



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, 2016

Release Date: February 23, 2017

FINDINGS THIS AUDIT: 18				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2015		16-6, 16-10, 16-11, 16-12	
Category 2:	4	14	18	2014		16-8	
Category 3:	0	0	0	2013		16-7	
TOTAL	4	14	18	2012		16-17	
FINDINGS LAST AUDIT: 30				2011		16-13	
				2010		16-4	
				2009		16-1, 16-5	
				2008		16-2	
				2005		16-16	
				2003		16-15	

INTRODUCTION

This digest covers our federal Single Audit and Compliance Examination of the University of Illinois for the year ended June 30, 2016. A separate Financial Audit as of and for the year ended June 30, 2016, was previously released on February 16, 2017. In total, this report contains 18 findings, three of which were reported in the Financial Audit.

SYNOPSIS

- (16-4) The University had inadequate accounting records to support reimbursement requests for the Research and Development Cluster and did not refund the overpayment on the Child Care Development Funds Grant timely.
- (16-5) The University does not have adequate procedures in place to ensure federal projects are closed in a timely manner.
- (16-8) The University did not communicate required program information to subrecipients of the Research and Development Cluster program and the Head Start Cluster.
- (16-15) 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.

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, 2016

FINANCIAL OPERATIONS	2016	2015*
Operating Revenues		
Tuition and fees, net.....	\$ 1,145,945,000	\$ 1,095,905,000
Federal grants, contracts and appropriations.....	668,982,000	641,533,000
State and private gifts, grants and contracts.....	178,495,000	227,860,000
Hospital and medical activities.....	909,690,000	882,495,000
Auxiliary enterprises, net.....	406,620,000	407,530,000
Educational activities.....	302,581,000	293,743,000
Other.....	11,891,000	15,044,000
Total Operating Revenues.....	<u>3,624,204,000</u>	<u>3,564,110,000</u>
Operating Expenses		
Instruction.....	1,380,175,000	1,300,281,000
Research.....	740,788,000	744,043,000
Public service.....	476,457,000	512,953,000
Academic support.....	517,258,000	507,303,000
Hospital and medical activities.....	895,572,000	793,777,000
Auxiliary enterprises.....	353,159,000	371,639,000
Operation and maintenance of plant.....	299,657,000	324,010,000
Institutional support.....	297,075,000	282,877,000
Depreciation.....	254,879,000	248,889,000
Scholarships and fellowships.....	278,994,000	278,001,000
Other.....	208,480,000	196,754,000
Total Operating Expenses.....	<u>5,702,494,000</u>	<u>5,560,527,000</u>
Operating Loss.....	(2,078,290,000)	(1,996,417,000)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	170,397,000	609,140,000
Capital appropriations, gifts and grants.....	12,185,000	11,724,000
Private gifts and endowments.....	158,917,000	177,196,000
On behalf payments for fringe benefits.....	1,336,491,000	1,172,354,000
Other, net.....	124,334,000	141,033,000
INCREASE/(DECREASE) IN NET POSITION.....	<u>\$ (275,966,000)</u>	<u>\$ 115,030,000</u>

* Certain reclassifications have been made to the 2015 amounts to conform to the 2016 presentation

SUPPLEMENTAL INFORMATION (Unaudited)	2016	2015*
Employment Statistics - Full Time Equivalent		
Chicago.....	13,855	13,698
Springfield.....	936	957
Urbana-Champaign.....	14,714	14,931
Total.....	<u>29,505</u>	<u>29,586</u>
Enrollment Statistics - Fall		
Undergraduate -		
Chicago.....	17,575	16,718
Springfield.....	2,937	3,038
Urbana-Champaign.....	33,368	32,959
Subtotal.....	<u>53,880</u>	<u>52,715</u>
Graduate -		
Chicago.....	11,473	11,251
Springfield.....	2,465	2,393
Urbana-Champaign.....	12,474	12,181
Subtotal.....	<u>26,412</u>	<u>25,825</u>
Total.....	<u>80,292</u>	<u>78,540</u>

PRESIDENT

During Audit Period and Current: Timothy L. Killeen

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE SUPPORT FOR CASH
REQUESTS**

**Noncompliance with cash
management procedures**

The University had inadequate accounting records to support reimbursement requests for the Research and Development Cluster and did not refund the overpayment on the Child Care Development Funds (CCDF) Grant timely.

During our testing of 40 grants in the Research and Development (R&D) Cluster and one grant for the CCDF Cluster for cash management procedures, we noted the following:

**Reimbursement requests lacked
support**

- For Research and Development 6 out of 60 draws (10%) tested included unsupported expenditures at the time of the draw. The agreements CFO00235 and OR DHS 146499 (both CFDA 93.658) included expenditures noted within the draw that were not supported by documented expenditures at the time of the draws. The effect is a total of \$45,000 of funds were drawn down that were not supported at the time of the drawdowns for these two R&D grants.
- For the CCDF grant award IDHS FCSUI03305 at the University of Illinois at Champaign, it was noted the agency overpaid the University for the final report for the June 30, 2016 close out by \$3,729. The refund of \$3,729 due the agency hadn't been processed timely as the closeout of the grant is still in progress, which is later than the 90 days close out period under the grant. (Finding 4, Pages 24-25) **This finding was first reported in 2010**

We recommended the University implement procedures to ensure properly documented expenditures are recorded in the general ledger as they are incurred to ensure the reimbursement requests are adequately supported by the University's official accounting records.

University agrees with the auditors

University officials accepted the recommendation. *(For the previous University response, see Digest Footnote #1.)*

NEED TO ENHANCE 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, 2016, 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, 2016		
		Number of Expenditures	Dollar amount of positive costs	Dollar amount of negative costs
06/30/09	2	5	2,050	-
06/30/10	3	86	5	(42,414)
06/30/11	10	182	-	(278,393)
06/30/12	29	230	4,345	(117,769)
06/30/13	44	624	10,892	(110,339)
06/30/14	89	2,018	101,042	(605,009)
06/30/15	238	14,158	467,725	(1,214,313)
Total	415	17,303	586,059	(2,368,237)

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 26-28) **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

University officials accepted our recommendation. (*For the previous University response, see Digest Footnote #2.*)

NEED TO IMPROVE COMMUNICATION OVER REQUIRED PROGRAM INFORMATION TO SUBRECIPIENTS

Communication with Subrecipients need improvement

The University did not communicate required program information to subrecipients of the Research and Development Cluster and the Head Start Cluster.

During our testwork of 4 subrecipient subawards in the Head Start Cluster totaling \$701,400 and 40 subrecipient awards totaling \$58,036,158 for the Research and Development Cluster, we noted the following:

Two subrecipients did not receive the required information

- In the Head Start Cluster, two subrecipients (with awards totaling \$457,000) were not informed of the Federal Award Identification Number (FAIN). The University erroneously listed the internal grant number in place of the FAIN.
- In the Research and Development cluster the following was noted:

13 subrecipients were not notified of the CFDA and title

- One subrecipient (with awards totaling \$193,934), did not provide the University their DUNS number.
- Thirteen subrecipients (with awards totaling \$7,145,199) were not notified of the CFDA and title. The CFDA number was listed in the prime award, but was omitted for the subagreement upon issuance of the sub award.
- Five subrecipients (with awards totaling \$11,792,314) were not informed of the Federal Award Date in the subagreements. (Finding 8, Pages 34-36) **This finding was first reported in 2014.**

We recommended the University review its procedures for communicating information to subrecipients and implement the procedures necessary to ensure information is included in the subrecipient award documents at the time of funding.

University agrees with the auditors

University officials accepted our recommendation. (*For the previous University response, see Digest Footnote #3.*)

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 69 contracts, including purchase orders, executed during the year ended June 30, 2016 follow:

Four contracts were not approved at all by the Chief Executive Officer or Chief Legal Counsel totaling \$30,448,711

- Three contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- Five contracts (totaling \$31,448,711) were not approved by the University's Chief Executive Officer or Chief Legal Counsel out of 54 contracts (totaling \$194,952,526) sampled requiring this level of approval. Of the five contracts, one contract (totaling \$1,000,000) was approved 155 days after the contract start date, and four contracts (totaling \$30,448,711) were not approved at all.
- Six contracts (totaling \$33,675,196) were executed subsequent to the start date of the contracts. The contract execution dates ranged from 7 and 248 days from the commencement of service.
- Three contracts did not contain disclosure of financial interest statements as required. The disclosures were submitted 33 to 326 days late.
- Thirteen contracts did not have standard vendor certifications, as required. Of the 13 contracts, 12 contracts did not contain the certification by the vendor to maintain and make available records to the State for audit purposes.
- Eight contracts were not submitted to the State Comptroller's Office, as required. Of the eight, one contract was filed 68 days late and seven contracts were not submitted at all.

8 contracts were not submitted to the Office of the Comptroller as required

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

- Seven lease agreements (totaling \$18,865,776) did not contain the signature of the employee signing on behalf of the University Comptroller.

2 leases executed after the lease term began

- Two leases (totaling \$252,078) were executed after the lease term began. The lease execution dates ranged from one to 37 days after the beginning of the lease.

\$13,301 overpayment on one lease

- One lease was not paid in accordance with lease terms resulting in an overpayment of \$13,301.
- Real Estate Disclosure forms for two leases were not properly and timely completed, as required. Of the two Real Estate Disclosure forms, one was signed seven days after the beginning of the lease term and the other was not completed at all.

During our review of 25 emergency purchases we noted:

- One contract was procured as an emergency when none of the emergency purchase conditions were met or such conditions could have been avoided.
- One emergency purchase was extended beyond 90 days; however, requirements for an emergency purchase extension were not complied with. Rather than complying with the requirements for an emergency purchase extension, a new emergency purchase affidavit was issued for the extended period. (Finding 15, Pages 48-50) **This finding was first reported in 2003.**

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. 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. (*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.

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, 2016, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the University as required by the Uniform Guidance. 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, 2016.

ACCOUNTANT’S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2016, 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 Support for Cash Requests

2015: **Accepted.**

Research and Development

The invoices for 2012-04164-00-00 were clearly denoted as a scheduled billing, as instructed by internal and external award contacts. The invoices were accepted by the sponsor as evidenced by their continued payment of the invoices over a three year period. Due to human error, the award E2527 had a duplicate payment applied to this award. The duplicate transfer did not result in an over billing to the sponsor and was corrected as a result of the holding account reconciliation.

Head Start

The unbilled amount, \$1,558, was a result of billing calculation errors caused by human error.

#2 –Inadequate Procedures for Closing out Federal Projects

2015: **Accepted.**

The University agrees that projects were not always closed within 90 days. The University does have adequate procedures in place, and on-going efforts are underway to improve the closeout process. In the instances of late award closeout, the reason for the delay varies from award to award. Difficulties in collecting delinquent Accounts Receivable balances or completion of project deliverables have contributed to late award closeout. Additionally, some awards may remain open more than 90 days after the end date as the University awaits continuation paperwork for incrementally funded awards. We do believe that we have effective internal controls to ensure that expenditures are allowable in accordance with federal regulations. While the thorough closeout process ensures the appropriateness of the charges, it also lengthens the closeout time. The University continues to make progress in the closeout of expired sponsored projects. Of the 259 projects cited above, 119 of 138 UIUC projects, 111 of 120 UIC projects and 1 of 1 UIS projects have been successfully closed to date.

Below are some additional details related to the delay in closing the cited projects:

UIUC Response

UIUC reopened awards formerly closed based on a University decision to remove and refund costs of services subsequently found to be not adequately substantiated. This increased the number of transactions cited above. The University also completed a detailed review of older awards that were determined to be uncollectible. Those are included in the transaction numbers above, but have been closed as well.

UIC Response

One of UIC's awards for late closeout remains open due to a last minute decision from the sponsor not to grant an extension. In this instance, the charges incurred in good faith during the anticipated extension period were removed from the award and the University is awaiting payment of final invoice. Closeout of this award will occur once payment has been received.

#3 – Failure to Communicate Required Information to Subrecipients

2015: **Accepted.**

The University agrees that the two subrecipients on award 2013-04551 were not notified of the CFDA number and title upon issuance of the award as a result of human error. The two subrecipients were subsequently notified and correctly reported the CFDA number and title on their respective SEFA's.

The University will review its procedures for communicating information to subrecipients and revise if necessary to ensure information is included in the award documents at the time of the issuance of the award. The two subrecipient awards were pass-through funding on one award from United States Agency for International Development.

#4 – Contracts and Real Estate Leases Not Properly Executed

2015: **Accepted.**

The University recognizes 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. Enhancements to the enterprise-wide Illinois Contract System (ICS) were made that included the addition of names and titles of all Comptroller delegates and the implementation of automatic notifications to staff responsible for timely filing of contracts to the State. In addition, Purchasing staff received refresher training in December 2014 and January 2015 that included the requirements for procurement contracts exceeding \$249,999. Additional corrective actions will be taken to address the remaining recommendations in this finding.