

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

**Reports Required Under
*Government Auditing Standards***

For the Year Ended June 30, 2015

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



CliftonLarsonAllen

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**UNIVERSITY OF ILLINOIS HEALTH
SERVICES FACILITIES SYSTEM
(A Segment of the University of Illinois)
*Government Auditing Standards Report***

Government Auditing Report Summary

The audit of the financial statements of the University of Illinois Health Services Facilities System (System) was performed by CliftonLarsonAllen LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit. Based on their audit and the reports of other auditors, the auditors expressed an unmodified opinion on the System's basic financial statements.

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 5 through 15 of this report

Exit Conference

A request to waive a formal exit conference was made by the University in a correspondence dated December 9, 2015. Responses and recommendations were provided by the University's Office of Business and Financial Services in correspondence dated December 11, 2015



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

Honorable William G. Holland
Auditor General, State of Illinois
and
Board of Trustees
University of Illinois

As Special Assistant Auditors for the Auditor General, 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 business-type activities of the University of Illinois Health Services Facilities System (the "System"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 23, 2015.

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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 2015-001, 2015-002, 2015-003 and 2015-004 that we consider to be significant deficiencies in internal control over financial reporting. 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 governance.

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*.

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 result 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.



CliftonLarsonAllen LLP

Peoria, Illinois
December 23, 2015

UNIVERSITY OF ILLINOIS HEALTH SERVICES FACILITIES SYSTEM
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CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
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2015-001. Finding: Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues

The University of Illinois (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 test work over expense transactions, we reviewed 197 cash disbursement transactions (totaling \$42,171,231), 67 P-Card expense transactions (totaling \$247,947), and 60 T-Card expense transactions (totaling \$239,444) recorded during the fiscal year. We also reviewed 11 cash disbursements occurring subsequent to year-end (totaling \$24,827,569). Additionally, we separately reviewed 12 internal journal voucher transactions recorded during the fiscal year (totaling \$13,894,968 debits and \$16,297,995 credits).

In relation to our test work over revenue transactions, we reviewed 60 cash receipt transactions recorded during the fiscal year (totaling \$216,289,228).

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

University of Illinois transactions

- One (1) general expense cash disbursement (totaling \$5,682) that was recorded as expense for fiscal year ended June 30, 2015, should have been partially accrued as of June 30, 2014 at an amount of \$1,218.
- One (1) general expense cash disbursement (totaling \$68,175) that was recorded as expense for fiscal year ended June 30, 2015, should have been partially deferred as of June 30, 2015 at an amount of \$34,088, and then recognized as expense for the fiscal year ending June 30, 2016.
- One (1) cash receipt (totaling \$272,051) that was recorded as operating revenue for the fiscal year ended June 30, 2015, should have been partially

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deferred as of June 30, 2015 at amount of \$181,864, and then recognized as operating revenue for the fiscal year ending June 30, 2016.

University of Illinois P-card transactions

- One (1) service expense cash disbursement (totaling \$3,931) that was recorded as an expense for fiscal year ended June 30, 2015, should have been deferred as of June 30, 2015, and then recognized as expenses for the fiscal years ending June 30, 2016 and June 30, 2017 at an amount of \$2,016 and \$1,915, respectively.

- Two (2) general and service expenses cash disbursements (totaling \$9,817) that were recorded as expenses for fiscal year ended June 30, 2015, should have been partially deferred as of June 30, 2015 at an amount of \$9,514, and then recognized as expenses for the fiscal year ending June 30, 2016.

University of Illinois T-card transactions

- One (1) general expense cash disbursement (totaling \$2,307) that was recorded as an expense for fiscal year ended June 30, 2015, should have been accrued as of June 30, 2014.

- One (1) general expense cash disbursement (totaling \$5,209) that was recorded as an expense for fiscal year ended June 30, 2015, should have been deferred as of June 30, 2015, and then recognized as expense for the fiscal year ending June 30, 2016.

Generally accepted accounting principles require transactions to be reported in the period they are incurred. Additionally, 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 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 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

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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 2015-001, 2014-001, 2013-001, 12-01, 11-01, 10-03, 09-03)

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 will continue to implement corrective actions to address the recommendation in this finding.

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2015-002. Finding: Inadequate Controls Over University Procurement Card Transactions

The University of Illinois (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 test work over 67 procurement card transactions totaling \$247,947, we noted the following:

- Two transactions (totaling \$3,298) were for charges prohibited by the University's procurement card policies;
- One transaction (totaling \$4,968) was for a graduate student's tuition and fees which did not follow the University's Office of Business and Financial Services policies and procedures for graduate student tuition and fees departmental payments which resulted in an erroneous refund totaling \$4,968 to the student's account which was subsequently disbursed to the student.
- Three transactions (totaling \$9,649) were for a graduate student's tuition and fees which did not follow the University's Office of Business and Financial Services policies and procedures for graduate student tuition and fees departmental payments which resulted in the transactions not being properly processed by the University's Payroll & Benefits department which determines the taxability of waivers.
- One purchase (totaling \$12,192) was paid in two or more installments (3 transactions each for \$4,064), circumventing the card holder's single transaction limit of \$4,999;
- One transaction (totaling \$5,785) exceeded the card holder's single transaction limit of \$4,999, and the purchase was made prior to the approval of P-card Exception Request. The exception request was approved 23 days late.
- One transaction (totaling \$71) included a charge of \$4 for sales tax which is a prohibited charge because the University is tax-exempt;
- Three transactions for printing services (totaling \$460) were not in compliance with the Illinois Procurement Code and the waiver for this requirement was not obtained from the State Purchasing Officer.

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The University has approximately 4,315 active procurement cards and the procurement card expenditures paid for the year ended June 30, 2015 totaled \$58,780,227.

The University policy states that all P-Card exception requests must be submitted to UPAY Card Services using the P-Card Exception Request. Based on the exception criteria, UPAY Card Services routes the request to the appropriate unit(s) or employee(s) for review, and notifies the requester via email of the approval or denial of the request. Exceptions must be approved prior to making the requested purchase(s).

The Illinois Procurement Code (30 ILCS 500/45-15) states that contracts requiring the procurement of printing services shall specify the use of soybean oil-based ink unless a State purchasing officer determines that another type of ink is required to assure high quality and reasonable pricing of the printed product.

Under Internal Revenue Code Section 127, employers may provide employees graduate tuition and fee waivers up to \$5,250 per calendar year that are excludable from taxable income. The University's Office of Student Financial Aid is responsible for processing the waivers for which the University Payroll & Benefits department determines the taxability of waivers exceeding \$5,250, notifies employees of the required taxation, and withholds the applicable taxes from the employees' compensation. To ensure proper taxation, the University's Office of Business and Financial Services procedures require departments to complete the Student Account Payment Request Form to request payment for all graduate-level tuition and fees.

Moreover, 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) 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.

University officials stated the bulleted exceptions largely resulted from human error. In addition, management indicated the 3 exceptions related to the Soybean Oil-Based Ink Act are the result of challenges in understanding how to apply the applicable state

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statutes. 50 ILCS 520/10 gives state agencies flexibility in determining the type of ink to assure reasonable pricing and high quality of the printed product, while 30 ILCS 500/45-15 requires non-soybean oil-based ink to be approved by the State Purchasing Officer.

Failure to properly review and approve procurement card transactions could result in erroneous or fraudulent transactions being recorded in the general ledger system and results in noncompliance with Internal Revenue Code and the University's Office of Business and Financial Services policies and procedures. (Finding Code 2015-002, 2014-002, 2013-002, 12-02, 11-03, 10-02, 09-02, and 08-03)

Recommendation:

We recommend the University continue to review and improve its internal controls over procurement card transactions to ensure that erroneous or fraudulent transactions are not recorded in the general ledger system and to ensure compliance with Internal Revenue Code.

University Response:

Accepted. The University recognizes the importance of process controls, training, and transaction monitoring in this area. Further corrective action will be taken in connection with the recommendation in this finding.

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2015-003. Finding: Inadequate Controls Over Monitoring External Audits, Attestation Engagements and Other Studies

The University has not established adequate internal controls over monitoring external audits, attestation engagements and other studies.

The University's system of internal controls over monitoring external audits, attestation engagements and studies are inadequate as there are currently no policies or procedures requiring central monitoring to ensure all identified risks and deficiencies are adequately assessed and addressed at a University wide level.

Monitoring all external audits, attestation engagements, and other studies at a central, University wide level is important to the overall system of internal controls to ensure the University is adequately addressing all potential risks and implementing proper corrective action plans to address risks. Centralized procedures to monitor external audits should be performed by the University.

Moreover, 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) 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 policies and procedures to ensure the University is adequately addressing all potential risks and implementing proper corrective action plans to address risks.

The University indicated that its central offices normally become aware of external audits, attestation engagements and other studies that identify internal control weaknesses, as such activities typically involve research grants/contracts and other areas overseen by the University's central offices. As such, the University believed that identified internal control weaknesses would typically receive the necessary corrective action and financial reporting consideration. Nevertheless, formal policies and structures had not existed to specifically require that all such engagements/studies to be reported/monitored, centrally.

The possibility exists under the University's current policies and procedures for monitoring external audits, attestation engagements and other studies that a risk or internal control deficiency identified during the audit or attestation process would not be

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adequately communicated at a University wide level allowing the University's financial reporting department to assess whether there are any potential risks at a University and financial reporting level.

Failure to implement the appropriate internal controls to monitor all external audits, attestation engagements, and other studies at a central, University wide level may result in non-compliance with applicable laws and regulations. (Finding Code 2015-003)

Recommendation:

We recommend the University review and implement stronger internal controls in order to ensure the University remains in compliance with all applicable laws and regulations.

University Response:

Accepted. The University will take the necessary corrective action to address the recommendation in this finding.

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2015-004. Finding: Inadequate System of Internal Controls over the Hospital's 340B Drug Pricing Program

The University of Illinois Health Services Facilities System has not established adequate internal controls over the University Hospital's 340B Drug Pricing Program.

The University of Illinois Health Services Facilities System's adopted policies and procedures to address compliance with the Federal 340B Drug Pricing Program regulations are inadequate and currently do not meet certain program requirements as established by the U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA).

The University of Illinois Health Services Facilities System is required to be in compliance with the requirements of the 340B Drug Pricing Program due to the Hospital's participation in the program. Oversight of the Program is administered by the U.S. Department of Health and Human Services, Health Resources and Services Administration (HRSA). The University's Hospital is the "covered entity" under the program as defined by HRSA. Required by HRSA, covered entities must ensure program integrity and maintain accurate records documenting compliance with all 340B Program requirements. Covered entities are subject to audit by the drug manufacturers or HRSA. Failure to comply may make the 340B covered entity liable to drug manufacturers for refunds of discounts obtained or potential loss of participation in the Program.

During our audit, we noted the University Hospital's policies and procedures over the 340B Drug Pricing Program were potentially deficient in the following areas putting the University Hospital's 340B Program at risk:

- Oversight and governance: the University Hospital's 340B Program does not include key hospital personnel.
- Program eligibility:
 - Covered entity "child sites" in the HRSA Office of Pharmacy Affairs 340B Database do not reflect all reimbursable outpatient departments on the Medicare cost report.
 - Based on a self-assessment there are identified eligibility discrepancies.
 - Manual process for screening eligible patients at the retail pharmacies is prone to error.
- Medicaid billing:
 - Medicaid billing is not using the actual national drug code and 340B acquisition cost.
 - Policies and procedures demonstrating that the Medicaid Exclusion File is being consistently reviewed need to be developed and implemented.
- Group Purchasing Organization Prohibition:
 - Separate group purchasing organization purchasing accounts for Hospital outpatient departments are required to comply with HRSA regulations.

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- Purchasing procedures:
 - The covered entity does not maintain ownership of the 340B drugs at the contract pharmacy. The purchasing is performed by the College of Pharmacy.
 - Inadequate split billing software.

- Community benefit:
 - The current operating structure does not readily demonstrate how the 340B Program benefits are retained by the covered entity under the arrangement with the College Pharmacy.
 - The University's Hospital documentation on the program's savings and how it aligns with the 340B Program's intent is inadequate.

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) 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 Hospital systems of internal controls should include policies and procedures to ensure compliance with the 340B Drug Pricing Program as outlined in the HRSA requirements.

Management stated that, based on previous analysis and legal advice, the University believed that its practices regarding the 340B Program had been substantially compliant with regulations. They further noted, however, in fiscal 2015, the University engaged an independent consulting firm to perform a compliance review of its participation in the Program. This review identified several potential deficiencies, as noted above. The University appropriately informed the auditors of these recently identified deficiencies during the fiscal 2015 audit.

Failure to properly comply with the HRSA 340B Drug Pricing Program requirements could result in refunds of discounts to the drug manufacturers or potential loss of participation in the Program. (Finding Code 2015-004)

Recommendation:

We recommend the University establish adequate internal controls over the University Hospital's 340B Drug Pricing Program, to ensure the University remains in compliance

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with requirements as established by the U.S. Department of Health and Human Services, Health Resources and Services Administration.

University Response:

Accepted. During fiscal 2015, the University's Hospital began the process of establishing a 340b Oversight Committee to oversee the program. A part of its charge is to remedy the deficiencies. Significant progress toward corrective actions began in fiscal 2015 and continues in fiscal 2016. Progress thus far includes financial analysis of the 340B program benefits and development of formal documentation between the Hospital and College of Pharmacy clearly defining each party's role in the program and the fees to be paid by the Hospital to the College for administrative services rendered. Further, the filed fiscal 2015 Medicare cost report reflected necessary corrections to be consistent with the sites listed in the HRSA database. The Hospital is actively pursuing other corrective action steps to ensure full compliance with HRSA regulations.