

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Internal Audit – Planned Activities for 2012

This item is for information only.

*Attachment*

Internal Audit 2012 Audit Plan



INTERNAL AUDIT

UNIVERSITY *of* WASHINGTON

## 2012 Audit Plan

Finance, Audit and Facilities Committee  
Board of Regents

November 2011

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## Executive Summary

The 2012 Audit Plan contains key information on our planned audit activity for calendar year 2012. The plan was based on the results of our annual risk assessment process.

### Audit Goals

Internal Audit's major goals for 2012 are:

- 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 within operations;
- Expand our audit universe to include Valley Medical Center and also consider expanding to newly created or acquired UW operations;
- Continue to develop our student intern program; and
- Continue to lead and participate in the Pacific Northwest College and University Internal Audit Conference.

### Audit Plan 2012

The University of Washington Internal Audit Plan for 2012 is designed to provide audit coverage across the entirety of the University, deploying Internal Audit resources in an effective and efficient manner.

To focus on the appropriate areas, we considered the strategic plans and initiatives the University has articulated over the last two years including Two Years Two Decades (2Y2D), Activity Based Budgeting (ABB), and Organizational Effectiveness Initiative.

We continue to focus on the highest risk areas as identified in our risk assessment. The Audit Plan was developed through the completion of a risk assessment project which included interviews with senior management, review of strategic, financial and historical information regarding the individual University audit units as defined by Internal Audit.

The Audit Plan documents presented here include:

- Overview of the Audit Plan;
- Analysis of Audit Coverage by University Auditable Units from 2008 - 2012;
- Heat Map of University Auditable Units;
- Listing of Planned Audit Projects; and
- Allocation of Audit Resources.

## 2012 Audit Plan

Internal Audit engages in three primary activities – audits, management advisory services, and investigations. Our focus is to actively work with the schools, colleges and the UW Health System to assist management in addressing strategic, financial, operational, and compliance risks and exposures. Internal Audit focuses on both University wide and departmental level control systems and processes. In order to focus our audit resources, we consider the work completed by other audit professionals and compliance officers across the University such as KPMG LLP, Peterson Sullivan LLP, State Auditor’s Office, UW Medicine Compliance and other regulatory agencies in both setting our overall audit plan and in planning the work conducted on any specific project. Additionally, we provide liaison services between the University and external audit parties to assist in the effective conduct of outside auditor’s projects.

Internal Audit’s goals for 2012 are:

- 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 within operations;
- Expand our audit universe to include Valley Medical Center 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;
- Deploy our team in the most effective and efficient manner;
- Continue to develop our student intern program;
- Continue to strengthen our audit team through focused industry training;
- Continue to lead and participate in the Pacific Northwest College and University Internal Audit Conference (hosted by UW for the past two years); and
- Continue to coordinate with and participate in the further development of the University-wide enterprise risk management framework.

The University of Washington Internal Audit Plan for 2012 is designed to provide audit coverage across the entirety of the University, deploying Internal Audit resources in an effective and efficient manner. The methodology that we utilized for performing our risk assessment and developing our audit plan is included in Appendix A. We have included a heat map representing the results of our risk assessment on page 4.

To enable us to focus on the appropriate areas, we considered the strategic plans and initiatives the University has articulated over the last two years including 2Y2D, ABB, Organizational Effectiveness Initiative and the need to expand future revenue streams. We have also acknowledged the increasing external forces (State budget reductions, changes in Federal regulations) that could adversely impact the internal controls processes previously developed within the University.

## Analysis of Coverage of University Auditable Units

The University auditable units, listed below, are ranked from high to low in terms of the relative risk based on the 2012 risk assessment performed by Internal Audit (IA). Additionally, we have included the relative ranking from previous risk assessments. The previous year columns identify the relative IA risk ranking in those periods and the type of audit work conducted within the respective unit.

AUDITABLE UNIT	2012		2011/2010		2009/2008	
	Rank	Audit Coverage	Rank	Audit Coverage	Rank	Audit Coverage
UW Health System	1	IA	1	IA	2	IA
School of Medicine	2	IA	2	IA	1	IA
Health Sciences Administration	3	IA	16	Reg	5	IA
Intercollegiate Athletics	4	IA	3	IA	9	IA
Grant and Contract Accounting	5	IA	10	IA	17	Reg
UW Information Technology	6	IA	24	IA	8	IA
Office of Research	7	-	6	IA	25	IA
Housing and Food Services	8	IA	14	Ext	28	Ext
UW Tacoma	9	IA	25	IA	13	IA
Student Life	10	-	35	IA	36	IA
Educational Outreach	11	-	15	-	4	IA
School of Dentistry	12	-	12	IA	6	-
School of Public Health	13	-	13	IA	7	-
Capital Projects	14	-	7	IA	11	-
UW Bothell	15	-	26	IA	12	IA
Office of the President/Provost	16	-	37	IA	33	IA
School of Nursing	17	IA	19	IA	14	IA
College of Arts and Sciences	18	IA	21	IA	3	IA
Student Financial Aid	19	Reg	5	-	34	Reg
Office of Planning and Budgeting	20	-	20	-	37	-
Facilities Services	21	Ext	29	IA	27	-
Human Resources	22	-	18	IA*	19	-
Finance	23	-	8	IA	26	IA
Center for Commercialization	24	-	17	-	21	-
College of the Environment	25	-	4	Reg	23	Reg
University Advancement	26	-	23	-	10	IA
Treasury Office	27	Ext	11	Ext	30	Ext
College of Education	28	-	30	IA*	35	-
College of Engineering	29	-	9	IA	15	-
Information School	30	-	38	IA*	38	-
School of Law	31	-	34	IA*	22	-
School of Social Work	32	-	36	IA	24	-
Foster School of Business	33	-	28	IA*	16	IA
Evans School of Public Affairs	34	-	33	IA*	32	-
School of Pharmacy	35	-	32	-	18	-
Graduate School	36	-	22	IA*	29	-
College of the Built Environments	37	-	27	IA*	31	-
Libraries	38	-	31	-	20	-

Legend: IA - Audited by Internal Audit  
 IA\* - Audited by Internal Audit as part of a University wide process audit  
 Ext - Audited by KPMG LLP or Peterson Sullivan LLP  
 Reg - Audited by Regulatory Agencies, including State Auditor's Office

## University Auditable Units - Heat Map

Likelihood	Ranking of Audit Unit within University					
	Almost certain					1 2
	Likely			17	12 9 8 5 11 6	4
	Possible			28 25 21 31 27 29 37 35 33 32 30	19 18 16 15 10 24 23 20	7
	Unlikely		38	36 34	26	14
	Remote					
		Insignificant	Minor	Moderate	Major	Critical
<b>Impact</b>						

### Listing of University Auditable Units

(Numbers in chart below correspond to the chart above)

1	UW Health System	20	Office of Planning and Budgeting
2	School of Medicine	21	Facilities Services
3	Health Sciences Administration	22	Human Resources
4	Intercollegiate Athletics	23	Finance
5	Grant and Contract Accounting	24	Center for Commercialization
6	UW Information Technology	25	College of the Environment
7	Office of Research	26	University Advancement
8	Housing and Food Services	27	Treasury Office
9	UW Tacoma	28	College of Education
10	Student Life	29	College of Engineering
11	Educational Outreach	30	Information School
12	School of Dentistry	31	School of Law
13	School of Public Health	32	School of Social Work
14	Capital Projects	33	Foster School of Business
15	UW Bothell	34	Evans School of Public Affairs
16	Office of the President/Provost	35	School of Pharmacy
17	School of Nursing	36	Graduate School
18	College of Arts and Sciences	37	College of the Built Environments
19	Student Financial Aid	38	Libraries

## Planned Audit Projects

We will continue to focus on the high risk areas as identified in our risk assessment. We identified both audit units and university wide processes within which to focus our audit activities during 2012. Additionally, as part of our risk assessment, we continued our focus begun in 2011 to consider audit projects whose results could be shared across the campus to improve control effectiveness. We will conduct audits in the units identified below. Additionally, based on risk and controls reviews conducted in the audit planning process, we may validate and/or expand upon the areas of focus and risks in each respective audit unit.

Our risk assessment process will be further refined for the UW Health System to include a more in-depth identification of audit units and possible audit projects within the system. This process will include expanded meetings with the executives within the UW Health System, operational management and meetings with the Boards of UW Medicine and the respective Medical Centers. We expect this process will further refine the projects to be included in our audit plan.

<b>Audit Unit</b>	<b>Audit Focus</b>
<b>UW Health Systems</b>	Charge capture, pre-implementation reviews, conflict of interest, IT change management, and additional audits
<b>School of Medicine</b>	Federal grant activities controls reviews
<b>Health Sciences Administration</b>	Hall Health charge capture
<b>Intercollegiate Athletics - 2012</b>	Governance, fin. aid, practice sessions, rules compliance
<b>Grant and Contract Accounting</b>	Sponsor billing and collection process
<b>UW Information Technology</b>	Rate setting, ISB compliance audit
<b>Housing and Food Services</b>	IT applications review
<b>UW Tacoma</b>	Facilities use audit
<b>School of Nursing</b>	Grant, contract and department operations
<b>College of Arts and Sciences</b>	Federal grant activities controls review
<b>Multiple Audit Units</b>	Student fees - stewardship and expenditure controls
<b>Multiple Audit Units</b>	Recharge center audits
<b>Multiple Audit Units</b>	Sponsored research contracts



## Audit Resources

The audit plan for calendar year 2012 is based on a professional staffing complement of thirteen FTE. The plan represents the anticipated minimum level of staffing in 2012 to account for the uncertainty around the budget discussions of the University and the expectation that Internal Audit will participate in any University wide cuts. Additionally, Internal Audit plans to continue augmenting our staff complement with UW student interns.

Approximately 50% of the Internal Audit's available resources are committed to the completion of planned audit projects and follow-up audit procedures. The annual audit plan is designed to provide appropriate coverage utilizing a variety of audit methodologies: audits of individual units both on campus and within the UW Health System, functional and process audits, University-wide reviews, and information system projects. Internal Audit semi-annually conducts follow-up audit procedures to ensure that management is implementing controls as described within their responses to Internal Audit report findings.

In selecting specific units/functions for inclusion in the audit plan we placed priority on providing coverage of higher risk units/processes, and areas of interest to University and UW Health System administrative leadership.

We have a number of audit projects from our 2011 Audit Plan which will be carried over to the 2012 Audit Plan as they continue to be considered high risk. Additionally, we will have a number of audit projects begun in 2011 which will carryover for completion in early 2012. The amount of carryover work is in line with a normal audit process where audits begun in the last few months of the year are completed and issued early in the following year.

The remainder of our FY 2012 audit resources is allocated as follows:

- 9% for employee professional development, internal quality improvement projects (LEAN), our Quality Assurance Review and ongoing expansion and maintenance of our electronic work paper system.
- 18% to accommodate requests from the President, the Board, or other executive management and consultations with University departments. Additionally we plan to incur hours conducting investigations into whistleblower claims, regulatory, ethics and fraud allegations.
- 6% for risk mitigation efforts such as the audit liaison function for the University, training provided to University personnel, and University risk mitigation committee work.
- 17% has been further allocated for internal administrative functions, including employee performance evaluations, interviews of Internal Audit candidates and manager/staff meetings.

# Appendices

## Risk Assessment Methodology / Development of Annual Plan

We use a two year risk assessment model to prioritize audit coverage and ensure timely reviews of high exposure areas.

We began the process by utilizing previous Internal Audit risk assessments as a starting point. We identified the risk categories to be considered in the risk assessment and updated the categories to acknowledge the changing profile of the University.

The following risk categories were considered in the development of our annual plan:

Strategic Risk	Impairment to the strategic mission of the University.
Operational Risk	Impairment of the ability to carry out day-to-day operations of the University.
Compliance Risk	Failure to comply with laws, regulations and internal policies designed to safeguard the University.
Financial Risk	Loss of financial resources or assets.
Reputational Risk	Risk that public image or reputation is damaged by actions of a unit or individual connected to the University.

We reviewed risk assessment models used by peer institutions and utilized their experience and knowledge of university and medical center operations to ensure our risk assessment model included factors relevant to the University of Washington and UW Health System.

We gathered information about any trends or emerging risks, significant changes in organizations, information systems complexity, prior audits/results, and obtained input from key senior management regarding high risk areas. We also reviewed the new and developing information being provided to the University from the President and Provost offices over the last twelve months. We then evaluated both the financial and budgetary data for all audit units identified and updated our current risk assessment model and related risk rankings identified during the last few years.

The above risk factors were then grouped to determine likelihood and impact, and arrive at an overall risk ranking, creating the heat map shown on page 4.

Our proposed audit projects for 2012 were then selected from a number of the highest ranked auditable areas and individual audit units within these groupings.

The list of the proposed audit projects is included in the audit plan on page 5.

## Internal Audit Charter

**Mission** -The mission of Internal Audit is to assist the Board of Regents and University management in the discharge of their oversight, management and operating responsibilities. This is achieved by providing independent assurance, consulting and education services to the University community. Our services add value by improving the control, risk management and governance processes to help the University achieve its business objectives.

**Authority** - Internal Audit functions under the authority of the Finance, Audit and Facilities Committee of the Board of Regents of the University of Washington.

Internal Audit is authorized to have full, free, and unrestricted access to information including records, computer files, property, and personnel of the University. Internal Audit is free to review and evaluate all policies, procedures and practices of any University activity, program or function.

In performing the audit function, Internal Audit has no direct responsibility for, or authority over any of the activities reviewed. Therefore, the internal audit review and appraisal process does not in any way relieve other persons in the organization of the responsibilities assigned to them.

**Scope** - The scope of the internal audit activity encompasses the examination and evaluations of the adequacy and effectiveness of the University's system of internal control and the quality of the performance in carrying out assigned responsibilities including appropriate training and consulting assistance. Internal auditors are concerned with any phase of University activity in which they may be of service to management. This involves going beyond the accounting records to obtain a full understanding of operations under review.

**Independence** - To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. This independence is achieved through organizational status and objectivity.

**Organizational Status:** The Executive Director of Internal Audit is responsible to the Treasurer, Board of Regents, whose scope of responsibility and authority assures that audit findings and recommendations will be afforded adequate consideration and the effectiveness of action will be reviewed at an appropriate level. The Executive Director of Internal Audit has direct access to both the President and the Board of Regents, and may take matters to them that are believed to be of sufficient magnitude and importance to require their immediate attention.

**Objectivity:** Because objectivity is essential to the audit function, an internal auditor does not develop and install procedures, prepare records, or engage in any other activity which the auditor would normally review and appraise and which could reasonably be construed to compromise the auditor's independence. The auditor's objectivity is not adversely affected, however, by determining or recommending standards of control to be adopted in the development of systems and procedures under review.

**Responsibility** - The internal audit staff has a responsibility to report to University management on the areas examined and to evaluate management's plans or actions to correct reported findings. In addition, the Executive Director of Internal Audit has a responsibility to report at least annually to the Board of Regents Finance, Audit and Facilities Committee and to inform the Board of any significant findings that have not been reasonably addressed by University management.

The Executive Director of Internal Audit will coordinate internal and independent outside audit activities to ensure adequate coverage and minimize duplicate efforts.

**Standards** - The responsibility of Internal Audit is to serve the University in a manner that is consistent with the standards established by the internal audit community. At a minimum it shall comply with the relevant professional audit standards and code of conduct of the Institute of Internal Auditors (IIA) and the Association of College and University Auditors (ACUA).