

Reported to the Board of Trustees
September 14, 2012



UNIVERSITY OF ILLINOIS

URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

OFFICE OF UNIVERSITY AUDITS

Annual Report
For the Year Ended June 30, 2012

For Presentation to the University of Illinois Board of Trustees

September 2012

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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, 2012. 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 mission of our Office is to provide independent and objective services to protect and strengthen the University and its related organizations (University). We aim to be an innovative driver of positive change while striving to be the premier audit function in higher education. We believe the Office continues to be a significant element of the University's governance, risk management, and internal control structure. 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 related risks. Selected highlights from fiscal year 2012 include:

- We delivered over 19,000 hours in direct audit activities.
- Our productivity rate was 83%.
- We completed 57 audit, investigation, and consulting projects resulting in over 200 recommendations for improvement that were accepted by management.
- We validated the closure of 385 recommendations for improvement.

Based on the program of work completed during fiscal year 2012, 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
Office of University Audits

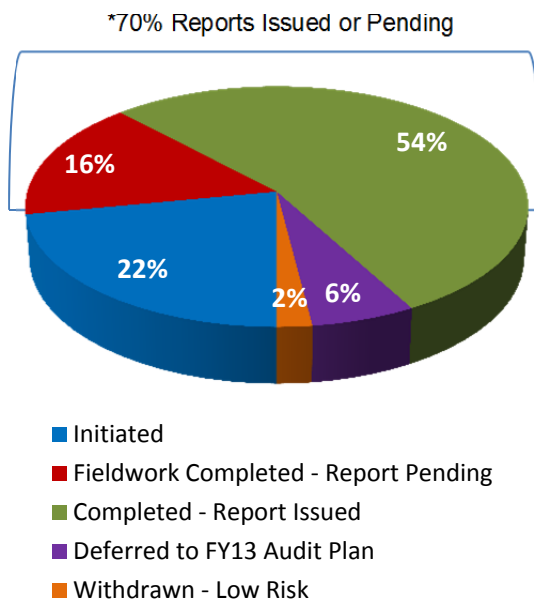
The Office’s strategic intent is to operate in a manner that adds value within the University, focuses on the differing primary stakeholders’ expectations and priorities, and adapts to changes in technology, legislation, and organizational strategic priorities.

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.

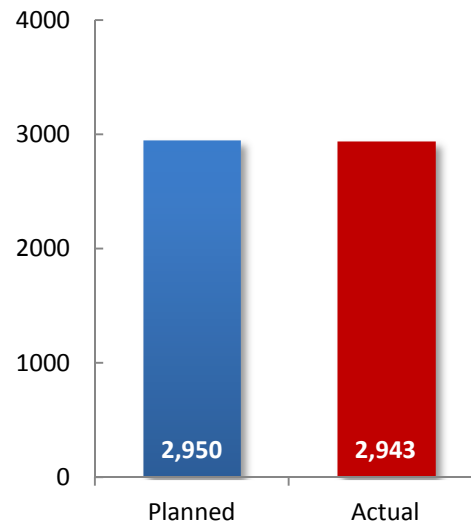
Following are summaries of how our Office utilized audit resources during fiscal year 2012.

Fiscal Year 2012 Audit Plan Completion Status

Planned Audits - Completion Status



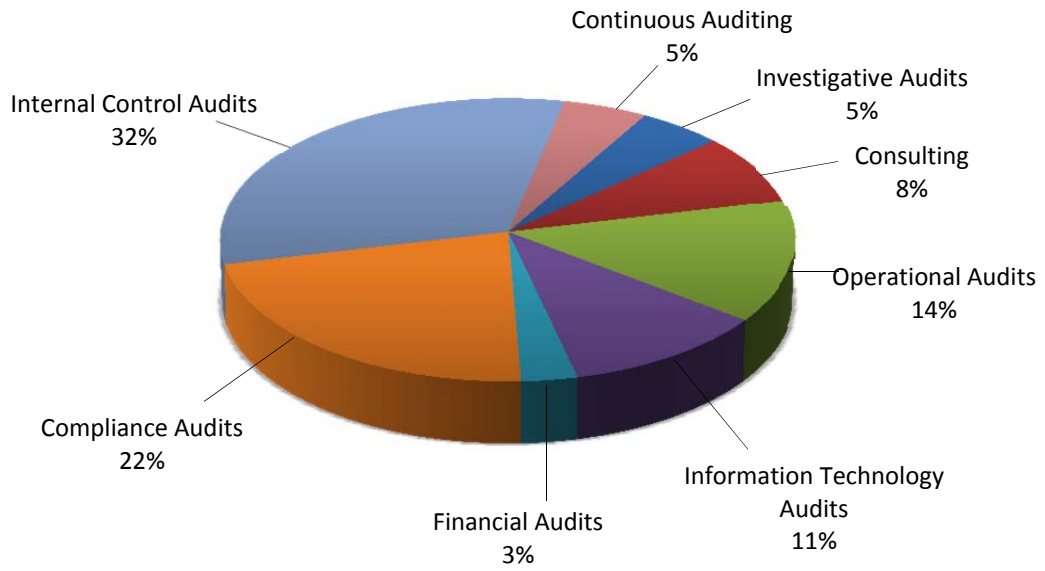
Reserved for Investigations/Special Projects
Planned vs. Actual Hours



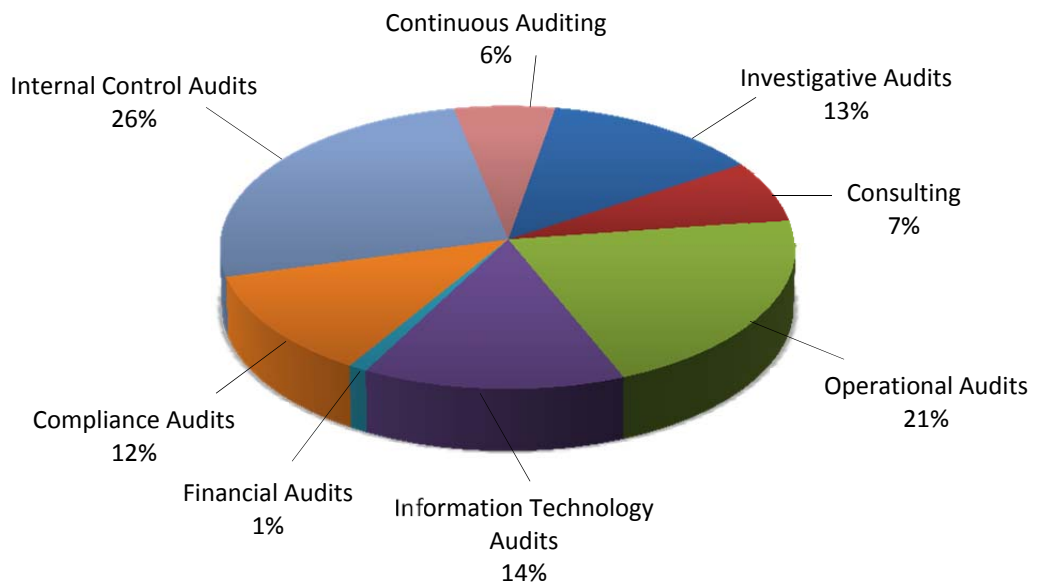
Audit plan completion rate was impacted by our focus on audit recommendation follow-up. The positive results of this effort are illustrated on page 6. Additionally, we experienced staffing vacancies during several months throughout the year.

* We completed 70 percent of our audit plan as compared to the 2011 Institute of Internal Auditors Global Audit Information Network (GAIN) Survey – Higher Education Industry completion rate of 92 percent, and a Multi-Campus subset survey completion rate of 66 percent.

Fiscal Year 2012 Direct Audit Hours by Type of Project

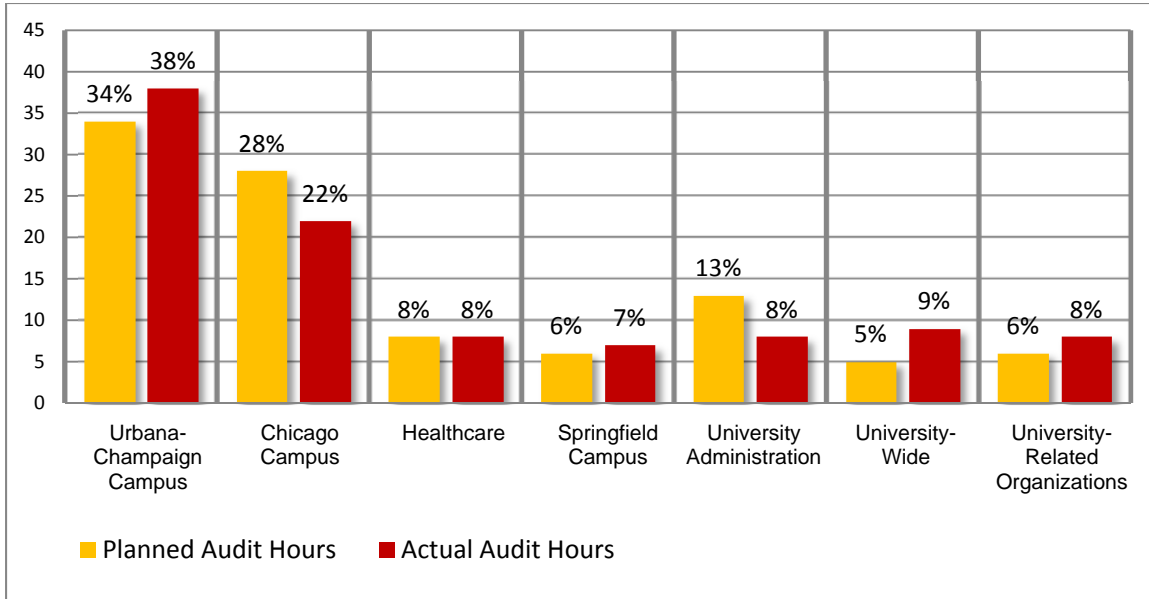


Fiscal Year 2011 Direct Audit Hours by Type of Project

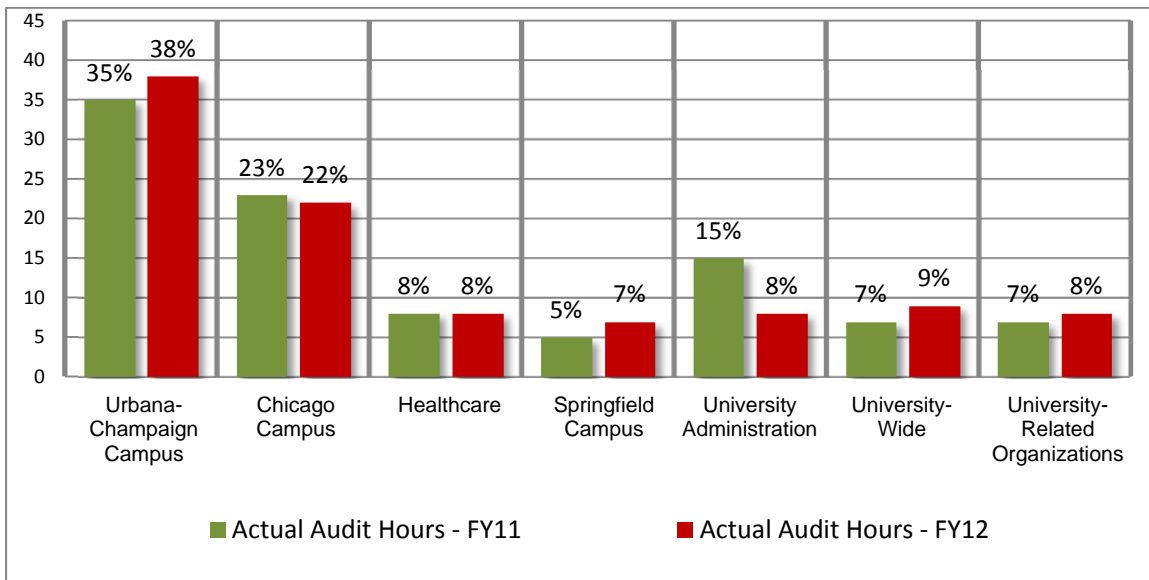


Appendix B provides a summary of completed projects, along with a definition of audit project types.

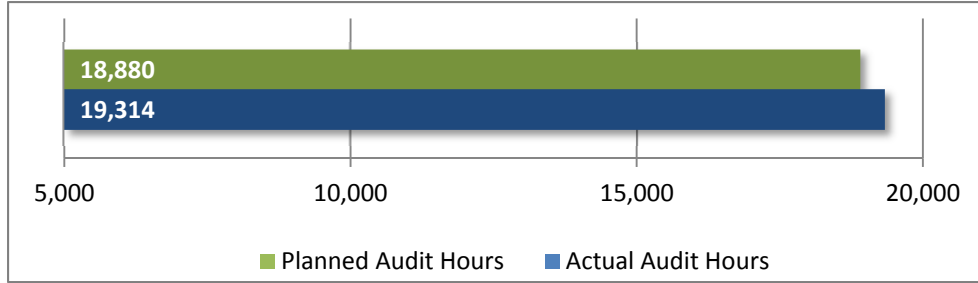
Fiscal Year 2012 Direct Audit Hours by Campus/Area



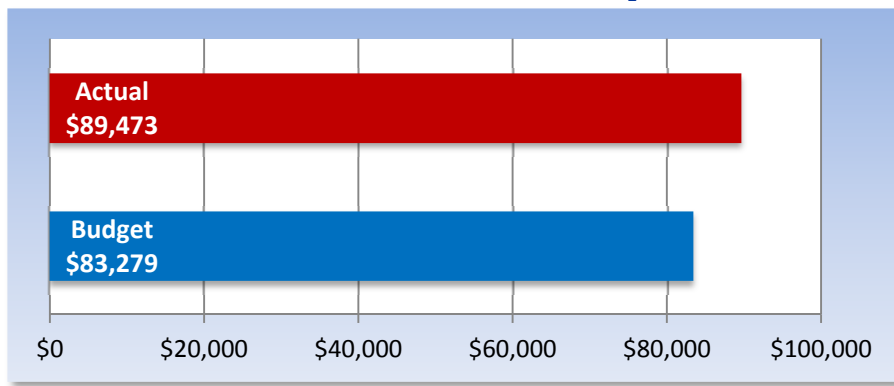
Direct Audit Hours by Campus/Area – Fiscal Year 2011 and Fiscal Year 2012



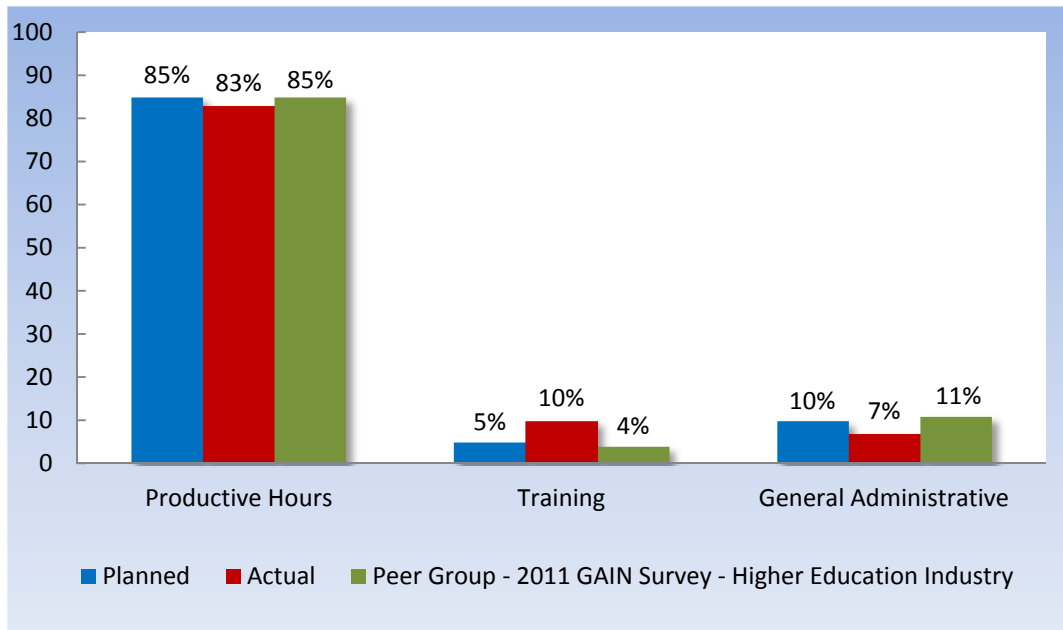
Fiscal Year 2012 Planned vs. Actual Direct Audit Hours



Fiscal Year 2012 Non-Personnel Expenditures



Fiscal Year 2012 Productivity Rate



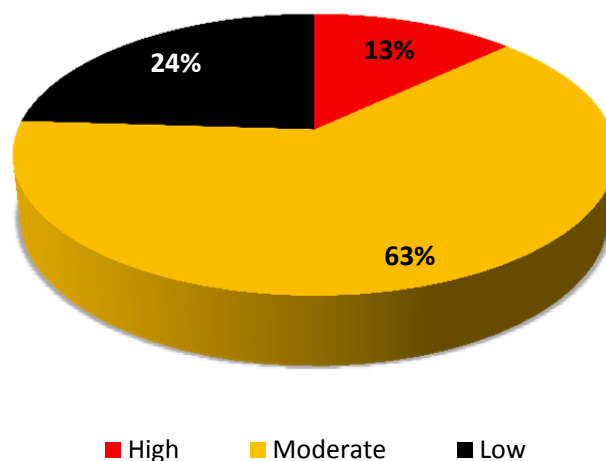
After the expected implementation dates provided by management have passed, all audit recommendations are revisited to determine the status of management’s corrective action. It is through this process that the Office validates positive change throughout the University.

The results of the audit recommendation follow-up activity for fiscal years 2010 through 2012 are presented in the following chart:

Implementation of University Audit Recommendations

	Fiscal Year		
	2010	2011	2012
Beginning Balance	313	457	448
New Recommendations	339	305	212
Implemented	(187)	(300)	(385)
Withdrawn or Not Implemented (Risks Accepted by Management)	(8)	(14)	(16)
Ending Balance	457	448	259

Risk and Priority Rating All Open Audit Recommendations – 6/30/12

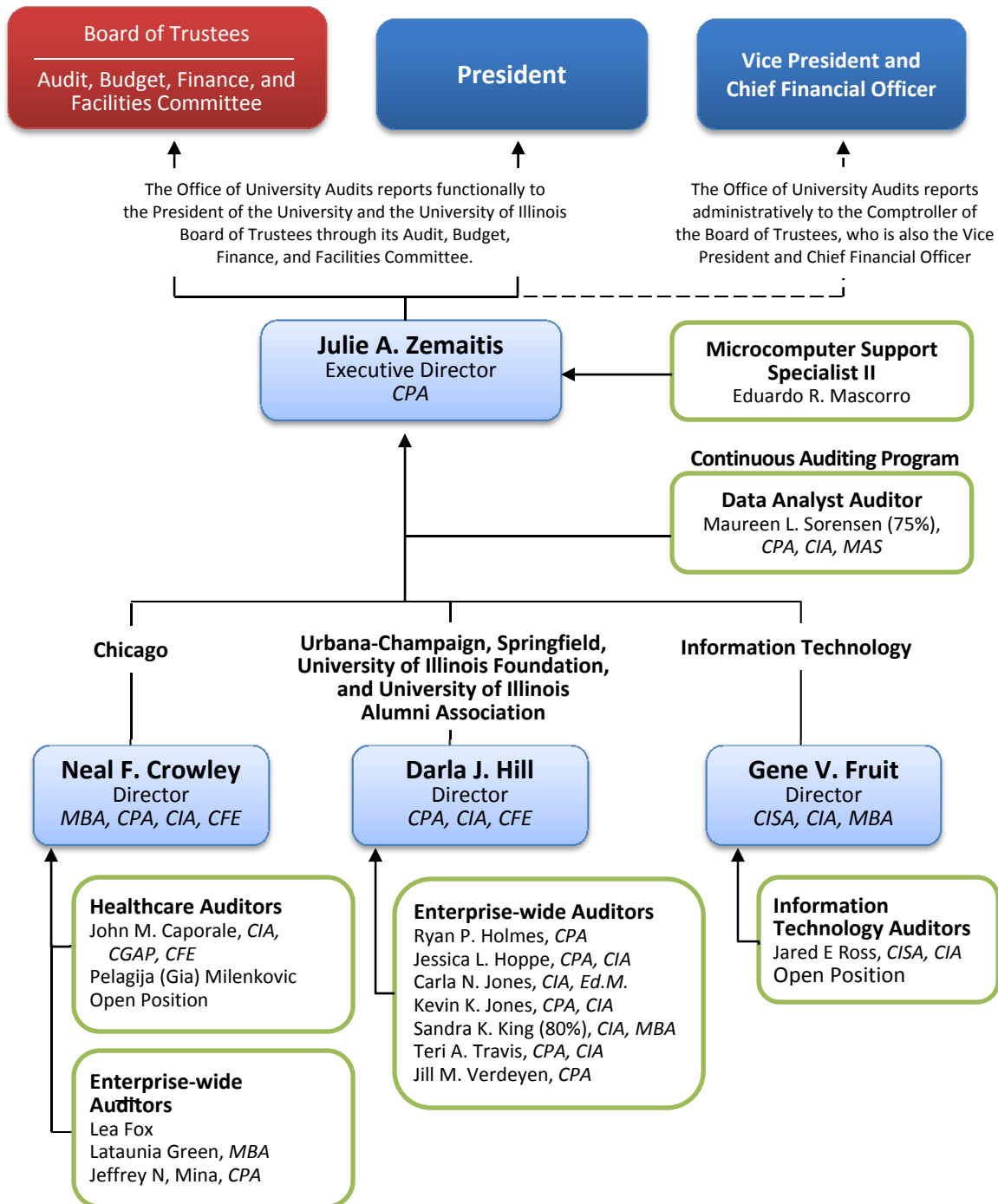


Recommendations are rated by the Office for management’s purposes in prioritizing resources to implement. High risk/priority indicates those issues that will provide the greatest impact and benefit to the University and may not indicate a material weakness in internal control at the enterprise-wide level.

Aging of outstanding audit recommendations at June 30, 2012, by management's original expected implementation date is illustrated in the table below.

Aging of Outstanding Recommendations

Fiscal Year 2014	5
Fiscal Year 2013	110
Fiscal Year 2012	75
Fiscal Year 2011	44
Fiscal Year 2010	23
Fiscal Year 2009	2
Total Recommendations	259



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

Professional Certifications

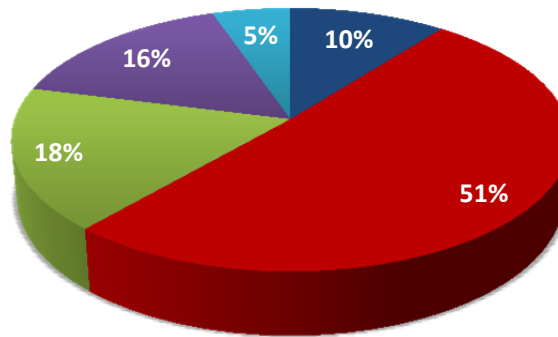
11	CIA = Certified Internal Auditor
10	CPA = Certified Public Accountant
2	CISA = Certified Information Systems Auditor
3	CFE = Certified Fraud Examiner
1	CISA = Certified Information Systems Auditor

Advanced Degrees

4	MBA = Master of Business Administration
1	MAS = Master of Accounting Science
1	Ed.M. = Master of Education

The following summarizes the projects completed during fiscal year 2012. 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 2012 – 57



Number of Reports Issued by Type:

- Investigative – 6
- Needs Improvement – 29
- Satisfactory - 10
- Continuous Auditing – 9
- Consulting - 3

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 randomly 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

- College of Nursing, Department of Behavioral Health Science, P-Card
- College of Medicine, Department of Surgery
- College of Pharmacy
- Vice Chancellor for Research

Urbana-Champaign Campus

- National Center for Supercomputing Operations Applications, Grants and Self-Supporting Funds Administration
- McKinley Health Center

Springfield Campus

- Brookens Library

University of Illinois Foundation

- Fraud Risk Assessment and Testing
- Purchasing, Contracting, and Leasing

Praireland Energy, Incorporated

- Internal Control Audit

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 Hospital & Health Services System, University of Illinois Hospital, Hospital Pharmacy

Urbana-Champaign Campus

- Property Accounting, Office of Business and Financial Services, University Accounting and Financial Reporting
- College of Agricultural, Consumer, and Environmental Sciences, Department of Agricultural and Consumer Economics, Compliance with Donor Intent
- College of Liberal Arts and Sciences Administration, Compliance with Donor Intent
- Division of Intercollegiate Athletics, Academic Services Center, National College Athletic Association and Big Ten Conference Compliance Review
- Illinois Tuition Waivers, Compliance with Joint Committee on Administrative Rules, State Statutes, and University and Campus Policy
- School of Labor and Employment Relations, Compliance with Donor Intent
- Division of Intercollegiate Athletics, Compliance Office, National Collegiate Athletic Association and Big Ten Conference Compliance Review
- Center of Latin American and Caribbean Studies, Compliance with Donor Intent

University Administration

- Governance

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

- Vice Chancellor for Research
- Academic Computing and Communications Center

Urbana-Champaign Campus

- Illini Union
- McKinley Health Center
- National Center for Supercomputing Applications
- Facilities and Services

University Administration

- Administrative Information Technology Services, Computer Operations Engineering
- Human Resources Information Systems

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

- Wolcott, Wood and Taylor, Inc., Billing Process
- University of Illinois Medical Center, Cash Collections at the Outpatient Care Center
- Children's Center, Child and Adult Food Care Program

Urbana-Champaign Campus

- Facilities and Services, Conflict of Interest and Commitment Internal Controls related to the Enterprise-wide Audit of the Utilities Operations including Prairieland Energy Incorporated

Springfield Campus

- Division of Student Affairs, Operational Audit of Selected Units
- Campus Health Services

University-wide

- Enterprise-wide Audit of Utilities Operations including Prairieland Energy Incorporated
- Admissions Reform Checklist Implementation Assessment, Chicago, Urbana-Champaign

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

- Campus Auxiliary Services, UIC Forum, Change Fund and Cash Handling Process
- University of Illinois Hospital, Food and Cafeteria Services, Change Fund and Cash Handling Process
- College of Medicine, Medical Service Plan, Disbursement of Professional Fees to the College of Medicine Clinical Departments

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 the areas of:

University-wide

- Graduate Employee Pay Rates
- Payments Made to Employees While on Sabbatical
- Credit Card Refunds
- P-Card Purchases
- Selected Payroll Earnings Codes
- Banner Accounts Receivable Write-offs
- Invoice Voucher Payments to Employees
- Manual Student Refunds

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.

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

Approved by Audit, Budget, Finance, and Facilities Committee May 31, 2011

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.

University of Illinois - Office of University Audits

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