

**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, 2016

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



**CliftonLarsonAllen**

**UNIVERSITY OF ILLINOIS AUXILIARY FACILITIES SYSTEM**

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AUXILIARY FACILITIES SYSTEM  
(A Segment of the University of Illinois)**

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**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 9 of this report

**Exit Conference**

A request to waive a formal exit conference was made by the University in a correspondence dated December 7, 2016. Responses and recommendations were provided by the University's Office of Business and Financial Services in correspondence dated December 7, 2016.



**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"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated February 1, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 2016-001, 2016-002, and 2016-003 that we consider to be significant deficiencies in internal control over financial reporting. 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 governance.

### **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*.

### **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 result 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  
February 1, 2017

**UNIVERSITY OF ILLINOIS**  
**AUXILIARY FACILITIES SYSTEM**  
**(A Segment of the University of Illinois)**  
**CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS**  
**For the Year Ended June 30, 2016**

**2016-001. 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 code 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 \$66,416,080), 60 P-Card expense transactions (totaling \$264,882), and 60 T-Card expense transactions (totaling \$331,836) 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 \$47,087,045). We also reviewed 13 cash disbursements occurring subsequent to year-end (totaling \$35,244,921). Additionally, we separately reviewed 12 internal journal voucher transactions recorded during the fiscal year (totaling \$13,266,046 debits and \$423,600 credits).

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

*University of Illinois transactions*

- One (1) general expense cash disbursement (totaling \$4,157) that was recorded as an expense for fiscal year ended June 30, 2016, should have been fully accrued as of June 30, 2015 at an amount of \$4,157.
- One (1) general expense cash disbursement (totaling \$27,563) that was recorded as an expense for fiscal year ended June 30, 2016, should have been partially deferred as of June 30, 2016 at an amount of \$17,662, and then recognized as an expense for the fiscal year ending June 30, 2017.
- Three (3) cash receipts (totaling \$67,225) that were recorded as operating revenue for the fiscal year ended June 30, 2016, should have been partially accrued as of June 30, 2015 at an amount of \$61,070.

*University of Illinois P-card transactions*

- Three (3) general and service expense cash disbursements (totaling \$8,399) that were recorded as expenses for fiscal year ended June 30, 2016, should have been partially deferred as of June 30, 2016 at an amount of \$8,222, and then recognized as expenses for the fiscal year ending June 30, 2017.

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**For the Year Ended June 30, 2016**

*University of Illinois T-card transactions*

- One (1) general expense cash disbursement (totaling \$1,895) that was recorded as an expense for fiscal year ended June 30, 2016, should have been deferred as of June 30, 2016, and then recognized as an expense for the fiscal year ending June 30, 2017.

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: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs 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 the 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 expenses and revenues are recognized in the appropriate reporting period.

In discussing these conditions with University personnel, they stated that the units associated with the exceptions did not adequately follow the procedures to record the transactions in the proper period. While the University believes it has processes in place to prevent material misstatements in the financial statements, the highly decentralized business environment with hundreds of units and large volumes of transactions does present challenges to catching all errors.

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 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 to implement corrective actions to address the recommendation in this finding.

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**CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS**  
**For the Year Ended June 30, 2016**

**2016-002. 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 approved in the University's procurement card system by the individual cardholder and an assigned reviewer.

During our test work over 85 procurement card transactions totaling \$302,720, we noted the following:

- One transaction (totaling \$3,850) was a charge for pharmaceuticals/drugs, which are prohibited by the University's procurement card policies.
- Four transactions (totaling \$30,699) were paid in two or more installments, circumventing the card holder's single transaction limit of \$4,999.
- One transaction (totaling \$6,582) was made prior to the approval of form "Software Purchased by P-Card". The form was approved two days after the transaction date.

The University has approximately 4,462 active procurement cards and the procurement card expenditures paid for the year ended June 30, 2016 totaled \$58,487,244.

The University policy states that all P-Card exception requests must be submitted to UPAY Card Services using the P-Card Exception Request. Based on the exception criteria, UPAY Card Services routes the request to the appropriate unit(s) or employee(s) for review, and notifies the requester via email of the approval or denial of the request. Exceptions must be approved prior to making the requested purchase(s).

The University policy states that prior to purchasing software with a P-card, units must complete and retain in their files the "Software Purchased by P-Card" form.

Also, 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: (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

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**CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS**  
**For the Year Ended June 30, 2016**

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 and supporting documentation for each transaction is maintained.

University management indicated the bulleted exceptions largely resulted from human error at the individual and unit level. In addition, management indicated the 4 transactions related to circumventing the card holder's single transaction limit of \$4,999 are the result of misunderstanding prohibitions outlined in policy.

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 2016-002, 2015-002, 2014-002, 2013-002, 12-02, 11-03, 10-02, 09-02, and 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. The University recognizes the importance of process controls, training, and transaction monitoring in this area. Further corrective action measures will be taken in connection with the recommendation in this finding.

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**For the Year Ended June 30, 2016**

**2016-003. Finding: Inadequate Procedures over Maintenance of Accounts Payable Master Vendor File**

The University of Illinois (the University) has inadequate controls in place to monitor and maintain the accounts payable master vendor file.

During our review of the University's accounts payable master vendor file (with 144,071 total vendors), we noted there were 779 duplicate records representing 360 vendors. The vendors had the same name but were given different vendor identification numbers in the accounts payable system. In addition, we noted 3,115 vendors without an employer identification number (EIN) listed and 105,938 vendors with no activity within the 3 previous fiscal years.

Good business practices recommend that the accounts payable master vendor file be reviewed for possible duplicate vendor data. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires each State Agency to establish and maintain an effective system of internal control, which would include controls over the master vendor file. Per University policies, vendors should also have an employer identification number (EIN) on file when creating the vendor to ensure the vendor is not fraudulent. In addition vendors with no recent activity should be inactivated to ensure no inappropriate payments are made to outdated vendors.

The University indicated that the conditions found within the University's accounts payable master vendor file largely resulted from a combination of systems limitations and the need for more regular reviews of the vendor master file. Regarding the systems limitations, one challenge involves the inability to delete a vendor in the system without also deleting the related spending history for that vendor. As such, there has been a historic hesitancy to delete vendors from the vendor file. A second challenge relates to the fact that some vendors are foreign nationals and do not have an employer identification number (EIN). Identifying these vendors in the system requires significant manual effort.

Failure to appropriately monitor the accounts payable master vendor file may result in an unauthorized vendor payment. (Finding Code 2016-003)

**Recommendation:**

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

**University Response:**

Accepted. The University will continue to implement necessary corrective action to address the recommendation in this finding. Development and testing initiatives are on-going and will continue with staff from Administrative Information Technology Services (AITS) to resolve the system limitations regarding the inactivation/deletion of vendors with no activity and properly identifying foreign vendors and nationals.

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PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS  
For the Year Ended June 30, 2016**

**A. Finding: Inadequate Controls Over Monitoring External Audits, Attestation Engagements and Other Studies**

During the prior audit, the auditors noted the University's system of internal controls over monitoring external audits, attestation engagements and studies were inadequate as there were no policies or procedures requiring central monitoring to ensure all identified risks and deficiencies were adequately assessed and addressed at a University-wide level. (Finding Code No. 2015-003)

Status: Not Repeated

During the current year engagement, the auditors noted the University strengthened their internal controls over monitoring external audits, attestation engagements and studies in order to ensure compliance with applicable laws and regulations.