

Washington State Auditor's Office

Audit Report

Washington State University

Audit Period
July 1, 1999 through June 30, 2000

Report No. 6231

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Washington _____
State Auditor
_____ Brian Sonntag

Audit Summary

Washington State University July 1, 1999 through June 30, 2000

ABOUT THE AUDIT

This report contains the results of our annual independent audit of Washington State University for the period July 1, 1999, through June 30, 2000.

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 safeguard University assets; check the accuracy and reliability of accounting data; promote operational efficiency; and encourage 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.

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July 1, 1999 through June 30, 2000**

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Description of the University

Washington State University July 1, 1999 through June 30, 2000

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 located in Pullman, Washington. In addition to its branch campuses in Spokane, Tri-Cities and Vancouver, the University has Cooperative Extension offices in all 39 counties, 11 regional learning centers, seven research and extension facilities in various locations, and 24 Small Business Development Centers statewide. The Intercollegiate College of Nursing has a satellite nursing center in Yakima and students can take Washington Higher Education Telecommunication System courses from Wenatchee via Washington State University Vancouver. The University offers nearly 150 major fields of study. Bachelor's degrees are available in all major areas, with master and doctoral degrees available in most.

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 1999-2001 is \$356 million. Its state capital budget for the same period is \$188 million. The University employs approximately 5,000 faculty and staff members and enrolls more than 20,000 students.

Significant current budgeted construction projects include the Johnson Hall Addition (\$49.0 million), Teaching and Learning Center (\$41.5 million), Spokane Health Sciences Building (\$38.9 million), Student Recreation Facility (\$37.0 million), Landscape Architecture Facility (\$30.7 million), Vancouver Engineering and Life Sciences Building (\$29.7 million), and Bohler Gym Renovations (\$20.4 million).

Washington State University's faculty, administrators and staff are very successful at negotiating and receiving grants and contracts for research, scholarship and other sponsored programs. During fiscal year 2000, the University spent \$90 million in sponsored programs. Approximately 32 percent of total sponsored program money was spent through the College of Agriculture and Home Economics.

APPOINTED OFFICIALS

These officials served during the audit period:

Board of Regents:

President

Vice President

Kenneth Alhadeff

Robert D. Fukai

Phyllis Campbell

Elizabeth Cowles

Richard A. Davis

Peter J. Goldmark

Joe King

William D. Marler

Matthew Moore

V. Rafael Stone

Executive Officers:

President
Interim Provost
Interim Vice President for University
Advancement
Vice President for Business Affairs
Interim Vice President for Extended
University Affairs

V. Lane Rawlins
Ronald H. Hopkins

Sally P. Savage
Gregory P. Royer

Muriel Oaks

ADDRESS

University

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Audit Areas Examined

Washington State University July 1, 1999 through June 30, 2000

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 billing and receipting, payroll, equipment/property inventory, merchandise inventory, and purchasing cards.

In addition, we audited the following areas for compliance with certain applicable state and local 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
- Sufficiency of controls over on-line receipting processes
- Sufficiency of policies and procedures to procure contracted services
- Compliance with state regulations prohibiting the personal use of state resources
- Review of University officials' compliance with disclosure and conflict of interest laws
- Sufficiency of policies and procedures to monitor expenditures made with purchasing cards

INTERNAL CONTROL

University management has delegated responsibility for establishing and maintaining an adequate system of internal control 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 the following areas of the University's internal control structure:

Billing and Cash Receipting

- Library
- Daggy Theater
- Outdoor Recreation Center
- Parking services
- Information desk

Payroll

- Agriculture Research Center
- Political Science
- Nuclear Radiation Center, Office of Research
- Water Research, Office of Research
- International Programs
- Creamery
- Social and Economic Studies Research Center

Equipment and Property Inventory (follow up)

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

Merchandise/Consumable Inventory

- Central Stores
- Natural Resource Sciences
- Energy Program
- Power plant

Purchasing Cards

- Chemistry
- International Programs
- Education Telecom and Tech.
- Crop and Soil Sciences
- Facilities Operations
- Technical Services
- College of Education
- President's Office

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 Business Affairs
- Office of Provost and Academic Vice President
- Travel
- Cash Management and Accounting
- Property and Merchandise Inventory
- Purchasing Office
- Human Resource Services

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 2000, 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 Overview

Washington State University July 1, 1999 through June 30, 2000

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 or 2000.

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 to 1998 related to weakness in internal controls at the college, unit or department level. Over the years, the University has developed training classes, set up 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. However we did make recommendations related to the procurement of contracted services and procedures over public works projects.

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 audit concerns noted in the prior audit.

Safeguarding assets was a major focus of our audit. We reviewed how various colleges, units and departments established internal controls related to cash receipting, payroll, purchasing cards, property and merchandise inventory. During the current audit, University management continued to strengthen 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 ensuring compliance in a highly decentralized organization. We thank University management and personnel for their assistance and cooperation during the audit.