



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

UNIVERSITY OF ILLINOIS

Single Audit and State Compliance Examination
 For the Year Ended June 30, 2015

Release Date: March 24, 2016

FINDINGS THIS AUDIT: 30				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	6	7	2014		15-13, 15-14, 15-22, 15-24, 15-25	
Category 2:	11	12	23	2013	15-6	15-26	
Category 3:	0	0	0	2012		15-23	
TOTAL	12	18	30	2011	15-4, 15-7	15-12	
FINDINGS LAST AUDIT: 39				2010	15-8		
				2009	15-5, 15-9	15-1	
				2008		15-2	
				2005		15-21	
				2003		15-20	

INTRODUCTION

This digest covers our federal Single Audit and Compliance Examination of the University of Illinois for the year ended June 30, 2015. A separate Financial Audit as of and for the year ended June 30, 2015, was previously released on January 21, 2016. In total, this report contains 30 findings, three of which were reported in the Financial Audit.

SYNOPSIS

- (15-5) The University lacked adequate procedures to ensure federal projects were closed in a timely manner.
- (15-6) The University failed to adequately document cost transfers for the Research and Development agricultural grant and Cooperative Extension Services programs.
- (15-7) The University's performance of supervisory reviews of financial reports submitted for its federal programs were not adequately documented.
- (15-20) The University lacked adequate internal controls over contracts and leases.
- (15-25) The University did not comply with the requirements of the Pension Code.

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

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

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

{Financial data is summarized on next page.}

UNIVERSITY OF ILLINOIS
SINGLE AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2015

FINANCIAL OPERATIONS	2015	2014
Operating Revenues		
Tuition and fees, net.....	\$ 1,095,905,000	\$ 1,040,399,000
Federal grants, contracts and appropriations.....	641,533,000	669,282,000
State and private gifts, grants and contracts.....	227,860,000	227,830,000
Hospital and medical activities.....	842,156,000	852,875,000
Auxiliary enterprises, net.....	407,530,000	378,992,000
Educational activities.....	334,082,000	294,353,000
Other.....	15,044,000	15,841,000
Total Operating Revenues.....	3,564,110,000	3,479,572,000
Operating Expenses		
Instruction.....	1,300,281,000	1,259,862,000
Research.....	744,043,000	724,924,000
Public service.....	512,953,000	471,414,000
Academic support.....	507,303,000	451,948,000
Hospital and medical activities.....	793,777,000	771,520,000
Auxiliary enterprises.....	371,639,000	341,780,000
Operation and maintenance of plant.....	324,010,000	315,393,000
Institutional support.....	282,877,000	255,874,000
Depreciation.....	248,889,000	249,250,000
Scholarships and fellowships.....	278,001,000	270,036,000
Other.....	196,754,000	175,634,000
Total Operating Expenses.....	5,560,527,000	5,287,635,000
Operating Income (Loss).....	(1,996,417,000)	(1,808,063,000)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	609,140,000	623,372,000
Capital appropriations, gifts and grants.....	11,724,000	24,815,000
Private gifts and endowments.....	177,196,000	175,223,000
On behalf payments for fringe benefits.....	1,172,354,000	1,074,913,000
Other, net.....	141,033,000	216,849,000
INCREASE IN NET POSITION.....	\$ 115,030,000	\$ 307,109,000

SUPPLEMENTAL INFORMATION (Unaudited)	2015	2014
Employment Statistics - Full Time Equivalent		
Chicago.....	13,698	13,768
Springfield.....	956	949
Urbana-Champaign.....	14,931	14,817
Total.....	29,585	29,534
Enrollment Statistics - Fall		
Undergraduate -		
Chicago.....	16,718	16,671
Springfield.....	3,038	3,039
Urbana-Champaign.....	32,959	32,695
Subtotal.....	52,715	52,405
Graduate -		
Chicago.....	11,251	11,367
Springfield.....	2,393	2,098
Urbana-Champaign.....	12,181	12,247
Subtotal.....	25,825	25,712
Total	78,540	78,117

PRESIDENT
During Audit Period and Current: Robert A. Easter thru 5-17-15; Timothy L. Killeen 5-18-15 to present

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE PROCEDURES FOR CLOSING OUT FEDERAL PROJECTS

Procedures to close out projects need improvement

The University does not have adequate procedures in place to ensure federal projects are closed in a timely manner.

Projects should be closed within 90 days

The University administers thousands of individual federal projects from several federal agencies and pass-through entities which have varying project periods. The University has formally documented policies and procedures for closing out federally funded projects which generally require projects to be closed within 90 days after the project end date.

Procedures have been established to send a notice of terminating accounts to the principal investigator or program coordinator 90 days prior to the project end date. The notice provides information about the process for closing projects and includes an information request for any extensions granted and other project information necessary to complete the project close out.

Personnel in the Grants and Contracts Office are responsible for ensuring the University has met its obligations under the project, closing the general ledger accounts, and returning any unexpended grants funds to the federal agency or pass-through entity.

During our review of the University’s schedule of expenditures of federal awards for the year ended June 30, 2015, we noted expenditures (or negative expenditures) were reported for several projects with end dates of greater than the 90 day close out period. Specifically, we noted the following:

Year Ended	Number of projects with end date during fiscal year	Year ended June 30, 2015		
		Number of expenditures	Dollar amount of positive costs	Dollar amount of negative costs
6/30/2000	1	4		(5,391)
6/30/2001	1	11		(7,170)
6/30/2002	1	4		(42,196)
6/30/2006	4	12	3,509	(18,493)
6/30/2009	3	18		(9,497)
6/30/2010	4	8	7,213	(32,452)
6/30/2011	9	181	14,997	(83,458)
6/30/2012	15	177	53,244	(110,522)
6/30/2013	67	3,155	214,311	(664,295)
6/30/2014	154	3,961	780,220	(753,992)
Total	259	7,531	1,073,494	(1,727,466)

Upon review of the transactions recorded in the projects above, we noted that transactions included a number of transfer expenditures and corrections. Periodic financial reports previously submitted for several of the University’s federally funded projects inaccurately included or excluded project expenditures which have later been corrected. (Finding 5, Pages 27-29) **This finding was first reported in 2009.**

We recommended the University review its current close out procedures and implement additional procedures to monitor the timeliness of federal account close outs.

University agrees with auditors

The University agreed with our recommendation and indicated that on-going efforts are underway to improve the closeout process. (*For the previous University response, see Digest Footnote #1.*)

INCOMPLETE COST TRANSFER INFORMATION

The University does not adequately document cost transfers for the Research and Development agricultural grant (Hatch Grant) and Cooperative Extension Services programs.

Lack of policies and procedures

The University lacks formal policies and procedures for the Federal Agriculture Funds and does not prepare cost transfer forms for any appropriations received under the Research and Development Cluster (Hatch Grant) and Cooperative Extension Services programs.

Cost transfer forms were not prepared for the Hatch Grant and Cooperative Extension Services

During our testing of 60 Research and Development cost transfers totaling \$441,476 (all positive), we noted a cost transfer under the Hatch Grant where cost transfer forms were not prepared.

During our testing of 60 Cooperative Extension Services cost transfers totaling \$100,697 positive cost transfers and \$(13,645) negative cost transfers, we noted five cost transfers where cost transfer forms were not prepared. (Finding 6, Pages 30-31) **This finding was first reported in 2013.**

We recommended the University review its policies related to documentation and approval of cost transfers and implement procedures to ensure the University cost transfer policies are being adequately followed for all federal funds including agricultural grant funds (Hatch grant) and Cooperative Extension Services grant funds.

University agrees with auditors

The University agreed with the finding and stated they will review its policies related to documentation and approval of cost transfers and implement procedures to ensure that cost transfers are being adequately documented. (*For the previous University response, see Digest Footnote #2.*)

INADEQUATE APPROVAL CONTROLS OVER FINANCIAL REPORTING

Need to improve controls over financial reporting

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

During our testwork of 40 Research and Development Cluster SF-425 reports (12 quarterly reports, 14 annual reports, and one final report), 1 annual SF-424 report, 8 monthly reports and 4 ACM\$ reports we noted the following:

- Four annual Federal Financial Reports were submitted without evidence of a review of the report. In two of these instances, the report was completed and reconciled to the Banner Financial System as required by the Circulars by the NIH Assistant Director, and submitted through the NIH Commons online system for CFDA No. 93.859.

In the other two instances, we were unable to determine whether an individual other than the preparer reviewed the report for CFDA Nos. 16.560 and 17.720.

- Two Federal Financial Reports, one SF424 report, and one monthly financial status report were submitted after the required filing dates. These related to CFDA Nos. 14.906; 17.720; 84.305; 77.000, respectively. (Finding 7, Pages 32-33) **This finding was first reported in 2011.**

We recommended the University implement procedures to ensure financial reports are reviewed and approved by someone other than the preparer and the reports are filed in a timely manner.

University partially agrees with auditors

The University partially accepted our recommendation. University officials stated that in three of the four reports listed under the first bullet, an Assistant Director (i.e. supervisor) prepared and submitted the reports. The University does not agree that an Assistant Director preparing a report requires an additional reviewer and that no errors were noted on the reports. The University agreed that the reports mentioned in this finding were submitted late. (*For the previous University response, see Digest Footnote #3.*)

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 2015-009.

CONTRACTS AND REAL ESTATE LEASES NOT PROPERLY EXECUTED

Need to improve controls over contracts and leases

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

Some of the conditions noted during our review of 70 contracts, including purchase orders, executed during the year ended June 30, 2015 follow:

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

- Ten contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- Four contracts were not signed by the University's Chief Executive Officer or Chief Legal Counsel out of 60 contracts sampled requiring this level of approval.
- Two contracts were executed subsequent to the start date of the contracts. The contract execution dates were 28 and 100 days from the commencement of service.
- Three contracts were not approved by the University's Board of Trustees, as required. Two of three contracts were approved 35 and 72 days after the contract execution date and one contract was not approved at all.
- Five contracts did not contain disclosure of financial interest statements as

required. One of the five was submitted 394 days late and the remaining four contracts did not have the disclosure of financial interest statements.

- Two procurements reviewed had errors on evaluation scores. The errors noted did not affect results of the procurement process.
- One procurement did not have all completed score sheets for each individual evaluator in the procurement file. The score sheets of two of three evaluators were missing.
- Sixteen contracts were not submitted to the State Comptroller's Office, as required. Five of the 16 contracts were filed four to 204 days late and 11 contracts were not submitted at all.

11 contracts were not submitted to the Office of the Comptroller

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

- Five lease agreements did not contain the signature of the employee signing on behalf of the University Comptroller.
- Five leases were executed after the lease term began. The lease execution dates ranged from 16 to 66 days after the beginning of the lease.
- Three leases were not paid in accordance with lease terms resulting in underpayment of \$6,043.
- One lease agreement was not signed by the University's Chief Executive Officer and Chief Legal Counsel out of two lease agreements sampled requiring this level of approval.
- Five Real Estate Disclosure forms were not properly and timely completed, as required. Of the five Real Estate Disclosure forms, one was not notarized, two were signed 14 and 105 days after the beginning of the lease term, and two were not completed at all.
- Four lease agreements were not timely submitted to the State Comptroller's Office. The lease agreements were filed 18 to 327 days late.

5 leases executed after the lease term began

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

- One contract was procured as an emergency when none of the emergency purchase conditions were met.
- Ten emergency purchases were not filed with the Office of the Auditor General, as required. Six out of the 10 emergency purchases were filed one to 106 days late and four emergency purchases were not filed at all. (Finding 20, Pages 56-58) **This finding was first reported in 2003.**

4 emergency purchases were not filed with the Office of the Auditor General

We recommended the University establish appropriate procedures to ensure that 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. We also recommended the University review their procedures to ensure all appropriate signatures, clauses and certifications are obtained prior to execution for all contracts and lease agreements and that all applicable contracts, real estate leases, and emergency purchases are filed with the Office of the Comptroller and the Auditor General of the State of Illinois in accordance with the State statutes and related guidelines.

University agrees with the auditors

University officials accepted the recommendations in this finding and stated they recognize the importance of process controls, training, and transaction monitoring in these areas and has already taken corrective action to address some of the recommendations in this finding. *(For the previous University response, see Digest Footnote #4.)*

NONCOMPLIANCE WITH THE PENSION CODE

The University did not comply with the requirements of the Pension Code (Code) on the employment and re-employment of State University Retirement System (SURS) annuitants.

Notice must be provided to the System within 60 days of employing the annuitant

The Illinois Pension Code (40 ILCS 5/15-139.5(a)) states that “An employer who employs or re-employs a person receiving a retirement annuity from the System in an academic year beginning on or after August 1, 2013 must notify the System of that employment within 60 days after employing the annuitant. The notice must include a summary of the contract of employment or specify the rate of compensation and the anticipated length of employment of that annuitant. The notice must specify whether the annuitant will be compensated from federal, corporate, foundation, or trust funds or grants of State funds that identify the principal investigator by name. The notice must include the employer’s determination of whether or not the annuitant is an “affected annuitant.”

4 of 25 employees tested were not reported timely

During our testwork over 25 employees receiving retirement annuity from SURS, we noted the University did not timely notify SURS of its employment or re-employment of four SURS annuitants (one from the Urbana-Champaign campus and three from the Chicago campus). Delays in notification ranged from 34 to 332 days late. (Finding 25, Page 65)

We recommended the University ensure notification of employment or re-employment of a person receiving a retirement annuity from SURS is in compliance with the Code.

University agrees with auditors

University officials accepted the finding and stated they have developed processes and procedures regarding Retiree Rehires.

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, 2015, 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, 2015.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2015, 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.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

SPECIAL ASSISTANT AUDITORS

CliftonLarsonAllen LLP were our Special Assistant Auditors.

DIGEST FOOTNOTES

#1 –Inadequate Procedures for Closing out Federal Projects

2014: **Accepted**

While the University believes adequate controls are in place, and the majority of awards are closed in a timely manner, it will continue to monitor the timeliness of closeouts. There are instances of late award close-out with a variety of reasons for delays in the grant close-outs. The causes of a late close-out vary depending on the award and the situation. Incremental funding on multi-year awards may be delayed, causing valid and allowable expenditures to post during the wait period. Difficulties in collecting delinquent Accounts Receivable balances or Completion of project deliverables have also contributed to delays in the closeout of awards.

As an example, the large award listed as an exception for the year ended 2006, was a subaward from a private company identified as federal pass-thru. The University in good faith reported the federal expenditures in the years the expenditures were incurred. The private company defaulted and did not reimburse the University for work completed on the award. After lengthy, extensive collection processes were unsuccessful, the University was forced remove the charges.

Of the 87 projects noted, 39 of 43 projects at the Urbana Campus have subsequently been closed (termed) and 34 of 44 at the Chicago Campus have been closed (termed). The University continues to make progress in the close out process.

#2 –Incomplete Cost Transfer Information

2014: **Not Accepted.**

This is a repeat finding. Prior year findings (12-05 and 2013-006) related to cost transfer documentation were not sustained in Management Decision Letters from the Department of Education (09/18/13 and 09/30/14).

As noted in prior years, cost transfers are primarily completed to correct errors. This is specifically stated in OBFS Policy Section 16.1.2., which includes an example of a Cost Transfer Type “*Clerical error or data input error (transposition or other inadvertent error of the fund, organization, account or program code, or the dollar amount of the transaction)*”. The exception states “*Reasons documented for these transfers included transfer expenses, move to correct fund, incorrect project, fund, account, etc., and correction of error*”. Per the Policy, these are acceptable and sufficient reasons for making a cost transfer. To the University staff trained in making determinations in approval, this provides sufficient description when used along with the Journal Voucher (JV) and supporting documentation to determine the appropriateness of the transaction. To clarify, Grants and Contracts Office (GCO) staff make the final determination based on all information provided and additional follow-up when needed.

The sufficiency of the required information for each JV awaiting approval or denial in the electronic Approval Queue must be first ascertained by GCO staff performing a combination of steps. The electronic JV is first opened to view the details; it contains the JV document code, fund code and the name of the preparer (auto populated). These fields must be populated for the JV to correctly route to the Approval Queue. The additional information supplied by the preparer and included in the JV FOATEXT is also reviewed by the approver. The contents of the FOATEXT guide the reviewer to the source of any other required information or secondary forms required by policy.

An additional secondary form is the GC-81. It also supports the determination of allowability. It is retained in the department as a resource for later needs. Again, the JV related to the form has the JV document code, fund codes and the name of the preparer. Additional backup documentation is requested for any transaction when deemed necessary by the staff member reviewing and approving the transaction. Additional follow-up is performed by the reviewer for any transaction in which allowability questions are not satisfied by secondary forms.

Until all steps of the review are complete, the transaction remains in the electronic Approval Queue. Once the review is complete and the JV is determined to be allowable, it is approved, and the transaction expense will then post to the award. If it is not deemed allowable, it is denied and does not post to the award.

As noted in previous years, a completed GC-81 form is not required for administrative transactions performed by GCO and other University Administration departments. Federal Agriculture Funds do not complete the form as they do not fall under the policy requiring completion.

Additionally, original allocation transactions post with a JV prefix code document reference, but transaction of this type are not cost transfers or subject to the cost transfer policy. Transactions from recharge or revolving funds are examples of original allocation charges.

#3 –Inadequate Approval Controls Over Financial Reporting

2014: **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.

NSF allows the preparer to also certify the report. At the UIUC campus, the Assistant Director, who serves as the NSF Section Head, has both preparer and certifier roles. The Section staff only have the preparer roles and the Section Head is the certifier. At the Chicago campus, an Assistant Director has both preparer and certifier roles. There is no requirement from NSF that these are two different individuals. There are additional controls within the cash draw process that require the involvement of other individuals for appropriate review and oversight.

#4 – Contracts and Real Estate Leases Not Properly Executed

2014: **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.