OFFICE OF UNIVERSITY AUDITS

Annual Report

For the Year Ended June 30, 2016

For Presentation to the University of Illinois Board of Trustees

September 2016
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Message from the Executive Director

President Killeen 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, 2016 (Report). The Report describes our service to the University System through the utilization of audit resources, performance metrics and benchmarks, and adherence to professional standards and our Internal Audit Charter.

Our mission is to protect and strengthen the University System, by providing independent, objective assurance and consulting services that evaluate the effectiveness of governance, risk management, and internal control processes. Similar to other units of the University System, we were impacted by the State budget situation. Nonetheless, a robust program of work was delivered with existing resources to assist management and leadership of the University in effectively and efficiently achieving goals and objectives, while contributing to the mitigation of various risks. Selected highlights include:

- We delivered over 20,000 hours of service.
- We completed 67 audit, investigation, and consulting projects resulting in 250 recommendations for improvement.
- We validated the implementation of over 180 improvements made by management.
- Our productivity rate was 85%, compared to our peer benchmark of 86%.

Based on the program of work completed during fiscal year 2016, 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 2016.

### Fiscal Year 2016 Audit Plan Completion Status

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Audits</td>
<td>22</td>
<td>29</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>16</td>
<td>24</td>
</tr>
<tr>
<td>Projects Added</td>
<td>0</td>
<td>12</td>
<td>1</td>
<td>2</td>
<td>7</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>22</td>
<td>41</td>
<td>4</td>
<td>7</td>
<td>13</td>
<td>18</td>
<td>25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Planned</th>
<th>Actual</th>
<th>Remaining Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Audits</td>
<td>15,580</td>
<td>13,463</td>
<td>2,117</td>
</tr>
<tr>
<td>Special Projects / Investigations</td>
<td>3,190</td>
<td>6,084</td>
<td>(2,894)</td>
</tr>
<tr>
<td>Follow-up</td>
<td>1,000</td>
<td>1,113</td>
<td>(113)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19,770</td>
<td>20,660</td>
<td>(890)</td>
</tr>
</tbody>
</table>
Appendix B provides a summary of completed projects, along with a definition of audit project types.
DIRECT AUDIT HOURS BY UNIVERSITY / AREA

Fiscal Year 2016

Fiscal Years 2015 and 2016

Actual Audit Hours - FY15

Actual Audit Hours - FY16
Fiscal Years 2015 and 2016 Use of Non-Personnel Expenditures (Actual)

<table>
<thead>
<tr>
<th>Category</th>
<th>Fiscal Year 2015</th>
<th>Fiscal Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Required Training / Professional Development</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>University Internal Assessments</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>Other (Inter-Campus Travel, Recruiting, Supplies, Postage, Library Materials, Miscellaneous)</td>
<td>18%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Fiscal Year 2016 Productivity Rate

- Productive Hours: Planned 87% (Actual 85%) (Peer Group 86% *GAIN Survey)
- Training: Planned 5% (Actual 8%) (Peer Group 4%)
- General Administrative: Planned 8% (Actual 7%) (Peer Group 10%)

*Institute of Internal Auditors' Global Information Network Survey
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 ensures that managements’ actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The results of the audit recommendation follow-up activity for fiscal years 2014 through 2016 are presented in the following chart:

### Implementation of University Audit Recommendations

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2014</th>
<th>Fiscal Year 2015</th>
<th>Fiscal Year 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>316</td>
<td>319</td>
<td>217</td>
</tr>
<tr>
<td>New Recommendations</td>
<td>322</td>
<td>209</td>
<td>250</td>
</tr>
<tr>
<td>Implemented</td>
<td>(299)</td>
<td>(258)</td>
<td>(186)</td>
</tr>
<tr>
<td>Not Implemented (Risks Accepted by Management)</td>
<td>(13)</td>
<td>(52)</td>
<td>(57)</td>
</tr>
<tr>
<td>Withdrawn</td>
<td>(7)</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Ending Balance:</td>
<td>319</td>
<td>217</td>
<td>222</td>
</tr>
</tbody>
</table>

### Risk and Priority Rating

All Open Audit Recommendations – 6/30/16

- **High**: 14%
- **Moderate**: 69%
- **Low**: 17%
Aging of outstanding audit recommendations at June 30, 2016, 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>Number of Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Year 2018</td>
<td>7</td>
</tr>
<tr>
<td>Fiscal Year 2017</td>
<td>161</td>
</tr>
<tr>
<td>Fiscal Year 2016</td>
<td>39</td>
</tr>
<tr>
<td>Fiscal Year 2015</td>
<td>10</td>
</tr>
<tr>
<td>Fiscal Year 2014</td>
<td>3</td>
</tr>
<tr>
<td>Fiscal Year 2013</td>
<td>1</td>
</tr>
<tr>
<td>Fiscal Year 2012</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Recommendations</strong></td>
<td><strong>222</strong></td>
</tr>
</tbody>
</table>

### Average Number of Days to Implement Audit Recommendations

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Average Number of Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2012</td>
<td>461</td>
</tr>
<tr>
<td>FY2013</td>
<td>450</td>
</tr>
<tr>
<td>FY2014</td>
<td>420</td>
</tr>
<tr>
<td>FY2015</td>
<td>444</td>
</tr>
<tr>
<td>FY2016</td>
<td>349</td>
</tr>
</tbody>
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Appendix A

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>2 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>1 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 MS = Masters of Science in Network and Telecommunications Management</td>
</tr>
<tr>
<td>1 CGMA = Chartered Global Management Accountant</td>
<td></td>
</tr>
<tr>
<td>1 CGAP = Certified Government Auditing Professional</td>
<td></td>
</tr>
</tbody>
</table>
The following summarizes the projects completed during fiscal year 2016. All audits were performed in conformance 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.

We completed 67 projects during fiscal year 2016.

**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**
- Budget and Resource Planning, Budget and Program Analysis, Tuition Classification: Differentials and Course Fees
- College of Pharmacy, Ambulatory Pharmacy Services, Inventory Control
- College of Medicine, Department of Psychiatry
- College of Medicine, Department of Pediatrics
- University of Illinois Hospital, Patient Accounts Receivable
- University of Illinois Hospital & Health Sciences System, Child & Youth Center

**Urbana-Champaign**
- College of Education, Confucius Institute
- College of Fine and Applied Arts, School of Architecture
- Illinois International Programs – formerly International Programs and Studies, Illinois Abroad and Global Exchange

**Springfield**
- Department of Residence Life
- Information Technology Services

**University of Illinois Foundation**
- Investment Office

**Wolcott, Wood and Taylor**
- Billing Process
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
- College of Medicine, Department of Ophthalmology & Visual Science, Gifts and Donor Intent
- College of Medicine, Department of Surgery, Gifts and Donor Intent
- College of Pharmacy, Department of Medicinal Chemistry & Pharmacognosy, Grant Administration
- University of Illinois Hospital, Care Coordination – Utilization Management, Review of Medical Necessity and 2 Midnight Rule
- University of Illinois Hospital & Health Sciences System, Meaningful Use of Electronic Health Records
- University of Illinois Hospital, Hospital Patient Accounts – Medicare Credit Balances, Compliance with Medicare Credit Balance 60 Day Rule

Urbana-Champaign
- College of Engineering, Department of Electrical and Computer Engineering, Donor Intent
- College of Liberal Arts and Sciences, Department of English, Donor Intent
- Division of Intercollegiate Athletics, Eligibility and Student Athlete Employment
- Employment of Relatives, Extra Help and Student Positions on Grants
- Human Subject Payments

University Administration
- Office of Business and Financial Services, Office of Procurement Diversity, Diversity spend (formerly referred to as “MAFBE”) Reporting
- University Activity Related to UI Labs, Governance and Compliance
- University Financial Reporting Standards Board Compliance

FINANCIAL AUDITS

*Financial audits* attest to the accuracy of financial information of assets, liabilities, revenues, expenditures, or other financial presentations.

Financial audits included reviews of:

Chicago
- University of Illinois Hospital & Health Sciences System, 340B Drug Pricing Program Management Letter
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
- College of Medicine, Department of Psychiatry

Urbana-Champaign
- College of Veterinary Medicine
- Functional Accessibility Evaluator Tool
- Graduate School of Library and Information Science

University of Illinois Foundation
- Advance Illinois

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 and objectives. An operational audit can include elements of a compliance, financial, and information technology audit.

Operational audits included reviews of:

Chicago
- College of Medicine, Conflict of Commitment and Interest
- University of Illinois Hospital, Ambulatory Services Administration and College of Medicine, Dermatology Center, Clinic Operations
- University of Illinois Hospital, Ambulatory Services Administration and College of Medicine, Heart Center, Clinic Operations
- University of Illinois Hospital, Hospital Finance, Inter-entity Transfer and Reporting
- University of Illinois Hospital, Hospital Surgical Services, Controls of Surgicenter Outpatient / Day Surgeries
- Vice Chancellor for Administrative Services, Office of Human Resources

Urbana-Champaign
- Facilities and Services, Division of Safety and Compliance

Springfield
- Office of Admissions
CONTINUOUS AUDITING

Continuous auditing is a method of analyzing data with the objective of assessing risk and related internal controls. It involves using various data analysis techniques to identify anomalies and other indicators, such as non-compliance with University policies, which may reveal control weaknesses. It can be used to assess the risk of a particular business cycle or to identify non-compliance. The analysis can be University-wide, with more detailed reviews of transactions occurring as needed based on the results. It is also used as an element of the annual risk assessment for audit plan development.

Continuous auditing included selected reviews in the areas of:
- Review of Credit Card Refunds
- Review of Foreign Travel Charged to Federal Grants
- Review of Lump Sum Payments
- Review of Overtime Payments
- Review of President’s TEMs
- Review of Recurring P-Card Transactions
- Review of Selected Employee Reimbursements and T-Card Charges
- Review of Selected iBuy Transactions
- Review of Unattached T-Cards
- Review of UPAY’s Monitoring of P-Card and T-Card Purchases over the Holiday Breaks
- Review of Vendor Bank Account Records
- Review of Vendors Paid Through PayPal
- Review of Vendors Used by One Employee
- UIC, College of Medicine, Department of Orthopaedic Surgery, Review of Employee T-Card Activity

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.

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

CONSULTING AND ADVISORY SERVICES

Consulting and advisory services are management related service activities. The scope and procedures involved in consulting engagements are either directed by management or agreed upon with management. Reporting for consulting engagements is generally made directly to management requesting the service. Advisory services are less formal in nature and may include providing counsel, advice, facilitation, and training.

Chicago
- Health Insurance Portability and Accountability Act and Health Information Technology for Economic and Clinical Health Act Risk Assessment Management Letter
- UIC Security Program Review Management Letter
Additionally, we performed various other consulting, advisory, and training services for University System Administration and each University throughout the year. Audit personnel contributed support and advisory services throughout the System by participating in the following:

Audit Leadership
- Audit, Compliance, and Enterprise Risk Management Coordination Group
- Business Process Improvement Advisory Group
- Executive Risk Management Group Risk Retreats Facilitation
- Institute of Internal Auditors, Central Illinois Chapter, Academic Relations Committee
- President’s Management Council
- President’s Policy Council
- SPARC (Sponsored Programs & Research Compliance) Retreat Presenter
- State Internal Audit Advisory Board
- UA Information Technology Leadership Council
- UIC Compliance Committee
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- UIC Information Technology Governance Council, Risk Assessment Committee
- University Information Privacy and Security Committee
- University Information Privacy and Security Committee – HIPAA Subcommittee
- University Information Privacy and Security Committee – Security Subcommittee
- University of Illinois Hospital and Health Science System Compliance Committee
- University-wide Compliance Advisory Committee
- Urbana-Champaign Business Managers Group
- Urbana-Champaign Campus Administrative Manual Committee
- Urbana-Champaign LINK Program (presentation for new business managers)

Audit Staff
- Joint Commission on Accreditation of Healthcare Organizations Committee
- UIC Academic Fiscal Officers Group
- UIC Business Managers Group
- UIC Charitable Fund Drive Representative
- UIC Human Resources Advisory Group
- UIC IT Pro Forum Planning Committee
- Urbana-Champaign Business Managers Group
- Urbana-Champaign IT Caffeine Breaks (weekly campus IT topic discussion group)
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](https://www.illinois.gov/cms/Details/Statutes)). 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.
Appendix D

Office of University Audits Strategic Plan Summary

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.