

University of Illinois



Annual Report
From the Office of University Audits

For the Year Ended June 30, 2007

For Presentation to the Audit Committee
Of the University of Illinois Alumni Association
Board of Directors

November 2007

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UNIVERSITY OF ILLINOIS

Urbana-Champaign • Chicago • Springfield

Office of University Audits
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Suite 206
Champaign, Illinois 61820

President Taylor and
Audit Committee of the University of Illinois Alumni Association Board of Directors
University of Illinois Alumni Association

In conjunction with the projects performed by the Office of University Audits for the fiscal year ended June 30, 2007, we submit the following representations:

1. All audits were performed in accordance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
2. The Audit Plan for Fiscal Year 2007 was risk driven.
3. Planning on each individual audit was risk driven.
4. There is transparency in all reports issued.
5. We received cooperation from management in all audits conducted.
6. All significant findings were reported.

Julie A. Zemaitis
Executive Director
Office of University Audits

Dear President Taylor and Audit Committee of the University of Illinois Alumni Association Board of Directors:

I am pleased to present the Office of University Audits Annual Report for the Fiscal Year Ended June 30, 2007.

In fulfilling its responsibility to assist University of Illinois Alumni Association (Association) management and the Board of Directors in accomplishing their objectives, the Office of University Audits (Office) is committed to providing independent, objective assurance and consulting services. As illustrated in the following report, we were successful in completing the majority of our planned audit projects.

The Office's accomplishments in fiscal year 2007 would not have been possible without the dedication of the employees in the Office. I thank them for their efforts. Additionally, I thank the officers and staff of the Association for their cooperation, responsiveness, and valued feedback. Finally, I thank you for your continued support of our Office. With such exceptional leadership and staff, we look forward to another successful year.

Sincerely,

Julie A. Zemaitis
Executive Director
Office of University Audits

Mission

The mission of the Office of University Audits (Office) is to protect and improve the University and its related organizations (University) through independent, objective assurance and consulting services that evaluate the effectiveness of risk management, internal control, and governance processes.

Purpose

The purpose of the Office 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.
- Employees' 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.

Independence

The Office reports functionally to the President of the University (President) and the University of Illinois Board of Trustees through its Budget and Audit Committee, and administratively to the Comptroller of the Board of Trustees, who is also the Vice President and Chief Financial Officer.

Responsibility

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 Budget and Audit Committee.

- Issue periodic reports to the President and Chairman of the Budget and Audit Committee summarizing results of audit activities.
- Report annually to the Budget and Audit Committee our audit plans, activities, staffing, and the organizational structure.
- Report to the Budget and Audit Committee by September 30 of each year the scope and results of our 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.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Budget and Audit Committee of the results.
- Establish a follow-up process to monitor and identify if 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 Budget and Audit Committee for review.

Authority

The general scope of audit coverage is enterprise-wide and no function, activity, or unit of the University or 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 is 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, the 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

The Office 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 Standards for the Professional Practice of Internal Auditing*, which the State of Illinois Internal Audit Advisory Board has adopted as the standard of performance for all state internal auditors.

Use of Audit Resources During Fiscal Year 2007

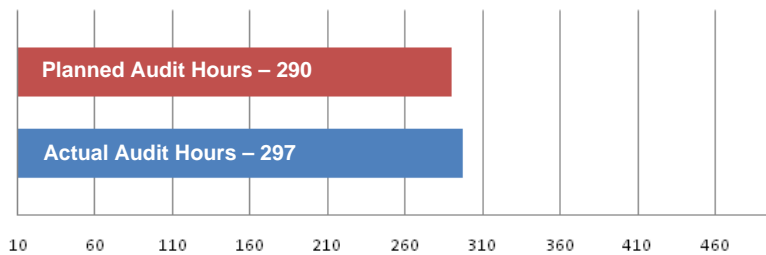
The Office operates in a manner that adds value within the Association, focuses on the differing primary stakeholders' expectations and priorities, and adapts to changes in technology, legislation, and organizational strategic priorities.

Following are the audits conducted during fiscal year 2007:

- Internal Control Audit
- General Information Technology Review

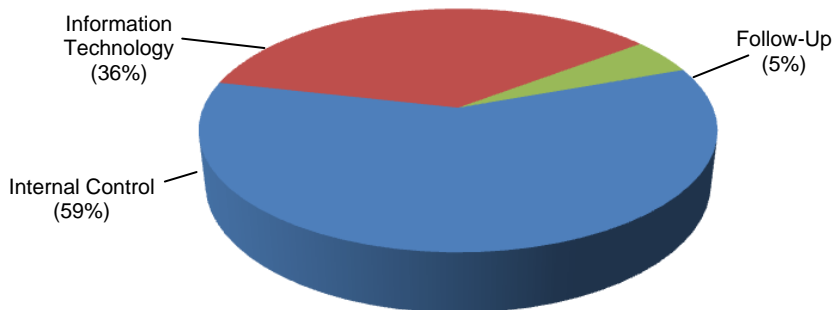
Following are summaries of how our Office utilized audit resources during the fiscal year 2007.

FISCAL YEAR 2007 PLANNED VS. ACTUAL DIRECT AUDIT HOURS



Hours devoted to follow-up activities are not included. Overall of the year, we delivered 102% of the total hours budgeted.

FISCAL YEAR 2007 TOTAL HOURS BY TYPE OF PROJECT



Additional information regarding the objective, scope, and results of these audits is included in *Appendix B*.

After the expected implementation dates provided by management have passed, audit recommendations are revisited to determine the adequacy of management's corrective action.

The results of the audit recommendation follow-up activity for fiscal years 2005 through 2007 are presented in the following chart:

Implementation of Association Audit Recommendations

	Fiscal Years		
	2005	2006	2007
Beginning Balance	5	8	6
New Recommendations	8	3	12
Implemented	(4)	(5)	(3)
Withdrawn	(1)	(0)	(0)
Ending Balance	8	6	15

Follow-Up Activity Summary for FY07

	Number of Follow-up Attempts	Percent
Recommendation was considered implemented	3	27%
Recommendation was not implemented and a new implementation date was established by management	7	73%
Total Number of Times Follow-Up Was Conducted	11	100%

Aging of outstanding audit recommendations at June 30, 2007, by management's original expected implementation date is as follows:

Aging of In-Progress and Open Recommendations

Fiscal Year 2008	9
Fiscal Year 2007	4 ¹
Fiscal Year 2006	2
Total Outstanding Recommendations	15

Details of the open recommendations issued prior to fiscal year 2007 can be found at *Appendix C*.

¹This number includes three recommendations which were made in fiscal year 2007 and which management's expected implementation date was June 30, 2007.

Section 5

University of Illinois Alumni Association

Number of Audit Projects Completed by Cycle During Fiscal Years 1996-2007

Chart indicates the number of audits completed by major transaction cycle.

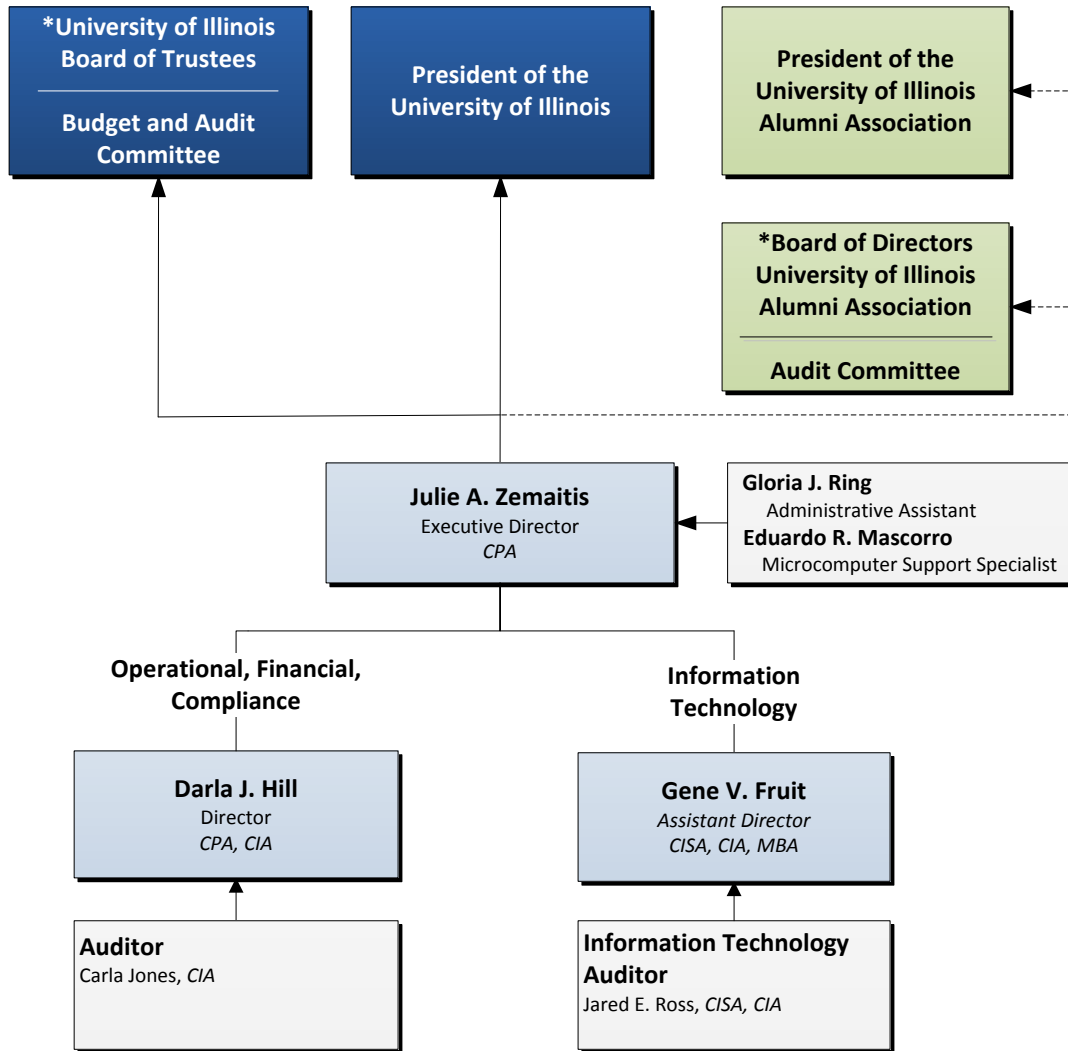
Audit Title	FY96-03	FY04	FY05	FY06	FY07
Organization and Management					
Constituent Group Procedures	1		1		
Student Alumni League/Association and Ambassadors	3				
Club Event Management					C
Support Agreement with University	1			1	
Administrative Support Services					
Solicitation Activities	1				
Budgeting, Accounting, and Reporting					
Budgeting	1				
Unrelated Business Income Tax			1		
Purchasing, Contracting, and Leasing					
Contracting and Leasing	1	A			C
Purchasing and Expenditures	2	A			
Expenditure Control					
President's Expenditures	1				
Expenditures				1	
Personnel and Payroll					
Personnel and Payroll	4	A, 1		1	
Property, Equipment, and Inventories					
Moveable Equipment	3	A			
Revenues and Receivables					
Revenue Processing Review	1	A			C
Tour Program			1		
Cash and Local Funds					
Cash Handling	1, B	A			
Petty Cash	1	A			
Investment Management	2	A			C
Bank Reconciliations				1	
Information Technology					
Constituent Tracking System/FACTS	1	1			
Accounting System	1				
General Information Technology Review					1

A – One internal control review was performed which covered overall business practices.

B – Two reports were issued for on-line receipts and lockbox operations.

C – One internal control review was performed which covered three areas.

This organization chart represents only those individuals providing direct services to the University of Illinois Alumni Association.



*Annually, a report of audit activities is provided to the Audit Committee of the Board of Directors.

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

Professional Certifications and Advanced Degrees			
4	CIA = Certified Internal Auditor	2	CISA = Certified Information Systems Auditor
2	CPA = Certified Public Accountant	1	MBA = Master of Business Administration

Notifying the Auditee

The President of the Association (President) or his designee is notified before an audit begins. An opening conference is held to discuss the objective and define the scope of the audit and identify who will coordinate any audit needs (e.g., space, records, meetings).

Performing the Audit

Audit work is performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics* of The Institute of Internal Auditors, adopted by the State of Illinois Internal Audit Advisory Board. Audit concerns are discussed with appropriate Association personnel as the concerns are identified.

Finalizing the Audit Report

Association management who have the responsibility for areas included in audit recommendations receive a draft of the audit report and are given the opportunity to comment before the report is finalized. The final report identifies expected implementation dates for each audit recommendation that is agreed to by the responsible administrator.

Resolving Recommendations Not Agreed To by the Auditee

When Association management does not agree to a particular recommendation, resolution of the recommendation is pursued through the prescribed organizational hierarchy.

Transmitting the Audit Report

The Executive Director of University Audits transmits the final audit report to the President, the Treasurer, and appropriate unit heads via the web. Reports are also transmitted to University management for informational purposes.

Following-Up on Recommendations Agreed To by the Auditee

On-going follow-up procedures include reviewing actions taken by the auditee to determine the extent to which audit recommendations agreed to by Association administrators have been implemented.

Reporting to the Audit Committee

Annually, the Office of University Audits Annual Report is presented to the Audit Committee of the Board of Directors.