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## Higher Education Committee

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### HB 2308

**Brief Description:** Requiring an audit of the state universities.

**Sponsors:** Representative Condotta.

#### Brief Summary of Bill

- Directs the State Auditor to conduct a comprehensive financial audit of the University of Washington (UW) and Washington State University and identify the cost and profit centers.
- Directs that the audit focus on public funds; student fees, in particular tuition; and auxiliary enterprises including the UW Medical Center, the Internal Lending Program, the W Fund, and the Center for Commercialization.
- Requires the State Auditor to deliver the audit to the Governor and relevant committees of the Legislature by January 1, 2015, and recommend whether follow-up audits are necessary.
- Requires the UW to provide certain kinds of documentation related to the audit to the Legislature by December 1, 2014.

**Hearing Date:** 2/4/14

**Staff:** Megan Wargacki (786-7194).

#### **Background:**

The State Auditor's Office regularly audits more than 160 state agencies, boards, and commissions including all public colleges and universities in Washington. The State Auditor's Office also audits more than 2,000 local government agencies. These regular fiscal audits focus on accounting controls and statutory compliance. Among other provisions, state law directs the State Auditor's Office to provide information in writing to the Legislature, whenever required, upon any subject relating to the financial affairs of the state.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Auxiliary enterprises are entities, often associated with a college or university, that exist predominantly to furnish goods and services to students, faculty, or staff; and that charge a fee directly related to the cost of goods or services, though not necessarily equal to the cost.

Auxiliary enterprises include:

- The University of Washington (UW) Medical Center, which is an academic medical center that provides specialized medical care to patients in Washington and other states;
- The UW Internal Lending Program, which makes internal loans to campus borrowers and manages repayment according to a financing agreement;
- The W Fund, which is an early-stage venture fund that invests in promising start-ups spinning out of the UW and other research institutions in Washington; and
- The UW Center for Commercialization, which protects the UW's intellectual property, licenses innovations to businesses, and supports spin-of companies.

The Washington Research Foundation, a venture capitalist and technology transfer organization, collects fees from companies that use technologies licensed by the UW, and invests the money back into the UW. The Hall Patents, methods to make insulin and vaccines for Hepatitis B and the Human Papillomavirus, have brought in over \$160 million to the UW over the last 25 years.

### **Summary of Bill:**

The State Auditor is directed to conduct a comprehensive financial audit of the UW and Washington State University (WSU) for the purpose of identifying cost and profit centers within, and in partnership with, the universities. The audit must focus on public funds; student fees, in particular tuition; and auxiliary enterprises, which for the purposes of the audit at the UW includes the UW Medical Center, the Internal Lending Program, the W Fund, and the Center for Commercialization.

The audit at each university must achieve the following:

- Identify the major sources of funding over the most recent five years, including public funding and funding from the federal government;
- Review and evaluate the policies and practices that the university uses to track and allocate public funding;
- Determine how the university spent its state appropriations, student fees, federal grant funding, and any inflationary increases in federal grant funding;
- Review and evaluate the procedures and practices used by the university to track and adjust non-salary expenditure categories such as travel, consultants, entertainment, and general supplies;
- Identify how the university defines restricted funds and determine for each type of public funding the amount that is restricted to specific purposes by the funding source;
- Assess the university's policies and practices for tracking per-student expenditures for instruction and identify the average amount per student that the university has spent on instruction for undergraduate students in each of the past five fiscal years;
- Obtain the university's definition of auxiliary enterprises and determine the number of auxiliary enterprises, including the UW Medical Center, the UW Internal Lending program, the W Fund, and the Center for Commercialization, that exist in the university system, the methods the university uses to track revenues and expenditures of auxiliary enterprises, and the policies and practices the university has in place to ensure that state

funding is not used to supplement or guarantee projects or programs authorized by auxiliary enterprises;

- Identify how much money is being spent per student on undergraduate education and to what extent undergraduate education is subsidizing graduate education. In determining the per-student costs of undergraduate education, the state auditor shall use the December 15, 2007, methodology, devised by professor Charles Schwartz, for the cost of undergraduate education at a research university; and
- Determine how tuition funds and fees required of undergraduate students are being used and to what extent they are being used to fund the UW Medical Center, the UW Internal Lending Program, research and research administration, the W Fund, and the Center for Commercialization, and to back bonds authorized by the university.

Any work performed by the State Auditor's Office must not duplicate existing audits, and where applicable, must make maximum use of existing audit records, accreditation reviews, and performance measures required by the Office of Financial Management and nationally or regionally recognized accreditation organizations including accreditation of licensed hospitals and ambulatory care facilities.

By January 1, 2015, the State Auditor is directed to deliver the comprehensive financial audit of the UW and the WSU to the Governor and relevant committees of the Legislature. The State Auditor must recommend whether follow-up audits are necessary to ensure the effective use of public funds, student fees, and auxiliary enterprises.

By December 1, 2014, the UW must provide the Legislature with verifiable and accurate documentation to support the state, federal, and private funds spent by the Center for Commercialization between July 1, 2008, and June 30, 2014. The UW must provide an accounting of the impact of those expenditures in terms of the date of first commercial sale or use of new products based on intellectual property licensed from the UW. Information must be provided regarding whether:

- any such products were manufactured in Washington state;
- new jobs were directly created in Washington state; and
- income was received from intellectual property licensed during the reporting period.

The UW must provide information on the capitalization history of the UW Internal Lending Program and information on the W Fund related to the allocation of state funds to private, for-profit companies, including W Fund Management, LLC and the W Fund, LP.

The UW must include an accounting of the use of income received by the UW from the Washington Research Foundation between July 1, 2008, and June 30, 2014, as the UW's share of the royalties on the inventions known as the Hall Patents; and an accounting of the use of funding provided for renovation and remodeling of Fluke Hall.

An expiration date of July 1, 2015, for provisions related to the audit is specified.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.