

UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

**Reports Required Under
*Government Auditing Standards***

For the Year Ended June 30, 2018

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)**

TABLE OF CONTENTS

	PAGE
UNIVERSITY OFFICIALS.....	1
SUMMARY	2
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	3
SCHEDULE OF FINDINGS	5
SCHEDULE OF PRIOR YEAR FINDINGS NOT REPEATED.....	14

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**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
*Government Auditing Standards Report***

Government Auditing Report Summary

The audit of the financial statements of the University of Illinois Auxiliary Facilities System (System) was performed by CliftonLarsonAllen LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit. Based on their audit and the reports of other auditors, the auditors expressed an unmodified opinion on the System's basic financial statements.

Summary of Findings

The auditors identified certain deficiencies in internal control over financial reporting that they considered to be significant deficiencies, which are described in the accompanying schedule of findings and responses on pages 5 through 13 of this report.

Exit Conference

A request to waive a formal exit conference was made by the University in a correspondence dated December 12, 2018. Responses and recommendations were provided by the University's Office of Business and Financial Services in correspondence dated December 11, 2018.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
University of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the University of Illinois Auxiliary Facilities System (the "System"), a segment of the University of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 2018-001, 2018-002, 2018-003 and 2018-004 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auxiliary Facilities System's Response to Findings

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
December 19, 2018

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018

2018-001. Finding: Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues

The University of Illinois (the University) has not established adequate internal controls over accurately identifying and recording deferred expense transactions and reporting prepaid expenses at fiscal year-end for financial reporting purposes.

During our audit, we noted that the University's procedures to identify and record prepaid expenses include a review of all cash disbursements by University Payables (UPAY). UPAY identifies expense transactions that pertain to multiple fiscal years and codes them for further review by University Accounting and Financial Reporting (UAFR). UAFR will then post year-end journal entries to appropriately defer the identified expense transactions. In addition to the review of all cash disbursements by UPAY, UAFR also requires individual units to identify and report known accrual and deferral transactions at fiscal year-end for certain fund types. We also noted that 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 which accounting period the related expense transactions pertain.

In relation to our test work over expense transactions, we reviewed 225 cash disbursement transactions (totaling \$49,784,822), 60 P-Card expense transactions (totaling \$310,833), and 60 T-Card expense transactions (totaling \$303,612) recorded during the fiscal year. In relation to our test work over revenue transactions, we reviewed 60 cash receipt transactions recorded during the fiscal year (totaling \$85,984,379). We also reviewed 20 cash disbursements occurring subsequent to year-end (totaling \$65,180,107). Additionally, we separately reviewed 20 internal journal voucher transactions recorded during the fiscal year (totaling \$388,226,298).

During our review of these transactions, we noted the following items were not recorded in the proper accounting period:

University of Illinois transactions

- One printing expense disbursement (totaling \$1,505) that was recorded as expense for fiscal year ended June 30, 2018, should have been fully accrued as of June 30, 2016;
- Three general and service expense cash disbursements (totaling \$50,396) that were recorded as expenses for fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$30,137, and then recognized as expenses for the fiscal year ending June 30, 2019;
- One cash receipt (totaling \$748,497) that was recorded as operating revenue for the fiscal year ended June 30, 2018, should have been fully accrued as of June 30, 2017; and
- Two cash receipts (totaling \$3,688,224) that were recorded as operating revenue for the fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$2,756,527, and then recognized as operating revenue for the fiscal year ending June 30, 2019.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018**

University of Illinois P-card transactions

- Six general and service expenses (totaling \$25,658) that were recorded as expenses for fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$19,032, and then recognized as expenses for the fiscal year ending June 30, 2019;
- One general expense (totaling \$4,999) that was recorded as an expense for fiscal year ended June 30, 2018, should have been fully deferred as of June 30, 2018; and
- One general expense (totaling \$2,618) that was recorded as an expense for fiscal year ended June 30, 2018, should have been fully accrued as of June 30, 2017.

Generally accepted accounting principles require transactions to be reported in the period they are incurred. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure expenses and revenues are recognized in the appropriate reporting period.

In discussing these conditions with University personnel, they stated that in many of these instances, the units associated with the exceptions did not adequately follow established procedures to record the transactions in the proper period.

Failure to accurately analyze and record cash receipts and disbursements within the proper fiscal year may result in the misstatement of the University's financial statements. (Finding Code No. 2018-001, 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-01, 11-01, 10-03, 09-03)

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018

Recommendation:

We recommend the University continue to review its process to assess the existence of current period revenues and expenses and consider changes necessary to ensure they are accurately identified and recorded for presentation in the University's financial statements.

University Response:

Accepted. The University will continue taking corrective action to address the recommendation in this finding. Regarding the P-card-related cut-off exceptions, the University believes that the small size of individual card transactions combined with the aggregate monthly volume/dollar value of such transactions represents an expense population in which the probability of a material financial statement error would be extremely remote.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018**

2018-002. Finding: Inadequate Controls over Self-Approved Timesheets

The University of Illinois (the University) has not followed established internal controls over Self-Approved Time Sheets.

After every pay period, the University creates a report showing employees who have approved their own timesheet. Timesheets are required for hourly employees and civil-service employees. The report lists all self-approvals for FY18 and included 47 employees with 54 occurrences of self-approval. The applicable human resources office and the relevant departments are supposed to take action to ensure a proper segregation and approval process. In 17 of the 54 occurrences, follow-up procedures failed to result in approval by the department prior to the next payroll.

The University policy states that each department is responsible for approving all web time reports or completing and approving the departmental time report for each employee from time sheets or cards filled out by the employees. Section 4 of the Office of Business and Financial Services Policy and Procedures Manual specifies that approvers cannot approve their own time.

Also, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure timely supervisory approval of employee timesheets.

University management indicated the mitigating control procedure, in which the applicable human resources office notifies the employees involved as well as the unit or college contacts and requests confirmation of supervisory approval, was not consistently followed in a timely manner.

Failure to properly review and approve timecards could result in erroneous or fraudulent transactions and/or payroll disbursements being recorded in the general ledger system. (Finding Code No. 2018-002, 2017-002)

Recommendation:

We recommend the University ensure its employees follow its established internal controls over self-approved timesheets to ensure compliance with University policies.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018

University Response:

Accepted. Although all self-approved timesheets were validated as being correct and have supervisory approval, the approval was not always timely. The University will continue to strengthen controls in this area.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018

2018-003. Finding: Inadequate Controls over University Procurement Card Transactions

The University of Illinois (the University) has not complied with University policies and internal controls over procurement card transactions.

The University operates a procurement card program which 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 our test work over 96 procurement card transactions totaling \$361,179, we noted the following:

- Twenty nine (30%) transactions (totaling \$23,294) were for charges such as professional services, lodging, business meals and refreshments, pharmaceutical and drugs, furniture with a unit cost of \$500 and above, and advertising expense, all of which were prohibited by the University's procurement card policies.
- Six (6%) transactions (totaling \$52,116) were paid into two or more installments, circumventing the card holder's single transaction limit of \$4,999.
- Fifteen (16%) transactions (totaling \$90,716) were not reconciled within seven days of appearance on the P-Card software, as required. The reconciliations were completed two to 178 days late.
- Three (3%) transactions (totaling \$13,151) were purchases of equipment that were not tagged in accordance with University's policies and procedures.

The University has approximately 3,999 active procurement cards, and the procurement card expenditures paid for the year ended June 30, 2018 totaled \$56,500,336.

The University policy states that the reconciler must review and reconcile each transaction with the Order Log and with the original, detailed, itemized receipt within seven business days of its appearance in the P-Card software, in order for the transaction to post in Banner for financial reporting.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that: (1) resources are utilized effectively, and in compliance with applicable law; (2) obligations and cost are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018

obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure procurement card transactions are in accordance with University policies and procedures and supporting documentation for each transaction is maintained.

University management indicated the bulleted exceptions largely resulted from human error at the individual and/or unit level by not following procurement card policies and procedures.

Failure to properly review and approve procurement card transactions in accordance with University policies could result in erroneous or fraudulent transactions being recorded in the general ledger system. (Finding Code No. 2018-003, 2017-004, 2016-002, 2015-002, 2014-002, 2013-002, 12-02, 11-03, 10-02, 09-02, 08-03)

Recommendation:

We recommend the University continue to review and improve its internal controls over procurement card transactions to ensure compliance with University policies so that erroneous or fraudulent transactions are not recorded in the general ledger system.

University Response:

Accepted. While the procurement card is an efficient purchasing mechanism, the University recognizes the importance of procurement card process controls, training, and transaction monitoring. The University will implement the necessary corrective action related to the recommendation made in this finding.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018**

2018-004. Finding: Lack of Adequate Controls over the Review of Internal Controls over Service Providers

The University of Illinois (University) did not obtain or conduct timely independent internal control reviews over its external service providers.

As part of the audit process, we requested the University to provide a population of the service providers utilized. The University was unable to provide documentation to verify the completeness of the population.

Although the University was unable to provide a complete population of service providers, we performed testing on the 27 service providers identified by the University. The service providers provided various services to the University:

- Claims billing,
- Claims collections,
- Insurance claims,
- Electronic shopping,
- IT hosting services, and
- Software as a Service.

During our testing, we noted the University had not obtained Service Organization Controls (SOC) Reports or conducted independent internal control reviews for 21 service providers. In addition, it was noted for the six SOC Reports received:

- Four SOC Reports did not cover the entire audit period of the University.
- The University had not conducted an analysis of four SOC reports and the complementary user entity controls (CUEC).
- The University had not conducted an analysis of the subservice organizations identified in the SOC Reports.

Additionally, it was noted the contracts between the University and the service providers did not contain a requirement for an independent review to be completed.

The University stated although SOC reports were obtained for those service providers identified as critical to the financial operations of the University, independent internal control reviews were not always obtained for other service providers.

Due to the conditions noted above, we were unable to conclude the University's population records were sufficiently precise, complete, and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205).

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018**

State's resources. In addition, generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

The University is responsible for the design, implementation, and maintenance of internal controls related to financial controls, information systems, and operational controls to assure its financial, critical, and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, the University does not have assurance the external service providers' or subservice organizations' internal controls are adequate to ensure the financial information is accurate and/or their information is secure. (Finding Code No. 2018-004)

Recommendation:

We recommend the University review the entities that provide services in order to determine if the entity is a service provider. In addition, once the University identifies the third party service providers a review of controls should be conducted and documented. The University should also:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.
- Monitor and document the operation of the CUECs relevant to the University's operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the University, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

University Response:

Accepted. The University will expand internal controls over third party service providers to obtain reasonable assurance that University financial information is accurately processed, and critical and confidential data are adequately safeguarded.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2018

A. Finding: Inadequate Procedures over Maintenance of Accounts Payable Master Vendor File

During the prior audit, the auditors noted the University did not have adequate controls in place to monitor and maintain the accounts payable master vendor file. (Finding Code No. 2017-003, 2016-003)

Status: Not Repeated

During the current year engagement, the auditors noted the University strengthened their internal controls over monitoring and maintaining the accounts payable master vendor file.