

LEGISLATIVE AUDIT COMMISSION



Review of
University of Illinois
Year Ended June 30, 2011

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4374
UNIVERSITY OF ILLINOIS
YEAR ENDED JUNE 30, 2011**

FINDINGS/RECOMMENDATIONS - 37

**ACCEPTED - 9
IMPLEMENTED - 17
NOT ACCEPTED - 11**

REPEATED RECOMMENDATIONS - 30

PRIOR AUDIT FINDINGS/ RECOMMENDATIONS - 43

This review summarizes the auditors' reports on the University of Illinois for the year ended June 30, 2011, filed with the Legislative Audit Commission on March 29, 2012. The auditors conducted a financial audit and compliance examination in accordance with State law and the requirements of the federal Single Audit Act and OMB Circular 133. The auditors stated the financial statements were fairly presented.

The University of Illinois (University) is a comprehensive university serving primarily the citizens of Illinois from three main campuses through instruction (both on-campus and on-line), research, economic development and various outreach activities. The governing body of the University is the Board of Trustees of the University of Illinois.

The Urbana-Champaign campus is responsible for pursuing instruction, including strong emphasis at the graduate level; research, through its eminent faculty; and public service as the original land grant campus of the University.

The Chicago campus is responsible for pursuing teaching, research and service activities related to basic and health sciences and providing a broad range of educational services at both the graduate and undergraduate levels. Vast educational offerings include professional degree programs in medicine, dentistry, pharmacy, nursing, associated health professions and public health as well as major research programs in a variety of curriculums.

The Springfield campus is responsible for addressing public affairs within the framework of a liberal arts curriculum through its first-hand access to State government and public service through special courses, projects and internship opportunities.

Dr. Michael Hogan was named President effective July 1, 2010, the first day of the audit period. Dr. Hogan resigned as President in March 2012 and Dr. Robert Easter was appointed President effective July 1, 2012. Dr. Easter, who agreed to serve as President for two years, has served the University of Illinois as a faculty member in Animal Sciences,

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Dean of the College of Agricultural, Consumer and Environmental Sciences, Interim Campus Provost, Interim Chancellor of the Urbana campus, and Interim Vice Chancellor for Research.

General Information

Following is a summary of the net assets of the University as of June 30:

	2010	2010
Assets		
Cash and Investments	\$ 972,763,000	\$ 771,161,000
Accounts and notes receivable	411,866,000	381,511,000
Receivable from State of Illinois	288,669,000	265,624,000
Investments	734,727,000	561,726,000
Capital assets, net of depreciation	3,295,809,000	3,329,807,000
All other assets	238,798,000	231,393,000
Total Assets	\$ 5,942,632,000	\$ 5,541,222,000
Total Liabilities	\$ 2,753,172,000	\$ 2,755,676,000
Net Assets	\$ 3,189,460,000	\$ 2,785,546,000

Information on full-time equivalent (FTE) enrollment of 74,405 students, employment of 28,593 and per capita costs is detailed in Appendix A. Full-time student enrollment increased from FY10 to FY11 by 1,107, up 474 at UIUC, 522 at UIC and 111 t UIS, and the number of full-time equivalent employees decreased by 83. Full-time employment increased by 25 persons at the UIS and increased at UIC by 97 persons. Employment dropped at UIUC by 205.

Expenditures From Appropriations

Appendix B summarizes the appropriations and expenditures for the period under review. In FY11, the State appropriated \$702,246,266 to the University from eight funds: General Revenue Fund, Fire Prevention Fund, State College and University Trust Fund, Capital Development Bond Fund, Hazardous Waste Research Fund, Emergency Public Health Fund, Used Tire Management Fund, and General Professions Dedicated Fund. Appropriations were about \$50 million less in FY11 than FY10 because federal ARRA funds were available only in FY10. Income Fund receipts comprised mostly of student tuition and fees were \$854.4 million in FY11. From FY10 to FY11, revenues from tuition and fees increased almost \$86.5 million. By comparison, FY04 Income Fund receipts were \$375 million.

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The University's total expenditures were \$702,223,410 from appropriated funds in FY11 and \$750.3 million, or about \$48 million more, in FY10. By comparison, FY04 expenditures from appropriated funds were \$732 million. Expenditures from the Income Fund were \$836 million in FY11 compared to \$661 million in FY10. The increase in Income Fund expenditures was due primarily to a transfer of almost \$110 million for capital projects and a \$24.5 million increase in awards and grants, \$16 million increase in debt payments, and \$10.6 million increase in personal services.

Revenues, Expenses and Changes in Net Assets

The table appearing in Appendix C presents a summary of revenues, expenses and changes in net assets at June 30, 2011 and 2010. Operating revenues, or those that generally result from exchange transactions, were \$3,269,553,000. State appropriations, gifts and investments are defined as nonoperating revenues, and totaled \$1,572,744,000. The University's operating expenses were \$4,465,371,000. The increase in net assets was \$403,914,000.

The chart appearing below shows revenues by source for FY11:

Revenues	FY11
Nonoperating revenue	33%
Grants and contracts	19%
Student tuition and fees	19%
Hospital and other medical services	11%
Auxiliary enterprises	8%
Educational activities	5%
Medical Service Plan	5%
Other operating revenues	<1%

The following chart indicates expenses by type for FY11:

Expenses	FY11
Instruction	22.5%
Support services	15.5%
Research	15.2%
Hospital and medical activities	14.2%
Public service	8.7%
Auxiliary enterprises	7.4%
Plant operations	6.5%
Scholarships & fellowships	5.3%
Depreciation	4.7%

Accounts Receivable

Appendix D provides a summary of the accounts receivable for FY11 and FY10. Total net accounts receivable increased from \$373,747,029 as of June 30, 2010 to \$403,136,278 as of June 30, 2011. The allowance for doubtful accounts (both unrestricted and restricted) increased from \$291.3 million in FY10 to \$299.9 million in FY11. Of the allowance for doubtful accounts in FY11, about \$253.6 million was related to the operation of the hospitals and clinics. Net receivable for unrestricted accounts decreased \$7.9 million, and net receivable for restricted accounts increased \$37.1 million. Notes receivable, net (student loans), which total almost \$61.5 million, is not included in Appendix D.

Capital Assets

Appendix E is a summary of changes in capital assets. Capital assets at the beginning of FY10, valued at \$3.3298 billion, decreased to almost \$3.2958 billion at June 30, 2011. This figure was comprised of the following:

- \$133 million in land;
- \$122 million in construction in progress;
- \$20 million in exhaustible collections
- \$3,531 million in buildings;
- \$675 million in improvements and infrastructure;
- \$1,014 million in equipment;
- \$524 million in software;
- \$164 million in library materials; and
- Less \$2,890 million in accumulated depreciation.

In FY11, major construction in progress at UIUC consisted of \$18.7 million at Lincoln Hall, \$17.6 million for Timothy J. Nugent Hall, and \$9.7 million at Ikenberry Commons. Major construction at UIC included \$7.5 million for Douglas Hall. Completed or near-completed projects at UIC included Rockford College of Medicine-East Building at \$26.5 million. At UIUC, construction was near completion for classroom and office space at the Fire Service Institute at \$8.3 million and the Oak Street chiller at \$9.5 million.

Foundation Payments to the University

During FY11 and FY10, the University engaged the University of Illinois Foundation under contract to provide fund-raising and other services. In accordance with the contract agreement, in FY11 the University provided a total of \$8,817,392 in funds and services to the Foundation. This compares to a total of \$8,266,477 provided to the Foundation by the University in FY10. As required by the contract, the Foundation provided the University certain funds considered unrestricted for purposes of the computations outlined in the *University Guidelines*.

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The Foundation provided a total of \$147,404,077 to the University in FY11, compared to \$147,125,313 in FY10. Gifts received by the Foundation include some gifts attributable to solicitations by personnel of the University. Conversely, private gifts received by the University include some gifts attributable to solicitations of Foundation personnel. Appendix F provides a summary of all funds that the Foundation gave to the University during FY11 and FY10.

Tuition and Fee Waivers

Appendix G provides a summary of tuition and fee waivers by campus. During 2010-2011 school year, the University of Illinois granted tuition and fee waivers valued at \$42.7 million to 6,694 undergraduate students, and \$240.2 million to 12,700 graduate students. Of the \$283 million in tuition and fee waivers granted in FY11, \$29.8 million was for mandatory waivers and \$253.1 million was for discretionary waivers. The majority of waivers, totaling \$173 million in FY11, were for various assistantships at the three campuses. Waivers totaled almost \$273 million in FY10.

Health Care Delivery Services

Appendix H provides a summary of health care delivery services operations and a statement of revenues, expenses, and changes in net assets. The summary includes the University of Illinois Hospital and associated clinical facilities providing patient care at, but not limited to, the University of Illinois at Chicago Medical Center. In FY11, the System had operating revenues of almost \$533.9 million and operating expenses of almost \$654.9 million, which resulted in an operating loss of \$121 million. However, once the nonoperating revenue is considered, assets increased to \$12.6 million.

Accountants' Findings and Recommendations

Condensed below are the 37 findings and recommendations from the audit report. There were 30 repeated recommendations. The following recommendations are classified on the basis of information provided by Maxine Sandretto, Assistant Vice President for Business and Finance, via electronic mail received July 25, 2012.

Not Accepted

- 4. Implement procedures to ensure documentation exists to substantiate the after-the-fact confirmation of activity allocable to each federal grant and cost share by the respective employee, principal investigator, or a responsible official. (Repeated-2009)**

Not Accepted – continued

Finding: The University does not have adequate documentation of payroll and fringe benefit expenditures for employees at the Urbana campus who work on the Cooperative Extension Services (CES) program or the Hatch Grant under the Research and Development Cluster program.

The University does not obtain effort certifications for employees who work on the CES program or the Hatch Grant under the Research and Development Cluster program as required by federal regulations. Auditors reviewed a sample of 40 payroll and fringe benefit expenditures totaling \$296,716 for the CES program and 3 payroll and fringe benefit charges totaling \$3,603 for the Hatch Grant noting that the effort of these individuals was charged to multiple activities; however, effort certifications were not obtained. Additionally, effort certifications were not obtained for any of the payroll charges used to meet the cost sharing (matching) requirements of the CES program and Hatch Grant.

Auditors did note that bi-weekly time reports are prepared for most employees. However, these bi-weekly time reports, which are prepared on both a positive and negative (exception) basis depending on the type of employee, do not include the activities of the employee as required by OMB Circular A-21.

In discussing these conditions with University officials, they stated they believe the University systems provide adequate supporting documentation for payroll and fringe benefit expenditures claimed for federal reimbursement and cost sharing (matching) under the CES and the Hatch Grant within the Research and Development Cluster.

Response: Not Accepted. This is a repeat finding under resolution with the U.S. Department of Agriculture. Historically, the University has utilized the Activity Reporting System (ARS) and the Banner Time Reporting System to meet reporting requirements associated with receipt of federal formula funds allocated to the University of Illinois. Use of these systems is consistent with guidance outlined in the Administrative Manual for the Hatch Act (page 10) and the Administrative Handbook for Cooperative Extension Work (pages 3-28, 29).

Given the unique nature of the federal formula fund appropriations, the University believes its systems provide sufficient documentation to meet the requirements for programmatic and financial reporting as outlined in the administrative manuals associated with these funding streams and additionally, Circular A-21 requirements. However, the University is in the process of adding additional procedures to ensure documentation exists that will substantiate the after-the-fact confirmation of activity allocable to each federal formula fund and cost share by the respective employee, principal investigator, or a responsible official. Beginning in fiscal year 2012, the University, in collaboration with USDA, is refining a methodology, similar to that used for the sponsored projects, which will provide additional documentation related to this confirmation process.

Auditors' Comment: *As noted in the finding above, the University does not obtain effort certifications for employees who work on the CES program or the Hatch Grant under the Research and Development Cluster program. Additionally, bi-weekly time reports do not include the activities of employees. Although we acknowledge there are other controls and processes the University has implemented to mitigate the risk that payroll costs are improperly charged to a federal program, we believe the University is not in compliance with documentation requirements for payroll costs under OMB Circular A-21.*

Updated Response: Not Accepted. This is a repeat finding pending resolution with the U.S. Department of Agriculture (USDA). The University is working collaboratively with USDA to develop a methodology for adequate documentation to substantiate the after-the-fact confirmation of activity allocable to each federal grant and cost share by the respective employee, principal investigator, or a responsible official.

8. Implement procedures to ensure costs transfers are adequately documented and supported in accordance with University policy. (Repeated-2009)

Finding: The University does not adequately document cost transfers. The University has formal policies and procedures which outline the documentation required to support cost transfers and a standard form has been developed to assist the University in collecting supporting documentation for each cost transfer.

The standard form provides a series of potential reasons that a cost transfer may be required and prompts the preparer to other sections of the form to provide additional supporting documentation as prescribed by University policy. The form is required to be certified by the principal investigator or another responsible official and must be reviewed and approved by the Grants and Contracts Office.

During testwork over 195 cost transfers recorded during the year ended June 30, 2011, auditors were initially provided brief journal entry descriptions as the supporting documentation for each of the cost transfers selected. However, the standard cost transfer form was not completed in accordance with University policy for a majority of the transfers tested. Upon further inquiry, auditors noted these transfers were initiated by the Grants and Contracts Office in closing out projects and that the standard cost transfer forms were not completed for any cost transfers prepared by the Grants and Contracts Office.

In discussing these conditions with University officials, they stated cost transfers are adequately documented and supported in accordance with University policy that meets the requirements of OMB Circular A-21 and OMB Circular A-110.

Response: Not Accepted. The University believes cost transfers are adequately documented and supported in accordance with University policy and requirements of OMB Circular A-21 and OMB Circular A-110. The University has formal written policies for cost transfers for every campus. These policies are followed by Grants Office personnel during their review of cost transfers posted to sponsored project funds.

Not Accepted – continued

Auditors' Comment: *As discussed in the finding above, the nature and reason for the cost transfer was not adequately documented and had to be supplemented through inquiry of University personnel and other documentation generated in response to our questions. We understand University policy to require a specific form to be completed to support cost transfers; however, several of the cost transfers were not supported with the standard cost transfer form. We believe the University should implement procedures to ensure costs transfers are adequately documented and supported in accordance with University policy and federal regulations. The control deficiency identified in this finding pertains to each program listed regardless of whether a specific exception was identified.*

Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. Cost transfers are adequately documented and supported in accordance with University policy and requirements of OMB Circular A-21 and OMB Circular A-110.

9. Implement monitoring procedures to ensure cost share expenditures reported by subrecipients are allowable.

Finding: The University does not have an adequate process in place to ensure expenditures used to meet the cost sharing requirement of the Research and Development Cluster are allowable.

The University is required to meet cost share requirements for numerous awards in the Research and Development Cluster. The expenditures used to meet the cost share requirement are funded by multiple sources including contributed effort by University personnel, University funded contractual services, and costs funded by subrecipients of the University.

During testwork over 40 cost share expenditures, auditors noted twelve subrecipient expenditures that were not supported by detailed expenditure information. Upon further review, the University had received signed letters certifying the expenditures were incurred from each subrecipient; however, the information provided by the subrecipient was not sufficient to allow the University to determine whether the costs meet allowable cost criteria, including whether the expenditures are adequately supported and documented by the subrecipient.

In discussing these conditions with University officials, they stated they believe that certified statements from their research partners are sufficient documentation for the amount of the third party cost share.

Response: Not accepted. The University believes that certified statements from our research partners are sufficient documentation for the amount of the third party cost

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share. The University has asked for additional information from our research partners, at a level of detail that does not exceed that required for billings of direct expenditures, when deemed appropriate.

Auditors' Comment: *As noted in the finding above, the University did not receive sufficient information to determine the nature of the expenditures provided by the subrecipient to meet its cost share requirement. The information received simply included a dollar amount which is less detailed than the information required by the University for federal expenditures reported by its subrecipients. As documentation requirements pertaining to cost sharing expenditures are the same as federal expenditures, we do not believe the documentation received for cost share expenditures provided by subrecipients is adequate under OMB Circular A-21.*

Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. The University believes that certified statements from our research partners are sufficient documentation for the amount of the third party cost share.

14. Implement procedures to ensure expenditures are reported in the proper accounting period in grant accounts. (Repeated - 2010)

Finding: The University reported expenditures under its Education and Human Resources program in the incorrect accounting period.

During a review of 40 other than personal services expenditures (totaling \$52,986), auditors noted one expenditure charged to the Education and Human Resources program in FY11 pertained to an honorarium (for \$200) for an event held in FY10.

In discussing these conditions with University officials, they stated they disagree with the finding.

Response: Not Accepted. The University acknowledges that the honorarium was paid in fiscal year 2011. As OBFS Policies and Procedures Section 17.3 details:

An honorarium is provided as a token of appreciation for participation in an activity. It is not a contractual obligation to pay for services rendered. Since there was no contractual obligation to pay this honorarium, it would not be considered to have been incurred in the prior period.

Auditors' Comment: *Generally accepted accounting principles require transactions to be reported in the period they are incurred and the honorarium discussed in the finding above related to an event that occurred in fiscal year 2010. If the University's position is that this item is a gift to the speaker (token of appreciation), OMB Circular A-21 section J.13(b) states that donations or contributions made by the institution, regardless of the recipient,*

Not Accepted – continued

are unallowable. Additionally, as discussed in finding 11-01, there were several exceptions in our financial statement audit in which the University did not report expenditures in the appropriate period.

Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. We believe the expenditure was accounted for properly.

15. Implement procedures to ensure indirect costs charged to DOD awards are limited to 35% where required throughout the award period.

Finding: The University does not have an adequate process in place to ensure indirect costs charged to Department of Defense (DOD) awards in the Research and Development Cluster are limited in accordance with DOD regulations.

During testwork over 25 DOD awards, auditors noted indirect costs charged to six awards were in excess of 35%. Upon further investigation, the indirect cost rates entered in the University's accounting system for these grants was the standard Facilities and Administration (F&A) rate. As a result, the indirect cost charges applied by the University's accounting system exceeded the amount allowable under DOD regulations. Although the University indicated a manual reconciliation is performed on a monthly basis to correct these charges, several awards for which the University was required to return excess indirect cost reimbursements at the end of the award and for which financial reports identified the indirect cost rate as the standard F&A rate. Also, the University did not consider whether an interest calculation was required to be performed for any funds advanced as a result of these excess reimbursements.

In discussing these conditions with University officials, they stated they do limit the indirect cost recovery to 35% for applicable DOD awards. This indirect cost is calculated outside of the Banner system and any necessary adjustments are made in Banner to assure accurate indirect charges are reflected in the system.

Response: Not Accepted. The University does have procedures to ensure indirect costs charged to DOD awards are limited to 35% of the total cost of the award. Per the Department of Defense's Appropriations Acts, Public Law 110-116, Division A, Section 8115, Public Law 110-329, Division C, Section 8109, and Public Law 111-118, Section 8101, indirect costs should not exceed 35% of the total cost of the contract, grant, or agreement.

The 35% limit on payment of indirect costs is not an indirect cost rate. Instead, it is a limit on the ratio of indirect costs to the total cost of an award. Dividing the total indirect costs by the total award amount will determine if the 35% limitation has been breached. For all six awards, the indirect cost did not exceed the imposed limitation of 35% of the total cost of awards.

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A special DoD F&A limitation attribute was created and coded to applicable awards in the University's financial system. This attribute allows the University to monitor indirect costs on a daily basis to ensure the 35% limitation is not breached.

Auditors' Comment: *As discussed in the finding above, several DOD awards required excess reimbursements of indirect costs to be returned at the close of the award and six out of 25 DOD awards tested had indirect costs in excess of 35%. Further, the F&A limitation attribute was not consistently used by the University in identifying the awards subject to the DOD limitations.*

Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. The University has procedures to ensure the indirect cost limitation imposed by the Department of Defense is not breached.

16. Implement a process to notify the awarding agency in writing if key personnel are removed or replaced on the award and if the key personnel's pledged effort is modified from the award document. Additionally, documentation supporting employee effort should conform to the requirements of OMB Circular A-21. (Repeated-2010)

Finding: Adequate supporting documentation did not exist to substantiate University personnel worked on the grants for which they were proposed as key personnel for the Research and Development Cluster.

In an effort to secure federal awards from various federal agencies, the University is often required to commit certain researchers or other University personnel to minimum participation levels on specific federal projects. These individuals are identified as key personnel in the award documents and any changes to their committed level of participation require federal approval.

During testwork over a sample of 42 completed Research and Development Cluster program projects, auditors noted five individuals at the Urbana campus identified as key personnel in award documents for which the University could not provide adequate documentation supporting the individuals worked on the projects at the required level of participation.

In discussing these conditions with University officials, they stated adequate supporting documentation in the form of reports, presentations, and interpersonnel agreements evidence that the principal investigators in question were involved in their respective research projects as noted in the original award documents.

Response: Not Accepted. We disagree that key personnel were "removed or replaced" or that effort was "modified from the award document" for the projects in question at the Urbana campus. The suggested audit procedures in the OMB A-133 Compliance

Not Accepted – continued

Supplement are to determine if key personnel “were involved in the project as required”. The five individuals, noted as key personnel, have considerable alternative documentation available to support their involvement and contribution on the awards.

All five key personnel were actively involved in the work leading to the successful completion of the projects, which is evidenced by documentation offered or provided to the audit firm in the form of annual, progress or final reports, or publications describing the activities and outcomes of the projects. The successful completion of the project, as well as the work described in the reports and papers, support the key personnel’s involvement with and contribution of personal effort to the projects.

Auditors’ Comment: *As noted in the finding above, the University was unable to provide documentation evidencing the effort expended by key personnel was consistent with that specified in the grant award and was unable to provide documentation supporting the awarding agency approved a change in the key personnel. We believe the University should implement procedures to ensure documentation of the effort expended by key personnel is consistent with OMB Circular A-21.*

Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. We do not agree with the audit firm’s claim the PI was “removed or replaced” on these projects or that effort was “modified from the award document”. The key personnel were actively involved in the work leading to the successful completion of the projects, which is evidenced by alternative documentation offered or provided to the audit firm.

17. Obtain certifications from vendors stating that their organization is not suspended, debarred, or otherwise excluded from participation in federal assistance programs or document the procedures performed to verify the vendor is not identified as suspended or debarred on EPLS. (Repeated-2009)

Finding: The University did not obtain required certifications that certain vendors were not suspended or debarred from participation in federal assistance programs.

During a review of 205 contractual expenditures, auditors noted one expenditure for which the University did not obtain a suspension and debarment certification from the vendor. Additionally, the University did not document the performance of a verification check with the “Excluded Parties List System” (EPLS) maintained by the General Services Administration for the vendors.

In discussing these conditions with University officials, they stated they disagree with the finding.

Response: Not Accepted. The University has established procedures to ensure vendors certify that their organizations are not suspended, debarred, or excluded from participation

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in federal assistance programs. As mentioned in the audit finding, verification can be obtained by adding a clause or condition to the covered transaction with that entity. While the University's purchase orders include certification language (a clause) that states "by the acceptance of this order, the contractor certifies that it or any affiliate has not been debarred..." we note that we also use additional procedures to verify that vendors are not suspended or debarred by checking the Excluded Parties List System (EPLS).

The University believes our procedures are adequate and that the EPLS was checked as required, however, as an isolated incident, the documentation was not included in the file for one expenditure. The remaining 204 expenditures demonstrate our general practice and evidence the adequacy of our procedures. The EPLS search for the vendor in question affirmed the vendor was neither suspended nor debarred.

Auditors' Comment: *As discussed in the finding above, the University did not obtain a certification from the vendor in this instance as the purchase order is not signed by the vendor. Additionally, the University could not provide evidence a check of the EPLS had been performed prior to our audit procedures.*

Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. The University has procedures that ensure verification with EPLS is being completed for all required purchases.

18. Implement procedures to properly calculate interest on federal funds received in advance of expenditures and remit any interest earned to the appropriate federal agencies as required by federal regulations. (Repeated-2009)

Finding: The University does not properly calculate interest on federal funds drawn in advance. The University receives federal funds on an advance basis. During testwork, auditors noted the University has not performed an interest calculation for any of the programs or grants on which it received advanced funding as required by federal regulations. The University calculated interest on the net cash position of all its federal awards as of June 30, 2011; however, this methodology has not been approved by the University's federal cognizant agency (USDE).

In discussing these conditions with University officials, they stated the University is in compliance with OMB Circular A-110 and does have effective and adequate internal controls in place.

Response: Not Accepted. The University has been performing a calculation of interest based on the net cash position in total for all federal awards. We believe the methodology is adequate for compliance with OMB Circular A-110. The results of the calculation have shown that there was no excess federal cash on hand and no interest due.

The methodology is being addressed by the University's Federal cognizant agency for clarification and guidance on this issue. We have provided documentation as requested

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Not Accepted – continued

to the cognizant for review. While the University has not yet received a final response, we are actively working with the agency to seek guidance and resolution.

Auditors' Comment: *The University should continue to work with their Federal cognizant agency (U.S. Department of Education and OMB) to determine whether interest calculations should be performed at a lower level, such as by individual letter of credit, program, or federal agency.*

Updated Response: Not Accepted. The University does not accept this repeat finding, and it is pending resolution. The methodology is being addressed by the University's cognizant for clarification and guidance on this issue.

20. Establish procedures to ensure all subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. Additionally, formally document desk reviews of A-133 audit reports using an A-133 desk review checklist and management decisions should be issued within six months. (Repeated-2009)

Finding: The University is not adequately performing or documenting reviews of subrecipient OMB Circular A-133 audit reports. Additionally, the Chicago campus does not have a system to track and follow-up with subrecipients when OMB Circular A-133 reports have not been received.

The University requires subrecipients expending more than \$500,000 in federal awards during their fiscal year to (1) submit OMB Circular A-133 audit reports or (2) provide written notification that an audit was conducted in accordance with OMB Circular A-133 and the schedule of findings and questioned costs disclosed no audit findings relating to the federal awards that were pass-through the University (notification letter).

University staff in the Office of Grants and Contracts are responsible for reviewing the OMB Circular A-133 audit reports and determining whether the audit reports meet the audit requirements of OMB Circular A-133, evaluating the type of audit opinion issued (i.e. unqualified, qualified, adverse), and issuing management decisions on findings reported within required timeframes.

However, there is no documentation of the "desk reviews" performed, nor does management use a checklist to help determine whether the audit reports meet the audit requirements of OMB Circular A-133 and whether management decisions have been issued on findings reported within required timeframes. Lastly, auditors noted the Chicago Campus does not have a process to track and follow-up with subrecipients when OMB Circular A-133 reports or notification letters have not been received.

Additionally, during testwork over 40 subrecipients of the Research and Development Cluster program, auditors noted the following:

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- There were three subrecipients at the Urbana campus and three subrecipients at the Chicago campus for which a management decision was required, but was not issued by the University.
- There were three subrecipients at the Chicago campus for which A-133 audit reports were submitted after the nine-month filing deadline. These files contained no documentation the University followed up on the delinquent report or approved an extension of the filing deadline.

Response: Not Accepted. The Urbana Campus has established subrecipient monitoring procedures which include a formal process for conducting a thorough review and analysis of subrecipient's audits and making an informed management decision based on the review within nine months of the end of the subrecipient's audit period in order to ensure that audit reports for applicable subrecipients are completed and performed in accordance with OMB Circular A-133. The review includes the consideration of the adequacy of the corrective action plan provided for any findings/questioned costs. Documentation of University's analysis and review of each subrecipient and the management decision made are available. Management Decision Letters were provided in instances deemed warranted by the review within 6 months of the receipt of the subrecipient's audit report. While management decisions were made, none of the exceptions required management decision letters. The reviewed findings did not relate to any of our subawards and the corrective action plans were deemed adequate. OMB Circular A-133, Section D 405 does not require the issuance of negative management decision letters.

The Chicago campus has established monitoring procedures to ensure subrecipients receiving federal awards have audits performed in accordance with OMB Circular A-133. The procedures include conducting desk reviews, determining the right course of action and noting management decisions in the subrecipient monitoring database when applicable. Management decisions were made and A-133 audit reports were received for the subrecipients noted in the finding.

Auditors' Comment: *OMB Circular A-133 Section .400(d)(5) and .405(c) require pass-through entities to issue management decisions for audit findings that relate to Federal awards it makes to subrecipients and ensure appropriate and timely corrective action is taken. OMB Circular A-133 Section .405(a) requires management decisions to clearly state whether or not the audit finding is sustained and the reasons for the decision, among other things.*

As noted in the finding above, there were three A-133 reports for subrecipients of the Urbana Campus which contained findings for federal programs under which the University passed through federal funding. Although the University noted the findings did not pertain to their sub-awards, these findings included internal control deficiencies related to overall compliance processes used to administer the funding passed through by the University.

Not Accepted – concluded

Accordingly, management decisions were required to be issued by the University, but were not.

Additionally, in response to the Chicago campus potential exceptions, University personnel stated “The University deemed the plan of action as acceptable and made the management decision that no further action was required.” The University did not provide documentation supporting that a management decision had been communicated to the subrecipient in accordance with OMB Circular A-133.

Updated Response: Not Accepted. The University does not agree with this finding, and it is pending resolution. Subrecipient monitoring processes and procedures have been formally documented and implemented. The existing processes include documentation of monitoring and the management decision process.

29. Implement procedures to ensure cash draw and reimbursement request calculations are reviewed and approved prior to requesting funds from the federal government. (Repeated-2009)

Finding: There is no documentation to substantiate that a formal review and approval of cash draw and reimbursement request calculations are performed.

The University uses several different methods to calculate the amount for its cash draws and reimbursement requests based upon the specific funding methods permissible under each of its federal programs. However, there was no documented supervisory review of the cash draw and reimbursement request calculations prior to University personnel requesting cash from the federal government.

In discussing these conditions with University officials, they stated there are adequate controls in place for all letter of credit cash draws and reimbursement method billings.

Response: Not Accepted. The University has effective controls in place for cash draw calculations and cost reimbursement billings, which include steps to review the processes and amounts calculated in compliance with the regulatory requirements of OMB Circular A-110. Throughout the entire process there is a clear segregation of duties. The responsibility for LOC cash draws and reimbursement billings is assigned to staff with the appropriate authority, knowledge, and skill level. Additionally, Cooperative Extension Service Program draws are handled through the University Accounting and Financial Reporting Office, not the Grants and Contracts Office.

Auditors’ Comment: *We believe effective internal control should include a documented review and approval of cash draw calculations and we were unable to obtain evidence that the cash draw calculations had been reviewed and approved by an individual other than the preparer.*

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Updated Response: Not Accepted. The University does not accept this finding, and it is pending resolution. The Department of Health and Human Services (HHS), in coordination with the Department of Education (ED) and the National Science Foundation (NSF), issued a Management Decision Letter (MDL) on February 14, 2011. However, on March 10, 2011, HHS issued a letter of clarification in follow-up to the February 14 letter. The letter of clarification had not been reviewed by the other agencies and was not conclusive in its statements. The University is actively engaged in collaboration with the agencies regarding resolution on this issue.

30. Implement procedures to ensure the financial reports submitted for federal awards are reviewed and approved by someone other than the preparer.

Finding: The University does not adequately document the performance of supervisory reviews of financial reports submitted for its federal programs.

The University prepares and submits a variety of financial reports using standard forms as prescribed by the granting federal agencies. The financial reports are prepared by staff in the Grants and Contracts Office based upon queries of cash receipt and expenditure information reported in the University's general ledger. The University's controls over reporting include a supervisory review of each report prior to submission. During a review of the reports submitted by the Urbana campus, auditors noted the signature of the Director of Grants and Contracts was used to evidence approval of required financial reports; however, the report reviews are performed by supervisors within the Office of Grants and Contracts, not the Director. Additionally, four reports that did not contain documented evidence of a supervisory review.

In discussing these conditions with University officials, they stated the University has effective internal controls. A supervisory review is done prior to the submission of financial status reports; however, formal documentation of the review is not required.

OMB Circular A-133 requires the University to establish and maintain internal control designed to provide reasonable assurance that federal awards are managed in compliance with federal laws, regulations, and program compliance requirements. University officials stated that there is no specific requirement for documentation of a supervisory review.

Updated Response: Not Accepted. The University does not accept this finding, and it is in resolution. Internal controls and procedures for the review and submission of financial status reports already exist. The University will consider options to document supervisory reviews for financial reports.

Accepted or Implemented

- 1. Review current process to assess the completeness of revenue and expense accruals at year end and consider changes necessary to ensure all period end accounts payable and accounts receivables are accurately identified and recorded. (Repeated-2009)**

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Finding: 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.

Auditors reviewed 124 revenue transactions recorded during the fiscal year (totaling \$14,545,678) and 27 cash receipt transactions recorded subsequent to year end (totaling \$1,274,941). In relation to testwork on expense transactions, auditors reviewed 205 expense transactions recorded during the fiscal year (totaling \$51,343,490) and 63 cash disbursements subsequent to year end (totaling \$39,192,830). Auditors noted the following items were not recorded to the proper accounting period:

- Six educational activities revenue transactions for third party pharmacy billings (totaling \$370,897) which pertained to FY10 but were recognized as revenue in FY11.
- Three educational activities revenue transactions for drug information services billings (totaling \$52,356) which pertained to FY11 but was recognized as revenue in FY12.
- Two educational activities revenue transactions for an accelerated corporate MBA cohort program (totaling \$955,642) which pertained to FY09 and FY10 but were recognized as revenue in FY11.
- One employee benefits expense transaction (totaling \$92,718) which pertained to FY10 but was recognized as expense in FY11.
- Two supplies and services expense transactions (totaling \$44,020) which pertained to FY10 but were recognized as expense in FY11.

In discussing these conditions with University personnel, they stated that the units associated with the exceptions did not adequately understand/follow the procedures required to record the transactions in the proper period.

Updated Response: Implemented. The University has implemented a new Travel and Expense Management System (TEM) which will assist in identifying fiscal year-end payable accruals. The University also has modified the form utilized by University units for making deposits, which will assist in identifying fiscal year-end receivable accruals.

- 2. Implement procedures to formally document the reviews of user access rights, and maintain documentation of the results of those reviews, to ensure that the access rights granted to each user are appropriate based on job responsibilities and that the planned level of segregation of duties is achieved on a continuing basis. Additionally, implement procedures to monitor user access rights for employees who transfer positions and change job functions and implement procedures to ensure reviews of user access rights for terminated employees are effectively performed. (Repeated – 2008)**

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Finding: The University has not established adequate internal controls over access to the information systems used in its financial reporting process.

The University operates an Enterprise Resource Planning (ERP) system to manage the activities of the University, in addition to operating and supporting information systems for purchasing and human resource. The University functions in a highly distributed operating environment with several thousand users having varying types of system access. Access is granted to users of the University's information systems based on standardized user access profiles.

Auditors noted annual access reviews are not consistently and formally documented to provide evidence supporting the results of each user review. Further, the University has not performed a periodic access review of the human resources supporting information system.

In addition to the internal control deficiencies identified above, during a review of user access rights, auditors identified several users with access rights that were inappropriate based on their roles and job functions presenting segregation of duties conflicts and the risk that erroneous or fraudulent transactions may be recorded in the general ledger. Auditors identified the following exceptions:

- There are 161 terminated users (out of 418 total terminated users) with active accounts that were not removed in a timely manner.
- There were 43 users (out of 99 total users) with inappropriate access to update accrued leave or sick time in Banner. None of these 43 users appeared to have performed inappropriate transactions.
- There were 8 users (out of 44 total users) with inappropriate access to release financial holds from a student account in Banner.
- There were 3 users (out of 84 total users) with inappropriate access to update employee pay rates in Banner.
- There was one user (out of 21 total users) with inappropriate access to update tuition rates and fees and student rate codes in Banner.
- There was one user (out of 45 total users) with inappropriate access to apply and unapply payments on student accounts in Banner.
- There was one user (out of 14 total users) with inappropriate access to update the vendor master file in Banner.
- There were two users (out of 17 total users) with inappropriate administrative access to the human resources supporting information system.

Accepted or Implemented - continued

Further, reviews of terminated employees with access to the information systems are not being performed effectively. In addition, there are no procedures in place to monitor user access rights for employees who transfer positions and change job functions.

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In discussing these conditions with University personnel, they stated that they agreed with the exceptions noted in this finding. They further noted that work had been underway to address many of the weakness noted.

Updated Response: Implemented. The University implemented a new system to formally document the annual reviews of user access rights and ensure necessary access rights changes identified are made by unit security contacts. Additionally, the University implemented a process to identify employees transferring between units or terminating employment, so that unit security contacts remove systems access rights in an effective manner.

3. Review 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 and supporting documentation for each transaction is maintained. Also, implement procedures to identify duplicate transactions and to reconcile procurement card transactions to travel reimbursement forms. (Repeated-2008)

Finding: The University has not established adequate internal controls over procurement card transactions.

The University operates a procurement card program which allows authorized employees throughout the University to make smaller qualified purchases (defined as less than \$4,999) on a charge card. 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, auditors noted the University has not implemented procedures to identify duplicate charges or to reconcile procurement card transactions with travel reimbursement forms. Auditors identified the following exceptions in our testwork over 40 procurement card transactions (totaling \$146,809):

- One transaction (totaling \$2,557) was for charges prohibited by the University's procurement card policies.
- Two transactions (totaling \$12,680) were each paid in two installments, circumventing the card holders' approved single transaction limit of \$4,999.
- Two transactions (totaling \$19,364) exceeded the single transaction limit of \$4,999.
- Two transactions (totaling \$2,664) were not reviewed and approved by an assigned reviewer.

The University has approximately 5,100 active procurement cards and the procurement card expenditures paid for the year ended June 30, 2011 totaled \$98,042,483.

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In discussing these conditions with University personnel, they stated the University is 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 are 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.

Updated Response: Implemented. All P-Card cardholders, and University employees with a role in the P-Card software (Cardholder, Reconciler, Approver, and DCM), completed mandatory, semiannual, retraining on P-Card policies and procedures effective March 31, 2012. The University finalized roll-out of its new Travel and Expense Management System as of June 30, 2012.

5. Implement procedures to ensure documentation exists to substantiate the after-the-fact confirmation of activity allocable to each federal grant and cost share by the respective employee, principal investigator, or a responsible official. (Repeated-2009)

Finding: The University does not have adequate documentation of payroll and fringe benefit expenditures for employees who work on the Research and Development Cluster program and MCH Block Grant.

During testwork over 84 payroll charges for the Research and Development Cluster program and 40 payroll charges for the MCH program, auditors noted at least 14 exceptions involving timesheets, funding codes, proper fiscal year and certification.

The payroll and fringe benefit costs charged to the major programs were as follows:

Program Name	Payroll Expenditures	Fringe Benefit Expenditures	Total
Research and Development	\$194,723,968	\$43,692,404	\$238,416,372
MCH Block Grant	1,344,669	426,021	1,770,690

Additionally, associated indirect costs are estimated to be 57 to 58.5% of the payroll and fringe benefit costs, excluding research training grants.

In discussing these conditions with University officials, they stated the missing timesheets at the Urbana campus were unable to be located. The Chicago campus implemented a compliant web time approval process for bi-weekly employees whose salaries are charged **Accepted or Implemented - continued**

to federal awards. The process was implemented mid-fiscal year, immediately after the completion of the fiscal year 2010 A-133 audit. The test sample for the UIC employee population included pay periods prior to the implementation of the new process. The bi-

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weekly time approval process includes attestation by the person best suitable to attest to the hours worked and accounts charged.

Updated Response: Implemented. The University will continue to stress the importance of adequate documentation. The Chicago Campus implemented a compliant web time approval process for bi-weekly employees whose salaries are charged to federal awards. The process was implemented mid-fiscal 11 year.

6. Review current procedures for documenting eligibility determinations and implement any changes necessary to ensure eligibility determinations are documented in accordance with program regulations.

Finding: The University did not maintain documentation supporting client eligibility determinations made for the Maternal and Child Health (MCH) Block Grant. MCH Block Grant funds are used to provide care to special needs children.

During testwork of 40 beneficiary payments claimed under the MCH program, auditors noted two beneficiaries (receiving payments totaling \$13,183) for which information used to complete the financial need determination was not available.

In discussing these conditions with University officials, they stated the documentation supporting family in these two cases was shredded.

Updated Response: Implemented. The DSCC procedures for documenting eligibility determinations have been revised in accordance with program regulations for all active program files.

7. Implement procedures to monitor the timeliness of project close outs. Additionally, review current processes to identify any additional procedures necessary to reduce the number of late cost transfers being processed upon the close out of federal projects. (Repeated-2009)

Finding: The University does not have adequate procedures in place to ensure federal projects are closed in a timely manner.

The University administers thousands of individual federal projects from several federal agencies and pass-through entities which have varying project periods. The University has formally documented policies and procedures for closing out federally funded projects which generally require projects to be closed within 90 days after the project end date. During a review of the schedule of expenditures of federal awards for the year ended June 30, 2011, auditors noted expenditures (or negative expenditures) were reported for several projects with end dates prior to June 30, 2009. Specifically:

Year ended	Number of	Year ended June 30, 2011
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	projects with end date during fiscal year	Number of cost transfers	Dollar amount of positive cost transfers	Dollar amount of negative cost transfers
June 30, 2000	1	2	\$2,136	\$ –
June 30, 2002	2	3	–	(2,136)
June 30, 2003	2	22	–	(62,138)
June 30, 2004	3	12	22	(59,792)
June 30, 2005	6	110	11,104	(130,441)
June 30, 2006	6	101	34,665	(121,385)
June 30, 2007	14	61	13,163	(16, 833)
June 30, 2008	31	507	64,449	(508,907)
June 30, 2009	76	1,711	317,969	(448,107)
Totals	141	2,529	443,508	(1,349,739)

Upon review of a sample of 40 transactions recorded in projects with end dates prior to June 30, 2009, auditors noted the vast majority of the transactions selected were to transfer expenditures to the correct project accounts. The underlying transactions being transferred had been erroneously recorded to an incorrect project several years prior to the date of the transfer. Accordingly, the periodic financial reports previously submitted for several of the University's federally funded projects inaccurately included or excluded project expenditures which were later transferred between projects.

In discussing these conditions with University officials, they stated there are a variety of reasons for delays in grant close-outs.

Response: Accepted. However, the University disagrees with the data in the audit firm's table presented above. The overall total of 141 awards reported as having expenditure activity in FY11 is not representative of the true population.

The full population of all awards that were closed (termed) on all campuses during fiscal year 2011 was 2,379 awards in total. For all campuses, the total number of awards active during fiscal year 2011 was 8,781 of which 5,458 are federally funded.

Auditors' Comment: *As discussed in the finding above, we noted several transactions posted to awards which ended prior to June 30, 2009. We believe the University should review its current processes to identify additional procedures necessary to monitor the timeliness of project close outs and reduce the number of late cost transfers required at close out.*

Updated Response: Accepted. While the University believes adequate controls are in place, and the majority of awards are closed in a timely manner, we will continue to monitor the timeliness of closeouts.

Accepted or Implemented - continued

10. Implement procedures to ensure employee effort used to meet cost share requirements are adequately documented in accordance with the applicable

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cost principles. Also, implement monitoring procedures to ensure cost share expenditures reported by municipal partners are allowable. (Repeated-2010)

Finding: The University does not have an adequate process in place to ensure expenditures used to meet the cost sharing requirement of the SNAP program are allowable.

During testing, auditors noted approximately \$480,000 of the cost share expenditures identified for the federal fiscal year ended September 30, 2010 related to contributed effort by University employees that was not supported by documentation required by the applicable cost circular. Additionally, the University has not implemented procedures to monitor approximately \$3.5 million of cost share expenditures reported by its municipal partners.

In discussing these conditions with University officials, they stated they will continue to refine the procedures for obtaining supporting documentation as appropriate for SNAP cost share.

Response: Accepted. As of October 1, 2010, cost share contributions were no longer required for the SNAP Program and thus no change is required.

11. Implement procedures to ensure the information reported in financial status reports are complete, accurate, and on the appropriate basis of accounting. (Repeated-2009)

Finding: The University did not accurately report information in its financial status reports in accordance with the applicable reporting requirements.

During testwork of two (F-269) periodic financial status reports and 25 (SF-425) federal financial reports submitted FY11, auditors noted the following:

- The University elected to use the cash basis of accounting for one SF-425 report submitted for the Research and Development Cluster and one SF-425 report for the Cooperative Extension Services program; however, the disbursement amount reported on those reports included certain accruals for expenditures paid subsequent to the reporting period.
- The University elected to use the accrual basis of accounting for two SF-425 reports submitted for the Research and Development Cluster; however, the disbursement amount reported on those reports excluded certain accruals for expenditures paid subsequent to the reporting period.
- The University did not report unliquidated obligations in two SF-425 reports selected for testwork in the Research and Development Cluster.
- The University submitted one SF-425 report for the Research and Development Cluster for the quarter ending June 30, 2011; however, the total federal funds authorized was reported using data as of July 31, 2011.

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- The University inaccurately reported the total federal share of expenditures, indirect cost base, and indirect costs for two SF-425 reports for the Research and Development Cluster submitted by the Chicago campus.
- The University inaccurately reported the total federal funds authorized, indirect cost base, and indirect costs for one SF-425 report for the Research and Development Cluster submitted by the Chicago campus.
- The University inaccurately reported the total outlays and federal share of outlays for one SF-269 report for the Research and Development Cluster submitted by the Chicago campus.
- The University inaccurately reported the unliquidated obligations for one SF-425 report for the Research and Development Cluster submitted by the Chicago campus.

In discussing these conditions with University officials, they stated the errors were a result of clerical errors.

Updated Response: Implemented. The University has provided refresher training to the personnel responsible for financial status reporting.

12. Revise procedures to ensure expenditure data reported in the ARRA Section 1512 reports corresponds to the applicable reporting period and to review and approve the reports prior to submission. (Repeated-2010)

Finding: The University did not accurately report expenditure information in the ARRA Section 1512 reports submitted for the Research and Development Cluster program.

The University is required to prepare quarterly American Recovery and Reinvestment Act (ARRA) 1512 reports for ARRA awards. These reports are intended to provide transparency into how federal dollars are being spent and will help drive accountability for the timely, prudent, and effective spending of recovery dollars.

During testing over three ARRA 1512 reports submitted for the quarter ending March 31, 2011 related to the Research and Development Cluster, auditors noted three reports prepared by the Urbana campus that were prepared using data for the quarter ending February 28, 2011. Additionally, during testing over three ARRA 1512 reports submitted for the quarter ending June 30, 2011 related to the Research and Development Cluster, auditors noted two reports prepared by the Urbana campus that were prepared using data for the quarter ending May 31, 2011. As a result, the cumulative expenditures reported did not correspond to the quarter being reported.

Accepted or Implemented - continued

Additionally, we noted the University does not have adequate documentation to substantiate that a formal review and approval of ARRA Section 1512 reports is performed.

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In discussing these conditions with University officials, they stated the Urbana Campus began using the “Best Available Data” reporting model to allow sufficient time to extract and analyze data, create reports for PI review, and lastly, to populate detailed data in the required federal ARRA reporting templates and upload these reports by the reporting deadline.

Updated Response: Implemented. The Urbana Campus revised its reporting methodology for FY12 in order to ensure expenditure data reported in Section 1512 reports corresponds to the applicable reporting period.

13. Implement procedures to ensure employees are properly coded in the payroll system and fringe benefits charges are properly charged to federal awards.

Finding: The University did not properly charge fringe benefits to awards in the SNAP and EHR programs.

During testwork of 40 fringe benefit charges for the SNAP Cluster and Education and Human Resources (EHR) programs, auditors noted the following:

- Medicare benefits were not charged for one SNAP employee at the Chicago campus.
- Termination benefits were incorrectly charged to the EHR program for one employee at the Urbana campus.

In discussing these conditions with University officials, they stated coding errors were made at the time the appointments were established in the system.

Updated Response: Implemented. The University has reinforced the importance of ensuring employees are properly coded in the payroll system and fringe benefits charges are properly charged to federal awards.

19. Review current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to subrecipients. Additionally, modify procedures to ensure required information is provided to subrecipients with each disbursement of ARRA funding. (Repeated-2009)

Finding: The University did not provide required program and ARRA information relative to federal funds passed through to the subrecipients of the Research and Development Cluster and Child Care Development Fund Cluster programs for the year ended June 30, 2011.

During testwork of 40 subrecipients of the Research and Development Cluster program funds, the Chicago campus did not communicate the program title and award name in the grant award documents or funding notification letters provided to seven subrecipients, and

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did not communicate any of required award information to subrecipients of its Child Care Development Fund Cluster program.

In addition, during testwork over disbursements of ARRA funds to subrecipients of the Research and Development Cluster program, the Chicago campus did not maintain documentation of the CCR registration for the ARRA subaward for two subrecipients and the federal award number, catalog of federal domestic assistance (CFDA) number, or the amount attributable to ARRA was not identified at the time of each disbursement for two subrecipients at the Chicago campus.

In discussing these conditions with University officials, they stated this is a repeat finding for the Research and Development Cluster program and corrective actions were implemented prospectively. Additionally, the University did not initially consider the grantees under the Child Care Development Cluster program to be subrecipients.

Updated Response: Accepted. The Chicago Campus has implemented processes to ensure all required information is properly communicated to subrecipients. Additionally, the Urbana Campus is working with IDHS to develop a methodology for reporting on CCDF awards.

21. Implement procedures to ensure the quarterly expenditure reports are accurately prepared. (Repeated-2009)

Finding: The University did not accurately report amounts in quarterly reports for the SNAP Program submitted to the Illinois Department of Human Services (IDHS).

During testwork over the quarterly expenditure report submitted for the quarter ended March 31, 2011, auditors noted the University inaccurately reported the "Less Payments Previously Requested" line item as zero resulting in the "Total Amount Due" line item being overstated by \$974,675. As a result of the reporting error, a cash advance was received in the same amount as the overstated amount per the report.

In discussing these conditions with University officials, they stated that this was due to a clerical error.

Updated Response: Implemented. The University has reinforced procedures to ensure the quarterly expenditure reports are accurately prepared.

Accepted or Implemented - continued

22. Implement procedures to ensure property records accurately reflect equipment on-hand and to ensure equipment items are properly tagged in accordance with property management regulations. (Repeated-2009)

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Finding: The University did not consistently follow property management regulations relative to equipment purchased with federal funding from the Research and Development Cluster and Cooperative Extension Services programs.

During a physical observation of 40 pieces of equipment purchased with Research and Development Cluster funds and 40 pieces of equipment purchased with Cooperative Extension Services Program funds, auditors noted the following:

- Six items included on the Research and Development Cluster inventory list (with a cost value of \$215,861) and one item included on the Cooperative Extension Services inventory list (with a cost value totaling \$645) did not have visible property control tags affixed to the assets at the time of our procedures.
- One item included on the Cooperative Extension Services inventory list (with a cost value totaling \$6,499) was not located by the Urbana campus at the time of our procedures.

In discussing these conditions with University officials, they stated extensive policies and procedures are in place to ensure control over equipment. Regarding cases of inventory tags not being affixed to certain assets, University management stated that four of these instances can be challenging to manage. They noted that some instances of a missing tag related items with hand written tags which is in accordance with University policy due to nature of the tag. For two other items, the tags were misplaced and are in the process of being replaced. Also with regards to the item that could not be located, the University stated that the item was reported missing and the University is in the process of updating its status within the system.

Response: Accepted.

For the Urbana campus:

P10F46497 -- The unit is in the process of replacing the missing PTAG.

P10F17130 – The item was reported as missing and presumed stolen in 2009 with a police report filed at that time. The University property records were not updated at that time to reflect the status. The University record is in the process of being updated to reflect the status.

L10C88818—The PTAG most likely fell off of the ultra sound unit as it was being transported for use in many different locations. A replacement PTAG will be affixed on the unit.

For the Chicago Campus:

The University disagrees that five items noted in the finding did not have visible property control tags affixed to the assets at the time of the firm's testing procedures. Property control tags were affixed to the equipment reviewed on the Chicago campus. As a key internal control feature, the system cannot generate a duplicate tag, therefore, if a tag needs to be replaced, an official, system-generated generic tag is generated and the appropriate control number is either handwritten or typed and affixed to the equipment. The five pieces of equipment noted had hand-written, compliant tags affixed to the

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equipment in accordance with property management regulations, University policy, and State Administrative Code, Section 5010.210.

The University has procedures to ensure property records accurately reflect equipment on-hand and to ensure equipment items are properly tagged in accordance with property management regulations.

Auditors' Comment: *As stated in the finding above, property control tags were not affixed to the assets identified as exceptions. We were able to corroborate the assets tested were included on the inventory listing using the asset serial numbers. Additionally, our understanding of the University's property tagging procedures is that handwritten property tags are only used as a temporary measure until a permanent tag can be generated; however, the University's property management policy does not specifically address the use of temporary or handwritten tags.*

Updated Response: Implemented. The University continues to reinforce the importance of properly tagging equipment. We believe property control tags were correctly affixed to the equipment reviewed on the Chicago campus.

23. Review current procedures for awarding federal assistance and implement any changes necessary to ensure student financial assistance is awarded in accordance with federal regulations. (Repeated-2010)

Finding: The University disbursed funds in excess of program award limits at its Chicago campus.

During testwork over 75 students (25 from the Urbana campus and 50 from the Chicago campus) who were awarded and disbursed student financial aid totaling \$726,969, auditors noted one graduate student from the Chicago campus who received a subsidized direct loan in excess of the annual loan limit of \$8,500 for which the student was eligible. The student was awarded subsidized loan funds in the amount of \$9,891 during the 2010-2011 academic year resulting in an over-award of \$1,391. Total aid awarded to this student during the year ended June 30, 2011 was \$19,158.

In discussing these conditions with University officials, they stated the cause was human error.

Response: Accepted. The student's award has been corrected and the appropriate funds have been returned to the U.S. Department of Education.

Accepted or Implemented - continued

Updated Response: Implemented. Policies and procedures have been reviewed and updated to minimize the possibility of future errors.

24. Implement additional procedures to ensure adequate supporting documentation is obtained and evaluated by financial aid counselors prior to disbursing federal funds to students selected for verification. (Repeated-2009)

Finding: The University did not properly perform verification procedures for students at the Chicago campus.

During testwork over 50 students selected for verification (25 from Urbana and 25 from Chicago), auditors noted the Institutional Student Information Record (ISIR) for one Chicago student reported untaxed income that was not verified by the University. Specifically, the ISIR reported untaxed income of \$2,400 which resulted in an overstatement of the student's expected family contribution by \$214.

In discussing these conditions with University officials, they stated the cause was human error.

Updated Response: Implemented. The verification policies and procedures have been reviewed and updated to minimize the possibility of future errors.

25. Implement procedures to ensure submissions to NSLDS are accurately reported within the required timeframe for all Direct Loan borrowers. (Repeated-2009)

Finding: The University did not submit changes in the enrollment status of borrowers under the Federal Direct Loan (Direct Loan) program within required timeframes.

During testwork over 65 borrowers (25 from the Urbana campus, 25 from the Chicago campus, and 15 from the Springfield campus) under the Direct Loan program that graduated, withdrew, or dropped out during the fiscal year, auditors noted the following:

- One status change for withdrawn students under the Direct Loan program at the Urbana campus was not reported to National Student Loan Data System (NSLDS) as withdrawn. The withdrawal was not processed until after the last status update in Spring 2011.
- One status change for withdrawn students under the Direct Loan Program at the Chicago campus was not reported to NSLDS. Upon further review, we noted that the university did not have the student's social security number on file and as such, was not reporting the student's status.

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- Two status changes for withdrawn students under the Direct Loan program at the Chicago campus was not accurately reported to NSLDS as withdrawn. This withdrawal was not processed until after the last status update in Spring 2011.

In discussing these conditions with University officials, they stated the Office of Records and Registration reports enrollment status information for the campus. These conditions were as a result of the timing of the receipt of the student status change documentation in relation to the transmission date to the National Student Clearinghouse.

Updated Response: Accepted. The Urbana and Chicago Campus Student Financial Aid Offices conferred June 2012 regarding training guides for staff at both campuses. Training and documentation will stress the need to communicate to the National Student Clearinghouse (NSC) any withdrawals that are reported to the Registrar after the time frame of enrollment transmissions to the NSC.

26. Verify written agreements are in place for all third party institutions as required by federal regulations. (Repeated-2009)

Finding: The University did not obtain written agreements for all third party institutions as required by federal regulations.

The University has several arrangements whereby portions of the University's academic programs are provided by other institutions of higher education such as foreign exchange programs. During testwork over 48 students (40 from Urbana and 8 from Chicago) participating in study abroad programs, auditors noted a written agreement was not available for two institutions attended by students from the Urbana campus. Additionally, written agreements were not executed with 10 different institutions prior to Urbana students attending the various institutions.

In discussing these conditions with University officials, they stated procedures will be developed to ensure that written agreements are in place.

Updated Response: Accepted. The University has worked diligently over the past year to ensure written agreements are in place for all third party institutions and to develop procedures to check agreements are in place as part of the financial aid awarding process. On March 1, 2012, representatives from various University offices met to discuss the agreement that was questioned in this audit, to review the process to prepare and approve the various contracts that are used for these purposes, and to develop template(s) based on these contracts for future use.

27. Implement procedures to ensure all financial reports are submitted within the established deadlines. Also, implement standardized procedures to monitor reporting requirements and submissions. (Repeated-2010)

Accepted or Implemented - continued

Finding: The University does not have a process in place to ensure financial reports are prepared and submitted within required timeframes.

During testwork over the financial reports submitted during fiscal year 2011, auditors noted two reports at the Chicago campus (out of 44 tested) related to the Research and Development Cluster were not submitted by the reporting deadline. Delays in the submission of these reports ranged from 7 to 65 days.

In addition, the University does not have consistent procedures for tracking the due dates and submission of all federal reports. Currently, reporting responsibilities are assigned to different sections within the University's Grant and Contracts Offices based upon the federal awarding agency. The individuals within each reporting section have developed a variety of formal and informal methods for tracking and reporting requirements and deadlines. As a result, the University does not have the ability to monitor whether reports are prepared and submitted in a timely manner.

In discussing these conditions with University officials, they stated the reports submitted late were a result of human error.

Updated Response: Implemented. The University has provided refresher training to personnel responsible for financial status reporting and continues to emphasize the importance of submitting financial reports by the reporting deadline. While the Urbana Campus believes that our procedures are adequate, we continue to review and revise as needed.

28. Implement procedures to ensure expenditures are recorded in the general ledger as they are incurred to ensure the reimbursement requests are adequately supported by the University's official accounting records. (Repeated – 2010)

Finding: The University did not have accounting records to support reimbursement requests for the Temporary Assistance for Needy Families (TANF) Cluster.

The University draws cash for administrative expenditures and scholarship expenditures related to the TANF Cluster on the reimbursement basis. The University's procedures for calculating reimbursement-based draws generally are based upon expenditures paid and reported in the general ledger. During testwork over cash draws performed by the Springfield campus for the TANF Cluster, auditors noted the University requested reimbursement of amounts in excess of expenditures reported in the general ledger. The amount overdrawn was about \$62,000.

In discussing these conditions with University officials, they stated procedures to ensure expenditures are recorded in the general ledger were implemented late in the fiscal year.

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Updated Response: Implemented. The University has refined and documented procedures to ensure expenditures are appropriately recorded in the accounting system before they are billed to the sponsor. We continue to monitor the posting and billing of the TANF grant expenditures.

31. Implement procedures to ensure award amounts recorded in the University's accounting system agreed to award documents received from federal agencies.

Finding: The University does not have an adequate process to ensure grant award amounts are accurately recorded in the accounting system.

During a review of 42 Research and Development Cluster grant awards, auditors noted the award amounts recorded in the accounting system for two grants did not agree to the award documents.

In discussing these conditions with University officials, they stated these were data entry errors. Failure to accurately record award information in the accounting system may result in overspending of federal awards, inaccurate reimbursement requests, and inaccurate financial reporting.

Updated Response: Implemented. The University is monitoring its existing error reports more frequently to ensure award amounts recorded agree with award documents.

32. Establish appropriate procedures to ensure all contracts and leases are completed, approved and properly executed prior to the start of the services and lease term. Further, review procedures to ensure all appropriate signatures, clauses, and certifications are obtained prior to execution for all contracts and lease agreements and all applicable contracts and real estate leases are filed with the Office of the Comptroller and emergency purchase affidavits with the Auditor General of the State of Illinois in accordance with the State statutes and related guidelines. (Repeated-2003)

Finding: The University has not established adequate internal controls over contracts and leases to ensure they contain all necessary provisions, are properly executed prior to performance, and are filed with the State of Illinois, Office of the Comptroller on a timely basis.

During a review of 60 contracts executed during the year ended June 30, 2011, auditors noted the following:

- 57 contracts did not contain the signature of the employee signing on behalf of the University Comptroller.
- Three contracts were not signed by University's Chief Executive Officer and/or Chief Legal Counsel.

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Accepted or Implemented - continued

- Six contracts were executed subsequent to performance of the contract. The contract execution dates ranged from 3 to 160 days after the beginning of the contract start date.
- Four contracts were not published in the Illinois Procurement Bulletin.
- Three contracts did not include disclosures of financial interest statements.
- One contract did not include any of the required certifications.
- Nine contracts were not filed timely with the Office of the Comptroller. The late filings ranged from one day to 28 days late.

During a review of 40 real estate leases executed during the year ended June 30, 2011, auditors noted the following

- Five leases were executed after the lease term began, ranging from two to 82 days late.
- One Real Estate Lease Disclosure form was completed 14 days after the beginning of the lease term.
- Two leases were not filed timely with the Office of the Comptroller. The late filings ranged from one day to two days late.

During our review of 17 emergency purchases awarded during the year ended June 30, 2011, auditors noted the affidavit for one emergency purchase was filed with the Auditor General of the State of Illinois 15 days after the required time frame.

In discussing these conditions with University officials, they stated exceptions can be attributed to changes in requirements for documents, human error, and documents not being received in the Contract Records Office in a timely manner.

Updated Response: Accepted. The University works with vendors to ensure contracts and leases are executed prior to the start of the agreement. It can be difficult to obtain compliance for timely processing. The University will continue to examine and improve procedures to ensure contracts and leases are properly approved and executed prior to the start of the agreement, include all necessary documents, and are filed on a timely basis. For FY13, additional resources are being added to the Real Estate group.

33. Implement procedures to ensure all employees submit time sheets as required by statute. (Repeated-2005)

Finding: The University does not require all employees to submit time sheets as required by the State Officials and Employees Ethics Act. The University does not require faculty employees to submit time sheets as required by the State Officials and Employees Ethics Act.

During testing of payroll, auditors selected 60 employees across all three campuses and noted that 18 faculty employees did not file timesheets as required by the State Officials

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and Employees Ethics Act. Based upon inquiry of the University management, employees classified as board members and faculty continue to generally track their time using a “negative” timekeeping system whereby the employee is assumed to be working unless noted otherwise.

In discussing these conditions with University officials, they stated the implementation of the system for positive time reporting for University Academic Professionals and Exempt Civil Service staff is in force since the beginning of fiscal year 2011. All Non-Exempt Civil Service employees throughout the University have been reporting their time in accordance with the State University Civil Service System and all faculty report time not worked.

Response: The University does not require all employees to submit time sheets as required by the State Officials and Employees Ethics Act. The University does not require faculty employees to submit time sheets as required by the State Officials and Employees Ethics Act.

During our testing of payroll, we selected 60 employees across all three campuses and noted that 18 faculty employees did not file timesheets as required by the State Officials and Employees Ethics Act. Based upon inquiry of the University management, employees classified as board members and faculty continue to generally track their time using a “negative” timekeeping system whereby the employee is assumed to be working unless noted otherwise.

Updated Response: Accepted. The University continues to work with faculty groups across the three campuses towards completion of the plan initiated in November 2008.

34. Review process for performing physical inventory counts and consider any changes necessary to ensure physical inventory counts are accurate and amounts reported at year-end are based on actual quantities on hand as of balance sheet date. (Repeated-2010)

Finding: The University does not have an adequate process to measure inventory balances as of fiscal year-end (i.e. balance sheet date).

During testwork over physical inventory counts at the Materials Management department of the University of Illinois Hospital, the Chicago Academic Computing and Communication Center, the Urbana Campus Information and Technologies and Educational Services, and the University bookstores, auditors selected a sample of 220 inventory items (totaling \$1,090,688) that were counted at year-end and performed test counts, and noted the following:

- One item (totaling \$5,660) at the bookstores did not agree with the department’s inventory records resulting in overstatements of \$118.
- One item (totaling \$1,412) at the Materials Management department did not agree with the department’s inventory records resulting in understatement of \$471.

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Accepted or Implemented - concluded

- Three items (totaling \$530) at the Chicago Academic Computing and Communication Center did not agree with the department's inventory records resulting in overstatements of \$161.
- Two items (totaling \$491,154) at the Chicago Academic Computing and Communication Center did not agree with the department's inventory records resulting in understatements of \$56,147.
- The final inventory records for eight items (totaling \$491,208) at the Chicago Academic Computing and Communication Center did not agree with the year-end inventory records resulting in overstatements of \$169,561.
- Three items (totaling \$5,315) at the Urbana Campus Information and Technologies and Educational Services campus did not agree with the department's inventory records resulting in overstatements of \$380.

In discussing these conditions with University officials, they stated the differences were due to data entry errors and oversight during the physical counts.

Updated Response: Implemented. The University has increased training efforts for departments with inventory discrepancies.

35. Implement procedures to ensure workforce data included in the Agency Workforce Report is accurate and that adequate supporting documentation is maintained to support data included in the report. Further, submit corrected reports to the Governor and the Office of the Secretary of State in accordance with the State Auditing Act. (Repeated-2009)

Finding: The University did not accurately complete the Agency Workforce Report and did not maintain adequate supporting documentation for the workforce data included in the report.

During a review of the Agency Workforce Report submitted during the year, auditors noted the University created the report based on a query of the Enterprise Data Warehouse run on a specific date. However, during testwork over the report auditors noted the following exceptions:

- Because detail of 159 physically disabled employees included on the report was not maintained, auditors were unable to verify the accuracy of those amounts on the report; and
- Of the 199 reporting categories in the report, 65 of the reporting categories did not agree to the detail of individuals from the query. The discrepancies in the number of individuals reported and the detail of individuals from the query ranged from one individual to nine individuals.

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In discussing these conditions with University officials, they stated the errors were due to the system report used to prepare the Agency Workforce Report not being updated to correspond to new reporting requirements and data entry errors.

Updated Response: Accepted. The University has corrected the oversight of documenting physically disabled individuals. Additionally, a corrective action plan has been developed and implemented to improve the testing process. Corrected reports were sent to the Governor and the Office of the Secretary of State January 19, 2012.

36. Implement procedures to ensure that accident reports are submitted to the Department of Central Management Services in a timely manner. Also, ensure that policies and procedures are clearly understood and followed by all personnel responsible for the oversight of University vehicles within each department. (Repeated-2008)

Finding: The University did not report certain automobile accidents involving University vehicles to the Department of Central Management Services in a timely manner.

During testing of the operation of University vehicles, auditors noted the University reported 159 accidents involving University vehicles to the Department of Central Management Services (CMS) during FY11. Of the 134 accidents reported by the Urbana campus, 25 were not reported timely and ranged from one to 45 days late. Of the 25 accidents reported by the Chicago campus, six were not reported timely and ranged from one to 41 days late.

In discussing these conditions with University officials, they stated these exceptions are due to 1) the campus offices not knowing about reportable accidents until the units report them, after which time is needed to gather the information required by CMS and 2) misunderstanding by employees as well as their supervisors due to their unfamiliarity with University policy.

Updated Response: Accepted. The University continues to disseminate information and helpful educational tools to ensure employees know to promptly report auto accidents. The University is redesigning its policies and procedures manual to make it more easily understandable. In addition, the University began sending letters to personnel responsible for the oversight of University vehicles when there are violations of required policies and procedures.

37. Implement procedures to comply with the requirements of the Higher Education Veterans Service Act.

Accepted or Implemented - concluded

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Finding: The University did not fully comply with the Higher Education Veterans Service Act (Act). During a review of the University's compliance with the Act, auditors noted the following:

- The University of Illinois - Chicago (UIC) did not post the completed survey of the services and programs provided for veterans, active duty military personnel, and their families on the homepage of the campus' Internet link. In addition, UIC did not submit a copy of the survey to the Department of Veterans' Affairs; President and Minority Leader of the Senate and the Speaker and Minority Leader of the House of Representatives; and the Governor.
- The University of Illinois - Urbana-Champaign (UIUC) did not submit a copy of the survey to the President and Minority Leader of the Senate and the Speaker and Minority Leader of the House of Representatives and the Governor.

In discussing these conditions with University officials, they stated a draft copy of the completed survey was posted online but due to a misunderstanding of the instructions, the final version of the completed survey was not posted or sent to the required officials.

Updated Response: Implemented. The original PA 96-0133 Survey for both Chicago and Urbana campuses was sent to all required parties in March 2012. All University campuses continue to comply with submission of the Fiscal Impact Report each year.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

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A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

The University filed 15 affidavits for emergency purchases in FY11 totaling \$1,830,281.88 as follows:

- \$855,680.00 for repairs;
- \$332,092.54 for travel related to sporting events;
- \$163,700.00 for insurance;
- \$141,951.00 for dorm security;
- \$90,000.00 for a rare book collection for library;
- \$81,791.00 for rental space;
- \$76,075.34 for equipment;
- \$63,992.00 for software; and
- \$25,000.00 for conference speaker.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission in January and July. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. On July 6, 2011 the University of Illinois indicated that no employees spent the majority of working time at locations other than official headquarters.