



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, 2018**

Release Date: January 23, 2019

FINDINGS THIS AUDIT: 4	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2017		18-2	
Category 2:	1	3	4	2009		18-1	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2008		18-3	
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 5							

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 digest covers the University of Illinois’s Financial Audit as of and for the year ended June 30, 2018. The University’s Compliance Examination (including Single Audit) will be issued in a separate report at a later date.

SYNOPSIS

- **(18-1)** 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.
- **(18-3)** The University has not complied with University policies and internal controls over procurement card transactions.

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, 2018

FINANCIAL OPERATIONS (In Thousands)	2018	2017*
Operating Revenues		
Tuition and fees, net.....	\$ 1,193,322	\$ 1,168,498
Federal grants, contracts and appropriations.....	673,580	690,355
State and private gifts, grants and contracts.....	207,983	218,071
Hospital and medical activities.....	1,041,026	1,010,576
Auxiliary enterprises, net.....	416,319	409,484
Educational activities.....	338,287	309,371
Other.....	13,437	12,582
Total Operating Revenues.....	<u>3,883,954</u>	<u>3,818,937</u>
Operating Expenses		
Instruction.....	1,583,388	1,492,069
Research.....	756,032	788,526
Public service.....	477,291	481,976
Academic support.....	613,615	570,787
Hospital and medical activities.....	1,044,824	992,956
Auxiliary enterprises.....	406,300	402,930
Operation and maintenance of plant.....	330,762	309,313
Institutional support.....	307,669	308,934
Depreciation.....	255,005	262,534
Scholarships and fellowships.....	289,134	275,955
Other.....	247,845	227,641
Total Operating Expenses.....	<u>6,311,865</u>	<u>6,113,621</u>
Operating Loss.....	(2,427,911)	(2,294,684)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	868,361	335,615
Capital appropriations, gifts and grants.....	18,097	18,601
Private gifts and endowments.....	197,877	196,510
On behalf payments for fringe benefits.....	1,710,488	1,611,444
Other, net.....	<u>271,421</u>	<u>185,219</u>
INCREASE IN NET POSITION.....	638,333	52,705
Net Position, beginning of year.....	4,374,586	4,321,881
Cumulative effect of change in accounting principle.....	(1,599,654)	
Net Position, beginning of year, as adjusted.....	<u>2,774,932</u>	<u>4,321,881</u>
Net Position, end of year.....	<u>\$ 3,413,265</u>	<u>\$ 4,374,586</u>

* - Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation

SUMMARY - STATEMENT OF NET POSITION (In Thousands)	2018	2017
Current Assets.....	\$ 1,784,712	\$ 1,446,333
Noncurrent Assets and Deferred outflows.....	<u>6,092,021</u>	<u>5,731,954</u>
Total Assets and Deferred outflows.....	7,876,733	7,178,287
Current Liabilities.....	1,006,710	914,110
Noncurrent Liabilities and Deferred inflows.....	<u>3,456,758</u>	<u>1,889,591</u>
Total Liabilities.....	4,463,468	2,803,701
Total Net Position.....	<u>\$ 3,413,265</u>	<u>\$ 4,374,586</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 \$49,784,822), 60 P-Card expense transactions (totaling \$310,833), and 60 T-Card expense transactions (totaling \$303,612) 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 \$85,984,379). We also reviewed 20 cash disbursements occurring subsequent to year-end (totaling \$65,180,107). Additionally, we separately reviewed 20 internal journal voucher transactions recorded during the fiscal year (totaling \$388,226,298).

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

**Cash receipt of \$748,497 recorded in
FY18 should have been fully accrued
in FY17**

**Operating revenue was overstated in
FY18 by \$2,756,527 as this amount
should have been deferred to FY19**

- Three general and service expense cash disbursements (totaling \$50,396) that were recorded as expenses for fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$30,137, and then recognized as expenses for the fiscal year ending June 30, 2019.
- One cash receipt (totaling \$748,497) that was recorded as operating revenue for the fiscal year ended June 30, 2018, should have been fully accrued as of June 30, 2017.
- Two cash receipts (totaling \$3,688,224) that were recorded as operating revenue for the fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$2,756,527, and then recognized as operating revenue for the fiscal year ending June 30, 2019.
- Six general and service expenses charged on P-cards (totaling \$25,658) that were recorded as expenses for the fiscal year ended June 30, 2018, should have been partially deferred as of June 30, 2018 at an amount of \$19,032 and then recognized as expenses for the fiscal year ending June 30, 2019. (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 CONTROLS OVER UNIVERSITY PROCUREMENT CARD TRANSACTIONS

The University has not complied with University policies and internal controls over procurement card transactions.

During our test work over 96 procurement card transactions totaling \$361,179, we noted the following:

29 of 96 transactions tested were for charges that were prohibited by University procurement card policies

- Twenty nine (30%) transactions (totaling \$23,294) were for charges such as professional services, lodging, business meals and refreshments, pharmaceutical and drugs, furniture with a unit cost of \$500 and above, and advertising expense, **all of which** were prohibited by the University's procurement card policies.

15 of 96 transactions tested were not reconciled timely

- Six (6%) transactions (totaling \$52,116) were paid in two or more installments, circumventing the card holder's single transaction limit of \$4,999.
- Fifteen (16%) transactions (totaling \$90,716) were not reconciled within seven days of appearance on the P-Card software, as required. The reconciliations were completed two to 178 days late.
- Three (3%) transactions (totaling \$13,151) were purchases of equipment that were not tagged in accordance with University's policies and procedures. (Finding 3, pages 10-11) **This finding has been repeated since 2008.**

We recommended 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 agrees with the auditors

University officials agreed with the finding. *(For the previous University response, see Digest Footnote #2.)*

OTHER FINDINGS

The remaining findings pertain to inadequate controls over self-approved timesheets and review of service provider controls and 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, 2018, 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

2017 Accepted. The University will continue taking corrective action to address the recommendation in this finding. Regarding the P-card related cut-off exceptions, the University believes that the small size of individual card transactions represents an expense population in which the probability of a material financial statement error would be extremely remote.

#2 – Inadequate Controls Over University Procurement Card Transactions – Previous University Response

2017 Accepted. While the procurement card is an efficient purchasing mechanism, the University recognizes the importance of procurement card controls, training, and transaction monitoring. The University will implement the necessary corrective action related to the recommendation made in this finding.