

REPORT DIGEST

**UNIVERSITY OF ILLINOIS
COMPLIANCE AUDITS
(In accordance with the Single Audit Act of 1984
and OMB Circular A-133)
For The Two Years Ended June 30, 1992**

INTRODUCTION

Our 1992 compliance audits of the University of Illinois are presented in three volumes. Volume one - titled Compliance Audit presents twenty-nine State compliance findings disclosed by our tests of the University's compliance with State statutes and regulations. Volume two - titled Federal Compliance Audit presents ten Federal compliance findings disclosed by our tests of the University's compliance with Federal rules and regulations. Volume three - titled Supplementary Data presents one State compliance finding disclosed by our tests of the University's compliance with guidelines adopted to improve the financial practices of State universities. In total, the three volumes contain forty findings with our recommendations to improve operations at the University of Illinois. This "Report Digest" covers all three volumes.

Though the 1992 compliance audits contain forty findings, the current number of findings is a significant reduction from the ninety findings that were contained in the 1990 compliance audits of the University. The University has devoted resources towards implementing our recommendations and reducing the number of repeated findings. Of the ninety findings presented in the 1990 reports, only twenty-one are repeated in the 1992 compliance audits of the University.

Of the current forty findings, there are seven which we believe are relatively more significant and are worthy of highlighting within this "Report Digest". Our financial audits of the University were released at an earlier date.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

PROBLEMS WITH HOSPITAL BILLING SYSTEM

In 1987, the University's Hospital implemented an accounts receivable and billing system called Medipac. The system lacks the capability to produce bills acceptable to a third-party payor - Medicaid. To produce the bills in a format specified by Medicaid, the Hospital uses an outside service bureau to produce the required bills at a cost of \$1,000 per month. (Finding 14, page 22 of the Compliance Audit)

We recommended the University allocate personnel to modify the Medipac system to produce billings that are acceptable to Medicaid.

University officials concurred with our recommendation, and stated they are working towards an acceptable billing system.

NEED FOR PROPER ACCOUNTS RECEIVABLE RECONCILIATIONS

The reconciliations between Hospital departmental accounts receivable and the University's general ledger are not being properly prepared. The Hospital has eighteen clinical departments of which eight have large reconciling differences in their accounts receivable records. The differences are not always identified, investigated, and corrected. At June 30, 1992, the University's general ledger had net receivables of \$20,250,000 while the departments' subsidiary

records had total net receivables of only \$9,450,000. The difference of \$10,800,000 resulted in an adjustment which decreased the accounts receivable balance in the University's financial statements. (Finding 20, page 28 of the Compliance Audit)

We recommended the University require the medical departments to reconcile their receivables on a monthly basis, and to promptly investigate and correct reconciling items.

University officials concurred with our recommendation, and stated departmental business managers are currently undergoing training in the reconciliation processes.

LACK OF REVIEWS AT COMPUTER SERVICE BUREAUS

The University's Hospital does not review internal controls at computer service bureaus which process medical billings. The Hospital's eighteen clinical departments use nine different service bureaus to produce patient billing tapes. During fiscal year 1992, Hospital sales and services approached \$129,000,000. The Hospital has never requested reports from the auditors of the service bureaus which describe the systems at the bureaus and the auditors' tests of those systems. Sound internal control procedures require that users obtain copies of the bureaus' system audit reports to support the adequacy of controls at the service bureaus. (Finding 21, page 29 of the Compliance Audit)

We recommended the University require the service bureaus to provide audit reports on the reviews of data processing controls at the bureaus.

University officials concurred with our recommendation, and stated the service bureaus will be required to provide audit reports on their data processing controls.

WEAKNESSES IN ELECTRONIC DATA PROCESSING

Our audits contain several instances in which the University needs to strengthen controls over its electronic data processing activities. We noted the following weaknesses in the University's EDP controls.

- **Power Supply** - The main computer center, located in Chicago, does not have a backup power supply. A major loss of power could seriously disrupt University services. We recommended the installation of an uninterruptible power supply as a backup to protect critical applications that affect University students and Hospital patients. (Finding 26, page 34 of the Compliance Audit)

- **Disaster Recovery** - Disaster recovery plans and procedures for critical data processing applications have not been finalized. The critical systems include those controlling services to University students and Hospital patients. We recommended the disaster recovery plans be finalized in order to enhance the University's ability to continue normal operations in the event of a disaster. (Finding 27, page 35 of the Compliance Audit)

University officials concurred with our recommendations and stated that backup generators in Chicago are currently being installed and tested, and disaster recovery procedures for critical

systems are nearing completion.

DELAYS IN SUBMITTING FEDERAL REPORTS

Various reports to federal grantor agencies were not submitted or were submitted late. Our reviews of grants with seven federal agencies revealed that of the fifty-six reports required to be filed, four were not submitted and thirty-three were submitted late. The reports included inventory and equipment reports, quarterly and annual progress reports, and financial status reports. The various reports are required under the terms of the grants. Violations of the grant agreements may result in reductions or terminations in funding arrangements. The finding did not result in any questioned costs. (Finding 1, page 16 of the Federal Compliance Audit)

We recommended the University adopt procedures to ensure that all required grant reports are submitted on a timely basis.

University officials concurred with our recommendations and stated all delinquent reports have been submitted to the federal agencies. Notices will also be sent to inform the federal agencies of known delays in excess of thirty days.

RETURN OF EARNED INTEREST

The University did not remit interest earned on advances of federal funds. Over a three year period, federal grant funds were advanced to the University. The advanced federal funds earned a total of \$105,000 in interest. Federal regulations require interest earned on advances of federal funds be remitted to the federal agencies on a quarterly basis. The oversight was discovered by the University during an internal review, and the University remitted the interest earnings to the federal agency. The finding resulted in our presenting \$105,000 in questioned costs. (Finding 5, page 22 of the Federal Compliance Audit)

We recommended the University review procedures and controls to ensure that interest earnings are accumulated and remitted to the federal agencies on a timely basis.

University officials concurred with our recommendation and stated a check for past interest due was remitted to the federal agency in August of 1992.

OTHER FINDINGS

The remaining findings are less significant and have been given appropriate attention by the University. We will review the University's progress towards the implementation of our recommendations in our next audit.

Dr. Craig S. Bazzani, Vice President for Business and Finance, and Comptroller of the

University, provided the University's responses.

WILLIAM G. HOLLAND, Auditor General

WGH:KMM:pp

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit findings	4090	
Repeated audit findings	2151	
Prior recommendations implemented or not repeated	6968	

SPECIAL ASSISTANT AUDITORS

Grant Thornton were our special assistant auditors on the audits.