





**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS**

**REPORT REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED JUNE 30, 2008**

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



**State of Illinois
University of Illinois**

Table of Contents

| | <u>Page</u> |
|---|--------------------|
| University Officials | 2 |
| Summary | 3 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 4-5 |
| Schedule of Findings | 6-18 |
| Prior Findings Not Repeated | 19 |

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
UNIVERSITY OFFICIALS
Year Ended June 30, 2008**

| | |
|------------------------|--|
| B. Joseph White | President |
| Thomas R. Bearrows | University Counsel |
| Walter K. Knorr | Vice President and Chief Financial Officer and Comptroller |
| Douglas E. Beckmann | Senior Associate Vice President for Business and Finance |
| Patrick M. Patterson | Controller |
| Julie A. Zemaitis | Executive Director of University Audits |
| Eric A. Gislason | Interim Chancellor, University of Illinois at Chicago |
| Heather J. Haberaecker | Executive Assistant Vice President for Business and Finance at Chicago |
| Richard D. Ringeisen | Chancellor, University of Illinois at Springfield |
| Michael D. Bohl | Assistant Vice President for Business and Finance at Springfield |
| Richard Herman | Chancellor, University of Illinois at Urbana- Champaign |
| Ginger L. Velazquez | Interim Assistant Vice President for Business and Finance at Urbana-Champaign |

Administrative offices are located at:

Central Administration
238 Henry Administration Building
506 South Wright Street
Urbana, Illinois 61801

Chicago Campus
809 South Marshfield
Room 608
Chicago, Illinois 60612

Springfield Campus
Building Services Building
Room 59
Springfield, Illinois 62794-9243

Urbana-Champaign Campus
104 Coble Hall
801 South Wright Street
Champaign, Illinois 61820

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS**

Government Auditing Report Summary

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

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

Summary of Findings

The auditors identified matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 6 through 18 of this report, as Finding 08-1, Energy Resource Center – CMS Intergovernmental Agreement (Chicago Campus); Finding 08-2, Inappropriate Charges Paid By The University (Chicago Campus); Finding 08-3, University P-Card (University Wide); Finding 08-4, Insufficient Internal Controls Over Utilities (University Administration); Finding 08-5, System Access Controls (University Administration); Finding 08-6, Grant Revenue Overdrafts (University Administration); and Finding 08-7, Deferred Revenue Calculated Incorrectly (University Administration). The auditors also consider Finding 08-1 to be a material weakness.

Exit Conference

A formal exit conference was waived by the University in an email dated December 30, 2008. The findings and recommendations were discussed during a pre-exit conference call on December 08, 2008 with University officials.

The responses to the recommendations were provided by Patrick M. Patterson, Controller, and Douglas E. Beckmann, Senior Associate Vice President for Business and Finance, in emails dated December 8, 2008 and December 26, 2008, respectively.

**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 William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the University of Illinois, as of and for the year ended June 30, 2008, which collectively comprise the University of Illinois' basic financial statements and the financial statements of the University of Illinois Auxiliary Facilities System, the University of Illinois Willard Airport Facility, and the University of Illinois Health Services Facilities System as of and for the year ended June 30, 2008, and have issued our reports thereon dated December 30, 2008. We conducted our audits in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the University of Illinois' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 08-1, 08-2, 08-3, 08-4, 08-5, 08-6, and 08-7 in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider finding 08-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Illinois' financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings in findings 08-1, 08-2, and 08-6.

We are currently conducting State and Federal compliance examinations of the University as required by the Illinois State Auditing Act. The results of those examinations will be reported to management under separate cover.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, University management, the University Board of Trustees and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
December 30, 2008

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

**08-1 Finding: Energy Resource Center - CMS Intergovernmental Agreement
(Chicago Campus)**

Through a contractual agreement, the University's Energy Resource Center (ERC) has been providing energy-related services to Central Management Services (CMS). These services include an arrangement in which the ERC purchases utilities on behalf of CMS and invoices participating CMS, state agency and local government facilities. In providing this service, ERC did not bill its customers or reconcile accounts receivable on a timely basis. ERC also did not pay the utility vendors promptly. The results of these failures resulted in ERC incurring costs not fully reimbursed under the contract.

The main focus of the Energy Resource Center at the University of Illinois Chicago Campus is to make significant contributions regarding energy conservation and production technologies while creating a cleaner, more sustainable environment.

In the fall of 1998, the State of Illinois Department of Central Management Services (CMS) requested a supply of natural gas for several of its facilities and facilities of other state agencies and local governments when the original supplier for CMS discontinued its natural gas business. Because it was so close to the winter heating season it was operationally efficient to include CMS's facility requirements in the existing University natural gas supply contracts. CMS wanted ERC to help them identify and implement energy related programs throughout the state.

In May, 1999 the Board of Trustees (BOT) approved ERC assisting CMS in a natural gas acquisition program where ERC would act as an agent for CMS to procure a natural gas supplier and would initiate payment of the bills for the user facilities and these facilities (CMS, state agency and local government sites) would reimburse ERC, plus pay additional fees for management services. On June 25, 2008, the University extended this contract through June 30, 2009.

During our testing of various components of ERC, we noted the following:

- Accounts Payable Issues:
 - ERC entered into this contract without having appropriate administrative staff in positions to ensure the timely payment of vendor invoices and timely billing of receivables. As of June 30, 2008, ERC had not paid 19 of 25 vendor invoices tested within the required 60 days. Vendor invoices are not submitted for payment until the invoices to user governments are processed. This process experienced significant delays during the year ended June 30, 2008.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

**08-1 Finding: Energy Resource Center - CMS Intergovernmental Agreement
(Chicago Campus) - continued**

- Accounts Receivable Issues:
 - Electric billings to the user governments were not processed for up to 6-8 weeks after ERC received invoices from the energy provider. Natural gas billings were sent monthly, on average 6-8 weeks after the end of the billing period.
 - Further, ERC has not exhibited consistent follow-up on unpaid accounts. Approximately \$5.5 million of energy billings were not processed within the lapse period and were filed with the Illinois Court of Claims subsequent to year end.
 - The accounts receivable aging is based on invoice dates, that are not timely, and not on service dates. Consequently, the actual age of the receivables exceeds the aging reported in the accounts receivable aging.
 - The detailed accounts receivable schedule as of June 30, 2008 for ERC was not reconciled to the general ledger until October 2, 2008.

- Diversion of University funds from the University's mission:
 - By paying utility vendors before receipt of funds from user governments, University funds are diverted to temporarily finance the costs of energy for other governments. Additionally, the management fees do not cover the costs of the other supporting offices necessary to administer the billing and collecting of energy purchases. In effect, the user governments' utility costs are partially subsidized by the University.
 - University officials were not aware of the magnitude of the accounts receivable balances when they were negotiating the one-year renewal of the contract with CMS due to ERC's failure to record receivables on a timely basis. Knowledge of the cost of capital committed to financing the accounts receivable would have generated a higher administrative fee to allow the University to recapture the cost of carrying the accounts receivable for the user governments.

University personnel indicated that they became aware of these problems in FY08 and implemented a review of the operation. CMS was informed in May, 2008 that the University may choose not to enter into a contract involving the billing, payment and collection function for FY10, pending completion of its review. In addition, University personnel indicated that ineffective ERC processes do not allow for timely invoicing or reconciling procedures.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

**08-1 Finding: Energy Resource Center - CMS Intergovernmental Agreement
(Chicago Campus) - continued**

The failure to include all costs of administering such activities can allow for use of University funds that is not in furtherance of the University's mission. In addition, failure to ensure timely payment of vendor invoices and timely billing of receivables delays the receipt of cash available for University use and exposes the University to costs of capital not reimbursed under the current fee structure. Finally, the failure to perform timely reconciliations of the detailed accounts receivable schedule allows for potential errors to remain undetected. (Finding Code No. 08-1)

Recommendation:

We recommend the University consider whether the contract with CMS is an appropriate use of the University's resources before entering into a new contract to extend services beyond June 30, 2009 and obtain specific approval from the Board of Trustees for these activities. We also recommend that the University devote adequate resources for the timely payment of invoices and billing and reconciliation of the accounts receivables of the Energy Resource Center.

University Response:

Accepted. In December, 2008 the University notified CMS that it would be interested in exploring a continuing consulting relationship between ERC and CMS beyond FY09, but such a relationship could not include the current billing, payment and collection role.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-2 Finding: Inappropriate Charges Paid By University (Chicago Campus)

A Department (Department) at the Chicago Campus had inadequate internal controls in place over P-Card transactions and other expenditures. The lack of controls allowed a University employee to make inappropriate charges to the University totaling approximately \$159,000 over a six-year period.

During the audit period, in response to overspending in various accounts over this time period, a University official began a review of the Department's expenditures and became aware of an employee making inappropriate charges with a University P-Card. When questioned about the charges on November 6, 2007, the employee initially denied making them, however, resigned from the University later that day. The University official contacted the University Police Department and the Office of University Audits to assist with the investigation into the expenditures.

Further investigation into the Department and the employee's expenditures revealed over 1,400 transactions totaling nearly \$156,000 in charges to the employee's P-Card between fiscal year 2002 and fiscal year 2007 that were determined by the University to be personal in nature. The total inappropriate charges ranged from approximately \$11,000 to more than \$42,000 per fiscal year and constituted 84% of the employee's total P-Card charges. The inappropriate charges included personal expenditures at gas stations, grocery stores, office supply stores, restaurants, hotels, and airlines. In addition, the employee used the Department head's P-Card to make over \$2,600 of inappropriate charges. Further, the investigation noted that during fiscal years 2004 and 2005, reimbursements were made to the employee using charges already paid with the University P-Card as documentation to support the reimbursement.

During our audit, we noted that the employee served as the P-Card reconciler and P-Card approver for the employee's charges until September 2006. After September 2006, many of the charges were automatically approved by the P-Card system.

In January 2008, the employee was arrested and charged with theft over \$100,000, a Class X felony. The case is currently pending and the University is seeking restitution.

The University of Illinois Office of Business and Financial Services Policies and Procedures (Section 7.6) state that the cardholder may not hold the role of P-Card reconciler or P-Card approver for his/her own transactions. The Policies and Procedures also state that the P-Card may only be used by the person to whom it is issued. In addition, a good system of internal control provides for proper segregation of duties so that no one person handles all elements of any transaction.

University officials stated that the Department did not have proper segregation of duties over most expenditure transactions and that the employee had little or no supervision in expending Department funds.

Failure to adhere to established policies and procedures has resulted in the University incurring unnecessary costs and has resulted in the misuse of University assets. (Finding Code No. 08-2)

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

**08-2 Finding: Inappropriate Charges Paid By University (Chicago Campus)
 - continued**

Recommendation:

We recommend the University review the segregation of duties surrounding P-Card transactions and emphasize the importance of a timely and adequate review, approval, and reconciliation of all transactions. Further the University should ensure that the Policies and Procedures are clearly understood and followed by all personnel involved in the P-Card program.

University Response:

Accepted. The University will review the segregation of duties surrounding P-Card and other transactions and re-emphasize each unit's role in being accountable for a good system of internal control.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-3 Finding: University P-Card (University Wide)

P-Card transactions were not always handled in accordance with University of Illinois Office of Business and Financial Services Policies and Procedures.

The University of Illinois uses a credit card, referred to as a P-Card, to simplify small dollar purchases. University employees may be issued a P-Card with the approval of their Department Head or Fiscal Officer. The P-Card works like any personal credit card and is billed monthly to the University. Vendors are paid directly by the issuing bank and the University pays the bank with a single monthly payment. Purchases are tracked through the P-Card web based computer software and are automatically posted to the University's general ledger system. The University's P-Card program has six defined roles: (1) department head, (2) department card manager, (3) cardholder, (4) software reconciler, (5) software approver, and (6) financial statement reconciler. The University has established a Corporate Card Office to provide management over the University P-Card Program.

The University has approximately 5,700 active P-Cards and the year-to-date volume of P-Card transactions totaled \$116,181,802.

We examined 66 P-Card transactions from all areas of the University. The following problems were noted:

- 41 transactions with conflicting P-Card roles:
 - a) 8 transactions had the cardholder established as the software reconciler of their own transactions. 4 of these transactions were also noted as having the conflicting roles noted in d) below.
 - b) 4 transactions had the cardholder established as the financial statement reconciler of their own transactions.
 - c) 25 transactions had the same individual as the financial statement reconciler and the software reconciler.
 - d) 21 transactions had the same individual as the financial statement reconciler and the software approver.
 - e) Of the transactions noted in c) and d), 13 of those transactions had the same financial statement reconciler, software reconciler and software approver.
- 4 transactions were shown in the P-Card web based computer software as automatically reconciled by the system, rather than by an employee.
- 5 transactions included sales tax paid by the University.
- 1 transaction was for the payment of continuous services with the P-Card set up as the default method of payment.
- 1 transaction was for a purchase made by someone other than the cardholder.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-3 Finding: University P-Card (University Wide) - continued

The University of Illinois Office of Business and Financial Services Policies and Procedures (Section 7.6) state that the P-Card may only be used by the person to whom it is issued. The Policies and Procedures state that the cardholder may not hold the role of software reconciler, software approver, or financial statement reconciler for his/her own transactions. In addition, the Policies and Procedures state that “it is strictly prohibited to place a P-Card account number on file with any vendor unless otherwise specifically stated by policy.”

The Illinois Department of Revenue granted the University a governmental exemption from sales and use taxes on purchases for University use. In addition, the University has sales tax exemption in 24 states. “University of Illinois” and the University’s sales tax exemption number are printed on P-Cards. The Policies and Procedures require all P-Card purchases to be “in compliance with all procurement, allowable expenditure and funding, payroll, and tax-related policies.”

University personnel stated that P-Card transactions have a second review; however, that review may be outside the P-Card web based software, which is also allowed by University Policies and Procedures. University personnel also stated that P-Card web based computer software has specific procedures required to show transactions as appropriately reconciled. If those procedures are not followed completely, transactions may appear in the system as though they have not been reconciled.

University personnel cited unfamiliarity with approved policies, lack of oversight, and a lack of consistent application of procedures as the causes for the other conditions noted.

Failure to adhere to established policies and procedures could result in the University incurring unnecessary costs and the misuse of University assets. Similar issues were also noted in Finding 08-2 which resulted in inappropriate charges to the University of approximately \$159,000. (Finding Code Nos. 08-3, 07-5, 06-2)

Recommendation:

We recommend the University review the segregation of duties surrounding P-Card transactions and emphasize the importance of a timely and adequate review, approval, and reconciliation of all transactions. Further, the University should ensure that the Policies and Procedures, including all modifications, are clearly understood and followed by all personnel involved in the P-Card Program.

University Response:

Accepted. The University will continue to emphasize the importance of segregating duties and performing timely and adequate review, approval, and reconciliation of all transactions. The University will continue to ensure that the policies and procedures are clear, easily understood, and well communicated.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-4 Finding: Insufficient Internal Controls over Utilities (University Administration)

University policies for monitoring and reporting budget deficits and for limitations on transfers were ineffective or not complied with resulting in an accumulated budget deficit of \$125 million over a period of several years. Actual utility expenses exceeded budget by approximately \$7.5 million in fiscal year 2008.

The following issues were noted:

- The current Board of Trustees (BOT) policy does not provide sufficient guidance on when BOT approval is required for transfers between state funds and other unrestricted funds. Good business practice dictates that BOT establish and implement a policy that clearly defines when BOT approval is required for transfers between state funds and other unrestricted funds.
- The University's accounting for utilities expenditures is overly complex. The account structure is spread across all campuses and University Administration.

The applicable business policies and practices are as follows:

- Section 1.7 of the Business and Financial Policies and Procedures requires that Units must annually submit a formal Business Plan for funds with deficits in excess of \$10,000.
- The BOT requires a fourth quarter Comptroller's Report which would highlight the results of utilities for the year.
- Good business practices would require an accounting structure that would enable management to identify and address expenditure deficits in a timely manner.

University management stated that utility related expenses had exceeded budgeted revenues and the shortfall was funded from University and campus financial reserves. Utility accounting staffing levels did not keep pace with the University's increasingly complex utility operations and finances. Further, the complex nature of the utility budget and accounting structure made it difficult to provide an accurate picture of the situation and delayed reporting. In fiscal year 2008, the University established a team to review and improve utility accounting and management reporting. The University also indicated that staffing levels in the utility budget and accounting areas have been improved, with further changes planned.

Failure to adopt policies that provide management with guidance for notifying the BOT of budget deficits may result in the BOT being uninformed of issues deserving their attention. In addition, maintaining an overly complex accounting structure makes it difficult for management to identify problems and notify the BOT. (Finding Code Nos. 08-4, 07-1)

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-4 Finding: Insufficient Internal Controls over Utilities (University Administration) - continued

Recommendation:

We recommend that the Business and Financial Policies and Procedures and BOT policies, respectively, be revised to include a policy for comparison of budget and actual expenditures and for annual budget deficit elimination for activities that cross campuses and University Administration, and to clearly indicate whether the limitation on transfers is cumulative. We further recommend University management simplify the accounting and reporting for utilities, and any other activities, if any, that cross campuses and University Administration.

University Response:

Accepted. Interim and year-end reports, which included budget-to-actual financial comparisons for utility operations, were presented to the BOT in March and November 2008, respectively. The University has reviewed staffing levels and added staff members in the utilities accounting function. Further staffing changes are planned. Utility budgeting and accounting activities are being adjusted to improve clarity and transparency, and a team has commenced work on this task. The University is in the process of developing policy and procedure revisions to address the matters referenced in this finding.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-5 Finding: System Access Controls (University Administration)

Review of user access rights within the University's financial systems (e.g. accounts payable, accounts receivable, payroll, fixed assets, etc) was not performed on a regular and recurring basis. Three units (Payroll, Academic Computing and Communications Center, and College of Medicine) indicated that either they did not perform a user security access rights review or maintain documentation of a review. The following details were discovered while reviewing users with journal voucher entry authority:

- The University had approximately 2,300 users with journal voucher entry authority.
- All users with journal voucher entry authority had entry limits of \$999,999,999.99 or more without regard to specific job duties.
- The University had created five charts of accounts. These chart of accounts are defined for the three major campuses, University Administration (all three campus charts of accounts), and the Global Campus. Approximately 400 of the users with journal voucher entry authority also had access to the University Administration chart of accounts.
- Four users with journal voucher entry rights were identified with substantial modification authorities for the security rule codes of the system. Two of these users were designated as Unit Security Coordinators (USC).
- At least 23 users had both journal voucher entry rights and the rights to modify two security rule codes.

Even though an internal audit recommended that user access rights be reviewed at least annually by unit security coordinators, such reviews were not performed. Our testing of compliance on three units indicated security access rights were not generally reviewed.

Generally accepted information technology guidance endorses the development of well-designed and well-managed controls to protect computer systems and data. Effective computer security controls provide for safeguarding, securing, and controlling access to systems, and properly segregating incompatible duties.

A proper segregation of duties would prevent individuals responsible for the authorization of journal voucher entries from modifying associated security rules or the chart of accounts. Further, voucher entry limits should be set to dollar amounts that are commensurate with job responsibilities would reduce the risk of high dollar errors.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-5 Finding: System Access Controls (University Administration) – continued

The University believes that access controls, such security rule codes, combined with computer edit checks serve to mitigate this deficiency to an acceptable level. Without adequate security over access rights or sufficient compensating controls, there is a greater risk that unauthorized changes or additions to the University's financial systems could occur and not be detected in a timely manner. If access rights are not reviewed and updated based on job responsibilities on a regular basis, there is a greater risk that journal voucher entries can be made by unauthorized individuals. (Finding Code No. 08-5)

Recommendation:

We recommend that the University perform recurring, documented reviews of user access within the University's financial systems. Specifically the University should:

- Review individual access rights;
- Limit dollar entry limits to those commensurate with job responsibilities;
- Segregate journal voucher entry capability from the capability to modify the chart of accounts; and
- Segregate journal voucher entry capability from the capability to modify associated security rule codes.

Although segregation of duties is the accepted control, in instances where both data entry and modification capabilities are warranted, an audit trail should exist and be reviewed on a timely basis.

University Response:

Accepted. The University will develop improvements to procedures to address the recommendations noted in this finding.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-6 Finding: Grant Revenue Overdrafts (University Administration)

Grants receivable and revenue was overstated by \$1.67 million at fiscal year end in the general ledger.

During our testing of grant receivables at year end, we noted that grant revenue was automatically recorded when the grant expenses were recorded, even when the approved grant budget had been exceeded (overdraft).

Based on our review of a University prepared comparison of budget and actual grant expenses, we noted grant revenue recorded in excess of budgeted expenses. We selected a sample of 10 grants receivable as of June 30, 2008 and noted 1 grant with an overdraft of \$1.67 million which overstated the grant revenue and receivable. Projecting this error to the total population results in an estimated overstatement of grants receivable and revenue of \$7.96 million. An adjustment was proposed for the estimated overstatement, which the University has elected not to record.

Accounting principles generally accepted in the United States of America require revenue be recorded to the extent it is earned. Grant revenues should only be recorded based on grant expenditures to the extent reimbursement is expected.

University personnel stated that while there is currently no process in place to make adjustments to limit grant revenue to approved grant budgets, their Grants & Contracts Office monitors overdrafts and works with associated campus units to manage and resolve such occurrences.

Recording grant revenue in excess of the amount allowed by the grant budget misstates University financial statements and allows for inaccurate financial information on which to make decisions. (Finding Code No. 08-6)

Recommendation:

We recommend the University develop and implement a process to identify grant revenues in excess of grant budgets and adjust receivables and revenues to the appropriate balances.

University Response:

Accepted. The University will develop and implement a process to analyze expenditures in excess of grant budgets and adjust grant revenues accordingly, at fiscal year-end.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008**

08-7 Finding: Deferred Revenue Calculated Incorrectly (University Administration)

The University understated the liability for deferred revenue in the general ledger at June 30, 2008 by \$5,233,754. Tuition revenue was overstated by \$7,478,483 and student waivers were understated by \$2,244,729.

During fiscal year 2008, the Chicago Campus elected to have multiple sessions for the summer semester, each with different beginning and ending dates. University Accounting and Financial Reporting (UAFR) used the dates listed in an outdated Undergraduate Catalog to calculate the tuition revenue, tuition waivers, and deferred revenue. Once notified of this error by the auditors, UAFR adjusted the revenues and liability for deferred revenue in the financial statements.

Accounting principles generally accepted in the United States of America require the use of an accurate cut-off for the calculation of deferred revenue.

University personnel indicated that the Chicago Campus has historically had only one summer session. UAFR was unaware that there were multiple versions of the On-line Undergraduate Catalog and failed to verify the summer session dates.

Failure to properly calculate the tuition revenue and liability for deferred revenue session could result in a misstatement of University financial statements. (Finding Code No. 08-7)

Recommendation:

We recommend that the University enhance its process of deferring revenue by confirming summer semester dates with the appropriate campus offices.

University Response:

Accepted. The University has implemented an improvement to its deferred revenue calculation procedure to include a confirmation of summer session dates with the appropriate campus office.

**STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
PRIOR FINDINGS NOT REPEATED
Year Ended June 30, 2008**

A: Lack of Segregation of Duties over Utilities (University Administration)

During the prior examination, we noted significant control over the University utility operations was with one individual. (Finding Code No. 07-2)

During our current examination, we noted the University revised the organizational structure for utility operations and made certain revisions to establish segregation of duties and enhance management oversight.

B: Controls for Reporting Accrued Compensated Absences (University Wide)

During the prior examination, we noted the University did not have adequate controls in place for identifying and reporting the University's liability for accrued compensated absences. (Finding Code No. 07-3)

During our current examination, we noted the University implemented additional controls to address financial information related to accrued compensated absences for matters related to completeness and accuracy.

C: Exchange Transactions (University Wide)

During the prior examination, we noted the University had not recorded certain exchange transactions in their financial records or reported them in their financial statements. (Finding Code No. 07-4)

During our current examination, we noted the University implemented new procedures to identify departments engaging in these types of transactions. In addition, the University quantified the transactions and recorded them in their financial records.