



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, 2017**

Release Date: February 22, 2018

FINDINGS THIS AUDIT: 18				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	0	1	2016		17-3, 17-17	
Category 2:	7	10	17	2015		17-8, 17-11, 17-12	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2009		17-1, 17-7	
TOTAL	8	10	18	2008		17-4	
				2005		17-16	
FINDINGS LAST AUDIT: 18				2003		17-14	

INTRODUCTION

This digest covers our federal Single Audit and Compliance Examination of the University of Illinois for the year ended June 30, 2017. A separate Financial Audit as of and for the year ended June 30, 2017, was previously released on February 14, 2018. In total, this report contains 18 findings, five of which were reported in the Financial Audit.

SYNOPSIS

- (17-6) The University of Illinois at Chicago – Mile Square Health Center (MSHC) did not maintain adequate documentation, did not apply the sliding fee discounts properly with its sliding fee discount schedule and did not follow the MSHC policy and procedures consistently for the Health Center cluster program.
- (17-7) The University does not have adequate procedures in place to ensure federal projects are closed in a timely manner.
- (17-10) The University did not use at least 7% of its Federal Work Study funds for students employed in community service activities.
- (17-14) 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.
- (17-15) The University of Illinois Hospital (University) was unable to provide adequate records substantiating written notices were provided to patients within 24 hours after their admittance into the University Hospital indicating the patients were under observation status in accordance with the University of Illinois Hospital Act and University policies and procedures.

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.

{Expenditures and Activity Measures are summarized on next page.}

UNIVERSITY OF ILLINOIS
SINGLE AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2017

FINANCIAL OPERATIONS	2017	2016*
Operating Revenues		
Tuition and fees, net.....	\$ 1,191,498,000	\$ 1,145,945,000
Federal grants, contracts and appropriations.....	690,355,000	668,982,000
State and private gifts, grants and contracts.....	218,071,000	178,495,000
Hospital and medical activities.....	1,010,576,000	909,690,000
Auxiliary enterprises, net.....	409,484,000	406,620,000
Educational activities.....	309,371,000	302,581,000
Other.....	12,582,000	11,891,000
Total Operating Revenues.....	<u>3,841,937,000</u>	<u>3,624,204,000</u>
Operating Expenses		
Instruction.....	1,503,069,000	1,380,175,000
Research.....	794,526,000	740,788,000
Public service.....	481,976,000	470,175,000
Academic support.....	573,787,000	523,540,000
Hospital and medical activities.....	992,956,000	895,572,000
Auxiliary enterprises.....	402,930,000	353,159,000
Operation and maintenance of plant.....	311,313,000	299,657,000
Institutional support.....	285,934,000	297,075,000
Depreciation.....	262,534,000	254,879,000
Scholarships and fellowships.....	298,955,000	278,994,000
Other.....	228,641,000	208,480,000
Total Operating Expenses.....	<u>6,136,621,000</u>	<u>5,702,494,000</u>
Operating Loss.....	(2,294,684,000)	(2,078,290,000)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	335,615,000	170,397,000
Capital appropriations, gifts and grants.....	18,601,000	12,185,000
Private gifts and endowments.....	196,510,000	158,917,000
On behalf payments for fringe benefits.....	1,611,444,000	1,336,491,000
Other, net.....	185,219,000	124,334,000
INCREASE/(DECREASE) IN NET POSITION.....	<u>\$ 52,705,000</u>	<u>\$ (275,966,000)</u>

* - Certain items in the 2016 column have been reclassified to conform to the 2017 presentation

SUPPLEMENTAL INFORMATION (Unaudited)	2017	2016^
Employment Statistics - Full Time Equivalent		
Chicago.....	13,855	13,767
Springfield.....	936	940
Urbana-Champaign.....	14,714	15,083
Total.....	<u>29,505</u>	<u>29,790</u>
Enrollment Statistics - Fall		
Undergraduate -		
Chicago.....	17,959	17,575
Springfield.....	2,959	2,937
Urbana-Champaign.....	33,932	33,368
Subtotal.....	<u>54,850</u>	<u>53,880</u>
Graduate -		
Chicago.....	11,161	11,473
Springfield.....	2,469	2,465
Urbana-Champaign.....	13,019	12,474
Subtotal.....	<u>26,649</u>	<u>26,412</u>
Total	<u>81,499</u>	<u>80,292</u>

^ - Certain 2016 numbers were updated for estimates included in the 2016 report.....

PRESIDENT
During Audit Period and Current: Timothy L. Killeen

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

ERRORS IN SLIDING FEE DISCOUNT APPLICATION AND INADEQUATE DOCUMENTATION

Policies and procedures not followed in the application of the sliding fee discounts

The University of Illinois at Chicago – Mile Square Health Center (MSHC) did not maintain adequate documentation, did not apply the sliding fee discounts properly with its sliding fee discount schedule and did not follow the MSHC policy and procedures consistently for the Health Center cluster program.

During our testing of the patient's financial assistance encounters for MSHC, we noted errors in 41 patient encounters, from a statistically valid sample, with program fees totaling \$12,240, out of the 60 patient encounters tested totaling \$19,237 of program fees.

Sliding Fee Eligibility forms were not maintained

- 23 of the 60 patient encounters tested, we noted MSHC did not maintain the Sliding Fee Eligibility forms to support the assessment of the sliding fee discount. All encounters were assessed at the 100% discount finance class per the billing/accounts receivable reports.

- 14 of the 60 patient encounters tested, we noted MSHC did not maintain the Sliding Fee Eligibility forms to support the assessment of the sliding fee discount. All encounters were assessed at the \$20 finance class per the billing/accounts receivable reports.

Incorrect sliding fees were applied to patients

- 3 of the 60 patient encounters tested had the incorrect sliding fee applied to the patient. Two of the encounters were classified in the \$20 finance class and should have been charged the \$50 finance class per the form. One of the encounters was classified in the 100% discounted class and should have been charged the \$65 finance class per the completed form.

- 2 out of the 60 Sliding Fee Eligibility Forms for patient encounters were not signed/approved by MSHC staff per the MSHC's Management Policy and Procedure Manual.

- 1 out of the 60 Sliding Fee Eligibility Forms for patient encounters was not signed/approved by the patient per the MSHC's Management Policy and Procedure Manual. (Finding 6, Pages 27-28)

We recommended the MSHC establish and implement an effective system of internal controls to ensure the correct fees are being charged appropriately and implement additional procedures to ensure documentation is complete for all patient encounters. If the patient refuses to provide proof of income or sign the form this should be documented as such by MSHC staff.

University agrees with the auditors

University officials accepted the recommendation.

INADEQUATE PROCEDURES FOR CLOSING OUT FEDERAL PROJECTS

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

Procedures to close out projects need improvement

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.

Projects should be closed within 90 days

During our review of the University’s schedule of expenditures of federal awards for the year ended June 30, 2017, 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
06/30/02	1	2	44	
06/30/09	1	1	1,094	
06/30/10	1	1	-	(1)
06/30/11	3	146	-	(396,105)
06/30/12	4	23	393	(8,583)
06/30/13	5	283	58,274	(14,629)
06/30/14	21	854	204,993	(351,200)
06/30/15	46	565	95,605	(165,947)
06/30/16	166	6,936	734,098	(847,953)
Total	248	8,811	1,094,501	(1,784,418)

Upon review of the transactions recorded in the projects above, we noted 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.

During the current year of indirect cost testing of the Child Care Development Fund Cluster, out of 40 transactions tested, from a statistically valid sample, at the University of Illinois at Champaign, we noted 1 (3%) transaction (occurring in April 2017) was charged to the grant after the 90-day close out period had ended on March 31, 2017. (Finding 7, Pages 30-31) **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 the auditors

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

FAILURE TO MEET COMMUNITY SERVICE REQUIREMENT

The University did not use at least 7% of its Federal Work Study (FWS) funds for students employed in community service activities.

The University should have used \$112,812 of its Federal Work Study funds toward Community Service

At the University of Illinois at Chicago, we noted the federal share of FWS funds used for community service totaled to \$38,637, from a statistically valid sample. The total amount of federal funds spent on FWS funds totaled \$1,611,596. The University is reporting at 2% of Community Service used for FWS funds out of the minimum 7% requirement. The University should have used at least 7%, or \$112,812 of its FWS funds toward Community Service or obtained a waiver from the US Department of Education. (Finding 10, Page 37)

We recommended the University review current processes for calculating and tracking the students employed in community service activities for its Federal Work Study funds to meet the minimum 7% requirement.

University agrees with the auditors

University officials accepted our recommendation.

CONTRACTS AND REAL PROPERTY 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.

During our review of 67 contracts, including purchase orders, executed during the year ended June 30, 2017, we noted the following:

Three contracts were not approved by the Chief Executive Officer or Chief Legal Counsel totaling \$1,276,664

- One contract (totaling \$348,024) did not contain the signature of the employee signing on behalf of the University Comptroller.
- Three contracts (totaling \$1,276,664) were not approved by the University's Chief Executive Officer or Chief Legal Counsel out of 47 contracts sampled requiring this level of approval.
- One contract (totaling \$760,000) was executed subsequent to the start date of the contract. The contract execution date was 40 days from the commencement of service.
- Five contracts did not contain disclosure of financial interest statements of contractors or subcontractors, as required. The disclosures were submitted 22 to 87 days late or not submitted at all.
- Six contracts did not have standard vendor certifications, as required. Of the 6 contracts, five contracts did not contain the certification by the vendor to maintain and make available records to the State for audit purposes.
- Seven contracts were not submitted to the State Comptroller's Office, as required.

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

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

2 leases executed after the lease term began

- Eight lease agreements (totaling \$1,829,517) did not contain the signature of the employee signing on behalf of the University Comptroller.
- Two leases (totaling \$94,890) were executed after the lease term began. The lease execution dates ranged from six and 36 days after the beginning of the lease.
- Three leases were not paid in accordance with the lease terms resulting in a net overpayment of \$2,626.
- Real Estate Disclosure forms for three leases were not timely completed, as required. Of the three Real Estate Disclosure forms, one was signed 23 days after the beginning of the lease term and the other two were not completed at all.

During our review of 33 emergency purchases we noted:

- 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, two new emergency purchase affidavits were issued for the extended periods.

Eight emergency purchases were not filed at all

- Twenty six emergency purchases were not filed with the Office of the Auditor General, as required. Eighteen out of the twenty six emergency purchases were filed 11 to 210 days late and eight emergency purchases were not filed at all. (Finding 14, Pages 42-44) **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 #2.)

FAILURE TO MAINTAIN ADEQUATE RECORDS SUBSTANTIATING WRITTEN NOTICES

Written notices could not be provided

The University of Illinois Hospital (University) was unable to provide adequate records substantiating written notices were provided to patients within 24 hours after their admittance into the University Hospital indicating the patients were under observation status in accordance with the University of Illinois Hospital Act (Act) and University policies and procedures.

The University's Patient Admissions Policy and Procedure (Policy) requires the University to issue *Notice of Observation Status* (Form UI-5010) to patients after their admittance into the University Hospital notifying they have been placed under outpatient observation status and have not been admitted as an inpatient. Also, the University requires patients or their legal representative to sign the Form UI-5010 to acknowledge the receipt and understanding of their outpatient observation status.

16 of 25 forms could not be provided

During testing, we requested Form UI-5010s for 25 patients selected to test the University's compliance with the Act and the Policy. The University was unable to provide Form UI-5010 for 16 (64%) patients. As a result, we were unable to determine the University's compliance with the Act and the Policy. (Finding 15, Pages 45-46)

We recommended the University strengthen its controls to ensure *Notice of Observation Status* forms are retained for all patients admitted into the University Hospital.

University officials accepted the recommendation.

University agrees with the auditors

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 OPINIONS

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, 2017, 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, 2017.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2017, 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.

This Single Audit and State Compliance Examination was performed by CliftonLarsonAllen LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 –Inadequate Procedures for Closing out Federal Projects

2016: **Accepted.**

The University agrees that there were projects cited with end dates greater than the 90 day closeout period. The reason for late closeout varies from award to award. Difficulties in collecting delinquent Accounts Receivable balances or completion of project deliverables can contribute 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. The University believes that there are effective internal controls to ensure that expenditures are allowable and in accordance with federal regulations. While the thorough closeout process ensures the appropriateness of the charges, it may also lengthen the closeout time.

The University has devoted additional attention to closeout review and processing to improve the timeliness of its closeouts. As a result of these efforts, the University has been successful in closing out a significant number of older awards. Of the 415 awards cited above, 285 of 296 UIUC projects, and 111 of 119 UIC projects have been successfully closed to date.

#2 – Contracts and Real Estate Leases Not Properly Executed

2016: **Accepted.**

The University recognizes the importance of process controls, training, and transaction monitoring in these areas. Corrective action measures have been put in place or will be taken in connection with the recommendations in this finding to include: (1) contracts missing name and title of person who signed the documents were completed prior to enhancements to the enterprise-wide Illinois Contract System (ICS) program in December 2015, which added name and titles of all authorized signatory and added automatic notifications to staff responsible for timely filing of contracts to the State Comptroller's Office; (2) staff will receive annual refresher training in January 2017 regarding executed and start dates of contracts and on University policy stating that all procurement contracts that exceed \$249,999 must have the signature of the Comptroller, President, and Chief Legal Counsel; and (3) further training and template revisions will be accomplished to mitigate human error and misinterpretations of transaction processing for group purchasing requirements in relation to Board of Trustee approval, requirements for all contract and real estate lease disclosures to include financial interests, conflict of interest and certifications, contract approval prior to service, vendor registrations, contract file documentation, and emergency purchasing processing and filing.