UNIVERSITY OF ILLINOIS SYSTEM

OFFICE OF UNIVERSITY AUDITS

ANNUAL REPORT

For the Year Ended June 30, 2018

For Presentation to the University of Illinois Board of Trustees

September 2018

SECTION 1

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, 2018 (Report). The Report describes our service to the University of Illinois System (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 System, by providing 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 System in effectively and efficiently achieving goals and objectives, while contributing to the mitigation of various risks. Selected highlights include:

- We delivered over 18,000 hours of service.
- We completed 47 audit, investigation, and consulting projects resulting in approximately 200 recommendations for improvement.
- We validated the implementation of nearly 180 improvements made by management.
- We filled four open auditor positions at UIC.

Based on the program of work completed during fiscal year 2018, 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 System 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

SECTION 2

USE OF AUDIT RESOURCES DURING FISCAL YEAR 2018

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

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

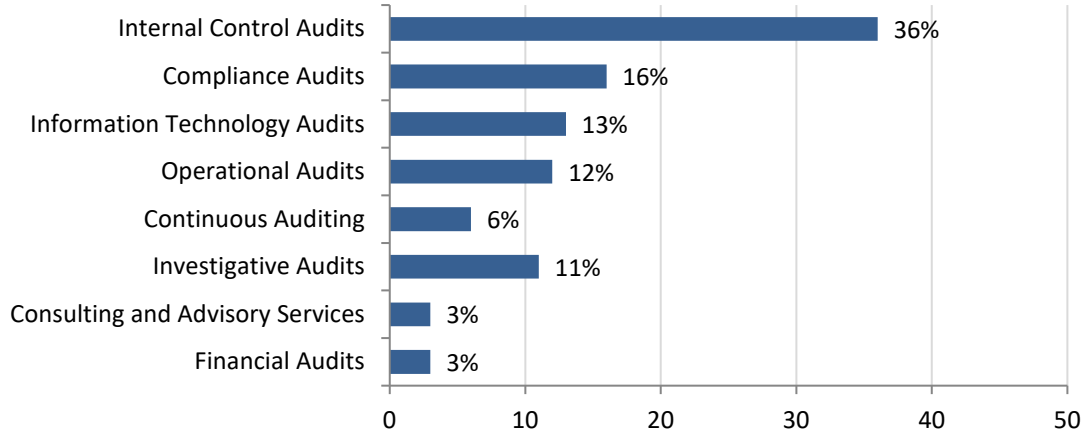Following are summaries of how our Office utilized audit resources during fiscal year 2018.

FISCAL YEAR 2018 AUDIT PLAN COMPLETION STATUS

	Number of Projects					
	Project Completed		Fieldwork Completed – Report Drafted and Pending	In-Progress	Deferred to FY19 Plan	Withdrawn – Lower Risk
	FY17 Plan	FY18 Plan				
Planned Audits	7	30	3	14	8	6
Projects Added	1	9	1	7	2	3
TOTAL	**8**	**39**	**4**	**21**	**10**	**9**

	Hours			
			Remaining	
	Planned	Actual	Hours	Percent
Planned Audits	10,935	11,782	(847)	0%
Emerging Issues / Investigations	5,805	5,779	26	0%
Follow-up	1,170	1,200	(30)	0%
TOTAL	**17,910**	**18,761**	**(851)**	**0%**

DIRECT AUDIT HOURS BY TYPE OF PROJECT

Fiscal Year 2018

Type of Project	Percent
Internal Control Audits	36%
Compliance Audits	16%
Information Technology Audits	13%
Operational Audits	12%
Continuous Auditing	6%
Investigative Audits	11%
Consulting and Advisory Services	3%
Financial Audits	3%

Fiscal Year 2017

Type of Project	Percent
Internal Control Audits	39%
Compliance Audits	20%
Information Technology Audits	11%
Operational Audits	4%
Continuous Auditing	7%
Investigative Audits	14%
Consulting and Advisory Services	5%

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

Fiscal Year 2018

Planned Audit Hours		**Actual Audit Hours**

Urbana-Champaign: 43% / 38%
Chicago: 10% / 20%
Healthcare: 26% / 16%
Springfield: 8% / 8%
System Offices: 3% / 4%
System-Wide: 8% / 13%
University-Related Organizations: 2% / 1%

Fiscal Years 2017 and 2018

Actual Audit Hours - FY17		**Actual Audit Hours - FY18**

Urbana-Champaign: 49% / 38%
Chicago: 19% / 20%
Healthcare: 10% / 16%
Springfield: 6% / 8%
System Offices: 2% / 4%
System-Wide: 10% / 13%
University-Related Organizations: 4% / 1%
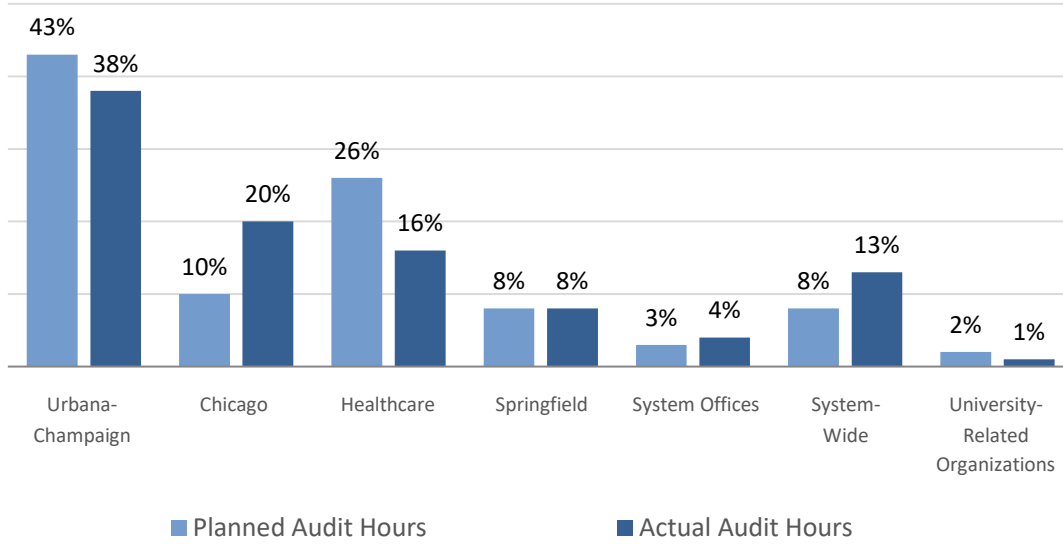
Fiscal Years 2017 and 2018 Personnel Expenditures

$1,559,657
$1,384,562
$175,095
$1,403,100
$1,620,297
($217,197)

$2,000,000
$1,500,000
$1,000,000
$500,000
$0
-$500,000

Fiscal Year 2017
Fiscal Year 2018

■ Budget ■ Actual ■ Variance
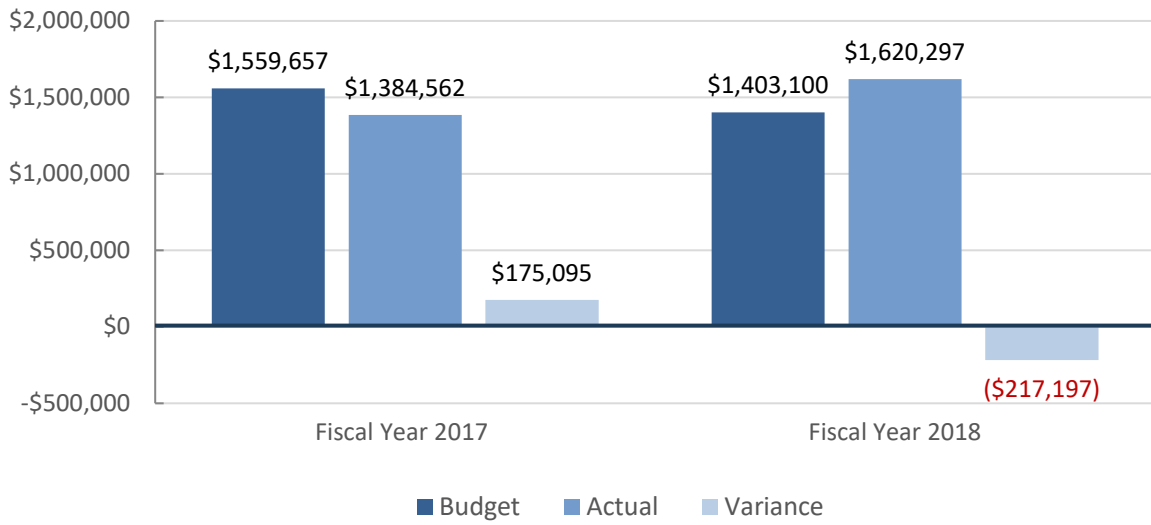
Fiscal Years 2017 and 2018 Non-Personnel Expenditures

$70,902
$25,500
($45,402)
$69,127
$25,500
($43,627)

$125,000
$100,000
$75,000
$50,000
$25,000
$0
-$25,000
-$50,000
-$75,000

Fiscal Year 2017
Fiscal Year 2018

■ Budget ■ Actual ■ Variance
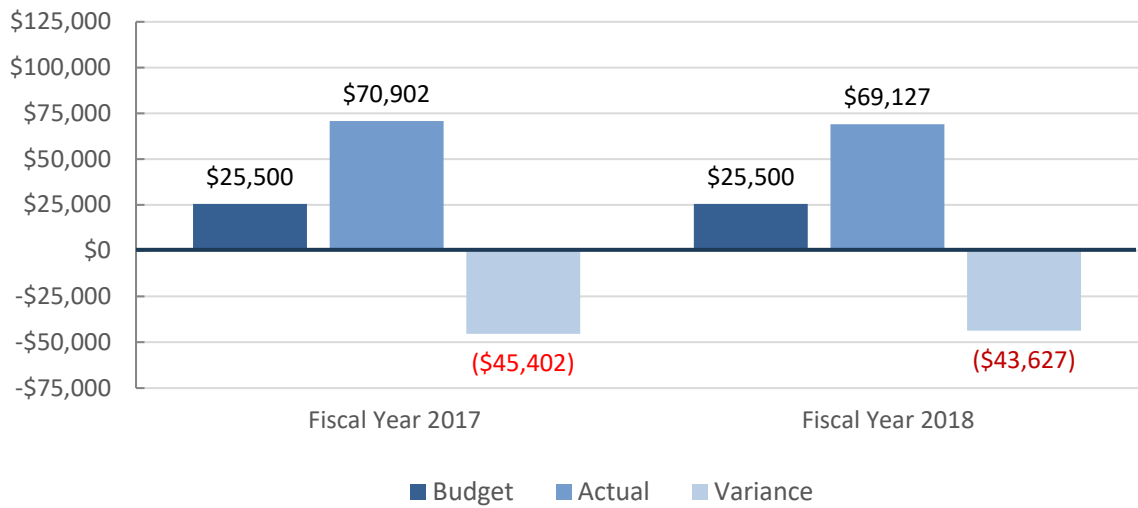
Fiscal Years 2017 and 2018 Use of Non-Personnel Expenditures (Actual)

Fiscal Year 2017:
- 2%
- 18%
- 57%
- 23%

Fiscal Year 2018:
- 15%
- 37%
- 27%
- 21%

Legend:
- Information Technology
- Required Training / Professional Development
- System Internal Assessments
- Other (Inter-Campus Travel, Recruiting, Supplies, Postage, Library Materials, Miscellaneous)
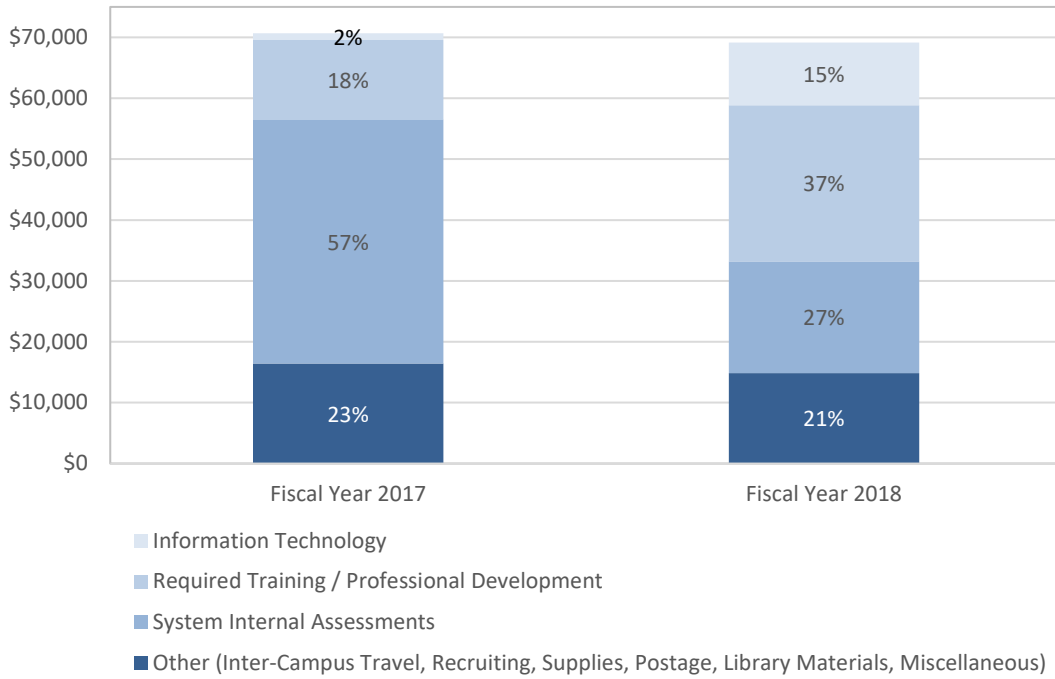
Fiscal Year 2018 Productivity Rate

Productive Hours: 86%, 79%, 87%

Training: 5%, 12%, 4%

General Administrative: 9%, 9%, 9%

Legend:
- Planned
- Actual
- Peer Group - 2017 *GAIN Survey
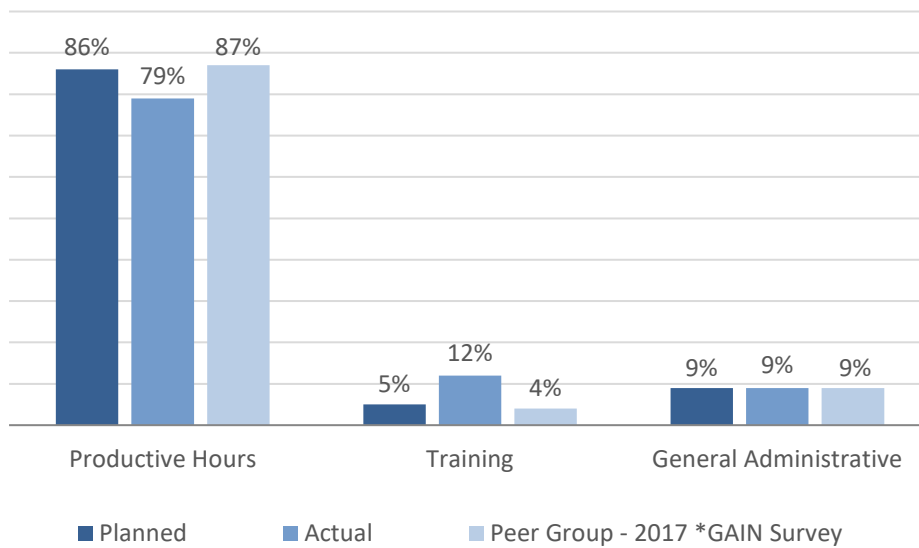
*Institute of Internal Auditors' Global Audit Information Network Survey

SECTION 3

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 2016 through 2018 are presented in the following chart:

IMPLEMENTATION OF SYSTEM AUDIT RECOMMENDATIONS

	Fiscal Year		
	2016	**2017**	**2018**
Beginning Balance	217	222	207
Internal Audit Recommendations Issued	250	234	202
Implemented by Management	(186)	(196)	(177)
Not Implemented (Risks Accepted by Management)	(57)	(40)	(22)
Withdrawn by Internal Audit	(2)	(13)	(3)
Ending Balance:	222	207	207

Risk and Priority Rating
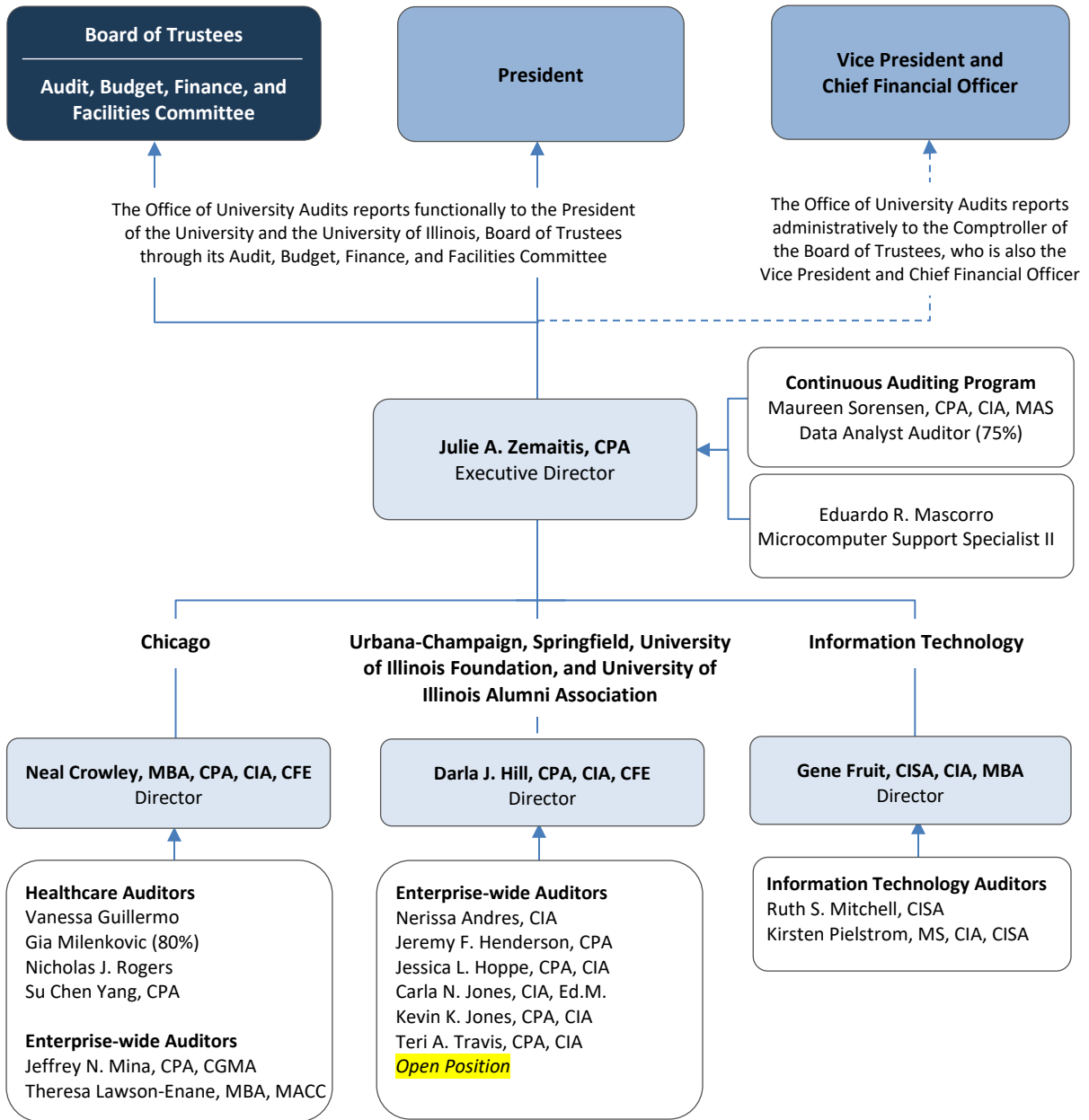All Open Audit Recommendations – 6/30/18

- High
- Moderate
- Low
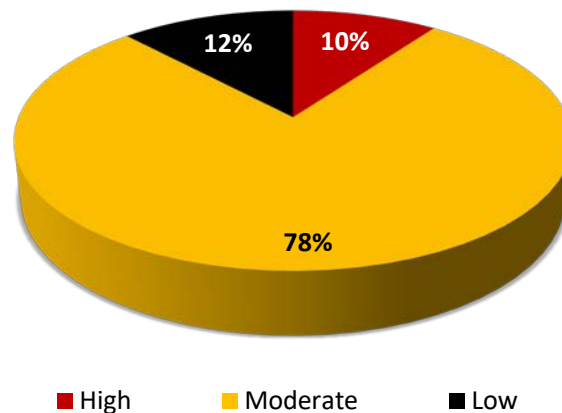
Aging of Outstanding Recommendations by Management's Original Implementation Date

Fiscal Year 2020	9
Fiscal Year 2019	134
Fiscal Year 2018	51
Fiscal Year 2017	11
Fiscal Year 2016	2
Total Recommendations	**207**

Appendix A

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

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

Julie A. Zemaitis, CPA
Executive Director

Eduardo R. Mascorro
Microcomputer Support Specialist II

Chicago

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

Information Technology

Neal Crowley, MBA, CPA, CIA, CFE
Director

Darla J. Hill, CPA, CIA, CFE
Director

Gene Fruit, CISA, CIA, MBA
Director

Healthcare Auditors
Vanessa Guillermo
Gia Milenkovic (80%)
Nicholas J. Rogers
Su Chen Yang, CPA

Enterprise-wide Auditors
Jeffrey N. Mina, CPA, CGMA
Theresa Lawson-Enane, MBA, MACC

Enterprise-wide Auditors
Nerissa Andres, CIA
Jeremy F. Henderson, CPA
Jessica L. Hoppe, CPA, CIA
Carla N. Jones, CIA, Ed.M.
Kevin K. Jones, CPA, CIA
Teri A. Travis, CPA, CIA
Open Position

Information Technology Auditors
Ruth S. Mitchell, CISA
Kirsten Pielstrom, MS, CIA, CISA

Professional Certifications and Advanced Degrees Held By Members of the Office of University Audits

	Professional Certifications			Advanced Degrees
10	CIA = Certified Internal Auditor		3	MBA = Master of Business Administration
10	CPA = Certified Public Accountant		1	MAS = Master of Accounting Science
3	CISA = Certified Information Systems Auditor		1	Ed.M. = Master of Education
2	CFE = Certified Fraud Examiner		1	MS = Masters of Science, Computer Science
1	CGMA = Chartered Global Management Accountant		1	MACC = Master of Accountancy

Appendix B

The following summarizes the projects completed during fiscal year 2018. 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 47 projects during fiscal year 2018.

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 System 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 System's general systems of internal control.

Internal control audits were performed in the following areas:

Chicago
- Facilities Management, Non-Job Order Contracting, Contract Processing, Administration and Expenditures Audit
- Mile Square Health Center
- School of Public Health, Dean's Office

Urbana-Champaign
- College of Engineering, Micro and Nano Technology Laboratory
- College of Liberal Arts and Sciences, School of Molecular and Cellular Biology
- School of Social Work
- Subrecipient Monitoring

Springfield
- Administrative Affairs, Facilities and Services

System-Wide
- University Senates Conference, Governance

COMPLIANCE AUDITS

Compliance audits determine the adequacy of the design of systems to ensure compliance with System 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 Pharmacy, Dean and Advancement Office, Gift Administration and Donor Intent
- UI Hospital, Department of Pathology Blood Bank Services, Health Sciences System Transfusion Medicine Laboratory, Institute for Transfusion Medicine Blood Bank Contract
- UI Hospital, Graduate Medical Education, Resident Program Letters of Agreement with other Healthcare Facilities

Urbana-Champaign
- College of Fine and Applied Arts, Fine and Applied Arts Administration, Donor Intent
- College of Liberal Arts and Sciences, Department of Mathematics, Self-Supporting Fund
- College of Liberal Arts and Sciences, Department of Psychology, Donor Intent
- Office of Undergraduate Admissions and Office of the Dean of Students, Self-Supporting Funds

Springfield
- Office of Financial Assistance
- The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act

FINANCIAL AUDITS

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

Financial audits included a review of:

Chicago
- Vice Chancellor for Administrative Services, Facilities Management, Small Projects Group, Jonasson Coach House Project Audit

INFORMATION TECHNOLOGY AUDITS

Information technology audits address the internal control environment of automated information processing systems and how people use those systems. IT audits typically evaluate system input, output, and processing controls; backup and recovery plans; system security; and computer facilities.

Information technology audits included reviews of:

Chicago
- Academic Computing and Communications Center, Network and Infrastructure
- College of Medicine, Peoria Regional Site, HIPAA Security Rule
- College of Medicine, Rockford Regional Site, HIPAA Security Rule
- Health Insurance Portability and Accountability Act (HIPAA) Security Rule

Urbana-Champaign
- Information Technology Services Catalog Review
- Technology Services, Cloud Computing

System Offices
- Administrative Information Technology Services, Cloud Computing

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 System 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 System-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:

- Conflicts of Interest in Grants and Research
- Credit Card Refunds
- Employee Leave Reporting
- Employee Reimbursements
- Review of Graduate, Academic Hourly, and Student Employee Records
- Review of Payroll Transactions with Transaction Date Significantly after Pay Period End Date
- Transactions By P-Cardholders Who had Previous Personal Purchases
- Trending Analysis of Purchasing Activity
- University Payables Card Services' Monitoring of P-Card Purchases During the Thanksgiving and Winter Holiday Breaks
- Vendors Paid through PayPal or Square with a P-Card
- Vendors Used by One Employee

INVESTIGATIVE AUDITS

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

Six investigative audits and analyses were completed. These projects addressed allegations of misappropriation of System resources and non-compliance with System 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.

Urbana-Champaign
- College of Agricultural, Consumer, and Environmental Sciences, Extension and Outreach, Cooperative Extension, Sea Grant Project Review
- College of Applied Health Sciences, Organizational Design for Business and Financial Structure

Additionally, we performed various other consulting, advisory, and training services for 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 ERM Coordination Group
- Business Administrator Certification Program Course Development
- Business Process Improvement Advisory Group
- Fiscal Control and Internal Auditing Act (FCIAA) Internal Controls Certification
- President's Management Council
- Senior Executive Risk Management Council
- Sponsored Projects Administration, Director of Compliance Search Committee
- UA Information Technology Leadership Council
- UIC Academic Officers Group
- UIC Compliance Committee
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- UIRP LLC Working Committee
- UIUC Business Managers Group
- UIUC Campus Administrative Manual Working Group
- UIUC LINK Training Sessions
- UIUC New Deans Council Sessions
- UIUC F&S Rate and Funding Working Group
- 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 Payroll and Benefits Training Initiative Advisory Committee
- University-wide Compliance Advisory Committee

Audit Staff
- Joint Commission on Accreditation of Healthcare Organizations Committee
- Conflict of Commitment and Interest Procedures Working Group
- Source2Pay Advisory Meetings
- UIC Academic Fiscal Officers Group
- UIC Business Officers Group
- UIC Human Resources Advisory Group
- UIS Business Managers Group
- UIUC Business Managers Group
- UIUC IT Caffeine Break (weekly university IT topic discussion group)
- University of Illinois Hospital and Clinics Ambulatory Revenue Cycle Operating Committee

Appendix C

Approved by Audit, Budget, Finance, and Facilities Committee March 6, 2017

MISSION

The mission of the Office of University Audits (University Audits) is to provide independent and objective services to protect and strengthen the University System 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 System'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 process.
- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

University Audits reports functionally to the President of the University System (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.

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 Core Principles of the Professional Practice of Internal Auditing, Definition of Internal Auditing, the Code of Ethics, and the Standards.

Appendix D

MISSION

The mission of the Office of University Audits (Office) is to provide independent and objective services to protect and strengthen the System 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. The Office will continue to cultivate relationships and understanding through communication with the Board of Trustees and senior leadership of the System.
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. Perform audit activities by utilizing a dynamic comprehensive audit process and plan based on assessed risk, in compliance with IIA Standards.