

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, 2019

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)**

TABLE OF CONTENTS

	PAGE
UNIVERSITY OFFICIALS.....	1
SUMMARY	2
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.....	3
SCHEDULE OF FINDINGS	5
SCHEDULE OF PRIOR YEAR FINDINGS NOT REPEATED.....	9

THE BOARD OF TRUSTEES

EX OFFICIO MEMBER
The Governor of Illinois

Honorable JB Pritzker Springfield

MEMBERS

Ramón Cepeda Darien
Kareem Dale Chicago
Donald J. Edwards Chicago
Ricardo Estrada Chicago
Patricia Brown Holmes Chicago
Naomi D. Jacobsson Urbana
Stuart C. King Champaign
Edward L. McMillan Greenville
Jill B. Smart Downers Grove

STUDENT TRUSTEES

Trayshawn N.W. Mitchell University of Illinois at Urbana – Champaign
Darius M. Newsome University of Illinois at Chicago
Shaina Humphrey University of Illinois at Springfield

BOARD OFFICERS

Donald J. Edwards Chair
Lester H. McKeever, Jr. Treasurer
Avijit Ghosh Chief Financial Officer and Comptroller
Thomas R. Bearrows University Counsel
Dedra M. Williams Secretary

ADMINISTRATIVE OFFICERS

Timothy L. Killeen President
Robert Jones Chancellor and Vice President, University of Illinois at Urbana – Champaign
Michael D. Amiridis Chancellor and Vice President, University of Illinois at Chicago
Susan J. Koch Chancellor and Vice President, University of Illinois at Springfield
Michael B. Bass Senior Associate Vice President for Business and Finance and Deputy Comptroller
Brent Rasmus Interim Controller and Assistant Vice President for Business and Finance (effective May 1, 2018 through February 15, 2019)
..... Controller and Assistant Vice President for Business and Finance (effective February 16, 2019)
Julie A. Zemaitis Executive Director of University Audits

**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 certain deficiencies in internal control over financial reporting that they considered to be significant deficiencies, which are described in the accompanying schedule of findings and responses on pages 5 through 8 of this report.

Exit Conference

A request to waive a formal exit conference was made by the University in a correspondence dated December 5, 2019. Responses and recommendations were provided by the University's Office of Business and Financial Services in correspondence dated December 5, 2019.



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, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 19, 2019.

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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 to determine the 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2019-001 and 2019-002 that we consider 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
December 19, 2019

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2019

2019-001. 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 that 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 that 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 225 cash disbursement transactions (totaling \$30,122,686), 60 P-Card expense transactions (totaling \$368,921), and 60 T-Card expense transactions (totaling \$234,802) 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 \$52,459,178). We also reviewed 18 cash disbursements occurring subsequent to year-end (totaling \$67,263,877). Additionally, we separately reviewed 14 internal journal voucher transactions recorded during the fiscal year (totaling \$1,054,912).

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

University of Illinois transactions

- Three general and service expense cash disbursements (totaling \$208,425) that were recorded as expenses for fiscal year ended June 30, 2019, should have been fully accrued as of June 30, 2018;
- One travel expense cash disbursement (totaling \$6,821) that was recorded as expense for fiscal year ended June 30, 2019, should have been fully accrued as of June 30, 2017;
- One telecommunication expense (totaling \$33,625) that was recorded as expense for fiscal year ended June 30, 2019, should have been partially deferred as of June 30, 2019 at an amount of \$30,614, and then recognized as expenses for the fiscal year ended June 30, 2020;
- One printing expense (totaling \$2,900) that was recorded as expense for fiscal year ended June 30, 2019, should have been fully deferred as of June 30, 2019; and
- One cash receipt (totaling \$5,685) that was recorded as operating revenue for the fiscal year ended June 30, 2019, should have been fully accrued as of June 30, 2018.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2019**

University of Illinois P-card transactions

- Three general expenses (totaling \$11,836) that were recorded as expenses for fiscal year ended June 30, 2019, should have been fully accrued as of June 30, 2018; and
- Three general expenses (totaling \$31,480) that were recorded as an expense for fiscal year ended June 30, 2019, should have been partially deferred as of June 30, 2019 at an amount of \$8,487, and then recognized as expenses for the fiscal year ended June 30, 2020.

University of Illinois T-card transactions

- One general cash disbursement (totaling \$3,459) that was recorded as expense for fiscal year ended June 30, 2019, should have been fully accrued as of June 30, 2018.

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, which shall 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. 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 taking corrective action to address the recommendation in this finding.

UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2019

2019-002. 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 assigned a reviewer.

During our test work over 63 procurement card transactions totaling \$374,743, we noted the following:

- Five (8%) transactions (totaling \$9,756) were for charges such as transportation, prepaid tolls, business meals and refreshments, all of which were prohibited by the University's procurement card policies.
- One (2%) transaction (totaling \$5,806) was paid in two or more installments, circumventing the card holder's single transaction limit of \$4,999.
- Twelve (19%) transactions (totaling \$70,720) were not reconciled within seven days of appearance on the P-Card software, as required. The reconciliations were completed two to 51 days late.

The University has approximately 4,668 active procurement cards, and the procurement card expenditures paid for the year ended June 30, 2019 totaled \$59,168,533.

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

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 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 OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2019

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. 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. While the procurement card is an efficient purchasing mechanism, the University recognizes the importance of procurement card process controls, training, and transaction monitoring. The University will implement the necessary corrective action related to the recommendation made in this finding.

**UNIVERSITY OF ILLINOIS
AUXILIARY FACILITIES SYSTEM
(A Segment of the University of Illinois)
PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2019**

A. Finding: Inadequate Controls over Self-Approved Timesheets

During the prior audit, the auditors noted the University had not followed established internal controls over self-approved timesheets. (Finding Code No. 2018-002, 2017-002)

Status: Not Repeated

During the current year engagement, the auditors noted the University strengthened their internal controls over self-approved timesheets to ensure supervisory approval is obtained prior to payroll disbursements occurring based on our sample testing.

B. Finding: Lack of Adequate Controls over the Review of Internal Controls over Service Providers

During the prior audit, the auditors noted the University did not obtain or conduct timely independent internal control reviews over its external service providers. (Finding Code No. 2018-004)

Status: Not Repeated

During the current audit, the auditors noted the University had made some improvements over the controls of third party service providers. However, the improvements were not sufficient enough to ensure the third party service providers' internal controls provided reasonable assurance. Therefore, the finding will be reported in the University's State Compliance Report.