



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

UNIVERSITY OF ILLINOIS

**Single Audit and State Compliance Examination
For the Year Ended: June 30, 2013**

Release Date: May 15, 2014

Summary of Findings this Audit Cycle:

| | |
|---|-----------|
| • Compliance and Single Audit | 27 |
| • Financial Audit (previously reported 1-16-14) | <u>2</u> |
| TOTAL findings | 29 |

Summary of findings from previous audit cycle:

| | |
|---------------------------|-----------|
| Findings repeated: | 18 |
|---------------------------|-----------|

INTRODUCTION

The Financial Audit for the year ended June 30, 2013 was previously released on January 16, 2014. 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 29 audit findings, two of which had been reported in the Financial Audit.

SYNOPSIS

- The University awarded federal assistance to an ineligible student.
- The University did not document cost transfers in accordance with federal regulation and University policies.
- The University did not identify and remove inactive hourly employees from the payroll system in a timely manner.
- Internal controls over contracts and leases were not adequate to ensure they contained all necessary approvals, were executed prior to performance, and timely filed with the Illinois Office of the Comptroller.
- In January 2012, the Office of the Auditor General released a Performance Audit which contained 20 recommendations. Some of these recommendations have not been fully implemented as of June 30, 2013.
- The University has not established adequate internal controls over accurately identifying and correcting inaccurate Medicare payroll deductions.

{Financial data is summarized on the reverse page.}

UNIVERSITY OF ILLINOIS
SINGLE AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2013

| FINANCIAL OPERATIONS | 2013 | 2012 |
|---|-----------------------|-----------------------|
| Operating Revenues | | |
| Tuition and fees, net..... | \$ 1,044,188,000 | \$ 987,796,000 |
| Federal grants, contracts and appropriations..... | 710,789,000 | 736,693,000 |
| State and private gifts, grants and contracts..... | 243,413,000 | 219,190,000 |
| Hospital and medical activities..... | 861,526,000 | 837,520,000 |
| Auxiliary enterprises, net..... | 369,814,000 | 363,319,000 |
| Educational activities..... | 273,394,000 | 258,298,000 |
| Other..... | 15,788,000 | 15,028,000 |
| Total Operating Revenues..... | <u>3,518,912,000</u> | <u>3,417,844,000</u> |
| Operating Expenses | | |
| Instruction..... | 1,249,732,000 | 1,114,474,000 |
| Research..... | 746,625,000 | 710,656,000 |
| Public service..... | 459,093,000 | 413,988,000 |
| Academic support..... | 421,200,000 | 377,982,000 |
| Hospital and medical activities..... | 761,237,000 | 709,650,000 |
| Auxiliary enterprises..... | 333,648,000 | 307,597,000 |
| Operation and maintenance of plant..... | 282,287,000 | 270,947,000 |
| Institutional support..... | 250,156,000 | 232,023,000 |
| Depreciation..... | 231,556,000 | 213,070,000 |
| Scholarships and fellowships..... | 255,930,000 | 241,008,000 |
| Other..... | 173,382,000 | 153,572,000 |
| Total Operating Expenses..... | <u>5,164,846,000</u> | <u>4,744,967,000</u> |
| Operating Income (Loss)..... | (1,645,934,000) | (1,327,123,000) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations..... | 621,731,000 | 664,683,000 |
| Capital appropriations, gifts and grants..... | 154,584,000 | 87,293,000 |
| Private gifts and endowments..... | 143,121,000 | 142,023,000 |
| On behalf payments for fringe benefits..... | 1,083,666,000 | 818,084,000 |
| Other, net..... | 108,439,000 | 74,743,000 |
| INCREASE IN POSITION..... | <u>\$ 465,607,000</u> | <u>\$ 459,703,000</u> |
| SUPPLEMENTAL INFORMATION (Unaudited) | | |
| | 2013 | 2012 |
| Employment Statistics - Full Time Equivalent | | |
| Chicago..... | 13,768 | 13,639 |
| Springfield..... | 949 | 933 |
| Urbana-Champaign..... | 14,817 | 14,338 |
| Total..... | <u>29,534</u> | <u>28,910</u> |
| Enrollment Statistics - Fall | | |
| Undergraduate - | | |
| Chicago..... | 16,678 | 16,925 |
| Springfield..... | 3,054 | 3,112 |
| Urbana-Champaign..... | 32,281 | 32,256 |
| Subtotal..... | <u>52,013</u> | <u>52,293</u> |
| Graduate - | | |
| Chicago..... | 11,197 | 11,166 |
| Springfield..... | 1,994 | 2,025 |
| Urbana-Champaign..... | 12,239 | 12,151 |
| Subtotal..... | <u>25,430</u> | <u>25,342</u> |
| Total | <u>77,443</u> | <u>77,635</u> |
| PRESIDENT | | |
| During Audit Period and Current: Robert Easter | | |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FAILURE TO DETERMINE ELIGIBILITY IN ACCORDANCE WITH STUDENT FINANCIAL AID REGULATIONS

The University disbursed federal aid to an ineligible student.

Questioned costs of \$29,988

During our testwork over 25 Medical students at the Chicago campus (with disbursements of federal awards of \$1,638,254), we noted one student received an unsubsidized Direct Loan while on an approved leave of absence. The student was awarded and disbursed unsubsidized loan funds of \$29,988 for the Spring 2013 semester; however, because the student was on a leave of absence, the student was not eligible for any federal aid. (Finding 4, Pages 27-28)

Student was on a leave of absence

We recommended the University review its current procedures for awarding federal assistance and implement any changes necessary to ensure student financial assistance is awarded in accordance with federal regulations.

University agrees with auditors

The University accepted the recommendation.

INADEQUATE SUPPORTING DOCUMENTATION FOR COST TRANSFERS

The University does not adequately document cost transfers.

The University has formal policies and procedures which outline the documentation required to support cost transfers and a standard form has been developed to assist the University in collecting supporting documentation for each cost transfer.

**Descriptions did not provide
sufficient information**

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 240 cost transfers recorded during the year ended June 30, 2013, we noted cost transfer documentation was not consistently completed in accordance with federal regulations and University policy. Specifically we noted:

- The cost transfer forms completed for eight cost transfers were missing information, such as the journal voucher code, transfer fund codes, and the name of the preparer. Accordingly, the University

could not provide evidence the principal investigator had this information available when approving these cost transfers.

- The description of the reason for the transfer of 41 cost transfers sampled did not contain an adequate explanation of the reason the transfer was needed. Reasons documented for these transfers included: transfer expenses, move to correct fund, incorrect project, fund, account, etc., and correction of error.

Adequate explanations not provided

In addition, we noted the University does not prepare cost transfer forms for any appropriations received under the Cooperative Extension Services and Research and Development Cluster (Hatch Grant) programs. (Finding 6, Pages 33-36)

We recommended the University review its documentation supporting cost transfers and related approvals by the principal investigator to ensure the requirements of OMB Circular A-21 and OMB Circular A-110 are met.

The University disagrees with auditors

University officials did not accept this finding. The University cited the similarities between this finding and previous findings that were not sustained in Management Decision Letters dated September 18, 2013 and September 19, 2013. The University also stated that the journal entry descriptions cited in the finding are acceptable according to their policy. Further, the University stated that the GC-81 form is not required for administrative transactions performed by the Grants and Contract Office and other University Administration departments. Federal Agriculture Funds do not complete the form as they do not fall under the policy requiring completion.

Auditors' comment

In an auditors' comment we noted that the Management Decision Letters referenced in the University response related to the overall process matters; whereas, this finding relates to specific exceptions indentified in our testing of the University's stated policies. As discussed in the finding, we noted eight instances in which a GC-81 form was required by University policy and did not contain all information required by the form and necessary for approval by the principal investigator. Additionally we noted 41 instances in which insufficient information was provided for the transfers. The University response indicates additional backup is obtained where necessary; however, additional documentation was not provided by the University for the sampled transactions. Finally, we believe the lack of policy related to Federal Agriculture Appropriations is a material weakness in the internal control required to be reported under OMB Circular A-133. Alternative controls were not identified for these cost transfers.

INADEQUATE PROCEDURES TO REMOVE INACTIVE EMPLOYEES FROM PAYROLL SYSTEM

Need to improve the 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 eighteen months. Specifically, we noted the following related to the hourly employees eligible to be paid from the University's payroll system:

| Length of Time Since Last Paid By the University | Number of Employees |
|---|----------------------------|
| 1.5 to 2 years | 291 |
| 2 to 3 years | 329 |
| 3 to 4 years | 189 |
| 4 to 5 years | 124 |
| Over 5 years | 99 |
| Total | 1,032 |

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. Additionally, the University has coordinated an effort amongst its various campuses and departments to review and 1) remove certain employees with no pay event in the last 18 months; 2) establish "job end dates" within the payroll system; or 3) document rationale and support of the need for the employee to remain within the payroll system. (Finding 15, 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 continue to enhance control processes to address the recommendation in this finding.

CONTRACTS AND REAL ESTATE LEASES NOT PROPERLY EXECUTED

Need to improve controls over the processing of contracts and leases

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 65 contracts, including purchase orders, executed during the year ended June 30, 2013 follow:

- 16 contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- 19 contracts were not signed by University's Chief Executive Officer or Chief Legal Counsel out of 53 contracts sampled requiring this level of approval.
- 2 contracts were executed 16 and 344 days after the beginning of the contract start date.
- 20 contracts were not submitted to the Comptroller's Office, as required. Six of the 20 contracts were filed 2 to 143 days late and 14 contracts were not submitted at all.

2 contracts executed after the start date of the contract

Some of the conditions noted during our review of 25 real estate leases follow:

- Two leases were executed 53 to 119 days after the beginning of the lease.
- Two Real Estate Lease Disclosure forms were signed after the beginning of the lease term.
- Two lease contracts were not paid in accordance with lease terms resulting in net overpayment of \$2,507.

Some of the conditions noted during our review of 21 emergency purchases follow:

- Nine emergency purchases were not published in the Illinois Procurement Bulletin within the required time frames. Delays in publishing these purchases ranged from 1 to 219 days after the required timeframe.
- Seven emergency purchases were not filed timely to the Office of the Auditor General. Six of the seven emergency purchases were filed 3 to 198 days late and one emergency purchase filing date cannot be determined. (Finding 18, Pages 69-71) **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 practices. (For the previous University response, see Digest Footnote #1.)

PERFORMANCE AUDIT FOLLOW-UP

In January 2012, the Office of the Auditor General released a performance audit of the University of Illinois (University) which contained 20 recommendations to improve the performance and operations of the University.

As part of this compliance examination, auditors followed-up on the status of the 20 recommendations contained in the performance audit. The results of the follow-up are:

- One recommendation has not been implemented by the University.
- Seven recommendations have been partially implemented by the University.
- Twelve recommendations have been fully implemented by the University.

The following recommendation has not been implemented by the University:

- **Use of Alternates (Recommendation #13):** *The University should establish a University policy detailing requirements related to the selection of construction contractors with bid proposals containing base and alternate bid prices. These policies should ensure the consistent selection of contractors with these types of proposals as well as the documented support for current practices followed.*

Policy needed for construction contractors with bid proposals containing base and alternate bid prices

The University has not established a policy detailing requirements related to the selection of construction contractors with bid proposals containing base and alternate bid prices.

The following are some of the recommendations that have been partially implemented by the University:

University should ensure purchases meeting threshold are submitted to the Board

- **Board Approval (Recommendation #3):** *The University should take the steps necessary to ensure that all University purchasing transactions that meet or exceed Board thresholds are submitted to the Board for approval and contain accurate information.*

The 25 general purchase transactions sampled by the auditors that met Board thresholds were approved by the Board, however included in the 25 was one transaction (estimated cost of \$15,100,000) wherein the scoring evaluation presented to the Board was not the final scoring information used in selecting the vendor.

Consistency needed across campuses for purchase orders and contracts

- **Use of Contract Versus Purchase Order (Recommendation #6):** *The University should establish controls to ensure the consistent use of purchase orders and contracts within and across campuses through formal written procedures in University policy. The University should also ensure required signatures on contractual obligations are obtained and State recording/filing requirements are met.*

The University has implemented a policy whereby all procurement contract documents and purchase orders that exceed \$249,999 must have the signature of the University Comptroller, President and Chief Legal Counsel. However, during our review of 25 general purchase files, we noted 9 contracts, ranging from \$1,026,000 to \$30,500,000, were not approved by the President and Legal Counsel. In addition, 4 contracts, totaling \$15,473,000, were filed with the State Comptroller 12 to 143 days late and 6 contracts, totaling \$26,594,000, were not filed at all. These exceptions were also reported in Finding No. 2013-018. (Finding 28, Pages 83-88)

We recommended the University continue to fully implement the remaining eight performance audit recommendations that were either not implemented or partially implemented.

University agrees with auditors

University officials accepted the recommendation.

NEED TO IMPROVE INTERNAL CONTROLS OVER THE MONITORING OF MEDICARE EXEMPTIONS

The University has not established adequate internal controls over accurately identifying and correcting inaccurate Medicare payroll deductions.

109 employees were inappropriately exempted from mandatory Medicare withholding

During our audit in the prior year, we noted that a University employee was inappropriately identified as being exempt from mandatory Medicare withholding. Subsequently, University management formed a working group which consisted of various offices within the University. The University working group identified 109 employees had an inappropriate exemption from mandatory Medicare withholding from regular pay events.

In relation to our testwork over payroll vouchers, we recalculated, on a test basis, employee deductions to verify accuracy and that appropriate authorizations were on record. We reviewed 60 transactions representing payments to employees for employment related services, of which, 6 represented terminated employees' final payment. We did not identify any further instances of inaccurate deductions or inappropriate Medicare withholding exemptions. (Finding 29, pages 89-90)

We recommended the University review its current process to assess the accuracy of Medicare payroll deductions and the appropriateness of mandatory withholding exemptions to ensure payroll deductions and mandatory payroll withholding are in accordance with applicable laws and regulations.

University agrees with auditors

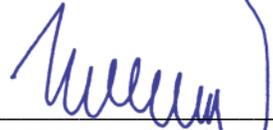
University officials accepted the recommendation and stated that they have implemented enhanced control procedures to ensure the accuracy of Medicare payroll deductions and appropriateness of withholding exemptions.

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, 2013 financial statements are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK

SPECIAL ASSISTANT AUDITORS

KPMG LLP were our special assistant auditors.

DIGEST FOOTNOTES

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

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