

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Internal Audit – Planned Activities for 2013

This item is for information only.

*Attachment*

Internal Audit 2013 Audit Plan



INTERNAL AUDIT

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UNIVERSITY *of* WASHINGTON

## 2013 Audit Plan

Finance, Audit and Facilities Committee  
Board of Regents

November 2012

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## **Executive Summary**

The 2013 Audit Plan contains key information on our planned audit activity for calendar year 2013. The plan was based on the results of our annual risk assessment process.

### **Audit Goals**

Internal Audit's major goals for 2013 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 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
- Continue to lead and participate in the Pacific Northwest College and University Internal Audit Conference.

### **Audit Plan 2013**

The University of Washington Internal Audit Plan for 2013 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 Tomorrow's University Today, 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 auditable 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 - 2013;
- Heat Map of University Auditable Units;
- Listing of Planned Audit Projects; and
- Allocation of Audit Resources.

## 2013 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 processes and control systems. 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 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 2013 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 of operations;
- Complete internal control reviews of departments either as a request of management or due to losses of University resources;
- 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;
- Provide training on internal controls, WA Ethics Law and other related subjects
- Continue to lead and participate in the Pacific Northwest College and University Internal Audit Conference; 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 2013 is designed to provide audit coverage across the entirety of the University, deploying Internal Audit resources in areas of increased risk or operations we have not audited in the recent past. 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 Tomorrow's University Today, 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 2013 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                    | 2013/2012 |                | 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             |
| Office of Research                | 5         | IA             | 6         | IA             | 25        | IA             |
| Grant and Contract Accounting     | 6         | IA             | 10        | IA             | 17        | Reg            |
| School of Public Health           | 7         | IA             | 13        | IA             | 7         | -              |
| UW Information Technology         | 8         | IA             | 24        | IA             | 8         | IA             |
| Housing and Food Services         | 9         | IA             | 14        | Ext            | 28        | Ext            |
| School of Dentistry               | 10        | -              | 12        | IA             | 6         | -              |
| Student Life                      | 11        | -              | 35        | IA             | 36        | IA             |
| UW Tacoma                         | 12        | IA             | 25        | IA             | 13        | IA             |
| Educational Outreach              | 13        | -              | 15        | -              | 4         | IA             |
| UW Bothell                        | 14        | -              | 26        | IA             | 12        | IA             |
| School of Nursing                 | 15        | IA             | 19        | IA             | 14        | IA             |
| Office of the President/Provost   | 16        | -              | 37        | IA             | 33        | IA             |
| College of Arts and Sciences      | 17        | IA             | 21        | IA             | 3         | IA             |
| Student Financial Aid             | 18        | Reg            | 5         | -              | 34        | Reg            |
| Center for Commercialization      | 19        | IA             | 17        | -              | 21        | -              |
| Facilities Services               | 21        | Ext            | 29        | IA             | 27        | -              |
| Capital Projects                  | 21        | -              | 7         | IA             | 11        | -              |
| Human Resources                   | 22        | -              | 18        | IA*            | 19        | -              |
| Office of Planning and Budgeting  | 23        | IA             | 20        | -              | 37        | -              |
| Finance                           | 24        | IA             | 8         | IA             | 26        | IA             |
| College of the Environment        | 25        | IA             | 4         | Reg            | 23        | Reg            |
| Treasury Office                   | 26        | Ext            | 11        | Ext            | 30        | Ext            |
| University Advancement            | 27        | -              | 23        | -              | 10        | IA             |
| 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             |
| Graduate School                   | 34        | -              | 22        | IA*            | 29        | -              |
| Evans School of Public Affairs    | 35        | -              | 33        | IA*            | 32        | -              |
| School of Pharmacy                | 36        | -              | 32        | IA*            | 18        | -              |
| 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                          |               |       |                                           | 3                                | 1<br>2   |
|            | Likely                                  |               |       | 15                                        | 10<br>9 6 4<br>13,12 7 5<br>8    |          |
|            | Possible                                |               |       | 28 22 20<br>25<br>31 26<br>34 29<br>36 33 | 18 14 11<br>17,16<br>19<br>24 23 |          |
|            | Unlikely                                |               | 38 37 | 32 30<br>35                               | 21<br>27                         |          |
|            | Remote                                  |               |       |                                           |                                  |          |
|            |                                         | Insignificant | Minor | Moderate                                  | Major                            | Critical |
|            | Impact                                  |               |       |                                           |                                  |          |

## Listing of University Auditable Units

(Numbers in chart below correspond to the chart above)

|    |                                 |    |                                   |
|----|---------------------------------|----|-----------------------------------|
| 1  | UW Health System                | 20 | Facilities Services               |
| 2  | School of Medicine              | 21 | Capital Projects                  |
| 3  | Health Sciences Administration  | 22 | Human Resources                   |
| 4  | Intercollegiate Athletics       | 23 | Office of Planning and Budgeting  |
| 5  | Office of Research              | 24 | Finance                           |
| 6  | Grant and Contract Accounting   | 25 | College of the Environment        |
| 7  | School of Public Health         | 26 | Treasury Office                   |
| 8  | UW Information Technology       | 27 | University Advancement            |
| 9  | Housing and Food Services       | 28 | College of Education              |
| 10 | School of Dentistry             | 29 | College of Engineering            |
| 11 | Student Life                    | 30 | Information School                |
| 12 | UW Tacoma                       | 31 | School of Law                     |
| 13 | Educational Outreach            | 32 | School of Social Work             |
| 14 | UW Bothell                      | 33 | Foster School of Business         |
| 15 | School of Nursing               | 34 | Graduate School                   |
| 16 | Office of the President/Provost | 35 | Evans School of Public Affairs    |
| 17 | College of Arts and Sciences    | 36 | School of Pharmacy                |
| 18 | Student Financial Aid           | 37 | College of the Built Environments |
| 19 | Center for Commercialization    | 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 2013. 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. 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. We will conduct audits in the units identified below.

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 System</b>                 | Clinic registration, physician compensation, system post-implementation reviews, quality metrics, meaningful use attestations, and additional audit projects |
| <b>School of Medicine</b>               | Federal grant activities and business operations review                                                                                                      |
| <b>Intercollegiate Athletics – 2013</b> | Recruiting, rules education, reporting rules violations                                                                                                      |
| <b>Office of Research</b>               | Financial conflict of interest audit                                                                                                                         |
| <b>School of Public Health</b>          | I-TECH business operations reviews (in Africa)                                                                                                               |
| <b>UW Information Technology</b>        | Network access controls review, Enterprise Data Warehouse general IT controls review                                                                         |
| <b>UW Tacoma</b>                        | Facilities use audit                                                                                                                                         |
| <b>Center for Commercialization</b>     | Licensing and royalties review                                                                                                                               |
| <b>Office of Planning and Budgeting</b> | Activity Based Budgeting review                                                                                                                              |
| <b>College of the Environment</b>       | Federal grant activities controls review                                                                                                                     |
| <b>Multiple Audit Units</b>             | Federal grant allowable costs review                                                                                                                         |



## Audit Resources

The audit plan for calendar year 2013 is based on a professional staffing complement of 14 FTE. The plan represents the anticipated minimum level of staffing in 2013 to account for the continuing uncertainty around the University budget, impact of Federal funding and the expectation that Internal Audit will participate in any University wide budget reductions. However, we will augment our staff by continuing our IA Internship Program in which we currently employ two UW students.

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 2012 Audit Plan which will be carried over to the 2013 Audit Plan as they continue to be considered high risk. Additionally, we will have a number of audit projects begun in 2012 which will carryover for completion in early 2013. 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 2013 audit resources is allocated as follows:

- 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.
- 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.
- 6% for risk mitigation efforts such as the audit liaison function for the University, advisory services regarding WA State Ethics regulations, 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. This is the second year of our risk assessment process.

We began the process in year one 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 of 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.

In year two we identified any significant changes in organizations, trends, or emerging risks, and obtained input from key senior management regarding high risk areas. We then evaluated the data and made any changes necessary to the risk rankings identified during year one, creating the heat map shown on page 4.

Our proposed audit projects for 2013 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).