

REPORT DIGEST

UNIVERSITY OF ILLINOIS

**COMPLIANCE
EXAMINATION
(In accordance with the
Single Audit Act and
OMB Circular A-133)
For the Year Ended:
June 30, 2009**

Summary of Findings:

Total this audit: 47
Total last audit: 12
Repeated from last audit: 7

Release Date:
May 13, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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INTRODUCTION

The Financial Statement Audit for the year ended June 30, 2009 was previously released on March 25, 2010. That audit contained three audit findings. This report addresses federal and State compliance findings pertaining to the Single Audit and State Compliance Examination. In total, this document contains 47 audit findings, three of which had been reported in the Financial Statement Audit.

SYNOPSIS

- The University does not have adequate documentation of payroll and fringe benefit expenditures for certain nonacademic and hourly employees at the Chicago campus.
- The University does not have adequate documentation of payroll and fringe benefit expenditures for employees at the Urbana campus who work on the Cooperative Extension Services program or the Hatch Grant under the Research and Development Cluster program.
- The University does not have an adequate process in place to determine the allowability of certain expenditures used to meet the cost share (matching) requirement of the Supplemental Nutrition program.
- The University used an unsupported rate to value services of volunteers used to meet the cost share (matching) requirement of the Supplemental Nutrition program.
- The University did not initially include all federal grants in the schedule of expenditures of federal awards.
- The University is not adequately performing or documenting reviews of subrecipient OMB Circular A-133 audit reports.
- The University did not accurately report federal expenditures in quarterly reports for the Supplemental Nutrition program submitted to the Illinois Department of Human Services.
- The University did not properly perform verification procedures for students at the Urbana campus.
- The University did not provide required program information relative to federal funds passed through to the subrecipients of the Research and Development Cluster programs for the year ended June 30, 2009.
- The University has not established adequate internal controls over contracts and leases to ensure they contain all necessary provisions and are properly executed prior to performance.
- The University has not established adequate internal controls over estimating and recording its allowance for doubtful patient accounts receivable.
- The University does not have an adequate process to measure and value pharmaceutical inventory balances as of fiscal year end.

{Financial Information and Activity Measures are summarized on the next page.}

UNIVERSITY OF ILLINOIS
Single Audit and Compliance Examination
For Year Ended June 30, 2009

FINANCIAL OPERATIONS	FY 2009
OPERATING REVENUES	
Tuition and fees, net	\$743,286,000
Federal grants, contracts and appropriations	589,507,000
State and private gifts, grants and contracts	262,552,000
Hospital and medical activities	671,387,000
Auxiliary enterprises, net	348,134,000
Educational activities	253,203,000
Other	<u>16,172,000</u>
Total Operating Revenues	<u>\$2,884,241,000</u>
OPERATING EXPENSES	
Instruction	\$961,305,000
Research	630,127,000
Public service	383,429,000
Academic support	303,742,000
Hospital and medical activities	578,858,000
Auxiliary enterprises	306,967,000
On behalf payments for fringe benefits	*
Operation and maintenance of plant	274,373,000
Institutional support	229,737,000
Depreciation	203,477,000
Scholarships and fellowships	200,038,000
Other	<u>137,134,000</u>
Total Operating Expenses	<u>\$4,209,187,000</u>
Operating Income (Loss)	<u>\$(1,324,946,000)</u>
NONOPERATING REVENUES (EXPENSES)	
State appropriations	\$699,038,000
Capital appropriations, gifts and grants	11,645,000
Private gifts and endowments	143,220,000
On behalf payments for fringe benefits	486,022,000
Other, net	<u>(29,915,000)</u>
DECREASE IN NET ASSETS	(\$14,936,000)
Net assets, beginning of year	\$2,355,349,000
Implementation of New Accounting Pronouncement	26,926,000
Change in Accounting	(9,581,000)
Net assets, beginning of year, as restated	<u>2,372,694,000</u>
Net assets, end of year	<u>\$2,357,758,000</u>
SUPPLEMENTAL INFORMATION (Unaudited)	FY 2009
Employment Statistics – Full Time Equivalent	
Chicago	13,503
Springfield	966
Urbana-Champaign	<u>15,353</u>
Total	<u>29,822</u>
Enrollment Statistics – Fall 2008	
Undergraduate --	
Chicago	15,665
Springfield	2,889
Urbana-Champaign	<u>31,417</u>
Subtotal	<u>49,971</u>
Graduate –	
Chicago	10,170
Springfield	1,822
Urbana-Champaign	<u>11,829</u>
Subtotal	<u>23,821</u>
Total	<u>73,792</u>
UNIVERSITY PRESIDENT	
During Audit Period: Dr. B. Joseph White. Current: Interim President – Dr. Stanley Ikenberry	

* 2009 On behalf payments for fringe benefits totaling \$294,062,000 have been allocated by function.

INTRODUCTION

The Single Audit and Compliance Examination is contained in two report documents. One report contains compliance findings disclosed by our tests and certain supplemental information. The other report contains supplementary financial information and special data requirements.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE DOCUMENTATION FOR PAYROLL AND FRINGE BENEFIT EXPENDITURES

The University does not have adequate documentation of payroll and fringe benefit expenditures for certain nonacademic and hourly employees at the Chicago campus.

Bi-weekly time reports are prepared by the Chicago campus for non-academic and hourly personnel. These bi-weekly time reports, which are prepared on both a positive and negative (exception) basis depending on the type of employee, are intended to meet the effort reporting requirements of OMB Circular A-21, *Cost Principles for Higher Education Institutions* (OMB Circular A-21). However, the bi-weekly time reports for certain departments do not include the activities of the employee on the time report as required by OMB Circular A-21.

**Non-compliance with OMB
Circular A-21**

**Two methods used by the
University**

Specifically, the University uses two different methods for the recording and approving time for non-academic and hourly employees. The first method, Web Entry, is designed so that employees directly enter their own total hours worked. Payroll costs are allocated to federal and nonfederal projects (funds) based on the initial appointments (budgeted allocation percentages).

For the Web Entry method, a supervisor reviews and approves the time and the respective federal and nonfederal project (fund) allocations. The second method, Department Time, is designed so that time is entered centrally by a designated employee. Similar to the Web Entry method, time is allocated to federal and nonfederal projects (funds) based on the initial appointments (budgeted allocation

Electronic reports do not contain project fund allocations

percentages). For these employees, a supervisor reviews the total time reported by an employee; however, the electronic time reports reviewed do not directly contain the federal and nonfederal project (fund) allocations to substantiate the allocations as required by OMB Circular A-21. The University estimates that approximately half of the departments on the Chicago campus use the Web Entry method and half use the Department Time method.

Monthly review by the principal investigators is not documented

Our audit identified other controls and processes that the University has implemented to mitigate the risk that payroll costs are improperly charged to a federal program. These include required reviews and approvals of the initial appointments of employees (i.e. allocation to federal and nonfederal projects) and monthly reviews by principal investigators (PI's) of labor distribution reports and project ledgers. However, the monthly review by principal investigators is not documented.

Inadequate documentation and lack of required effort certifications may result in the federal funds being expended for unallowable purposes. (Finding 4, Pages 26-28)

We recommended the University implement procedures to ensure documentation exists to substantiate the after-the-fact confirmation of activity allocable to each federal grant by the respective employee, principal investigator, or a responsible official.

University agrees with the auditors

University officials accepted the recommendation and stated that they will establish documentation to substantiate the after the fact attestation of time spent and fund allocations for bi-weekly employees.

INADEQUATE DOCUMENTATION FOR PAYROLL AND FRINGE BENEFIT EXPENDITURES

The University does not have adequate documentation of payroll and fringe benefit expenditures for employees at the Urbana campus who work on the Cooperative Extension Services (CES) program or the Hatch Grant under the Research and Development Cluster program.

Effort certifications were not obtained as required

The University does not obtain effort certifications for employees who work on the CES program or the Hatch Grant under the Research and Development Cluster program as required by federal regulations. We reviewed a sample of 30 payroll and fringe benefit expenditures totaling \$88,494 for the CES program and two payroll and one fringe benefit expenditures totaling \$2,624 for the Hatch Grant noting that the effort of these individuals was charged to multiple activities; however, effort certifications were not obtained.

Additionally, we noted effort certifications were not obtained for any of the payroll charges used to meet the cost sharing (matching) requirements of the CES program and Hatch Grant. Total payroll and fringe benefit expenditures charged to the CES program for the fiscal year ended June 30, 2009 were \$3,298,151 and \$2,364,529, respectively. Total payroll and fringe benefit expenditures charged to the Hatch Grant for the fiscal year ended June 30, 2009 were \$1,694,592 and \$74,244, respectively. Total payroll and fringe benefit expenditures used to meet the cost sharing (matching) requirement of the CES program and Hatch Grant for the year ended June 30, 2009 were \$11,027,702 and \$15,354,139, respectively. No indirect costs were charged to the CES program or Hatch Grant.

Bi-weekly reports do not include activities of the employee as required

We did note that bi-weekly time reports are prepared for most employees. However, these bi-weekly time reports, which are prepared on both a positive and negative (exception) basis depending on the type of employee, do not include the activities of the employee as required by OMB Circular A-21.

Monthly review by principal investigators is not documented

Our audit identified other controls and processes that the University has implemented to mitigate the risk that payroll costs are improperly charged to a federal program. These include required reviews and approvals of the initial appointments of employees (i.e. allocation to federal and nonfederal projects) and monthly reviews by principal investigators (PI's) of labor distribution reports and project ledgers. However, the monthly review by principal investigators is not documented.

Inadequate documentation and lack of required effort certifications may result in the federal funds being expended

for unallowable purposes. (Finding 5, Pages 29-32)

We recommended the University implement procedures to ensure documentation exists to substantiate the after-the-fact confirmation of activity allocable to each federal grant and cost share by the respective employee, principal investigator, or a responsible official.

University officials did not accept this finding. The University believes its systems provide sufficient documentation to meet the requirements for programmatic and financial reporting as outlined in the administrative manuals associated with these funding streams in addition to Circular A-21 requirements.

The University did not agree with auditors

In an auditor's comment, we noted that bi-weekly time reports do not include the activities of employees. 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.

Auditors' comment

INADEQUATE PROCEDURES TO DETERMINE THE ALLOWABILITY OF COST SHARE EXPENDITURES

The University does not have an adequate process in place to determine the allowability of certain expenditures used to meet the cost share (matching) requirement of the Supplemental Nutrition Program (SNAP).

Cost share requirement approximately \$8.1 million

The University is required to meet a cost share requirement of approximately \$8.1 million relative to the SNAP program. The expenditures used to meet the SNAP cost share requirement include expenditures for teacher salaries made by public school districts at which nutrition education programs are presented. The value of the expenditures made by the public school districts for teacher's salaries are estimated by the University based upon an hourly rate derived from the average annual expenditure data reported by the public school district to the Illinois State Board of Education (ISBE).

Value estimated by University

The University lacks sufficient documentation to ensure teacher salaries used for SNAP cost share were not funded by other Federal Programs

Specifically, the University computes hourly rates for each school district based upon average annual wage expenditures reported to ISBE and multiplies the applicable school district's rate times the number of teacher hours documented by the school district and University personnel delivering the program. However, in determining the estimate of the value of the time spent by the teachers in the educational programs, the University does not have sufficient documentation to ensure that teacher salaries being used to meet the SNAP cost share were not funded by other federal programs operated by the school district.

No after-the-fact verification

We did note the University receives a certification at the beginning of the year from participating school districts stating that teachers participating in the SNAP educational programs will not be charged to another federal program. However, there is no after-the-fact verification to substantiate that participating teacher salaries were not funded by other federal programs.

As a result, it is possible that the value of the teacher salaries used to meet the University's cost share requirement under the SNAP program may also have been charged to another federal program or used to meet a cost share requirement of another federal program by the school district which is not allowable under SNAP program regulations.

Teacher salary expenditures used to meet the cost sharing requirement of the SNAP program were \$792,313 for the year ended June 30, 2009.

Failure to ensure expenditures used to meet cost share requirements are not used for other federal programs may result in unallowable expenditures being used to meet cost share requirements. (Finding 8, Pages 38-40)

We recommended the University implement procedures to verify expenditures used to meet the SNAP cost share requirement have not been reimbursed under another federal program or used to meet the cost share requirement of another federal program. In addition, the University should be using the actual wages for the teachers participating in the educational program.

University did not agree with auditors

University officials did not accept this finding. The University stated that under this program, the mandatory cost-share is a one-to-one match of direct expenditures, not the \$8.1 million matching requirement stated in the finding.

The University also stated in their response that the UI Extension has procedures to verify that teacher salaries used as in-kind cost share are not directly reimbursed from any other federal source of funds. The UI Extension offices require potential program contributors to submit Form A, Confirmation of Community In-Kind Cost Share Contributions. This form, signed by contributors, states, "I confirm the Source of Funding for these contributions are NOT directly or indirectly from Federal Government or Private monies." The form provided by the school officials certifying the source of funding for the teacher salaries has been accepted by the sponsor as documentation supporting this portion of the required cost-share.

Auditors' comment

In an auditor's comment, we noted the Form A discussed above is obtained from potential program contributors in advance of the performance of the services (i.e. at the beginning of the program year). There is no after-the-fact verification to substantiate that participating teacher salaries were not funded by other federal programs. As a result, it is possible that the value of the teacher salaries used to meet the University's cost share requirement under the SNAP program may also have been charged to another federal program or used to meet a cost share requirement of another federal program by the school district which is not allowable under SNAP program regulations.

Additionally, the University computes hourly rates for each school district based upon average annual wage expenditures reported to ISBE, not the actual salary of the teachers that provided services under the SNAP program. Accordingly, we do not believe there is an adequate process in place to determine the allowability of these expenditures used to meet the cost share (matching) requirement.

Further, the grant agreement between IDHS and the University requires the University to provide matching expenditures (cost share) of \$10,003,560 from non-federal sources over the term of the grant, which covers more than the current year. Of this amount, an allocable portion for

the current year based on a one-to-one ratio is \$8.1 million.

UNSUPPORTED VOLUNTEER RATE USED FOR COST SHARE REQUIREMENT

The University used an unsupported rate to value services of volunteers used to meet the cost share (matching) requirement of the SNAP Program.

In-kind contributions from local governments

The University is required to meet a cost share requirement of approximately \$8.1 million relative to the SNAP program. The expenditures used to meet the cost share requirement are funded by several sources, including in-kind contributions from local governmental entities at which nutrition education programs are presented. The in-kind contributions from the local governments include an estimated value for the time spent by volunteers who assist University personnel during the educational programs.

Estimated hourly rate

The University has established an estimated hourly rate of \$18.97 which is used to value the services of the volunteers. Management stated the rate was based on an estimated dollar value of volunteer time published by a not-for-profit organization that was established to serve as a leadership forum for charities, foundations, and corporate giving programs. Management further stated that volunteers were performing specialized tasks including materials translation, food preparation demonstrations, and the delivery of curriculum.

No documentation to substantiate what services each volunteer was performing

However, there was no documentation to substantiate what services each volunteer was performing and how it correlated to the hourly rate of \$18.97. As there is no documentation on the specific services provided by the volunteers and a clear link to specialized skills and corresponding values, we believe the minimum hourly wage rate of \$6.55 (in effect during fiscal year 2009) should be used to value these services. As a result, the contributed volunteer services could be overstated by as much as \$111,146.

Questioned costs of \$111,146

Failure to appropriately value volunteer services may result in the University not meeting its cost share requirement. (Finding 9, Pages 41-43)

We recommended that the University implement procedures to ensure rates established to value volunteer services are consistent with the services being provided by the volunteer.

University did not agree with auditors

University officials did not accept this finding. The University disagreed that the rate used for volunteer services is undocumented and disagreed that the federal minimum hourly wage rate is a more appropriate estimate of the value of these services.

The federal SNAP guidelines do not require that the rate used for costing volunteer activities be specifically approved. Per the federal SNAP guidelines, the value of a volunteer's time should be computed on a reasonable hourly basis in accordance with the duties being performed. The volunteers are critical to the mission of the SNAP programs and perform specialized tasks including materials translation, food preparation demonstrations, and the delivery of curriculum, none of which are minimum wage tasks. The University provided information indicating the volunteers provide highly specialized skills, serving as interpreters in classroom settings to assist Hispanic, Chinese, and Somalian students. Using the minimum wage to cost these services would not properly reflect the true value of these services that are critical to the program.

Auditors' comment

In an auditor's comment we noted that although management made a general statement that volunteers performed specialized tasks, there is no documentation to substantiate what services were actually provided, nor is there a clear link to specialized skills and corresponding values for the services provided.

INADEQUATE PROCESS FOR PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The University did not initially include all federal grants in the Schedule of Expenditures of Federal Awards (SEFA).

Schedule of Expenditures of Federal Awards was not complete

During our testwork of the SNAP program, we identified expenditures totaling \$1,485,594 that were improperly excluded from the draft schedule of

17 Federal Grants with expenditures totaling \$2,561,009 were improperly excluded

expenditures of federal awards for the year ended June 30, 2009. Upon further review and investigation, management of the University identified 17 federal grants with net expenditures of \$2,561,009 that were improperly excluded from the SEFA. Management subsequently included these grants in the final version of the schedule of expenditures of federal awards that is included in this report.

Failure to prepare a complete and accurate SEFA prevents the University from having an audit properly performed in accordance with OMB Circular A-133 which may result in the suspension of federal funding. (Finding 12, Pages 51-52)

We recommended that the University review the current process for preparing the schedule of expenditures of federal awards and implement changes necessary to ensure expenditures for all federal awards are properly reported.

University officials accepted the recommendation and stated that the draft version of the SEFA submitted for review to the auditors in November 2009 contained omissions of items for which follow-up was necessary. Due to personnel changes and human error, the follow-up was not completed until the final version of the SEFA intended for inclusion in the published FY09 Audit Report Package was provided to the audit firm.

University agrees with the auditors

INADEQUATE MONITORING OF SUBRECIPIENT OMB CIRCULAR A-133 AUDIT REPORTS

The University is not adequately performing or documenting reviews of subrecipient OMB Circular A-133 audit reports. Additionally, the Chicago campus does not have a system to track and follow-up with subrecipients when OMB Circular A-133 reports have not been received.

Subrecipient monitoring process needs improvement

The University requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to: (1) submit OMB Circular A-133 audit reports, or (2) provide written notification that an audit was conducted in accordance with OMB Circular A-133 and the schedule of findings and questioned costs disclosed no audit findings relating to the Federal awards that were pass-through the University (notification letter).

University staff in the Office of Grants and Contracts are responsible for reviewing the OMB Circular A-133 audit reports and determining whether the audit reports meet the audit requirements of OMB Circular A-133, evaluating the type of audit opinion issued (i.e. unqualified, qualified, adverse), and issuing management decisions on findings reported within required timeframes.

Lack of documentation of desk reviews performed

However, there is no documentation of the “desk reviews” performed, nor does management use a checklist to help determine whether the audit reports meet the audit requirements of OMB Circular A-133 and whether management decisions have been issued on findings reported within required timeframes. Lastly, we noted the Chicago Campus does not have a process to track and follow-up with subrecipients when OMB Circular A-133 reports or notification letters have not been received.

Additionally, during our testwork over 30 subrecipients of the Research and Development Cluster program, two subrecipients of the Foreign Language program, and three subrecipients of the AIDS program, we noted the following:

- There were three subrecipients of the Research and Development Cluster program and one subrecipient of the Foreign Language program for which a management decision was required, but was not issued by the University.
- There were four subrecipients of the Research and Development Cluster program and one subrecipient of the AIDS program for which no OMB Circular A-133 audit report was received. In addition, these subrecipient files did not contain evidence that follow up procedures had been performed by the University to obtain the missing audit reports.
- There were 19 subrecipients of the Research and Development Cluster program, two subrecipients of the Foreign Language program, and one subrecipient of the AIDS program for which A-133 audit reports were submitted after the nine month filing deadline. These files contained no documentation the University followed up on the delinquent report or approved an extension of the

filing deadline. (Finding 18, Pages 70-72)

We recommended that the University establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133 and that desk reviews of A-133 audit reports be formally documented using an A-133 desk review checklist and that management decisions be issued within six months.

University officials accepted the recommendation and stated that they will implement procedures to strengthen oversight of subrecipient monitoring and follow-up activities.

University agrees with auditors

INACCURATE QUARTERLY EXPENDITURE REPORTS PREPARED FOR THE SNAP PROGRAM

The University did not accurately report federal expenditures in quarterly reports for the SNAP Program submitted to the Illinois Department of Human Services (IDHS).

The University is required to prepare a quarterly expenditure report for the SNAP program which identifies the expenditures incurred to date under the federal award and used to meet the matching requirement. The quarterly expenditure reports are used by IDHS to determine the amount to be reimbursed to the University (reported on the line item "Total IDHS Share") and to monitor the University's progress towards the matching requirement.

During our testwork over the quarterly expenditure report submitted for the quarter ended December 31, 2008, we noted the University improperly reported the "Total IDHS Share" line item as half of the combined amounts of federal and matching expenditures. As a result, the "Total IDHS Share" line item was overstated by \$321,891 for the quarter ended December 31, 2008. Upon review of the quarterly reports submitted during the University's fiscal year, we noted the following differences in the amounts reported for the "Total IDHS Share line" item:

Purpose and use of quarterly reports

Quarter Ended	Amount Reported	Correct Amount	Difference
December 31, 2008	1,348,163	1,026,272	321,891
March 31, 2009	1,638,883	1,374,579	264,304
June 30, 2009	1,849,551	2,435,745	(586,194)

Matching expenditures included in-kind contributions from local governments

The University indicated that IDHS requested these amounts to be reported this way as the federal expenditures and matching expenditures all qualify for federal reimbursement; however, the matching expenditures include in-kind contributions from local governments which are not allowed to be reimbursed from federal sources. (Finding 21, Pages 77-78)

We recommended that the University implement procedures to ensure that the quarterly expenditure reports accurately reflect the grantor's share of expenditures.

The University did not agree with auditors

University officials did not accept this finding. They stated that IDHS approved the University's billing and reporting methodology for the federal expenditures on this program. Under this program, the mandatory cost-share is a one-to-one match of direct expenditures, not the \$10 million matching requirement as stated in the finding. The federal expenditures on this program are accurately reported; the data in the table for this finding is inaccurate because it does not follow the billing methodology approved by the funding agency, IDHS.

Auditors' comment

In an auditor's comment we stated that it is our belief that the report is inaccurate and results in the improper reimbursement of expenditures under the SNAP program. Additionally, the grant agreement between IDHS and the University requires the University to provide matching expenditures (cost share) of \$10,003,560 from non-federal sources over the term of the grant, which covers more than the current year. Of this amount, an allocable portion for the current year based on a one-to-one ratio is \$8.1 million.

FAILURE TO PROPERLY COMPLETE REQUIRED VERIFICATION PROCEDURES

The University did not properly perform verification procedures for students at the Urbana campus.

In order to validate the accuracy of information reported by applicants for financial aid, US Department of Education (USDE) requires schools participating in federal student financial assistance programs to perform procedures to verify the accuracy of student financial and household information used to compute the expected family contribution (EFC) of each applicant. The EFC is used by the schools to determine the types and amounts of federal student financial aid each student is eligible to receive. USDE selects students for verification and schools are required to establish and follow a verification policy that complies with the federal regulations.

Federal government requires schools to establish and follow a verification policy that complies with federal regulations

The University verifies the Institutional Student Information Records (ISIR) for all students selected by the USDE central processor at its Urbana and Springfield campuses and operates a quality assurance program at its Chicago campus. As such, the financial aid system has been designed to place a hold flag on the student awards for all students selected by the central processor for verification at the Urbana and Springfield campuses and for students meeting the verification selection criteria established by the University at the Chicago campus. The hold flag prevents disbursement of financial aid awards until the flag is manually removed by a financial aid counselor upon completion of the verification procedures.

During our testwork over 85 students (45 from Urbana, 15 from Chicago, and 25 from Springfield) selected for verification, we noted certain exceptions at the Urbana Campus. (Finding 25, pages 86-87)

We recommended that the University implement additional procedures to ensure adequate supporting documentation is obtained and evaluated by financial aid counselors prior to disbursing federal funds to students selected for verification.

University agrees with the auditors

University officials accepted the recommendation and stated that they will review and update procedures to ensure

adequate supporting documentation is obtained and evaluated by financial aid staff prior to disbursing federal funds to students selected for verification.

FAILURE TO NOTIFY SUBRECIPIENTS OF FEDERAL FUNDING

The University did not provide required program information relative to federal funds passed through to the subrecipients of the Research and Development Cluster programs for the year ended June 30, 2009.

During our testwork of 30 subrecipients who received \$11,515,251 of the Research and Development Cluster program funds, we noted the University did not communicate the specific program name or CFDA number under which federal funding had been provided in grant award documents or in funding notification letters sent to subrecipients for four subrecipients of the Urbana campus and two subrecipients of the Chicago campus. Subrecipient expenditures under the Research and Development Cluster program for the year ended June 30, 2009 were \$52,770,488.

Failure to inform subrecipients of federal award information could result in subrecipients improperly omitting expenditures from their schedule of expenditures of federal awards, expending federal funds for unallowable purposes, or not receiving a single audit in accordance with OMB Circular A-133. (Finding 30, Pages 96-97)

We recommended that the University review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients.

University officials accepted the recommendation.

CONTRACTS AND REAL ESTATE LEASES NOT PROPERLY EXECUTED

The University has not established adequate internal controls over contracts and leases to ensure they contain all necessary provisions and are properly executed prior to

Need to improve internal controls

performance.

During our review of forty two contracts executed during the year ended June 30, 2009, some of the items noted are as follows:

- 13 contracts were executed subsequent to performance of the contract. The contract execution dates ranged from 15 days to 127 days after the beginning of the contract start date.
- 17 contracts did not include the federal identification number for the vendor.
- 1 contract did not include any of the required certifications.

During our review of forty real estate leases executed during the year ended June 30, 2009, some of the items noted are as follows:

- 17 leases were executed after the lease term began. The lease execution dates ranged from 2 days to 42 days after the beginning of the lease term.
- 15 leases did not include the federal identification number for the lessor.
- 36 leases did not include the Illinois Use Tax Certification. (Finding 35, Pages 111-112)

We recommend that the University establish appropriate procedures to ensure all contracts and leases are completed, approved, and executed prior to the start of the services and lease term. Further, the University should review procedures to ensure all appropriate clauses and certifications are obtained prior to execution for all contracts and lease agreements.

**University agrees with
auditors**

University officials accepted the recommendation and stated they will continue to examine and improve procedures to ensure contracts and leases are properly approved and executed prior to the start of the services and lease terms.

INADEQUATE PROCESS FOR ESTIMATING ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The University has not established adequate internal controls over estimating and recording its allowance for doubtful patient accounts receivable (the allowance).

During our audit, we noted the University's procedures for estimating its allowance primarily consisted of applying a standard percentage to the outstanding balance of patient accounts receivable. The standard percentage used was developed several years ago and has not been analyzed by management to determine if the percentage being used is consistent with current and historical payer data and trends.

In addition, the accounts receivable aging analysis used by the University to estimate the allowance is based upon the most recent billing date for each patient, rather than the service date which results in the accounts receivable balances appearing to be more current than they are. Finally, the University does not perform a retrospective analysis comparing the University's prior year estimated allowance to actual collection experience.

Accounts receivable allowance \$250 million

Patient accounts receivable approximated \$70,864,000, net of an allowance of \$250,081,000 at June 30, 2009. (Finding 37, Pages 116-117)

We recommended that the University establish procedures (1) to estimate its allowance based on historical collection experience and current payer trends and (2) to assess the historical accuracy of its estimation process. We also recommended that the aging analysis used to estimate the allowance be prepared based upon the date of service.

University agrees with auditors

University officials stated that the Medical Center will develop improvements to procedures to address the recommendations noted in this finding.

INACCURATE PHARMACEUTICAL INVENTORY VALUATION

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

Inadequate process to measure and value inventory

During our review of physical inventories, we noted the timing of five pharmaceutical physical inventories did not correspond to the University's fiscal year-end of June 30th, ranging from 46 to 48 days before year-end. Further, because the University does not maintain a perpetual inventory system for pharmaceutical inventories, the quantities used to measure the inventory as of the balance sheet date was the same as the quantity physically counted and was not adjusted for purchases or sales that occurred after the physical inventory but before the balance sheet date.

We noted the following physical inventories did not correspond to the University's fiscal year-end:

<u>Commodity Location</u>	<u>Inventory Date</u>	<u>Year-end Balance</u>
Oncology Pharmacy	5/13/2009	\$ 976,790
Outpatient Care Center Outpatient Pharmacy	5/13/2009	250,713
University Village Pharmacy	5/14/2009	212,738
Dermatology Pharmacy	5/13/2009	128,637
Pharmaceutical Care Center Pharmacy	5/15/2009	<u>1,226,348</u>
		\$ <u><u>2,795,226</u></u>

Failure to record pharmaceutical inventories based on quantities on hand at year-end results in inventory balances being inaccurately reported in the University's financial statements. (Finding 41, Pages 123-124)

We recommended that the University review its process for performing pharmaceutical physical inventories and consider performing such procedures on or near the balance sheet date.

University agrees with auditors

University officials accepted the recommendation.

OTHER FINDINGS

The remaining findings are reportedly being addressed by University management. We will review the University's progress toward the implementation of our recommendations in our next examination.

AUDITORS' OPINION

The financial audit reports were previously released. Our auditors stated the June 30, 2009 financial statements were fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

KPMG were our special assistant auditors.