UNIVERSITY OF ILLINOIS

URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

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OFFICE OF UNIVERSITY AUDITS

Annual Report

For the Year Ended June 30, 2015

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For Presentation to the University of Illinois Board of Trustees

September 2015

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, 2015 (Report). 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. Selected highlights include:
  - We delivered over 21,000 hours of service.
  - We completed 67 audit, investigation, and consulting projects resulting in over 200 recommendations for improvement that were accepted by management.
  - We validated the implementation of over 250 improvements.
  - Our productivity rate was 85%.

Based on the program of work completed during fiscal year 2015, 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 2015.

FISCAL YEAR 2015 AUDIT PLAN COMPLETION STATUS

	NUMBER OF PROJECTS			
	Completed – Report Issued or Pending	In-Progress	Deferred to FY16 Plan	Withdrawn – Lower Risk
Planned Audits	52	12	19	9
Projects Added During the Year	15	4	0	0
TOTAL	**67**	**16**	**19**	**9**

	HOURS		
	Planned	Actual	Remaining Hours
Planned Audits	17,300	15,272	2,028
Special Projects / Investigations	2,100	4,140	(2,040)
Follow-up	1,960	1,701	259
TOTAL	**21,360**	**21,113**	**247**

DIRECT AUDIT HOURS BY TYPE OF PROJECT

Fiscal Year 2015

Type	Percentage
Continuous Auditing	6%
Internal Control Audits	36%
Compliance Audits	10%
Information Technology Audits	9%
Operational Audits	23%
Consulting	2%
Investigative Audits	9%
Financial Audits	5%

Fiscal Year 2014

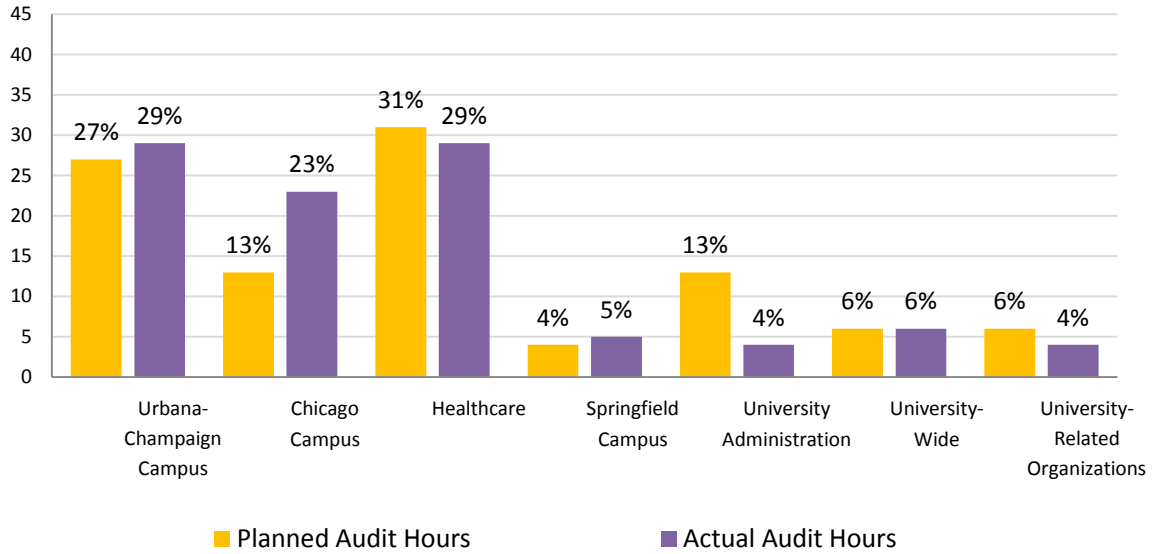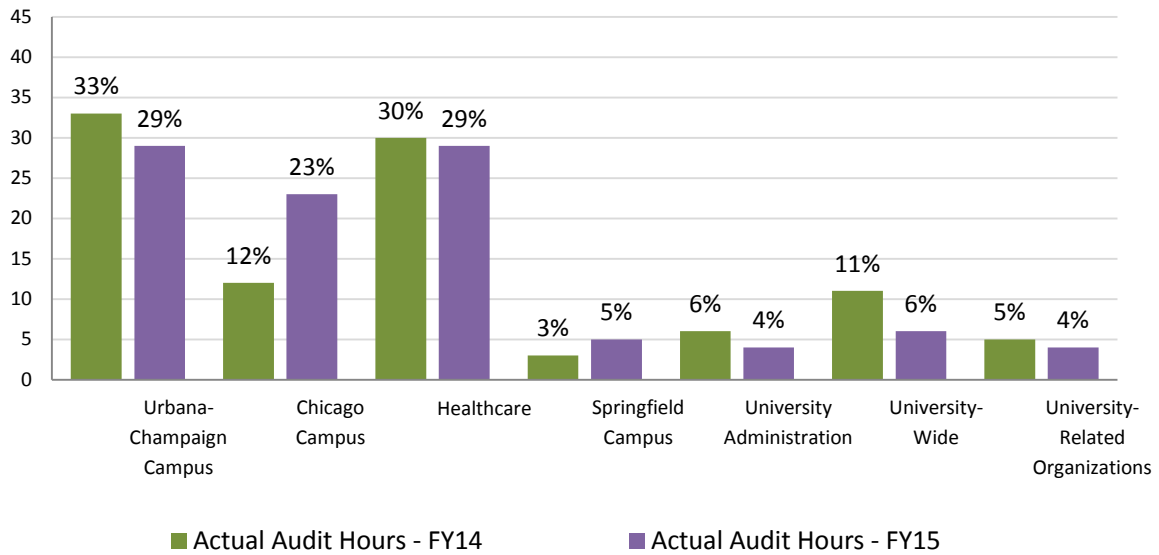| Type	Percentage
Continuous Auditing	6%
Internal Control Audits	38%
Compliance Audits	17%
Information Technology Audits	11%
Operational Audits	20%
Consulting	1%
Investigative Audits	7%

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

DIRECT AUDIT HOURS BY CAMPUS / AREA

Fiscal Year 2015

Legend: ■ Planned Audit Hours   ■ Actual Audit Hours

Fiscal Year 2014 and Fiscal Year 2015

Legend: ■ Actual Audit Hours - FY14   ■ Actual Audit Hours - FY15

Fiscal Year 2015 Personnel Expenditures

$1,584,181 $1,528,604 $55,577

- Budget
- Actual
- Variance
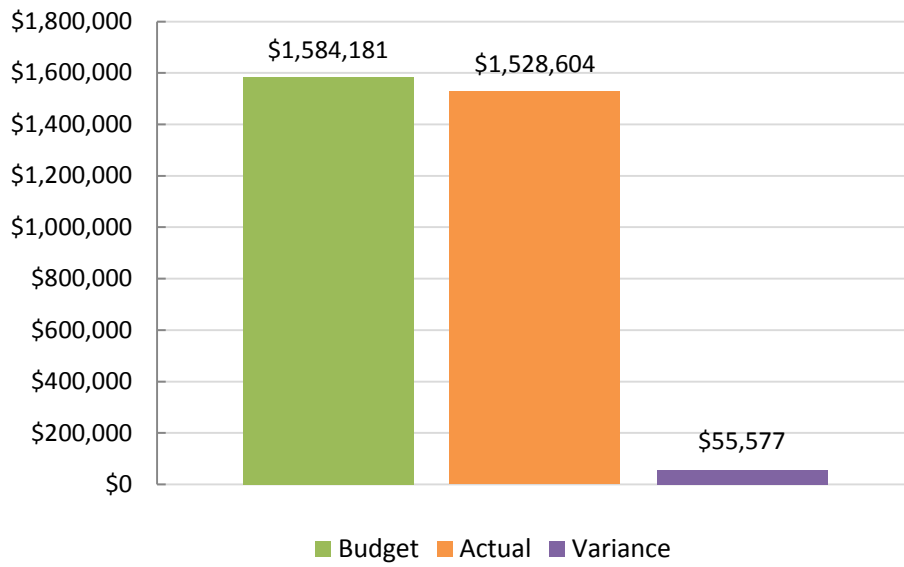
Fiscal Year 2015 Non-Personnel Expenditures

$68,979 $87,667   ($18,688)

- Budget
- Actual
- Variance
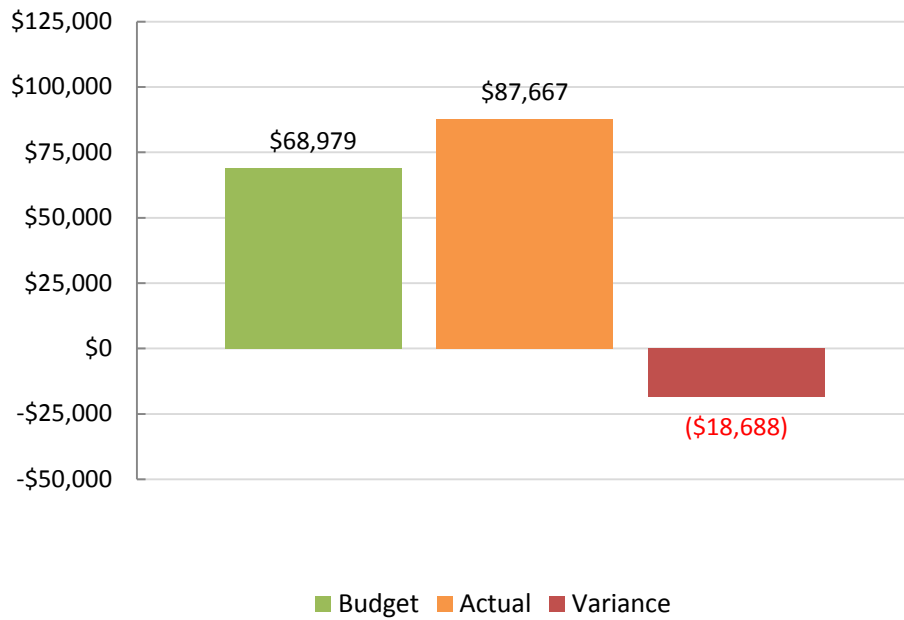
Fiscal Year 2015 Use of Non-Personnel Expenditures (Actual)
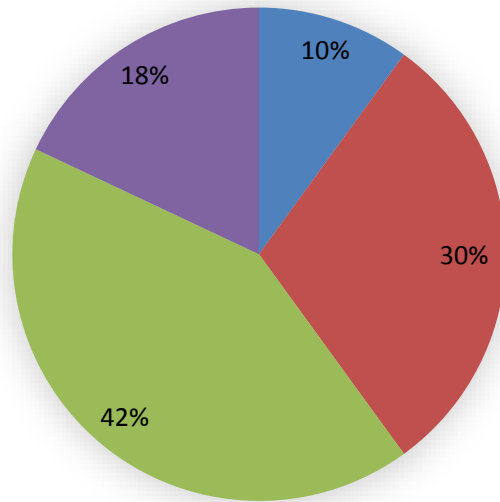
- $8,786 - Information Technology
- $26,300 - Required Training / Skills Development
- $37,091 - Unavoidable University Internal Assessments
- $15,490 - Other (Inter-Campus Travel, Recruiting, Supplies, Postage, Library Materials, Miscellaneous)

Fiscal Year 2015 Productivity Rate

	Productive Hours	Training	General Administrative
Planned	87%	5%	8%
Actual	85%	6%	9%
Peer Group - 2014 *GAIN Survey	84%	5%	11%
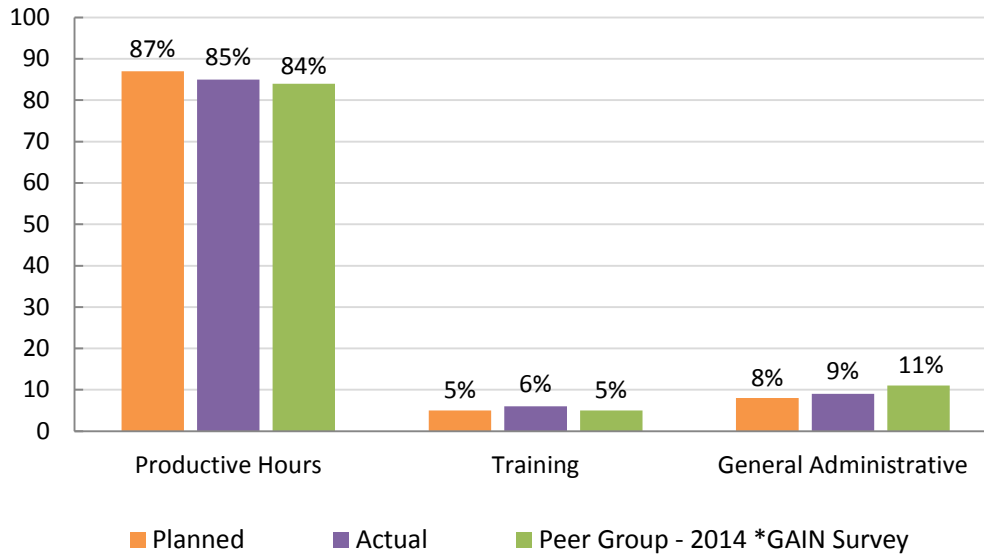
Institute of Internal Auditors' Global Information Network Survey

Audit Recommendation Implementation Results

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 2013 through 2015 are presented in the following chart:

Implementation of University Audit Recommendations

	Fiscal Year		
	2013	2014	2015
Beginning Balance	259	316	319
New Recommendations	288	322	206
Implemented	(218)	(299)	(258)
Withdrawn or Not Implemented (Risks Accepted by Management)	(13)	(20)	(53)
Ending Balance	316	319	214

Note: Table includes UROs which are University-owned subsidiaries. The Foundation and Alumni Association are not included.

Risk and Priority Rating
All Open Audit Recommendations – 6/30/15

High ■ Moderate ■ Low
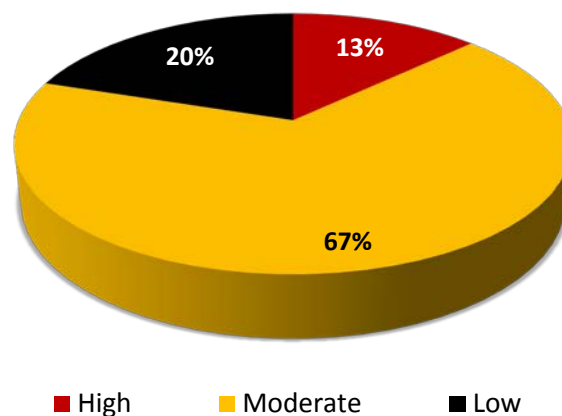
Aging of outstanding audit recommendations at June 30, 2015, by management's original expected implementation date is illustrated in the table below:

Aging of Outstanding Recommendations

Fiscal Year 2018	1
Fiscal Year 2017	2
Fiscal Year 2016	131
Fiscal Year 2015	48
Fiscal Year 2014	17
Fiscal Year 2013	5
Fiscal Year 2012	8
Fiscal Year 2010	2
Total Recommendations	**214**

Audit personnel contributed support and advisory services throughout the University by representation in the following areas:
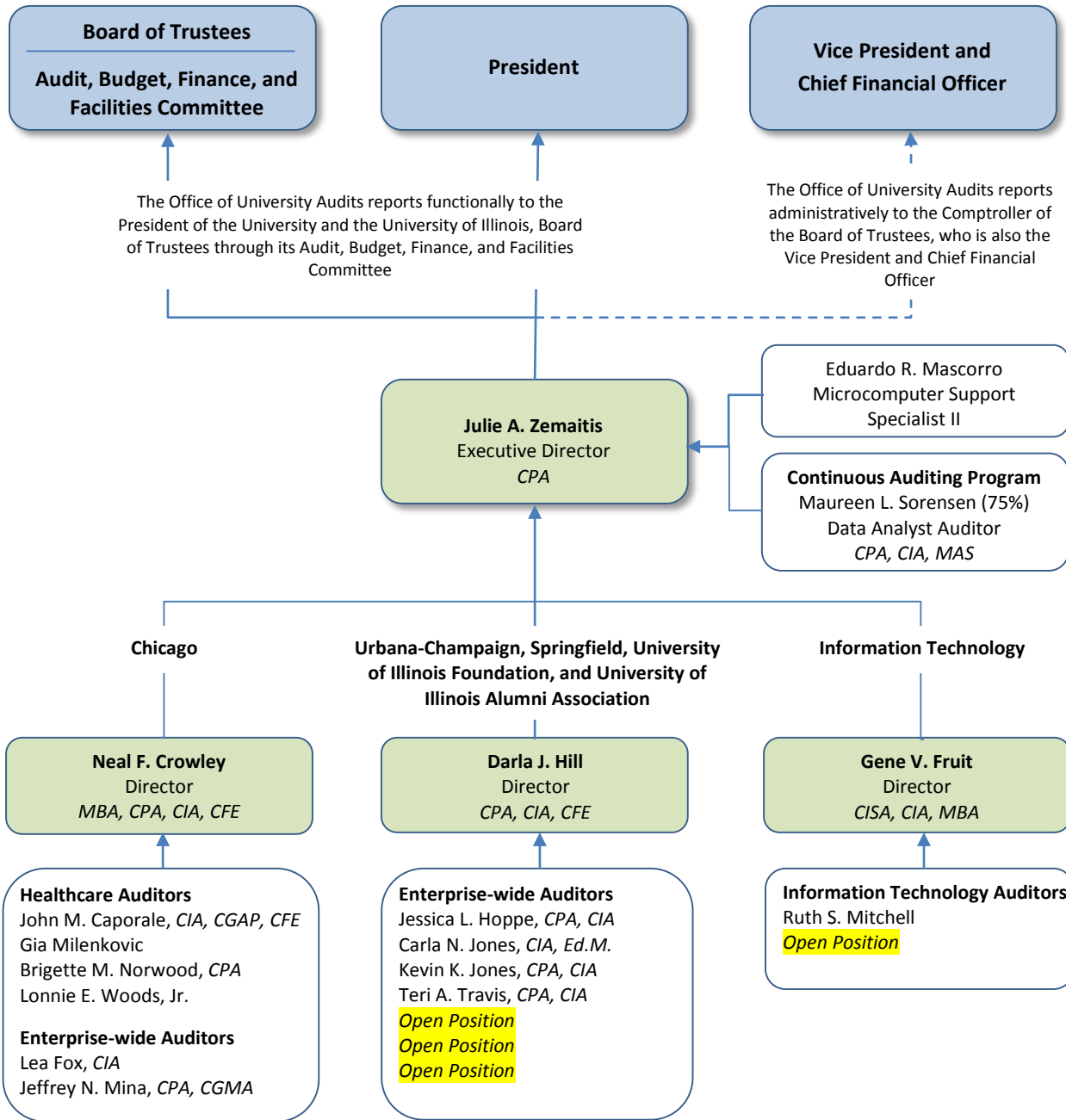
Audit Leadership
- Business Process Improvement Advisory Group
- Business Process Improvement Shared Services Liaison
- Institute of Internal Auditors, Central Illinois Chapter, Academic Relations Committee
- President's Policy Council
- Risk Governance Group – Audit, Compliance, ERM
- State Internal Audit Advisory Board
- UA Information Technology Leadership Council
- UIC Compliance Committee
- UIC Information Technology Governance Council, Infrastructure 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 Effort Reporting Working Group
- Urbana-Champaign IT Caffeine Breaks (weekly campus IT topic discussion group)
- Urbana-Champaign Campus Administrative Manual Committee
- Urbana-Champaign Leadership Conference Presenter
- Urbana-Champaign LINK Program (presentation for new business managers)
- Urbana-Champaign Uniform Guidance Working Group

Audit Staff
- Joint Commission on Accreditation of Healthcare Organizations Committee
- Search Committee for UIUC Campus Security Engineer
- UIC Academic Fiscal Officers Group
- UIC Business Managers Group
- UIC Charitable Fund Drive Representative
- UIC IT Pro Forum Planning Committee
- UIC Human Resources Advisory Group
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- UIS Business Managers Group
- UIS Leadership Conference Presenter
- Urbana-Champaign Business Managers Group
- Urbana-Champaign IT Caffeine Breaks (weekly campus IT topic discussion group)
- Urbana-Champaign IT Alliance Group Presenter
- Urbana-Champaign Leadership Conference Presenter
- Urbana-Champaign Uniform Guidance Working Group

Board of Trustees

Audit, Budget, Finance, and Facilities Committee

President

Vice President and Chief Financial Officer

The Office of University Audits reports functionally to the President of the University and the University of Illinois, Board of Trustees through its Audit, Budget, Finance, and Facilities Committee

The Office of University Audits reports administratively to the Comptroller of the Board of Trustees, who is also the Vice President and Chief Financial Officer

Julie A. Zemaitis
Executive Director
CPA

Eduardo R. Mascorro
Microcomputer Support Specialist II

Continuous Auditing Program
Maureen L. Sorensen (75%)
Data Analyst Auditor
CPA, CIA, MAS

Chicago

Urbana-Champaign, Springfield, University of Illinois Foundation, and University of Illinois Alumni Association

Information Technology

Neal F. Crowley
Director
MBA, CPA, CIA, CFE

Darla J. Hill
Director
CPA, CIA, CFE

Gene V. Fruit
Director
CISA, CIA, MBA

Healthcare Auditors
John M. Caporale, *CIA, CGAP, CFE*
Gia Milenkovic
Brigette M. Norwood, *CPA*
Lonnie E. Woods, Jr.

Enterprise-wide Auditors
Lea Fox, *CIA*
Jeffrey N. Mina, *CPA, CGMA*

Enterprise-wide Auditors
Jessica L. Hoppe, *CPA, CIA*
Carla N. Jones, *CIA, Ed.M.*
Kevin K. Jones, *CPA, CIA*
Teri A. Travis, *CPA, CIA*
Open Position
Open Position
Open Position

Information Technology Auditors
Ruth S. Mitchell
Open Position

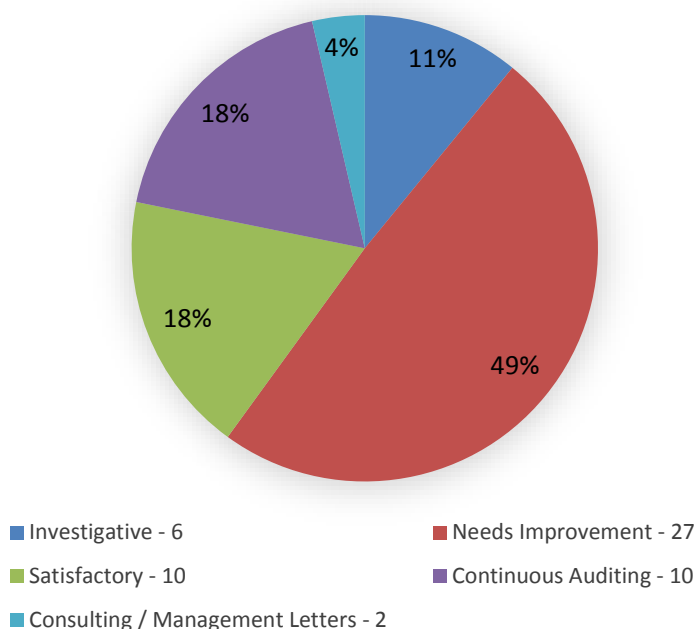## Certifications and Advanced Degrees held by Members of the Office of University Audits

Professional Certifications		Advanced Degrees	
10	CIA = Certified Internal Auditor	2	MBA = Master of Business Administration
9	CPA = Certified Public Accountant	1	MAS = Master of Accounting Science
1	CISA = Certified Information Systems Auditor	1	Ed.M. = Master of Education
3	CFE = Certified Fraud Examiner		
1	CGMA = Chartered Global Management Accountant		
1	CGAP = Certified Government Auditing Professional		

The following summarizes the projects completed during fiscal year 2015. 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.

Total Reports Issued During Fiscal Year 2015 – 55

- Investigative - 6
- Needs Improvement - 27
- Satisfactory - 10
- Continuous Auditing - 10
- Consulting / Management Letters - 2

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
- College of Engineering, Department of Bioengineering
- College of Medicine, Department of Medicine, Institute for Minority Health

- College of Medicine, Department of Microbiology and Immunology
- College of Medicine, Department of Neurology
- College of Medicine, Department of Obstetrics and Gynecology
- College of Medicine - Urbana
- University of Illinois Hospital, Dialysis Center

Urbana-Champaign Campus
- Auxiliary Services, Document Services
- Auxiliary Services, University Housing, Departmental Card Program
- College of Agricultural, Consumer, and Environmental Sciences, Department of Crop Sciences
- College of Agricultural, Consumer, and Environmental Sciences, Department of Food Science and Human Nutrition
- College of Business, Department of Business Administration
- College of Liberal Arts and Sciences, School of Earth, Society, and Environment
- Facilities and Services, Parking Department
- University Lab High School
- Willard Airport

Springfield Campus
- Center for State Policy and Leadership
- Division of Student Affairs
- Office of Human Resources

University Administration
- University Financial Statement Reporting Process
- Vice President for Health Affairs, Mile Square Health Center, Governance

University of Illinois Foundation
- Property, Plant, and Equipment Process and System Conversion

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:

Urbana-Champaign Campus
- Beckman Institute, Donor Intent
- College of Liberal Arts and Sciences, Department of Mathematics, Donor Intent

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
- US/Asia Executive Development Program

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
- College of Engineering
- College of Medicine, Department of Microbiology and Immunology
- College of Medicine, Department of Neurology
- College of Medicine, Department of Obstetrics and Gynecology
- University of Illinois Hospital and Health Sciences System, Health Insurance Portability and Accountability Act, Security Rule Compliance

Urbana-Champaign Campus
- College of Liberal Arts and Sciences, Moodle Learning Management System
- Data Center Shared Services, Data Center

University Administration
- Administrative Information Technology Services, Banner Human Resources System
- Office of Business and Financial Services, Business 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 an internal control, compliance, financial, and information technology audit.

Operational audits included reviews of:

Chicago Campus
- Biennial Inventory Process
- College of Medicine, Physician Incentive compensation for Clinical Services, Departmental Clinical Compensation Plans
- University of Illinois Hospital and Health Sciences System, Cash Counts at Clinics

- University of Illinois Hospital and Health Sciences System, Patient Accounts, Charge Description Master
- University of Illinois Hospital, Care Coordination, Social Work Patient Unit

University of Illinois Research Park, LLC
- Governance

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:

- Review of Credit Card Refunds
- Review of Employee Leave Reporting – 2 Reports
- Review of Graduate and Academic Hourly Employee Pay Rates
- Review of Matched Vendor and Employee Addresses and Social Security Numbers
- Review of Selected Employee Reimbursements and T-Card Charges
- Review of Selected Journal Vouchers
- Review of Selected P-Card Purchases
- Review of Sequential Invoice Numbers
- Review of Vendor Payments Processed as Pick-Up Checks

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.

6 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 and related management service activities, either formal or informal, generally performed at the request of management. These services are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Chicago Campus
- University of Illinois Hospital, International Classification of Diseases, ICD-09 to ICD-10 Conversion

Springfield Campus
- Hiring Process, Operational Efficiency and Effectiveness

Additionally, we performed various other consulting, advisory, and training services for each campus throughout the year.

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
http://www.audits.uillinois.edu

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  Suite 206
  Champaign, IL 61820
  217-333-0900

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  1253 South Halsted Street
  Suite 200
  Chicago, IL 60607
  312-996-2748

Springfield Campus:
  91 Business Services Building
  Mail Drop BSB 85
  One University Plaza
  Springfield, IL 62703-5407
  217-206-7844