



INTERNAL AUDIT

UNIVERSITY *of* WASHINGTON

2016 Audit Results

Finance and Asset Management Committee
Board of Regents

March 2017

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Executive Summary

This report highlights the key goals and results of the internal audit work completed in 2016 for the University, including work completed across all of UW Medicine.

Audit Goals

Internal Audit's major goals for 2016 were:

- Complete audits focused on areas identified within both Internal Audit's Risk Assessment and the University's Enterprise Risk Management process;
- Provide the University with value added recommendations to improve controls, mitigate identified risks and increase efficiency of operations;
- Continue our student intern program;
- Create a long-term strategic plan for Internal Audit;
- Implement a University-wide fraud, waste & abuse 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.

Audit Results 2016

As a result of the work completed, we issued 25 audit reports, with another 3 reports issued to UW units "in draft", related to the approved 2015 & 2016 Internal Audit plans. The audit reports issued comprised work on operations across UW and UW Medicine including reviews of federal grants in the School of Medicine, College of Arts & Sciences, reviews of clinic operations within the School of Dentistry Pediatric Center and a review of the HRP implementation activities. We also conducted follow-up audit procedures to "close" over 150 audit recommendations, provided audit liaison and management advisory services, conducted investigations into ethics and/or fraud allegations, and provided controls and ethics trainings across all three UW campuses. We provided the AAC and Provost with an Internal Audit Strategic Plan evaluating key risks to the University over the next five years and how Internal Audit intends to address these risks via planned audits. We successfully implemented our anonymous Financial Fraud and Ethics Hotline and introduced it to the entire campus on August 11, 2016. We received 25 complaints in 2016. We also participated in the Compliance Support Program throughout 2016. Finally, we continued our student intern program in 2016.

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.

Audit Advisory Committee

The Audit Advisory Committee (AAC) completed its second full year of operation in 2016. This Committee is charged with advising the Board of Regents on matters pertaining to external financial audits, internal audits and policies regarding internal controls.

2016 Audit Results

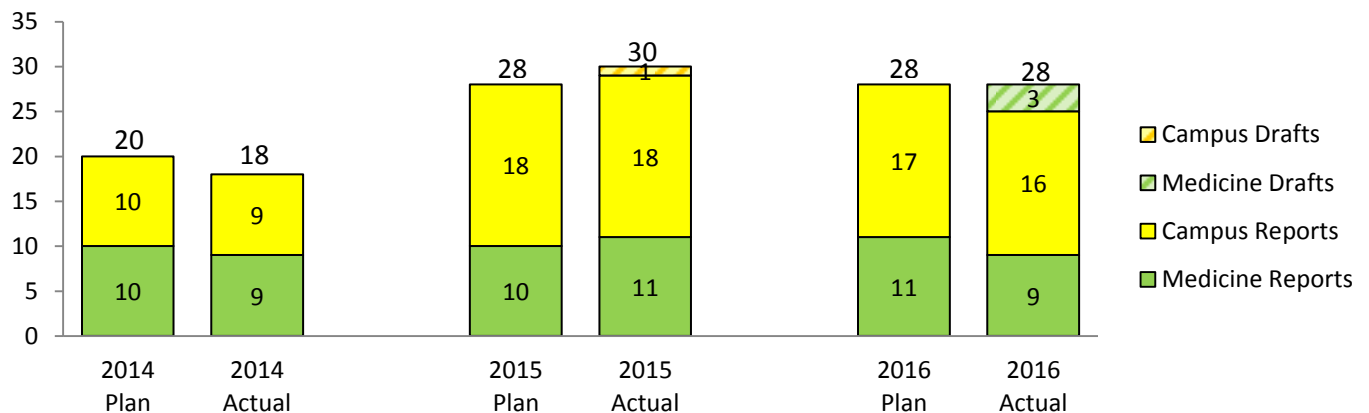
Internal Audit continued to emphasize the importance of strong systems of internal control in 2016. Generally, we found the departments tested had good control systems in place. The control weaknesses identified primarily consisted of lack of sufficient management oversight and monitoring, and insufficient security plans. Additionally, we did not identify any control weaknesses we would have defined as a critical control weakness requiring 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 2016 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 2017 audit plan that was approved by the Board of Regents in November 2016. During 2016, the AAC also reviewed the results of the 2016 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 by the CISO.

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

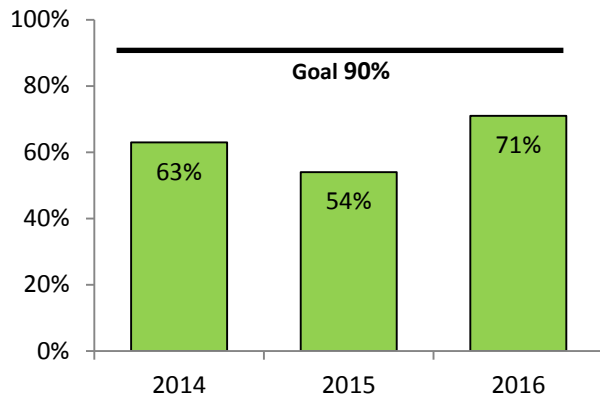
Audit Reports Issued compared to Plan



Our 2016 audit plan was approved by the Board of Regents at the November 2015 meeting and included 28 planned audits. As of December 31, 2016, we issued 25 audit reports and 3 “draft” audit reports awaiting management’s response, which are detailed in Appendix A.

Productivity (cont.)

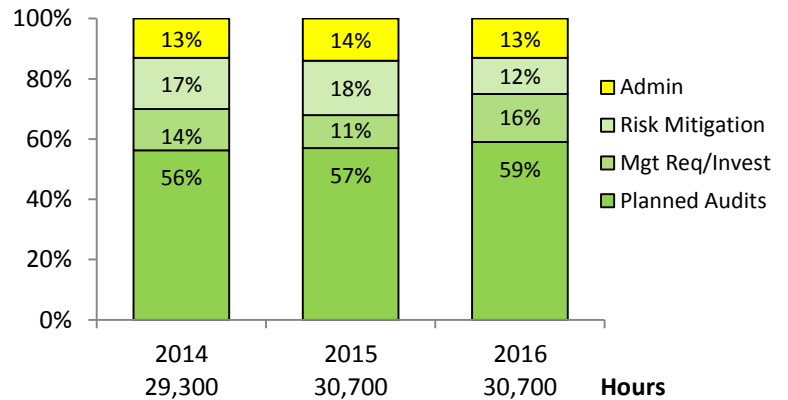
Percentage of Hours Completed During Calendar Year on Respective Year's Audit Plan



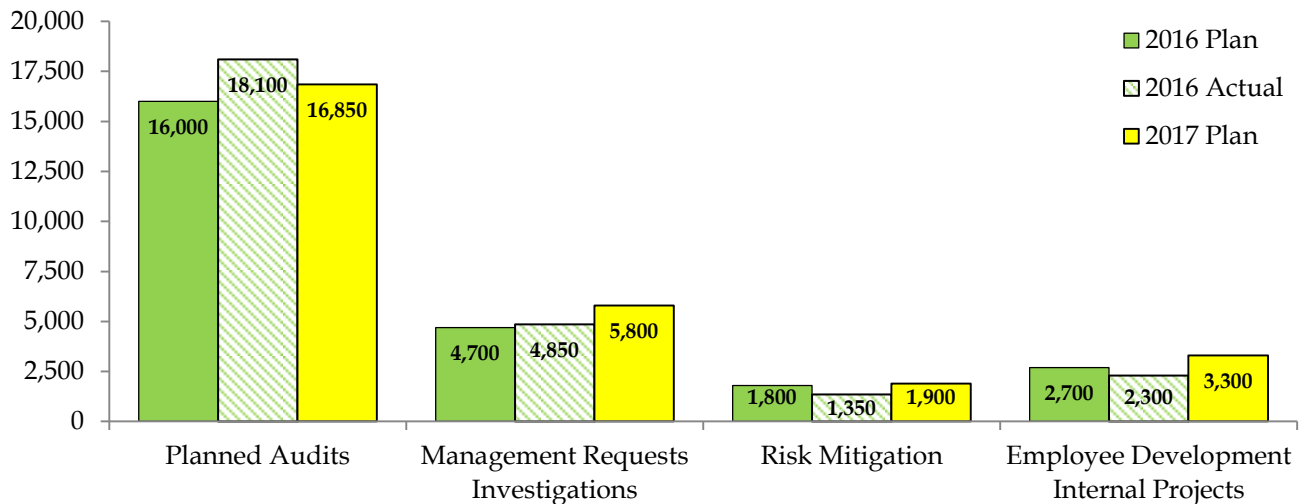
One metric used to measure productivity focuses on the completion of the current year's audit plan in the corresponding audit year. Most institutions target a goal of 80 - 90%. We will continue to focus our efforts on reducing carry over audits and improving our productivity, and set our goal at 70% for 2016 and strive to reach 90% within the next few years. **We exceeded our goal of 70% for 2016.**

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 2016 is 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 2016 with direct productivity at 75%.**



Plan to Actual Audit Hours



Productivity (cont.)

During 2016, Internal Audit incurred 2,100 hours more in our Planned Audit category than what was in our Audit Plan for 2016. This total is a direct result of a number of factors including the reduced time spent in Risk Mitigation and Internal Projects undertaken in 2016 in an effort to focus on our planned audits (850 hours), overtime hours not included in our plan (1,400 hours), less the additional hours incurred in completing investigations (150 hours). This focus on completing Planned Audits did not directly translate into more audits reports being issued in 2016 as we had a number of audits begun in 2016 deferred to early 2017 to accommodate late changes in our audit plan at the request of UW Management (Microbiology Grant Compliance and School of Dentistry Clinics). These changes were approved by the AAC. The audits not originally contemplated in our audit plan and begun late in the year required marshalling multiple resources to address the audits as expeditiously as possible. However, at December 31, 2016, we had issued 25 final reports and 3 draft reports which should be issued in early 2017, and we have another six audits with field work completed and in the process of drafting their reports.

Ultimately, we consider the year to be a successful one in which we have positively progressed towards our ultimate goal of spending 90% of our audit hours on current year audits. In 2016 we increased this percentage from 54% in 2015 to 71% in 2016 and have a goal of 80% in 2017. 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 also experienced a slight increase in our actual hours incurred compared to plan for Investigations in 2016. We had planned for some 1,400 more hours in 2016 than what we incurred in 2015 due to the creation of the UW Financial Fraud and Ethics Hotline, but we actually exceeded the previous year by some 1,550 hours. Some of these hours incurred in 2016, were a result of a continued push to close out 2015 investigations before we began the UW Financial Fraud and Ethics Hotline. Once the hotline went live, we received 25 “Reports” in the first 6 months, averaging approximately 4 per month. This average is a little more than we had received in prior years without the hotline. We are still receiving ethics and fraud complaints via our Internal Audit e-mail address, so we will be endeavoring throughout 2017 to continue a campaign to have the UW community use the hotline. This will ease our management of the complaints and lead to more consistent reporting.

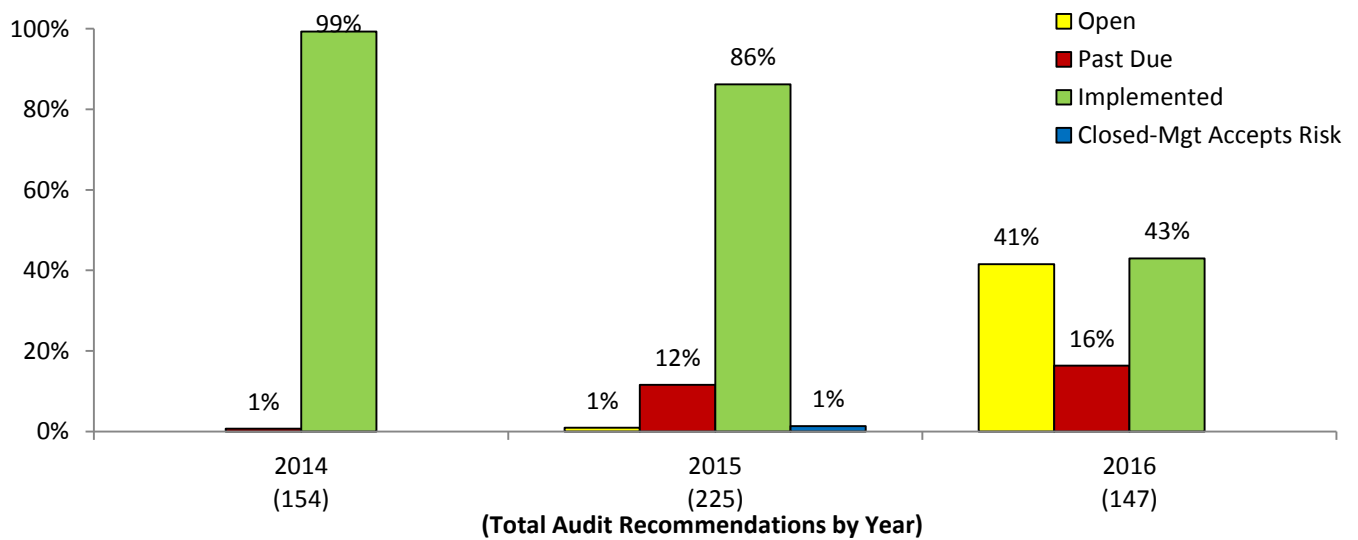
Internal Audit is also involved in a number of other activities to deliver value to the University. These activities include follow-up testing of previously issued audit recommendations, reviews of new IT systems and specific risk areas as requested by management, audit liaison services to the campus, 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

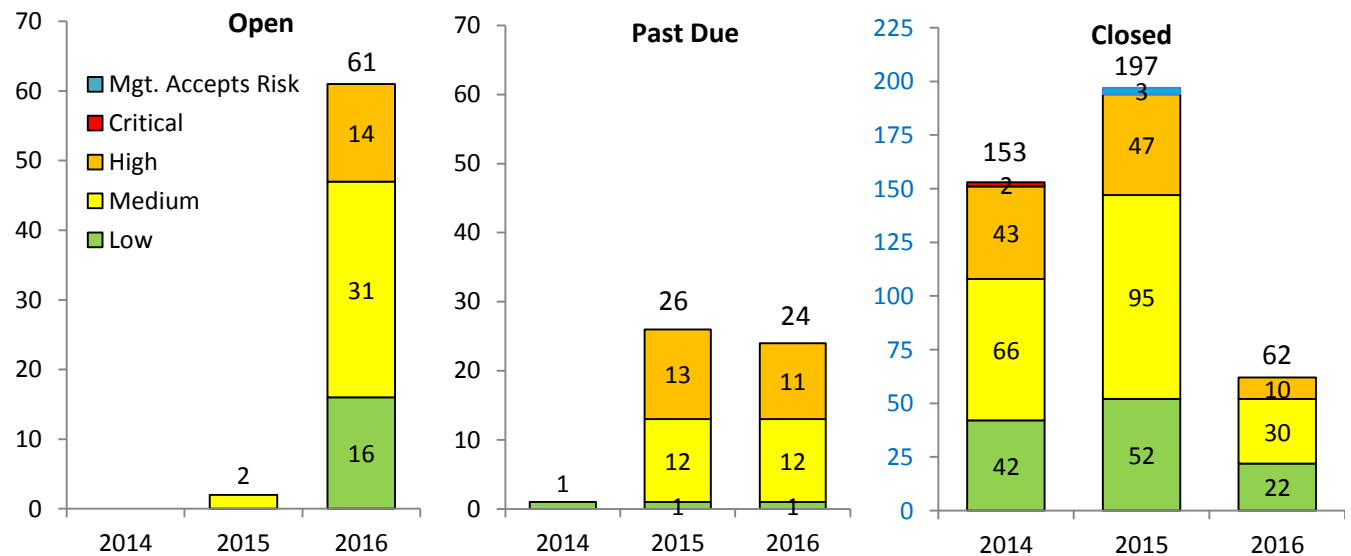
Follow-up Audit Procedures

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. To augment the information provided in the past, we have included a new status category “past due”, which identifies a management action plan which did not meet the original target implementation date. The following charts represent a summary of the status of recommendations across the University as of December 31, 2016:

Percentage of Recommendations Implemented 2014-2016



Status of Risk Ranked Audit Findings for 2014-2016



Additional Contributions by Internal Audit (cont.)

Management Requests and Advisory Services

During 2016 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 audits for the School of Medicine and the Evans School, a software licensing review by CA Technologies, a review of the use of University resources for a Special Investigating Committee, a ticket certification for Intercollegiate Athletics, a review of consulting services, 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 2016 Internal Audit was instrumental in assisting the University in an ongoing audit by the State Auditor's Office on the cost of medical education. Appendix B contains a listing of external audit organizations who conducted work at the University in 2016.

Special Investigations

Internal Audit received 51 complaints in 2016 that required our attention (25 from the Financial Fraud and Ethics Hotline, and 26 from other sources). Of these, we referred 9 to other departments for resolution. Internal Audit conducted investigations related to whistleblower claims and regulatory, ethics and fraud allegations, and closed 27 investigations in 2016. 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.

Financial Fraud and Ethics Hotline

Internal Audit implemented an anonymous Financial Fraud and Ethics Hotline in May 2016. The hotline was introduced to the entire campus via postcards and posters in August, and we received 25 complaints in the last six months of 2016.

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 125 hours of work in 2016 help strengthen the overall control environment while providing our staff with opportunities to meet with future audit clients and strengthen 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 Privacy Assurance and Systems Security Council, the Compliance Coordination Committee, the Compliance Officers Group, Omni Guidance Core Team, Meaningful Use Committee, and the UW Medicine Security Standards Steering Committee.

Quality Improvement Initiatives

Additionally, we undertook a number of internal initiatives in 2016 to increase our productivity including:

- Review of our audit process and the development of a standardized risks and controls matrix for use in our audits.
- Development of policies and procedures for handling complaints received via our Financial Fraud and Ethics Hotline as well as other methods.
- Development of a long range plan.

Pacific Northwest Internal Audit Conference for Public Universities

Internal Audit sponsored the seventh 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 2016 included the University of Alaska, Evergreen College Community Colleges of Spokane, North Seattle Community College, University of Oregon, Southern Oregon University, Oregon Health Sciences University, University of Colorado, Montana State University, University of Montana, and the University of British Columbia.

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 2016 we employed four students from the Foster School of Business as interns.

Appendices

Summary Status of Planned Audits

During the course of calendar year 2016, we completed a number of audits that were in progress at the end of 2015, and completed or began most audits planned for 2016. 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 2017 planned audits that were approved by the Board of Regents in November 2016.

2015 Carry-Over Audits

Audit	Status
College of Arts & Sciences - Department of Chemistry	Issued
School of Dentistry - Center for Pediatric Dentistry	Issued
UW Tacoma - Contract Management/HIPAA Compliance	Issued
Environmental Health and Safety	Issued
PCI Compliance	Issued
Gift Expenditures	Issued (11 Reports)
Office of the Registrar (Replacement)	Issued
HMC/UWMC - Medical Device Security (Replacement)	Issued
HMC/UWMC - Medical Device Credits	Issued
UWMC - Operating Room	Issued
NWHMC - Physician Contracts	Issued
NWHMC - Credentialing and Privileging	Issued
School of Medicine - Institute of Health Metrics	Issued
School of Medicine - Pathology	Issued
Minors on Campus	In Progress

2016 Planned Audits

Audit	Status
Health Sciences Administration - Autism Center	Issued
Human Resources - Human Resources/Payroll System	Issued
Intercollegiate Athletics Compliance 2016	Issued
Office of the President/Provost - Investments	Issued
ProCard	Issued (15 Reports)
Student Financial Aid	Issued
UW Medicine - Accountable Care Network	Issued
UWMC/SCCA - Bone Marrow Transplant (Replacement)	Issued
NWHMC - Encore (EPIC Implementation)	Issued
UWP - Professional Fee Billing	Issued
School of Medicine - Microbiology (Replacement)	Issued
NWHMC-Drug Diversion (Replacement)	Draft Issued
NWHMC- Operating Room	Draft Issued
School of Medicine - WWAMI	Draft Issued

2016 Planned Audits (cont.)

Audit	Status
College of Arts & Sciences - Psychology	In Progress
School of Dentistry - Clinics (Replacement)	In Progress
College of Engineering - Electrical Engineering	In Progress
UW Bothell - Expenditures	In Progress
Finance Management - Procurement	In Progress
Student Life - Clery Act	In Progress
Business Continuity Planning	In Progress
UW Medicine - Practice Transformation Network (Replacement)	In Progress
UW Medicine - Supply Chain	In Progress
HMC - Sponsored Programs Compliance	In Progress
School of Medicine - Physician Incentive Compensation	In Progress
Capital Planning and Development	Replaced by School of Dentistry - Clinics
Health Sciences Administration - Primate Center	Replaced by School of Medicine - Microbiology
UW Information Technology - Electronic Data Warehouse	Replaced by UW Medicine Practice Transformation
UW Medicine - Retail Pharmacy	Replaced by NWHMC - Drug Diversion
UWMC - Transplant	Replaced by UWMC/SCCA - Bone Marrow Transplant
VMC - Strategic Alliance Agreement	Moved to 2017
IT Security Plans	Cancelled
UW Medicine - Clinics	Cancelled

2017 Planned Audit Changes

Audit	Status
College of Engineering - Wind Tunnel (Replacement)	In Progress
Office of Research - Human Subjects (Replacement)	Requested by Management
College of Engineering - IT General Controls	Replaced by College of Engineering - Wind Tunnel
Office of Research - Office of Sponsored Programs	Replaced by Office of Research - Human Subjects

External Auditors – 2016

Financial Statement and Agreed Upon Procedures Audits:

KPMG

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

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
- Cost of medical education

Federal Agencies

Defense Contract Audit Agency

Grant Admin, Program & Fiscal Controls – Applied Physics Lab

Department of Justice

Grant Admin, Program & Fiscal Controls – Social Work, Education, Biostatistics, Sociology, Epidemiology, UW-Tacoma

Health and Human Services

Medicare Meaningful Use – UW Physicians
Health Resources and Services Administration – 340B program UWMC & HMC

Health Resources and Services Administration

Grant Admin, Program & Fiscal Controls – I-TECH

National Institutes of Health

Grant Admin, Program & Fiscal Controls – Primate Center

External Auditors - 2016 (cont.)

National Science Foundation

University Wide Review of Costs Claimed

Sub Contract Audit - Computer Science and Engineering

State Department

Grant Admin, Program & Fiscal Controls - Evans School of Public Policy

State, Local, Foreign and Private Agencies

Gates Foundation

Educational Program of University Audits of Grants

Kellogg Foundation

Grant Admin, Program & Fiscal Controls - Education