UNIVERSITY OF ILLINOIS SYSTEM

Altogether Extraordinary™

Office of University Audits

Annual Report

For the Year Ended June 30, 2019

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, 2019 (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 21,000 hours of service.
- We completed 55 audit, investigation, and consulting projects resulting in approximately 230 recommendations for improvement.
- We validated the implementation of nearly 190 improvements made by management.

Based on the program of work completed during fiscal year 2019, we submit the following representations:

- All audits were performed in accordance with The Institute of Internal Auditors' (IIA) *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 *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* require an external quality assessment (EQA) of internal audit activities at least once every five years by a qualified, independent assessor or assessment team from outside the University of Illinois System. IIA Quality Services, LLC, conducted an EQA of the Office during April 2019. The objectives of the EQA were to assess conformance with *IIA Standards* and the IIA Code of Ethics, assess the effectiveness of the Office in providing assurance and advisory services, and identify and offer recommendations for improvement.   The Office received an overall Generally Conforms opinion, along with recommendations for continued improvement. Generally Conforms is the top rating and means the EQA team concluded that the relevant structures, policies, and procedures of the Office, as well as processes by which they are applied, comply with the requirements of the *Standards* and the IIA Code of Ethics in all material respects.

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

<div style="background:navy;color:white">USE OF AUDIT RESOURCES DURING FISCAL YEAR 2019</div>

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 2019.

FISCAL YEAR 2019 AUDIT PLAN COMPLETION STATUS

Number of Projects

	Projects Completed FY18 Plan	Projects Completed FY19 Plan	Fieldwork Completed – Report Drafted and Pending	In-Progress	Deferred to FY20 Plan	Withdrawn – Risk Lowered
Planned Audits	7	36	5	9	7	2
Projects Added	1	11	3	5	0	0
TOTAL	**8**	**47**	**8**	**14**	**7**	**2**

Hours

	Planned	Actual	Remaining Hours	Remaining Percent
Planned Audits	13,875	15,310	(1,435)	0%
Emerging Issues / Investigations	6,225	4,559	1,666	27%
Follow-up	1,190	1,642	(452)	0%
TOTAL	**21,290**	**21,511**	**(221)**	**0%**

DIRECT AUDIT HOURS BY TYPE OF PROJECT

Fiscal Year 2019

Type of Project	Percentage
Internal Control Audits	39%
Compliance Audits	5%
Information Technology Audits	12%
Operational Audits	18%
Continuous Auditing	6%
Investigative Audits	15%
Consulting and Advisory Services	5%

Fiscal Year 2018

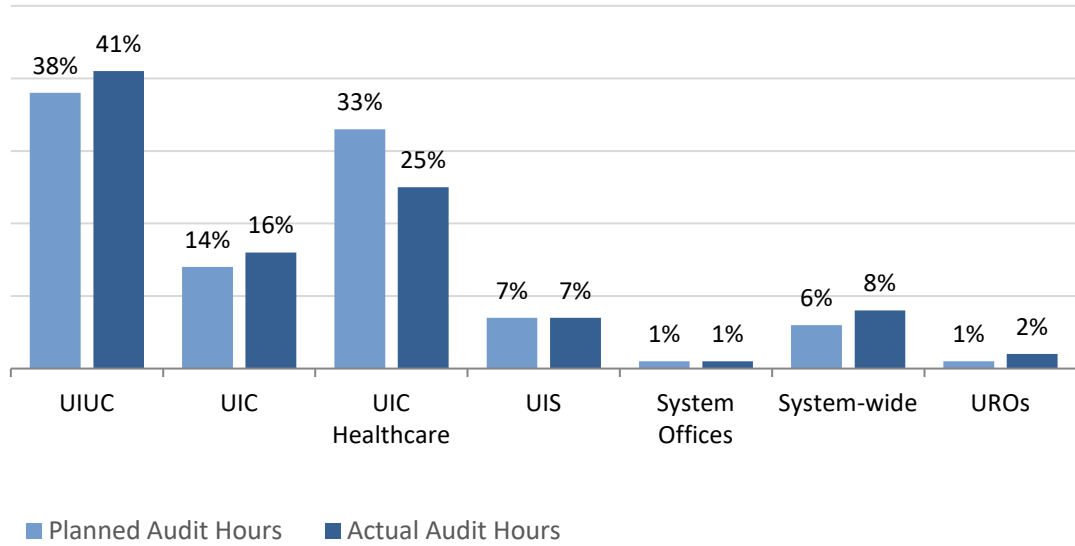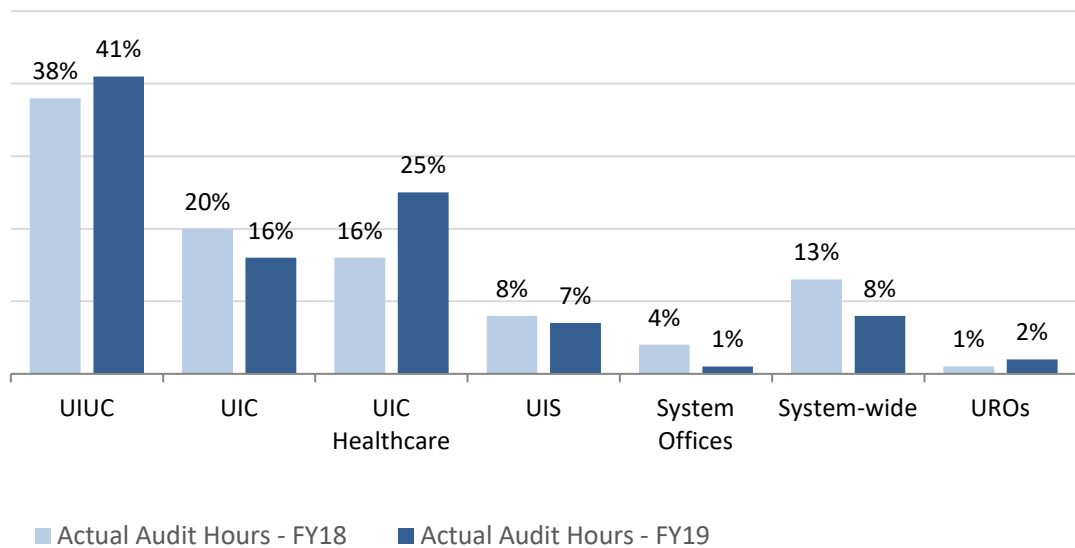| Type of Project	Percentage
Internal Control Audits	36%
Compliance Audits	16%
Information Technology Audits	13%
Operational Audits	12%
Continuous Auditing	6%
Investigative Audits	11%
Consulting and Advisory Services	3%
Financial Audits	3%

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

DIRECT AUDIT HOURS BY UNIVERSITY / AREA

Fiscal Year 2019

	UIUC	UIC	UIC Healthcare	UIS	System Offices	System-wide	UROs
Planned Audit Hours	38%	14%	33%	7%	1%	6%	1%
Actual Audit Hours	41%	16%	25%	7%	1%	8%	2%

■ Planned Audit Hours   ■ Actual Audit Hours

Fiscal Years 2018 and 2019

	UIUC	UIC	UIC Healthcare	UIS	System Offices	System-wide	UROs
Actual Audit Hours - FY18	38%	20%	16%	8%	4%	13%	1%
Actual Audit Hours - FY19	41%	16%	25%	7%	1%	8%	2%

■ Actual Audit Hours - FY18   ■ Actual Audit Hours - FY19

Fiscal Year 2018
- Budget: $1,403,100
- Actual: $1,620,297
- Variance: ($217,197)

Fiscal Year 2019
- Budget: $1,804,700
- Actual: $1,751,065
- Variance: $53,635

Legend: Budget | Actual | Variance

Fiscal Year 2018
- Budget: $25,500
- Actual: $69,127
- Variance: ($43,627)

Fiscal Year 2019
- Budget: $50,500
- Actual: $111,722
- Variance: ($61,222)
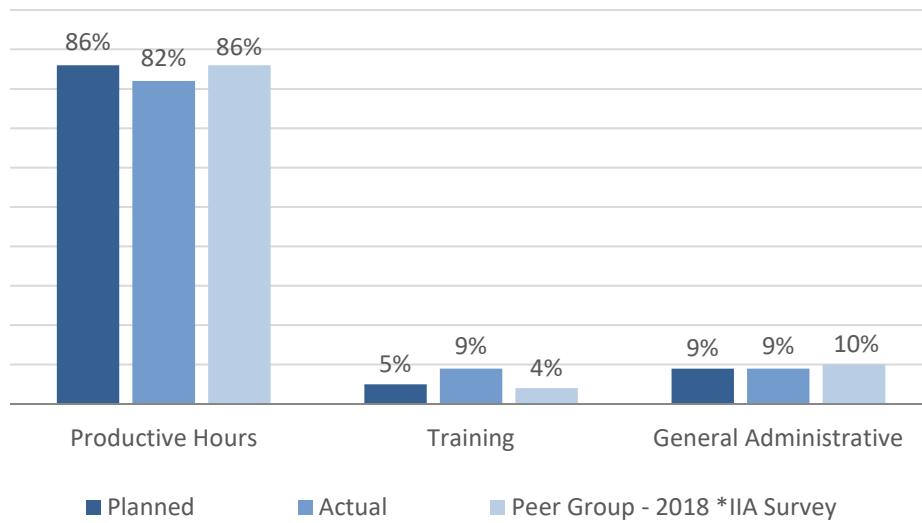
Legend: Budget | Actual | Variance

The unfavorable variances in Fiscal Year 2018 reflect a structural annual budget deficit that was a direct result of the lack of State Budget impact to the System during prior fiscal years. The structural annual budget deficit in personnel expenditures was remedied, and progress was made in addressing the non-personnel budget deficit, during the Fiscal Year 2019 budget process. The increase in actual non-personnel expenditures during Fiscal Year 2019 includes the External Quality Assessment of the Office of University Audits at an approximate cost of $30,000, which is required every five years, as well as a planned increase in professional development funded by accumulated fund balance reserves.

FISCAL YEARS 2018 AND 2019 USE OF NON-PERSONNEL EXPENDITURES (ACTUAL)

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

Fiscal Year 2018:
- 15% (Information Technology)
- 37% (Required Training / Professional Development)
- 27% (System Internal Assessments)
- 21% (Other)

Fiscal Year 2019:
- 11% (Information Technology)
- 30% (Required Training / Professional Development)
- 17% (System Internal Assessments)
- 26% (Required External Quality Assessment)
- 16% (Other)

FISCAL YEAR 2019 PRODUCTIVITY RATE

	Planned	Actual	Peer Group - 2018 *IIA Survey
Productive Hours	86%	82%	86%
Training	5%	9%	4%
General Administrative	9%	9%	10%

*Institute of Internal Auditors 2018 Benchmarking Report

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 2017 through 2019 are presented in the following chart:

IMPLEMENTATION OF SYSTEM AUDIT RECOMMENDATIONS

	FY2017	FY2018	FY2019
Beginning Balance	222	207	207
Internal Audit Recommendations Issued	234	202	233
Implemented by Management	(196)	(177)	(189)
Not Implemented (Risks Accepted by Management)	(40)	(22)	(42)
Withdrawn by Internal Audit	(13)	(3)	(3)
Ending Balance:	207	207	206

RISK AND PRIORITY RATING OF RECOMMENDATIONS
NOT IMPLEMENTED

	FY2017	FY2018	FY2019
High	0	0	0
Moderate	29	16	29
Low	11	6	13
Total:	40	22	42

RISK AND PRIORITY RATING
ALL OPEN AUDIT RECOMMENDATIONS − 6/30/19
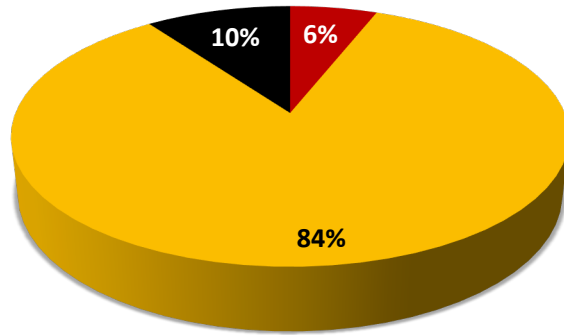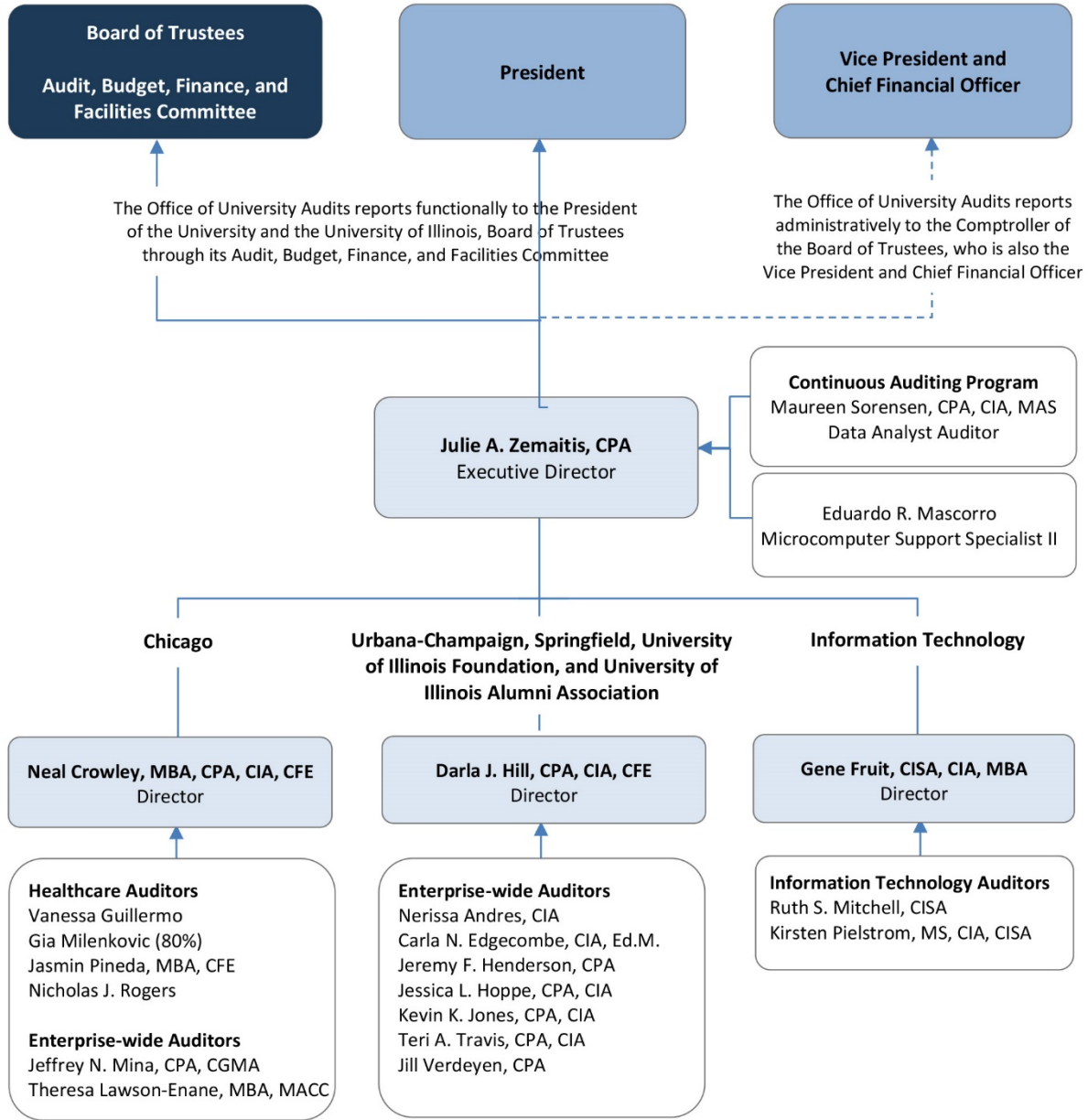

| High | Moderate | Low |

AGING OF OUTSTANDING RECOMMENDATIONS BY MANAGEMENT'S ORIGINAL EXPECTED IMPLEMENTATION DATE

Fiscal Year	Number of Recommendations
2024	1
2021	33
2020	106
2019	56
2018	7
2017	2
2016	1
Total Recommendations	**206**

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

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%)
Jasmin Pineda, MBA, CFE
Nicholas J. Rogers

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

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

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

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

Professional Certifications	Advanced Degrees
10 CIA (Certified Internal Auditor)	4 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)
3 CFE (Certified Fraud Examiner)	1 MS (Masters of Science, Computer Science)
1 CGMA (Chartered Global Management Accountant)	1 MACC (Master of Accountancy)

The following summarizes the projects completed during fiscal year 2019. 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 55 projects during fiscal year 2019.

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 contribute to fulfilling 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 Parking Services, Revenue and Cash Collections
- College of Architecture, Design, and the Arts, School of Art and Art History, Course Fees and P-Card Transactions
- College of Pharmacy, Department of Pharmacy Practice
- Office of the Chancellor, Chancellor's Travel and Expense Reimbursements
- Research Resources Center
- School of Public Health, Community Health Sciences
- UI Hospital, Controlled Substance Drug Diversion
- UI Hospital, Department of Health Social Work, Medicaid Enrollment for Uninsured Patients
- UI Hospital, Sleep Science Center

Urbana-Champaign
- College of Engineering, Department of Physics
- College of Liberal Arts and Sciences, Department of Anthropology
- College of Veterinary Medicine, Department of Veterinary Clinical Medicine, Midwest Equine

University Related Organizations
- Prairieland Energy, Incorporated

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 Dentistry, Dean and Advancement Offices, Gift Administration and Donor Intent
- Office for Access and Equity, Compliance with Americans with Disabilities Act, Governance
- Office of Capital Planning and Project Management, AMERESCO, Inc., Energy Services Performance Contract Review

Urbana-Champaign
- College of Liberal Arts and Sciences, Chemical and Biomolecular Engineering, Donor Intent
- College of Engineering, Department of Computer Science, Grant 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, Cloud Computing
- College of Pharmacy
- UI Hospital, Information Services Security Department

Urbana-Champaign
- College of Education
- Gies College of Business
- Information Technology Governance

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
- Department of Intercollegiate Athletics
- Office of the Senate, Governance

Urbana-Champaign
- Title IX and Office for Access and Equity
- Urbana-Champaign Senate, Governance

Springfield
- Campus Senate, Governance

System Offices
- Office of Treasury Operations, Risk Management, Office of Claims Management, Workers' Compensation

CONTINUOUS AUDITING

Continuous auditing is a method of analyzing data with the objective of assessing risk and related internal controls on a more frequent basis. It involves using various data analysis techniques to identify anomalies, patterns or trends, 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 perform detailed transaction analysis against cut-offs and thresholds. The analysis is typically 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:

- Computer and Equipment Purchases
- Credit Card Refunds
- Employee Reimbursements
- Matched Vendor and Employee Addresses, Social Security Numbers, and Direct Deposit Bank Accounts
- Overtime Pay
- Procurement Conflict of Interest
- Refunds and Other Payments to Students
- Trending Analysis of Purchasing Activity
- Trending Analysis of Vendor Volume
- Vendor Bank Account Records
- Vendors Used by One Employee
- Vendors Paid Through on Online Payment Processor with a P-Card

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.

Eight 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
- Human Resources Policy Review
- Registered Student Organizations

Springfield
- Center for State Policy and Leadership

Additionally, we performed various other consulting, advisory, and training services for System Offices and each University throughout the year. Audit personnel contributed support and advisory services throughout the System by participating in the following:

Audit Leadership
- 340B Oversight Committee
- 3i Support Team
- 3i Steering Committee
- Audit, Compliance, and ERM Coordination Group
- Business Administrator Certification Program Course Development
- Business Process Improvement Advisory Council
- President's Management Council
- System Executive Risk Management Council
- System Office IT Council
- System-wide Compliance Advisory Committee
- UIC Academic Officers Group
- UIC Compliance Committee
- UIUC Business Managers Group
- UIUC Campus Administrative Manual Working Group
- UIUC LINK Training Sessions
- 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
- University System Internal Controls Review: Procurement, Payment & Asset Accounting Systems Access and Procedures Review Team

Audit Staff
- 3i Business Continuity Access Team
- Joint Commission on Accreditation of Healthcare Organizations Committee
- Source2Pay Advisory Meetings
- UIC Academic Fiscal Officers Group
- UIC Business Officers Group
- UIC Human Resources Advisory Group
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- 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
- University System Internal Controls Review: Procurement, Payment & Asset Accounting Systems Access and Procedures Review Team

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.

P ROFESSIONAL S TANDARDS

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.

A P P E N D I X 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 Standard.

Office of University Audits

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   Suite 206
   Champaign, IL 61820
   217-333-0900

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   1140 South Paulina Street
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   Chicago, IL 60612
   312-996-2748

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