

UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM

(A Segment of the University of Illinois)

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

For the Year Ended June 30, 2020

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

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

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

Government Auditing Report Summary

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

Summary of Findings

The auditors identified three matters involving the System's internal control over financial reporting that they considered to be a material weakness or a significant deficiency, which are described in the accompanying schedule of findings and responses on pages 5 through 13 of this report. Further, the auditors identified one noncompliance matter.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Report</u>	<u>Description</u>	<u>Finding Type</u>
2020-001	5	New	Inadequate Internal Controls over Census Data	Material Weakness and Noncompliance
2020-002	10	2019/2009	Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues	Significant Deficiency
2020-003	12	2019/2008	Inadequate Controls over University Procurement Card Transactions	Significant Deficiency

Exit Conference

A request to waive a formal exit conference was made by the University in a correspondence dated April 22, 2021. Responses and recommendations were provided by the University's Office of Business and Financial Services in correspondence dated February 17, 2021 and May 4, 2021.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
University of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the University of Illinois Auxiliary Facilities System (the "System"), a segment of the University of Illinois, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated May 11, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2020-001.

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the System's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2020-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2020-002 and 2020-003 to be significant deficiencies.

Auxiliary Facilities System's Response to Findings

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
May 11, 2021

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2020-001. Finding: Inadequate Internal Controls over Census Data

The University of Illinois (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS and CMS to its internal records to establish a base year of complete and accurate census data.
- After establishing a base year, the University had not developed a process to annually obtain from SURS and CMS the incremental changes recorded by SURS and CMS in their census data records and reconcile these changes back to the University's internal supporting records.

Upon due consideration and based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census data related to the University. Even given these two exceptions, we performed detail testing and certain data analysis tests and noted the following additional exceptions:

- 1) We conducted data matches of (1) individuals pulled from the University's records whom the University believed should have been participating in SURS during the census data accumulation period throughout Fiscal Year 2018 and (2) the University's faculty members teaching a class during the census data accumulation period throughout Fiscal Year 2018 to SURS' records. As a result of this testing, we identified 18 individuals who had been improperly excluded from participating in SURS, which resulted in these people not having any employee contributions collected by the University and reported

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to SURS during the census data accumulation period throughout Fiscal Year 2018. Additionally, we identified one individual who did not qualify to participate in SURS. As this person had been deemed SURS-eligible, the University collected and reported employee contributions to SURS during the census data accumulation period throughout Fiscal Year 2018.

- 2) We performed an analysis of transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2018, noting the following problems:
 - Seventy-two of 792 (9%) employees reported as hired had actually been hired in other fiscal years. SURS determined the total potential impact to each employee's total service credit was it could be off by one-quarter to 2.25 years.
 - Two of six (33%) employees reported as laid off by the University were untimely reported to SURS by the University. SURS determined the total potential impact to each former employee's total service credit was it could be off by 1 to 1.75 years.
 - Forty-four of 467 (9%) employees with a departure on a leave of absence had the start date of the leave of absence untimely reported to SURS by the University. SURS determined the total potential impact to each of these employee's total service credit was it could be off by one-quarter to 9.75 years.
 - Thirty-seven of 362 (10%) employees with a return from a leave of absence had the end date of the leave of absence untimely reported to SURS by the University. SURS determined the total potential impact to each of these employee's total service credit was it could be off by one-quarter to 8.5 years.
- 3) As of the end of the census data accumulation year on June 30, 2018, we identified 25 employees where each employee's associated termination or rehire date(s) had been untimely reported to SURS. While these employees were all associated with the University at June 30, 2018, some or all of these untimely reports may have occurred at other public universities and community colleges across the State. SURS determined these errors resulted in the employees being misclassified between the active, retired, and inactive member categories within SURS. The total potential impact to each former employee's total service credit was it could be off between 0.0 and 1.75 years.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from

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the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

- 1) not a student employed on a less than full-time temporary basis;
- 2) not receiving a retirement or disability annuity from SURS;
- 3) not on military leave;
- 4) not eligible to participate in the Federal Civil Service Retirement System,
- 5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;
- 6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
- 7) not a patient in a hospital or home;
- 8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
- 9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
- 10) currently on lay-off status of not more than 120 days after the lay-off date;
- 11) not on an absence without pay of more than 30 days; and,
- 12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the Internal Revenue Service's substantial presence test and (2) became an employee on and after July 1, 1991.

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to

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provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

University officials stated the census data reconciliations had not been completed because they believed their existing processes and controls would result in materially correct census data being provided to SURS and CMS. University officials also stated certain transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2018 were not reported in a timely manner for various reasons. Examples of such events included employees with certain visa types which are retroactively eligible for SURS after meeting the Internal Revenue Service's substantial presence test, which crossed fiscal years; employees with multiple temporary jobs resulting in four months or an academic term of continuous employment required retroactive SURS eligibility, which crossed fiscal years; and certain disputed workers compensation events were resolved through legal processes, which created significant delays and resulted in retroactive workers compensation leave that crossed multiple fiscal years. Other transactions impacting this census data accumulation period were not reported in a timely manner because of coding issues used in certain automated processes and because of significant workload at the unit level.

Failure to ensure complete and accurate census data was reported to SURS and CMS could have resulted in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS and CMS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the University's pension and OPEB balances, which could result in a material misstatement of these amounts. (Finding Code No. 2020-001)

Recommendation

We recommend the University implement controls to ensure census data events are timely and accurately reported to SURS and CMS.

Further, we recommend the University work with SURS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

Additionally, we recommend the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

Finally, due to the interrelatedness of SURS, the mobility of employees to change their employers within SURS, and a specific noncompliance matter regarding whether a person is eligible to participate in SURS identified during testing at Governors State University (please see Governors

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State University's Fiscal Year 2020 financial audit report for more information), we recommend the University work with both SURS and Governors State University to identify employees initially hired by Governors State University with a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who had not met the Internal Revenue Service's substantial presence test and started employment on and after July 1, 1991.

University Response

Accepted. With over 70,000 employees, the University has numerous electronic and manual controls in place to ensure that employees who are eligible for SURS and OPEB are identified correctly. The University also has numerous controls over census data for the University's 30,000 employees eligible for SURS and OPEB benefits that the University believes would prevent a material misstatement of the University's pension and OPEB balances.

Certain transactions impacting employee service credit are not able to be reported to SURS in the fiscal year to which they were incurred due to legitimate reasons. For example, employees with certain visa types can be retroactively eligible for SURS after meeting the Internal Revenue Service's substantial presence test, which can cross fiscal years. Employees with multiple temporary jobs can result in four months of continuous employment that requires retroactive SURS eligibility, which can cross fiscal years. Additionally, disputed workers compensation events might be resolved through legal processes, which can create significant delays and result in retroactive workers compensation leave that crosses multiple fiscal years.

However, the University acknowledges its controls over census data did not always ensure timely reporting of other employee events to SURS and CMS. Additionally, controls for determining pension and OPEB eligibility did not always operate as intended. The University will work with SURS and CMS to develop census data reconciliation processes, will enhance controls to improve the timeliness of reporting certain employee events impacting pension and OPEB census data, and will strengthen processes for determining pension and OPEB eligibility.

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2020-002. Finding: Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues

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

During our audit, we noted the University's procedures to identify and record prepaid expenses include a review of all cash disbursements by University Payables (UPAY). UPAY identifies expense transactions that pertain to multiple fiscal years and codes them for further review by University Accounting and Financial Reporting (UAFR). UAFR will then post year-end journal entries to appropriately defer the identified expense transactions. In addition to the review of all cash disbursements by UPAY, UAFR also requires individual units to identify and report known accrual and deferral transactions at fiscal year-end for certain fund types. We also noted the University's year-end accounts payable procedures include specifically reviewing cash disbursements made subsequent to year-end through the end of October to determine which accounting period the related expense transactions pertain.

In relation to our test work over expense transactions, we reviewed 197 cash disbursement transactions (totaling \$59,187,872), 60 P-Card expense transactions (totaling \$454,937), and 60 T-Card expense transactions (totaling \$383,536) recorded during the fiscal year. In relation to our test work over revenue transactions, we reviewed 60 cash receipt transactions recorded during the fiscal year (totaling \$83,225,778). We also reviewed 10 cash disbursements occurring subsequent to year-end (totaling \$112,741,739). Additionally, we separately reviewed 12 internal journal voucher transactions recorded during the fiscal year (totaling \$822,059,884).

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

University of Illinois transactions

- Two general and service expense cash disbursements (totaling \$1,417,673) that were recorded as expenses for fiscal year ended June 30, 2020, should have been partially accrued as of June 30, 2019 at an amount of \$1,252,430;
- One operations of auto expense (totaling \$534) that was recorded as expense for fiscal year ended June 30, 2020, should have been fully accrued as of June 30, 2017;
- One general expense (totaling \$2,522) that was recorded as expense for fiscal year ended June 30, 2020, should have been fully accrued as of June 30, 2018;
- One general expense (totaling \$13,074) that was recorded as expense for fiscal year ended June 30, 2020, should have been fully accrued as of June 30, 2019; and
- One cash receipt (totaling \$931,999) that was recorded as operating revenue for the fiscal year ended June 30, 2020, should have been fully accrued as of June 30, 2019.

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University of Illinois P-card transactions

- Two general expenses (totaling \$9,512) that were recorded as expenses for fiscal year ended June 30, 2020, should have been fully accrued as of June 30, 2019; and
- One general expense (totaling \$499) that was recorded as an expense for fiscal year ended June 30, 2020, should have been partially deferred as of June 30, 2020 at an amount of \$309, and then recognized as expenses for the subsequent fiscal years.

University of Illinois T-card transactions

- Two general cash disbursements (totaling \$10,364) that were recorded as expenses for fiscal year ended June 30, 2020, should have been fully deferred as of June 30, 2020.

Generally accepted accounting principles require transactions to be reported in the period they are incurred. Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. The University's system of internal controls should include procedures to ensure expenses and revenues are recognized in the appropriate reporting period.

In discussing these conditions with University personnel, they stated that 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.

Failure to accurately analyze and record cash receipts and disbursements within the proper fiscal year may result in the misstatement of the University's financial statements. (Finding Code No. 2020-002, 2019-001, 2018-001, 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-01, 11-01, 10-03, 09-03)

Recommendation:

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

University Response:

Accepted. The University will continue to implement the necessary corrections to address the recommendation in this finding.

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2020-003. Finding: Inadequate Controls over University Procurement Card Transactions

The University of Illinois (the University) has not complied with University policies and internal controls over procurement card transactions.

The University operates a procurement card program which allows individuals throughout the University to make smaller purchases (defined as less than \$4,999) on a credit card which is directly paid by the University on a monthly basis. The University's policies require employees assigned a procurement card to complete training on policies and procedures, pass a test, and sign an agreement stipulating they will use the card in accordance with University policy. This agreement is also required to be authorized by the individual's supervisor or the department head. The University's policies require transactions incurred on the procurement card to be approved in the University's procurement card system by the individual cardholder and an assigned reviewer.

During our test work over 75 procurement card transactions totaling \$477,735, including 15 transactions noted for unusual activity, we noted the following:

- Three (4%) transactions (totaling \$21,358) were paid in two installments, circumventing the cardholder's single transaction limit of \$4,999.
- One (1%) transaction (totaling \$4,998) was not reconciled within 25 days of appearance on the P-Card software, as required. The reconciliation was completed 39 days late.
- Two (3%) transactions (totaling \$7,699) were made prior to completion of the required Electronic Services/Software Purchased Form.
- Eleven (15%) transactions (totaling \$6,621) were for charges such as business meals and refreshments and professional and artistic services, all of which were prohibited by the University's procurement card policies.

The University has approximately 4,220 active procurement cards, and the procurement card expenditures paid for the year ended June 30, 2020 totaled \$53,650,621.

The University policy states the reconciler must review and reconcile each transaction with the Order Log and with the original, detailed, itemized receipt within 25 business days of its appearance in the P-Card software, in order for the transaction to post in Banner for financial reporting.

In addition, the University policy states prior to using a P-Card to purchase allowable computer software and electronic services, the unit must complete and retain the Electronic Services/Software Purchased Form.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls, to provide assurance that: (1) resources are utilized effectively, and in compliance with applicable law; (2) obligations and cost are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds

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applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. The University's system of internal controls should include procedures to ensure procurement card transactions are in accordance with University policies and procedures.

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.

Failure to properly review and approve procurement card transactions in accordance with University policies could result in erroneous or fraudulent transactions being recorded in the general ledger system. (Finding Code No. 2020-003, 2019-002, 2018-003, 2017-004, 2016-002, 2015-002, 2014-002, 2013-002, 12-02, 11-03, 10-02, 09-02, 08-03)

Recommendation:

We recommend the University continue to review and improve its 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.

University Response:

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