

REPORT DIGEST

**UNIVERSITY OF ILLINOIS
FINANCIAL AND COMPLIANCE AUDITS
(In accordance with the Single Audit Act of 1984
and OMB Circular A-133)
For The Year Ended June 30, 1993**

{Expenditures and Activity Measures are summarized on the reverse page.}

INTRODUCTION

Our 1993 audit of the University of Illinois is presented in seven report documents which may be divided into two groups - a financial group and a compliance group. The financial group has five reports that include the various financial statements of the University. The compliance group has two reports that include the compliance findings disclosed by our audit tests. The Federal Compliance Audit presents sixteen findings concerning the University's failure to follow certain Federal rules and regulations. The State Compliance Audit presents thirty-seven findings. There are problems in four areas which we believe are relatively more significant and are worthy of highlighting within this Report Digest.

The four areas of special concern are: accounts receivable; property controls; contractual services; and, data processing systems.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

I. ACCOUNTS RECEIVABLE

FAILURE TO REVIEW THIRD-PARTY PAYMENTS

The Hospital does not reconcile reimbursements received from third-party payors to logs of services provided to patients. Medicare and Blue Cross submit summaries of the reimbursements made for patients covered under their programs. The Hospital relies on the payment summaries and does not reconcile the summaries to revenue logs which detail total charges and accounts receivable, and expected and actual reimbursements by patients. The failure to review third-party payments could result in lost revenues. (Finding 16, page 28 in State Report)

We recommended the University require the Hospital to reconcile third-party payment summaries to the patient revenue logs.

University officials concurred and stated the Hospital continues to make progress in developing systems and procedures to ensure the maximization of third-party revenues.

DIFFERENCES IN CLINICAL DEPARTMENT RECORDS

Inaccuracies between the College of Medicine's subsidiary accounts receivable systems and the University's primary general ledger system are not promptly investigated and corrected. Two of eighteen clinical departments did not properly reconcile their records to the University's ledger. At June 30, 1993, the two departments had receivables of \$2,680,000 when the University's balance was \$3,940,000 for a difference of \$1,260,000. (Finding 18, page 32 in State Report)

We recommended the University require the medical departments to perform monthly accounts receivable reconciliations, and to promptly investigate and correct any reconciling items.

University officials concurred and stated they will implement reconciliation procedures in the two clinical departments.

OLD ACCOUNTS REMAIN ON THE FINANCIAL STATEMENTS

A significant number of old, uncollectible accounts receivable balances are carried on the Hospital's records. At June 30, 1993, there were approximately \$30,000,000 of pre-1987 receivables on the Hospital's general ledger which the Hospital deems to be uncollectible. No adjustments or write-offs have been made on these receivables since the documentation supporting the individual patient accounts does not exist. (Finding 23, page 37 in State Report)

We recommended the Hospital remove the old unsupported patient accounts receivable from the financial statements.

University officials concurred and stated the adjustment to its accounts receivable will be reflected in the 1994 financial report.

II. PROPERTY CONTROLS

INADEQUATE EQUIPMENT INVENTORY PROCEDURES

Inventory procedures over equipment at the Chicago campus were not adequate to maintain accurate inventory records. Divisions are required to conduct physical inventories and to submit inventory certification letters to the Property Control Office. In November 1990, the Chicago Office mailed inventory certification letters to 500 divisions. An October 1992 internal audit report noted that 223 divisions had not responded. Our review of the inventory documents in September 1993 revealed that 47 of the 223 delinquent divisions still had not certified that inventories were performed. (Finding 14, page 26 in State Report)

We recommended the University perform periodic physical inventories of equipment and reconcile the counts to the equipment records.

University officials concurred and stated they have instituted more aggressive follow-up actions which resulted in the receipt of all but 7 of the inventory certification letters.

PROBLEMS IN MANAGING EQUIPMENT INVENTORIES

Our examinations of equipment items revealed various problems in the University's management of its equipment inventories.

- We selected 72 equipment items from the inventory listings for observations. Of the sample items, 29 could not be located by the University. Of the 43 items located, 5 did not have University identification tags. (Finding 3, page 10 in State Report)

- The University did not properly identify and report surplus equipment to the Illinois Department of Central Management Services. Our observations of equipment items revealed three computer systems with a total value of \$51,000 that had not been used for over two years. (Finding 11, page 23 in State Report)

- The University did not remove obsolete items from its property records on a timely basis. Our tests of equipment deletions revealed that eight items of obsolete property with a total value of \$583,000 were not removed from the inventory until over a year after their disposal dates. (Finding 4, page 12 in State Report)

University official responded that they agree with our recommendations to maintain adequate and accurate records and inventory procedures. The University stated it has established systems and procedures for controlling inventories. The University will continue to emphasize to the departments the importance of proper inventory control and will provide departmental staff with various training seminars and publications.

III. CONTRACTUAL SERVICES

LACK OF A WRITTEN CONTRACT

The contract between the University's Health Maintenance Organization (HMO) and the Hospital is not in writing. The HMO provides health care to students. The HMO and the Hospital have an informal agreement for the HMO's collection of premiums from students and payment of claims to the University Hospital and other hospitals providing emergency services. (Finding 29, page 43 in State Report)

We recommended the University prepare a written contract between the HMO and the Hospital in order to avoid any misunderstandings of the arrangements.

University officials concurred and stated they are drafting a written contract between the HMO and the Hospital.

CONFUSING CONTRACT TERMS

Our review of the contract between the Hospital and the Illinois Department of Public Aid revealed confusing terms. The Department reimburses the Hospital for outpatient care provided to public aid recipients. The contract stated that reimbursements were to be made at maximum allowable costs. Actual reimbursements were based upon fee schedules at rates much less than maximum costs. (Finding 28, page 42 in State Report)

We recommended that future contracts between the Hospital and the Department contain language that clearly specifies the reimbursement terms.

University officials concurred and stated the 1994 contract will clearly indicate the agreements between the Hospital and the Department.

IV. DATA PROCESSING SYSTEMS

WEAKNESSES IN ELECTRONIC DATA PROCESSING

Our reviews of data processing systems revealed instances where the University needs to strengthen operating controls. We noted the following weaknesses in the University's EDP controls.

- The Student Accounts Receivable System is outdated and needs to be replaced. The System is over 27 years old and requires frequent maintenance. There is limited documentation as to how the System is structured and operates, and undue reliance on key programming staff. (Finding 33, page 47 in State Report)

- The Payroll System's programming lacks data validity tests to ensure the propriety of payroll input. Pay periods could contain up to 999 work hours and payments could be up to \$99,999 without any error messages being printed, and vacation payments can be made to individuals with no earned vacation time. (Finding 36 & 37, page 52 & 54 in State Report)

- Disaster recovery plans and procedures for critical data processing applications have not been finalized. The critical applications include those controlling services to University students and Hospital patients. (Finding 35, page 50 in State Report)

University officials responded that they concur with our recommendations to strengthen the EDP controls. The University stated that resources are not available to implement a new Student System. A new Payroll System will include programming to edit data on personnel and payroll. The University feels it has taken steps to assure the protection of University resources and the continuation of required services.

OTHER FINDINGS

The remaining findings are less significant and have been given appropriate attention by the University. We will review the University's progress towards the implementation of our recommendations in our next audit.

Dr. Craig S. Bazzani, Vice President for Business and Finance, and Comptroller of the University, provided the University's responses.

AUDITORS' OPINION

The five University reports containing financial statements are: the University's basic financial statements in the Report of the Comptroller; the revenue bond financial statements in the Auxiliary Facilities System, the Willard Airport Facility, and the Construction Engineering Research Laboratory; and, special data requirements in the Supplementary Financial Information Report.

Our auditors stated that the University's June 30, 1993 financial statements contained in the five reports are fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:KMM:pp

SUMMARY OF AUDIT FINDINGS

Number of This Audit Prior Audit
Audit findings 5440

Repeated audit findings 1521
Prior recommendations implemented or
not repeated 2569

SPECIAL ASSISTANT AUDITORS

Arthur Andersen & Co. were our special assistant auditors on this audit.

UNIVERSITY OF ILLINOIS
FINANCIAL AND COMPLIANCE AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1993

FINANCIAL OPERATIONS (CURRENT FUNDS)	FY 1993	FY 1992
REVENUES		
State Appropriations	\$ 529,314,000	\$ 532,451,000
Student Tuition and Fees	195,982,000	175,730,000
Federal Grants	261,083,000	237,160,000
Grants and Contracts	154,910,000	156,847,000
Other Sources	156,258,000	138,983,000
Enterprise Sales	158,228,000	151,891,000
Hospital Sales	<u>238,786,000</u>	<u>210,499,000</u>
Total	<u>\$1,694,561,000</u>	<u>\$1,603,561,000</u>
EXPENDITURES		
Instruction	\$ 382,146,000	\$ 364,732,000
Research	285,404,000	274,720,000
Public Service	158,988,000	146,644,000
Academic Support	123,903,000	125,640,000
Operation of Plant	106,995,000	104,212,000
Other Services	248,115,000	226,596,000
Enterprise Expenses	147,953,000	140,515,000
Hospital Expenses	<u>216,757,000</u>	<u>205,065,000</u>
Total	<u>\$1,670,261,000</u>	<u>\$1,588,124,000</u>
SUPPLEMENTARY INFORMATION	FY 1993	FY 1992
Cash and Investments	\$404,813,000	\$382,326,000
Campus Plant Facilities	\$2,330,186,000	\$2,177,703,000
Accrued Compensated Absences	\$128,300,000	\$119,091,000
Revenue Bonds Payable	\$242,922,000	\$208,503,000
Employees		
Urbana	16,463	16,530
Chicago	<u>13,322</u>	<u>13,359</u>
Total Employees	<u>29,785</u>	<u>29,889</u>
Students		
Urbana	38,936	38,995
Chicago	<u>20,994</u>	<u>20,320</u>
Total Students	<u>59,930</u>	<u>59,315</u>
Costs Per Student (Instruction Costs Only)	<u>\$ 6,376</u>	<u>\$ 6,149</u>
Classroom Utilization (Daytime Maximum)		
Urbana	53%	53%
Chicago	42%	42%
UNIVERSITY PRESIDENT		
During Audit Period: Dr. Stanley O. Ikenberry Currently: Dr. Stanley O. Ikenberry		