



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

UNIVERSITY OF ILLINOIS

**Financial Audit
 For the Year Ended June 30, 2017**

Release Date: February 14, 2018

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	2016		17-3	
Category 2:	1	3	4	2009		17-1	
Category 3:	0	0	0	2008		17-4	
TOTAL	2	3	5				
FINDINGS LAST AUDIT: 3							

INTRODUCTION

The University’s financial audit report consists of three sets of financial statements as follows – The financial statements of the University, and the revenue bond financial statements of the Auxiliary Facilities System and the Health Services Facilities System.

This report contains only findings pertaining to the Financial Statement Audit.

The State Compliance Examination and Federal Single Audit Reports will be issued at a later date.

SYNOPSIS

- (17-1) 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.
- (17-3) The University has inadequate controls in place to monitor and maintain the accounts payable master vendor file.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

UNIVERSITY OF ILLINOIS
FINANCIAL AUDIT
For the Year Ended June 30, 2017

FINANCIAL OPERATIONS (In Thousands)	2017	2016*
Operating Revenues		
Tuition and fees, net.....	\$ 1,191,498	\$ 1,145,945
Federal grants, contracts and appropriations.....	690,355	668,982
State and private gifts, grants and contracts.....	218,071	178,495
Hospital and medical activities.....	1,010,576	909,690
Auxiliary enterprises, net.....	409,484	406,620
Educational activities.....	309,371	302,581
Other.....	12,582	11,891
Total Operating Revenues.....	<u>3,841,937</u>	<u>3,624,204</u>
Operating Expenses		
Instruction.....	1,503,069	1,380,175
Research.....	794,526	740,788
Public service.....	481,976	470,175
Academic support.....	573,787	523,540
Hospital and medical activities.....	992,956	895,572
Auxiliary enterprises.....	402,930	353,159
Operation and maintenance of plant.....	311,313	299,657
Institutional support.....	285,934	297,075
Depreciation.....	262,534	254,879
Scholarships and fellowships.....	298,955	278,994
Other.....	228,641	208,480
Total Operating Expenses.....	<u>6,136,621</u>	<u>5,702,494</u>
Operating Loss.....	(2,294,684)	(2,078,290)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	335,615	170,397
Capital appropriations, gifts and grants.....	18,601	12,185
Private gifts and endowments.....	196,510	158,917
On behalf payments for fringe benefits.....	1,611,444	1,336,491
Other, net.....	<u>185,219</u>	<u>124,334</u>
INCREASE/(DECREASE) IN NET POSITION.....	52,705	(275,966)
Net Position, beginning of year.....	4,321,881	4,561,961
Cumulative effect of change in accounting principle.....		35,886
Net Position, beginning of year, as adjusted.....	<u>4,321,881</u>	<u>4,597,847</u>
Net Position, end of year.....	<u>\$ 4,374,586</u>	<u>\$ 4,321,881</u>

* - Certain reclassifications have been made to the 2016 amounts to conform to the 2017 presentation

SUMMARY - STATEMENT OF NET POSITION (In Thousands)	2017	2016
Current Assets.....	\$ 1,446,333	\$ 1,484,449
Noncurrent Assets and Deferred outflows.....	5,710,213	5,682,014
Total Assets and Deferred outflows.....	<u>7,156,546</u>	<u>7,166,463</u>
Current Liabilities.....	918,542	910,376
Noncurrent Liabilities.....	1,863,418	1,934,206
Total Liabilities.....	<u>2,781,960</u>	<u>2,844,582</u>
Total Net Position.....	<u>\$ 4,374,586</u>	<u>\$ 4,321,881</u>

PRESIDENT

During Audit Period and Current: Timothy L. Killeen

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**INADEQUATE PROCEDURES OVER EXPENSE
DEFERRALS AND OTHER CUT-OFF RELATED
ISSUES**

**Need to improve controls over
recording and reporting transactions**

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.

In relation to our test work over expense transactions, we reviewed 225 cash disbursement transactions (totaling \$46,313,716), 60 P-Card expense transactions (totaling \$316,272), and 60 T-Card expense transactions (totaling \$428,908) 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 \$120,935,264). We also reviewed 34 cash disbursements occurring subsequent to year-end (totaling \$72,993,712). Additionally, we separately reviewed 20 internal journal voucher transactions recorded during the fiscal year (totaling \$36,022,969).

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

**\$173,843 in expenses were recorded
in FY17 and should have been
accrued and in FY16**

- Two general expense cash disbursements (totaling \$173,843) that were recorded as expenses for fiscal year ended June 30, 2017, should have been fully accrued as of June 30, 2016.
- Two telecommunication expense cash disbursements (totaling \$78,538) that were recorded as expenses for the fiscal year ended June 30, 2017, should have been partially deferred as of June 30, 2017 at an amount of \$46,512, and then recognized as expenses for the fiscal year ending June 30, 2018.
- One cash receipt (totaling \$29,483) that was recorded as operating revenue for the fiscal year ended June 30, 2017, should have been fully deferred as of June 30, 2017, and then recognized as operating revenue for the fiscal year ending June 30, 2018.

**Cash receipt of \$29,483 recorded in
FY17 should have been recognized in
FY18**

- Five general and service expenses charged on P-cards (totaling \$14,388) that were recorded as expenses for the fiscal year ended June 30, 2017, should have been partially deferred as of June 30, 2017 at an amount of \$8,953 and then recognized as expenses for the fiscal year ending June 30, 2018. (Finding 1, Pages 5-7) **This finding has been repeated since 2009.**

We recommended 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 agrees with the auditors

University officials agreed with the finding. *(For the previous University response, see Digest Footnote #1.)*

INADEQUATE PROCEDURES OVER MAINTENANCE OF ACCOUNTS PAYABLE MASTER VENDOR FILE

Need to implement controls over monitoring

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

2,742 vendors without a tax identification number

During our review of the University's accounts payable master vendor file (with 55,152 total vendors), we noted there were 12 duplicate records representing 6 vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system. In addition, we noted 2,742 vendors without a tax identification number (TIN) listed and 36,294 vendors with no activity within the 3 previous fiscal years.

36,294 vendors with no activity within the 3 previous fiscal years

University policies state vendors should have a TIN on file when creating the vendor to ensure the vendor is not fraudulent and vendors with no recent activity should be inactivated to ensure no inappropriate payments are made to outdated vendors. (Finding 3, page 10)

We recommended the University review and implement stronger internal controls in order to monitor and maintain the accounts payable master vendor file.

University agrees with the auditors

University officials agreed with the finding.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the University. We will review the University's progress towards implementation of our recommendations in our next engagement.

AUDITOR'S OPINION

Our auditors stated the financial statements of the University, the Auxiliary Facilities System and the Health Services Facilities System as of June 30, 2017, and for the year then ended, are fairly stated in all material respects.

This financial audit was conducted by CliftonLarsonAllen LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 – Inadequate Procedures over Expense Deferrals and Other Cut-off Related Issues – Previous University Response

2016 Accepted. The University will continue to implement corrective actions to address the recommendation in this finding.