



UNIVERSITY OF ILLINOIS HEALTH SERVICES FACILITIES SYSTEM
(A Segment of the University of Illinois)

Report Required under *Government Auditing Standards*

Year ended June 30, 2014

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

UNIVERSITY OF ILLINOIS HEALTH SERVICES FACILITIES SYSTEM
(A Segment of the University of Illinois)

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The annual financial statements of the University of Illinois Health Services Facilities System for the year ended June 30, 2014 were issued under a separate cover.

UNIVERSITY OF ILLINOIS HEALTH SERVICES FACILITIES SYSTEM
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Summary

Year ended June 30, 2014

Government Auditing Report Summary

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

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 8 of this report.

Schedule of Findings and Responses

Current Year Findings:

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
HSFS 2014-001	4	Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues
HSFS 2014-002	7	Inadequate Controls over University Procurement Card Transactions

Exit Conference

A request to waive a formal exit conference was made by the University in a correspondence dated December 11, 2014. Responses to the recommendations were provided by the University's Office of Business and Financial Services in a correspondence dated December 16, 2014.



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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, 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 University of Illinois Health Services Facilities System (the System), a segment of the University of Illinois (the University), which comprise the statement of net position as of June 30, 2014, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014. Our report includes references stating that the System did not present a management's discussion and analysis that accounting principles generally accepted in the United States of America require 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.

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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as finding numbers HSFS 2014-001 and HSFS 2014-002 that we consider to be significant deficiencies.

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*.

The System's Responses to Findings

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 the responses.

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 results 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.

KPMG LLP

Chicago, Illinois
December 19, 2014

UNIVERSITY OF ILLINOIS HEALTH SERVICES FACILITIES SYSTEM

(A Segment of the University of Illinois)

Schedule of Findings and Responses

Year ended June 30, 2014

Finding HSFS 2014-001 – Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues

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 code 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 testwork over expense transactions, we reviewed 188 cash disbursement transactions (totaling \$92,035,032 debits and \$9,485,555 credits), 40 P-Card expense transactions (totaling \$74,597), and 40 T-Card expense transactions (totaling \$61,817) recorded during the fiscal year. We also reviewed 89 cash disbursements occurring subsequent to year-end (totaling \$97,515,256). Additionally, we separately reviewed 74 internal journal voucher expense transactions recorded during the fiscal year (totaling \$45,259,569 debits and \$32,317,240 credits).

In relation to our testwork over revenue transactions, we reviewed 20 cash receipt transactions recorded during the fiscal year (totaling \$32,688,087) and 35 accounts receivable revenue transactions (totaling \$2,901,554 credits and \$13,364 debits). Additionally, we separately reviewed 65 internal journal voucher revenue transactions recorded during the fiscal year (totaling \$149,844,271 credits and \$211,727,565 debits).

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

University of Illinois transactions

- Three (3) supplies and services expenses cash disbursements (totaling \$741,253) that were recorded as expenses for the fiscal year ended June 30, 2014, should have been partially deferred as of June 30, 2014 at an amount of \$376,097 and recognized as an expense for the fiscal year ending June 30, 2015.
- One (1) cash receipt (totaling \$24,221) that was recorded as operating revenue for the fiscal year ended June 30, 2014, should have been accrued for at June 30, 2013. In addition, this transaction was incorrectly classified as revenue and should have been recorded as a reduction of an expense as the cash receipt represented a partial refund of an expense. The effect of this recording error is an overstatement of operating revenue for the fiscal year ended June 30, 2014, and an understatement of accounts receivable and net position as of June 30, 2013.

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Schedule of Findings and Responses

Year ended June 30, 2014

University of Illinois P-Card transactions

- Two (2) supplies and services expenses cash disbursements (totaling \$1,375) that were recorded as expenses for the fiscal year ended June 30, 2014, should have been deferred as of June 30, 2014 and recognized as an expense for the fiscal year ending June 30, 2015.
- Two (2) supplies and services expenses cash disbursements (totaling \$2,999) that were recorded as expenses for the fiscal year ended June 30, 2014, should have been partially deferred as of June 30, 2014 at an amount of \$1,689, and then recognized as an expense for the fiscal year ending June 30, 2015.

University of Illinois T-Card transactions

- One (1) supplies and services expenses cash disbursement (totaling \$1,026) that was recorded as expense for the fiscal year ended June 30, 2014, should have been deferred as of June 30, 2014 at an amount of \$1,026, and then recognized as an expense for the fiscal year ending June 30, 2015.

University of Illinois Health Services Facilities System transactions:

- One (1) supplies and general expenses cash disbursement (totaling \$158,937) was inaccurately accrued at June 30, 2013 for the amount of \$161,598. The inaccurate accrual of \$161,598 resulted in an understatement of supplies and general expenses (totaling \$2,661) for the fiscal year ended June 30, 2014, and an overstatement of both accounts payable as of June 30, 2013 and supplies and general expenses for the fiscal year ended June 30, 2013.

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 ensure expenses and revenues are recognized in the appropriate reporting 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 analyze and record cash disbursements within the proper fiscal year may result in the misstatement of the University's financial statements. (Finding Code HSFS 2014-001, HSFS 2013-001, HSFS 12-01, HSFS 11-01, HSFS 10-03, and HSFS 09-03)

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Schedule of Findings and Responses

Year ended June 30, 2014

Recommendation:

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

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 related year-end processes.

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UNIVERSITY OF ILLINOIS HEALTH SERVICES FACILITIES SYSTEM

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Schedule of Findings and Responses

Year ended June 30, 2014

Finding HSFS 2013-002 – Inadequate Controls over University Procurement Card Transactions

The University has not established adequate 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 testwork over 40 procurement card transactions totaling \$74,597, we noted the following:

- One transaction (totaling \$663) was for a charge prohibited by the University's procurement card policies;
- One purchase (totaling \$43,851) was paid in two or more installments (9 transactions each for \$4,872.37), circumventing the card holder's single transaction limit of \$4,999;
- Two transactions (totaling \$5,521) were purchases of equipment that were not tagged in accordance with University's policies and procedures; and
- Two transactions (totaling \$2,243) included a charge of \$132 for sales tax which is a prohibited charge because the University is tax-exempt.

The University has approximately 4,270 active procurement cards and the procurement card expenditures paid for the year ended June 30, 2014 totaled \$64,720,934.

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 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) fund 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.

In discussing these conditions with University personnel, they stated that the bulleted exceptions noted in this finding were a result of human error.

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Schedule of Findings and Responses

Year ended June 30, 2014

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 HSFS 2014-002, HSFS 2013-002, HSFS 12-02, HSFS 11-03, HSFS 10-02, HSFS 09-02, and HSFS 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.

University Response:

Accepted. The University recognizes the importance of process controls and transactions monitoring, and has implemented a number of enhancements in this area. Further corrective action will be taken in connection with the recommendation in this finding.