Office of University Audits

Annual Report
For the Year Ended June 30, 2013

For Presentation to the University of Illinois Board of Trustees
September 2013
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President Easter and  
The University of Illinois Board of Trustees

On behalf of the Office of University Audits (Office), I am pleased to present our Annual Report for the Year Ended June 30, 2013. Within this Report we intend to demonstrate our accountability to you that the internal audit function is operating as intended. The Report describes the utilization of audit resources, performance metrics and benchmarks, and adherence to professional standards and our Internal Audit Charter.

The Office protects and improves the University and its related organizations though independent, objective assurance and consulting services that evaluate the effectiveness of governance, risk management, and internal control processes. A robust program of work was delivered to assist management and leadership of the University in effectively and efficiently achieving goals and objectives, while contributing to the mitigation of various risks. We were successful in completing our plan of services to the University by completing 75% of planned audits as compared to an approved goal of 75%, performing follow up on all recommendations due for implementation by management during the fiscal year and responding to special requests throughout the year. Selected highlights include:

- We delivered over 22,000 hours of service.
- Our productivity rate was 83%.
- We completed 72 audit, investigation, and consulting projects resulting in over 200 recommendations for improvement that were accepted by management.
- We validated the implementation of over 200 improvements.

Based on the program of work completed during fiscal year 2013, we submit the following representations:

- All audits were performed in accordance with The Institute of Internal Auditor’s International Standards for the Professional Practice of Internal Auditing.
- The Audit Plan and each individual audit were risk-driven.
- There is transparency in all reports issued; all significant findings were reported.
- We received cooperation from management in all audits conducted.

The Office’s accomplishments would not have been possible without the dedication and professionalism of the employees in the Office, and I thank them for their efforts. I also would like to thank the officers and staff of the University for their cooperation and responsiveness. Finally, I thank you for your continued support of our Office.

Sincerely,

Julie A. Zemaitis
Executive Director of University Audits
The Office’s strategic intent is to operate in a manner that adds value within the University, focuses on the differing primary stakeholders’ expectations and priorities, and adapts to changes in technology, legislation, and organizational strategic priorities.

As with all University organizations, resources are finite and must be applied judiciously to ensure the maximum contribution and benefit possible toward achieving the University’s vision and objectives.

Following are summaries of how our Office utilized audit resources during fiscal year 2013.

**Fiscal Year 2013 Audit Plan Completion Status**

<table>
<thead>
<tr>
<th>Initiated</th>
<th>Completed - Report Issued</th>
<th>Fieldwork Completed - Report Pending</th>
<th>Deferred to FY14 Audit Plan</th>
<th>Withdrawn - Low Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>6%</td>
<td>13%</td>
<td>62%</td>
<td>17%</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Approved Office goal for completion of planned audits = 75%*

We were responsive to special requests and performed follow-up on all recommendations due for management’s implementation during the year.
Appendix B provides a summary of completed projects, along with a definition of audit project types.
Fiscal Year 2013 Direct Audit Hours by Campus/Area

26% 27%
19%
5%
11%
8%
4%

27% 25%
16%
5% 6%
11% 7%
8% 14%
4% 5%

Planned Audit Hours
Actual Audit Hours

Urbana-Champaign Campus
Chicago Campus
Healthcare
Springfield Campus
University Administration
University-Wide
University-Related Organizations

Direct Audit Hours by Campus/Area – Fiscal Year 2012 and Fiscal Year 2013

38%
27%
22% 25%
16%
8% 7%
8% 7%
9% 14%
8% 5%

Actual Audit Hours - FY12
Actual Audit Hours - FY13
Fiscal Year 2013 Productivity Rate

- Productive Hours: Planned 86%, Actual 83%, Peer Group 85%
- Training: Planned 5%, Actual 8%, Peer Group 4%
- General Administrative: Planned 9%, Actual 9%, Peer Group 11%

Non-Personnel Expenditures

- Fiscal Year 2012:
  - Budget: $83,279
  - Actual: $91,612
- Fiscal Year 2013:
  - Budget: $25,500
  - Actual: $107,847

State funding of non-personnel expenditures was not available in Fiscal Year 2013. The Office utilized reserve funds; however, this is not sustainable long-term.
After the expected implementation dates provided by management have passed, all audit recommendations are revisited to determine the status of management’s corrective action. It is through this process that the Office validates positive change throughout the University.

The results of the audit recommendation follow-up activity for fiscal years 2011 through 2013 are presented in the following chart:

### Implementation of University Audit Recommendations

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td></td>
<td>457</td>
<td>448</td>
<td>259</td>
</tr>
<tr>
<td>New Recommendations</td>
<td></td>
<td>305</td>
<td>212</td>
<td>288</td>
</tr>
<tr>
<td>Implemented</td>
<td></td>
<td>(300)</td>
<td>(385)</td>
<td>(218)</td>
</tr>
<tr>
<td>Withdrawn or Not Implemented (Risks Accepted by Management)</td>
<td></td>
<td>(14)</td>
<td>(16)</td>
<td>(13)</td>
</tr>
<tr>
<td>Ending Balance</td>
<td></td>
<td>448</td>
<td>259</td>
<td>316</td>
</tr>
</tbody>
</table>

### Risk and Priority Rating

**All Open Audit Recommendations – 6/30/13**

- **High**: 14%
- **Moderate**: 56%
- **Low**: 30%
Aging of outstanding audit recommendations at June 30, 2013, by management’s original expected implementation date is illustrated in the table below.

### Aging of Outstanding Recommendations

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year 2015</td>
<td>9</td>
</tr>
<tr>
<td>Fiscal Year 2014</td>
<td>165</td>
</tr>
<tr>
<td>Fiscal Year 2013</td>
<td>78</td>
</tr>
<tr>
<td>Fiscal Year 2012</td>
<td>35</td>
</tr>
<tr>
<td>Fiscal Year 2011</td>
<td>17</td>
</tr>
<tr>
<td>Fiscal Year 2010</td>
<td>11</td>
</tr>
<tr>
<td>Fiscal Year 2009</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Recommendations</strong></td>
<td><strong>316</strong></td>
</tr>
</tbody>
</table>
Appendix A

University of Illinois

Organization Chart as of June 30, 2013

Certifications and Advanced Degrees held by Members of the Office of University Audits

<table>
<thead>
<tr>
<th>Professional Certifications</th>
<th>Advanced Degrees</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 CIA = Certified Internal Auditor</td>
<td>4 MBA = Master of Business Administration</td>
</tr>
<tr>
<td>10 CPA = Certified Public Accountant</td>
<td>1 MAS = Master of Accounting Science</td>
</tr>
<tr>
<td>3 CISA = Certified Information Systems Auditor</td>
<td>1 Ed.M. = Master of Education</td>
</tr>
<tr>
<td>3 CFE = Certified Fraud Examiner</td>
<td>1 CGMA = Chartered Global Management Accountant</td>
</tr>
</tbody>
</table>
The following summarizes the projects completed during fiscal year 2013. All audits were performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by The Institute of Internal Auditors (IIA) and adopted by the State of Illinois Internal Audit Advisory Board.

**Total Audit Reports Issued During Fiscal Year 2013 – 72**

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investigative</td>
<td>7</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>12</td>
</tr>
<tr>
<td>Continuous Auditing</td>
<td>10</td>
</tr>
<tr>
<td>Needs Improvement</td>
<td>44</td>
</tr>
<tr>
<td>Consulting</td>
<td>1</td>
</tr>
</tbody>
</table>

**INTERNAL CONTROL AUDITS**

*Internal control audits* determine whether the unit is conducting its financial and business processes under an adequate system of internal control, as required by University policy and guidelines, and good business practice. These audits fulfill our agreement with the Legislative Audit Commission to perform reviews of judgmentally selected units to test the adequacy of the University’s general systems of internal control.

Internal control audits were performed in the following areas:

**Chicago Campus**
- Physical Plant, Material and Motor Pool Stores Inventory Audit
- College of Medicine, Department of Neurosurgery
- UIC Police, Business Office, Turnover Audit
- College of Dentistry
- College of Medicine, Department of Family Medicine
Urbana-Champaign Campus
- State 4-H Office
- College of Veterinary Medicine, Department of Comparative Biosciences, Department of Pathobiology
- College of Veterinary Medicine, Business Service Center, Grants and Contracts Office, Human Resources Service Center
- Veterinary Teaching Hospital, Revenue and Cash Receipts Audit
- Conferences and Institutes, Audit of Self-Supporting and Agency Funds
- Institute for Genomic Biology
- Facilities and Services, Shared Administrative Services, Procurement Services Audit
- College of Agricultural, Consumer and Environmental Sciences, University of Illinois Extension, Unit 10
- Approval, Assessment, Allocation, and Expenditure of Mandatory Student Fees
- College of Law

Springfield Campus
- College of Public Affairs and Administration
- College of Education and Human Services

University of Illinois Foundation
- University of Illinois Foundation, Non-gift Revenue

University of Illinois Alumni Association
- University of Illinois Alumni Association, Review of Cash Receipts, Revenue, and Accounts Receivable Procedures

Singapore Research, L.L.C.
- UI Singapore Research L.L.C. and Illinois at Singapore PTE. LTD.

COMPLIANCE AUDITS

Compliance audits determine the adequacy of the design of systems to ensure compliance with University policies and procedures and external requirements. Audit recommendations typically address the need for improvements in procedures and controls intended to ensure compliance with applicable regulations.

Compliance audits included reviews of:

Chicago Campus
- University of Illinois at Chicago Tuition Waivers, Compliance Audit with Joint Committee of Administrative Rules, State Statute, and University and Campus Policy
- Transplant Department - Organ Acquisition, Compliance and Documentation of Organ Acquisition Costs
- University of Illinois Hospital, Hospital Patient Accounts, Medicare/Medicaid Credit Balance Processes
- University of Illinois Hospital, Physician Credentialing and Privileging
- Animal Testing in Research, Compliance Audit
- Review of Selected Self-Supporting/Fee-Based Program Funds
• Health Information Management Department, Effectiveness of Internal Controls and Compliance of State and Federal Rules and Regulations pertaining to Medical Records

Urbana-Champaign Campus
• Office of the Vice Chancellor for Research, Export Control Administration
• College of Engineering, Department of Computer Science, Compliance with Donor Intent
• College of Engineering, Civil and Environmental Engineering, Sponsored Projects
• Division of Intercollegiate Athletics, Equipment Room, National Collegiate Athletic Association, Compliance Review
• Division of Intercollegiate Athletics, Academic Services Center, Student-Athlete Financial Aid, National Collegiate Athletic Association and Big Ten Conference Compliance Review
• Graduate School of Library and Information Science, Compliance with Donor Intent

Springfield Campus
• Tuition Waivers, Compliance with Joint Committee on Administrative Rules, State Statute, and University Policy
• Athletics Department, NCAA Compliance Audit

University Administration
• University of Illinois, University Financial Statement Reporting Process
• University of Illinois, Cash Management, Audit of Operational Processes

University-wide
• University of Illinois, Search Waivers and Visiting Positions Enterprise-wide Consistency and Compliance Audit

University of Illinois Foundation
• University of Illinois Foundation, Review of Administrative Allocation Accounts, University President’s Special Events and Athletics Allowance (UIUC and UIC) Fund Expenditures and Travel and Entertainment Expenditures
• University of Illinois Foundation, Fraud Risk Assessment Review and Testing

INFORMATION TECHNOLOGY AUDITS
Information technology audits address the organizations, facilities, and systems used to sustain the information technology services for the University.

Information technology audits included reviews of:

Chicago Campus
• University of Illinois Hospital, Information Services
• Jane Addams College of Social Work
• University of Illinois Hospital, Information Services, Clinical Engineering Services Department Audit
• College of Dentistry
• College of Nursing
• College of Medicine, Department of Family Medicine
OPERATIONAL AUDITS

Operational audits examine the use of unit resources to evaluate whether those resources are being used in the most efficient and effective ways to fulfill missions, objectives, and business purposes. An operational audit can include elements of a compliance audit, a financial audit, and an information technology audit.

Operational audits included reviews of:

Chicago Campus
- Office of Research Services
- University of Illinois Hospital and Health Science System, Patient Accounts, Hospital Revenue Cycle - Guarantors and Collection Agencies
- Clinical Trials Research, Billing Enrolled Patient Rendered Services
- University of Illinois Hospital and Health Science System, University of Illinois Hospital, Environmental Services
- College of Medicine, College of Medicine at Rockford, Billing Process

FINANCIAL AUDITS

Financial audits address the accounting for, and reporting of, financial transactions, including commitments, authorizations, and receipt and disbursement of funds. The purpose of this type of audit is to verify that sufficient controls exist over assets, liabilities, revenues, and expenditures and that there are adequate controls over the acquisition and use of resources.

Financial audits included reviews of:

Chicago Campus
- Office of the Vice Chancellor for Research
**CONTINUOUS AUDITING**

*Continuous auditing* is a method used to perform various data analysis techniques to identify anomalies and other indicators of fraud and internal control weaknesses. Continuous auditing changes the traditional auditing paradigm of periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions within a specified area.

Continuous auditing included selected reviews in the areas of:

**University-wide**
- Grant Activity
- Matched Vendor and Employee Addresses and Social Security Numbers
- Recurring P-Card Charges
- Sequential Vendor Invoice Numbers
- iBuy Transactions
- Purchase Order Activity
- Credit Card Refunds
- Overtime Reporting
- Graduate and Academic Hourly Employee Pay Rates

**INVESTIGATIVE AUDITS**

*Investigative audits* focus on alleged civil or criminal violations of state or federal laws or violations of University policies and procedures that may result in prosecution or disciplinary action.

Five investigative audits and reviews were completed. These projects addressed allegations of misappropriation of University resources and non-compliance with University policies.

**CONSULTING SERVICES**

*Consulting services* are advisory in nature, and are generally performed at the request of management. These services assist University management in meeting its objectives, the nature of which is agreed to with management, and for which University Audits assumes no management responsibility.

We performed various consulting services for each of the campuses throughout the year.
MISSION
The mission of the Office of University Audits (University Audits) is to provide independent and objective services to protect and strengthen the University and its related organizations.

DEFINITION OF INTERNAL AUDITING
Internal auditing is an independent, objective assurance, and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

PURPOSE
The purpose of University Audits is to determine whether the University’s control, risk management, and governance processes, as designed and implemented by management, are adequate and functioning to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with University policies and procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Plans and objectives are achieved.
- Quality and continuous improvement are fostered in the University’s control processes.
- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

University Audits reports functionally to the President of the University (President) and The Board of Trustees (BOT) of the University of Illinois through its Audit, Budget, Finance, and Facilities Committee (ABFFC), and administratively to the Comptroller of the Board of Trustees, who is also the Vice President and Chief Financial Officer.

INTERNAL AUDITING RESPONSIBILITIES
The Office responsibilities include the following:

- Develop a flexible two-year plan identifying audits scheduled for the pending fiscal year, using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plan to the President for approval by June 30 of each year.
• Implement the audit plan, as approved by the President, including as appropriate any special tasks or projects requested by management and the ABFFC.
• Issue periodic reports to the President and Chairman of the ABFFC summarizing results of audit activities.
• Report annually to the ABFFC regarding audit plans, activities, staffing, and the organizational structure.
• Report to the ABFFC and BOT by September 30 of each year the scope and results of audits and the adequacy of management’s corrective actions.
• Maintain sufficient knowledge, skills, and experience to meet the requirements of this Charter.
• Assist University management by conducting special services to assist management in meeting its objectives, where appropriate, the nature of which is agreed to with management, and for which University Audits assumes no management responsibility.
• Assist in the investigation of significant suspected fraudulent activities within the institution and notify management and the ABFFC of the results.
• Establish a follow-up process to monitor and identify whether management actions have been effectively implemented, or senior management has accepted the risk of not taking action.
• Consider the scope of work of the external auditors and regulators as appropriate for the purpose of providing optimal audit coverage to the institution.
• Periodically provide the Internal Audit Charter to the ABFFC for review and approval.

**AUTHORITY**

The general scope of audit coverage is University-wide and no function, activity, or unit of the University or a related organization is exempt from audit and review. No officer, administrator, or staff member may interfere with or prohibit internal auditors from examining any University or related organization’s record or interviewing any employee or student that the auditors believe necessary to carry out their duties. Additionally, the Executive Director has the authority to audit the accounts of all organizations required to submit financial statements to the University.

In performing their work, internal auditors have neither direct authority over, nor responsibility for, any of the activities reviewed. Internal auditors do not develop and install procedures, prepare records, make management decisions, or engage in any other activity that could be reasonably construed to compromise their independence or impair their objectivity. Therefore, internal audit reviews do not, in any way, substitute for or relieve other University personnel from their assigned responsibilities.

**PROFESSIONAL STANDARDS**

University Audits has the responsibility to carry out its duties as defined by the State of Illinois Fiscal Control and Internal Auditing Act (Illinois Compiled Statutes, 30 ILCS 10/1001). Those responsibilities include performing audits in accordance with The Institute of Internal Auditor’s International Professional Practices Framework (IPPF), which the State of Illinois Internal Audit Advisory Board has adopted as the standard of performance for all state internal auditors. The IPPF requires mandatory adherence to the Definition of Internal Auditing, the Code of Ethics, and the Standards.
MISSION
The mission of the Office of University Audits (University Audits) is to provide independent and objective services to protect and strengthen the University and its related organizations.

VISION
Be an innovative driver of positive change while striving to be the premier audit function in higher education.

GUIDING VALUES
We perform all that we do with:
- Objectivity
- Independence
- Integrity
- Confidence
- Credibility
- Leadership
- Straightforwardness
- Excellence
- Innovation
- Professionalism

STRATEGIC GOALS
1. Our Office will continue to cultivate relationships and understanding through communication with the Board of Trustees and senior leadership of the University.

2. Serve as counsel to the Board of Trustees; the Audit, Budget, Finance, and Facilities Committee; management; and other constituents.

3. Enhance audit efficiencies and effectiveness.

4. Provide a professional, well-trained, and motivated team in the delivery of internal audit services.

5. Perform audit activities by utilizing a dynamic comprehensive audit process and plan based on assessed risk, in compliance with IIA Standards.