UNIVERSITY OF ILLINOIS SYSTEM

URBANA-CHAMPAIGN · CHICAGO · SPRINGFIELD

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OFFICE OF UNIVERSITY AUDITS

Annual Report

For the Year Ended June 30, 2017

For Presentation to the University of Illinois Board of Trustees

September 2017

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, 2017 (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. Similar to other units of the 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 System in effectively and efficiently achieving goals and objectives, while contributing to the mitigation of various risks. Selected highlights include:

- We delivered over 17,000 hours of service.
- We completed 54 audit, investigation, and consulting projects resulting in approximately 230 recommendations for improvement.
- We validated the implementation of nearly 200 improvements made by management.
- Our productivity rate was 86%, compared to our peer benchmark of 85%.
- Through collective efforts with management, the average number of days to implement audit recommendations was reduced from 349 days to 128 days.

Based on the program of work completed during fiscal year 2017, 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

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 2017.

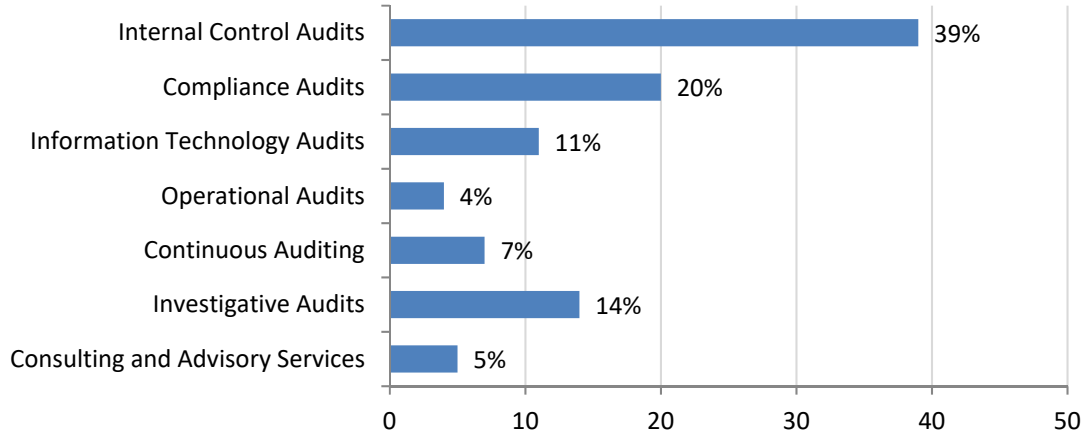### FISCAL YEAR 2017 AUDIT PLAN COMPLETION STATUS

| | Number of Projects | | | | | |
| | Project Completed | | Fieldwork Completed – Report Drafted and Pending | In-Progress | Deferred to FY18 Plan | Withdrawn – Lower Risk |
	FY16 Plan	FY17 Plan				
Planned Audits	9	30	5	6	14	8
Projects Added	0	15	2	7	0	0
TOTAL	**9**	**45**	**7**	**13**	**14**	**8**

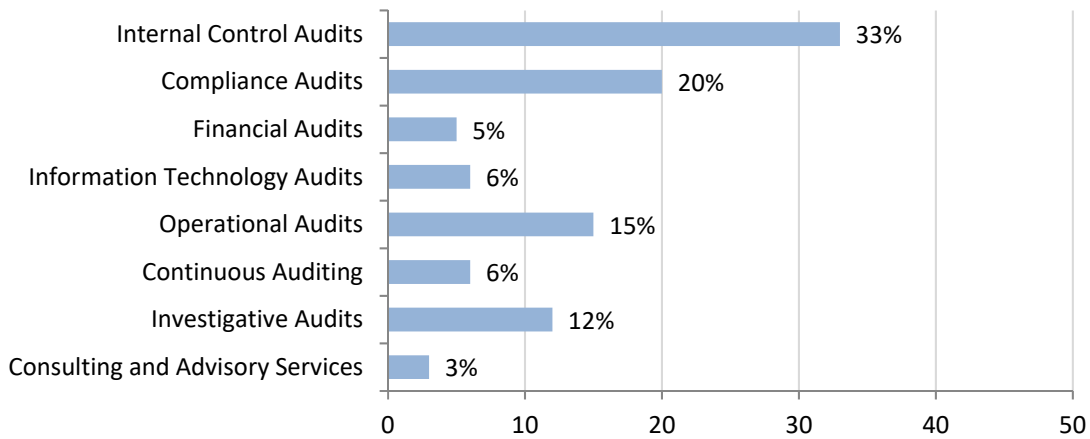| | Hours | | | |
| | | | Remaining | |
	Planned	Actual	Hours	Percent
Planned Audits	11,665	10,098	1,567	13%
Emerging Issues / Investigations	6,465	5,624	841	13%
Follow-up	1,280	1,304	(24)	0%
TOTAL	**19,410**	**17,026**	**2,384**	**13%**

The variance in total hours is reflective of open positions during the year, which were held open during the System Office hiring freeze.

DIRECT AUDIT HOURS BY TYPE OF PROJECT

Fiscal Year 2017

Type of Project	Percentage
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%

Fiscal Year 2016

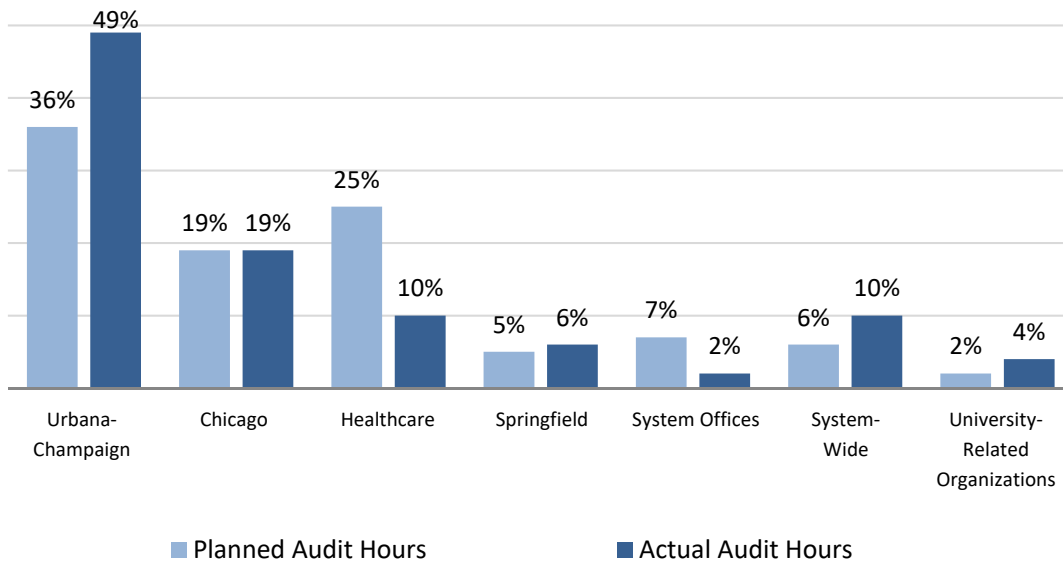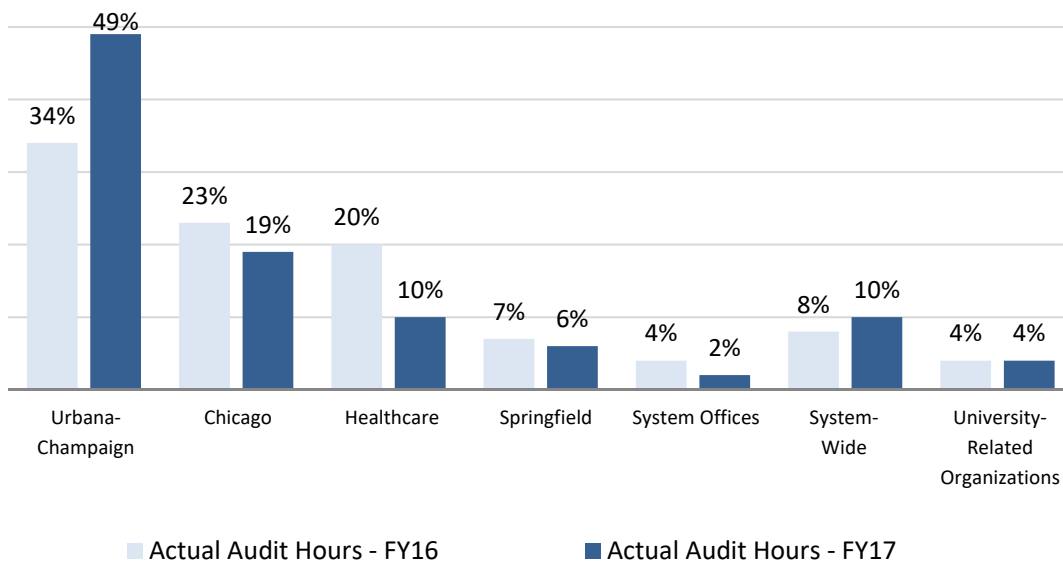| Type of Project	Percentage
Internal Control Audits	33%
Compliance Audits	20%
Financial Audits	5%
Information Technology Audits	6%
Operational Audits	15%
Continuous Auditing	6%
Investigative Audits	12%
Consulting and Advisory Services	3%

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

DIRECT AUDIT HOURS BY UNIVERSITY / AREA

Fiscal Year 2017

Planned Audit Hours ■ **Actual Audit Hours** ■

	Urbana-Champaign	Chicago	Healthcare	Springfield	System Offices	System-Wide	University-Related Organizations
Planned	36%	19%	25%	5%	7%	6%	2%
Actual	49%	19%	10%	6%	2%	10%	4%

Fiscal Years 2016 and 2017

Actual Audit Hours - FY16 ■ **Actual Audit Hours - FY17** ■

	Urbana-Champaign	Chicago	Healthcare	Springfield	System Offices	System-Wide	University-Related Organizations
FY16	34%	23%	20%	7%	4%	8%	4%
FY17	49%	19%	10%	6%	2%	10%	4%

Fiscal Years 2016 and 2017 Personnel Expenditures

Fiscal Year 2016:
- Budget: $607,200
- Actual: $1,533,793
- Variance: ($926,593)

Fiscal Year 2017:
- Budget: $1,559,657
- Actual: $1,384,562
- Variance: $175,095

Legend: Budget, Actual, Variance
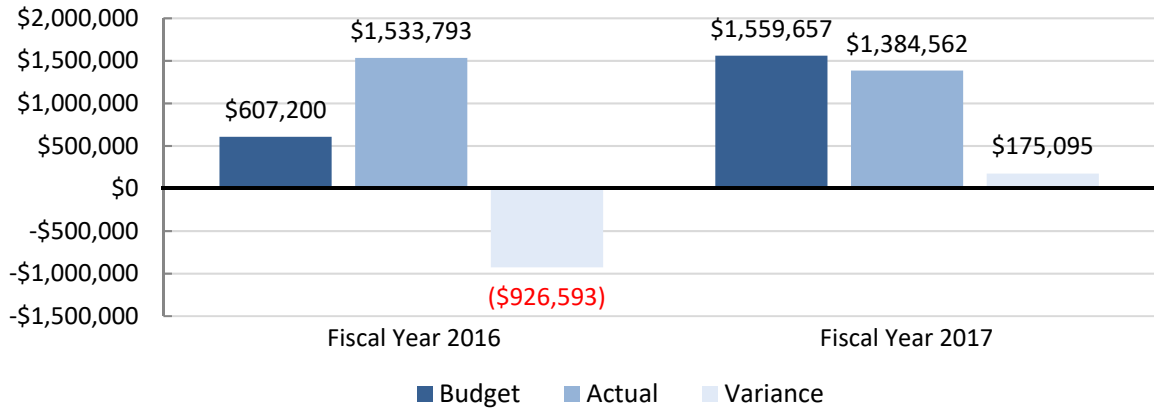
Fiscal Years 2016 and 2017 Non-Personnel Expenditures

Fiscal Year 2016:
- Budget: $25,500
- Actual: $87,347
- Variance: ($61,847)

Fiscal Year 2017:
- Budget: $25,500
- Actual: $70,902
- Variance: ($45,402)

Legend: Budget, Actual, Variance
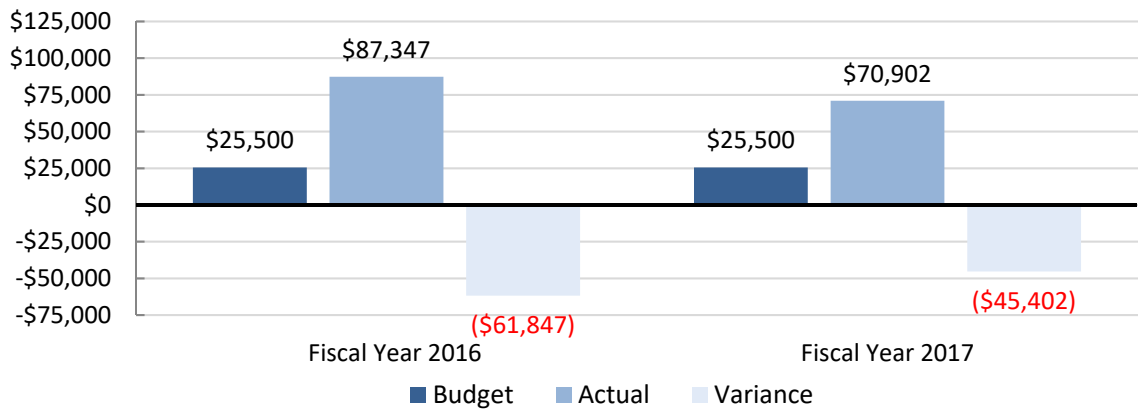
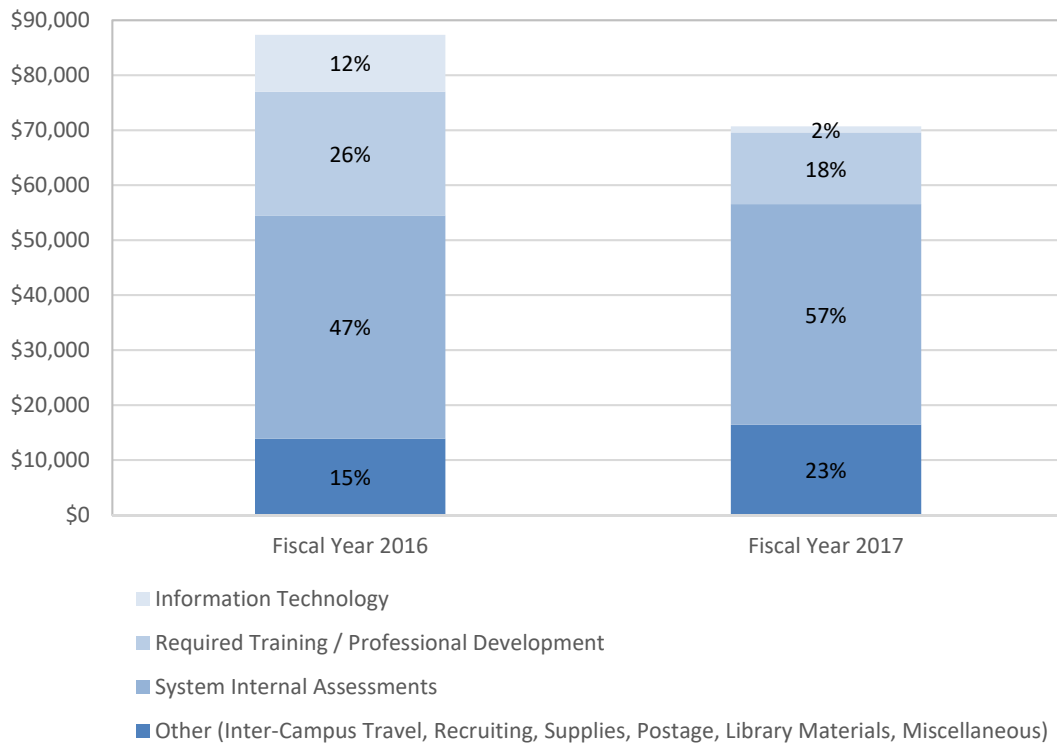## Net Funds Balance (Deficit)

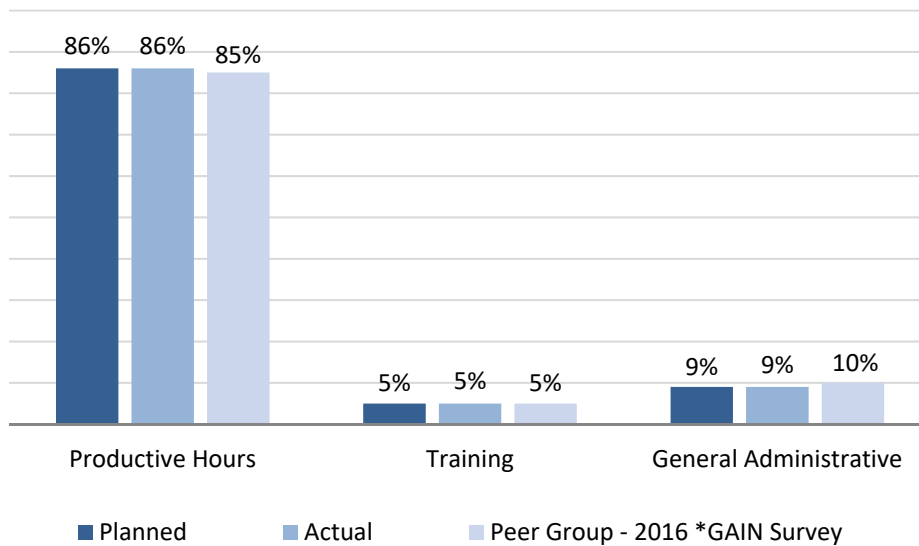- $809,806; FY15
- ($183,734); FY16
- ($58,841); FY17
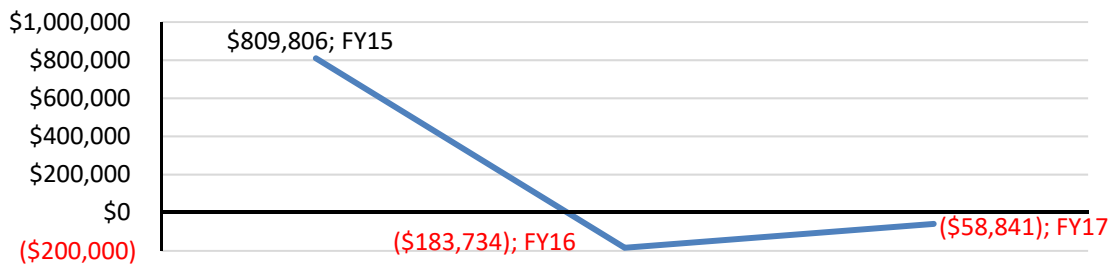
The unfavorable variances in Fiscal Year 2016 are a direct result of the lack of State Budget impact to the System, as are the net deficits in Office fund balances for Fiscal Years ended 2016 and 2017. Over 95% of our Office's budget source is State funds. The approved Office of University Audits Deficit Reduction Plan to address this is dependent upon receipt of adequate State funding, or implementation of a new System Office Funding Model, which is currently in development.

Fiscal Years 2016 and 2017 Use of Non-Personnel Expenditures (Actual)

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

Fiscal Year 2016:
- Information Technology: 12%
- Required Training / Professional Development: 26%
- System Internal Assessments: 47%
- Other: 15%

Fiscal Year 2017:
- Information Technology: 2%
- Required Training / Professional Development: 18%
- System Internal Assessments: 57%
- Other: 23%

Fiscal Year 2017 Productivity Rate

- Productive Hours: Planned 86%, Actual 86%, Peer Group - 2016 *GAIN Survey 85%
- Training: Planned 5%, Actual 5%, Peer Group - 2016 *GAIN Survey 5%
- General Administrative: Planned 9%, Actual 9%, Peer Group - 2016 *GAIN Survey 10%

Legend: Planned | Actual | Peer Group - 2016 *GAIN Survey

*Institute of Internal Auditors' Global Information Network Survey
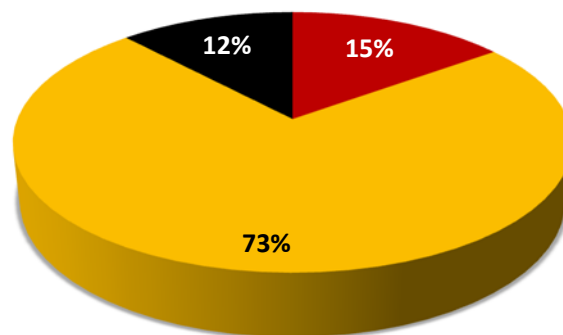
After the expected implementation dates provided by management have passed, all audit recommendations are revisited to determine the status of management's corrective action. It is through this process that the Office ensures that managements' actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The results of the audit recommendation follow-up activity for fiscal years 2015 through 2017 are presented in the following chart:

Implementation of System Audit Recommendations

	Fiscal Year		
	2015	2016	2017
Beginning Balance	319	217	222
New Recommendations	209	250	234
Implemented	(258)	(186)	(196)
Not Implemented (Risks Accepted by Management)	(52)	(57)	(40)
Withdrawn	(1)	(2)	(13)
Ending Balance:	217	222	207

Risk and Priority Rating
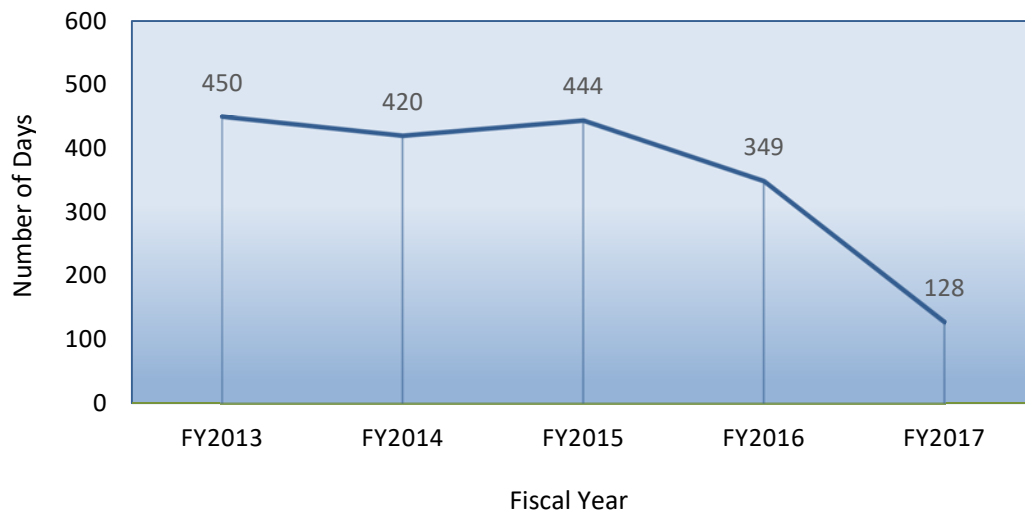All Open Audit Recommendations – 6/30/17

12%   15%
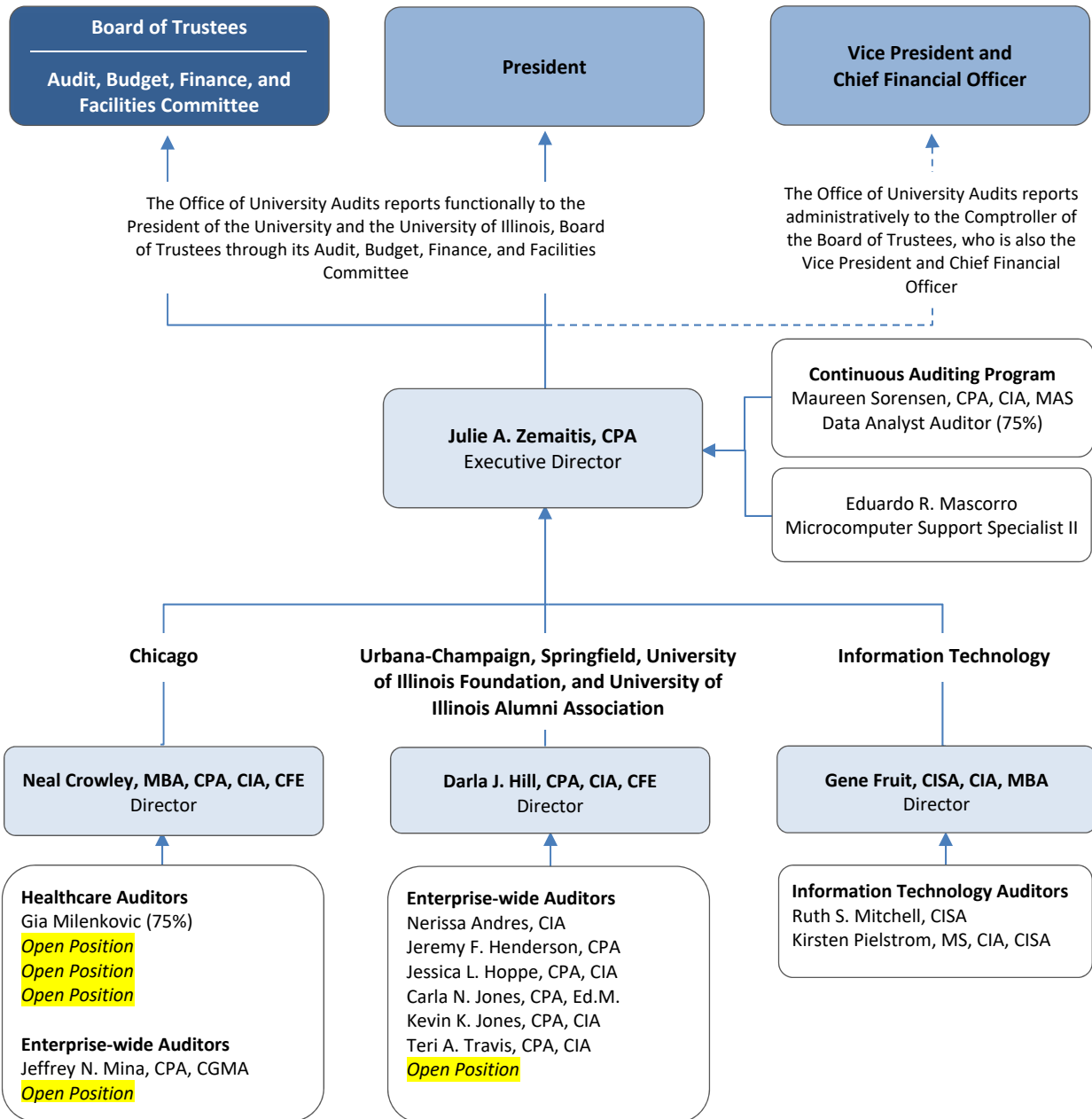
73%

■ High   ■ Moderate   ■ Low

Aging of outstanding audit recommendations at June 30, 2017, by management's original expected implementation date is illustrated in the table below:

Aging of Outstanding Recommendations

Fiscal Year 2020	6
Fiscal Year 2019	12
Fiscal Year 2018	128
Fiscal Year 2017	53
Fiscal Year 2016	7
Fiscal Year 2012	1
Total Recommendations	**207**

Average Number of Days to Implement Audit Recommendations

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, CPA
Executive Director

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

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
Gia Milenkovic (75%)
Open Position
Open Position
Open Position

Enterprise-wide Auditors
Jeffrey N. Mina, CPA, CGMA
Open Position

Enterprise-wide Auditors
Nerissa Andres, CIA
Jeremy F. Henderson, CPA
Jessica L. Hoppe, CPA, CIA
Carla N. Jones, CPA, 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
9	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	CGAP = Certified Government Auditing Professional		

The following summarizes the projects completed during fiscal year 2017. 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 54 projects during fiscal year 2017.

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

- Campus Auxiliary Services, Campus Housing
- College of Education, CHANCE Program
- College of Engineering, Chemical Engineering Department
- Facilities Management, Job Order Contracting, Contract Processing and Administration
- UIC Police Department
- University of Illinois Hospital, Materials Management
- University of Illinois Hospital and Health Sciences Systems, Cancer Center
- University of Illinois Hospital and Health Sciences Systems, Craniofacial Center

Urbana-Champaign

- Center for Innovation in Teaching and Learning
- College of Business, Office of the Dean
- College of Agricultural, Consumer, and Environmental Sciences, Department of Animal Sciences
- Office of Inclusion and Intercultural Relations
- University Housing, Dining Services

System Offices

- Merchant Card Services

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
- Human Resources, Protection of Minors Office, Protection of Minors Compliance Audit
- Office of Animal Care and Institutional Biosafety, Institutional Biosafety
- Vice Chancellor for Student Affairs and Financial Aid Office, Gift Administration and Donor Intent
- Vice Chancellor for Student Affairs, TRIO, Grant Programs Administration

Urbana-Champaign
- College of Agricultural, Consumer, and Environmental Sciences, Department of Food Science and Human Nutrition, Grants and Contracts Administration
- Protection of Minors / Background Check Compliance

Springfield
- Vice Chancellor for Student Affairs, Title IX and Student Discipline Compliance

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
- Microsoft Exchange Online
- Vice Chancellor for Administrative Services

Urbana-Champaign
- Business Continuity
- Information Security

System Offices
- Administrative Information Technology Services, Banner Student System

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:

- Trending Analysis of Purchasing Activity
- Review of Matched Vendor and Employee Addresses, Social Security Numbers, and Direct Deposit Bank Accounts
- Review of Lump Sum Payments
- Review of Credit Card Refunds
- Review of Grant Expenditures
- Review of Vendor Payments
- Review of Overtime Pay
- Review of Vendors Used by One Employee
- Review of Vendors Paid through PayPal with a P-Card
- Review of Vendor Bank Account Records
- UIC, College of Medicine, Ophthalmology and Visual Sciences, Review of T-Card Charge Activity

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.

Five 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.

Chicago
- Illinois Health Facilities and Services Review Board, Certificates of Need

Urbana-Champaign
- Office of Diversity, Equity, and Access
- College of LAS, Department of English

- Campus Honors Program
- Champaign-Urbana Mass Transit District Contract Negotiations Review Consulting
- Division of Intercollegiate Activities, Data Analysis Development for Academic Fraud
- School of Social Work

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 Process Improvement Advisory Group
- President's Management Council
- President's Policy Council
- Senior Executive Risk Management Council
- UA Alignment Implementation Team
- UA Information Technology Leadership Council
- UIC Academic Officers Group
- UIC Compliance Committee
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- UIC Information Technology Governance Council, Risk Assessment Committee
- UIUC Business Managers Group
- 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
- 340B Oversight Committee

Audit Staff
- Joint Commission on Accreditation of Healthcare Organizations Committee
- Conflict of Commitment and Interest Procedures Working Group
- UIC Academic Fiscal Officers Group
- UIC Business Officers Group
- UIC Human Resources Advisory Group
- UIC IT Pro Forum Planning Committee
- UIUC Business Managers Group
- UIUC IT Caffeine Break (weekly university IT topic discussion group)

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.

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

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.

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 System Offices

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  1140 South Paulina Street
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  Chicago, IL 60615
  312-996-2748

Springfield:
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  Springfield, IL 62703-5407
  217-206-7844

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