



INTERNAL AUDIT

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UNIVERSITY *of* WASHINGTON

## 2013 Audit Results

Finance and Asset Management Committee  
Board of Regents

May 2014

## Table of Contents

Executive Summary .....	1
2013 Audit Results .....	2
Summary of Key Areas Audited 2013 .....	2
Summary of 2014 Planned Audit Changes .....	5
Plan to Actual Hours .....	6
Additional Contributions by Internal Audit.....	7

### Appendices

Summary Status of Planned Audits .....	A
External Auditors - 2013 .....	B

## Executive Summary

This report highlights the key goals and results of the internal audit work completed in 2013 for the University, including UW Medicine.

### Audit Goals

Internal Audit's goals for 2013 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;
- Provide training on internal controls, WA Ethics Law and other related subjects; and
- Complete a Self-Assessment and external Quality Assurance Review of Internal Audit.

### Audit Results 2013

As a result of the work completed, we issued 16 audit reports related to the 2011-13 audit plans, conducted follow-up audit procedures to "close" over 130 audit findings, 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 2013. We also completed our Internal Audit Self-Assessment and our external Quality Assurance Review.

The audit reports issued related to work completed in the following areas:

HMC Emergency Services	Recharge Centers
Management Accounting and Analysis	SOM/Public Health - Global Health
Airlift Northwest	School of Nursing
Hall Health	Sponsored Research Contracts
HMC/UWMC Patient Financial Access	UW Information Technology Rate Setting
HMC/UWMC McKesson Upgrade	Foster School of Business IT
NWHMC Siemens IT Contract	Internal Audit Self-Assessment
NWHMC Conflict of Interest	UW Tacoma Cash Receipts

Overall, we found the departments tested generally had good control systems in place related to financial management, operations and federal compliance. The exceptions identified resulted primarily from the lack of sufficient management oversight and monitoring rather than problems systemic at the University. We did identify one critical issue related to physician documentation of services provided in the HMC Emergency Department. We are in the process of verifying that corrective action has been taken.

Our IT audits focused on the implementation of new systems and the security, integrity, and availability of data stored in department-owned systems. Departments need to strengthen controls over risk assessment, user access, change management, and disaster recovery.

## **2013 Audit Results**

In 2013, Internal Audit continued to emphasize the importance of strong systems of internal control. Overall, we found that internal controls are sufficient to ensure compliance with applicable regulations and policies, and to ensure that business objectives are achieved. We found one critical issue in the course of these scheduled audits related to physician documentation of services provided in the HMC Emergency Department. This issue was discussed with the HMC Finance & Audit Committee. We are in the process of verifying that corrective action has been taken by UW Medicine management.

Audit exceptions resulted primarily from lapses in management oversight, poor understanding of specific reconciliation controls and increased pressure on departments which have recently downsized. We have not seen evidence of systemic problems at the University level; however, continued pressure on downsizing of administrative units and departments will increase the risk of significant control breakdowns.

Our information system audits focused primarily on the security, integrity and availability of data stored in decentralized, department-owned systems, as well as the McKesson system at HMC/UWMC. We found departments need to strengthen controls over performance of risk assessments, user access, change control and disaster recovery. We also performed a vendor management review of the outsourced IT systems for Northwest Hospital and Medical Center.

We completed a self-assessment audit to determine our compliance with the Institute of Internal Auditors standards and identified a number of areas where we can improve. This self-assessment was used in our external Quality Assurance Review conducted by Baker Tilly LLP with the assistance of Internal Audit Executives from the University of Michigan, Johns Hopkins University and Duke University. The report was issued in early 2014.

### **Summary of Key Areas Audited 2013**

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

#### **HMC Emergency Services**

We reviewed controls over medical record documentation and coding, and management reports used to monitor/address charge capture issues. We also identified the root causes for coding delays and lost charges. We identified a critical issue regarding episodes of inadequate, or lack of physician documentation. We are in the process of verifying that corrective action has been taken. We recommended improvements in controls related to physician and nursing documentation, trauma activation and shared visit documentation, contents and timeliness of management reports, and accuracy and timeliness of coding emergency services.

## **Summary of Key Areas Audited 2013 (cont.)**

### **Management Accounting and Analysis**

We reviewed controls over the rate setting process, allowable costs, transfers from operating accounts, and surplus/deficit conditions for recharge and cost centers at the institutional level. We identified control improvement opportunities related to the classification of recharge centers, the rate approval process, monitoring fund balances and deficit plans, and the treatment of capital equipment and leases.

### **Airlift Northwest**

We reviewed controls over procurement, payroll, charge capture, and general information technology controls. We recommended improvements related to the authorization and validity of payroll, compliance with procurement regulations and policies, system administrator access, and IT risk assessments.

### **Hall Health**

We performed a review of controls over service capture, SAF (Student Activities Fee) subsidies, access to the Epic medical records system, and financial reporting to the SAF committee and management. We identified control improvement opportunities related to user access to Epic, documentation of the methodology and assumptions used to develop the financial reports, and how information is reported in our financial accounting system.

### **HMC/UWMC Patient Financial Access**

We reviewed controls over patient registration, insurance verification, pre-authorization of coverage, completion of charity care applications, collection of co-pays, and user access to the Epic system. We recommended strengthening controls over obtaining patient demographics, verifying insurance eligibility and benefits, and collection of payments.

### **HMC/UWMC McKesson Upgrade**

We performed a post-implementation review of systems interfaces, implementation testing, user access rights, server configurations, and the accuracy of sales and use tax calculations. We noted improvements that could be made in the future related to the completeness of testing documentation and delegation of responsibility for determining tax exemption status.

### **NWHMC Siemens IT Contract**

We reviewed controls over the vendor management of Siemens, who is contracted to manage IT services, software license agreements and hardware. We recommended that controls be strengthened over invoice approvals, vendor management policy and procedures, contracts and amendments, and service level agreements.

## **Summary of Key Areas Audited 2013 (cont.)**

### **NWHMC Conflict of Interest**

We reviewed controls over the conflict of interest policies for staff, employed physicians, the Board of Trustees, committee members, and officers. We recommended improvements to controls surrounding the roles of personnel and legal counsel as they relate to the conflict of interest policies and formalizing the annual conflict of interest form completion process.

### **Recharge Centers**

We performed a review of the controls over recharge center operations which included the methodology used in developing rates, sales and billing process, and quarterly reporting to Management Accounting and Analysis by Genome Sciences and Creative Communications. We recommended improvements to controls related to the approval of recharge rates, maintenance of supporting documentation for rate calculations and service dates, timeliness of customer billing, customer authorizations, timeliness of cash deposits, and accuracy of revenues/expenses on quarterly reports.

### **School of Medicine and School of Public Health - Global Health**

We reviewed controls over the post award fiscal management of sponsored research projects. We recommended strengthening controls over authorizations of charges to sponsored projects, budget reconciliations, oversight of subcontracts, costs associated with travel and field advances, timely reporting of financial information to Principal Investigators, grant reporting, and re-budgeting of funds.

### **School of Nursing**

We performed a review of the controls over the post award fiscal management of sponsored research projects. We identified control improvement opportunities related to grants management oversight, allowable costs, budget reconciliations and review, authorization of expenditure transfers, and authorization of subcontract payments.

### **Sponsored Research Contracts**

We reviewed controls over the post award fiscal management of sponsored research contracts at the Department of Mechanical Engineering, School of Aquatic and Fishery Sciences, Information School, and Department of Medicine Allergy & Infectious Diseases. We recommended that controls be strengthened related to documentation of Principal Investigator approval of budget reconciliations, and approval of purchasing transactions.

### **UW Information Technology Rate Setting**

We reviewed internal controls over the setting of recharge rates for IT services. UW Information Technology has introduced a strong governance structure for oversight of the annual review and update process for the technology recharge fee and self-sustaining recharge rates. However, we identified some control improvement opportunities regarding documentation of the process and strengthening of controls over access to the rate calculations.

## **Summary of Key Areas Audited 2013 (cont.)**

### **Foster School of Business IT**

We performed an audit of general controls over IT. We recommended improvements related to encryption of confidential student data, the backup of systems and data, IT policies and procedures, IT inventory and risk/security assessments, server configuration reviews, use of service accounts, the Mackenzie Hall server room, change management, and business continuity planning.

### **Internal Audit Self-Assessment**

We performed a self-assessment of the activities conducted by our department. The objective of the review was to ascertain our level of compliance with the Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards). We concluded that with regard to the Standards, we "generally conformed" with all but two Standards, which we "partially conformed" with. The two Standards which we partially conformed with were Standard 1000 related to purpose, authority, and responsibility, and Standard 1300 related to quality assurance and improvement programs. Based on this self-assessment we amended our charter to fully define services provided (obtained Board approval in January 2014) and engaged an independent consulting firm along with three higher education peer institutions to perform the required external quality assurance review. We are now in general conformance with all Standards.

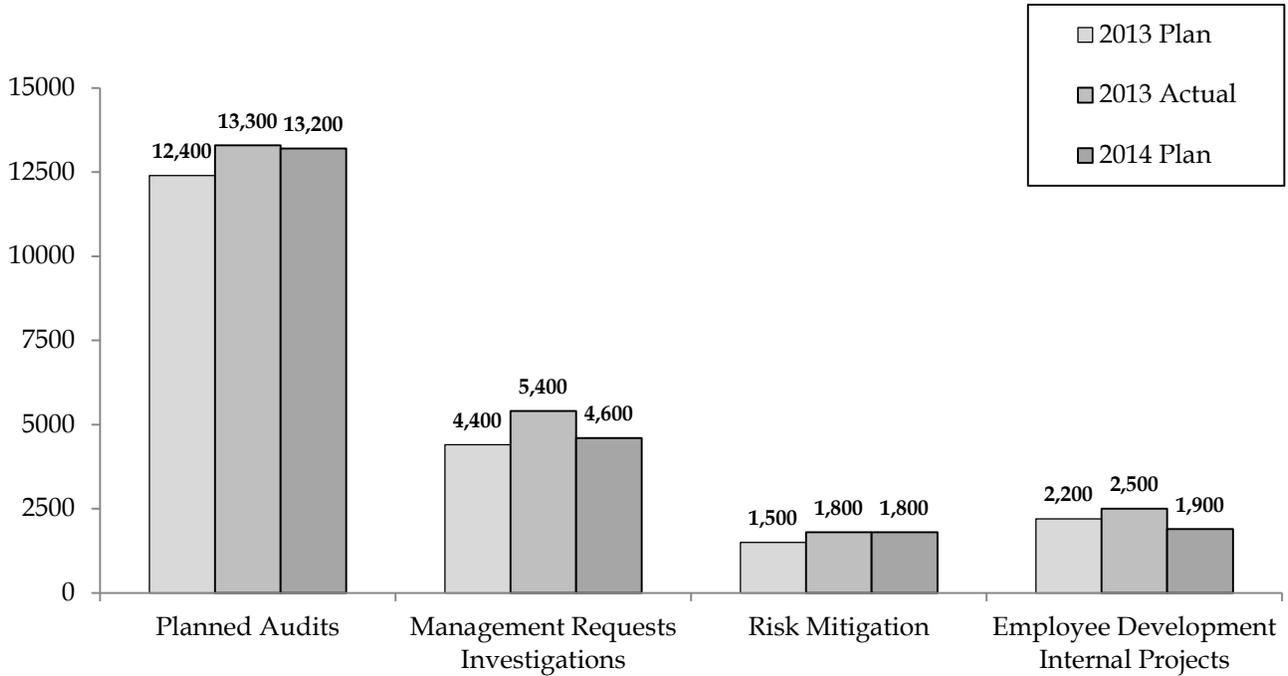
### **UW Tacoma Cash Receipts**

We reviewed controls over the online collection of fees using a credit card, as well as the collection of KeyBank Professional Development Center's (KBPDC) tuition through a PayPal portal. We recommended strengthening controls to ensure that all KBPDC tuition that is owed is collected, proper segregation of duties in the Cashier's office, parking citations are accurately entered into database, and all online fees and tuition payments are promptly recorded and applied.

## **Summary of 2014 Planned Audit Changes**

Our 2014 audit plan was approved by the Board of Regents at the November 2013 meeting. Due to requests from management and/or changes in the risk profile of the originally planned areas for audit, we have added a review of parking operations at Northwest Hospital and Medical Center and a review of general IT controls at the School of Social Work.

## Plan to Actual Audit Hours



During calendar 2013, Internal Audit expended more audit hours in the accomplishment of planned audits, investigations, and liaison with external agencies than was originally planned. As detailed above, we exceeded planned audits, risk mitigation activities, investigations and management request hours by some 2,200 hours (approximately 1.5 FTE). We accomplished this by refocusing our efforts in these areas, experiencing lower than expected turnover, expanding our intern program and recognizing overtime hours not contemplated in the 2013 plan. Additionally, we maintained our plan to provide professional development opportunities for IA staff and provide the campus with risk mitigation services during 2013, as detailed on the following pages.

The Audit Plan estimated hours for 2014 represents a 1,000 hour increase over 2013's Audit Plan. We will continue our focus on our core activities, fill open positions within the department (one staff auditor), expect to expand our team via increased support from UW Medicine (one FTE beginning in July 2014), and continued expansion of our Intern Program. Our increase in FTE from UW Medicine will allow continued expansion of our current work across UW Medicine. Additionally, we plan to hire a student intern from the UW Information School to assist with 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. Additionally, we will continue to deliver trainings on internal controls, research compliance, and WA State Ethics Laws in an effort to increase awareness.

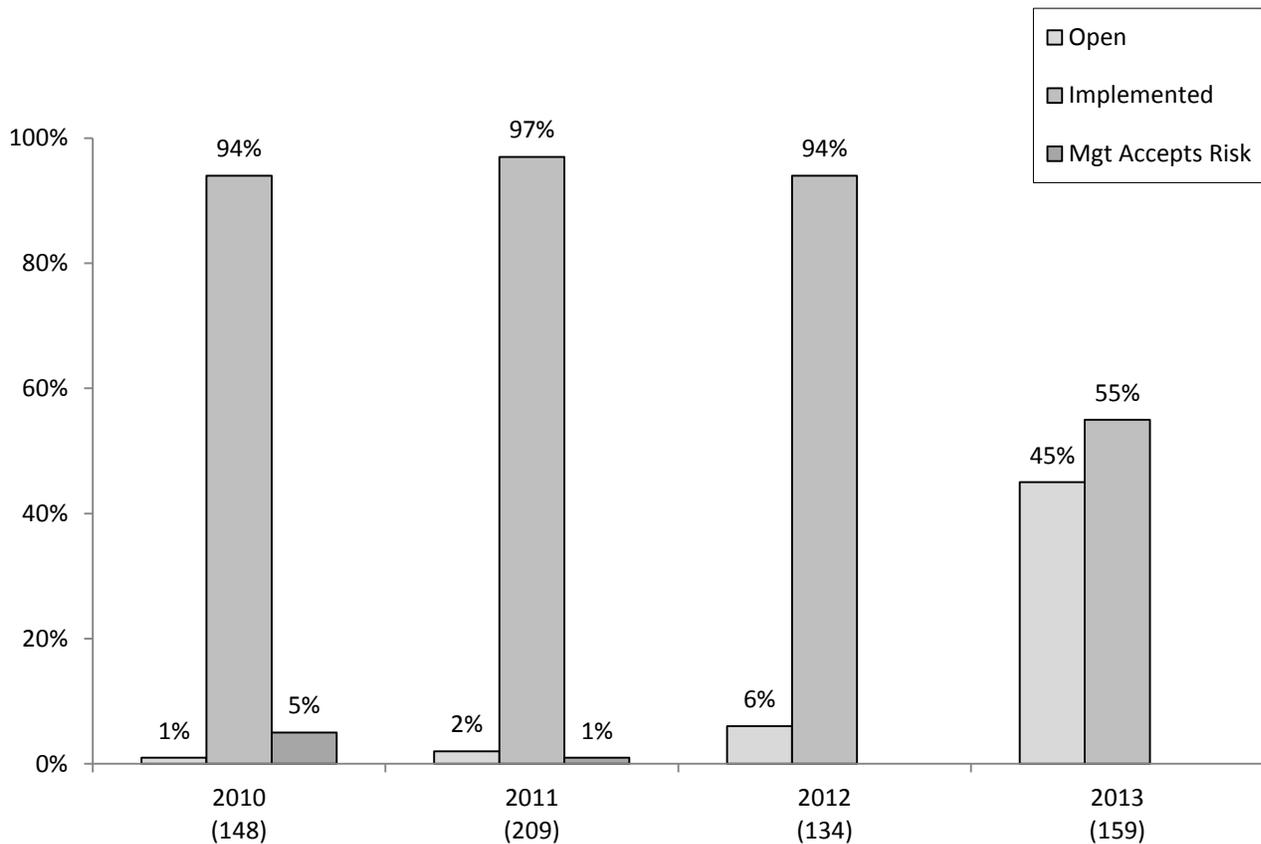
## Additional Contributions by Internal Audit

Internal Audit is also involved in a number of other activities to deliver value to the University. These activities include 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, the conduct of 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.

### Follow-up Audit Procedures

Semi-annually Internal Audit conducts follow-up audit procedures to ensure that management is implementing recommended controls. In 2011, we began ranking 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. In fact, Internal Audit has verified that all high risk findings from 2011 and prior have been implemented, and only four from 2012 remain open. A semi-annual report is provided to management with these same results.

### Percentage of Recommendations Implemented for the Years 2010-2013



(Total Audit Recommendations by Year)

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

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

During 2013 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 review of the process for awarding of the HR Payroll Modernization contract, 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 2013.

### **Special Investigations**

Internal Audit received 40 complaints in 2013 that required our attention. Of these, we carried out or are in the process of carrying out 38 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 controls.

### **Trainings Provided**

One of our goals is to continue to assist the University in their endeavor to strengthen internal controls. As such, we lead, provide and deliver trainings in the areas of Internal Controls and Fraud Prevention, Grants Management, State Ethics Laws, and Work/Leave Records Maintenance. We believe these trainings which amount to some 275 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.

## **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 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 Implementation Committee and the Tax Strategy Team.

### **Quality Improvement Initiatives**

Additionally, we undertook a number of internal initiatives in 2013 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;
- Major systems upgrade and revisions to our electronic work paper system templates.

### **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 led and participated in the fourth annual Pacific Northwest Internal Audit Conference for Public Universities. We worked with Washington State University, Western Washington University, and Oregon University System auditors to present a low cost training alternative and create an opportunity to share best practices amongst the audit departments. Other participants in 2013 included the University of Alaska, Seattle University, Evergreen College, University of British Columbia, 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 2013 we employed three students as interns.

# Appendices

## Audit Results

During the course of calendar year 2013, we completed a number of audits that were in progress at the end of 2012, and completed or began most audits planned for 2013. 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 2014 planned audits, approved in November 2013.

### 2011 Carry-Over Audits

Audit	Status
HMC Emergency Services	Issued
Management Accounting and Analysis	Issued

### 2012 Carry-Over Audits

Audit	Status
Airlift Northwest	Issued
Hall Health	Issued
HMC/UWMC Patient Financial Access	Issued
HMC/UWMC McKesson Upgrade	Issued
NWHMC Siemens IT Contract	Issued
NWHMC Conflict of Interest	Issued
Recharge Centers	Issued (2 reports)
School of Medicine/Public Health - Global Health	Issued
School of Nursing	Issued
Sponsored Research Contracts	Issued (4 reports)
UW Information Technology Rate Setting	Issued
Housing Food Services IT Systems	Issued 2014
Student Course Fees	In Progress (3 of 6 reports issued)

### 2013 Planned Audits

Audit	Status
Foster School of Business IT	Issued
Internal Audit Self-Assessment	Issued
UW Tacoma Cash Receipts	Issued
College of the Environment - FHL	Issued 2014
Intercollegiate Athletics Compliance 2013	Issued 2014
NWHMC Meaningful Use	Issued 2014
School of Public Health/Medicine I-TECH Africa	Issued 2014
VMC Meaningful Use	Issued 2014
Center for Commercialization	In Progress
Federal Grant Allowable Costs	In Progress

## 2013 Planned Audits (cont.)

<b>Audit</b>	<b>Status</b>
Gift Expenditures	In Progress (6 of 12 reports issued) additional audit in response to management request
HMC/UWMC Kronos	In Progress
HMC/UWMC Pharmacy	In Progress
HMC/UWMC Quality Metrics	In Progress
Office of Minority Affairs & Diversity Gear-Up	In Progress - additional audit in response to management request
Office of Planning and Budgeting	In Progress
HMC/UWMC Contact Centers	Deferred 2014
Office of Research FCOI	Deferred 2014
School of Medicine - Anesthesiology	Deferred 2014
School of Medicine/UWP Physician Compensation	Deferred 2014
UW Information Technology EDW	Deferred 2014
UW Information Technology Network	Replaced by Foster School of Business IT
UW Tacoma Facilities Use	Replaced by UW Tacoma Cash Receipts
VMC EPIC	Replaced by VMC Meaningful Use

## 2014 Planned Audit Changes

<b>Audit</b>	<b>Status</b>
NWHMC parking	Additional audit in response to management request
School of Social Work IT	Additional audit in response to management request

## External Auditors – 2013

### 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
Portage Bay Insurance	UW Physicians
UW Alumni Association	UW Physicians Network
UW Foundation	Airlift Northwest
I-Tech Field Offices	Seattle Cancer Care Alliance

#### **Peterson Sullivan**

Metro Tract	Student Life
Housing & Food Services	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

#### **Federal Agencies**

##### **Department of Labor**

Financial Review – Construction Management

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

Grant Fiscal Controls Review – NW AIDs Center

##### **National Institutes of Health**

Grant Audit – Primate Center

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

University Wide Review of Grants procedures

##### **Ocean Initiative Leadership**

Property Management - Oceanography

##### **Office of Naval Research**

Property control system analysis – Equipment Inventory Office  
 Procurement – Procurement Services

##### **Public Health Foundation Enterprise**

Sub Recipient Monitoring – NW AIDs Center  
 Sub Recipient Monitoring – Health Sciences

## **External Auditors - 2013 (cont.)**

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

#### **Bahamas Ministry of Health**

Sub Recipient Monitoring - ITECH

#### **European Union**

Grant Audit - Jackson School

#### **Health Share Montana**

Sub Recipient Monitoring - Biomedical Informatics & Medical Education

#### **King County**

Sub Recipient Monitoring - Pediatrics

#### **Oregon Health Sciences University**

Sub Recipient Monitoring - Applied Physics Laboratory

#### **Puget Sound Regional Council**

Sub Recipient Monitoring - Built Environments

#### **University of North Carolina - Chapel Hill**

Sub Recipient Monitoring - Biostatistics

#### **WA Department of Health**

Grant Audit - HMC/UWMC