



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, 2018**

**Release Date: March 7, 2019**

FINDINGS THIS AUDIT: 18				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2017		18-2, 18-5, 18-9, 18-10, 18-13, 18-16	
<b>Category 2:</b>	3	15	18	2016		18-15, 18-17	
<b>Category 3:</b>	<u>0</u>	<u>0</u>	<u>0</u>	2015		18-7, 18-11	
<b>TOTAL</b>	<b>3</b>	<b>15</b>	<b>18</b>	2009		18-1, 18-6	
				2008		18-3	
				2005		18-14	
				2003		18-12	
<b>FINDINGS LAST AUDIT: 18</b>							

**INTRODUCTION**

This digest covers our federal Single Audit and Compliance Examination of the University of Illinois for the year ended June 30, 2018. A separate Financial Audit as of and for the year ended June 30, 2018, was previously released on January 23, 2019. In total, this report contains 18 findings, four of which were reported in the Financial Audit.

**SYNOPSIS**

- (18-5) The University did not use at least 7% of its Federal Work Study funds for students employed in community service activities.
- (18-6) The University does not have adequate procedures in place to ensure federal projects are closed in a timely manner.
- (18-12) 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.
- (18-14) The University does not require all employees to submit time reports as required by the State Officials and Employees Ethics Act.

**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, 2018**

<b>FINANCIAL OPERATIONS (In Thousands) (Unaudited)</b>	<b>2018</b>	<b>2017*</b>
<b>Operating Revenues</b>		
Tuition and fees, net.....	\$ 1,193,322	\$ 1,168,498
Federal grants, contracts and appropriations.....	673,580	690,355
State and private gifts, grants and contracts.....	207,983	218,071
Hospital and medical activities.....	1,041,026	1,010,576
Auxiliary enterprises, net.....	416,319	409,484
Educational activities.....	338,287	309,371
Other.....	13,437	12,582
Total Operating Revenues.....	<u>3,883,954</u>	<u>3,818,937</u>
<b>Operating Expenses</b>		
Instruction.....	1,583,388	1,492,069
Research.....	756,032	788,526
Public service.....	477,291	481,976
Academic support.....	613,615	570,787
Hospital and medical activities.....	1,044,824	992,956
Auxiliary enterprises.....	406,300	402,930
Operation and maintenance of plant.....	330,762	309,313
Institutional support.....	307,669	308,934
Depreciation.....	255,005	262,534
Scholarships and fellowships.....	289,134	275,955
Other.....	247,845	227,641
Total Operating Expenses.....	<u>6,311,865</u>	<u>6,113,621</u>
Operating Loss.....	(2,427,911)	(2,294,684)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations.....	868,361	335,615
Capital appropriations, gifts and grants.....	18,097	18,601
Private gifts and endowments.....	197,877	196,510
On behalf payments for fringe benefits.....	1,710,488	1,611,444
Other, net.....	271,421	185,219
<b>INCREASE IN NET POSITION.....</b>	<u>\$ 638,333</u>	<u>\$ 52,705</u>
* - Certain items in the 2017 column have been reclassified to conform to the 2018 presentation.		
<b>SUPPLEMENTAL INFORMATION (Unaudited)</b>	<b>2018</b>	<b>2017</b>
<b>Employment Statistics - Full Time Equivalent</b>		
Chicago.....	14,064	13,855
Springfield.....	926	936
Urbana-Champaign.....	14,696	14,714
Total.....	<u>29,686</u>	<u>29,505</u>
<b>Enrollment Statistics - Fall</b>		
Undergraduate - .....		
Chicago.....	19,448	17,959
Springfield.....	2,932	2,959
Urbana-Champaign.....	33,955	33,932
Subtotal.....	<u>56,335</u>	<u>54,850</u>
Graduate - .....		
Chicago.....	11,091	11,161
Springfield.....	2,024	2,469
Urbana-Champaign.....	14,261	13,019
Subtotal.....	<u>27,376</u>	<u>26,649</u>
Total .....	<u>83,711</u>	<u>81,499</u>
<b>PRESIDENT</b>		
During Audit Period and Current: Timothy L. Killeen		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**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.

**University of Illinois at Chicago  
should have used \$125,235 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 \$36,400 from a statistically valid sample. The total amount of federal funds spent on FWS funds totaled \$1,789,069. 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 \$125,235 of its FWS funds toward Community Service or obtained a waiver from the US Department of Education.

**University of Illinois at Springfield  
should have used \$14,938 of its  
Federal Work Study funds toward  
Community Service**

At the University of Illinois at Springfield, we noted the federal share of FWS funds used for community service totaled to \$9,704 from a statistically valid sample. The total amount of federal funds spent on FWS funds totaled \$213,399. The University is reporting at 5% of Community Service used for FWS funds out of the minimum 7% requirement. The University should have used at least 7%, or \$14,938 of its FWS funds toward Community Service or obtained a waiver from the US Department of Education. (Finding 5, Pages 26-27)

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.

**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, 2018, 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, 2017		
		Number of Expenditures	Dollar amount of positive costs	Dollar amount of negative costs
06/30/02	4	6		(5,805)
06/30/03	4	4		(58,127)
06/30/04	8	22	4,768	(44,167)
06/30/05	12	168		(465,983)
06/30/06	11	151		(447,410)
06/30/07	6	11		(16,008)
06/30/08	7	15		(194,240)
06/30/09	5	28		(96,178)
06/30/10	3	6		(3,173)
06/30/11	7	27		(55,993)
06/30/12	5	23	10,062	(136,954)
06/30/13	2	3		(119)
06/30/14	6	25		(29,770)
06/30/15	9	86	43,919	(75,056)
06/30/16	23	506	11,409	(383,999)
06/30/17	148	4,655	278,375	(1,223,332)
<b>Total</b>	<b>260</b>	<b>5,736</b>	<b>348,533</b>	<b>(3,236,314)</b>

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 revised, if applicable.

During the current year testing, 8 total transactions were noted, including 1 in Child Care Development Funds (CCDF) 6 in Supplemental Nutrition Assistance Program (SNAP) and 1 in Head Start Clusters, which had charges to the grant after the 90-day close out period during fiscal year 2018. (Finding 6, Pages 28-30) **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.)

## **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 69 contracts, including purchase orders, executed during the year ended June 30, 2018, we noted the following:

### **One contract was not approved by the Chief Executive Officer and Chief Legal Counsel totaling \$4,650,000**

- One contract (totaling \$4,650,000) was not approved by the University's Chief Executive Officer and Chief Legal Counsel out of 48 contracts sampled requiring this level of approval.
- Two exempt purchases (totaling \$1,708,281) were not published in the Illinois Procurement Bulletin, as required.
- Thirteen contracts (totaling \$5,987,407) were not submitted to the State Comptroller's Office, as required.

### **13 contracts were not submitted to the Office of the Comptroller as required**

During our review of 25 real property leases executed during the year ended June 30, 2018, we noted the following:

- Three lease agreements (totaling \$2,765,535) did not contain the signature of the employee signing on behalf of the University Comptroller.
- Seven lease agreements (totaling \$817,052) did not contain the certification by the vendor to maintain and make available records to the State for audit purposes. (Finding 12, Pages 39-40) **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 and real estate leases are filed with the Office of the Comptroller of the State of Illinois in accordance with the State statutes and related guidelines.

### **University agrees with the auditors**

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

## **FAILURE TO FOLLOW TIME REPORTING REQUIREMENTS**

The University does not require all employees to submit time reports as required by the State Officials and Employees Ethics Act.

During testing of payroll, we selected 27 employees across all three campuses and noted the following:

**Faculty, postdoctoral employees, instructors and lecturers are using a negative timekeeping system**

**Assumed to be working unless noted otherwise**

**Three Academic Professional employees did not complete time reports for all of fiscal year 2018**

- Ten employees (five from the Urbana-Champaign campus, three from the Chicago campus, and two from the Springfield campus) did not file time reports as required by the State Officials and Employees Ethics Act. University management stated faculty, postdoctoral employees, instructors, and lecturers continue to track their time using a “negative” timekeeping system whereby the employee is assumed to be working unless noted otherwise.
- Four employees (two from the Urbana-Champaign campus and two from the Chicago campus) under the Academic Professional employee class did not properly submit time reports, as required by the University policy. Upon further inquiry, we noted three of these four noted employees (one from Urbana-Champaign campus and two from the Chicago campus) did not submit time reports for the entire fiscal year 2018. (Finding 14, Pages 43-44) **This finding was first reported in 2005.**

We recommended the University implement procedures to ensure all employees submit time sheets as required by the State Officials and Employees Ethics Act.

**University agrees with the auditors**

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

## **OTHER FINDINGS**

The remaining findings are reportedly being given attention by the University. We will review the University’s progress towards the implementation of our recommendations in our next engagement.

## **AUDITOR’S 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, 2018, 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, 2018.

### **ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the University for the year ended June 30, 2018, 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**

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JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

FJM:TLK

### **DIGEST FOOTNOTES**

#### **#1 –Inadequate Procedures for Closing out Federal Projects**

2017: **Accepted.**

Due to lengthy vacancies in the past that resulted in limited human capital, the University agrees that there were grants closed after the 90 closing period. Staffing vacancies have been filled or are in the process of being filled. The University agrees that 248 grants from prior fiscal years remained open at some point during fiscal year 2017. However, the University does not believe this is an issue related to internal controls. The University has made significant progress in the number of closeouts, which is demonstrated by having only three grants remain open from the cited list. These grants have not been closed due to non-payment issues. Two of the three grants remain open because they are currently going through the Illinois Court of Claims process and are either (1) awaiting legal judgement on an outstanding receivable or (2) awaiting payment as a result of a favorable judgement. We believe that our established internal controls as designed are sufficient to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. These controls include procedures to ensure expenditures are allowable in accordance with federal regulations which resulted in a net change of negative \$689,917 in expenditure

transactions as shown in the chart. In FY17 there was a 40% decrease in the number of awards cited (415 in FY16 to 248 in FY17) and nearly a 50% reduction in the number of expenditure transactions (17,303 in FY16 to 8,811 in FY17).

Specific older transactions hit the SEFA as a result of unusual circumstances. Examples are as follows:

- 2002 – JV to correct Accounts Receivable issue
- 2010 – Small balance adjustment of \$0.67

The University continues to devote additional attention to close-out review and processing to improve the timeliness of project closeout. The University updated its close-out procedures and implemented additional procedures to monitor the timeliness of federal account close-outs.

## **#2 – Contracts and Real Estate Leases Not Properly Executed**

2017: **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) ongoing training on the use of the Illinois Contract System (ICS) which includes name and title of person who signed the documents and includes automatic notifications to staff responsible for timely filing of contracts to the State Comptroller's Office; (2) annual refresher training 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; (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 the Board of Trustees 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.

## **#3 – Failure to Follow Time Reporting Requirements**

2017: **Accepted.**

Regarding faculty and post-doctoral exceptions, there is ongoing dialogue with the academic leadership at each University campus regarding further implementation of this requirement. For academic professional and exempt civil service exceptions, the University continues to take steps to address any issues.