

LEGISLATIVE AUDIT COMMISSION



Review of
University of Illinois
Year Ended June 30, 2013

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4425
UNIVERSITY OF ILLINOIS
YEAR ENDED JUNE 30, 2013**

FINDINGS/RECOMMENDATIONS - 29

**ACCEPTED - 3
IMPLEMENTED or RESOLVED - 22
NOT ACCEPTED - 3
UNDER STUDY - 1**

REPEATED RECOMMENDATIONS - 18

PRIOR AUDIT FINDINGS/ RECOMMENDATIONS - 30

This review summarizes the auditors' reports on the University of Illinois for the year ended June 30, 2013, filed with the Legislative Audit Commission on May 15, 2014. The auditors conducted a financial audit and compliance examination in accordance with State law and *Government Auditing Standards* and the requirements of the federal Single Audit Act and OMB Circular 133. The auditors stated the financial statements were fairly presented.

The University of Illinois (University) is a comprehensive university serving primarily the citizens of Illinois from three main campuses through instruction (both on-campus and on-line), research, economic development and various outreach activities. The governing body of the University is the Board of Trustees. The Governor appoints nine members, with the advice and consent of the Senate, and each of the three campuses elects a trustee, only one of which may vote. The Governor is an ex-officio member.

The Urbana-Champaign campus is responsible for pursuing instruction, including strong emphasis at the graduate level; research, through its eminent faculty; and public service as the original land grant campus of the University.

The Chicago campus is responsible for pursuing teaching, research and service activities related to basic and health sciences and providing a broad range of educational services at both the graduate and undergraduate levels. Vast educational offerings include professional degree programs in medicine, dentistry, pharmacy, nursing, associated health professions and public health as well as major research programs in a variety of curriculums.

The Springfield campus is responsible for addressing public affairs within the framework of a liberal arts curriculum through its first-hand access to State government and public service through special courses, projects and internship opportunities.

Dr. Robert Easter was appointed President effective July 1, 2012 which coincides with the beginning of the audit period. He agreed to serve as President for two years, which is now stretching toward three years, after serving at the University for 40 years on the faculty, as a Dean, Interim Provost, and Interim Chancellor. Walter Knorr is the University's Vice President and CFO/Comptroller. He has served in that position since 2007. Reportedly, the University's

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trustees will select a new University President before the end of 2014. The new president's term will most likely begin on July 1, 2015.

General Information

Following is a summary of the net assets of the University as of June 30:

	2013	2012
Assets		
Cash & investments, current	\$ 1,021,301,000	\$ 916,543,000
Accounts and notes receivable	488,080,000	454,659,000
Receivable from State of Illinois	164,398,000	204,972,000
Cash & investments, noncurrent	1,467,854,000	1,278,339,000
Capital assets, net of depreciation	3,498,132,000	3,389,304,000
All other assets	180,626,000	252,831,000
Total Assets	\$ 6,820,391,000	\$ 6,496,648,000
Total Liabilities	\$ 2,703,575,000	\$ 2,845,439,000
Net Assets	\$ 4,116,816,000	\$ 3,651,209,000

Information on full-time equivalent (FTE) enrollment of 76,277 students, employment of 29,534 and per capita costs is detailed in Appendix A. Full-time student enrollment increased from FY12 to FY13 by 969, primarily among graduates at UIUC, and the number of full-time equivalent employees increased by 624 persons.

Expenditures From Appropriations

Appendix B summarizes the appropriations and expenditures for the period under review. In FY13, the State appropriated \$667,444,600 to the University from eight funds: General Revenue Fund, Educational Assistance Fund, Fire Prevention Fund, State College and University Trust Fund, Hazardous Waste Research Fund, Emergency Public Health Fund, Used Tire Management Fund, and General Professions Dedicated Fund. Appropriations were about \$26.6 million less in FY13 than FY12. The University's total expenditures were \$667.3 million from appropriated funds in FY13 and \$693.9 million, or about \$26.6 million less in FY13.

Income Fund receipts from student tuition and fees were \$973.9 million in FY13 and \$919.7 million in FY12, an increase of \$54.2 million, or 5.9%. Expenditures from the Income Fund were \$991 million in FY13 compared to \$898.7 million in FY12, an increase of \$92.3 million, or 10.3%. The increase in Income Fund expenditures was due to increases of \$38.3 million

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for personal services, \$14.4 million increase in awards and grants, \$12.7 million in telecommunications, and \$5.4 million increase for capital projects.

Revenues, Expenses and Changes in Net Position

The table appearing in Appendix C presents a summary of revenues, expenses and changes in net position at June 30, 2013 and 2012. Operating revenues, or those that generally result from exchange transactions, were \$3,518,912,000. State appropriations, gifts and investments are defined as nonoperating revenues, and totaled \$1,952,875,000. The University's operating expenses were \$5,164,846,000. The increase in net position was \$465,607,000.

The chart appearing below shows revenues by source for FY13:

Revenues	FY11
Nonoperating revenue	36%
Student tuition and fees	19%
Grants and contracts	17%
Hospital and other medical services	11%
Auxiliary enterprises	7%
Educational activities	5%
Medical Service Plan	4%
Other operating revenues	<1%

The following chart indicates expenses by type for FY13:

Expenses	FY12
Instruction	24.2%
Support services	16.1%
Hospital and medical activities	14.7%
Research	14.5%
Public service	8.9%
Auxiliary enterprises	6.7%
Plant operations	5.5%
Scholarships & fellowships	4.9%
Depreciation	4.5%

Accounts Receivable

Appendix D provides a summary of the accounts receivable for FY13 and FY12. Total net accounts receivable increased from \$446,014,708 as of June 30, 2012 to \$478,819,268 as of June 30, 2013. The allowance for doubtful accounts (both unrestricted and restricted) increased from \$301.9 million in FY12 to \$334 million in FY13. Of the allowance for doubtful

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accounts in FY13, about \$306.9 million was related to the operation of the hospitals and clinics. Notes receivable, net (student loans), which total \$61.9 million, is not included in Appendix D.

Capital Assets

Appendix E is a summary of changes in capital assets. Capital assets at the beginning of FY13, valued at \$3.389 billion at July 1, 2012, increased to \$3.498 billion at June 30, 2013. This figure was comprised of the following:

- \$134.8 million in land;
- \$207.8 million in construction in progress;
- \$21.8 million in exhaustible collections
- \$3,706 million in buildings;
- \$681 million in improvements and infrastructure;
- \$1,209 million in equipment;
- \$575 million in library materials;
- \$172 million in software; and
- Less \$3,195 million in accumulated depreciation.

In FY13, major construction in progress at UIUC consisted of \$112.9 million for Blue Waters supercomputer, \$32.8 million at Ikenberry Commons, and \$21.3 million at Lincoln Hall. Major construction at UIC included \$13.7 million at Mile Square Health Center and \$9.1 million at UIC Hospital.

Foundation Payments to the University

During FY13 and FY12, the University engaged the University of Illinois Foundation under contract to provide fund-raising and other services. In accordance with the contract agreement, in FY13 the University provided a total of \$8,181,823 in funds and services to the Foundation. This compares to a total of \$8,475,821 provided to the Foundation by the University in FY12. As required by the contract, the Foundation provided the University certain funds considered unrestricted for purposes of the computations outlined in the *University Guidelines*.

The Foundation provided a total of \$144,058,089 to the University in FY13 compared to \$148,373,198 in FY12. Appendix F provides a summary of all funds that the Foundation gave to the University during FY13 and FY12. Additionally, the Foundation received the following gifts of real estate in FY12: partial interest in 1,736 acres of farmland in Moultrie County, IL (valued at \$3,757,689) and 35 acres of farmland in McDonough County, IL (valued at \$327,000).

Tuition and Fee Waivers

Appendix G provides a summary of tuition and fee waivers by campus. During 2012-2013 school year, the University of Illinois granted tuition and fee waivers valued at \$46.4 million to 7,982 undergraduate students, and \$255 million to 25,323 graduate students. Of the \$301.4 million in tuition and fee waivers granted in FY13, \$27.9 million was for mandatory waivers and \$273.5 million was for discretionary waivers. The majority of waivers, totaling \$184.9 million in FY13, were for various assistantships at the three campuses. Waivers for grants and scholarships to veterans totaled \$9.7 million. Waivers totaled \$283 million in the 2011-2012 school year.

Health Care Delivery Services

Appendix H provides a summary of health care delivery services operations and a statement of revenues, expenses, and changes in net position. The summary includes the University of Illinois Hospital and associated clinical facilities providing patient care at, but not limited to, the University of Illinois at Chicago Medical Center. In FY13, the System had operating revenues of almost \$609.3 million and operating expenses of \$787.4 million, which resulted in an operating loss of \$178.1 million. However, once the non-operating revenue is considered, assets increased to \$28.7 million.

Accountants' Findings and Recommendations

Condensed below are the 29 findings and recommendations from the audit report. There were 18 repeated recommendations. The following recommendations are classified on the basis of information provided by Sara Williamson, Assistant Director for Business and Finance, via electronic mail received October 20, 2014.

Not Accepted

- 3. Review current procedures for performing eligibility determinations in accordance with program regulations and implement any changes necessary to ensure eligibility determinations are performed in accordance with program regulations. (Repeated-2011)**

Finding: The University did not perform eligibility determinations for beneficiaries of the Maternal and Child Health Services Block Grant (MCH Block Grant) program in accordance with program regulations.

MCH Block Grant funds are used to provide care to special needs children who meet a variety of program eligibility requirements which include medical, financial, and other general criteria. During testwork of 40 beneficiary payments (totaling \$352,851) claimed

Not Accepted – continued

under the MCH Block Grant program, auditors noted two beneficiaries whose eligibility was improperly determined as follows:

- In one case, sufficient documentation was not obtained to support family income.
- In one case, the incorrect family size was used to determine eligibility and sufficient documentation was not obtained to support family income.

In discussing these conditions with University officials, they stated they disagree with the finding.

Response: Not Accepted. The University performed eligibility determinations for both beneficiaries correctly and there were no occurrences of benefits received in excess of the programmatic limits.

DSCC procedures for clients under age eighteen require a legal guardian to be designated as the Legally Responsible Adult (LRA) and Financially Responsible Adult (FRA) to determine eligibility. Eligibility is established through an application process which includes supporting documentation of the FRA's income, if such income exists.

In the first case, the client was appropriately deemed eligible based on the financial information provided and attestation by the parent/FRA of the accuracy of the information in the application.

DSCC's financial application instructs families to submit wage statements for each wage earner. The FRA submitted her wage statements, tax return, and signed the financial certification that the income information is correct. The father had no income and the attestation as to the accuracy of the application confirms the contents therein.

In the second case, the client was properly determined to be eligible despite interpretative mistakes made in the application itself.

The family had no income and became eligible without a financial calculation. Family size is inconsequential given the family had no income.

The application language instructs a client to specify family size "living in your home". The applicant responsible for the second cited beneficiary lived with another family member and erroneously listed all of the members of the home where she currently resided. This was an interpretive mistake that is of no consequence given the family had zero income. This claim by the applicant was further supported by the home owner's written statement attesting to the living arrangement and lack of income. The home owner was not legally responsible for the client.

While the family size was listed incorrectly due to interpretative mistakes, there was no impact on the determination of financial eligibility because the family had no income.

Auditors' Comment: As discussed in the finding above, the documentation maintained in the files supporting beneficiary eligibility determinations was missing or contained conflicting information.

In the first exception, the University obtained a tax return, but did not use the family's tax return in determining eligibility. Additionally, the University did not document why wage information for one parent was used in lieu of the tax information. In the second exception, the documentation obtained did not address the income of both parents in accordance with program requirements. Accordingly, we do not agree with the University's statement that eligibility was properly determined in these cases.

Additionally, we believe the documentation exceptions identified in this finding are the result of control deficiencies which are material weaknesses and are required to be reported under OMB Circular A-133.

Updated Response: Not Accepted. The University performs eligibility determinations in accordance with programmatic regulations which resulted in no occurrences of inaccurate determinations or benefits received in excess of programmatic limits. The University will consider options to improve procedures for determining eligibility.

8. Review procedures relative to circumstances in which employees fail to submit timesheets to ensure alternative documentation includes the activities of the employee in accordance with OMB Circular A-21.

Finding: The University did not obtain proper documentation, including time and effort certification, to support time charged to a federal project.

During testwork of 40 hourly employees, auditors noted a timesheet was not completed for the time period selected for testwork for one hourly employee sampled at the Chicago campus. As such, the employee was paid based on the employee's default work schedule listed in the employee's record. Subsequent to testing (February 2014), the University provided a manual timesheet signed by the individual and his immediate supervisor to support the hours reported; however, the timesheet did not include information relative to the activities or federal projects on which the individual worked.

In discussing this condition with University officials, they stated the employee failed to submit their electronic time sheet to the approver and alternative documentation was provided which the University believes meets the requirements of A-21.

Response: Not Accepted. The University's web based time reporting system is the primary source of documentation for bi-weekly employees which includes all of the required elements of the effort reporting for employees working on federal awards. In the rare circumstances in which an employee fails to submit time through the electronic system, the University has alternate documentation to support activities of the employee which also comply with OMB Circular A-21 requirements.

Not Accepted – continued

Employees are required to submit their electronic timesheets to the approver by Monday to allow the approver time to review and submit the timesheets to the Payroll Department by noon on Tuesday prior to the actual pay date. If an electronic timesheet is not received from an employee by Monday, departments implement alternate processes for confirming time and the federal project is accurately recorded in Banner. If the supervisory review results in adjustments to pay records, stop payment action, or a change in the project number, the supervisor is required to contact the Payroll Department to execute such adjustments in Banner. If no action is required, the Payroll Department will calculate the employee's pay based on hours listed in the employee's record from Banner.

In this case, the employee did not submit an electronic timesheet to the approver by Monday and therefore, submitted a manual timesheet to the approver, attesting to hours worked during the pay period. The approver/supervisor reviewed and approved the manual timesheet, which reflected regular hours worked during the week and given 100 percent of the employee's effort is charged to the same project, no further action was required. The Payroll Department appropriately calculated the pay based on the regular hours listed in the employee's record in Banner.

The manual timesheet serves as support to the Banner record given the electronic timesheet was not submitted by the cutoff date. The Banner record serves as the effort report for this individual and denotes the person, hours worked and the applicable project (CFOAP) which is required in accordance with OMB Circular A-21. It is supplemented by the manual timesheet which denotes the attestation by the employee and the supervisor and is not intended to replace the Banner record but to have additional documentation outside of the system for these types of exception transactions. This is an internal process not meant to replace or be in lieu of the process of submitting electronic timesheets. All the required elements of assuring this employee reported effort accurately exist.

Auditors' Comment: As discussed in the finding above, the manual timesheet does not meet the requirements of OMB Circular A-21 as it does not document the employee's activities. Although we acknowledge there are other controls and processes the University has implemented to mitigate the risk that payroll costs are improperly charged to a federal program, we believe the University is not in compliance with documentation requirements for payroll costs under OMB Circular A-21.

Updated Response: Not Accepted. The University's web based time reporting system is the primary source of documentation for bi-weekly employees which include all of the required elements of the effort reporting for employees working on federal awards. In the rare circumstances in which an employee fails to submit time through the electronic system, the University has alternate documentation to support activities of the employee which also comply with OMB Circular A-21 requirements.

13. Implement procedures to ensure the financial reports submitted for federal awards are reviewed and approved by someone other than the preparer. (Repeated-2011)

Finding: The University does not adequately document the performance of supervisory reviews of financial reports submitted for its federal programs.

Upon reviewing 70 various financial reports including Research and Development Cluster SF-425 reports, ARRA 1512 reports, Financial Status Reports (SF-269), NSF Federal Financial Reports, ACM\$ report and monthly invoices submitted during FY13; CCDF Illinois Department of Human Services (IDHS) Expenditure Reports; BTOP ARRA 1512 reports and performance reports; and SNAP IDHS Expenditure Reports, auditors discovered several instances of a lack of documentation of supervisory review in the preparation of some reports.

In discussing these conditions with University officials, they stated the University has effective internal controls. A supervisory review is done prior to the submission of financial status reports; however, formal documentation of the review is not required. OMB Circular A-133 requires the University to establish and maintain internal control designed to provide reasonable assurance that Federal awards are managed in compliance with federal laws, regulations, and program compliance requirements.

UIUC Response: Not Accepted. The signature required on the report is the signature of the Authorized Certifying Official. *The Certifying Official is the individual who has the knowledge and authority to certify that the figures reported on the SF-425 are accurate and complete.* The employees who prepare and review are determining that the reports are accurate and complete, but do not have the authority to certify them as required, nor is their signature required. A supervisory review is done prior to the submission of financial status reports. OMB Circular A-133 requires the University to establish and maintain internal control designed to provide reasonable assurance that Federal awards are managed in compliance with federal laws, regulations, and program compliance requirements. There is no specific requirement for documentation of a supervisory review.

UIC Response: Not Accepted. For the Office of Naval Research (ONR) report reviewed, the University's evidence of supervisory review was demonstrated via an email exchange between the department and the Grants and Contracts Office (GCO), as well as the final submission in the ONR payment website, PayWeb. The department prepares and emails the invoice detail to GCO for review and submission into PayWeb. The GCO reviews the invoice detail. If there are questions or edits, the department is contacted. If there are no questions or concerns, the GCO submits the invoice to PayWeb. Our review process is evidenced by the email from the department asking for GCO to submit the invoice and to ask if there are questions regarding the request. In addition, the submission in PayWeb demonstrates final approval of the invoice detail.

The University's process for supervisory review of ARRA grants was demonstrated in the process detail submitted to the firm, which remains unchanged from prior years.

Not Accepted – concluded

The University's evidence of supervisory review was demonstrated via an email exchange between GCO and the department as well as the final submission in the ARRA reporting website, FederalReporting.gov. A financial download is pulled from the University's official system of financial records for all ARRA grants. The download for each ARRA grant is emailed to the principal investigator and departmental financial manager to obtain data, final edits and review. Each ARRA grant report is returned via email to GCO for final review and approval prior to submission in FederalReporting.gov.

The OMB Circular A-133 requires the University to establish and maintain internal control designed to provide reasonable assurance that Federal awards are managed in compliance with federal laws, regulations, and program compliance requirements. There is no specific requirement for documentation of a supervisory review.

Auditors' Comment: OMB Circular A-133 requires the auditor to identify and test controls to obtain a low level of control risk. We believe effective internal control should include a documented review and approval of required financial reports and we were unable to obtain evidence that the financial reports had been reviewed and approved by an individual other than the preparer. We also noted there were several reporting errors identified in our testing as reported in finding 2013-012.

Updated Response: Not Accepted. Adequate internal controls and procedures for the review and submission of financial status reports already exist. The University will consider options to document supervisory reviews for financial reports.

Accepted or Implemented

- 1. Review current process to assess the completeness and existence of revenue and expense transactions at year-end and consider changes necessary to ensure all period-end accounts payable and deferred revenues and expenses are accurately identified and recorded. (Repeated-2009)**

Finding: The University has not established adequate internal controls over accurately identifying and recording period-end accounts payable and deferred expense and revenue transactions for financial reporting purposes.

Auditors noted the University's year-end accounts payable procedures include specifically reviewing cash disbursements made subsequent to year-end through the end of October to determine to which accounting period the related expense transactions pertained. Further, the University's year-end accounts payable procedures also include calculating and recording an estimate of unrecorded liabilities largely based on historical disbursement activity. In addition, the University performs reviews over cash disbursements subsequent to year-end to track and monitor the actual level of unrecorded liabilities. The actual level of unrecorded liabilities is then compared to the estimate originally recorded for financial reporting purposes. The University's process to

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identify expense deferrals includes a review of all cash disbursements by University Payables. University Payables identifies cash disbursements for invoices that cover multiple fiscal years and reports them to University Accounting and Financial Reporting (UAFR). UAFR will then post year-end adjustments to defer the appropriate expenses. The University's year-end deferred revenue procedures require units to identify and report any known deferred revenue transactions to UAFR.

Auditors reviewed 526 various transactions and determined at least eight were not recorded in the proper accounting period.

The units associated with the exceptions did not adequately understand/follow the procedures to record the transactions in the proper period. While the University believes it has processes in place to prevent material misstatements in the financial statements, the highly decentralized business environment with hundreds of units and large volumes of transactions does present challenges to catching all errors.

Updated Response: Implemented. The University has enhanced its procedures in this area.

2. Review current process for reviewing and approving procurement card transactions and consider any changes necessary to ensure charges are made in accordance with University policies and procedures. (Repeated-2008)

Finding: The University has not established adequate internal controls over procurement card transactions.

The University operates a procurement card program that allows individuals throughout the University to make smaller purchases (defined as less than \$4,999) on a credit card, which is directly paid by the University on a monthly basis. The University's policies require employees assigned a procurement card to complete training on policies and procedures, pass a test, and sign an agreement stipulating they will use the card in accordance with University policy. This agreement is also required to be authorized by the individual's supervisor or the department head. The University's policies require transactions incurred on the procurement card to be approved in the University's procurement card system by the individual cardholder and an assigned reviewer.

During testwork over 40 procurement card transactions totaling \$98,097, auditors noted the following:

- One transaction (totaling \$2,938) was recorded in the incorrect fiscal year;
- Two transactions (totaling \$2,964) were for charges prohibited by the University's procurement card policies; and
- One transaction (totaling \$71) included a charge of \$6 for sales tax which is a prohibited charge because the University is tax-exempt.

Accepted or Implemented - continued

The University has approximately 5,461 active procurement cards, and the procurement card expenditures paid for the year ended June 30, 2013 totaled \$65,039,944.

The bulleted exceptions noted in this finding were a result of human error.

Updated Response: Implemented. In FY14 and FY15, University Payables continued to proactively educate users and follow-up with over 60+ reports to monitor compliance and spend analysis. Staff continue to schedule and conduct unit compliance visits including spend analysis, training, and review of individual card cycle and transaction limits that need adjustment.

Staff continue to improve card program monitoring and compliance process by:

- Making use of a 'self-serve' reporting tool for 12-month spend analysis;
- Providing quarterly notifications of unreconciled card transactions;
- Utilizing enhanced databases to support and track successful completion of on-line DCM training and on-line P-Card training and recertification quiz required of all employees with assigned roles;
- Commencing an initiative to review individual card authorization limits to insure limits are within the demonstrated experience; and
- Continuing efforts to update relevant University policy and procedures.

4. Review current procedures for awarding federal assistance and implement any changes necessary to ensure student financial assistance is awarded in accordance with federal regulations.

Finding: The University disbursed federal aid to an ineligible student.

During testwork of 25 Medical students at the Chicago campus (with disbursements of federal awards of \$1,638,254), one student received an unsubsidized Direct Loan while on an approved leave of absence. The student was awarded and disbursed unsubsidized loan funds of \$29,988 for the Spring 2013 semester; however, because the student was on a leave of absence, the student was not eligible for any federal aid.

In discussing these conditions with University officials, they stated the ineligible disbursement was the result of human error.

Updated Response: Implemented. The University has implemented additional procedures to ensure all necessary administrative actions and departments are notified of students approved on a leave of absence to ensure financial assistance is awarded in accordance with federal regulation.

5. **Implement procedures to monitor the timeliness of project close-outs. Additionally, review current processes to identify any additional procedures necessary to reduce the number of late cost transfers being processed upon the close out of federal projects. (Repeated-2009)**

Finding: The University does not have adequate procedures in place to ensure federal projects are closed in a timely manner.

The University administers thousands of individual federal projects from several federal agencies and pass-through entities which have varying project periods. The University has formally documented policies and procedures for closing out federally funded projects which generally require projects to be closed within 90 days after the project end date. During a review of the schedule of expenditures of federal awards for the year ended June 30, 2013, auditors noted expenditures (or negative expenditures) were reported for several projects with end dates prior to June 30, 2011 as follows:

Year ended	Number of projects with end date during	Year ended June 30, 2013		
		Number of cost transfers	Dollar amount of positive cost transfers	Dollar amount of negative cost transfers
6/30/2006	2	60	7,158	-4,181
6/30/2007	3	8	15,635	-7,657
6/30/2008	7	41	47,183	-42,655
6/30/2009	10	140	23,912	-83,430
6/30/2010	16	227	134,615	-133,384
6/30/2011	63	872	260,791	-671,050
Totals	101	1,348	489,294	-942,357

The vast majority of the transactions selected were to transfer expenditures to the correct project accounts. The underlying transactions being transferred had been erroneously recorded to an incorrect project several years prior to the date of the transfer. Accordingly, the periodic financial reports previously submitted for several of the University's federally funded projects inaccurately included or excluded project expenditures which were later transferred between projects.

In discussing these conditions with University officials, they stated there are a variety of reasons for delays in grant close-outs.

Response: Accepted. While the University believes adequate controls are in place, and the majority of awards are closed in a timely manner, it will continue to monitor the timeliness of closeouts. As noted in the finding above, there are a variety of reasons for delays in grant close-outs. There are instances of late award close-out. The causes of a late close-out vary depending on the award and the situation. Incremental funding on multi-

Accepted or Implemented - continued

year awards may be delayed, causing valid and allowable expenditures to post during the wait period. Difficulties in collecting delinquent Accounts Receivable balances or completion of project deliverables have also contributed to delays in the closeout of awards.

At the Urbana Campus, all 20 projects noted with end dates of June 30, 2011 have subsequently been closed (termed). Additionally, at the Chicago Campus, 70 of the 81 projects noted with end dates of June 30, 2011 have been closed (termed).

The University continues to make progress in the close out process as evidenced by the decrease in open awards in the table below:

Fiscal Year	Number of Projects Cited in Previous Years
2009	274
2010	246
2011	141
2012	135
2013	101

Updated Response: The Department of Education (ED) in coordination with the Department of Health and Human Services (DHHS), the National Science Foundation (NSF), the Department of Defense's Office of Naval Research (ONR), and the U.S. Department of Agriculture (USDA) issued on September 30, 2014, a Management Decision Letter (MDL) addressing the finding. The letter indicates that the Agencies sustain the finding and concur with the auditor's recommendations, and they consider the finding to be resolved.

6. Review documentation supporting cost transfers and related approvals by the principal investigator to ensure the requirements of OMB Circular A-21 and OMB Circular A-110 are met.

Finding: The University does not adequately document cost transfers. The University has formal policies and procedures which outline the documentation required to support cost transfers and a standard form has been developed to assist the University in collecting supporting documentation for each cost transfer.

The standard form provides a series of potential reasons that a cost transfer may be required and prompts the preparer to other sections of the form to provide additional supporting documentation as prescribed by University policy. The form is required to be certified by the principal investigator or another responsible official and must be reviewed and approved by the Grants and Contracts Office.

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During testwork of 240 cost transfers recorded in projects related to the programs identified above during the year ended June 30, 2013, auditors noted cost transfer documentation was not consistently completed in accordance with federal regulations and University policy. Auditors noted the following exceptions:

- The cost transfer forms completed for eight cost transfers were missing information, such as the journal voucher code, transfer fund codes, and the name of the preparer. Accordingly, the University could not provide evidence the principal investigator had this information available when approving these cost transfers.
- The description of the reason for the transfer for 41 cost transfers sampled did not contain an adequate explanation of the reason the transfer was needed.

In addition, the University does not prepare cost transfer forms for any appropriations received under the Cooperative Extension Services and Research and Development Cluster (Hatch Grant) programs.

In discussing these conditions with University officials, they stated they disagree with the finding.

Response: Not Accepted. Though represented as a new finding, we believe this is a repeat of prior year findings which were not sustained. The specific instances cited, such as, "... we noted the University does not prepare cost transfer forms for any appropriations received under the Cooperative Extension Services and Research and Development Cluster (Hatch Grant) programs," and the assertion that the standard cost transfer forms were not completed per University policy, were addressed in the Management Decision Letters issued September 18, 2013 and September 19, 2013 by the Department of Education. These findings were not sustained.

Cost transfers are primarily completed to correct errors. Per the Policy, these are acceptable and sufficient reasons for making a cost transfer. To the University staff trained in making determinations in approval, this provides sufficient description when used along with the Journal Voucher (JV) and supporting documentation to determine the appropriateness of the transaction. To be clear, Grants and Contracts Office (GCO) staff make the final determination based on all information provided and additional follow-up when needed.

The above statement "*The cost transfer forms completed for eight cost transfers were missing information, such as the journal voucher code, transfer fund codes, and the name of the preparer*" is inaccurate.

The sufficiency of the required information for the each JV awaiting approval or denial in the electronic Approval Queue must be first ascertained by GCO staff performing a combination of steps. The electronic JV is first opened; it contains the JV document code, fund code and the name of the preparer (auto populated). These fields must be populated for the JV to correctly route to the Approval Queue. The additional information supplied by the preparer and included in the JV FOATEXT is also reviewed by the approver. The

Accepted or Implemented - continued

contents of the FOATEXT guide the reviewer to the source of any other required information or secondary forms required by policy.

An additional secondary form is the GC-81. It also supports the determination of allowability. It is retained in the department as a resource for later needs. Again, the JV related to the form has the JV document code, fund codes and the name of the preparer. Additional backup documentation is requested for any transaction when deemed necessary by the staff member reviewing and approving the transaction. Additional follow-up is performed by the reviewer for any transaction in which allowability questions are not satisfied by secondary forms.

Until all steps of the review are complete, the transaction remains in the electronic Approval Queue. Once the review is complete and the JV is approved, the transaction expense will then post to the award.

The above statement, *"In addition, we noted the University does not prepare cost transfer forms for any appropriations received under the Cooperative Extension Services and Research and Development Cluster (Hatch Grant) programs"* was included in the prior years' findings. Last year's finding response included the following text, "... a completed GC-81 form is not required for administrative transactions performed by GCO and other University Administration departments. Federal Agriculture Funds do not complete the form as they do not fall under the policy requiring completion."

Additionally, original allocation transactions post with a JV prefix code document reference, but transactions of this type are not cost transfers or subject to the cost transfer policy. Transactions from recharge or revolving funds are examples of original allocation charges.

Auditors' Comment: The management decision letter referenced in the University's response related to overall process matters; whereas, this finding relates to specific exceptions identified in our testing of the University's stated policies.

As discussed in the finding above, we noted eight instances in which a GC-81 form was required by University policy and did not contain all information required by the form and necessary for approval by the principal investigator. We also noted 41 instances in which insufficient information was provided for the transfers. The University response indicates additional backup is obtained where necessary; however, additional documentation was not provided by the University for the sampled transactions.

Finally, we believe the lack of policy related to federal Agriculture appropriations is a material weakness in the internal control required to be reported under OMB Circular A-133. Alternative controls were not identified for these cost transfers.

Updated Response: The Department of Education (ED) in coordination with the Department of Health and Human Services (DHHS), the National Science Foundation (NSF), the Department of Defense's Office of Naval Research (ONR), and the U.S.

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Department of Agriculture (USDA) issued on September 30, 2014, a Management Decision Letter (MDL) addressing the finding. The letter indicates that the Agencies did not sustain the finding, and they consider the finding to be resolved.

7. Implement monitoring procedures to ensure cost share expenditures reported by subrecipients are allowable as determined in the management letter. (Repeated-2011)

Finding: The University does not have an adequate process in place to ensure expenditures used to meet the cost sharing requirement of the Research and Development Cluster are allowable.

During testwork of 40 cost share expenditures, auditors noted 17 subrecipient expenditures that were not supported by detailed expenditure information. Upon further review, auditors noted the University had received signed letters certifying the expenditures were incurred from each subrecipient; however, the information provided by the subrecipient was not sufficient to allow the University to determine whether the costs meet allowable cost criteria, including whether the expenditures are adequately supported and documented by the subrecipient.

In discussing these conditions with University officials, they stated the management decision letter received in fiscal year 2013 clarified the changes to be made to the University's process and procedures.

Updated Response: Implemented. In response to the Management Decision Letter from the Office of Naval Research (ONR), the Urbana Campus has submitted a plan of action to the Office of Naval Research with procedures to monitor cost sharing claimed by subrecipients are allowable prior to the final close of the subaward which was approved November 27, 2012. The University will continue to monitor cost share in accordance with this plan.

9. Implement procedures to ensure property records accurately reflect equipment on-hand in accordance with property management regulations. (Repeated-2009)

Finding: The University did not consistently follow property management regulations relative to equipment purchased with federal funding from the Research and Development Cluster and Cooperative Extension Services programs.

During physical observation of 40 pieces of equipment purchased with Research and Development Cluster funds and 40 pieces of equipment purchased with Cooperative Extension Services Program funds, auditors noted the following:

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- Two items (with a cost value totaling \$13,729) and one item (with a cost value of \$171,641) were not located by the Urbana campus. Upon further inquiry, these items were determined to have been disposed; however, property management records were not updated.
- One item (with a cost value of \$5,692,145) was not located by the Chicago campus. Upon further inquiry, this item was determined to have been or transferred to other universities; however, property management records were not updated.
- One item (with a cost value of \$171,641) was identified by the Urbana campus as being in use by another university. Upon further inquiry with the other university, this item was determined to have been destroyed at the conclusion of the research; however, property management records were not updated.

In discussing these conditions with University officials, they stated the Campus Property Management records were not updated for the current status of these pieces of equipment due to delays in reporting disposals.

Updated Response: Accepted and partially implemented. The University will work with the departmental units responsible for updating inventory records and processing equipment disposals to reinforce the importance of compliance with the property management policies and procedures to ensure that these records accurately represent the asset.

10. Implement procedures to ensure expenditures are recorded in the general ledger as they are incurred to ensure the reimbursement requests are adequately supported by the University's official accounting records. (Repeated-2010)

Finding: The University did not have accounting records to support reimbursement requests for the Supplemental Assistance Program Cluster (SNAP) and Temporary Assistance for Needy Families Cluster (TANF) programs.

The University prepares its cash requests related to the SNAP and TANF programs on a reimbursement basis. The University's procedures for calculating reimbursement requests generally are based upon expenditures paid and reported in the general ledger. During testwork over reimbursement requests made by the University for the SNAP and TANF programs, auditors noted the University requested reimbursement of amounts in excess of expenditures reported in the general ledger by about \$63,000.

Upon further investigation of the TANF program differences, auditors noted there is a lag between the time expenditures are incurred and when they are reported in the general ledger due to the decentralized nature of the TANF program.

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In discussing these conditions with University officials, they stated the expenditures related to TANF were incurred prior to year end, but had not been posted to the general ledger in a timely fashion due to staff turnover. Additionally, they stated the cash request for the SNAP program included expenditures reported in general ledger accounts for two separate SNAP awards.

Updated Response: Implemented. The University continues to refine and document procedures to ensure expenditures are appropriately recorded in the accounting system before they are billed to the sponsor, as well as, monitoring the posting and billing of the SNAP grant expenditures.

11. Implement procedures to ensure cash draw and reimbursement request calculations are reviewed and approved prior to requesting funds from the federal government. (Repeated-2009)

Finding: There is no documentation to substantiate that a formal review and approval of cash draw and reimbursement request calculations are performed.

During testwork, auditors noted 48 reimbursement requests and/or cash draw calculations of 96 tested did not have documented evidence of supervisory review prior to University personnel requesting the cash from the federal government.

In discussing these conditions with University officials, they stated there are adequate controls in place for all letter of credit cash draws and reimbursement method billings.

Response: Not Accepted. The University has effective controls in place for cash draw calculations and cost reimbursement billings, which include steps to review the processes and amounts calculated (detailed below) in compliance with the regulatory requirements of OMB Circular A-110. Throughout the entire process there is a clear segregation of duties. The responsibility for LOC cash draws and reimbursement billings is assigned to staff with the appropriate authority, knowledge, and skill level.

Reimbursement method billings and Letter of Credit draws represent reimbursable expenditures as billed on a monthly basis from automated processes within the University's financial system (Banner).

Auditors' Comment: OMB Circular A-133 requires the auditor to identify and test controls to obtain a low level of control risk. We believe effective internal control should include a documented review and approval of cash draw calculations and we were unable to obtain evidence that the cash draw calculations had been reviewed and approved by an individual other than the preparer.

Updated Response: The Department of Health and Human Services (HHS) in coordination with the Department of Education (ED) and the National Science Foundation (NSF), issued on February 20, 2014, a Management Decision Letter (MDL) addressing the

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finding. The letter included a detailed University of Illinois' response summarizing the cash draw and reimbursement request controls. The agencies accepted the University's approval process, agreed that it was sufficient to consider the finding to be resolved.

12. Implement procedures to ensure the information reported in financial status reports are complete, accurate, and on the appropriate basis of accounting. (Repeated-2009)

Finding: The University did not accurately report information in its financial status reports in accordance with the applicable reporting requirements.

During testwork, auditors noted that the University did not accurately report information in several financial reports in accordance with the applicable reporting requirements.

In discussing these conditions with University officials, they stated the errors were a result of clerical errors.

Updated Response: Implemented. Grants and Contracts management continues to work with the staff responsible for the preparation of the quarterly reports to provide training with regards to the internal worksheets that are used in the preparation of financial reports and re-iterate to the staff that reviewing the information prior to submission will aid in the reduction of clerical errors in order to provide accurate information.

14. Implement procedures to ensure that the award information per the award documents received from the federal agency agree to the award information entered into the University's accounting system.

Finding: The University did not maintain accurate records related to award information.

During a review of 41 Research and Development Cluster grant awards, auditors noted the award information contained in the University's accounting system did not agree to the award documents for five awards selected for testing. More specifically, as of June 30, 2013, auditors noted a discrepancy in an award amount of \$251,970 and three instances in which incorrect CFDA numbers were used in the University Accounting System.

In discussing these conditions with University officials, they stated these errors were the result of human error in data entry.

Updated Response: Implemented. The University provided subsequent training to the staff responsible for ensuring accurate records are maintained.

15. Implement procedures to identify and remove inactive employees from the payroll system in a timely manner. (Repeated-2012)

Finding: The University has not established adequate procedures to identify and remove inactive hourly employees from the payroll system in a timely manner.

Auditors noted certain academic and administrative departments do not report separations of hourly employees to Human Resources when they expect the separation from the University to be temporary (i.e. semester break, seasonal employment, etc.). As a result, there are hourly employees that remain eligible to be paid in the payroll system with the submission of a timesheet, but who have not received pay from the University in more than 18 months. Auditors noted the following related to the hourly employees eligible to be paid from the University's payroll system:

<u>Length of Time Since Last Paid by University</u>	<u>Number of Employees</u>
1.5 to 2 years	291
2 to 3 years	329
3 to 4 years	189
4 to 5 years	124
<u>Over 5 years</u>	<u>99</u>
Total	1,032

Auditors identified other controls and processes that the University has implemented to mitigate the risk that payroll costs are improperly paid. These controls include formal approvals of timesheets by supervisors, required reviews of labor distribution reports and project ledgers by departmental employees, and establishment of job end dates within the payroll system. Additionally, the University has coordinated an effort among its various campuses and departments to review and 1) remove certain employees with no pay event in the last 18 months; 2) establish "job end dates" within the payroll system; or 3) document rationale and support of the need for the employee to remain within the payroll system.

In discussing these conditions with University officials, they stated additional work is still underway with some units to ensure that adequate processes are in place to reliably notify Human Resources when certain hourly employees need to be removed from the payroll system. They further indicated that the weaknesses identified largely involved employee appointment types having irregular work schedules or temporary work assignments.

Updated Response: Implemented. Campus HR offices have implemented control processes to address this finding and continue to remove inactive employees from the Payroll System.

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16. Implement procedures to ensure all employees submit time sheets as required by statute. (Repeated-2005)

Finding: The University does not require faculty, graduate assistants, and medical residents to submit time sheets as required by the State Officials and Employees Ethics Act.

During testing of payroll, auditors selected 60 employees across all three campuses and noted that 16 employees did not file timesheets as required. Based upon inquiry of the University management, board members and employees classified as faculty, residents, and certain graduate assistants continue to generally track their time using a “negative” timekeeping system whereby the employee is assumed to be working unless noted otherwise.

In discussing these conditions with University officials, they stated University administration has continued its efforts to achieve full compliance with positive time reporting requirements for all employees. However, due to the unique nature of faculty, graduate assistants, and medical resident’s work, the creative process for the development and discovery of new knowledge does not fit in with traditional Monday through Friday 40 hour work week. Tracking time that is put into the preparation of instructional materials, research, public service and now in many cases economic development takes place anytime and anywhere on a continuing basis is very difficult to quantify. Faculty productivity is evaluated through the tenure process and annually for tenured faculty. Each campus continues to track faculty, graduate assistants and medical residents through a timekeeping system whereby the employee reports their leave.

Response: Accepted. There is ongoing dialogue with the academic leadership at each University campus regarding further implementation of this requirement.

17. Implement procedures to ensure the user access rights for terminated employees are removed in a timely manner. (Repeated-2008)

Finding: The University has not established adequate internal controls over access to the information systems used in its financial reporting process.

The University operates an Enterprise Resource Planning (ERP) system to manage the activities of the University, in addition to operating and supporting information systems for purchasing and human resource. The University functions in a highly distributed operating environment with several thousand users having varying types of system access. During the review of user access rights, auditors identified several users with access rights that were inappropriate based on their roles and job functions presenting the risk that erroneous or fraudulent transactions may be recorded in the general ledger. Auditors identified the following exceptions regarding improper authorization or inappropriate access rights based upon review of each user’s job function:

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- There are 357 terminated users (out of 658 total terminated users) with active accounts that were not removed in a timely manner on the Banner ERP system. Delays in removing access for terminated employees ranged from 32 to 260 days after the employee's separation from the University.
- Of the 658 terminated users referenced above, there were 26 terminated user accounts with active accounts that were accessed after the employee's separation from the University. According to the University, those users accessed their user accounts under the knowledge and authorization of their supervisor. However, these authorizations were not formally documented.

In discussing these conditions with University officials, they stated that the exceptions largely resulted from delays by unit human resource personnel in requesting their respective unit security contacts to remove access for the terminated employees.

Updated Response: Implemented. Beginning September 19, 2013 AITS implemented the Separated Employee Notification Process. This process detects a separation in the HR Front End, notifies the Unit Security Contact (USC), and locks the account. By using the employee's separation date from the HR Front End vs. termination date from Banner, AITS can notify USCs much earlier when a user no longer needs system access. Communications were sent about ending system access when employees separate to Deans, Directors, and Department Heads (DDDH) from the campus HR offices on July 29 to the Urbana and Chicago campuses and on July 30 to the Springfield campus.

18. Establish appropriate procedures to ensure that all contracts and leases are completed, approved and properly executed prior to the start of the services and lease term and that the emergency purchases are properly executed. Further, review procedures to ensure all appropriate signatures, clauses and certifications are obtained prior to execution for all contracts and lease agreements, and all applicable contracts, real estate leases, and emergency purchases are filed with the Office of the State Comptroller and the Auditor General in accordance with the State statutes and related guidelines. (Repeated-2003)

Finding: The University has not established adequate internal controls over contracts and leases to ensure they contain all necessary approvals, are executed prior to performance, and are filed with the State of Illinois Office of the Comptroller on a timely basis.

During a review of 65 contracts, including purchase orders, executed during the year ended June 30, 2013, some of the conditions noted by the auditors follow:

- 16 contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- 19 contracts were not signed by University's Chief Executive Officer and Chief Legal Counsel out of 53 contracts sampled requiring this level of approval.

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- Two contracts were executed subsequent to performance of the contracts. The contract execution dates were 16 and 344 days after the beginning of the contract start date.
- One contract (purchase order) was executed in an amount in excess of the amount approved by the Board. The difference in the amounts was \$3,765,000.
- 20 contracts were not submitted to the State Comptroller's Office, as required. Six of the 20 contracts were filed 2 to 143 days late and 14 contracts were not submitted at all.

During a review of 25 real estate leases executed during the year ended June 30, 2013, some of the conditions noted by the auditors follow:

- 19 lease contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- Two leases were executed 53 to 119 days after the lease term began.
- Two Real Estate Lease Disclosure forms were signed after the beginning of the lease term.
- Two lease contracts were not paid in accordance with lease terms resulting in net overpayment of \$2,507.

During a review of 21 emergency purchases for the year ended June 30, 2013, some of the conditions noted by the auditors follow:

- Nine emergency purchases were not published in the Illinois Procurement Bulletin within the required timeframes. Delays in publishing these purchases ranged from one to 219 days after the required timeframe.
- Seven emergency purchases were not filed timely to the Office of the Auditor General. Six of the seven emergency purchases were filed three to 198 days late and one emergency purchase filing date cannot be determined.

In discussing these conditions with University officials, they stated the exceptions can be attributed to changes in requirements for documents, human error, and documents not being received in the Contracts Records Office in a timely manner.

Updated Response: Accepted. The University continues to review requirements related to contractual services, establish any new procedures that may be required and continues to enforce current policies and practices.

19. Review process and consider changes necessary to ensure a copy of the Religious Observances Act is published in the catalog of available courses.

Finding: The University did not communicate information in its course catalogs as required by the University Religious Observances Act.

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In discussing these conditions with University officials, they stated a copy of this section was not in the course catalog as mandated by the Act due to an oversight.

Updated Response: Implemented. The UIC course catalog has been updated to include the Act. The course catalog can be viewed at <http://www.uic.edu/ucatalog/ARE.shtml#w>. UIUC successfully posted the link to the Religious Observances Act on the Resources section of the campus Course Explorer (<http://courses.illinois.edu>) where students search for the schedule of classes (course offerings).

20. Ensure employees complete the required acknowledgment form prior to commencing employment.

Finding: The University did not fully comply with the new hire statement of understanding requirements of the Abused and Neglected Child Reporting Act.

New employees hired between July 1, 2012 and February 27, 2013 did not complete acknowledgments required by the Act. Approximately 6,088 employees were hired between July 1, 2012 and February 27, 2013.

Additionally during testwork over 25 employees hired during FY13, three employees hired after February 28, 2013 did not complete the required acknowledgment form prior to commencing employment. Acknowledgements were completed two to 146 days after the employee's start date.

In discussing these conditions with University officials, they stated the University implemented new procedures effective February 28, 2013; however, it was possible for a new employee's appointment/pay to be routed through subsequent systems without the training and certification being completed.

Updated Response: Implemented. University administration has continued its efforts to achieve full compliance with ANCRA requirements for all employees. Employees hired during Fiscal Year 2014 completed ANCRA via the University of Illinois *Nessie New Hire* onboarding system. This system requires that ANCRA be complete before a new appointment and corresponding pay can be processed.

21. Review process and consider any changes necessary to ensure oral English language proficiency assessments and certifications are completed in accordance with University policies.

Finding: The University did not follow its established procedures for documenting that certain individuals (tenure-system faculty and "other academic" staff members) providing instruction are orally proficient in the English language in accordance with the University of Illinois Act.

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During a review of 15 tenure-system and “other academic” classroom instructors (seven from the Urbana campus, seven from the Chicago campus, and one from the Springfield campus), auditors noted the following:

- The required Certification of Oral English Proficiency forms to assess oral English proficiency were not completed for any of the Chicago campus instructors sampled.
- The Certification of Oral English Proficiency forms were not completed in a timely manner for any of the Urbana campus instructors sampled. The certifications were completed 66 to 383 days after the employees’ appointment dates.
- The required Assessment of Oral English Language Proficiency documentation was not completed prior to the appointment date for the Springfield instructor sampled.

University of Illinois Chicago campus’ Policies Governing Faculty Appointments states that “before hiring, academic unit heads, chairs, or directors must complete a form for non-native English-speaking instructors indicating that the persons are orally proficient in English. Determining this can be accomplished in a number of ways, e.g. formal interviews, assessment of candidates by colleagues within the academic unit, and public presentations.”

University of Illinois Champaign-Urbana campus’ policy statement regarding the employment of non-native English speaking faculty members states that “before hiring, academic unit heads/chairs must certify that non-native English-speaking instructors (with rank of assistant, associate, full professor, visiting professor, teaching associate, or instructor) indicating that the persons are orally proficient in English. This form must be completed for each new faculty member and retained by the department. The basis for determining oral English proficiency can be accomplished in a number of ways, e.g. formal interviews, assessment of candidates by colleagues within the academic unit, and public presentations.”

University of Illinois Springfield campus faculty policy on oral English proficiency states that an assessment of the effectiveness of the use of oral English is made during the process of hiring new faculty by asking those who participate in the interviews (faculty, staff and students), to assess the candidates’ communication skills.

In discussing these conditions with University officials, they stated the incomplete or late forms were the result of human error.

Updated Response: UIC – Implemented. A policy was posted that supplements the prior Faculty Handbook reference regarding the employment of non-native English speaking faculty members to ensure compliance with the state law and university policy. Specifically, the policy identifies applicability, procedures, and will link to the required certification form stating that the department has evaluated the oral English language proficiency of the individual for instructional purposes.

UIS – Implemented. UIS is currently up-to-date on oral English evaluations.

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UIUC – Implemented. UIUC modified its online hiring appointment process to ensure compliance with the state law and university policy. Specifically, the electronic appointment process now requires hiring units to certify that non-native English speakers are proficient in speaking English when they are being hired into positions that include providing classroom instruction.

22. Review process for coding expense and consider any changes necessary to ensure expenses are properly coded and classified in the general ledger. (Repeated-2012)

Finding: The University did not properly code and classify certain expenditures from vendor payments in the general ledger system.

The University's procurement and vendor payment process is a multi-step process that requires user departments to create purchase orders for needed goods or services, user departments acknowledging receipts of goods and services from the related vendor, and the accounts payable department receiving and approving vendor invoices for payment. During a review of 180 expense transactions recorded totaling \$154,902,656 auditors specifically noted eight transactions were not properly coded in the general ledger, and thus, were misclassified.

In discussing these conditions with University officials, they stated that the discrepancies identified in the audit were the result of human error during the expense coding process.

Updated Response: Implemented. The TEM system now adds more controls regarding expenditure classification.

23. Review process for performing physical inventory counts and consider any changes necessary to ensure physical inventory counts are accurate and amounts reported at year-end are based on actual quantities-on-hand as of balance sheet date. (Repeated-2010)

Finding: The University does not have an adequate process to measure inventory balances as of fiscal year-end (i.e. balance sheet date).

The University performs annual physical inventory counts for large balances of goods and supplies held on hand such as the University bookstores books and merchandise, hospital supplies, medical center pharmaceuticals, general office supplies, and telecommunication supplies. The results of these physical inventory counts are used to record inventory balances so that amounts reported at year-end are based on actual quantities on hand as of the balance sheet date. During testwork over physical inventory counts at the Chicago Academic Computing and Communication Center, Radiology, Materials Management Department of the University of Illinois Hospital, the Berwyn Hospital Pharmacy, and the University bookstores, auditors selected a sample of 180 inventory items (totaling \$356,492) that were counted at year-end and performed test

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counts, in which auditors noted several items that did not agree with the department's inventory records.

Inventory balances of goods and supplies held on hand by the University totaled \$29,393,952 as of the year ended June 30, 2013.

In discussing these conditions with University officials, they stated the discrepancies are the result of training issues or human error during the final physical inventory count.

Updated Response: Implemented. The University has increased training efforts for those departments with inventory discrepancies.

24. Collaborate with the other State universities to prepare High School Feedback System reports for each high school within the State, or seek legislative remedy.

Finding: The University did not prepare High School Feedback System reports to high schools within the State to better inform high school administrators and education policymakers about students' performance during their first year at postsecondary institutions as required by law.

Auditors noted the Illinois Community College Board, the State Board of Education, and the Board of Higher Education's latest report for School Years 2008 – 2010 was released on March 11, 2013, and does not have the level of detail or information required by State statute.

In discussing these conditions with University officials, they stated the University believes the data reported meets the requirements of the mandate, except that student information cannot be made public. The University plans to seek a legislative amendment of the statute to reflect the new requirements and process.

Updated Response: Bill HB 5679 repeals that section of the University of Illinois Act as well as the same reference for each of the public universities. The Governor has signed the bill and is now Public Act 098-0742.

25. Review process for monitoring employee sabbatical leaves and consider any changes necessary to ensure all written sabbatical leave reports are properly completed and submitted within the required timeframes. (Repeated-2012)

Finding: The University does not have adequate procedures to monitor submission of sabbatical reports from employees returning from sabbatical leaves.

During a review of 50 employees who returned from sabbatical leave and were required to submit a sabbatical report during fiscal year ended June 30, 2013, auditors noted six

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employees did not submit their required written sabbatical reports on their activities, study and travel during the leave, within the required timeframes. Delays in submitting these reports ranged from 6 to 218 days after the required timeframes.

In discussing these conditions with University personnel, they stated the discrepancies are the result of human error.

Updated Response: UIC – Implemented. The University has updated and clarified its policies to monitor the submission of sabbatical reports from employees returning from sabbatical leave.

UIS - Implemented. A firm deadline was established for the submission of sabbatical reports in the Academic Personnel Calendar.

26. Implement procedures to comply with the requirements of the Law. (Repeated-2012)

Finding: The University did not fully comply with the County Cooperative Extension Law.

During a review of the University's compliance with the Law, auditors noted that the University has not established a Rural Transition Program to be operated with the Department of Commerce and Economic Opportunity, as required.

In discussing these conditions with University officials, they stated funding has not been provided by the Department of Commerce and Economic Opportunity and the University plans to seek a legislative amendment in the spring 2014 session.

Updated Response: University Governmental Relations is seeking legislative amendment of this law in the spring 2015 session.

27. Strengthen controls over personnel and payroll records to ensure personnel files contain all required payroll withholding and deduction authorization forms.

Finding: The University failed to ensure employee payroll deduction forms were properly maintained. During a review of payroll deductions for 60 employees, auditors noted certain deduction authorization forms for eight employees were not on file.

In discussing these conditions with University officials, they stated that each of the missing documents would have been stored in paper files that pre-dated the implementation of the Banner HR-payroll system (approximately 10 years ago). They also noted that University Payroll & Benefits had physically moved their offices in recent years, which may have contributed to the difficulty in finding these particular records. Further, they noted that additional measures would be taken to try to locate the missing documents. Since the Banner implementation in 2003, a process is in place for saving records electronically and attaching them to employees' records in Banner. This process allows for improved ability to track and locate records.

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Updated Response: Implemented. All forms are now saved/scanned into BDMS and assigned to an individual's electronic record for easy/timely access. This new process addresses the finding as this was not in place when the forms requested for the audit were initially processed. All forms received were in paper format previously and filed accordingly. Electronic W-4 forms (as well as other withholding forms) are now available; this eliminates the issue of lost forms and often times no manual entry is required. Audits are ran on a monthly basis and any abnormalities are reviewed timely.

28. Continue to fully implement the remaining eight performance audit recommendations that were either not implemented or were partially implemented.

Finding: In January 2012, the Office of the Auditor General released a performance audit of the University which contained 20 recommendations to improve the performance and operations of the University. As part of this compliance examination, auditors followed-up on the status of the 20 recommendations contained in the performance audit. One of the recommendations has not been implemented by the University. However, the University has partially implemented 7 of the remaining 19 recommendations and fully implemented the remaining 12 recommendations. Below is a summary of the eight not-yet-implemented performance audit recommendations and their status.

The following recommendation has not been implemented by the University:

- Use of Alternates (Recommendation #13). The University has not established a policy detailing requirements related to the selection of construction contractors with bid proposals containing base and alternate bid prices.

The following seven recommendations have been partially implemented by the University:

- Board Approval (Recommendation #3)
- Use of Contract Versus Purchase Order (Recommendation #6)
- Contract Approval Routing Forms (Recommendation #7)
- Purchasing Documentation Deficiencies (Recommendation #8)
- Failure to Maintain A/E Selection Documentation (Recommendation #15)
- Qualification Based Selection Policy (Recommendation #18)
- Evaluation Problems and External Involvement (Recommendation #19)

In discussing these conditions with University officials, they stated the exceptions can be attributed to changes in requirements for documents, human error, and documents not being received in the Contracts Records Office in a timely manner.

Updated Response: Recommendation #13: Implemented. The University has established a policy detailing requirements related to the selection of construction contractors with bid proposals containing base and alternate bid prices.

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Recommendation #3: Implemented. In order to comply with State Procurement Code requirements, State Purchasing Office (SPO) review occurs after BOT approvals are obtained. Material changes resulting from SPO review are re-submitted to the BOT for review prior to the SPO award being completed.

Recommendation #6: Implemented. The University reviewed its processes and determined it should remain flexible in the use of contracts and PO's and has not mandated when to use one or the other. At times, both a PO and a contract are used. The University continues to train and educate staff to ensure required signatures on contractual obligations are obtained and State recording/filing requirements are met.

Recommendation #7: Implemented. University policy requires the use of the Contract Approval Routing Form (CARF) or electronic routing and approval via iCS.

Recommendation #8: Implemented. Purchasing units continue to reinforce solicitation procedures and file retention requirements.

Recommendation #15, #18 and #19: Implemented. The University's Qualifications Based Selection Policy was updated on April 22, 2013. Subsequent training was held to ensure that all University staff were aware of the policy revisions. The University will work to ensure that all University requirements under the Qualifications Based Selection Policy are complied with as required under the State of Illinois Qualifications Based Selections Act.

29. Review current process to assess the accuracy of Medicare payroll deductions and the appropriateness of mandatory withholding exemptions to ensure payroll deductions and mandatory payroll withholding are in accordance with applicable laws and regulations.

Finding: The University has not established adequate internal controls over accurately identifying and correcting inaccurate Medicare payroll deductions. The University working group formed last year identified 109 employees that have an inappropriate exemption from mandatory Medicare withholding from regular pay events.

In discussing these conditions with University officials, they stated that the working group identified the 109 exceptions noted through an extensive review of over 27 years of paper and electronic employment records. They further expressed that the discrepancies noted by the working group mostly resulted from errors upon conversion to the Banner payroll system (approximately 10 years ago), employee group changes (between Medicare exempt and non-exempt positions) and residency status changes with foreign national employees.

Updated Response: Implemented. A semi-annual review process has been implemented to make sure Medicare eligible employees are having Medicare withheld appropriately. A data query audit report will be run in April and October. The University now takes Medicare deductions from all affected employees and has corrected all Medicare discrepancies for all open tax years.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, “It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts....” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

The University filed 18 affidavits for emergency purchases in FY13 totaling \$5,782,664.93 as follows:

- \$ 2,630,220.55 for repairs;
- \$ 2,185,507.00 for healthcare services;
- \$ 743,388.38 for equipment;
- \$ 96,641.00 for printing;
- \$ 65,808.00 for computer services; and
- \$ 61,400.00 for housing for a scholarship program.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission in January and July. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend

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the largest part of their working time. On July 1, 2013 the University of Illinois indicated that no employees spent the majority of working time at locations other than official headquarters.

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APPENDIX H

Health Services Facilities System
Statement of Revenues, Expenses, and Changes in Net Position

<u>Operating Revenues</u>	<u>FY13</u>	<u>FY12</u>
Net patient service revenues	\$ 559,155,265	\$ 534,410,907
State appropriation	-	-
Other revenues	50,141,988	50,756,522
Total Operating Revenues	<u>609,297,253</u>	<u>585,167,429</u>
<u>Operating Expenses</u>		
Salaries & wages	286,502,635	282,102,944
Fringe benefits	212,445,329	165,913,006
Supplies & general expenses	246,713,036	245,490,731
Administrative services	22,794,906	19,175,978
Depreciation & amortization	18,977,656	18,930,878
Total Operating Expenses	<u>787,433,562</u>	<u>731,613,537</u>
Operating income (loss)	<u>\$ (178,136,309)</u>	<u>\$ (146,446,108)</u>
 Net other nonoperating revenue (expense)	 206,898,366	 160,883,768
 Increase in net assets	 <u>28,762,057</u>	 <u>14,437,660</u>
 Net Assets, beginning of year	 259,221,755	 242,738,097
Cumulative effect of change in accounting principle	<u>-</u>	<u>2,045,998</u>
 Net Assets, beginning of the year as restated	 259,221,755	 244,784,095
 Net Assets, End of the year	 <u>\$ 287,983,812</u>	 <u>\$ 259,221,755</u>

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APPENDIX A

Enrollment and Cost

	Urbana		Chicago		Springfield	
	Under-graduate	Grad. & Profess.	Under-graduate	Grad. & Profess.	Under-graduate	Grad. & Profess.
2013 Fall FTE Enrollment	33,495	14,498	16,159	8,315	2,455	1,305
2012 Fall FTE Enrollment	33,605	13,166	16,369	8,225	2,560	1,333
2013 Cost per FTE Student	\$ 10,730	19,080	9,717	18,972	12,162	11,566
2012 Cost per FTE Student	\$ 10,185	19,515	9,106	17,682	11,154	10,797

Employment

	2013			2012		
<u>FTE Employees</u>	Urbana	Chicago	Springfield	Urbana	Chicago	Springfield
Faculty	3,125	2,503	264	3,034	2,529	260
Academic Professionals	4,467	3,243	227	4,299	3,450	218
Support Staff	4,605	5,954	308	4,441	5,583	307
Other	2,620	2,068	150	2,564	2,077	148
Total by Campus	14,817	13,768	949	14,338	13,639	933
Employment, all campuses			29,534			28,910

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APPENDIX B

Summary of Appropriations and Expenditures

	<u>FY13</u>	<u>FY12</u>
TOTAL APPROPRIATION	<u>\$ 667,444,600</u>	<u>\$ 693,968,800</u>
<u>EXPENDITURES</u>		
<u>General Revenue</u>		
State Scientific Survey	\$ 15,826,500	\$ -
Transfer to UI Hospital Services	45,000,000	-
Fund Expenditures	<u>\$ 60,826,500</u>	<u>\$ -</u>
<u>Educational Assistance/General Revenue Fund</u>		
Hispanic Center Excellence	\$ 750,900	\$ 800,000
Dixon Springs	308,200	328,300
Dentistry	328,500	350,000
Personal services	521,317,900	559,357,400
Awards & grants	6,057,500	6,057,500
Contractual services	37,000,000	40,046,400
Telecommunications	-	1,800,000
Health Insurance	24,893,200	24,893,200
Medicare	9,737,100	9,179,800
Public Policy Institute	1,173,200	1,250,000
Transfer to UI Hospital Services Fund	-	45,000,000
Fund Expenditures	<u>\$ 601,566,500</u>	<u>\$ 689,062,600</u>
Fire Prevention Fund	3,401,600	3,331,200
State College and University Trust Fund	189,475	184,400
Hazardous Waste Research Fund	500,000	425,000
Emergency Public Health Fund	200,000	200,000
Used Tire Management Fund	200,000	200,000
General Professions Dedicated Fund	500,000	500,000
TOTAL EXPENDITURES	<u>\$ 667,384,075</u>	<u>\$ 693,903,200</u>

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APPENDIX C

Statement of Revenues , Expenses and Changes
In Net Position

<u>Operating Revenues</u>	FY13	FY12
Student tuition and fees, net	\$ 1,044,188,000	\$ 987,796,000
Federal appropriations	16,830,000	18,072,000
Federal grants & contracts	693,959,000	718,621,000
State of Illinois grants & contracts	92,836,000	81,478,000
Private and other agency gifts, grants & contracts	150,577,000	137,712,000
Educational activities	273,394,000	258,298,000
Auxillary enterprises, net	369,814,000	363,319,000
Hospital and other medical activities	624,858,000	601,360,000
Medical Service Plan	236,668,000	236,160,000
Independent operations	13,620,000	13,083,000
Interest and service charges on student loans	2,168,000	1,945,000
Total operating revenues	\$ 3,518,912,000	\$ 3,417,844,000
<u>Operating Expenses</u>		
Instruction	1,249,732,000	1,114,474,000
Research	746,625,000	710,656,000
Public service	459,093,000	413,988,000
Academic support	421,200,000	377,982,000
Student services	160,960,000	141,130,000
Institutional support	250,156,000	232,023,000
Operation and maintenance of plant	282,287,000	270,947,000
Scholarships and fellowships	255,930,000	241,008,000
Auxillary enterprises	333,648,000	307,597,000
Hospital and medical activities	761,237,000	709,650,000
Independent operations	12,422,000	12,442,000
Depreciation	231,556,000	213,070,000
Total Operating Expenses	\$ 5,164,846,000	\$ 4,744,967,000
Operating (Loss)	\$ (1,645,934,000)	\$ (1,327,123,000)

Appendix C - continued

Nonoperating Revenues (Expenses)

	FY13	FY12
State appropriations	\$ 666,731,000	\$ 709,683,000
Transfer of state appropriations to the Illinois DHFS Hospital Services Fund	(45,000)	(45,000)
Private gifts	139,039,000	141,700,000
Federal grants, nonoperating	67,535,000	69,529,000
On behalf payments for fringe benefits	1,083,666,000	818,084,000
Net investment income	68,005,000	24,656,000
Net increase (decrease) in the fair value of investments	5,312,000	10,979,000
Interest expense	(70,877,000)	(71,489,000)
Loss on disposals of capital assets	(4,783,000)	(9,653,000)
Other nonoperating revenues (expenses)	43,247,000	50,721,000
Net nonoperating revenues (expenses)	\$ 1,952,875,000	\$ 1,699,210,000
 Income (loss) before other revenues, expenses, gains, or losses	 306,941,000	 372,087,000
 Capital state appropriations	 26,123,000	 30,910,000
Capital gifts and grants	128,461,000	56,383,000
Private gifts for endowment purposes	4,082,000	323,000
Increase (Decrease) in Net assets	\$ 465,607,000	\$ 459,703,000
Net assets, Beginning of year, adjusted (a)	3,651,209,000	3,191,506,000 (a)
Net assets, End of year	\$ 4,116,816,000	\$ 3,651,209,000
 (a) Beginning of year net assets for fiscal year 2012 were adjusted due to adoption of a new accounting standard, GASB Standard #64.		
Net position, beginning of year as previously reported		\$ 3,189,460,000
Cumulative effect of accounting change		2,046,000
Net position, beginning of year, restated		\$ 3,191,506,000

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APPENDIX D

Accounts Receivable

Current Unrestricted Funds	<u>FY13</u>	<u>FY12</u>
Student tuition	\$ 30,631,355	\$ 32,152,692
Other unrestricted	5,058,393	8,434,543
Entity activities -		
Auxiliary enterprises	14,465,534	13,600,506
Hospitals/clinics	449,999,247	374,432,375
Other departmental	53,068,528	41,632,469
Total accounts receivable	<u>553,223,057</u>	<u>470,252,585</u>
Allowance for doubtful accounts -		
Student tuition	(9,752,419)	(8,846,539)
Other unrestricted funds	(186,046)	(287,864)
Auxiliary enterprises	(5,578,482)	(4,823,906)
Hospitals and clinics	(306,963,856)	(279,109,784)
Other department activities	(12,060,972)	(8,916,164)
Total Allowance for Doubtful Accounts	<u>(334,541,775)</u>	<u>(301,984,257)</u>
Net Current Unrestricted Funds Receivable	<u>218,681,282</u>	<u>168,268,328</u>
Current Restricted Funds		
Medical Service Plan	80,763,239	78,676,321
Grants, contracts, & gifts	198,528,889	215,231,579
Federal appropriations	2,683,235	2,316,303
Total accounts receivable	<u>281,975,363</u>	<u>296,224,203</u>
Allowance for doubtful accounts		
Medical service plan	(29,912,748)	(27,080,988)
Grants, contracts and gifts	(2,405,797)	(2,235,987)
Current Restricted Funds accounts receivable, net	<u>249,656,818</u>	<u>266,907,228</u>
Plant Funds	<u>10,481,168</u>	<u>10,839,152</u>
TOTAL ACCOUNTS RECEIVABLE, NET	<u>\$ 478,819,268</u>	<u>\$ 446,014,708</u>

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APPENDIX E

Summary of Capital Assets

	Balance at July 1, 2012	Additions	Retirements	Transfers	Balance at June 30, 2013
Nondepreciable Capital Assets					
Land	\$ 134,707,051	\$ 1,305,559	(190,575)	-	135,822,035
Construction in progress	168,383,034	257,955,497	-	(218,486,457)	207,852,074
Inexhaustible collections	21,320,166	490,262	(800)	-	21,809,628
Total nondepreciable capital assets	\$ 324,410,251	259,751,318	(191,375)	(218,486,457)	\$ 365,483,737
Depreciable Capital Assets					
Buildings	3,674,976,166	294,613	(4,246,519)	35,627,510	3,706,651,770
Improvements and infrastructure	678,450,905	-	-	3,459,338	681,910,243
Equipment	1,026,305,555	60,210,592	(53,520,532)	176,701,467	1,209,697,082
Exhaustible collections/Library materials	551,884,148	25,864,391	(1,854,538)	-	575,894,001
Software	169,253,561	-	-	3,058,142	172,311,703
Subtotal	\$ 6,100,870,335	\$ 86,369,596	\$ (59,621,589)	218,846,457	\$ 6,346,464,799
Less accumulated depreciation	3,035,976,463	213,555,738	(54,076,154)	-	3,195,456,047
Total net depreciable capital assets	3,064,893,872	(145,186,142)	(5,545,435)	218,846,457	3,132,648,752
Total Capital Assets	\$ 3,389,304,123	\$ 114,565,176	\$ (5,736,810)	\$ -	\$ 3,498,132,489

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APPENDIX F

Summary of Funds Provided by and to the Foundation

	<u>FY13</u>	<u>FY12</u>
Funds and services provided by the University	\$ 8,181,823	\$ 8,475,821
Unrestricted Funds	321,327	426,892
Restricted only as to campus, college or department and generally available for ongoing university operations:		
Provided to a particular campus	1,395,054	960,371
Provided to a particular college	17,413,724	24,492,773
Provided to a particular department	18,865,130	18,133,616
Provided for the Intercollegiate Athletics	8,136,109	12,693,237
Subtotal	<u>46,131,344</u>	<u>56,706,889</u>
Restricted by donor:		
Provided for student support	24,030,620	20,917,348
Provided for certain instructional, research and public service programs	23,516,932	25,688,952
Provided for physical facilities additions or improvements	13,661,237	9,997,507
Provided for other restricted purposes	<u>36,717,956</u>	<u>35,062,502</u>
Total funds provided to the University	<u>\$ 144,058,089</u>	<u>\$ 148,373,198</u>

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APPENDIX G

Tuition and Fee Waivers

2012 - 2013 School Year

	Undergraduate			Graduate		
	Tuition Wavers	Fee Waivers	Total Waivers	Tuition Waivers	Fee Waivers	Total Waivers
Urbana	\$ 33,485,000	\$ 1,776,000	\$ 35,261,000	\$ 162,841,000	\$ 11,294,000	\$ 174,135,000
Chicago	8,456,000	115,000	8,571,000	71,715,000	7,208,000	78,923,000
Springfield	2,609,000	32,000	2,641,000	2,470,000	164,000	2,634,000
Total	\$ 44,550,000	\$ 1,923,000	\$ 46,473,000	\$ 237,026,000	\$ 18,666,000	\$ 255,692,000
