Washington State Auditor's Office

Audit Report

Audit Services

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UNIVERSITY OF WASHINGTON

Agency No. 360

July 1, 1995 Through June 30, 1996

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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the University of Washington included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the schedule following this Overview, for the University of Washington.

Brian Sonntag
State Auditor

December 31, 1996

Schedule Of Findings

1. The University Of Washington Should Update Its Policies To Comply With The State's Ethics In Public Service Act

Various University of Washington (University) policies have not been updated to incorporate provisions added as part of the Ethics in Public Service Act. The Act became effective January 1, 1995. This condition was previously reported in our Single Audit Report for the fiscal year ended June 30, 1995.

The University's Employee Conflict of Interest policy, *University Handbook*, Volume IV, Part 5, Chapter 2, was last revised in September 1977. Its Outside Professional Work Policy, *Handbook*, Volume IV, Part 5, Chapter 6, was last revised in September 1992. Its Gift Processing Guidelines, *Operations Manual* D 36.0 j., which contains reference to honoraria received by faculty, was last revised in November 1992. The *Handbook* is available to University departments both on-line and in hard copy, at reference stations throughout the University. The *Operations Manual* is available in hard copy. These policies, in their present form, do not address specific provisions under *Revised Code of Washington* (RCW) 42.52. Provisions which might affect University employees include limitations on compensation for outside activities, honoraria, and gifts.

Without an accurate current policy governing conflict of interest and sufficient training, employees may commit acts which comply with the present policy as published, yet still violate state law. In addition, as a result of the lack of distribution and training on the new law, employees may continue business relationships or other actions which did not constitute violations under the previous law, but which are violations under the new law. Specifically, the state law requires that employees be specifically authorized to receive honoraria. However, the University's policy does not notify employees that they must be authorized nor does it establish procedures for such authorization. Our testing revealed that the University has employees who receive honorariums from third parties.

RCW 42.52.130 states:

> (1) No state officer or state employee may receive honoraria unless specifically authorized by the agency where they serve as a state officer or state employee.

The University is in the process of revising its policies and procedures to comply with the Ethics in Public Service Act, and expects a draft version to be available soon.

We recommend the University implement revised policies and procedures. We further recommend that the University provide for an effective means of communicating those policies to all employees.

Auditee's Response

The University concurs in that many of our policies are not in final form. In January, 1996 the Board of Regents approved a state ethics policy governing personal investments of officers and employees associated with the University's investment portfolio. Draft policies on outside professional work are being discussed in the Ethics Committee. The Ethics Committee has adopted a policy on University honoraria and will be disseminating it more broadly on campus. The broader policy on conflicts of interests, revising the current Handbook statement, is under discussion in the Committee.

In addition, the University has disseminated to its faculty and administrators on numerous occasions information about the change in the law and its impacts to the campus. Ms. Christine Hughes, Division Chief, University of Washington Division, Attorney General's Office, has made presentations to the President's Cabinet, Board of Deans, and a number of faculty and staff groups about particular aspects of the Ethics in Public Service Act that relate to their particular responsibilities. Thus, the University has taken and will continue to take considerable steps to inform the campus community about these changes to laws.

Auditor's Concluding Remarks

We appreciate the action planned by the University and hope they will continue their efforts to disseminate their policies to all employees. We will review these matters during the course of our next audit.

2, The University Of Washington Student Health Center (Hall Health) Should Improve Controls To Ensure Student Fees Do Not Support Services To Nonstudents

a. As of the conclusion of our field work, Hall Health had not determined whether student fees subsidized the costs of services provided to nonstudents.

Hall Health maintained a separate account to track the revenues associated with services provided to nonstudents. However, the costs associated with providing these services were recorded with the costs of providing services to students. Services provided to students are funded through user fees charged to students for specific services and an allocation of services and activities fees. As a result, neither Hall Health nor our audit could determine whether moneys collected for services provided to students subsidized the costs of services provided to nonstudents.

The *Revised Code of Washington* (RCW) Chapter 28B.15.041 states in part:

> The term "services and activities fees" as used in this chapter is defined to mean fees, other than tuition fees, charged to all students registering at the state's community colleges, regional universities, The Evergreen State College, and state universities. Services and activities fees shall be used as otherwise provided by law or by rule or regulation of the board of trustees or regents of each of the state's community colleges, The Evergreen State College, the regional universities, or the state universities **for the express purpose of funding student activities and programs of their particular institution** . . . . (Emphasis ours.)

The University of Washington *Operations Manual* User Fee Approval Policy D 33.1 states in part:

> Fees are generally charged to recover costs, either partially or fully, or to ration or control the demand for services. Fees are charged to students, to programs, and to the general public . . . Fees charged to University employees and students must be set to recover not more than the cost of the goods or services provided. (Emphasis theirs.)

Hall Health personnel believed costs did not need to be captured and recorded until the end of the state's biennial budget period.

b. Hall Health provided subsidized medical care to patients who were ineligible for student-supported services, rather than providing this care only to regularly enrolled students.

Our audit revealed that six persons who were former students but were not currently enrolled received subsidized health services during the week of February 12-16, 1996. In addition, four students who were enrolled in self-sustaining classes received subsidized health services during the same period.

The University of Washington Handbook, Volume III, Section 3.A states:

> Within the limits of its resources, the Hall Health Center Clinic provides health maintenance and out-patient treatment services for **regularly enrolled students.** (Emphasis ours.)

The University General Catalogue further states:

> All graduate and undergraduate students, registered for full or part-time courses and paying student fees, are eligible for health services upon presentation of a current University student identification card.

Hall Health relies on student identification cards to determine whether students have paid student fees. Colored stickers indicate whether a student is regularly enrolled for the current quarter. Appropriately colored stickers also indicate the student has paid, while white stickers indicate the student is enrolled in a self-sustaining course and has not paid the student fee. Hall Health personnel believe staff members may not have verified the students' current identification cards because the patients were receiving continuing care and were familiar to them.

As a result, students who paid student fees subsidized the care of ineligible patients.

We recommend Hall Health determine whether student fees subsidized the costs of services provided to nonstudents. We further recommend Hall Health require personnel to verify each patient's eligibility for subsidized medical care.

Auditee's Response

The University concurs that Hall Health Center should improve controls to ensure verification of patient eligibility for subsidized medical care. Ten of fourteen hundred thirty-eight student patients sampled during the period audited were not eligible for SAF-subsidized care and Hall Health has implemented additional controls to address this issue. However, the University does not concur that student fees may have inappropriately subsidized services to non-student patients. A reconciliation completed in

January, 1997 shows that no subsidy of non-student care occurred. Expenses related to the care of non-students amounted to $169,092 while revenues related to non-student care totaled $174,884.

The audit occurred during a period of transition at Hall Health Center, when new record keeping and billing systems were being implemented. Due to the complexity of combining the old and the new systems during the 1995-1996 fiscal year and the expected four month delay in the receipt of insurance revenue, reconciliation of revenues to services was not completed until January, 1997. In the future, reconciliations are scheduled to occur on both a semi-annual and an annual basis. In addition, Hall Health Center will continue to refine record and billing systems moving along with the rest of the health care industry to the new standard of Resource Based Relative Value Units (RBRVUs) to monitor levels of service, costs and revenues for outpatient clinical services.

Auditor's Concluding Remarks

With regard to condition b, we appreciate the actions taken by the University and will review this matter during the course of our next audit.

With regard to condition a, the University's analysis of costs incurred to provide services to students and nonstudents was not available in time to allow us to review it during our fiscal year 1996 audit. Therefore, we will review this matter during the course of our next audit.

3. The University Of Washington Should Require Departments To Obtain Pre-Approval Of All Out-Of-State Travel As Required By Office Of Financial Management (OFM)

Our audit noted that the University does not consistently apply the state's travel policy and practices to all institutional travel activities.

State regulations require that all out-of-state travel be pre-approved, regardless of the source of the funds used to pay for the travel. However, the University does not require travelers to obtain pre-approval of out-of-state travel which is funded by a federal grant or contract.

The Governor's *Executive Order* EO 93-05, dated April 30, 1993, states in part:

> I. State agency directors shall take primary responsibility for ensuring that any travel by agency employees is directly work related, obtained at the most economical price, and is both critical and necessary for state business. To this end, all out-of-state travel by agency employees must have prior approval by the head of the agency, or other top-level management staff specifically designated by the agency head.

OFM *Policies, Regulations, and Procedures*, Section 4.2.1.3.1 (f) states:

> Prior authorization of travel is to be exercised . . . for all out-of-state travel . . . Agency employees are to receive approval by the agency head, or other top-level management specifically designated by the agency head, before embarking on out-of-state travel.

OFM indicates that state travel regulations are applicable to all employees of the University, including students.

OFM 4.2.1.1.1 (a) states:

> The state travel, moving expense, motor vehicle, and aircraft regulations are applicable to the following personnel:
>
> a. All state officers, employees, and volunteers agencies have legal authority to utilize unless otherwise provided by law.

Federal regulations require that an institution's travel policy and practices be consistently applied to institutional travel activities.

Office of Management and Budget (OMB) Circular A-21, Subpart J, Section 48(a) states:

> Such [travel] costs may be charged . . . provided the method used is . . . in accordance with the institution's travel policy and practices consistently applied to all institutional travel activities.

As a result, the level of oversight expected by the state and mandated by the Governor's Executive Order has not been achieved. The level of consistency required by federal regulations has also not been achieved. Without documentation of prior approval, employees may incur expenses for travel which are not reimbursable by the University or allowable as a charge to a federally sponsored agreement.

University officials indicated that they believed the inclusion of travel in federal grant budgets constituted prior approval of individual federally funded trips.

We recommend that the University develop and implement policies and procedures that require prior authorization of all out-of-state travel, including that funded by federal grants and contracts.

Auditee's Response

The University does not concur. The University established policies and procedures for pre-approval of out of state travel which fully comply with the Governor's Executive Order 93-05 issued in 1993. Subsequent travel regulations adopted by OFM increased the scope of approval beyond that required by the Executive Order.

The University believes that adequate procedures are in place for approving travel in advance, and that it is appropriate for these procedures to vary based on sources of funds; e.g., that travel for sponsored research is approved when the research proposal is accepted and funded. We do not believe our present policies and procedures result in unauthorized or wasteful travel being performed, but that implementation of the audit recommendation would result in an unwarranted increase in administrative bureaucracy.

Auditor's Concluding Remarks

The University believes that the Governor's Executive Order applies only to state funds and that OFM's subsequent regulations expanded this requirement to transactions funded by other sources. OFM is charged by statute with establishing policies, rules, and regulations governing travel, whether or not these are specifically mandated in an Executive Order. The State Auditor's Office contacted OFM, who indicated that the condition as described in the finding would be of concern to them. We understand that the University is presently in the process of setting up a series of meetings with OFM to pursue either an exemption from this requirement or a revision of the requirement.

We appreciate the actions taken by the University. We will review these matters during the course of our next audit.