

UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

**Reports Required Under
Government Auditing Standards**

For the Year Ended June 30, 2017

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



CliftonLarsonAllen

UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

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AUXILIARY FACILITIES SYSTEM
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**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
*Government Auditing Standards Report***

Government Auditing Report Summary

The audit of the financial statements of the University of Illinois Auxiliary Facilities System (System) was performed by CliftonLarsonAllen LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit. Based on their audit and the reports of other auditors, the auditors expressed an unmodified opinion on the System's basic financial statements.

Summary of Findings

The auditors identified certain deficiencies in internal control over financial reporting that they considered to be significant deficiencies, which are described in the accompanying schedule of findings and responses on pages 5 through 12 of this report.

Exit Conference

A request to waive a formal exit conference was made by the University in a correspondence dated January 9, 2018. Responses and recommendations were provided by the University's Office of Business and Financial Services in correspondence dated January 9, 2018.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
University of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the University of Illinois Auxiliary Facilities System (the "System"), a segment of the University of Illinois, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 2017-001, 2017-002, 2017-003 and 2017-004 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auxiliary Facilities System's Response to Findings

The System's response to the findings identified in our audit is described in the accompanying schedule of findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
January 30, 2018

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017

2017-001. Finding: Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues

The University of Illinois (the University) has not established adequate internal controls over accurately identifying and recording deferred expense transactions and reporting prepaid expenses at fiscal year-end for financial reporting purposes.

During our audit, we noted that the University's procedures to identify and record prepaid expenses include a review of all cash disbursements by University Payables (UPAY). UPAY identifies expense transactions that pertain to multiple fiscal years and codes them for further review by University Accounting and Financial Reporting (UAFR). UAFR will then post year-end journal entries to appropriately defer the identified expense transactions. In addition to the review of all cash disbursements by UPAY, UAFR also requires individual units to identify and report known accrual and deferral transactions at fiscal year-end for certain fund types. We also noted that the University's year-end accounts payable procedures include specifically reviewing cash disbursements made subsequent to year-end through the end of October to determine which accounting period the related expense transactions pertain.

In relation to our test work over expense transactions, we reviewed 225 cash disbursement transactions (totaling \$46,313,716), 60 P-Card expense transactions (totaling \$316,272), and 60 T-Card expense transactions (totaling \$428,908) recorded during the fiscal year. In relation to our test work over revenue transactions, we reviewed 60 cash receipt transactions recorded during the fiscal year (totaling \$120,935,264). We also reviewed 34 cash disbursements occurring subsequent to year-end (totaling \$72,993,712). Additionally, we separately reviewed 20 internal journal voucher transactions recorded during the fiscal year (totaling \$36,022,969).

During our review of these transactions, we noted the following items were not recorded in the proper accounting period:

University of Illinois transactions

- Two (2) general expense cash disbursements (totaling \$173,843) that were recorded as expenses for fiscal year ended June 30, 2017, should have been fully accrued as of June 30, 2016.
- Two (2) telecommunication expense cash disbursements (totaling \$78,538) that were recorded as expenses for fiscal year ended June 30, 2017, should have been partially deferred as of June 30, 2017 at an amount of \$46,512, and then recognized as expenses for the fiscal year ending June 30, 2018.
- One (1) cash receipt (totaling \$8,864) that was recorded as operating revenue for the fiscal year ended June 30, 2017, should have been partially accrued as of June 30, 2016 at an amount of \$429.
- One (1) cash receipt (totaling \$29,483) that was recorded as operating revenue for the fiscal year ended June 30, 2017, should have been fully deferred as of June 30, 2017, and then recognized as operating revenue for the fiscal year ending June 30, 2018.

UNIVERSITY OF ILLINOIS
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CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017

University of Illinois P-card transactions

- Five (5) general and service expenses (totaling \$14,388) that were recorded as expenses for fiscal year ended June 30, 2017, should have been partially deferred as of June 30, 2017 at an amount of \$8,953, and then recognized as expenses for the fiscal year ending June 30, 2018.
- One (1) general expense (totaling \$1,477) that was recorded as an expense for fiscal year ended June 30, 2017, should have been fully accrued as of June 30, 2016.
- One (1) general expense (totaling \$8,755) that was recorded as an expense for fiscal year ended June 30, 2017, should have been partially accrued as of June 30, 2016 at an amount of \$2,012.

University of Illinois T-card transactions

- Three (3) general expense cash disbursements (totaling \$15,728) that were recorded as expenses for fiscal year ended June 30, 2017, should have been deferred as of June 30, 2017, and then recognized as expense for the fiscal year ending June 30, 2018.

Generally accepted accounting principles require transactions to be reported in the period they are incurred. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure expenses and revenues are recognized in the appropriate reporting period.

In discussing these conditions with University personnel, they stated that in many of these instances, the units associated with the exceptions did not adequately follow established procedures to record the transactions in the proper period. With respect to the P-card-related exceptions, the current P-card processing software system utilized by the University does not provide the detailed information required to monitor/identify instances requiring year-end accrual or deferral. While the University believes it has processes in place to prevent material errors in the financial statements, the highly decentralized environment with hundreds of units and large volumes of transactions does present challenges in catching all errors.

Failure to accurately analyze and record cash receipts and disbursements within the proper fiscal year may result in the misstatement of the University's financial statements. (Finding Code No. 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-01, 11-01, 10-03, 09-03)

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For the Year Ended June 30, 2017

Recommendation:

We recommend the University continue to review its process to assess the existence of current period revenues and expenses and consider changes necessary to ensure they are accurately identified and recorded for presentation in the University's financial statements.

University Response:

Accepted. The University will continue taking corrective action to address the recommendation in this finding. Regarding the P-card-related cut-off exceptions, the University believes that the small size of individual card transactions combined with the aggregate monthly volume/dollar value of such transactions represents an expense population in which the probability of a material financial statement error would be extremely remote.

**UNIVERSITY OF ILLINOIS
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CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017**

2017-002. Finding: Inadequate Controls over Self-Approved Timesheets

The University of Illinois (the University) has not followed established adequate internal controls over Self-Approved Time Sheets.

After every pay period, the University creates a report showing employees who have approved their own timesheet. Timesheets are required for hourly employees and civil-service employees. The report lists all self-approvals for FY17 and included 53 employees with 67 occurrences of self-approval. The applicable human resources office and the relevant departments are supposed to take action to ensure a proper segregation and approval process. In 43 of the 67 occurrences, follow-up procedures failed to result in approval by the department prior to the next payroll.

The University policy states that each department is responsible for approving all web time reports or completing and approving the departmental time report for each employee from time sheets or cards filled out by the employees. Section 4 of the Office of Business and Financial Services Policy and Procedures Manual specifies that approvers cannot approve their own time.

Also, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system or systems of internal fiscal and administrative controls, which shall provide assurance that: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure timely supervisory approval of employee timesheets.

University management indicated the mitigating control procedure, in which the applicable human resources office notifies the employees involved as well as the unit or college contacts and requests confirmation of supervisory approval, was not consistently followed in a timely manner.

Failure to properly review and approve timecards could result in erroneous or fraudulent transactions and/or payroll disbursements being recorded in the general ledger system. (Finding Code No. 2017-002)

Recommendation:

We recommend the University ensure its employees follow its established internal controls over self-approved timesheets to ensure compliance with University policies.

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University Response:

Accepted. Although all self-approved timesheets were validated as being correct and have supervisory approval, the approval was not always timely. The University will continue to strengthen controls in this area.

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CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017

2017-003. Finding: Inadequate Procedures over Maintenance of Accounts Payable Master Vendor File

The University of Illinois (the University) has inadequate controls in place to monitor and maintain the accounts payable master vendor file.

During our review of the University's accounts payable master vendor file (with 55,152 total vendors), we noted there were 12 duplicate records representing six (6) vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system. In addition, we noted 2,742 vendors without a tax identification number (TIN) listed and 36,294 vendors with no activity within the 3 previous fiscal years.

Good business practices recommend that the accounts payable master vendor file be reviewed for possible duplicate vendor data. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the master vendor file. Per University policies, vendors should also have a TIN on file when creating the vendor to ensure the vendor is not fraudulent. In addition vendors with no recent activity should be inactivated to ensure no inappropriate payments are made to outdated vendors.

University management indicated that although significant progress was made during fiscal year 2017, additional research still needs to be performed on the remaining issues related to the accounts payable master vendor file. Active efforts in this area continue but have been time-consuming due to the complexity of the data as well as the systems involved.

Failure to appropriately monitor the accounts payable master vendor file may result in an unauthorized vendor payment. (Finding Code No. 2017-003, 2016-003)

Recommendation:

We recommend the University review and implement stronger internal controls in order to monitor and maintain the accounts payable master vendor file.

University Response:

Accepted. The University will continue to strengthen the controls and maintenance procedures related to the master vendor file.

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CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017**

2017-004. Finding: Inadequate Controls Over University Procurement Card Transactions

The University of Illinois (the University) has not complied with University policies and internal controls over procurement card transactions.

The University operates a procurement card program which allows individuals throughout the University to make smaller purchases (defined as less than \$4,999) on a credit card which is directly paid by the University on a monthly basis. The University's policies require employees assigned a procurement card to complete training on policies and procedures, pass a test, and sign an agreement stipulating they will use the card in accordance with University policy. This agreement is also required to be authorized by the individual's supervisor or the department head. The University's policies require transactions incurred on the procurement card to be approved in the University's procurement card system by the individual cardholder and an assigned reviewer.

During our test work over 62 procurement card transactions totaling \$318,117, we noted the following:

- Five (5) transactions (totaling \$10,963) were for charges such as gift cards, lodging, ambulance services, and PayPal transaction fees, all of which were prohibited by the University's procurement card policies.
- One (1) transaction (totaling \$2,454) was not supported by an itemized receipt, as required.
- Nine (9) transactions (totaling \$30,250) were not reconciled within seven days of appearance on the P-Card software, as required. The reconciliations were completed five to 309 days late.
- One (1) transaction for printing services (totaling \$1,050) was not in compliance with the Illinois Procurement Code and the waiver for this requirement was not obtained from the State Purchasing Officer.
- One (1) transaction (totaling \$2,589) was a purchase of equipment that was not tagged in accordance with University's policies and procedures.

The University has approximately 4,125 active procurement cards and the procurement card expenditures paid for the year ended June 30, 2017 totaled \$55,672,737.

The University policy states that the reconciler must review and reconcile each transaction with the Order Log and with the original, detailed, itemized receipt within seven business days of its appearance in the P-Card software, in order for the transaction to post in Banner for financial reporting.

In addition, the Illinois Procurement Code (30 ILCS 500/45-15) states that contracts requiring the procurement of printing services shall specify the use of soybean oil-based ink unless a State purchasing officer determines that another type of ink is required to assure high quality and reasonable pricing of the printed product.

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Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that: (1) resources are utilized effectively, and in compliance with applicable law; (2) obligations and cost are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure procurement card transactions are in accordance with University policies and procedures and supporting documentation for each transaction is maintained.

University management indicated the bulleted exceptions largely resulted from human error at the individual and/or unit level by not following procurement card policies and procedures.

Failure to properly review and approve procurement card transactions in accordance with University policies could result in erroneous or fraudulent transactions being recorded in the general ledger system. (Finding Code No. 2017-004, 2016-002, 2015-002, 2014-002, 2013-002, 12-02, 11-03, 10-02, 09-02, 08-03)

Recommendation:

We recommend the University continue to review and improve its internal controls over procurement card transactions to ensure compliance with University policies so that erroneous or fraudulent transactions are not recorded in the general ledger system.

University Response:

Accepted. While the procurement card is an efficient purchasing mechanism, the University recognizes the importance of procurement card process controls, training, and transaction monitoring. The University will implement the necessary corrective action related to the recommendation made in this finding.