

LEGISLATIVE AUDIT COMMISSION



Review of
University of Illinois
Year Ended June 30, 2018

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REVIEW: 4495
UNIVERSITY OF ILLINOIS
YEAR ENDED JUNE 30, 2018

FINDINGS/RECOMMENDATIONS - 18

ACCEPTED - 5
IMPLEMENTED - 13

REPEATED RECOMMENDATIONS - 15

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 18

This review summarizes the auditors' reports on the University of Illinois for the year ended June 30, 2018, filed with the Legislative Audit Commission on January 23, 2019 (financial) and March 7, 2019 (compliance examination and single audit). The auditors conducted a financial audit and compliance examination in accordance with State law and *Government Auditing Standards* 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 institutions 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. The Governor appoints nine members, with the advice and consent of the Senate, and each of the three campuses elects a trustee, only one of which may vote. The Governor is an ex-officio member.

The Urbana-Champaign institution 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 institution of the University.

The Chicago institution 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 institution 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. Timothy L. Killeen is President of the University currently and during the audit period. He was appointed President effective May 18, 2015 following a national search. Dr. Killeen previously held positions as a geophysicist space scientist, professor, and administrator at other universities and the National Science Foundation. He most recently served as Vice Chancellor for Research and President of the Research Foundation at the State University of New York.

General Information

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

| | 2018 | 2017 |
|--------------------------------------|--------------------------------|--------------------------------|
| <u>Total Assets</u> | | |
| Current | | |
| Cash & Investments | \$ 1,103,131,000 | \$ 815,430,000 |
| Accounts & Notes Receivable | 546,026,000 | 548,977,000 |
| Appropriations Receivable, State | 45,181,000 | 714,000 |
| Other | 90,374,000 | 81,212,000 |
| Non-Current | | |
| Cash & Investments | 2,163,436,000 | 1,827,011,000 |
| Notes Receivable | 44,569,000 | 49,178,000 |
| Capital Assets, Net of Depreciation | 3,761,293,000 | 3,751,300,000 |
| Other Assets | 23,019,000 | 27,589,000 |
| Deferred Outflow of Resources | 99,704,000 | 76,876,000 |
| <u>Total Assets</u> | <u>\$ 7,876,733,000</u> | <u>\$ 7,178,287,000</u> |
| <u>Total Liabilities</u> | <u>\$ 4,463,468,000</u> | <u>\$ 2,803,701,000</u> |
| <u>Net Position</u> | <u>\$ 3,413,265,000</u> | <u>\$ 4,374,586,000</u> |

Total assets increased by \$698 million, or 9.7%, during FY18. The largest components of this change resulted from the significant increase in appropriations from the State along with growth in tuition, revenue, gifts received, and clinical operations, among others, while controlling operating expense.

Total liabilities and deferred inflows of resources increased \$1.66 billion, or 59.2%, for FY18. This change primarily resulted from the addition of the OPEB (Other Postemployment Benefits) liability due to the adoption of GASB Statement No. 75. As a result, the net position of the University decreased by \$961 million in FY18.

The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the University recorded a liability of \$1.3 billion for its proportionate share of the State's total OPEB liability.

The University's portion of the OPEB liability was based on the University's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the University's proportions was 3.18%, which was a decrease of 0.57% from its proportion measured as of the prior year measurement date of June 30, 2016.

Enrollment and Employment

Federal awards to the University totaled almost \$1.30 billion in FY18 including \$617 million for student financial assistance in the form of federal grants, loans, and work-study. Appendix A contains information on Full-Time Equivalent (FTE) enrollment of 82,249 students in FY18 compared to 80,404 students in FY17, an increase of 1,842, or almost 2.3%, along with information on employment of 29,686 in FY18 and 29,505 in FY17. Full-Time Equivalent student enrollment increased from FY17 to FY18 due to an increase in graduate students at UIUC and undergraduate students at UIC. Employment on the three campuses was 29,686 in FY18 and 29,505 in FY17.

Expenditures From Appropriations and the Income Fund

Appendix B summarizes the appropriations and expenditures for the period under review. In FY18, the State appropriated over \$588.9 million to the University from eight funds: General Revenue Fund, Educational Assistance Fund, Fire Prevention Fund, State College and University Trust Fund, Hazardous Waste Research Fund, Emergency Public Health Fund, Used Tire Management Fund, and General Professions Dedicated Fund. Overall appropriations in FY17 were \$655.8 million which was \$66.8 million more than FY18; however, the University paid \$264 million in FY16 vouchers from FY17 appropriations. The University's total expenditures were \$588.9 million from appropriated funds in FY 18 compared to \$655.7 million from appropriated funds in FY17, a decrease of about \$66.8 million, or 10%.

During FY18 the University was authorized by Public Act 100-0021 to pay its unpaid FY17 and FY18 costs using either the University's FY17 or FY18 appropriations.

- The University did not use its FY18 appropriation to pay any of its FY17 costs.
- The University paid 3,881 unpaid vouchers totaling over \$391.6 million from FY17 costs using FY17 appropriations.

Other key highlights were as follows:

- The University did not incur any Prompt Payment Interest in FY18.
- The University and its vendors did not participate in alternative financing in lieu of enacted appropriations involving the Illinois Finance Authority during FY18.
- None of the university's vendors participated in the Vendor Payment Program (VPP) or the Vendor Support Initiative Program (VSI) during FY17 and FY18.
- FY18 lapse period expenditures totaled \$22.1 million.

Income Fund receipts totaled \$1.24 billion in FY18 compared to \$1.19 billion in FY17. Receipts from student tuition and fees increased \$40.9 million, or 3.4%. Expenditures from the Income Fund were \$1.15 billion in FY18 compared to \$1.22 billion in FY17, a decrease of approximately \$65.7 million, or 5.3%. Restoration of State funding at the end of FY17 and stable funding in FY18 coupled with cost containment efforts during the Impasse resulted in the University charging fewer expenditures to the Income Fund compared to FY17.

REVIEW: 4495**Revenues, Expenses, and Changes in Net Position**

The table appearing in Appendix C presents a summary of revenues, expenses, and changes in net position at June 30, 2018 and 2017. Operating revenues, or those that generally result from exchange transactions, were over \$3.8 billion in FY18, which was an increase of \$65 million, or 1.7%, compared to FY17. State appropriations, gifts, and investments are defined as non-operating revenues, and totaled approximately \$3.0 billion at June 30, 2018. The University's operating expenses were \$6.3 billion in FY18, which was an increase of \$198.2 million, or 3.2% over FY17. The increase in net position was \$638.3 million.

The increase in grants, non-operating (non-operating revenues) was due to an increase in the State Monetary Award program grants which did not receive an appropriation until FY18. The decrease in the fair value of investments (non-operating revenues) was due to the change in unrealized gain/loss of investments during FY18. Due to market conditions for long-term debt securities, the University experienced a huge increase in unrealized gains in its endowment pool investments during FY17 and a moderate increase during FY18.

Operating and non-operating revenues experienced a net increase of \$856 million in FY18. This increase included State appropriations totaling \$588 million to fund FY18 expenditures; however, due to the timing of additional \$300 million in appropriations intended to cover FY17 expenditures, the total revenue recognized by the University in FY18 was \$888 million. In addition, there was a \$99 million increase for on behalf of payments by the State for employee fringe benefits (primarily health insurance benefits) largely due to the adoption of GASB Statement No. 75. The University also achieved revenue growth from student tuition and fees, associated with rising enrollment, along with increased activity levels across a variety of operations. A description of the change in net position as a result of these factors is summarized in the table below.

| | 2018 | 2017 |
|---|------------------------|------------------------|
| Net Position, beginning of year | \$4,374,586,000 | \$4,321,881,000 |
| Effect of change in accounting principle | (1,599,654,000) | - |
| Net Position, beginning of year, adjusted | <u>2,774,932,000</u> | <u>4,321,881,000</u> |
| Increase in net position | <u>638,333,000</u> | <u>52,705,000</u> |
| Net position, end of year | \$3,413,266,000 | \$4,374,586,000 |

The chart below shows revenues by source, which were used to fund the University's operating activities for FY18.

| Revenues | FY18 |
|---|-------------|
| Nonoperating state appropriations and on-behalf revenue | 37% |
| Student tuition and fees | 17% |
| Hospital and other medical activities | 15% |
| Grants and contracts | 13% |

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| | |
|----------------------------------|----|
| Nonoperating revenues | 7% |
| Auxiliary enterprises | 6% |
| Educational activities and other | 5% |

The following chart indicates operating expenses by type for FY18.

| Expenses | FY18 |
|---------------------------------|-------------|
| Instruction | 25.1% |
| Support services | 18.3% |
| Hospital and medical activities | 16.6% |
| Research | 12.0% |
| Public service | 7.6% |
| Auxiliary enterprises | 6.4% |
| Plant operation & maintenance | 5.2% |
| Scholarships & fellowships | 4.6% |
| Depreciation & amortization | 4.0% |
| Independent operations | 0.2% |

Accounts Receivable

Appendix D provides a summary of the accounts receivable for FY18 and FY17. Total net accounts receivable decreased \$3.8 million, or 0.7% in FY18, from \$539.2 million as of June 30, 2017 to \$535.3 as of June 30, 2018. The allowance for doubtful accounts (both unrestricted and restricted) decreased \$51.1 million from \$338.6 million in FY17 to \$287.4 million in FY18. Of the allowance for doubtful accounts in FY18, about 73%, or \$211.7 million was related to the operation of the hospitals and clinics. Notes receivable, net (student loans) totaled \$55.2 million at the end of FY18.

Capital Assets

Appendix E is a summary of changes in capital assets. Capital assets at the beginning of FY17, valued at about \$4.120 billion at July 1, 2017, increased to \$4.137 billion at June 30, 2018. This figure was comprised of the following:

- \$4.6 billion in buildings;
- \$1.3 billion in equipment;
- \$737.8 million in improvements and infrastructure;
- \$658.6 million in exhaustible collections/library materials;
- \$368.9 million in equipment greater than \$499 & less than \$5,000;
- \$267.0 million in construction in progress;
- \$196.4 million in software;
- \$138.4 million in land;
- \$24.1 million in inexhaustible collections;

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- \$7.0 million in building improvements; and
- \$4.2 billion in accumulated depreciation.

In FY18, the University entered into several agreements with private enterprises in order to construct a mixed use facility providing student housing, academic, and retail space at UIC. The facility opened in July 2019.

Foundation Payments to the University

During FY18 and FY17, the University engaged the University of Illinois Foundation under contract to provide fund-raising and other services. In accordance with the contract agreement, in FY18 the University provided a total of \$10,299,091 in funds and services to the Foundation. This compares to a total of \$9,632,521 provided to the Foundation by the University in FY17. As required by the contract, the Foundation provided the University certain funds considered unrestricted for purposes of the computations outlined in the *University Guidelines*.

The Foundation provided a total of \$208,412,921 to the University in FY18 compared to \$196,666,029 in FY17. Appendix F provides a summary of all funds that the Foundation gave to the University during FY18 and FY17. The Foundation received the following gifts or purchases of real estate in FY18:

- 70 acres of farmland in Clinton County valued at \$540,000.
- 109 acres of farmland in Champaign County valued at \$1,528,264.
- Partial interest in 1,736 acres of farmland in Moultrie County valued at \$1,706,738.

Tuition and Fee Waivers

Appendix G provides a summary of tuition and fee waivers by campus. During the 2017-2018 school year, the University of Illinois granted tuition and fee waivers to students dispersed across all three campuses valued at \$49.8 million to 7,704 undergraduate students, and almost \$277.6 million to 23,597 graduate students. Of the \$327.4 million in tuition and fee waivers granted in FY18, about \$23.4 million were for mandatory waivers and over \$304 million were for discretionary waivers. Waivers for grants and scholarships to veterans totaled \$7.9 million. Waivers totaled over \$323.5 million in the 2016-2017 school year.

Health Services Facilities System

Appendix H provides a summary of Health Services Facilities System operations and a statement of revenues, expenses, and changes in net position. 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 FY18, the System had

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operating revenues of approximately \$791.3 million and operating expenses of almost \$1.1 billion, which resulted in an operating loss of about \$292.0 million. However, once the non-operating revenues are considered, assets increased to \$61.3 million.

Accountants' Findings and Recommendations

Condensed on the following pages are the 18 findings and recommendations from the audit report. There were 15 repeated recommendations. The following recommendations are classified on the basis of updated responses provided by Jennifer Erickson, Associate Director of Business and Finance, via email on July 30, 2019.

Accepted or Implemented

- 1. Review process to assess the existence of current period revenues and expenses and consider changes necessary to ensure they are accurately identified and recorded for presentation in the University's financial statements. (Repeated-2009)**

Finding: The University of Illinois (University) has not established adequate internal controls over accurately identifying and recording deferred expense transactions and reporting prepaid expenses at fiscal year-end for financial reporting purposes.

In relation to test work over expense transactions, auditors reviewed 225 cash disbursement transactions (totaling \$49,784,822), 60 P-Card expense transactions (totaling \$310,833), and 60 T-Card expense transactions (totaling \$303,612) recorded during the fiscal year. In relation to test work over revenue transactions, auditors reviewed 60 cash receipt transactions recorded during the fiscal year (totaling \$85,984,379). They also reviewed 20 cash disbursements occurring subsequent to year-end (totaling \$65,180,107). Additionally, auditors separately reviewed 20 internal journal voucher transactions recorded during the fiscal year (totaling \$388,226,298).

During the review of these transactions, some of the items that were not recorded in the proper accounting period were as follows:

- Three general and service expense cash disbursements (totaling \$50,396) that were recorded as expenses for FY18, should have been partially deferred as of June 30, 2018 at an amount of \$30,137, and then recognized as expenses for the fiscal year ending June 30, 2019;
- One cash receipt (totaling \$748,497) that was recorded as operating revenue for the fiscal year ended June 30, 2018, should have been fully accrued as of June 30, 2017;
- Two cash receipts (totaling \$3,688,224) that were recorded as operating revenue for the fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$2,756,527, and then recognized as operating revenue for the fiscal year ending June 30, 2019; and

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Accepted or Implemented - continued

- Six general and service expenses (totaling \$25,658) that were recorded as expenses for fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$19,032, and then recognized as expenses for the fiscal year ending June 30, 2019;

In discussing these conditions with University personnel, they stated that in many of these instances, the units associated with the exceptions did not adequately follow established procedures to record the transactions in the proper period.

Updated Response: Implemented. The University has significant controls in place to monitor this area and continues to provide training to units. P-Card system enhancements were implemented in May 2019 which allow for better expense deferral identification.

2. Ensure employees follow established internal controls over self-approved timesheets to ensure compliance with University policies. (Repeated-2017)

Finding: The University has not followed established internal controls over Self-Approved Time Sheets.

After every pay period, the University creates a report showing employees who have approved their own timesheet. The report lists all self-approvals for FY18 and included 47 employees with 54 occurrences of self-approval. Section 4 of the Office of Business and Financial Services Policy and Procedures Manual specifies that approvers cannot approve their own time.

University management indicated the mitigating control procedure, in which the applicable human resources office notifies the employees involved as well as the unit or college contacts and requests confirmation of supervisory approval, was not consistently followed in a timely manner.

Updated Response: Implemented. The University implemented process changes January 1, 2019 which prevent any self-approved timesheets.

3. Continue to review and improve internal controls over procurement card transactions to ensure compliance with University policies so that erroneous or fraudulent transactions are not recorded in the general ledger system. (Repeated-2008)

Finding: The University has not complied with University policies and internal controls over procurement card transactions.

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The University operates a procurement card program which allows individuals throughout the University to make smaller purchases (defined as less than \$4,999) on a credit card which is directly paid by the University on a monthly basis. During test work over 96 procurement card transactions totaling \$361,179, auditors noted the following:

- Twenty nine (30%) transactions (totaling \$23,294) were for charges such as professional services, lodging, business meals and refreshments, pharmaceutical and drugs, furniture with a unit cost of \$500 and above, and advertising expense, all of which were prohibited by the University's procurement card policies.
- Six (6%) transactions (totaling \$52,116) were paid into two or more installments, circumventing the card holder's single transaction limit of \$4,999.
- Fifteen (16%) transactions (totaling \$90,716) were not reconciled within seven days of appearance on the P-Card software, as required. The reconciliations were completed two to 178 days late.
- Three (3%) transactions (totaling \$13,151) were purchases of equipment that were not tagged in accordance with University's policies and procedures.

The University has approximately 3,999 active procurement cards, and the procurement card expenditures paid for the year ended June 30, 2018 totaled \$56,500,336.

University management indicated the bulleted exceptions largely resulted from human error at the individual and/or unit level by not following procurement card policies and procedures.

Updated Response: Implemented. The University has ongoing efforts to educate cardholders and support compliance with procedures. Risks are mitigated by reducing the monthly spending limits for many P-cards, based upon spending history. Risks have also been mitigated through significant reductions in the number of University P-Cards. Additionally, a Department Card Manager (DCM) mandatory certification program was recently implemented, which greatly improves training and awareness to applicable policies.

4. Review the entities that provide services in order to determine if the entity is a service provider. In addition, conduct and document a review of controls of third party service providers. Also,

- **Obtain Service Organization Controls (SOC) reports or perform independent reviews of internal controls associated with outsourced systems at least annually.**
- **Monitor and document the operation of the Complementary User Entity Controls (CUECs) relevant to the University's operations.**
- **Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy the University that the existence of the subservice organization would not impact its internal control environment.**
- **Document the review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan**

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Accepted or Implemented - continued

exists and when it will be implemented, any impacts to the University, and any compensating controls.

- **Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.**

Finding: The University did not obtain or conduct timely independent internal control reviews over its external service providers.

Auditors requested that the University provide a population of the service providers utilized. Although the University was unable to provide a complete population of service providers, auditors performed testing on the 27 service providers identified by the University. The service providers provided various services to the University as follows:

- Claims billing,
- Claims collections,
- Insurance claims,
- Electronic shopping,
- IT hosting services, and
- Software as a Service.

During testing, auditors noted the University had not obtained Service Organization Controls (SOC) Reports or conducted independent internal control reviews for 21 service providers. In addition, it was noted for the six SOC Reports received:

- Four SOC Reports did not cover the entire audit period of the University.
- The University had not conducted an analysis of four SOC reports and the complementary user entity controls (CUEC).
- The University had not conducted an analysis of the subservice organizations identified in the SOC Reports.

Additionally, it was noted the contracts between the University and the service providers did not contain a requirement for an independent review to be completed.

The University stated although SOC reports were obtained for those service providers identified as critical to the financial operations of the University, independent internal control reviews were not always obtained for other service providers.

The University is responsible for the design, implementation, and maintenance of internal controls related to financial controls, information systems, and operational controls to assure its financial, critical, and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

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Response: Accepted. The University will expand internal controls over third party service providers to obtain reasonable assurance that University financial information is accurately processed, and critical and confidential data are adequately safeguarded.

Updated Response: Implemented. The University has processes in place to assess controls for the service providers which could materially impact the University's financial statements, however SOC reports were not always obtained for other service providers. The University has enhanced its processes and continues efforts toward corrective action.

5. Review current processes for calculating and tracking the students employed in community service activities for its Federal Work Study (FWS) funds to meet the minimum 7% requirement. (Repeated-2017)

Finding: The University did not use at least 7% of its Federal Work Study (FWS) funds for students employed in community service activities.

At the University of Illinois at Chicago, auditors noted the federal share of FWS funds used for community service totaled to \$36,400, from a statistically valid sample. The total amount of federal funds spent on FWS funds totaled \$1,789,069. The University is reporting at 2% of Community Service used for FWS funds out of the minimum 7% requirement. The University should have used at least 7%, or \$125,235, of its FWS funds towards Community Service or obtained a waiver from the US Department of Education.

At the University of Illinois at Springfield, the federal share of FWS funds used for community service totaled to \$9,704, from a statistically valid sample. The total amount of federal funds spent on FWS funds totaled \$213,399. The University is reporting at 5% of Community Service used for FWS funds out of the minimum 7% requirement. The University should have used at least 7%, or \$14,938, of its FWS funds towards Community Service or obtained a waiver from the US Department of Education.

According to University officials, the University of Illinois at Chicago's biggest contractor did not participate during the 2017-2018 academic year.

According to University officials, the University of Illinois at Springfield had students who left their community service positions before the end of the academic year. The University attempted to find replacements, but due to the lateness of the departures they were unable to replace the students.

Updated Response: Implemented. The University of Illinois at Chicago has increased its contract provider list for the 2018-2019 academic year. The University of Illinois at Springfield is working with the local school district to ensure adequate assistance is provided to meet the 7% requirement for the 2018-2019 academic year.

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Accepted or Implemented - continued

6. Review current close out procedures and implement additional procedures to monitor the timeliness of federal account close outs. (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. Procedures have been established to send a notice of terminating accounts to the principal investigator or program coordinator 90 days prior to the project end date. The notice provides information about the process for closing projects and includes an information request for any extensions granted and other project information necessary to complete the project close out. Personnel in the Grants and Contracts Office are responsible for ensuring the University has met its obligations under the project, closing the general ledger accounts, and returning any unexpended grants funds to the federal agency or pass-through entity.

| Year Ended | Number of projects with end date during fiscal year | Year ended June 30, 2018 | | |
|--------------|---|--------------------------|---------------------------------|---------------------------------|
| | | Number of expenditures | Dollar amount of positive costs | Dollar amount of negative costs |
| 6/30/2002 | 4 | 6 | - | (5,805) |
| 6/30/2003 | 4 | 4 | - | (58,127) |
| 6/30/2004 | 8 | 22 | 4,768 | (44,167) |
| 6/30/2005 | 12 | 168 | - | (465,983) |
| 6/30/2006 | 11 | 151 | - | (447,410) |
| 6/30/2007 | 6 | 11 | - | (16,008) |
| 6/30/2008 | 7 | 15 | - | (194,240) |
| 6/30/2009 | 5 | 28 | - | (96,178) |
| 6/30/2010 | 3 | 6 | - | (3,173) |
| 6/30/2011 | 7 | 27 | - | (55,993) |
| 6/30/2012 | 5 | 23 | 10,062 | (136,954) |
| 6/30/2013 | 2 | 3 | - | (119) |
| 6/30/2014 | 6 | 25 | - | (29,770) |
| 6/30/2015 | 9 | 86 | 43,919 | (75,056) |
| 6/30/2016 | 23 | 506 | 11,409 | (383,999) |
| 6/30/2017 | 148 | 4,655 | 278,375 | (1,223,332) |
| Total | 260 | 5,736 | 348,533 | (3,236,314) |

During a review of the University's schedule of expenditures of federal awards for the year ended June 30, 2018, auditors noted expenditures (or negative expenditures) were reported for several projects with end dates of greater than the 90 day close out period as shown on the chart to the left.

Upon review of the transactions recorded in the projects, auditors noted the transactions included a number of transfer expenditures and corrections. Periodic financial reports previously submitted for several of the University's federally funded projects inaccurately

included or excluded project expenditures which had later been revised, if applicable. Difficulties in collecting delinquent Accounts Receivable balances or completion of project deliverables can contribute to late award closeout. Additionally, some awards may remain open

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more than 90 days after the end date as the University awaits continuation paperwork for incrementally funded awards.

During the current year testing, eight total transactions were noted, including one in Child Care Development Funds (CCDF), six in Supplemental Nutrition Assistance Program (SNAP) and one in Head Start Clusters, which had charges to the grants after the 90 day close out period during fiscal year 2018.

According to University officials, transactions post to awards after the award end date for various reasons, many of which are beyond the control of the University. Examples include vendor credits, required benefits adjustments, award continuations not received, late sponsor payments, as well as staffing challenges. Some awards are properly closed within the 90 day closeout period only to be reopened to process these types of transactions. Final closeout of an award involves participation from multiple parties and may take additional time.

Response: Accepted. The University continues to devote additional attention to close-out review and processing to improve the timeliness of project closeout. The University implemented additional procedures to monitor the timeliness of federal account close-outs.

The University believes that our established internal controls as designed are sufficient to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. These controls include procedures to ensure expenditures are allowable in accordance with federal regulations.

Of the 260 awards cited – 100 were closed prior to FY18, 144 were closed during FY18, 12 have been closed in FY19 and only 4 remain open. Transactions occurred on these awards during FY18 for various reasons including vendor credits, required benefits adjustments, award continuations not received, and late sponsor payments. In cases where post close-out adjustments are necessary the University reviews and updates the final financial report if required.

Updated Response: Implemented. The University continues to devote additional attention to close-out review and processing to improve the timeliness of project closeout. The University implemented additional procedures to monitor the timeliness of federal account close-outs and has made substantial progress in addressing closeouts. Post-Award has increased focus on closeout activities and has implemented dedicated closeout days to address the issue of closeout.

- 7. Review procedures for verifying participant eligibility and implement additional procedures to ensure the correct participant information is used to determine eligibility and calculate co-payments under the TANF and CCDF programs. (Repeated-2015)**

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Accepted or Implemented - continued

Finding: The University did not have proper procedures in place to verify participant eligibility and correctly calculate co-payments for the State's Child Care Assistance Program at the Illinois Child Care Resource Services (CCRS).

During testing of 60 beneficiary payments, from a statistically valid sample, disbursements totaling \$17,436 for TANF, auditors noted seven beneficiary payments totaling \$1,965 where CCRS did not calculate the co-payment correctly.

According to University officials, due to human error, correct income amounts were not used to determine copayment calculations.

Updated Response: Implemented. The University has implemented its corrective action of reviewing and updating its file review process as well as updating tools used to assist with income calculation. In addition, 2 positions were added whose main focus is to review all processing that takes place prior to submission to IDHS.

8. Review procedures for the subrecipient monitoring process to ensure the reviews are completed timely. Additionally, review procedures for comparing expense account descriptions to the actual expense incurred to determine whether the account coding is properly based on the description of the expense.

Finding: The University did not obtain timely documentation for subrecipient monitoring and incorrectly recorded subrecipients' costs to the Head Start Program.

During testing of the subrecipient monitoring for the Head Start Cluster totaling \$173,695, auditors noted two of five subrecipients tested, from a statistically valid sample, did not have timely documentation for subrecipient monitoring. The University did not complete its subrecipient monitoring process related to certification and receipt of financial statements for these two subrecipients who had year-ends of June 2017 and September 2017, respectively, until November 2018.

Additionally, one of five subrecipients tested, from a statistically valid sample, were incorrectly coded to subrecipients and should have been recorded as a vendor under the program.

According to University officials, delayed monitoring of the two subrecipients' audited financial statements occurred due to limited staff resources. The payment to the vendor was misclassified in Banner due to a clerical error.

Response: Accepted. The University agrees that the aspect of subrecipient monitoring involving the review of audited financial statements was not conducted in a timely manner. It should also be noted that the University performed other aspects of subrecipient monitoring throughout the duration of the awards.

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The University agrees the account code was misclassified due to a clerical error, however, the contract was executed properly as a vendor/contractor and treated as such per Uniform Guidance, Section §200.330. The misclassification had no impact on (1) the subsistence of the agreement or (2) the type of agreement executed.

Updated Response: Accepted. The University is in the process of recruiting additional staff to ensure subrecipient monitoring is conducted timely. The clerical account code error has been corrected in the University's financial system of record.

9. Review procedures relative to approving time reporting documentation. (Repeated-2017)

Finding: The University has inadequate documentation for approvals of the Health Center Program department payroll disbursements per its Clock-Work Time System procedures.

During testing of the payroll disbursements for the Health Center Program, auditors noted one of 40 disbursements tested, from a statistically valid sample, did not have adequate approval documentation. The Health Center Program department was unable to provide appropriate documentation of approvals for time charged to a federal project.

According to University officials, this issue was discovered during last year's (FY17) audit, where audit testing occurs in FY18. Thus, the instance cited above occurred prior to the University being aware of the issue and corrective action was not yet in place. The University's explanation is the same as last year, "the staff reviewing and approving the timesheets was unaware of the additional steps necessary to document approval."

Updated Response: Implemented. Health Center staff are in place to oversee that supervisory approvals are obtained. The Health Center is planning to implement a new timekeeping system in the next few years that will assist with ensuring the documentation of supervisory approvals. The University is periodically reviewing to ensure proper documentation is on file until a new timekeeping system is in place. The University and the Health Center will continue to review and update existing procedures for areas of improvement, as necessary.

10. Implement additional procedures to ensure documentation is complete for all patient encounters. If the patient refuses to sign the form this should be documented as such by MSHC staff. (Repeated-2017)

Finding: The University of Illinois at Chicago – Mile Square Health Center (MSHC) did not maintain adequate documentation and did not follow the MSHC policy and procedures consistently for the Health Center Cluster program.

During testing of the patient's financial assistance encounters for MSHC, auditors noted an error in one of 60 encounters, from a statistically valid sample, Sliding Fee Eligibility Forms for

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Accepted or Implemented - continued

patient encounters was not signed/approved by the patient per MSHC Management Policy and Procedure manual.

According to University officials, this issue was discovered during last year's (FY17) audit, where audit testing occurs in FY18. Thus, the instance cited above occurred prior to the University being aware of the issue and corrective action was not yet in place. The University's explanation is the same as last year, that missing patient signatures were "a result of staff confusion relative to a patient's option for financial self-declaration."

Updated Response: Implemented. The Health Center implemented a continuous training series for patient intake staff and established secondary application reviews for sliding and nominal fee visits. Software was purchased and implemented to assist with various patient follow-up and tracking, including portions relating to sliding fee scale forms. The Health Center continues to review and update existing procedures for areas of improvement, as necessary.

- 11. Follow formal review procedures to document that Return of Title IV calculations are being performed to minimize the likelihood errors may go undetected and not be corrected in a timely manner. (Repeated-2015)**

Finding: The University did not follow controls in place for reviewing the Return of Title IV calculations for students.

Out of the 22 students tested at University of Illinois at Chicago, from a statistically valid sample, auditors noted 21 (95%) students in which the University did not adequately document the review of Return of Title IV calculations.

According to University officials, the full implementation of the formal review did not occur until August 2018 due to hiring challenges.

Updated Response: Implemented. Effective August 2018, the University of Illinois at Chicago has implemented secondary formal review procedures for Return of Title IV Calculations for the 2018-2019 academic year.

- 12. Establish appropriate procedures to ensure that 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 of all contracts and lease agreements and that all applicable contracts and real estate leases are filed with the Office of the Comptroller of the State of Illinois in accordance with the State statutes and related guidelines. (Repeated-2003)**

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

During a review of 69 contracts, including purchase orders, executed during FY18, auditors noted the following:

- One contract (totaling \$4,650,000) was not approved by the University's Chief Executive Officer and Chief Legal Counsel out of 48 contracts sampled requiring this level of approval.
- Two exempt purchases (totaling \$1,708,281) were not published in the Illinois Procurement Bulletin, as required.
- Thirteen contracts (totaling \$5,987,407) were not submitted to the State Comptroller's Office, as required.

During a review of 25 real property leases executed during FY18, auditors noted the following:

- Three lease agreements (totaling \$2,765,535) did not contain the signature of the employee signing on behalf of the University Comptroller.
- Seven lease agreements (totaling \$817,052) did not contain the certification by the vendor to maintain and make available records to the State for audit purposes.

University officials stated given the high volume of contracts processed by the University and various touchpoints required, there are occasions when certain State and University requirements and University best business practices are not met. University management indicated the bulleted exceptions largely resulted from human error, reliance on timely return of documents from the other party, or process interpretation and oversight.

Response: Accepted. Corrective action measures have been put into place, or will be taken in connection with the recommendations in this finding to include training on all requirements outlined in this finding. Significant improvements have been made to our internal process controls, training and transaction monitoring, as evidenced by reduction of exceptions from 71 in FY17 to 26 exceptions in FY18. Continued corrective actions will be made.

13. **Strengthen controls to ensure *Notice of Observation Status* forms are retained for all patients admitted into the University Hospital. (Repeated-2017)**

Finding: The University of Illinois Hospital was unable to provide adequate records substantiating written notices were provided to patients within 24 hours after their admittance into the University Hospital indicating the patients were under observation status in accordance with the University of Illinois Hospital Act and University policies and procedures.

The University's Patient Admissions Policy and Procedure (Policy) requires the University to issue *Notice of Observation Status* (Form UI-5010) to patients after their admittance into the

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Accepted or Implemented - continued

University Hospital notifying they have been placed under outpatient observation status and have not been admitted as an inpatient. Also, the University requires patients or their legal representative to sign the Form UI-5010 to acknowledge the receipt and understanding of their outpatient observation status.

During testing, the University was unable to provide Form UI-5010s for three patients.

University officials stated the process involving level of care assignment is complex and involves many areas and clinicians within the health system through the use of various systems and technology. The University of Illinois Hospital (“Hospital”) has identified ongoing process opportunities in the workflow of level of care assignment and changes between outpatient, inpatient and observation status that occur during the course of patient encounter. While these workflows are properly managed in terms of final correct level of care assignment, the process to obtain signature on the observation notice on level of care changes post admission were not properly executed in all cases. In addition, certain deficiencies in processes exist driven through inadequate information systems technology workflows in the Hospital’s current electronic health record (EHR).

Response: Accepted. The University has made significant progress in capture rate of the notice of observation. For the audit covering fiscal year 2017, the compliance capture rate was 36%. For the audit covering fiscal year 2018, the compliance capture rate improved to 88%. This improvement occurred through the implementation of various internal process controls by the University after the audit identified the gap. The University will continue to monitor internal processes and continue to work on improving compliance with this requirement. Additionally, implementation of a new electronic health record (EHR) for the Hospital is set to occur in May 2020 which is expected to improve data capture and efficiency of process. Finally, there are occurrences where payer driven level of care changes can occur post discharge (i.e. after a patient has left the facility). The Statute did not contemplate such an occurrence which is being driven by insurance companies on a retrospective basis. Accordingly, there is no immediate action the Hospital can take for this portion of the activity. The University is working to seek a legislative remedy.

14. Implement procedures to ensure all employees submit time sheets as required by State law. (Repeated-2005)

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

During testing of payroll, auditors selected 27 employees across all three campuses and noted the following:

- Ten employees (five from the Urbana-Champaign campus, three from the Chicago campus, and two from the Springfield campus) did not file time reports as required by the State Officials and Employees Ethics Act. University management stated faculty,

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postdoctoral employees, instructors, and lecturers continue to track their time using a “negative” timekeeping system whereby the employee is assumed to be working unless noted otherwise.

- Four employees (two from the Urbana-Champaign campus and two from the Chicago campus) under the Academic Professional employee class did not properly submit time reports, as required by the University policy. Upon further inquiry, we noted three of these four noted employees (one from Urbana-Champaign campus and two from the Chicago campus) did not submit time reports for the entire fiscal year 2018.

The State Officials and Employees Ethics Act required the Illinois Board of Higher Education (IBHE), with respect to State employees of public universities, to adopt and implement personnel policies that require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour; contractual State employees may satisfy the time sheets requirement by complying with the terms of their contract, which shall provide for a means of compliance with this requirement. The IBHE adopted personnel policies for public universities on February 3, 2004 in accordance with the Act. The University has not incorporated these policies into the University’s policies.

The University Reporting Policy for the State Officials and Employees Ethics Act (SOEEA) requires all Academic Professional and Civil Service employees to document all hours worked, using the University’s Online Reporting tool, while conducting official University business.

University officials stated they have not incorporated policies regarding time reporting for all employees as they are having continued dialogue with the academic leadership on this matter. In the meantime, the University has implemented several mechanisms to comply with the requirement for the majority of their employees such as training and weekly reminder emails; however, trying this has proven difficult to achieve full compliance due to the thousands of employees with competing priorities.

Response: Accepted. Regarding faculty and post-doctoral exceptions, there is ongoing dialogue with the academic leadership at each university regarding further implementation of this requirement. For academic professional and exempt civil service exceptions, the University of Illinois System continues to take steps to address any issues.

- 15. Review current process for reviewing and approving travel card transactions and consider any changes necessary to ensure charges are made in accordance with University policies and procedures. (Repeated-2016)**

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

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Accepted or Implemented - continued

The University operates a travel card program allowing individuals traveling for University business to pay for qualified travel expenses and business meals, which are then directly reimbursed by the University on a monthly basis. The University's policies require employees assigned a travel card to complete training on University travel card policies, and sign an agreement stipulating they will use the card in accordance with the University policy. The University's policies also require transactions incurred on a travel card to be approved in the University's travel card system by the individual cardholder and an assigned reviewer. However, during test work over 60 travel card transactions (totaling \$303,612), auditors noted the following:

- Three transactions (totaling \$32,864) exceeded the cardholders' single transaction limit amount. The required *T-Card Exception Request Form(s)* were not filed and approved prior to using the T-Cards for those purchases;
- One transaction (totaling \$1,904) for lodging related to a purchase (totaling \$8,927) that was an unallowable expense and exceeded the cardholders' single transaction limit amount. The required *T-Card Exception Request Form* was not filed prior to using the T-Card for this purchase; and
- One transaction (totaling \$4,709) related to a purchase (totaling \$5,398) that was paid in two installments, exceeding the cardholder's single transaction limit of \$4,999. The required *T-Card Exception Request Form* was not filed prior to using the T-Cards for this purchase.

The University has approximately 3,737 active travel cards, and the travel card expenditures paid for the year ended June 30, 2018 totaled \$38,026,707.

University officials stated the exceptions resulted from human error at the individual and/or unit level by not following established policies and procedures.

Updated Response: Implemented. A Department Card Manager (DCM) mandatory certification program was recently implemented, which greatly improves training and awareness to applicable policies. Additionally, the University continues to enhance T-card transaction monitoring and cardholder training efforts.

16. Comply with the requirements of the Illinois Health Policy Center Act or seek legislative remedy. (Repeated-2017)

Finding: The University did not comply with the requirements of the Illinois Health Policy Center Act.

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As of June 30, 2018, the University has not created the Illinois Health Policy Center (Center) as required by the Act. The purpose of the Center is to develop and implement policies to improve the health and healthcare of the people of Illinois.

University officials stated HB 3286 was passed by the Illinois General Assembly and signed into law by the Governor as Public Act 095-0986, the Illinois Health Policy Center Act. The companion legislation (HB 6299) that would have funded the proposed Health Policy Center was never passed by the General Assembly. Similarly, the Advisory Panel envisioned in Section 20 of the Act was never created by the General Assembly.

Updated Response: Accepted. SB1499 was introduced by Senator Scott Bennett to request repeal of Illinois Health Policy Center Act (110 ILCS 430/10). The University is waiting to see if SB1499 will be acted on during the fall veto session.

17. Review and implement stronger internal controls in order to monitor and maintain the accounts payable master vendor file. (Repeated-2016)

Finding: The University has inadequate controls in place to monitor and maintain the accounts payable master vendor file.

During a review of the University's accounts payable master vendor file (61,084 vendors), auditors noted there were 6,536 vendors with no activity in the past three fiscal years. Also, there were two duplicate records representing one vendor. The vendor had the same name but was given different vendor identification numbers in the accounts payable system.

University officials stated the duplicate vendor record was missed during ongoing vendor maintenance procedures. Additionally, the automated process that inactivates vendor records not used in the past three fiscal years didn't include the total population of vendors.

Updated Response: Implemented. Enhancements to the Accounts Payables master vendor file procedures include revisions to automated IT processes which inactivate vendors not used in the last 3 years.

18. Review the activities of the accounting entities and ensure that fees charged for services are sufficient to cover expenditures and ensure that subsidies between accounting entities do not occur.

Finding: The University did not adhere to the University Guidelines (1982) of the Illinois Legislative Audit Commission (LAC).

During a review of the Entity Financial Statements and Related Information of the University report on Supplementary Financial Information and Special Data Requirements for the year ended June 30, 2018, auditors noted that for the Departmental Activities – Professional Development Activities accounting entity, the University Springfield (UIS) campus reflected

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Accepted or Implemented - concluded

a net position deficit as of June 30, 2017 and 2018, thereby causing a subsidy of funds to occur for that entity.

University officials stated revenues for this accounting entity have declined in the past two fiscal years. While efforts have been made to reduce expenses, this reduction effort has been offset by the reduced income.

Response: Accepted. The University has controls in place to identify and remediate deficits within its self-supporting accounting entities. Further, controls are also in place to closely monitor and prevent inappropriate transfers (subsidies) between self-supporting accounting entities. Remediation plans are constructed when the University identifies deficits in these entities. However, in some cases, plans are implemented to eliminate a deficit over a period of time that may exceed a single year.

The University of Illinois at Springfield had already established a deficit reduction plan to eliminate the deficit in the noted self-supporting accounting entity over several fiscal years by increasing revenues and monitoring expenses.

The University will examine its controls over this area and look for reasonable opportunities for improvement.

Updated Response: Implemented. Corrective action includes additional monitoring of recurring accounting entity deficits.

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 5 calendar days after the contract is

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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 calendar days before the public hearing.

A chief procurement officer making such emergency purchases is required to file statements with the Procurement Policy Board and the Auditor General setting forth the amount expended (or an estimate of the total cost), the name of the contractor involved, and the conditions and circumstances 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 22 affidavits or statements for emergency purchases in FY18 and withdrew two of the emergency purchases. The remaining 20 purchases totaled \$9,462,803.65 as follows:

- \$ 4,137,705.55 for repairs,
- 2,542,652.60 for equipment,
- 1,756,813.43 for temporary staff,
- 791,045.07 for equine center, and
- 234,587.00 for supplies.

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 10, 2018 the University of Illinois indicated that no employees spent the majority of working time at locations other than official headquarters.

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APPENDIX A

Summary of Enrollment and Employment

Enrollment and Cost

| | <u>Urbana</u> | | <u>Chicago</u> | | <u>Springfield</u> | |
|---------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | <u>Under-graduate</u> | <u>Grad. & Profess.</u> | <u>Under-graduate</u> | <u>Grad. & Profess.</u> | <u>Under-graduate</u> | <u>Grad. & Profess.</u> |
| 2018 FTE Enrollment | 35,254 | 16,507 | 18,241 | 8,450 | 2,296 | 1,501 |
| 2017 FTE Enrollment | 35,149 | 15,472 | 16,956 | 8,626 | 2,424 | 1,780 |
| 2018 Cost per FTE Student | 11,234 | 17,195 | 9,927 | 18,809 | 12,919 | 12,680 |
| 2017 Cost per FTE Student | 9,901 | 16,120 | 10,547 | 18,198 | 11,853 | 10,354 |

Employment

| <u>FTE Employees</u> | <u>Fall Term FY18</u> | | | <u>Fall Term FY17</u> | | |
|---------------------------------|-----------------------|----------------|--------------------|-----------------------|----------------|--------------------|
| | <u>Urbana</u> | <u>Chicago</u> | <u>Springfield</u> | <u>Urbana</u> | <u>Chicago</u> | <u>Springfield</u> |
| Faculty | 3,085 | 2,685 | 261 | 3,120 | 2,647 | 264 |
| Academic Professionals | 4,583 | 2,731 | 228 | 4,518 | 2,696 | 234 |
| Support Staff | 4,364 | 6,646 | 311 | 4,410 | 6,501 | 317 |
| Other | 2,664 | 2,002 | 126 | 2,666 | 2,011 | 121 |
| Total by Campus | 14,696 | 14,064 | 926 | 14,714 | 13,855 | 936 |
| Employment, all campuses | | | 29,686 | | | 29,505 |

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APPENDIX B

Summary of Appropriations and Expenditures and Income Fund

| | FY18 | FY17 |
|---|-----------------------|-----------------------|
| TOTAL APPROPRIATIONS | \$ 588,994,600 | \$ 655,816,100 |
| <u>EXPENDITURES</u> | | |
| <u>General Revenue Fund</u> | | |
| UI Hospital | \$ 39,588,800 | \$ - |
| Dixon Springs | - | 301,300.00 |
| Dentistry | - | 321,100.00 |
| Personal Services | - | 184,612,500.00 |
| State Scientific Survey | 14,803,100.00 | 7,750,300.00 |
| Commodities | - | 651,762.00 |
| Contractual Services | - | 17,353,838.00 |
| Public Policy Institute | - | 1,146,800.00 |
| Fund Expenditures | \$ 54,391,900 | \$ 212,137,600 |
| <u>Educational Assistance Fund</u> | | |
| Hispanic Center for Excellence | \$ 660,600.00 | \$ 750,900 |
| UI Hospital | - | 20,177,300 |
| Dixon Springs | 271,200 | - |
| Dentistry | 289,000 | - |
| State Scientific Survey | - | 8,697,600 |
| Personal Services | 456,620,900 | 368,633,600 |
| Awards & Grants | 5,329,100 | - |
| Contractual services | 32,550,800 | - |
| Health Insurance | 21,899,800 | 37,339,800 |
| Medicare | 8,566,200 | 1,218,800 |
| Public Policy Institute | 1,032,100 | - |
| Labor and Employment Relations Degree Programs | 641,600 | 641,600 |
| Labor and Employment Relations Certificate Programs | 752,700 | 752,700 |
| Fund Expenditures | \$ 528,614,000 | \$ 438,212,300 |
| Fire Prevention Fund | 4,338,700 | 3,816,200 |
| State College and University Trust Fund | 186,625 | 181,275 |
| Hazardous Waste Research Fund | 500,000 | 500,000 |
| Emergency Public Health Fund | 200,000 | 200,000 |
| Used Tire Management Fund | 200,000 | 200,000 |
| General Professions Dedicated Fund | 500,000 | 500,000 |
| TOTAL EXPENDITURES | \$ 588,931,225 | \$ 655,747,375 |

APPENDIX B - continued

University Income Fund

| | <u>FY18</u> | <u>FY17</u> |
|---|------------------------------|------------------------------|
| Revenues: | | |
| Net student tuition and other charges | \$ 1,218,823,137 | \$ 1,177,923,332 |
| Other sources | 30,689,770 | 20,593,317 |
| Total Revenues | <u>1,249,512,907</u> | <u>1,198,516,649</u> |
| Provision for bad debts | (5,593,795) | (6,271,961) |
| Net Revenues | <u>1,243,919,112</u> | <u>1,192,244,688</u> |
| Add (deduct) net change in: | | |
| Cash | 1,501,027 | (142,178) |
| Accounts receivable | (676,353) | 231,146 |
| Prepaid charges | (191,457) | (74,956) |
| Accrued investment income | (861,129) | (349,254) |
| Unearned revenue | 2,474,594 | (1,050,455) |
| Accounts payable | (2,899) | 280 |
| Net Change in Assets & Liabilities | <u>2,243,783</u> | <u>(1,385,417)</u> |
| Fiscal Year Receipts | <u>\$ 1,246,162,895</u> | <u>\$ 1,190,859,271</u> |
| Expenditures: | | |
| Unemployment compensation | \$ 344,203 | \$ 322,283 |
| Permanent improvements | 745,114 | 186,637 |
| Personal services | 641,768,930 | 749,764,526 |
| Awards and grants | 156,998,753 | 154,793,411 |
| Travel | 4,651,734 | 4,472,299 |
| Commodities | 12,121,454 | 11,661,188 |
| Contractual services | 106,237,155 | 206,975,028 |
| Equipment | 24,765,070 | 38,130,250 |
| Telecommunications | 8,882,901 | 8,831,437 |
| Operation of automotive equipment | 888,021 | 973,372 |
| Workers' compensation | 5,491,739 | 6,378,757 |
| Health Insurance | 2,993,400 | 12,446,600 |
| Medicare | 10,026,146 | 17,992,111 |
| Other Fringe Benefits | 5,067,387 | 4,605,463 |
| Transfers for capital projects | 176,434,689 | 5,670,788 |
| Transfers for debt payments | 303,694 | 263,908 |
| Total Expenditures | <u>1,157,720,390</u> | <u>1,223,468,058</u> |
| Increase (Decrease) in Fund Balance | <u>88,442,505</u> | <u>(32,608,787)</u> |
| Fund balance at beginning of budget fiscal year | 206,550,477 | 37,203 |
| Prior year adjustments made after final report was completed | (113,173) | (7,264) |
| Beginning balance as adjusted | <u>206,437,304</u> | <u>29,939</u> |
| Unadjusted fund balance at end of budget fiscal year | 294,879,809 | (32,578,848) |
| Fiscal 2016 expenditures charged to fiscal 2017 appropriation | - | 239,129,325 |
| Adjusted fund balance at end of budget fiscal year | <u><u>\$ 294,879,809</u></u> | <u><u>\$ 206,550,477</u></u> |

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APPENDIX C

Statement of Revenues, Expenses, and Changes in Net Position

| <u>Operating Revenues</u> | <u>FY18</u> | <u>FY17</u> |
|---|---------------------------|---------------------------|
| Student tuition and fees, net | \$ 1,193,322,000 | \$ 1,168,498,000 |
| Federal appropriations | 21,309,000 | 18,264,000 |
| Federal grants & contracts | 652,271,000 | 672,091,000 |
| State of Illinois grants & contracts | 64,942,000 | 71,347,000 |
| Private and other agency gifts, grants & contracts | 143,041,000 | 146,724,000 |
| Educational activities | 338,287,000 | 309,371,000 |
| Auxillary enterprises, net | 416,319,000 | 409,484,000 |
| Hospital and other medical activities | 784,909,000 | 749,504,000 |
| Medical Service Plan | 256,117,000 | 261,072,000 |
| Independent operations | 11,533,000 | 10,729,000 |
| Interest and service charges on student loans | 1,904,000 | 1,853,000 |
| Total Operating Revenues | \$ 3,883,954,000 | \$ 3,818,937,000 |
| <u>Operating Expenses</u> | | |
| Instruction | \$ 1,583,388,000 | \$ 1,492,069,000 |
| Research | 756,032,000 | 788,526,000 |
| Public service | 477,291,000 | 481,976,000 |
| Academic support | 613,615,000 | 570,787,000 |
| Student services | 235,675,000 | 217,887,000 |
| Institutional support | 307,669,000 | 308,934,000 |
| Operation and maintenance of plant | 330,762,000 | 309,313,000 |
| Scholarships and fellowships | 289,134,000 | 275,955,000 |
| Auxillary enterprises | 406,300,000 | 402,930,000 |
| Hospital and medical activities | 1,044,824,000 | 992,956,000 |
| Independent operations | 12,170,000 | 9,754,000 |
| Depreciation and amortization | 255,005,000 | 262,534,000 |
| Total Operating Expenses | \$ 6,311,865,000 | \$ 6,113,621,000 |
| Operating Loss | \$ (2,427,911,000) | \$ (2,294,684,000) |
| <u>Nonoperating Revenues (Expenses)</u> | <u>FY18</u> | <u>FY17</u> |
| State appropriations | \$ 888,361,000 | \$ 355,792,000 |
| Transfer to DHFS Hospital Services Fund | (20,000,000) | (20,177,000) |
| Private gifts | 193,680,000 | 190,183,000 |
| Grants, nonoperating | 244,332,000 | 110,561,000 |
| On-behalf for fringe benefits | 1,710,488,000 | 1,611,444,000 |
| Net investment income (net of expense of \$6.1 million) | 58,082,000 | 36,376,000 |
| Net increase in the fair value of investments | 7,704,000 | 50,713,000 |
| Interest expense | (65,038,000) | (65,734,000) |
| Loss on disposals of capital assets | (2,755,000) | (1,990,000) |
| Other nonoperating revenues, net | 29,096,000 | 55,293,000 |
| Net nonoperating revenues (expenses) | \$ 3,043,950,000 | \$ 2,322,461,000 |
| Income before other revenues | \$ 616,039,000 | \$ 27,777,000 |
| Capital State appropriations | 12,858,000 | 13,622,000 |
| Capital gifts and grants | 5,239,000 | 4,979,000 |
| Private gifts for endowment purposes | 4,197,000 | 6,327,000 |
| Increase in net position | \$ 638,333,000 | \$ 52,705,000 |
| Net position, beginning of Year | \$ 4,374,586,000 | \$ 4,321,881,000 |

| | | |
|---|-------------------------|-------------------------|
| Cumulative effect of change in accounting principle | (1,599,654,000) | - |
| Net position, beginning of year, as adjusted | 2,774,932,000 | 4,321,881,000 |
| Net position, end of year | <u>\$ 3,413,265,000</u> | <u>\$ 4,374,586,000</u> |

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APPENDIX D

Accounts Receivable

| Current Unrestricted Funds | FY18 | FY17 |
|--|--------------------------------|--------------------------------|
| Student tuition and other charges | \$ 48,119,685 | \$ 47,913,029 |
| Other unrestricted funds | 41,145,243 | 18,363,687 |
| Entity activities: | | |
| Auxiliary enterprises | 17,590,431 | 16,624,961 |
| Hospitals & clinics | 384,063,847 | 432,277,858 |
| Other departmental activities | 60,265,166 | 54,180,670 |
| Total accounts receivable | <u>\$ 551,184,372</u> | <u>\$ 569,360,205</u> |
| Allowance for doubtful accounts: | | |
| Student tuition and other charges | \$ (20,371,647) | \$ (20,841,344) |
| Other unrestricted funds | (380,295) | (1,684,473) |
| Auxiliary enterprises | (6,090,991) | (6,291,757) |
| Hospital and clinics | (211,733,750) | (268,181,669) |
| Other department activities | (15,539,273) | (13,906,745) |
| Total Allowance for doubtful accounts | <u>\$ (254,115,956)</u> | <u>\$ (310,905,988)</u> |
| Current Unrestricted Funds Receivable, Net | <u>\$ 297,068,416</u> | <u>\$ 258,454,217</u> |
| Current Restricted Funds | | |
| Medical Service Plan | \$ 94,020,107 | \$ 94,252,178 |
| Grants, contracts, & gifts | 167,118,443 | 201,431,457 |
| Federal appropriations | 5,737,551 | 5,305,729 |
| Total accounts receivable | <u>\$ 266,876,101</u> | <u>\$ 300,989,364</u> |
| Allowance for doubtful accounts | | |
| Medical Service Plan | (30,831,324) | (24,823,669) |
| Grants, contracts and gifts | (2,530,382) | (2,870,618) |
| Current Restricted Funds Accounts Receivable, Net | <u>\$ 233,514,395</u> | <u>\$ 273,295,077</u> |
| Plant Funds | <u>\$ 4,791,968</u> | <u>\$ 7,483,256</u> |
| Total Accounts Receivable, Net | <u>\$ 535,374,779</u> | <u>\$ 539,232,550</u> |
| Total Notes Receivable, Net | <u>\$ 55,220,068</u> | <u>\$ 58,922,164</u> |
| Total Accounts & Notes Receivable, Net | <u>\$ 590,594,847</u> | <u>\$ 598,154,714</u> |

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APPENDIX E

Summary of Capital Assets

| | Balance at July 1, 2017 | Additions | Retirements | Transfers | Balance at June 30, 2018 |
|--|------------------------------------|-----------------------|------------------------|-------------------------|-------------------------------------|
| Nondepreciable Capital Assets | | | | | |
| Land | \$ 136,472,036 | \$ 1,903,933 | \$ (1,800) | \$ - | \$ 138,374,169 |
| Construction in progress | 280,143,606 | 180,029,157 | - | (193,139,989) | 267,032,774 |
| Building improvements | 7,203,127 | - | (143,210) | - | 7,059,917 |
| Inexhaustible collections | 23,460,061 | 675,675 | (15,039) | - | 24,120,697 |
| Equipment (greater than \$499 less than \$5,000) | 362,063,283 | 30,386,311 | (23,628,220) | - | 368,821,374 |
| Total nondepreciable capital assets | \$ 809,342,113 | \$ 212,995,076 | \$ (23,788,269) | \$ (193,139,989) | \$ 805,408,931 |
| Depreciable Capital Assets | | | | | |
| Buildings | 4,471,641,831 | - | (492,491) | 175,736,414 | 4,646,885,754 |
| Improvements and infrastructure | 730,772,426 | - | - | 7,016,582 | 737,789,008 |
| Equipment | 1,260,797,080 | 63,887,651 | (37,928,909) | 2,542,634 | 1,289,298,456 |
| Exhaustible collections/Library materials | 654,830,609 | 21,255,642 | (17,526,159) | - | 658,560,092 |
| Software | 188,552,867 | - | - | 7,844,359 | 196,397,226 |
| Subtotal | \$ 7,306,594,813 | \$ 85,143,293 | \$ (55,947,559) | \$ 193,139,989 | \$ 7,528,930,536 |
| Less accumulated depreciation | 3,995,370,071 | 255,005,035 | (53,209,747) | - | 4,197,165,359 |
| Total net depreciable capital assets | 3,311,224,742 | (169,861,742) | (2,737,812) | 193,139,989 | 3,331,765,177 |
| Total Capital Assets | \$ 4,120,566,855 | \$ 43,133,334 | \$ (26,526,081) | \$ - | \$ 4,137,174,108 |

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APPENDIX F

Summary of Funds Provided by and to the Foundation

| | FY18 | FY17 |
|---|---------------------------|---------------------------|
| Funds and services provided by the University | \$ 10,299,091 | \$ 9,632,521 |
| Unrestricted Funds | 129,039 | 84,753 |
| Restricted only as to campus, college or department and generally available for ongoing university operations: | | |
| Provided to a particular campus | 689,206 | 678,844 |
| Provided to a particular unit | 62,834,391 | 61,959,172 |
| Subtotal | \$ 63,652,636 | \$ 62,722,769 |
| Restricted by donor: | | |
| Provided for student support | 30,924,191 | 28,178,468 |
| Provided for faculty support | 13,825,493 | 12,003,528 |
| Provided for certain instructional, research, and public service programs | 65,629,598 | 55,273,670 |
| Provided for physical facilities additions or improvements | 33,165,267 | 37,317,098 |
| Provided for other restricted purposes | 1,215,736 | 1,170,496 |
| Total funds provided to the University | \$ 208,412,921 | \$ 196,666,029 |

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APPENDIX G

Tuition and Fee Waivers

2017 - 2018 School Year

| | Undergraduate | | | Graduate | | |
|--------------|---------------------------|------------------------|--------------------------|----------------------------|------------------------|--------------------------|
| | Tuition Wavers | Fee Waivers | Total Waivers | Tuition Waivers | Fee Waivers | Total Waivers |
| Urbana | \$ 36,206,000 | \$ 1,668,000 | \$ 37,874,000 | \$ 185,348,000 | \$ 11,406,000 | \$ 196,754,000 |
| Chicago | 9,171,000 | 298,000 | 9,469,000 | 70,179,000 | 8,185,000 | 78,364,000 |
| Springfield | 2,380,000 | 172,000 | 2,552,000 | 2,284,000 | 188,000 | 2,472,000 |
| Total | \$ 47,757,000 | \$ 2,138,000 | \$ 49,895,000 | \$ 257,811,000 | \$ 19,779,000 | \$ 277,590,000 |

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APPENDIX H

Health Services Facilities System
Statement of Revenues, Expenses, and Changes in Net Position

| <u>Operating Revenues</u> | <u>FY18</u> | <u>FY17</u> |
|---|--------------------------------|--------------------------------|
| Net patient service revenues | \$ 721,081,781 | \$ 672,724,981 |
| Revenues recognized on behalf of the System | 28,018,039 | 29,197,700 |
| Other revenues | 42,198,886 | 37,540,591 |
| Total Operating Revenues | <u>\$ 791,298,706</u> | <u>\$ 739,463,272</u> |
| | | |
| <u>Operating Expenses</u> | | |
| Salaries & wages | 332,524,265 | 315,690,489 |
| Fringe benefits | 323,092,114 | 298,438,110 |
| Supplies & general expenses | 393,141,666 | 369,687,746 |
| Administrative services | 13,056,116 | 13,859,481 |
| Depreciation & amortization | 21,498,679 | 20,845,815 |
| Total Operating Expenses | <u>1,083,312,840</u> | <u>1,018,521,641</u> |
| Operating Income (Loss) | <u>\$ (292,014,134)</u> | <u>\$ (279,058,369)</u> |
| | | |
| <u>Nonoperating Revenues (Expenses)</u> | | |
| On-behalf payments for fringe benefits | \$ 316,872,252 | \$ 292,263,906 |
| State appropriations | 57,595,400 | 20,177,300 |
| Transfer of State appropriations to the Illinois Hospital Services Fund | (20,000,000) | (20,177,300) |
| Interest on capital asset related debt | (4,365,815) | (4,054,283) |
| Investment income (net of related expenses) | 2,878,330 | 3,767,744 |
| Loss on disposal of capital assets | (59,105) | (127,993) |
| Other nonoperating revenues (expenses), net | 437,544 | 60,472 |
| Net Total Nonoperating Revenues (Expenses) | <u>353,358,606</u> | <u>291,909,846</u> |
| | | |
| Increase in Net Position | <u>61,344,472</u> | <u>12,851,477</u> |
| | | |
| Net Position, Beginning of the Year | <u>\$ 327,692,411</u> | <u>\$ 314,840,934</u> |
| Net Position, End of the Year | <u>\$ 389,036,883</u> | <u>\$ 327,692,411</u> |