of Seattle**

Grant Compliance, Madison Clinic

**External Auditors - 2017 (cont.)**

**King County Public Health**

Grant Compliance, Pioneer Square Clinic

**Shelter Plus Care**

Grant Compliance, Behavioral and Addictions Programs

**Washington State Department of Health**

Contract Compliance - CHDD, Health Services, ADAI