



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**UNIVERSITY OF ILLINOIS**

**FINANCIAL AUDIT  
For the Year Ended: June 30, 2013**

**Release Date: January 16, 2014**

**Summary of Findings:**

<b>Total this audit:</b>	<b>2</b>
<b>Total last audit:</b>	<b>2</b>
<b>Repeated from last audit:</b>	<b>2</b>

**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**

- The University has not established adequate internal controls over accurately identifying and recording period end accounts payable and deferred expense and revenue transactions for financial reporting purposes.

{Financial data is summarized on the reverse page.}

**UNIVERSITY OF ILLINOIS**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2013**

<b>FINANCIAL OPERATIONS (In Thousands)</b>	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Tuition and fees, net.....	\$ 1,044,188	\$ 987,796
Federal grants, contracts and appropriations.....	710,789	736,693
State and private gifts, grants and contracts.....	243,413	219,190
Hospital and medical activities.....	861,526	837,520
Auxiliary enterprises, net.....	369,814	363,319
Educational activities.....	273,394	258,298
Other.....	15,788	15,028
Total Operating Revenues.....	<u>3,518,912</u>	<u>3,417,844</u>
<b>Operating Expenses</b>		
Instruction.....	1,249,732	1,114,474
Research.....	746,625	710,656
Public service.....	459,093	413,988
Academic support.....	421,200	377,982
Hospital and medical activities.....	761,237	709,650
Auxiliary enterprises.....	333,648	307,597
Operation and maintenance of plant.....	282,287	270,947
Institutional support.....	250,156	232,023
Depreciation.....	231,556	213,070
Scholarships and fellowships.....	255,930	241,008
Other.....	173,382	153,572
Total Operating Expenses.....	<u>5,164,846</u>	<u>4,744,967</u>
Operating Loss.....	(1,645,934)	(1,327,123)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations.....	621,731	664,683
Capital appropriations, gifts and grants.....	154,584	87,293
Private gifts and endowments.....	143,121	142,023
On behalf payments for fringe benefits.....	1,083,666	818,084
Other, net.....	108,439	74,743
<b>INCREASE IN NET POSITION.....</b>	<b>465,607</b>	<b>459,703</b>
Net Position, beginning of year, as adjusted.....	3,651,209	3,191,506
Net Position, end of year.....	<u>\$ 4,116,816</u>	<u>\$ 3,651,209</u>

<b>SUMMARY - STATEMENT OF NET POSITION (In Thousands)</b>	<b>2013</b>	<b>2012</b>
Current Assets.....	\$ 1,763,076	\$ 1,728,294
Noncurrent Assets and Deferred outflows.....	5,057,315	4,768,354
Total Assets.....	<u>6,820,391</u>	<u>6,496,648</u>
Current Liabilities.....	853,869	997,419
Noncurrent Liabilities.....	1,849,706	1,848,020
Total Liabilities.....	<u>2,703,575</u>	<u>2,845,439</u>
Total Net Position.....	<u>\$ 4,116,816</u>	<u>\$ 3,651,209</u>

**PRESIDENT**

During Audit Period and Current: Robert Easter

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE YEAR-END EXPENSE ACCRUALS,  
AND REVENUE AND EXPENSE DEFERRAL  
PROCESS**

**Improvements needed to identify  
and record period end  
transactions**

The University has not established adequate internal controls over accurately identifying and recording period end accounts payable and deferred expense and revenue transactions for financial reporting purposes.

In relation to our testwork over Educational Activities and Auxiliary Enterprises revenue transactions, we reviewed 164 revenue transactions recorded during the fiscal year totaling \$5,737,468. Additionally, we separately reviewed 31 internal journal voucher revenue transactions recorded during the fiscal year (totaling \$70,704,670 debits and \$38,727,786 credits). In relation to our testwork over expense transactions, we reviewed 189 cash disbursement transactions recorded during the fiscal year (totaling \$158,100,167) and 70 cash disbursements subsequent to year-end (totaling \$86,780,967). Additionally, we separately reviewed 72 internal journal voucher expense transactions recorded during the fiscal year (totaling \$129,667,697 debits and \$293,900,157 credits).

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

**\$387,544 in expenses should have  
been recognized as expense in FY  
2012**

- Two supplies and services expense transactions totaling \$393,695 that included \$387,544 that were recognized as expense in fiscal year 2013, which should have been recognized as expense and accrued for in fiscal year 2012.

**\$1,768,266 erroneously expensed in  
FY 2013 relating to FY 2014  
expenses**

- Two supplies and services expense transactions totaling \$3,747,837 that were recognized as expense in fiscal year 2013, which included \$1,768,266 that should have been deferred as fiscal year 2013 and recognized as expense in fiscal year 2014.
- One supplies and services expense transaction totaling \$103,101 that was appropriately recognized as expense for fiscal year 2013, which should have been recognized as an accounts payable and a capitalized advertising cost for fiscal year 2012. (Finding 1, Pages 5-6) **This finding was first reported in 2009.**

**University agrees with auditors**

We recommended the University review its current process to assess the completeness and existence of its revenue and expense transactions at year-end and consider changes necessary to ensure all period-end accounts payable, and deferred revenues and expenses are accurately identified and recorded.

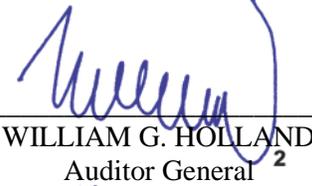
University officials accepted the recommendation and stated that they will work to develop and implement corrective actions to further improve the year-end process. (For the previous University response, see Digest Footnote #1.)

**OTHER FINDING**

The remaining finding relates to inadequate controls over University procurement card transactions and is reportedly being given attention by the University. We will review the University's progress towards the implementation of our recommendations in our next engagement.

**AUDITORS' OPINION**

Our auditors state the June 30, 2013 financial statements are fairly presented in all material respects.

  
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WILLIAM G. HOLLAND  
Auditor General<sup>2</sup>

WGH:TLK

**SPECIAL ASSISTANT AUDITORS**

KPMG were our special assistant auditors.

**DIGEST FOOTNOTES**

**#1 –Inadequate Year-End Accruals Process – Previous University Response**

Accepted. The University has already implemented significant process enhancements in this area. Through analysis of the exceptions identified in the audit, the University will work to develop and implement corrective actions to further improve the year-end processes in this area.