



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

CERTAIN FINANCIAL AND BUSINESS PROCESSES
UNIVERSITY OF ILLINOIS BOARD OF TRUSTEES

PERFORMANCE AUDIT

Release Date: January 2012

SYNOPSIS

The **University Board requested** that the Legislative Audit Commission authorize and direct the Auditor General to conduct this independent external audit of certain financial and business processes for which the Board had responsibility for the period 2007-2009. The Board is the governing body of the University and has final authority over University activity. The Board has certain authorization levels for transactions it must approve. Our audit found:

- The Board utilized the Executive Committee during the audit period for issues that were either not urgent in nature, or were matters that should have been discussed and voted on by the full Board.
- **Purchasing Transactions:** During the audit period the Board **approved 337 purchases** totaling **\$602 million** based on dollar thresholds established by the Board in 2005. We specifically found:
 - The University did not provide complete and accurate information to the Board related to purchasing transactions for approval as required by Board policy.
 - The criteria reviewed on evaluations were not maintained in all procurement files; and the required evaluation criteria listed in the RFP was not always consistent with the criteria in the evaluation process.
 - The University did not maintain individual evaluations for each committee member in the file.
 - The University did not maintain complete evaluations for each procurement transaction in our sample.
 - The University's procurement files contained evaluation scoring errors.
- **Finance and Investment Transactions:** During audit testing we identified a **potential conflict of interest** involving a Board official that recommends firms to the full Board for financing activities. Also, the University: utilized a two-team evaluation approach for the procurement of a financial advisor that was **outside usual University evaluation procedures**; did not maintain supporting files for the procurement of all the financing parties; utilized financing parties with which the University **did not have a current contractual agreement**; and **overpaid** bond counsel and issuer's counsel vendors based on an examination of the contractual rates for those services.
- **Construction Transactions:** During the audit period, the University submitted, and the Board approved, **\$981 million** in construction related transactions. We specifically found:
 - Inconsistencies, errors, and discrepancies during the review of the University's evaluation process for A/E professional service consultants. In addition, the over involvement of personnel external to the evaluation committee was identified during the review of the University's selection process for A/E professional service consultants.
 - The University was not obtaining sufficient information for contractors and subcontractors including MAFBE information. The University was also not ensuring MAFBE information proposed in bids was consistent with MAFBE information listed in final University contracts.

AUDIT CONCLUSIONS AND RECOMMENDATIONS

The Board of Trustees (Board) is the governing body of the University of Illinois (University) and has final authority over University activity, including the proper use of funds appropriated by the General Assembly. (report page 1)

The Board has certain authorization levels for transactions it must approve. During the audit period of 2007-2009, for the authorization **levels in place at the time**, the Board:

- Approved 202 **construction related transactions** totaling \$981 million.
- Approved 337 **purchase transactions** totaling \$602 million. (page 1)

The Executive Committee was utilized for issues that were not urgent.

The Board utilized the Executive Committee during the audit period for issues that were either not urgent in nature, or were matters that should have been discussed and voted on by the full Board. The Executive Committee is to meet and act upon issues **that cannot be postponed** until the next regular meeting of the Board. While all Board trustees are notified of the meeting and can comment or question any item, **only Executive Committee members may vote** on the issues at hand. The Executive Committee consists of three Board members. (pages 13-20)

PURCHASING TRANSACTIONS

During the audit period the Board **approved 337 purchases** totaling **\$602 million** based on dollar thresholds established by the Board in 2005. We selected 25 transactions totaling \$28.5 million that were **competitively procured**, and an additional 25 transactions, totaling \$38.7 million, which were **sole source purchases** by the University. We found:

The University did not review and approve sole source justification forms.

- The University did not provide all complete and accurate information to the Board related to purchasing transactions for approval as required by Board policy (2 of 25 transactions tested).
- The University did not review and approve sole source justification forms as required by University Policy.
 - 11 of 25 transactions tested lacked dates on the forms.
 - 6 of 25 transactions tested lacked approval signature or dates.
- The University did not provide copyright or patent support for all applicable sole source purchases as required.
 - 3 of 17 transactions tested **did not have** the copyright or patent number on sole source form.
 - 6 of 17 transactions tested **had no documentation** to support the validity of the patent number in the file.
- The University inconsistently used contracts and purchase orders as binding agreements. Additionally, although required in University policy, the University did not always obtain required signatures on contractual obligations or

The University inconsistently used contracts and purchase orders as binding agreements.

Evaluation criteria for purchases were not always maintained in the procurement file.

Procurement files contained evaluation scoring errors.

- follow required State recording and filing procedures.
- The Contract Approval Routing Form (CARF) was not consistently being completed, signed, and included with each contract document being processed as required by University policy.
 - 21 of 25 sole source transactions tested **did not contain** a completed and signed CARF.
 - 20 of 24 competitively procured transactions tested **did not contain** a completed and signed CARF.
 - The criteria reviewed on evaluations were not maintained in all procurement files. Additionally, the required evaluation criteria listed in the Request for Proposal (RFP) was not always consistent with the criteria reviewed during the evaluation process.
 - 10 of 20 transactions tested had required evaluation criteria listed in the RFP that **were not consistent** with criteria reviewed by the evaluation committee.
 - 2 of 20 transactions tested **lacked documentation** for auditors to determine whether the criteria utilized was consistent. These transactions totaled \$6.8 million.
 - The University did not maintain individual evaluations for each committee member in the file. Additionally, University documentation, for some transactions, did not support that the evaluation was based on a group consensus.
 - 3 of 20 transactions tested were by group consensus although documentation **did not show** signatures for the group members.
 - 10 of 20 transactions tested **lacked documentation** to show the evaluations for individual members of the committee. These transactions totaled over \$17 million.
 - The University did not maintain complete evaluations for each procurement transaction in our sample.
 - 3 of 20 transactions tested had evaluations which were **not complete**.
 - 7 of 20 transactions tested **lacked documentation** for auditors to determine whether the evaluation was complete. These transactions totaled over \$15 million.
 - The University did not maintain point summaries in the procurement files that supported Board documentation for all transactions in our sample (2 of 20 transactions tested included point totals in the files that differed from what was presented to the Board).
 - The University's procurement files contained evaluation scoring errors. Additionally, there was no evidence in the files to support that such errors were recognized and addressed by the University.
 - 5 of 20 transactions tested **had evaluation scoring errors**.
 - 5 of 20 transactions tested **lacked documentation** for auditors to determine whether the evaluations were correct. These transactions totaled over \$14 million.
 - The University's procurement files contained inconsistencies

in the identification of evaluation committee members. Additionally, there was no evidence in the files to support that such inconsistencies were recognized and addressed by the University.

- 3 of 20 transactions tested had **inconsistencies** in the identification of evaluation team members.
- 6 of 20 transactions tested **lacked documentation** for auditors to determine whether the evaluation team remained consistent throughout the procurement process.
- Protest documents were not maintained in the procurement or associated contract files as required by the Illinois Procurement Code. Additionally, we did not see evidence that the University conducted contractor performance reviews.
 - 49 of 49 transactions tested had **no evidence** that contractor performance reviews were completed. (pages 23-46)

FINANCE AND INVESTMENT TRANSACTIONS

At June 30, 2009, the University had **\$1.64 billion** of financing for its infrastructure needs. Ninety-two percent of the financing was for academic facilities, housing, and athletic facilities.

Financing activities are conducted by parties internal to the University and external parties whose services were to be procured utilizing competitive procurement processes. The University paid **over \$2.7 million in fees** to five financing parties during the audit period.

During audit testing we identified a potential conflict of interest involving a Board official.

During audit testing we identified a **potential conflict of interest** involving a Board official that recommends firms to the full Board for financing activities. For 1 of the 11 financing transactions, a \$90 million issue for auxiliary facilities system revenue bonds in 2009, the Comptroller recommended utilizing an underwriting firm that the Comptroller previously worked for and in which he still had ownership interest.

The University reported it competitively procured the services of the external financing parties utilized during transactions within the audit period. We found that the University:

The University utilized an external financing party that it did not have a current contractual agreement with and overpaid vendors for bond counseling services.

- utilized a two-team evaluation approach for the procurement of a financial advisor that was **outside usual University evaluation procedures;**
- did not maintain supporting files for the procurement of all the financing parties;
- utilized financing parties with which the University **did not have a current contractual agreement;** and
- **overpaid** bond counsel and issuer's counsel vendors based on an examination of the contractual rates for those services. (pages 47-62)

CONSTRUCTIONS TRANSACTIONS

During the audit period, the University submitted, and the Board approved, **\$981 million** in construction related transactions. This included both general construction contracts and contracts for professional services for architectural and engineering (A/E) services. Given the high risk associated with the construction area, we selected two samples for fieldwork testing, one of general construction contracts and the other for A/E contracts.

Testing was designed to ensure the University maintained all applicable documentation, that decisions were properly documented and supported and that all transactions were submitted for approval to the Board pursuant to Board authorization dollar thresholds. Additionally, given the information obtained from University officials, we tested to ensure that selection decisions were based on State law and documented University policy.

Construction Testing

We found:

University QBS policy incorrectly included construction managers in the policy during the audit period.

No University policy on selection of alternate bids.

- During the audit period, the University’s Qualifications Based Selection (QBS) policy for capital professional services **incorrectly included** “construction managers” in the procurement policy with the selection of architects and engineers.
 - 5 of 5 transactions tested that contained a construction manager had insufficient documentation to support the selection of that manager.
- There was no University policy regarding the selection of construction contractors with bid proposals containing base and **alternate bid** prices. As a result, the University did **not consistently** following the same steps when selecting contractors with these types of proposals.
 - 9 of 15 transactions tested showed the University **deviated** from the original alternates requested **after** the submission of bid proposals for at least one division of the project.
 - 9 of 15 transactions tested showed the University was **inconsistently designating** bidders as responsive or non-responsive when selecting construction contractors with bid proposals requesting base and alternate bids.
- The University failed to maintain solicitation and procurement bulletin documentation in all construction transactions reviewed. Additionally, the University failed to maintain signed contractual agreements in the files for all construction transactions.
 - 1 of 24 transactions tested did not contain the Invitation for Construction Bid. This transaction totaled \$1.1 million.
 - 1 of 24 transactions tested did not contain procurement

The University processed negotiated settlements as change orders.

- bulletin documentation. This transaction totaled \$4 million.
- 3 of 25 transactions tested did not contain a division contract or required signature.
- The University failed to maintain adequate documentation to support the process for selecting Professional Services Consultants associated with construction transactions reviewed.
- According to construction documentation reviewed on the west interior renovation to Memorial Stadium, the University processed payments for negotiated settlements as **change orders**. Change orders need to be approved in writing by the University prior to work being completed. Additionally, change orders for an electrical contractor were strung out as four individual change orders resulting in the University not having to seek Board approval due to the individual payments being below the Board approval threshold. Finally, some change orders reviewed were for items which would appear to be, or should have been, part of the original bid for which the contractor was awarded University business.
- There were no University policies detailing Minority and Female Business Enterprise (MAFBE), subcontractor, or “spreading the work around” requirements for construction transactions. As a result, the University was not consistently obtaining, evaluating, or verifying these requirements when selecting construction contractors.
 - 22 of 24 transactions tested showed the University did not obtain adequate MAFBE information. The information was either not provided or could not be broken down by prime contractor or subcontractor(s). These transactions totaled \$117 million.
 - 21 of 24 transactions tested showed the University failed to obtain adequate subcontractor information. The 21 transactions totaled \$115 million. (pages 65-85)

A/E Testing

We found:

The University did not implement all University policies required under QBS.

- The University was not implementing all University policies required under the Qualifications Based Selection (QBS) Policy for Capital Professional Services, which is governed by the State of Illinois Architectural, Engineering, and Land Surveying Qualifications Based Selection Act.
 - 23 of 25 transactions tested showed the University did not retain sufficient documentation to support representatives for **all required areas** on the evaluation committee.
 - 15 of 25 transactions tested showed the evaluation committee members **did not remain** consistent.
 - 15 of 25 transactions tested showed the interview

selection criteria developed by the committee was **not included in the interview notification letter**.

- 22 of 25 transactions tested lacked individual evaluation forms for each committee member during the short list and/or interview evaluations.
- 8 of 25 transactions tested showed the evaluation committee did not determine the final selection criteria for interviews.
- 24 of 25 transactions tested lacked a written executive summary.
- 2 of 25 transactions tested showed the amount paid to professional service consultants was significantly greater than the contracts approved by the Board.
- Inconsistencies, errors, and discrepancies were identified during the review of the University's evaluation process for A/E professional service consultants. In addition, the over involvement of personnel external to the evaluation committee was identified during the review of the University's selection process for A/E professional service consultants.
 - 15 of 25 transactions tested contained scoring or ranking inconsistencies for **short list evaluations**. After a review of the proposals by all submitting vendors, the University creates a short list of 3-5 vendors to continue in the evaluation process. These transactions totaled \$19.4 million.
 - 8 of 25 transactions tested contained at least one calculation error for short list evaluations. These transactions totaled \$11.9 million.
 - 7 of 25 transactions tested showed the file documentation did not support the same selection recommendation as the evaluation committee for the short list evaluation.
 - 12 of 25 transactions tested contained scoring or ranking inconsistencies for **interview evaluations**. These transactions totaled \$13.8 million.
 - 13 of 25 transactions tested contained at least one calculation error for interview evaluations.
 - 5 of 25 transactions tested showed the file documentation did not support the same selection recommendation as the evaluation committee for the interview evaluation.
 - 9 of 25 transactions tested showed the selection of the winning contractor was **influenced by involvement from personnel external to the evaluation committee**. These transactions totaled \$15.7 million. In 2 of the 9 transactions the involvement was from personnel on the Board.
- The University was not obtaining sufficient information for contractors and subcontractors including MAFBE information. The University was also not ensuring MAFBE information proposed in bids was consistent with MAFBE information listed in final University contracts.

15 of 25 transactions to determine a "short list" of firms contained scoring or ranking inconsistencies. The firms were awarded \$19.4 million in University business.

12 of 25 transactions for the "interview evaluations" contained scoring or ranking inconsistencies. The firms were awarded \$13.8 million in University business.

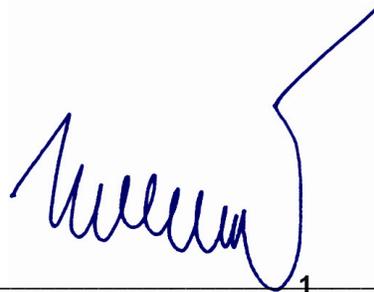
Personnel external to the evaluation committee influenced the selection of winning vendors.

MAFBE was not consistently used as criterion nor was it being scored and/or consistently ranked by evaluators.

- 7 of 25 transactions tested showed the **subcontractor's** percentage of work in the contract was **greater** than the **contractor's** percentage of work in the contract. These transactions totaled \$12.7 million.
- 4 of 25 transactions tested showed the MAFBE subcontractors' names in the bid were different than in the contract.
- 13 of 25 transactions tested showed the MAFBE percentages did not remain comparable for winning contractors.
- The University's oversight in evaluating MAFBE and workload criteria during the short list and interview process needs to be strengthened. MAFBE was not consistently being included as a criterion during such evaluations. In addition, MAFBE was not being scored and/or ranked consistently by evaluators. (pages 86-98)

RECOMMENDATIONS

This audit report contains 20 recommendations. Eighteen of the recommendations were directed towards the University and its practices. The other two recommendations were directed towards the Board of Trustees. The University and Board generally agreed with the recommendations. Appendix E to the report contains the full agency responses.



WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED: This Performance Audit was performed by the Office of the Auditor General's staff.