Audit Summary

Washington State University
July 1, 1998 through June 30, 1999

ABOUT THE AUDIT

This report contains the results of our annual independent audit of Washington State University for the period July 1, 1998, through June 30, 1999.

Our work focused on determining whether the University complied with state laws and regulations and its own policies and procedures. We evaluated internal controls established by management. We also performed audit procedures on specific areas that have potential for abuse and misuse of public resources.

RESULTS

University officials have processes in place to provide reasonable assurance that the University’s objectives are met. These internal controls are designed to achieve objectives in four categories: safeguarding of University assets, checking the accuracy and reliability of accounting data, promoting operational efficiency, and encouraging adherence to applicable policies.

In general, the University’s internal controls allow officials to effectively operate the University and safeguard its assets. The University’s methods of accumulating and reporting financial data are reliable. In general, the University complied with state laws and regulations and its own policies.

The University is very committed to resolving the issues we identify. We found the University made progress in resolving weaknesses identified in our past audits. All issues reported as audit findings in the prior audit were significantly improved.
# Table of Contents

**Washington State University**  
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- Description of the University ................................ ................................ ................................ .................... 1
- Audit Areas Examined ......................................................................................................................... 3
- Audit Overview ................................................................................................................................. 6
- Status of Prior Audit Findings ......................................................................................................... 7
ABOUT THE UNIVERSITY

Founded in 1890, Washington State University is the state’s land-grant University with one of the largest residential campuses west of the Mississippi. The University has a main campus in Pullman and branch campuses in Spokane, Vancouver, Tri-Cities, Intercollegiate Centers for Nursing Education Centers in Spokane, Yakima and Wenatchee, and a Center for Hotel-Restaurant Administration in Seattle. In addition, the Extended Degree Program and eight learning centers around the state provide access to credit and non-credit courses. There are also 12 agricultural research units and 40 county extension offices affiliated with the University throughout the state. The University offers more than 150 undergraduate majors, options and degree programs, and more than 100 master's and doctoral degrees.

The University is governed by a nine-member Board of Regents, appointed by the Governor and confirmed by the state Senate. In June 1998, a Student Regent position was added, bringing the number of regents to 10. The University’s biennial state operating budget for 1997-99 is $343 million. Its state capital budget for the same period is $129 million. The University employs approximately 5,000 faculty and staff members and enrolls more than 19,000 students.

Significant current budgeted construction projects include the Teaching and Learning Center ($41.5 million), Spokane Health Sciences Building ($38.9 million), Student Recreation Facility ($36.3 million), Animal Disease Diagnostic Facility ($30.1 million), Vancouver Engineering and Life Sciences Building ($29.7 million), Landscape Architecture Facility ($29.3 million) and Tri-Cities Science Education Center ($22.6 million).

The University’s faculty, administrators and staff are very successful at negotiating and receiving grants and contracts for research, scholarships and other sponsored programs. During fiscal year 1999, the University expended almost $90 million in sponsored programs. Approximately 30 percent of total sponsored program money was expended through the College of Agriculture and Home Economics.

APPOINTED OFFICIALS

Regents are appointed to six-year terms. An existing regent continues to serve until the Governor names a replacement or re-appoints the regent. The following regents currently provide oversight of University operations:

Board of Regents:
President
Vice President

Peter J. Goldmark
Kenneth Alhadeff
Richard R. Albrecht
Bernadett Buchanan
Phyllis J. Campbell
Richard A. Davis
Robert Fukai
Joe King
William Marler
Carmen Otero
Executive Officers:

President                     Samuel H. Smith
Vice Presidents:
  Administration              Sally P. Savage
  Business Affairs            Gregory P. Royer
  Extended University Affairs  Thomas L. Purce
  Interim Provost and Academic Rom J. Markin

ADDRESS

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Audit Areas Examined

Washington State University
July 1, 1998 through June 30, 1999

In keeping with general auditing practices, we do not examine every portion of the Washington State University's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the University were examined during this audit period:

**LEGAL COMPLIANCE**

While evaluating internal controls in selected University departments, we also audited each department’s compliance with state laws and regulations and University policies. Areas tested in these departments were selected based on an analysis of the department’s activities and our assessment of the highest risk of noncompliance, misappropriation or misuse. Areas included in department audits encompassed cash receipts, petty cash, purchasing, travel, leave reporting, equipment and payroll.

In addition, we audited the following areas for compliance with certain applicable state laws and regulations:

- Sufficiency of policies and procedures to monitor compliance with the terms of grants, agreements and contracts, and competitive bidding requirements
- Compliance with state regulations for travel advances and expenditures
- Compliance with state regulations prohibiting the personal use of state resources
- Compliance with state requirements related to Initiative 601 (fee increases)
- Review of University officials’ compliance with disclosure and conflict of interest laws
- Internet policy and monitoring program
- Sufficiency of policies governing the distribution of Institutional Financial Aid
- Compliance with rules governing the existence and authorized amount of funds held in out of state bank accounts

**INTERNAL CONTROL**

University management has delegated responsibility for establishing and maintaining an adequate system of internal controls to the dean and chief financial officer of each unit. Some units and areas tested were selected based on an analysis of the department’s activities and our assessment of the highest risk of noncompliance, misappropriation or misuse. Other departments and areas of audit were selected on a rotating basis over the course of several years. This is in keeping with general auditing practices where we do not examine every portion of the University’s financial activities during each audit. We evaluated internal controls in the following units and areas:
### Billing and Cash Receipting:
- Veterinary Teaching Hospital
- International programs
- Registrar’s Office (tuition)
- Office of Admissions
- Compost Center (Department of Animal Sciences)
- Riverpoint Campus, Spokane
- Psychology Clinic

### Payroll:
- Department of Chemistry
- Department of Teaching and Learning
- School of Electrical Engineering and Computer Science
- Department of English
- Department of History
- Facilities Operations

### Equipment:
- Riverpoint Campus, Spokane
- Department of Chemistry
- Department of Crop and Soil Sciences
- Wood Materials and Engineering Laboratory
- School of Electrical Engineering and Computer Science
- Institute of Biological Chemistry
- School of Architecture
- Department of Physics

### Merchandise/Consumable Inventory:
- Veterinary Teaching Hospital
- Athletics (equipment room)
- Office of University’s Publications and Printing
- Bulletin Office (College of Agriculture and Home Economics)
- Department of Veterinary Microbiology and Pathology

We also audited the University’s internal controls over processing transaction and information through central departments including:

- Accounts Payable
- University Receivables
- Payroll Services
- Sponsored Projects Finance Office
- Office of Provost and Academic Vice President
- Travel
- Cash Management and Accounting
- Property and Merchandise Inventory
- Purchasing Office
- Human Resource Services
- Office of Business Affairs

## FINANCIAL AREAS

In auditing the state’s financial statements, we reviewed certain University account balances considered material to the state. Whenever possible, we reviewed and relied on work performed by other University auditors.

The results of the University’s financial activities are reflected in the state of Washington’s general purpose financial statements. Those statements are audited separately and reported in the state’s Comprehensive Annual Financial Report, issued by the Office of Financial Management.

In addition, we provided an independent auditor’s report on the financial statements presented in the University’s published financial report. This report is issued by the University on an annual basis.
FEDERAL PROGRAMS

For federal purposes, we audit the state as a single entity. The results are reported under separate cover as the Statewide Single Audit Report. For 1999, there were no major statewide programs or program clusters selected for review at Washington State University. While auditing selected University expenditure transactions for state legal compliance, if applicable, we also audited the transactions for compliance with federal regulations governing grants in the areas of spending grant funds for allowable purposes.
AUDIT HISTORY

We audit Washington State University annually. Although the past six audits of the University have reported areas of concern, findings have decreased from a high of five in 1994 to no reported findings in 1999.

In response to each of these previous reports, University management took steps to make improvements and correct conditions noted in the findings. The majority of the findings from 1994–98 related to weaknesses in internal controls at the college, unit or department level. Over the years, the University has developed training classes, implemented task forces and improved University policies and procedures to address these concerns. We believe this reflects the University’s desire and commitment to implement and maintain strong financial and compliance systems with sufficient internal controls.

CONCLUSIONS

In general, the University complied with state laws and regulations and its own policies and procedures. Although we did not identify conditions significant enough to report as findings, we noted certain matters involving noncompliance that were reported to the management of the University.

The Offices of Administration, Business Affairs, Provost and Academic Vice President, Internal Audit, and Controller are committed to establishing strong internal controls and ensuring compliance with legal requirements in this highly complex organization. We found University officials corrected or made progress toward correcting the deficiencies noted in the prior audit. These conditions are discussed in the Status of Prior Audit Findings section of this report.

Safeguarding assets was a major focus of our audit. We included the review of how various colleges, units and departments implemented internal controls related to cash receipting, payroll, property and merchandise inventory. During the current audit, University management strengthened policies and guidelines related to internal controls. These guidelines were formalized in the Business Policies and Procedures Manual. In addition, the importance of these guidelines was communicated in meetings to deans and administrative managers of all University colleges and administrative units. We believe this should increase awareness of the need for sufficient internal controls to reduce the potential for fraud and abuse.

We appreciate the University’s attention to resolving prior audit issues and its commitment to establish strong internal controls and ensure compliance in a highly decentralized organization. We thank University management and personnel for their assistance and cooperation during the audit.
The status of findings contained in prior audit reports of Washington State University is provided below:

1. **Weaknesses in cash handling policies and controls create the potential for misappropriation of public funds.**

   **Background**

   Washington State University has approximately 580 cash-handling locations. Each location is responsible for preparing initial source documentation to support receipts received at the unit. The University has delegated the responsibility for implementing effective cash-handling controls to unit management. College deans, unit directors and area chief financial officers need to ensure the policies and controls at their location to reduce the potential for misappropriation of public funds. Review of internal controls over receipting at the central cashier and various locations throughout the University noted audit concerns including:

   • Employees with cash handling responsibilities do not always follow established procedures.
   • Limited monitoring of employee turnover in cash-handling positions and no required training.
   • Limited centralized monitoring or oversight by the centralized cashiering function regarding timely deposits.
   • Incomplete receipting documents.
   • No uniform policies regarding the processing of credit card payments and refunds.
   • Reimbursement for the personal use of state resources (telephones, copiers, shipping and delivery services, etc.) without an established, approved reimbursement system.

   **Status**

   University management continues to evaluate and strengthen policies and controls in this area as they have for a number of years. Central administrators and the Internal Audit Office strive to interact with departments to effect corrective action as soon as they become aware of problems. In addition, revisions to the University’s *Business Policies and Procedures Manual* addressing the areas of audit concern have been adopted or are waiting approval.

   We noted no significant areas of audit concern in the cash-handling locations reviewed during the current audit. We believe the awareness of the need for sufficient internal controls to reduce the potential for misappropriation at the department/unit level has significantly improved. We consider this issue significantly resolved.
2. **Noncompliance with state regulations and University policies related to fixed assets creates a potential for misappropriation or misuse of public property.**

**Background**

Policies related to the property management system at Washington State University require that certain equipment details be maintained in an inventory record on the main frame computer. Our review revealed noncompliance with state regulations and University policies and procedures. Specifically we noted:

- Nine University departments had not completed the required biennial physical inventories.
- Departments did not always tag assets or update inventory records appropriately.
- One school could not locate a significant amount of computer equipment and was in the process of improving controls.

**Status**

In June of 1999, the Property Inventory Control Committee was formed and a comprehensive study of the current property inventory system was completed. Although no action has been taken based on the results of this study, improvements were noted during the current audit. Audit concerns still exist in this area, but instances of noncompliance noted were not significant enough to report as a finding. We will evaluate the continuing progress in the area of property inventory management during our next audit.