



STATE OF ILLINOIS  
**OFFICE OF THE  
AUDITOR GENERAL**

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**UNIVERSITY OF ILLINOIS**

**Single Audit and State Compliance Examination  
For the Year Ended: June 30, 2012**

**Release Date: March 28, 2013**

**Summary of Findings this Audit Cycle:**

• Compliance and Single Audit	28
• Financial Audit (previously reported 1-10-13)	<u>2</u>
<b>TOTAL findings</b>	<b>30</b>
<b>Summary of findings from previous audit cycle:</b>	<b>37</b>
<b>Findings repeated:</b>	<b>21</b>

**INTRODUCTION**

The Financial Audit for the year ended June 30, 2012 was previously released on January 10, 2013. That audit contained two findings. This report addresses Federal and State compliance findings pertaining to the Single Audit and State Compliance Examination. In total, this document contains 30 audit findings, two of which had been reported in the Financial Audit.

**SYNOPSIS**

- The University's cost transfers were not adequately documented.
- The University does not have an adequate process in place to ensure indirect costs charged to Department of Defense (DOD) awards in the Research and Development Cluster are limited in accordance with DOD regulations.
- The University did not obtain required certifications that certain vendors were not suspended or debarred from participation in federal assistance programs.
- The University was unable to provide documentation to substantiate that a formal review and approval of cash draw and reimbursement request calculations were performed.
- The University's procedures to identify and remove inactive hourly employees from the payroll system in a timely manner need to be enhanced.
- The University's internal controls over contracts and leases should be enhanced to ensure that the legal agreements contain all necessary approvals, are executed prior to performance, and are filed with the Illinois Office of the Comptroller on a timely basis.

{Expenditures and Activity Measures are summarized on the reverse page.}

**UNIVERSITY OF ILLINOIS**  
**SINGLE AUDIT AND COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2012**

FINANCIAL OPERATIONS	2012	2011*
<b>Operating Revenues</b>		
Tuition and fees, net.....	\$ 987,796,000	\$ 905,693,000
Federal grants, contracts and appropriations.....	736,693,000	698,311,000
State and private gifts, grants and contracts.....	219,190,000	230,764,000
Hospital and medical activities.....	837,520,000	770,822,000
Auxiliary enterprises, net.....	363,319,000	374,644,000
Educational activities.....	258,298,000	267,609,000
Other.....	15,028,000	16,710,000
Total Operating Revenues.....	<u>3,417,844,000</u>	<u>3,264,553,000</u>
<b>Operating Expenses</b>		
Instruction.....	1,114,474,000	1,006,190,000
Research.....	710,656,000	680,651,000
Public service.....	413,988,000	387,461,000
Academic support.....	377,982,000	349,095,000
Hospital and medical activities.....	709,650,000	633,795,000
Auxiliary enterprises.....	307,597,000	316,442,000
Operation and maintenance of plant.....	270,947,000	287,825,000
Institutional support.....	232,023,000	209,752,000
Depreciation.....	213,070,000	209,745,000
Scholarships and fellowships.....	241,008,000	238,722,000
Other.....	153,572,000	145,693,000
Total Operating Expenses.....	<u>4,744,967,000</u>	<u>4,465,371,000</u>
Operating Income (Loss).....	(1,327,123,000)	(1,200,818,000)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations.....	709,683,000	716,794,000
Capital appropriations, gifts and grants.....	87,293,000	31,019,000
Private gifts and endowments.....	142,023,000	134,422,000
On behalf payments for fringe benefits.....	818,084,000	683,201,000
Other, net.....	29,743,000	39,296,000
<b>INCREASE IN NET ASSETS.....</b>	<u>\$ 459,703,000</u>	<u>\$ 403,914,000</u>
SUPPLEMENTAL INFORMATION (Unaudited)	2012	2011
<b>Employment Statistics - Full Time Equivalent.....</b>		
Chicago.....	13,639	13,454
Springfield.....	933	935
Urbana-Champaign.....	14,338	14,204
Total.....	<u>28,910</u>	<u>28,593</u>
<b>Enrollment Statistics - Fall.....</b>		
Undergraduate - .....		
Chicago.....	16,925	16,806
Springfield.....	3,112	3,197
Urbana-Champaign.....	32,256	31,540
Subtotal.....	<u>52,293</u>	<u>51,543</u>
Graduate - .....		
Chicago.....	11,166	11,044
Springfield.....	2,025	1,977
Urbana-Champaign.....	12,151	12,322
Subtotal.....	<u>25,342</u>	<u>25,343</u>
Total .....	<u>77,635</u>	<u>76,886</u>
<b>PRESIDENT</b>		
During Audit Period: Michael Hogan		
Current: Robert Easter		

\*Certain reclassifications were made to the 2011 amounts to conform with the 2012 presentation.

## INTRODUCTION

The Financial Audit for the year ended June 30, 2012 was previously released on January 10, 2013. That audit contained two findings. This report addresses Federal and State Compliance findings pertaining to the Single Audit and State Compliance Examination. In total, this document contains 30 audit findings, two of which had been reported in the Financial Audit.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **INADEQUATE SUPPORTING DOCUMENTATION FOR COST TRANSFERS**

The University did 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 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.

During our testwork over 220 cost transfers recorded during the year ended June 30, 2012, we were initially provided brief journal entry descriptions as the supporting documentation for each of the cost transfers selected for testing. The journal entry descriptions consisted of a few sentences which generally stated an error had occurred in the original entry and that a transfer was required. These descriptions did not provide sufficient information to allow an independent party to understand the reason the cost transfer was required.

Upon further investigation and inquiry, the University was able to provide other support which better described the reasons for some of the cost transfers tested. However, the standard cost transfer form was not completed in accordance with University policy for a majority of the transfers tested. We noted these transfers were initiated by the Grants and Contracts Office in closing out projects and that the standard cost transfer forms were not completed for any cost transfers prepared by the Grants and Contracts Office. (Finding 5, Pages 31-33) **This finding was first reported in 2009.**

We recommended the University implement procedures to ensure cost transfers are adequately documented and supported in accordance with University policy.

**Descriptions did not provide sufficient information**

**The University disagrees with auditors**

University officials did not accept this finding. The University stated that the journal entry descriptions are not intended for independent parties. They are specifically written as a guide or map to where additional information may be found. (For the previous University response, see Digest Footnote #1.)

**Auditors' comment**

In an auditors' comment we noted that the nature and reason for the cost transfer had to be supplemented through inquiry of University personnel in response to our questions. We understand University policy to require a specific form to be completed to support cost transfers; however, several of the cost transfers were not supported with the standard cost transfer form.

**NEED FOR IMPROVEMENT IN THE PROCESS FOR LIMITING INDIRECT COSTS ON DEPARTMENT OF DEFENSE AWARDS**

The University does not have an adequate process in place to ensure indirect costs charged to Department of Defense (DOD) awards in the Research and Development Cluster are limited in accordance with DOD regulations.

**Two of eight awards tested had indirect costs charged in excess of 35%**

During our testwork over eight (six from the Urbana Campus and two from the Chicago Campus) Department of Defense awards that closed during the year ended June 30, 2012, we noted indirect costs charged to two awards administered by the Chicago Campus were in excess of 35%.

Upon further investigation, we noted the indirect cost rates entered in the University's accounting system for these grants was the standard Facilities and Administration rate. As a result, the indirect cost charges applied by the University's accounting system exceeded the amount allowable under DOD regulations by \$1,669 and \$133. We also noted the University did not consider whether an interest calculation was required to be performed for any funds advanced as a result of these excess reimbursements. (Finding 9, Pages 42-43)

We recommended the University implement procedures to ensure indirect costs charged to DOD awards are limited to 35% where required at the end of the award period.

**University agrees with auditors**

University officials agreed with the recommendation and stated that funds in excess of the 35% limitation were refunded to the Department of Defense.

**FAILURE TO OBTAIN SUSPENSION AND DEBARMENT CERTIFICATIONS FROM VENDORS**

**Certifications were missing**

The University did not obtain required certifications that certain vendors were not suspended or debarred from participation in federal assistance programs.

During our review of 92 contractual expenditures for the Research and Development Cluster, we noted two expenditures for which the University did not obtain a signed suspension and debarment certification from the vendor. Additionally, the University did not perform a verification check with the "Excluded Parties List System" maintained by

the General Services Administration for the vendor. (Finding 10, Pages 44-45) **This finding was first reported in 2009.**

We recommended the University obtain certifications from vendors stating that their organization is not suspended, debarred, or otherwise excluded from participation in federal assistance programs or document the procedures performed to verify the vendor is not identified as suspended or debarred.

**University agrees with auditors**

University officials accepted the recommendation and stated that disclosure forms were appropriately completed for one vendor and retained for two years, according to the University's policies and procedures. The University failed to follow up with the second vendor regarding a disclosure form submitted with an incomplete debarment section. (For the previous University response, see Digest Footnote #2.)

**INADEQUATE CASH DRAW AND REIMBURSEMENT REQUEST CONTROLS**

**No evidence that reviews are performed on cash draws**

The University was unable to provide documentation to substantiate that a formal review and approval of cash draw and reimbursement request calculations were performed.

The University requests cash on a reimbursement basis for its federal programs. The reimbursement request calculations for each program are prepared by staff in the Grants and Contracts Office based upon queries of expenditure information reported in the University's general ledger; however, there were no supervisory review of the cash draw and reimbursement request calculations prior to the University personnel requesting the cash from the federal government. (Finding 15, Pages 56-59) **This finding was first reported in 2009.**

We recommended the University implement procedures to ensure cash draw and reimbursement request calculations are reviewed and approved prior to requesting funds from the federal government.

**The University disagrees with auditors**

University officials disagreed with this finding and noted that they sought guidance from the Department of Health and Human Services (HHS) in coordination with the Department of Education and the National Science Foundation. This resulted in a Management Decision Letter (MDL) issued on February 14, 2011. According to the MDL, "The audit finding is not sustained based on our review..." The University subsequently received a letter on March 10, 2011, from HHS that states "The purpose of this communication is not to reverse our decision(s) but to clarify the nature of the finding and the direction that the University needs to take in correction of the issue(s)". The University continues to be actively engaged in collaboration with the agencies to find resolution on this issue. (For the previous University response, see Digest Footnote #3.)

**Auditors' comment**

In an Auditors Comment we stated that we continue to believe that effective internal controls 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.

**INADEQUATE PROCEDURES TO REMOVE INACTIVE EMPLOYEES FROM PAYROLL SYSTEM**

**Need to improve procedures over the removal of inactive employees from the payroll system**

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

The University’s process for removing terminated employees generally begins with academic or administrative department personnel notifying Human Resources when an employee has separated from the University and should be removed from the payroll system.

During our audit, we 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 several 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 six months. Specifically, we noted the following related to the hourly employees eligible to be paid from the University’s payroll system:

**\$72,039 was paid to a terminated employee over the course of 4 years**

<b>Length of Time Since Last Paid by the University</b>	<b>Number of Employees Eligible to Be Paid</b>	<b>Number of Employees with Access to Time Reporting System</b>	<b>Number of Employees With Access to Other Financial Applications</b>
Within last 6 months	28,306	7,118	3,066
6 months to 1 year	1,429	299	5
1 to 2 years	1,088	224	6
2 to 3 years	449	53	1
3 to 4 years	295	16	-
4 to 5 years	124	15	-
5 to 6 years	52	13	-
6 to 7 years	32	12	-
7 to 8 years	21	4	1
8 to 9 years	18	9	-
Over 9 years	-	-	-
Subtotal	31,814	7,763	3,079
Never paid	992	235	2
Total	32,806	7,998	3,081

Our audit 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 and required reviews of labor distribution reports and project ledgers by departmental employees.

Despite these additional controls, we noted the University identified an instance in which a terminated employee received payroll disbursements totaling \$72,039 over the course of a four year period after the employee was terminated by the University (of which \$16,906 pertained to fiscal year 2012). Of this amount, \$10,996 related to amounts charged to federal programs over the course of the four year period (none of which related to fiscal year 2012). (Finding 17, pages 64-65)

We recommended the University implement procedures to identify and remove inactive employees from the payroll system in a timely manner.

**University agrees with auditors**

University officials agreed with the recommendation and stated that they will implement corrective actions to address the recommendation.

**CONTRACTS AND REAL ESTATE LEASES NOT PROPERLY EXECUTED**

**Improvement needed for controls over contracts, leases and emergency purchases**

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

Some of the conditions noted during our review of 70 contracts follow:

- 28 contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- 24 contracts were not signed by University's Chief Executive Officer or Chief Legal Counsel out of 37 contracts sampled requiring this level of approval.
- 14 contracts were executed 1 to 288 days after the beginning of the contract start date.
- 31 contracts were not submitted to the Comptroller's Office, as required. Six of the 31 contracts were filed 7 to 26 days late and 25 contracts were not submitted at all.

**14 contracts were signed subsequent to the contract start date**

Some of the conditions noted during our review of 40 real estate leases follow:

- Two leases were executed 34 to 62 days after the beginning of the lease.
- Three Real Estate Lease Disclosure forms were signed after the beginning of the lease term.

Some of the conditions noted during our review of 26 emergency purchases follow:

**5 of 26 emergency purchases tested did not have any of the conditions needed to procure as an emergency**

- Five artistic services contracts were procured as an emergency purchase when none of the emergency purchase conditions were met.
- Four emergency purchases were published in the Illinois Procurement Bulletin 6 to 49 days after the required timeframe. (Finding 18, Pages 66-67) **This finding was first reported in 2003.**

We recommended the University establish appropriate procedures to ensure all contracts and leases are completed, approved, and properly executed prior to the start of the services and lease term and that emergency purchases are properly executed. Further the University should review procedures to ensure all appropriate signatures, clauses and certifications are obtained prior to execution for their contracts and leases and they are filed with the Office of the Comptroller and emergency purchase affidavits with the Auditor General.

**University agrees with auditors**

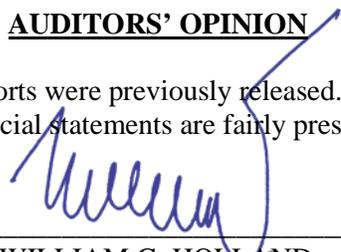
University officials accepted the recommendation and stated that they will continue to review requirements related to contractual services, establish any new procedures that may be required, and continue to enforce current policies and procedures. (For the previous University response, see Digest Footnote #4.)

#### **OTHER FINDINGS**

The remaining findings are reportedly being given attention by the University. We will review the University's progress towards the implementation of our recommendations in our next engagement.

#### **AUDITORS' OPINION**

The financial audit reports were previously released. Our auditors state the June 30, 2012 financial statements are fairly presented in all material respects.

  
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WILLIAM G. HOLLAND  
Auditor General

WGH:TLK:rt

#### **SPECIAL ASSISTANT AUDITORS**

KPMG were our special assistant auditors.

## **DIGEST FOOTNOTES**

### **#1 –Inadequate Supporting Documentation for Cost Transfers – Previous University Response**

Not Accepted. The University believes cost transfers are adequately documented and supported in accordance with University policy and requirements of OMB Circular A-21 and OMB Circular A-110. The University has formal written policies for cost transfers for every campus. These policies are followed by Grants Office personnel during their review of cost transfers posted to sponsored project funds.

The University's cost transfer policies address the type of support and documentation that is to be provided by the departments and/or PIs to support cost transfers. In some circumstances, as outlined in the policies, a standard form GC-81 "Cost Transfer Justification for Sponsored Projects" must be completed and filed with the Grants Office. The GC-81 form is an administrative document developed by the Grants Office to obtain additional supporting information from units for cost transfers on Sponsored Projects. The GC-81 form was not designed for, nor is there a requirement for it to be completed for, transfers made by internal Grants Office personnel in the course of making an administrative adjustment or closing out an award. This form is not used by Federal Agriculture Appropriations, i.e., Cooperative Extension Service. Additionally, there is policy guidance on what is considered timely and what requires additional documentation. Policy 16.1.2 states:

*Transfers, with appropriate documentation should be initiated during the month that charges are originally recorded in Banner or within the next two months. For example, corrections of transactions originally recorded in Banner during the month of January should be processed no later than the voucher cut-off date for the month of March. Transfers initiated after this cut-off date are considered non-current and require additional justification explaining why the transfers were not made in a timely manner.*

The University disagrees with the Firm's statement "... standard cost transfer form was not completed in accordance with University policy for a majority of the transfers tested." The form was completed when required by policy. The majority of the transfers listed in the transaction detail provided by the Firm were considered timely, 132 out of 184 listed. Thirty-seven transfers were listed for Federal Agriculture Appropriations, i.e., Cooperative Extension Service. They are not Sponsored Projects and do not fall into the justification requirements developed for Sponsored Projects. These two categories account for 90 percent of the transfers noted. For the small number of transfers meeting the criteria to require a GC-81, the form was appropriately completed in accordance with policy and was provided to the Firm.

The University continues its assertion that the journal entry descriptions entered into the FOATEXT form have the purpose of providing Grants Office personnel basic, general information as outlined in the cost transfer policy and to provide a contact point for follow-up and investigative action, if needed. Comments provided in the FOATEXT form are not intended to provide an all-encompassing record for independent party review. The JV text form (FOATEXT) functionality, in the University's Banner system, is used to attach a brief explanation of the cost transfer to the journal voucher document number. Space in the FOATEXT form is limited to 50 characters per line. The policy guidance suggests what the brief statement should contain:

- JV - FOATEXT:
  - Explanation of transaction and benefit to project;
  - Date when service was provided or cost incurred;
  - Date and Document Number of original transaction; and
  - Preparer's name and telephone number

In addition to reading the brief narrative in the FOATEXT, a review of the grant file and other supporting documentation related to the transfer is often required in order to gain a more complete understanding of the reason for the cost transfer as well as the possible need to contract the preparer for more information.

The University questions the inclusion of the programs of Temporary Assistance for Needy Families and Student Financial Assistance Cluster as no cost transfers for those programs were noted in the detailed list provided by the Firm.

**#2 –Failure to Obtain Suspension and Debarment Certifications From Vendors – Previous University Response**

Not Accepted. The University has established procedures to ensure vendors certify that their organizations are not suspended, debarred, or excluded from participation in federal assistance programs. As mentioned in the audit finding, verification can be obtained by adding a clause or condition to the covered transaction with that entity. While the University’s purchase orders include certification language (a clause) that states “by the acceptance of this order, the contractor certifies that it or any affiliate has not been debarred...,” we note that we also use additional procedures to verify that vendors are not suspended or debarred by checking the Excluded Parties List System (EPLS).

The University believes our procedures are adequate and that the EPLS was checked as required, however, as an isolated incident, the documentation was not included in the file for one expenditure. The remaining 204 expenditures demonstrate our general practice and evidence the adequacy of our procedures. The EPLS search for the vendor in question affirmed the vendor was neither suspended nor debarred.

**#3 –Inadequate Cash Draw and Reimbursement Request Controls – Previous University 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 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. Additionally, Cooperative Extension Service Program draws are handled through the University Accounting and Financial Reporting Office, not the Grants and Contracts Office.

The University sought guidance from the Department of Health and Human Services (HHS) in coordination with the Department of Education and the National Science Foundation. This resulted in a Management Decision Letter (MDL) issued on February 14, 2011. According to the MDL, “The audit finding is not sustained based on our review...” The University subsequently received a letter on March 10, 2011, from HHS that states “The purpose of this communication is not to reverse our decision(s) but to clarify the nature of the finding and the direction that the University needs to take in correction of the issue(s)”. The University has been actively engaged in collaboration with the agencies to find resolution on this issue.

**#4 –Contracts and Real Estate Leases Not Properly Executed – Previous University Response**

Accepted. The University will continue to examine and improve procedures to ensure contracts and leases are properly approved and executed prior to the start of the agreement, include all necessary documents, and are filed on a timely basis.