



**UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM**  
(A Segment of the University of Illinois)

Report Required Under *Government Auditing Standards*

Year ended June 30, 2012

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

# UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

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The annual financial statements of the University of Illinois Auxiliary Facilities System for the year ended June 30, 2012 were issued under a separate cover.

**UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM**  
(A Segment of the University of Illinois)

Summary

Year ended June 30, 2012

**(1) Government Auditing Report Summary**

The audit of the financial statements of the University of Illinois Auxiliary Facilities System was performed by KPMG LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

**(2) 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 4 through 7 of this report.

**Schedule of Findings and Responses**

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**Current Year Findings:**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
AFS 12-01	4	Inadequate Year end Payables and Receivable Accruals Process
AFS 12-02	6	Inadequate Controls over University Procurement Card Transactions

**Prior Year Finding Not Repeated:**

AFS 11-02	8	Inadequate Controls over User Access to Information Systems
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**(3) Exit Conference**

A formal exit conference was waived by the University in a letter dated December 5, 2012. Responses to the recommendations were provided by Patrick Patterson, Maxine Sandretto and Michael Bass in a correspondence dated December 5, 2012.



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**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***

The Honorable William G. Holland  
Auditor General of the State of Illinois  
and  
The Board of Trustees  
University of Illinois:

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited the financial statements of the University of Illinois Auxiliary Facilities System (the System), a segment of the University of Illinois (the University), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. Our report was modified to include an emphasis paragraph stating that the System did not present a management's discussion and analysis that U.S. generally accepted accounting principles requires to supplement, although not be a part of, the basic financial statements and that the System's financial statements only present the financial position, changes in financial position, and cash flows of the activities that are attributable to the transactions of the System for complying with the requirements of the indentures of the System's Revenue Bonds. We conducted our audit in accordance with 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.

**Internal Control over Financial Reporting**

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies, in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial

reporting that we consider to be significant deficiencies and that are described in the accompanying schedule of findings and responses as finding numbers AFS 12-01 and AFS 12-02. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of 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*.

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the System's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Illinois Governor, University management, the Board of Trustees of the University of Illinois, others within the University, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Chicago, Illinois  
December 17, 2012

## UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

### Schedule of Findings and Responses

Year ended June 30, 2012

#### **Finding AFS 12-01 – Inadequate Year end Payables and Receivable Accruals Process**

The University has not established adequate internal controls over accurately identifying and recording period end accounts payable and accounts receivable transactions for financial reporting purposes.

During our audit, we noted the University's year end accounts payable procedures include specifically reviewing cash disbursements made subsequent to year end through the fourth week in October to determine to which accounting period the related expense transactions pertained. We further noted the University's year end accounts payable procedures also include calculating and recording an estimate of unrecorded liabilities largely based on historical disbursement activity. In addition, the University performs reviews over cash disbursements subsequent to year end to track and monitor the actual level of unrecorded liabilities. The actual level of unrecorded liabilities is then compared to the estimate originally recorded for financial reporting purposes. The University's year end accounts receivable procedures require units to identify and report any accounts receivable. In relation to our testwork on revenue transactions, we reviewed 34 revenue transactions recorded during the fiscal year (totaling \$6,460,461). In relation to our testwork on expense transactions, we reviewed 251 expense transactions recorded during the fiscal year (totaling \$57,718,985) and 27 cash disbursements subsequent to year end (totaling \$30,284,259). Additionally, we separately reviewed 214 journal entry transactions recorded during the fiscal year (totaling \$1,817,665,671). Further, we reviewed 64 capital asset additions recorded during the fiscal year (totaling \$168,542,428). During our review of these transactions we noted the following items were not recorded in the proper accounting period:

- One capital asset addition transaction (totaling \$701,209) was improperly over-accrued by \$604,086 as of June 30, 2012 because of an inaccurate percentage of completion estimate. Upon further review, the University identified a total of 41 capital additions that were over-accrued by \$4,713,029 from the inaccurate percentage of completion estimate.
- Three supplies and services expense transactions (totaling \$12,222) which pertained to fiscal year 2011 but were recognized as expense in fiscal year 2012.
- One fellowship expense transaction (totaling \$4,176) which pertained to fiscal year 2011 but was recognized as expense in fiscal year 2012.
- Two scholarship expense transactions (totaling \$1,500) which pertained to fiscal year 2011 but were recognized as expense in fiscal year 2012.
- Six travel expense transactions (totaling \$ 63,203) which pertained to fiscal year 2011 but were recognized as expense in fiscal year 2012.
- One contractual service expense transaction (totaling \$5,144) which pertained to fiscal year 2011 but was recognized as expense in fiscal year 2012.
- Two supplies and services expense transactions (totaling \$7,522) which pertained to fiscal year 2012 but were recognized as expense in fiscal year 2013.
- Two scholarship expense transactions (totaling \$1,373) which pertained to fiscal year 2012 but were recognized as expense in fiscal year 2013.
- Two travel expense transactions (totaling \$9,306) which pertained to fiscal year 2013 but were recognized as expense in fiscal year 2012.
- One telecommunication expense transaction (totaling \$12,917) which pertained to fiscal year 2013 but was recognized as expense in fiscal year 2012.

## UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

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### Schedule of Findings and Responses

Year ended June 30, 2012

- Two contractual service expense transactions (totaling \$59,267) which pertained to fiscal year 2013 but were recognized as expense in fiscal year 2012.
- One educational activity revenue transaction for a summer youth music camp (totaling \$28,001) which pertained to fiscal year 2012 but was recognized as revenue in fiscal year 2013.

The control deficiencies and exceptions discussed above relate to the operations of the University including the Auxiliary Facilities System.

Generally accepted accounting principles require transactions to be reported in the period they are incurred. Additionally, the Fiscal Control and Internal Auditing Act (Illinois Compiled Statutes Chapter 30 Section 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 accurately assess whether expenditures and revenues are reported in the appropriate period.

In discussing these conditions with University personnel, they stated that the units associated with the exceptions did not adequately understand/follow the procedures to record the transactions in the proper period. While the University believes it has processes in place to prevent material misstatements in the financial statements, the highly decentralized business environment with hundreds of units and large volumes of transactions, does present challenges to catching all errors.

Failure to accurately record expense and revenue transactions in the correct accounting period may result in the misstatement of the University's financial statements. (Finding Code AFS 12-01, AFS 11-01, AFS 10-03, AFS 09-03)

#### **Recommendation:**

We recommend the University review its current process to assess the completeness of its expense and revenue accruals at year end and consider changes necessary to ensure all period end accounts payable and accounts receivables are accurately identified and recorded.

#### **University Response:**

Accepted. The University has already implemented significant process enhancements in this area. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective actions to further improve the year-end processes in this area.

## UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

Schedule of Findings and Responses

Year ended June 30, 2012

### **Finding AFS 12-02 – Inadequate Controls over University Procurement Card Transactions**

The University has not established adequate internal control over procurement 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 reimbursed 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. Although the University has established policies and procedures for issuing procurement cards, incurring and paying for expenditures with procurement cards, and reviewing and approving of procurement card transactions, we noted the University has not implemented procedures to identify duplicate charges or to reconcile procurement card transactions with travel reimbursement forms. As a result, erroneous or duplicate charges may be paid and recorded by the University without any further detective controls to identify them. We also identified the following exceptions in our testwork over 40 procurement card transactions totaling \$118,858:

- One transaction (totaling \$4,624) was for charges prohibited by the University's procurement card policies.
- Two transactions (totaling \$12,340) were paid in two or more installments, circumventing the card holder's single transaction limit of \$4,999.
- One transaction (totaling \$1,065) was recorded in the incorrect fiscal year.
- Three transactions (totaling \$7,398) were purchases of equipment that were not tagged in accordance with University's policies and procedures.

The University has approximately 5,241 active procurement cards and the procurement card expenditures paid for the year ended June 30, 2012 totaled \$87,939,495.

The control deficiencies and exceptions discussed above relate to the operations of the University including the Auxiliary Facilities System.

The Fiscal Control and Internal Auditing Act (Illinois Compiled Statutes Chapter 30 Section 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 procurement card transactions are in accordance with University policies and procedures and supporting documentation for each transaction is maintained.



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Schedule of Findings and Responses

Year ended June 30, 2012

In discussing these conditions with University personnel, they stated that in fiscal 2012 the University was still in the process of implementing its new Travel and Expense Management System, which will provide controls, in addition to those already in place, to further eliminate the possibility of duplicate transactions with regard to travel reimbursements. The bulleted exceptions noted in this finding were a result of human error; specifically, the failure of certain employees to comply with University policy that is clearly stated and disseminated to all through required training.

Failure to properly review and approve procurement card transactions could result in erroneous or fraudulent transactions being recorded in the general ledger system. (Finding Code AFS 12-02, AFS 11-03, AFS 10-02, AFS 09-02, and AFS 08-03)

**Recommendation:**

We recommend the University review its current process for reviewing and approving procurement card transactions and consider any changes necessary to ensure charges are made in accordance with University policies and procedures. We also recommend the University implement procedures to identify duplicate transactions and to reconcile procurement card transactions to travel reimbursement forms.

**University Response:**

Accepted. The University recognizes that with approximately 5,200 active procurement cards, erroneous charges can and do occur. The University employs careful oversight and review to ensure these errors are minimal, and it takes immediate action when errors are discovered. The University will continue to be proactive in improving controls over the P-Card system and will continue to provide training and review of policies and requirements for all cardholders. Training to units on proper procedures for tagging of equipment will also be continued.

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Schedule of Prior Year Findings Not Repeated

Year ended June 30, 2012

**Prior Year Finding AFS 11-02 – Inadequate Controls over User Access to Information Systems**

The University did not establish adequate internal controls over access to the information systems used in its financial reporting process. In the current year, the University established procedures to perform periodic access reviews for all users with access to the information systems. The University is implementing corrective action procedures to ensure the user access rights for terminated employees are removed in a timely manner.