University of Illinois
(A Component Unit of the State of Illinois)

Report Required under *Government Auditing Standards*
For the Year Ended June 30, 2021
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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Other Reports Issued Under a Separate Cover

The University's *Federal Single Audit* and *State Compliance Examination* for the year ended June 30, 2021, have been issued under separate covers. Additionally, the University's financial statements as of and for the year ended June 30, 2021, have been issued under a separate cover.

Summary

The audit of the financial statements of the University of Illinois (University) was performed by RSM US LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

Based on their audit, the auditors expressed unmodified opinions on the University's basic financial statements, issued under a separate cover.

Summary of Findings

The auditors identified seven matters involving the University's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. Further, the auditors identified one noncompliance matter.

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2021-001	5	2020/2020	Inadequate Internal Controls over Census Data	Material Weakness and Noncompliance
2021-002	9	New	Blue Cross Managed Care Settlement Liability Reserves	Material Weakness
2021-003	12	New	Patient Accounts Receivable Allowances	Material Weakness
2021-004	15	New	Inadequate Controls over Fiduciary Fund Accruals	Material Weakness
2021-005	16	2020/2009	Inadequate Controls over Expense Deferrals and Other Cut-off Issues	Significant Deficiency
2021-006	18	New	Amortization of Premiums Related to Debt	Significant Deficiency
2021-007	19	2020/2008	Inadequate Controls over University Procurement Card Transactions	Significant Deficiency

Exit Conference

The University waived an exit conference in a correspondence from Brent Rasmus, Controller and Assistant Vice President for Business and Finance, on March 25, 2022. The responses to the recommendations were provided by Jennifer Erickson, Senior Associate Director for Business and Finance, in a correspondence dated March 30, 2022.

RSM

RSM US LLP

Independent Auditor's 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, fiduciary activities, and aggregate discretely presented component units of the University of Illinois (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated May 4, 2022. That report includes emphasis of matters relating to the restatement of opening net position and the including of fiduciary fund statements. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the University's financial statements.

The financial statements of the University of Illinois Foundation; University of Illinois Alumni Association; Wolcott, Wood, and Taylor, Inc.; Prairieland Energy, Inc.; Illinois Ventures, LLC; the University Research Park, LLC; Illinois Global Gateway, LLC; and Shield T3, LLC, component units of the University, were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control or compliance and other matters associated with these component units.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2021-001.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 material weaknesses 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 deficiencies described in the accompanying Schedule of Findings as items 2021-001 through 2021-004 to be material weaknesses.

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 2021-005 through 2021-007 to be significant deficiencies.

University's Responses to the Findings

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
May 4, 2022

Current Findings – *Government Auditing Standards*

Finding 2021-001 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. Finally, CMS' actuaries use census data for employees of the State's public universities provided by SURS along with census data for the other participating members which is provided by the State's four other pension plans to prepare the projection of the OPEB plan's liabilities.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS 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 the incremental changes recorded by SURS in their census data records and reconcile these changes back to the University's internal supporting records.

Based on information we obtained while performing our audit, we learned these deficiencies are pervasive across the public universities participating in SURS and across the State's agencies participating in one of the other four State pension plans, the State Employees' Retirement System of Illinois. These conditions significantly increase the risk there could be errors at one or more employers within the plans, and these errors could have a significant impact on SURS' and CMS' measurement of pension and OPEB liabilities, respectively.

In addition, we noted errors within CMS' allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by $205,462,904 as of July 1, 2020.

Current Findings – *Government Auditing Standards*

Finding 2021-001 Inadequate Internal Controls over Census Data (continued)

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's active employees. Even given these exceptions, we performed detail testing of a sample of employees and certain data analysis tests of the total population of the University's census data transactions reported to SURS.

Based on our analysis of transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2019, we noted the following:

- Nineteen of 3,839 (1%) instructors eligible for SURS were not properly included in the Plan. SURS determined the total potential impact to each employee's total service credit was it could be off by 0.50 to 9.50 years.

- One of 264 (1%) 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 this employee's total service credit was it could be off by 0.25 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 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;

Current Findings – *Government Auditing Standards*

Finding 2021-001 Inadequate Internal Controls over Census Data (continued)

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 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 reconciliation had not been completed because they believed their existing processes which are mostly automated, and other controls, would result in materially correct census data being provided to SURS and CMS. Additionally, University officials stated the discrepancies identified in the transaction testing during the accumulation period occurred due to human error and incomplete reporting logic.

Failure to ensure complete and accurate census data was reported to SURS could result 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 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 pension and OPEB balances, which could result in a material misstatement of these amounts. Finally, the allocation error involving one component unit in the OPEB plan resulted in misstatements within each employer's allocation, which resulted in a restatement at the University. (Finding Code No. 2021-001, 2020-001)

Current Findings – *Government Auditing Standards*

Finding 2021-001 Inadequate Internal Controls over Census Data (continued)

Recommendation

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

Further, we recommend the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' 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. Any errors identified during this process should be promptly corrected by either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

Finally, 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.

University Response

Accepted. With 69,000 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.

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 continue to work with SURS to complete the base year census data reconciliation, 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.

Current Findings – *Government Auditing Standards*

Finding 2021-002 Blue Cross Managed Care Settlement Liability Reserves

The University of Illinois Health Services Facilities System's (the System) analysis of required June 30, 2021 Blue Cross managed care settlement liability reserves contained errors resulting in a material overstatement of estimated third party settlement reserves and a material understatement of unrestricted net position at both June 30, 2021 and 2020.

Blue Cross Blue Shield of Illinois (BCBSI) is the System's largest non-governmental third-party payor, and the System has three managed care contracts with BCBSI. BCBSI uses a Uniform Payment Program (UPP) reimbursement mechanism for most of its managed care contracted providers, including the System. Under the UPP mechanism, BCBSI makes weekly advance payments to the System designed to approximate gross charges for services provided to the System's patients covered by its BCBSI managed care contracts. Once BCBSI adjudicates the claims made by the System, BCBSI will compute the contractual discount associated with the claims processed and recoup this contractual discount through deductions made from future weekly advance payments paid to the System.

A rolling, calendar year-to-date settlement amount is computed as of the end of each month for each of the three managed care contracts and reported to the System on monthly reconciliation statements that accompany monthly experience reports provided to the System by BCBSI. The monthly reconciliation statements summarize cumulative year to date contractual discounts (allowances) owed by the System to BCBSI based on claims processed to date. This cumulative allowance amount is compared to amounts deducted, or recouped by BCBSI, on a cumulative year-to-date basis from the weekly advance payments made by BCBSI to the System. Additionally, for the System's Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) contracts with BCBSI, BCBSI incorporates an "accrual" into the monthly settlement calculation designed to accelerate recoupment of cumulative amounts advanced to the provider in excess of cumulative allowances calculated.

In estimating the required settlement reserve as of June 30, it is necessary to compare allowance amounts reported on the July 31 reconciliation statement (since such statement reflects claims processed through June 30) with the deduction amounts reported on the June 30 reconciliation statement (since such statement reflects deductions taken through June 30). In this way, cumulative calendar year-to-date calculated allowances are compared to cumulative calendar year-to-date deductions taken as of the same date. This methodology results in a settlement reserve representing the allowances computed by BCBSI for claims processed by BCBSI during the two months leading up to the reporting date. For example, the reserve at June 30 would reflect allowances on claims processed in May (deducted from July advance payment checks) and on claims processed in June (deducted from August advance payment checks).

We noted two deficiencies in management's longstanding historical methodology for estimating the required reserve.

- The historical calculation included accrual amounts (approximately $13.6M for HMO and $1.2M for PPO at June 30, 2021) reported in the BCBSI reconciliation statements. These accrual amounts do not represent liabilities of the System, resulting in an overstatement of the required reserve.

Current Findings – *Government Auditing Standards*

Finding 2021-002 Blue Cross Managed Care Settlement Liability Reserves (continued)

- The historical calculation relied in part on a rolling average of three months of deductions recouped by BCBSI. Because of the variability from month to month in claims processed by BCBSI, the historical calculation included an additional reserve for variability (approximately $8.3M at June 30, 2021). The historical calculation did not consider a month-end UPP statement provided by BCBSI to the System that was available to the System at the time the June 30, 2021 pre-audit financial statements were prepared, that would have enabled management to make a significantly more precise estimate and would have resulted in little additional reserve for variability (approximately $1.2M at June 30, 2021 compared to the approximately $8.3M recorded).

The total overstatement of the June 30, 2021 liability reserve was approximately $24.3M:

Recorded reserve	$52.1M
Required reserve	27.8M
Excess	$24.3M

The excess reserve results from:

HMO accrual per BCBSI	$13.6M
PPO accrual per BCBSI	1.2M
Variability reserve	7.6M
Other	1.9M
Total	$24.3M

Because the same methodology had been used for many years, the overstatement had accumulated incrementally over several years. A comparable overstatement ($17.6M) of the required reserve existed at June 30, 2020. An adjustment to correct for this error was made by the System to opening net position at July 1, 2020.

In making an accounting estimate such as the Blue Cross managed care settlement reserve, System management should have had a full understanding of the UPP reimbursement mechanism and should have made use of all available information that was available at the time the estimate was made.

Generally accepted accounting principles require management's best estimate of third party settlement reserves based on all relevant information available in order to record the proper amount within their financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, provides guidance regarding the consideration of subsequent events in financial statement estimates. GASB Statement No. 56 provides that all information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the System to establish and maintain a system, or systems, of internal fiscal and administrative controls. Proper internal controls should ensure that management is recording an accurate estimate of its third party settlement reserves.

Current Findings – *Government Auditing Standards*

Finding 2021-002 Blue Cross Managed Care Settlement Liability Reserves (continued)

System officials indicated the errors in the reserve methodology occurred due to an incomplete understanding of the UPP reimbursement mechanism and the documentation available from BCBSI with which to estimate the required reserve.

Failure to accurately record third party settlement reserves within the System's financial statements resulted in a material overstatement of estimated third party settlement reserves and a material understatement of unrestricted net position at both June 30, 2021 and 2020. (Finding Code No. 2021-002)

Recommendation

We recommend management adjust its reserve methodology to address the errors identified and validate the reasonableness of the resulting estimates no less frequently than on a quarterly basis.

University Response

Accepted. The System agrees with the recommendation and has changed its longstanding methodology to calculate the UPP liability and validate its reasonableness to conform with the proposed methodology. The System has implemented this methodology beginning in FY2022.

Current Findings – *Government Auditing Standards*

Finding 2021-003 Patient Accounts Receivable Allowances

The University of Illinois Health Services Facilities System's (the System) analysis of required June 30, 2021 patient accounts receivable allowances contained multiple misstatements.

The System implemented a new billing system (Epic) in September 2020, replacing the legacy billing system (McKesson). During our audit we identified a formula error in management's Excel-based model that inadvertently deducted payments from the calculated required contractual allowance. This understated the required contractual allowance by $45.7 million. Management subsequently performed a detailed review of high dollar accounts in five specific governmental financial classes, which resulted in a $15.2 million reduction in this understatement.

While investigating the formula error, management identified the following additional errors in the analysis of the required June 30, 2021 contractual allowances and allowance for uncollectible accounts:

- Epic source data for aged outpatient accounts receivable balances included credit balances, which were previously excluded from McKesson reports. Because credit balances should be excluded from the calculation of required contractual allowances, this understated the required contractual allowances by $8.6 million.
- Amounts due from third-party payors for transplant organ acquisition costs that were included in the Commercial Insurance financial class in McKesson reports were included in the Self Pay financial class in Epic, and as a result, allowances were provided on these accounts at a higher rate than necessary. This overstated the required contractual allowances by $4.0 million.
- Research and COVID testing (Client Billed) accounts are handled differently in Epic than in McKesson, which resulted in contractual allowances being provided on these accounts as if they were patient accounts receivable, in addition to allowances provided as non-patient accounts receivable. This double-counting overstated the required contractual allowances by $7.6 million.
- Under McKesson, separate contractual allowances for potential denials by third-party payors were provided against patient accounts receivable. Management determined that such denials were included in the Epic closed account reports that were used to develop the percentages used to estimate required contractual allowances. As such, it was unnecessary to provide separate contractual allowances for potential denials. This overstated the required contractual allowances by $6.2 million.

The net effect of the above items was to understate the required contractual allowances by $21.3 million.

Management estimates allowances for uncollectible accounts by applying an allowance percentage to patient accounts receivable, net of contractual allowances. Because contractual allowances were understated by $21.3 million as described above, management's estimate of allowances for uncollectible accounts was overstated by $13.4 million. After considering the $21.3 million of understated contractual allowances and $13.4 million of overstated allowances for doubtful accounts, net patient accounts receivable was overstated by $7.9 million.

Management had recorded additional allowances for uncollectible accounts in fiscal year 2020 to provide for potential unknown risks due to the termination of McKesson and implementation of Epic. Based on its updated assessment of collection risk as of June 30, 2021, nine months after the Epic implementation, management determined that $7.9 million of the additional allowances for uncollectible accounts provided in fiscal year 2020 could be reversed and reallocated as additional contractual allowances, consistent with management's intent to mitigate potential unknown risks.

Current Findings – *Government Auditing Standards*

Finding 2021-003 Patient Accounts Receivable Allowances (continued)

The following summarizes how the above amounts resulted in no net effect on the System's patient accounts receivable and net patient service revenue as of and for the year ended June 30, 2021:

	Increase (Decrease) in Required Allowances (millions)
Formula error in Excel-based model	$ 45.7
Detailed review of high dollar accounts	(15.2)
Credit balances included in original analysis	8.6
Change in classification of organ acquisition cost receivable	(4.0)
Redundant allowance on Research and COVID testing accounts	(7.6)
Redundant allowance for third-party payor denials	(6.2)
Subtotal – net increase in required contractual allowances	21.3
Resulting reduction in required allowances for uncollectible accounts	(13.4)
Release of allowances for uncollectible accounts provided for potential unknown risks due to Epic implementation	(7.9)
Net effect on patient accounts receivable	$ 0.0

Generally accepted accounting principles require the System to adequately analyze, record and disclose within their financial statements their associated contractual allowances and allowances for uncollectible patient accounts receivable. The complexity of the System's revenue cycle, the complexities associated with the System's third-party reimbursement, and the challenges associated with billing (and collecting from) patients and third-party payors, combine to require sophisticated analysis and judgment in establishing allowances against patient accounts receivable. Adding to the already substantial complexity and judgment involved with these accounting estimates was a change in the System's billing system from McKesson to Epic in September 2020. The Epic implementation resulted in increased risk that changes in workflows and reporting under Epic could impact management's process and methodology for estimating required allowances for patient accounts receivable. This additional risk warranted an increased level of analytical review of management's Excel-based model for estimating required patient accounts receivable allowances, as well as of Epic-generated reports used in the model.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the System to establish and maintain a system, or systems, of internal fiscal and administrative controls. Proper internal controls should ensure that management is properly recording its allowances relating to accounts receivable.

System officials indicated these errors occurred due to insufficient analytical review of the results of management's Excel-based model for estimating required patient accounts receivable allowances, as well as an incomplete understanding of differences between McKesson- and Epic-generated reports used in the model.

Not properly analyzing, recording and disclosing contractual allowances and allowances for uncollectible patient accounts receivable could lead to materially inaccurate financial statements. (Finding Code No. 2021-003)

Current Findings – *Government Auditing Standards*

Finding 2021-003 Patient Accounts Receivable Allowances (continued)

Recommendation

We recommend management strengthen its analytical review of the results of its Excel-based model for estimating patient accounts receivable allowances.

University Response

Accepted. Although the net understatement amount noted in this finding represents 1% of the $2 billon of contractual allowances recorded in FY2021, the System has corrected the formula error in its analytical model and has added additional levels of review during its fiscal year-end close processes.

Current Findings – *Government Auditing Standards*

Finding 2021-004 Inadequate Controls over Fiduciary Fund Accruals

The University of Illinois (the University) did not have controls in place to ensure that accrual adjustments for the fiduciary fund statements were appropriately identified and recorded.

The University implemented GASB Statement No. 84, *Fiduciary Activities* in fiscal year 2021. Implementing this statement required the University to analyze potential fiduciary activities and report full accrual financial statements for these activities. We tested the initial fiduciary amounts recorded by the University and found that associated revenue and expense deferrals were not reflected.

To correct this error, the University analyzed potential cutoff transactions that would impact both opening net position and ending net position. As a result of this analysis, entries were recorded to increase opening net position by $7.4 million, increase prepaids by $13.9 million, increase deferred additions by $5.0 million, decrease deductions by $1.5 million and decrease additions by $50 thousand.

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.

University officials indicated the processes to identify accrual transactions for fiduciary funds and prepare the fiduciary fund full accrual statements were not as robust as processes utilized for the University's financial statements during this first year of implementation for GASB Statement No. 84.

As a result of the lack of internal control in this area, the University's draft fiduciary fund financial statements were materially misstated. (Finding Code No. 2021-004)

Recommendation

We recommend the University review its processes and internal controls for fiduciary activity 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 has already refined the processes and procedures for reporting of accruals associated with third-party fiduciary funds subject to GASB Statement No. 84, *Fiduciary Activities*.

Current Findings – *Government Auditing Standards*

Finding 2021-005 Inadequate Controls over Expense Deferrals and Other Cut-off Issues

The University of Illinois (the University) has not established adequate 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 issuance of the financial statements to determine which accounting period the related expense transactions pertain.

During our test work over 373 university expense transactions totaling $222,518,313, we noted the following:

- Thirteen transactions (3%) totaling $1,951,308 that were recorded as expenses for fiscal year ended June 30, 2021, should have been partially accrued as of June 30, 2020 at an amount of $1,117,553.
- Seven transactions (2%) totaling $794,253 that were recorded as expenses for fiscal year ended June 30, 2021, should have deferred $241,257 as a prepaid asset since they had service periods in fiscal year 2022.

The projected impact of these errors is an overstatement of opening net position of $15.0 million, an understatement of prepaid assets of $3.2 million, and an overstatement of expense of $18.2 million. Management evaluated these estimated projected errors and determined they were immaterial, thus no adjustment was recorded.

During our test work over 49 auxiliary facilities system expense transactions totaling $5,178,837, we noted the following:

- One transaction (2%) totaling $83,571 that was recorded as an expense for fiscal year ended June 30, 2021, should have deferred $20,893 as a prepaid asset since it had a service period in fiscal year 2022.

The projected impact of this error is an understatement of prepaid assets of $466 thousand, and an overstatement of expense of $466 thousand. Management evaluated the estimated projected errors and determined they were immaterial, thus no adjustment was recorded.

During our test work over 17 auxiliary facilities system parking revenue transactions totaling $3,391,523, we noted the following:

- Two transactions (12%) totaling $219,609 that were recorded as revenue for fiscal year ended June 30, 2021, should have been partially accrued as of June 30, 2020 at an amount of $163,500.

The projected impact of this error is an understatement of opening net position of $1.2 million, and an overstatement of revenue of $1.2 million. Management evaluated the estimated projected errors and determined they were immaterial, thus no adjustment was recorded.

Current Findings – *Government Auditing Standards*

Finding 2021-005 Inadequate Controls over Expense Deferrals and Other Cut-off Issues (Continued)

During our test work over 60 cash receipts totaling $127,649,207, we noted the following:

- One transaction (2%) totaling $721,334 that was recorded as revenue for fiscal year ended June 30, 2021, should have been accrued 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.

University officials indicated that 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. 2021-005, 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. While the University believes it has processes in place to prevent material errors in the financial statements, the highly decentralized environment with hundreds of units and large volumes of transactions presents challenges in identifying all errors. The University will continue to improve controls related to year-end cutoff.

Current Findings – *Government Auditing Standards*

Finding 2021-006 Amortization of Premiums Related to Debt

The University of Illinois (the University) amortized premiums on the straight-line basis as opposed to the effective interest basis resulting in a material overstatement of the premium balance as of June 30, 2021.

The University amortizes the premiums for related bond issuances on the straight-line basis. We requested that the University calculate the related amortization had the effective interest method been used and schedules showing this calculation were provided. Upon review of the related schedule, we found that the variance between straight-line and the effective interest method had accumulated over the years and resulted in an overstatement of the reported premium of $9.7 million as of June 30, 2021 ($8.3 million relates to the auxiliary facilities system). An adjustment to correct for this error was made by the University.

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 185, states that the difference between the present value and the face amount should be treated as a discount or premium and amortized as interest expense or revenue over the life of the bond in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. This is the interest method.

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the System to establish and maintain a system, or systems, of internal fiscal and administrative controls. Proper internal controls should ensure that management is recording amounts in accordance with generally accepted accounting principles.

University officials indicated the change in accounting principle with the issuance of GASB Statement No. 62 was identified and an analysis of the difference between the straight-line method and the effective interest method was completed. University officials indicated they believed this analysis had historically provided them with support that the difference between the two methods did not materially misstate the University's financial statements. University officials agreed to convert to the effective interest method in fiscal year 2021 so that the analysis of the two methods would not be necessary going forward.

As a result of the lack of internal control in this area, the University's financial statements could be materially misstated. (Finding Code No. 2021-006)

Recommendation

We recommend management implement controls to monitor the variance more closely between straight-line and effective interest amortization to determine if adjustments need to be made.

University Response

Accepted. The University has implemented the effective interest method for amortization of premiums related to bond issuances starting in fiscal year 2021.

Current Findings – *Government Auditing Standards*

Finding 2021-007 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 (P-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 133 procurement card transactions totaling $237,246, including 73 transactions noted for unusual activity, we noted the following:

- Seventy-three (55%) transactions (totaling $6,987) were for charges such as refreshments, entertainment subscriptions, uniforms, drugs and pharmaceuticals, and professional and artistic services, all of which were prohibited by the University's procurement card policies.
- Six (5%) transactions (totaling $14,261) were charges related to electronic services/software. The required Electronic Services/Software Purchased by P-Card Forms were not completed prior to using the P-Cards. Specifically, five Electronic Services/Software Purchased by P-Card Forms were completed 161 to 220 days late, and one Electronic Services/Software Purchased by P-Card Form was not completed.
- Three (2%) transactions (totaling $19,731) exceeded the cardholder's single transaction limit amount. The required P-Card Exception Request Forms were not completed prior to using the P-Cards for those purchases. Specifically, one P-Card Exception Request Form was completed 47 days late, and the other two P-Card Exception Request Forms were not completed.
- One (1%) transaction (totaling $6,615) was paid in two installments, circumventing the cardholder's single transaction limit of $4,999.

The University has approximately 3,880 active procurement cards, and the procurement card expenditures paid for the year ended June 30, 2021 totaled $48,486,125.

The University policy states that 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.

In addition, the University policy states that all purchases on the P-Card must be in compliance with system procurement, allowable expenditure and funding, payroll, and tax-related policies, as well as with all applicable state and federal statutes. A P-Card Exception Request Form is used to obtain approval to use the P-Card for an expense that is normally prohibited by a policy or is above a cardholder's limit. Approval must be obtained prior to using the P-Card for the purchase.

Current Findings – *Government Auditing Standards*

Finding 2021-007 Inadequate Controls over University Procurement Card Transactions (continued)

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 costs are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit 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.

This finding was first noted during the examination of the year ended June 30, 2008. In the subsequent years, the University has been unsuccessful in implementing a corrective action plan.

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. 2021-007, 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 control 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. Although the exceptions noted in this finding represented bona fide business expenses, the transactions were not compliant with procurement card policies and procedures. The University will continue to improve procurement card process controls, training, and transaction monitoring.