



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, 2014**

Release Date: March 26, 2015

FINDINGS THIS AUDIT: 39				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	1	8	9	2013	14-6, 14-8	14-35, 14-39	
Category 2:	18	12	30	2012		14-29, 14-30 14-34, 14-37	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2011	14-4, 14-12	14-18	
TOTAL	19	20	39	2010	14-10		
				2009	14-5, 14-9 14-11	14-1	
				2008		14-2, 14-24	
				2005		14-23	
				2003		14-22	
FINDINGS LAST AUDIT: 29							

INTRODUCTION

This digest covers our federal Single Audit and Compliance Examination of the University of Illinois for the year ended June 30, 2014. A separate Financial Audit as of and for the year ended June 30, 2014, was previously released on January 15, 2015. In total, this report contains 39 findings, three of which were reported in the Financial Audit.

SYNOPSIS

- **(14-6)** The University does not consistently complete cost transfer documentation.
- **(14-7)** The University reported expenditures in the incorrect accounting period for its Research and Development Cluster, Highway Planning and Construction Cluster, Education and Human Resource, and Head Start programs.
- **(14-12)** The University inadequately documented the performance of supervisory reviews of financial reports submitted for its federal programs.
- **(14-22)** The University lacked adequate internal controls over contracts and leases.
- **(14-34)** The University failed to identify and remove inactive hourly employees from the payroll system in a timely manner.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with laws and regulations.

{Financial data is summarized on next page.}

UNIVERSITY OF ILLINOIS
SINGLE AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2014

FINANCIAL OPERATIONS	2014	2013
Operating Revenues		
Tuition and fees, net.....	\$ 1,040,399,000	\$ 989,502,000
Federal grants, contracts and appropriations.....	669,282,000	709,055,000
State and private gifts, grants and contracts.....	227,830,000	243,413,000
Hospital and medical activities.....	852,875,000	861,526,000
Auxiliary enterprises, net.....	378,992,000	369,953,000
Educational activities.....	294,353,000	273,394,000
Other.....	15,841,000	15,788,000
Total Operating Revenues.....	<u>3,479,572,000</u>	<u>3,462,631,000</u>
Operating Expenses		
Instruction.....	1,259,862,000	1,249,732,000
Research.....	724,924,000	746,625,000
Public service.....	471,414,000	459,093,000
Academic support.....	451,948,000	421,200,000
Hospital and medical activities.....	771,520,000	761,237,000
Auxiliary enterprises.....	341,780,000	333,648,000
Operation and maintenance of plant.....	315,393,000	282,287,000
Institutional support.....	255,874,000	250,156,000
Depreciation.....	249,250,000	231,556,000
Scholarships and fellowships.....	270,036,000	260,658,000
Other.....	175,634,000	173,382,000
Total Operating Expenses.....	<u>5,287,635,000</u>	<u>5,169,574,000</u>
Operating Income (Loss).....	(1,808,063,000)	(1,706,943,000)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	623,372,000	621,731,000
Capital appropriations, gifts and grants.....	24,815,000	154,584,000
Private gifts and endowments.....	175,223,000	143,121,000
On behalf payments for fringe benefits.....	1,074,913,000	1,083,666,000
Other, net.....	216,849,000	167,644,000
INCREASE IN NET POSITION.....	<u>\$ 307,109,000</u>	<u>\$ 463,803,000</u>
SUPPLEMENTAL INFORMATION (Unaudited)		
	2014	2013
Employment Statistics - Full Time Equivalent		
Chicago.....	13,698	13,768
Springfield.....	956	949
Urbana-Champaign.....	14,931	14,817
Total.....	<u>29,585</u>	<u>29,534</u>
Enrollment Statistics - Fall		
Undergraduate -		
Chicago.....	16,671	16,678
Springfield.....	3,039	3,054
Urbana-Champaign.....	32,695	32,281
Subtotal.....	<u>52,405</u>	<u>52,013</u>
Graduate -		
Chicago.....	11,367	11,197
Springfield.....	2,098	1,994
Urbana-Champaign.....	12,247	12,239
Subtotal.....	<u>25,712</u>	<u>25,430</u>
Total	<u>78,117</u>	<u>77,443</u>
PRESIDENT		
During Audit Period and Current: Robert A. Easter		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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.

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 of 194 cost transfers recorded during the year ended June 30, 2014, we noted cost transfer documentation was not consistently completed in accordance with federal regulations and University policy. Specifically, some of the exceptions we noted are as follows:

- The cost transfer forms completed for two cost transfers were not signed by the Principal Investigator as required. The cost transfer amounts related to these items totaled \$11,484 for the Supplemental Nutrition Assistance Program.
- The cost transfer form was not completed for 4 cost transfers sampled that occurred over 90 days after the original transaction or expenditure was incurred. The cost transfer amounts related to these items totaled \$85,878 and (\$228,439) for the Broadband Technology Opportunities Program.

Descriptions did not provide sufficient information

Further, we noted the description of the reason for the transfer for 40 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.

While the University prepared documentation to better explain these cost transfers in response to our audit requests, this information was not readily in the accounting system or program files and had to be researched and discussed with program personnel to provide additional information for audit. In the event that program personnel had left the University, the additional information obtained may not have been available.

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 35-39)

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 that this was a previous finding in 2012 and 2013 and that the findings were not sustained in Management Decision Letters dated September 18, 2013 and September 30, 2014. 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 identified in our testing of the University's stated policies. As discussed in the finding, we noted two instances where the required Principal Investigator review was not obtained, one instance in which the form was completed after the transaction was entered into the General Ledger, one instance in which the transaction was significantly aged, four instances in which a GC-81 form was required by University policy and did not contain all information required by the form and necessary for approval by the principal investigator. We also noted 40 instances in which insufficient information was initially provided for the transfers and where the University had to go back to program personnel for additional information. As noted above, the additional information provided would not have been available if the personnel had left the University or were otherwise unable to provide the information during the audit.

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.

EXPENDITURES REPORTED IN THE INCORRECT ACCOUNTING PERIOD

The University reported expenditures under its Research and Development Cluster, Highway Planning and Construction Cluster (Highway), Education and Human Resource (EHR), and Head Start Programs in the incorrect accounting period.

During our review of 42 contractual expenditures charged to the Research and Development Cluster program (totaling \$6,619,449), 25 contractual expenditures charged to the Highway program (totaling \$501,063), 40 contractual expenditures charged to EHR program (totaling \$320,344), and 14 contractual expenditures charged to the Head Start program (totaling \$195,032), we noted several

expenditures sampled were reported in the incorrect accounting period as follows:

Expenditures reported in the incorrect accounting period

Major Program	2013 Expenditures		2015 Expenditures	
	Number	Amount	Number	Amount
Research and Development Cluster	3	\$58,503	4	\$56,248
EHR	3	\$4,400	2	\$2,061
Highway	–	–	1	\$484
Head Start	1	\$682	–	–

Unreconciled difference of \$2,635,000

Upon further investigation, we noted the University is not recording accruals related to its federal programs in accordance with the accrual basis of accounting. During our review of the reconciliation of the University’s schedule of expenditures of federal awards (SEFA) to the financial statements, we noted an unreconciled difference of \$2,635,000 which is believed to primarily relate to the unposted accrual adjustments and overspending on grants for which federal approval had not been received as of June 30, 2014. The University has not posted approximately \$18,417,699 in fiscal year 2014 accrual adjustments to the SEFA. Additionally, fiscal year 2013 accruals of approximately \$20,867,722 are reported in the SEFA. (Finding 7, Pages 40-42)

We recommended the University implement procedures to ensure the SEFA is prepared on the disclosed basis of accounting.

The University disagrees with auditors

University did not accept the finding. The University does not believe that they have errors on their SEFA. They stated that expenditures are analyzed for financial statement purposes at a higher level than the grant fund for adjustments to the statements. The University stated they do not allow expenditures outside the period of availability to be charged to federal programs unless they are valid trail-out costs. The University believes adequate internal controls are in place to reasonably ensure compliance with financial reporting requirements.

Auditors’ comment

In an auditors’ comment we noted the University’s notes to the SEFA state that it is being prepared on the accrual basis of accounting which requires expenditures to be reported when incurred. Accordingly, the accrual adjustments indentified in this finding were necessary to conform to the accrual basis of accounting and the items identified are errors as it pertains to the accounting period in which they should have been reported in the SEFA.

INADEQUATE APPROVAL CONTROLS OVER FINANCIAL

REPORTING

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

Need to improve controls over financial reporting

During our testwork of 31 Research and Development Cluster SF-425 reports (16 quarterly reports, 14 annual reports, and one final report), 1 annual SF-424 report and 2 quarterly SF-269 reports; 7 ACM\$ reports; 8 Supplemental Nutrition Assistance Program (SNAP) Illinois Department of Human Services (IDHS) Expenditure Reports; 3 Highway Planning Illinois Department of Transportation invoices; and 9 Child Care Development Fund Cluster (CCDF) IDHS Expenditure Reports, we noted the following:

Supervisor did not sign their own name

- For two annual SF-425 reports submitted to the Department of Agriculture by the Urbana campus for the Research and Development Cluster program, we noted the signature of the Director of Grants and Contracts was used to evidence approval of the required financial reports; however, it appears that the report reviews were performed by supervisors within the Office of Grants and Contracts, not the Director. Since the supervisor did not sign his or her own name, we were unable to determine whether an individual other than the preparer reviewed the report prior to submission to the federal awarding agency.
- Seven ACM\$ reports submitted to the National Science Foundation by the Urbana and Chicago campuses for the Research and Development Cluster and Education and Human Resources programs were prepared and certified by the same individual.
- For four monthly expenditure reports submitted to pass-through entities by the Urbana campus for the SNAP Program, we noted the signature of the Director of Grants and Contracts was used to evidence approval of the required financial reports; however, it appears that the report reviews were performed by supervisors within the Office of Grants and Contracts, not the Director. Since the supervisor did not sign his or her own name, we were unable to determine whether an individual other than the preparer reviewed the report prior to submission to the awarding agency.
- For three monthly invoices submitted to the Illinois Department of Transportation for the Highway Planning program, the signature on the invoice is a part of the invoice template. Since the individual did not sign his or her own name, we were unable to determine whether the report was reviewed prior to submission to the awarding agency.
- For nine monthly expenditure reports submitted to the pass-through entities by the Urbana campus for the CCDF Program, we noted the signature of the Director of Grants and Contracts was used to evidence approval of the required reports; however, it appears that the report reviews were performed by

Auditors were unable to determine whether the report was reviewed prior to submission

supervisors within the Office of Grants and Contracts, not the Director. Since the supervisor did not sign his or her own name, we were unable to determine whether an individual other than the preparer reviewed the report prior to submission to the awarding agency. (Finding 12, Pages 58-60) **This finding was first reported in 2011.**

We recommended the University implement procedures to ensure the financial reports submitted for its federal awards are reviewed and approved by someone other than the preparer.

The University disagrees with auditors

University officials did not accept this finding. The University stated the signature required on the report is the signature of the Authorized Certifying Official. The Certifying Official is the individual who has the knowledge and authority to certify that the figures reported on the SF-425 are accurate and complete. The employees who prepare and review are determining that the reports are accurate and complete, but do not have the authority to certify them as required, nor is their signature required. A supervisory review is done prior to the submission of financial status reports. OMB Circular A-133 requires the University to establish and maintain internal control designed to provide reasonable assurance that Federal awards are managed in compliance with federal laws, regulations, and program compliance requirements. There is no specific requirement for documentation of a supervisory review. (*For the previous University response, see Digest Footnote #1.*)

Auditors' comment

In an auditors' comment we noted OMB Circular A-133 requires the auditors to identify and test controls to obtain a low level of control risk. We believe effective internal control should include a documented review and approval of required financial reports and we were unable to obtain evidence that the financial reports had been reviewed and approved by an individual other than the preparer. We also note there were several reporting errors identified in our testing as reported in finding 2014-011.

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 received all necessary approvals, are 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 67 contracts, including purchase orders, executed during the year ended June 30, 2014 follow:

- Nine contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- Nineteen contracts were not signed by University's Chief Executive Officer or Chief Legal Counsel out of 59 contracts sampled requiring this level of approval.

19 contracts not signed by the Chief Executive Officer or Chief Legal Counsel

21 contracts not submitted to the Office of the Comptroller

- Six contracts were executed subsequent to the start date on the contracts. The contract execution dates ranged from 9 to 45 days from commencement of service.
- Two contracts were not timely approved by the University Board of Trustees. Late approval ranged from 54 to 77 days late.
- One procurement reviewed had errors on average evaluation scores. Errors noted did not affect results of the procurement process.
- Thirty-four contracts were not submitted to the Comptroller's Office, as required. Thirteen of the 34 contracts were filed 2 to 310 days late and 21 contracts were not submitted at all.

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

8 leases executed after the lease term began

- Eight leases were executed after the lease began. The lease execution dates ranged from 30 days to 240 days after the beginning of the lease.
- Seven lease contracts were not timely submitted to the Comptroller's Office, as required. Six of the 7 lease contracts were filed 50 to 209 days late and one lease contract was not filed at all.

Some of the conditions noted during our review of 31 emergency purchases follow:

- Five emergency purchases were not published in the Illinois Procurement Bulletin within the required time frames. Delays in publishing these purchases ranged from 4 to 9 days after the required timeframe.
- Six emergency purchases were not filed timely with the Office of the Auditor General, as required. Four of the six emergency purchases were filed 11 to 14 days late and two emergency purchases filing dates cannot be determined. (Finding 22, Pages 82-84) **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 to ensure that evaluation scores are accurate. Further, the University should review procedures to ensure all appropriate signatures, clauses and certifications are obtained prior to execution for their contracts and lease agreements, all applicable contracts, real estate leases and emergency purchases are filed with the Office of the Comptroller and the Auditor General in accordance with State statutes and related guidelines.

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 #2.)

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 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 as of the pay event on March 26, 2014:

As of March 26, 2014

Length of Time Since Last Paid By the University	Number of Employees
1.5 to 2 years	404
2 to 3 years	435
3 to 4 years	270
4 to 5 years	163
Over 5 years	259
Total	1,531

During April 2014, the University began an effort to remove inactive employees within certain employee classes that have not received pay within the last 18 months. The following table represents an update to the number of employees identified above (pay event on March 26, 2014) still eligible to be paid as of June 30, 2014:

As of June 30, 2014

Length of Time Since Last Paid By the University	Number of Employees
1.5 to 2 years	50
2 to 3 years	82
3 to 4 years	19
4 to 5 years	7
Over 5 years	37
Total	195

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 and/or establish “job end dates” at least once a year; or 2) document rationale and support of the need for the employee to remain within the payroll system. Further, departments will determine appropriate changes to system access for employees with irregular work schedule or temporary work assignments. (Finding 34, Pages 99-100) **This finding was first reported in 2012.**

We recommended the University continue its evaluation of 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 take the remaining corrective actions necessary to address the recommendation in this finding. *(For the previous University response, see Digest Footnote #3.)*

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.

AUDITOR'S OPINION

The financial audit report was previously released. The auditors stated the financial statements of the University of Illinois as of and for the year ended June 30, 2014, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the University as required by OMB Circular A-133. Our auditors stated the University complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2014, as required by the Illinois State Auditing Act. The auditors stated the University complied, in all material respects, with the requirements described in the report.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK

SPECIAL ASSISTANT AUDITORS

KPMG LLP were our Special Assistant Auditors.

DIGEST FOOTNOTES

#1 – Inadequate Approval Controls Over Financial Reporting

2013: **UIUC Response: Not Accepted.**

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

UIC Response: Not Accepted.

Third bullet

For the ONR report reviewed, the University's evidence of supervisory review was demonstrated via an email exchange between the department and the Grants and Contracts Office (GCO), as well as the final submission in the ONR payment website, PayWeb. The department prepares and emails the invoice detail to GCO for review and submission into PayWeb. The GCO reviews the invoice detail. If there are questions or edits, the department is contacted. If there are no questions or concerns, the GCO submits the invoice to PayWeb. Our review process is evidenced by the email from the department asking for GCO to submit the invoice and to ask if there are questions regarding the request. In addition, the submission in PayWeb demonstrates final approval of the invoice detail.

Fifth bullet

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

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

#2 – Contracts and Real Estate Leases Not Properly Executed

2013: 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.

#3 – Inadequate Procedures to Remove Inactive Employees from Payroll System

2013: Accepted. The University will continue to enhance control processes to address the recommendation in this finding.