



**INTERNAL AUDIT**

UNIVERSITY *of* WASHINGTON

## 2011 Audit Results

Finance, Audit and Facilities Committee  
Board of Regents

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# Executive Summary

This report highlights the key goals and results of the audit work completed in 2011.

## Audit Goals

Internal Audit's goals for 2011 are:

- Complete audits within twenty-five 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 within operations;
- Expand our audit universe to include Northwest Hospital and also consider expanding to newly created or acquired UW operations;
- Continue further implementation of modules included in our new Internal Audit electronic work paper system;
- Continue to strengthen our audit team through focused industry training; and
- Continue to coordinate with and participate in the further development of the University-wide enterprise risk management framework.

## Audit Results 2011

As a result of the work completed in 2011, we issued 12 audit reports related to the 2010 and 2011 audit plans, provided controls and ethics trainings across campus, conducted follow-up audit procedures to "close" over 170 audit findings, provided liaison services to campus and conducted investigations into ethics and/or fraud allegations. Additionally, in 2011 we began two new initiatives: an Internal Audit Internship Program where we hired two UW business students to assist our department, and a program to directly support the conduct of the external financial statement audit of the University in order to reduce the overall audit fees paid.

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

ARRA	Civil & Environmental Engineering
Facilities Services	UWMC / HMC Pathology
UWMC / HMC Pharmacy	HMC Radiology
School of Dentistry	Intercollegiate Athletics Compliance -2010
I-TECH Site visit - Africa	Intercollegiate Athletics Compliance -2011
Northwest Hospital	SOM - CCER

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 or UW Health System level.

Our information system audits focused primarily on the implementation of new systems and security of data stored in decentralized, department-owned systems. We found departments need to strengthen controls related to user access, security, and disaster recovery.

## **2011 Audit Results**

In 2011, 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 no critical deficiencies in the course of these scheduled audits. 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 implementation of the new billing system within the UW Health System, security of data stored in decentralized, department-owned systems and access controls over department run systems. We found departments need to strengthen controls over user access, security and disaster recovery.

Internal Audit also completed a risk assessment at Northwest Hospital and identified areas for potential audit which were presented to the Northwest Hospital audit committee.

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

We completed a number of audits across both the Campus and UW Health System during 2011. 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.

#### **American Recovery and Reinvestment Act (ARRA)**

We reviewed controls over the tracking, use, and administration of ARRA funds; timeliness and accuracy of federal reporting; and the integrity, security, and availability of data. We recommended improvements in the change management process and validation testing of the ARRA reportable data elements.

#### **Civil and Environmental Engineering**

We reviewed the post award grant fiscal management controls related to compliance with key regulatory requirements. We recommended that controls be strengthened over completion of the effort certification reports, monitoring of expenditures and cost sharing, documentation of payroll actions, documentation and monitoring of financial activity, monitoring of programmatic progress made by subcontractors, and student eligibility for scholarships.

#### **Facility Services**

We reviewed internal controls related to work orders, billing, and payroll. We also reviewed access controls over the work order and labor system known as AiM, security controls over the HVAC computer systems, and cybersecurity requirements for the Smart Grid project. We recommended improvements in the recording of hours worked, processing of payroll, completion of work orders, access to AiM, HVAC security, and Smart Grid cybersecurity plan.

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

### **HMC/UWMC Pathology**

We performed a review of controls over service capture, submission of charges to the UW Medicine billing system, resolution of rejected charges, and IT data security, integrity and availability. We identified IT control improvement opportunities related to operating system patch management, user access reviews, and printer security.

### **HMC/UWMC Pharmacy**

We reviewed controls related to physical security of pharmacy locations and inventory, HIPAA compliance for disposition of drug dispensers and manually recorded patient information, compliance with Pharmacy's formulary policies, and IT application and data security. We recommended strengthening controls over key cards, completion of annual conflict of interest forms, systems access, security over printers and other devices, and encryption of data.

### **HMC Radiology**

We performed a review of controls over service capture, submission of charges to the UW Medicine billing system, resolution of rejected charges, and IT data security, integrity and availability. We identified IT control improvement opportunities related to operating system patch management, user access reviews, and completion of annual system security reviews.

### **Intercollegiate Athletics**

We reviewed internal controls over recruiting, amateurism, and academic performance in 2010, and eligibility, camps and clinics, student employment, and extra benefits in 2011. We recommended strengthening controls in the areas of telephone calls to recruits, monitoring of compliance with recruiting rules, student employment, sports camps and clinics, and maintenance of policies and procedures.

### **School of Dentistry**

We reviewed controls related to the Axium billing system, clinical revenues and expenditures, expenses and cost transfers, and the governance/monitoring of financial and organizational activities. We recommended improvements in the areas of documentation of policies and procedures, consistency of accounts receivable collection and write-off practices, consistency of patient billing practices and refunds, and submission of Medicare claims.

### **International Training and Education Center on Health (I-TECH)**

We performed a review of financial controls in three I-TECH offices located in South Africa, Namibia, and Botswana. We reviewed internal controls related to budgetary oversight, expenditures, protection of assets, and financial management reporting. We recommended strengthening controls over purchasing, payroll, reconciliation of accounts receivable and bank statements, entry of information into the financial systems, and production of financial management reports. We also developed an audit review program that I-TECH finance staff can use in performing reviews of other offices in their network.

## Summary of Key Areas Audited (cont.)

### School of Medicine - Center for Clinical and Epidemiological Research (CCER)

We reviewed processes and procedures to determine whether internal controls are sufficient to provide reasonable assurance that purchases, revolving fund, and gift cards are properly authorized, accounted for, and valid. Our review concluded that CCER has a weak control environment and needs to strengthen their processes and procedures to effectively manage purchases, revolving fund, and gift cards.

### Plan to Actual Audit Hours



Total hours incurred fulfilling the 2011 Audit Plan were significantly higher than plan (1,400 hours). We were able to accomplish the increased hours in 2011 over our plan hours because of our conservative approach to planning for our total FTE compliment. Our 2011 plan expected a reduction of two to two and a half fewer FTE. However, our actual result was only a net loss of one FTE and no loss of position due to budget support from the Provost's Office. Additionally, we implemented a new student internship program. This was offset by a larger than anticipated amount of time spent conducting investigations and management requested projects (900 hours), an increased focus on completing our planned audit projects (300 hours), and an overall reduction in our liaison activities and continuing professional education (200 hours). The Department also refocused its efforts on minimizing administrative time.

The Planned Audits estimated hours for 2012 represents an increase from our 2011 audit plan as we refocus our time on Planned Audit projects and have received support from the Provost's Office to maintain our staffing levels. We also have allocated more of our audit plan to cover the increasing demand on our time to complete investigations. Additionally, Internal Audit continues to expand the audits completed for the UW Health System, and has included Northwest Hospital in 2011 and will begin to include Valley Medical Center in 2012.

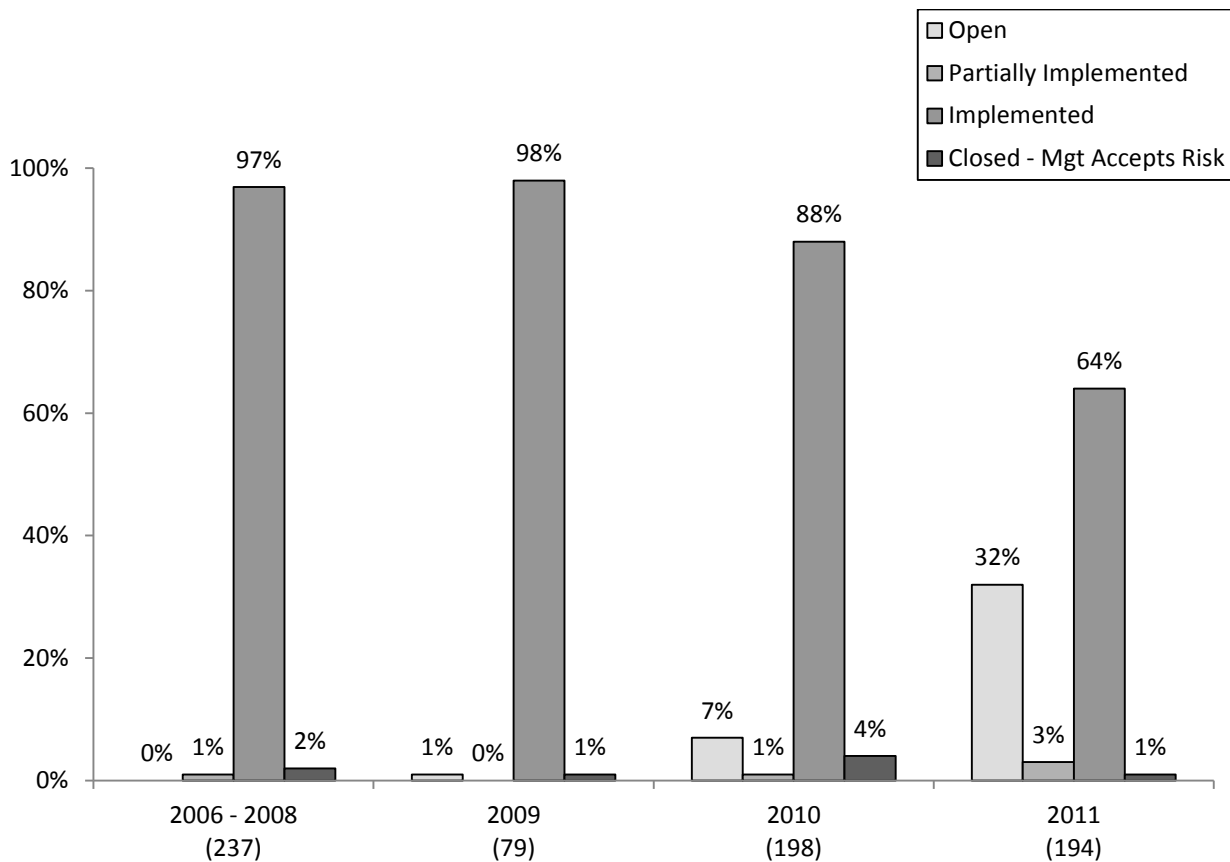
## Additional Contributions by Internal Audit

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, the conduct of internal investigations into fraud and ethics violations, pre-implementation reviews of new IT systems, review of specific risk areas as requested by management, audit liaison services to the campus, 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 controls as described within their responses to Internal Audit. As a result of these follow-up procedures, we were able to create the chart below to demonstrate how the University is implementing control recommendations. Additionally, Internal Audit issues a semi-annual report to management which includes the chart below and the status on all recommendations not yet implemented.

### Percentage of Recommendations Implemented for the Years 2006-2011



(Total Audit Recommendations by Year)

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

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

During 2011 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 on included: an audit for an Electrical Engineering European Union grant, direct assistance to KPMG with our external financial audit, completion of a review of fees for the Student Technology Fee Committee, 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 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 2011.

### **Special Investigations**

Internal Audit received 49 complaints in 2011 that required our attention. Of these, we carried out or are in the process of carrying out 44 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 and Medical Centers in their endeavor to strengthen internal controls. As such, we lead, provide and deliver trainings to campus and medical center groups in the areas of Internal Controls and Fraud Prevention, Grants Management, State Ethics Laws and Work and Leave Records Maintenance. We believe these trainings which amount to some 276 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 initiatives on Campus and at the Medical Centers 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. We aspire to always maintain a voice that is consistent with the President’s challenge to create a “Culture of Compliance” here at UW.

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 Global Support Committee, the Compliance Officers Group, the Data Management Users Group and the Tax Strategy Team.

### **Quality Improvement Initiatives**

Additionally, we undertook a number of internal initiatives in 2011 to increase our productivity including:

- Continuation of a LEAN project to improve our audit process, improve client satisfaction, and improve overall time for an audit;
- Expansion of an electronic work paper system; and
- Introduction of new audit report format.

### **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.

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

Internal Audit hosted, led and participated in the second 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. In 2011 we expanded participation to include the University of Alaska, the Spokane Community College System, University of British Columbia, Boise State University, 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.

# Appendices

## Audit Results

During the course of calendar year 2011, we completed a number of audits that were in progress at the end of 2010, and completed or began most audits planned for 2011. Below is a summary of the progress we have made to date.

### 2010 Carry-Over Audits

Audit	Status
ARRA	Issued
Civil & Environmental Engineering	Issued
Facility Services	Issued
HMC/UWMC Pathology	Issued
HMC/UWMC Pharmacy	Issued
HMC Radiology	Issued
ICA NCAA Compliance 2010	Issued
School of Dentistry	Issued
Human Subjects Division	Issued 2012

### 2011 Planned Audits

Audit	Status
ICA NCAA Compliance 2011	Issued
I-TECH Site Visit to Africa	Issued
Northwest Hospital	Issued
School of Medicine - CCER	Issued
Effort Reporting	Issued 2012
EPIC System (CHARMS)	Issued 2012
HMC/UWMC Patient Accounts Receivables Write-Off	Issued 2012
HMC/UWMC Procard/Travel Card/Budget Review & Reconciliation	Issued 2012
Exception Pay	In Progress
HMC/UWMC Anesthesiology	In Progress
HMC/UWMC Emergency Services	In Progress
KRONOS (Payroll System)	In Progress
Recharge/Cost Centers	In Progress
School of Medicine - Metabolism	In Progress
UW Bothell/Cascadia Service Agreement	In Progress
UW Bothell Student Fees	In Progress
College of Arts & Sciences	Deferred 2012
Computerized Provider Order Entry	Deferred 2012
UW Information Technology - Rate Setting	Deferred 2012
UW Information Technology - Report Follow-up	Replaced by UW Bothell /Cascadia Service Agreement
School of Medicine - Anesthesiology	Replaced by SOM - CCER

## External Auditors – 2011

### 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	Northwest Hospital Foundation
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	

### 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 Education**

Grant Audit – Office of Minority Affairs

##### **Department of Energy**

ARRA program review

##### **Department of Health and Human Services**

Grant Audit – Applied Physics Laboratory

##### **Department of Justice**

Grant Audit - Epidemiology

##### **Department of Labor and Industries**

Fair Labor Standards Act Compliance – Harborview Medical Center

##### **Federal Aviation Administration**

HAZMAT compliance – Applied Physics Laboratory

##### **Government Accountability Office**

ARRA data collection

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

Grant Audit – Primate Center

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

ARRA Compliance

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

Property control system analysis – Equipment Inventory Office

**External Auditors - 2011 (cont.)**

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

**Bahamas Ministry of Health**

Grant Audit - I-Tech

**Booz Allen Hamilton**

University Grants Management Controls

**Cystic Fibrosis Foundation**

Grant Audit - Microbiology

**European Union**

Grant Audit - Electrical Engineering

**Inland Northwest Health Services**

Grant Audit - Health Services

**King County**

Grant Audit - Pediatrics, UWMC Maternal & Infant Care Clinic,  
Health Promotion Center, Family Medicine,  
Psychosocial and Community Health

**Oregon Health Sciences University**

Grant Audit - Applied Physics Laboratory

**Public Health Foundation Enterprise**

Grant Audit - Center for Demography & Ecology, AIDS Center

**University of Texas, Galveston**

Grant Audit - Immunology