



University of Illinois Foundation

Annual Report

From the Office of University Audits

For the Year Ended June 30, 2008

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

October 2008

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Note: Appendices B and C will be distributed at the Board of Director's Audit Committee Meeting. They are not for public distribution or web publication.

This report is for the use of Foundation and University administrators only and should not be distributed outside the University or Foundation without permission of the President of the Foundation or the President of the University.

To the Audit Committee of the University of Illinois Foundation Board of Directors:

I am pleased to present the Office of University Audits Annual Report for the Fiscal Year Ended June 30, 2008.

In fulfilling its responsibility to assist University of Illinois Foundation (Foundation) 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. Preparing, engaging in, and completing these activities, as well as others, demonstrates our accountability to you that the internal auditing function is operating as intended.

The Office's accomplishments in fiscal year 2008 would not have been possible without the dedication of the employees in this Office. I thank them for their efforts. Additionally, I thank the officers and staff of the Foundation 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
Director of Foundation Audits
Office of University Audits

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

Following are summaries of audit reports issued during fiscal year 2008.

Foundation Audit Reports Issued During Fiscal Year 2008:

- Non-gift Revenue
- Purchasing, Contracting, and Leasing
- Information Privacy and Security

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

University Audit Reports Issued During Fiscal Year 2008 which Included a Review of Compliance with Donor Intent:

- University of Illinois at Springfield - College of Liberal Arts and Sciences
- University of Illinois at Urbana-Champaign - University Laboratory High School
- University of Illinois at Urbana-Champaign - College of Business
- University of Illinois at Chicago - College of Engineering
- University of Illinois at Urbana-Champaign - Library Administration
- University of Illinois at Urbana-Champaign - College of Education
- University of Illinois at Chicago - Department of Intercollegiate Athletics, Internal Control Audit
- University of Illinois at Chicago - College of Medicine, Department of Psychiatry, Lizzie Gilman Fund

In addition, the following donor intent audits were in progress at June 30, 2008:

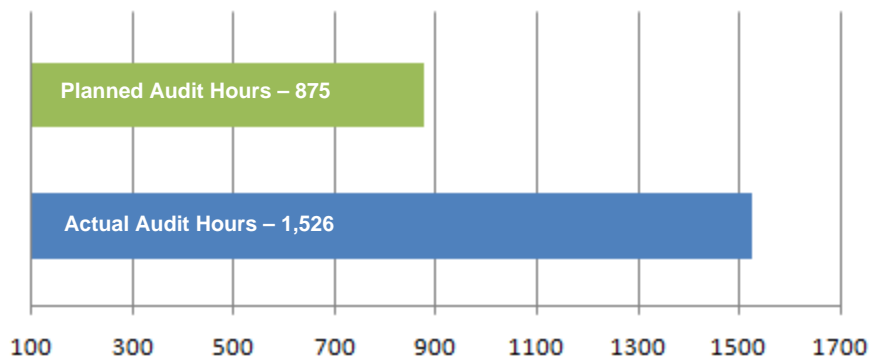
- University of Illinois at Chicago - School of Public Health
- University of Illinois at Urbana-Champaign - College of Engineering
- University of Illinois at Chicago - College of Pharmacy

University Audit Reports Issued During Fiscal Year 2008 which Included Reviews Related to Gift or Foundation Activities:

- University of Illinois at Urbana-Champaign - Division of Intercollegiate Athletics, Ticket Office, Internal Control and NCAA and Big Ten Compliance Audit (Gifts in Kind)

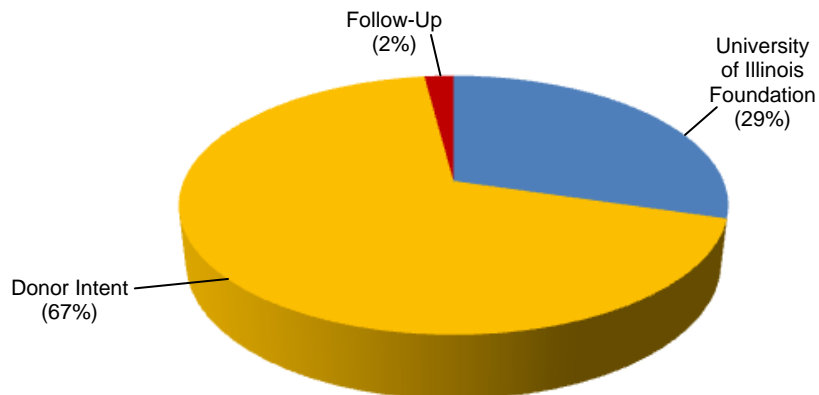
- University of Illinois at Urbana-Champaign - Office of the Chancellor, Chancellor's Travel Expenditure Audit (Gifts in Kind, Board Designated Expenditures)
- University of Illinois at Chicago - Office of the Chancellor, Chancellor's Expenditures (Board Designated Expenditures)
- University of Illinois at Springfield - Office of the Chancellor, Chancellor's Travel Expenditure Audit (Board Designated Expenditures)
- University of Illinois, Office of the President, President's Travel Expenditure Audit (Board Designated Expenditures)

Fiscal Year 2008 Planned vs. Actual Direct Audit Hours
(excludes Follow-Up)

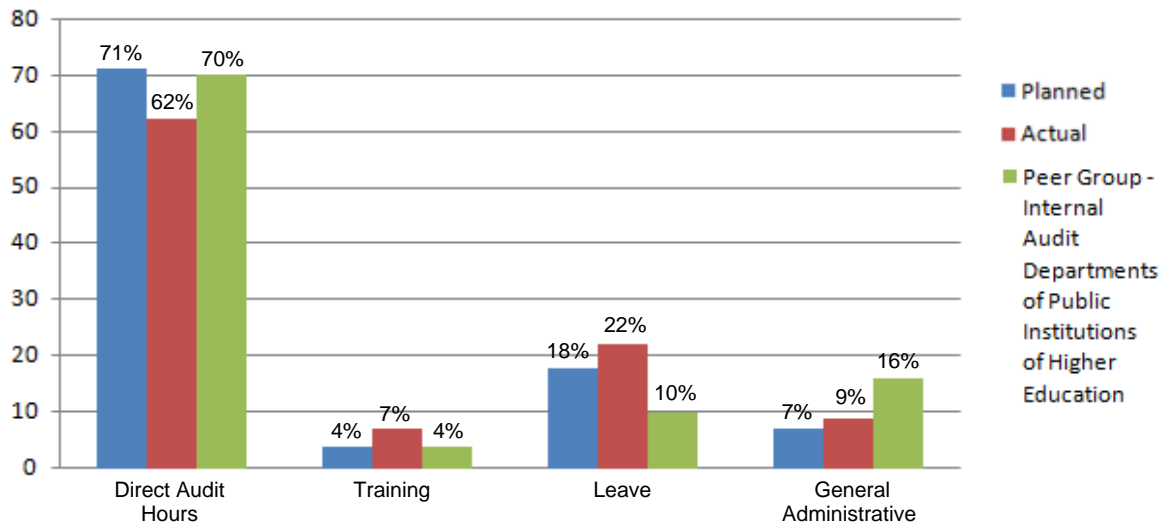


Planned and actual hours represented above exclude hours spent on follow up activities. Overall for the year, we delivered 174 percent of the total hours budgeted. The majority of the increased hours relate to donor intent audits. Compliance with donor intent is critical to the achievement of the Foundation's mission.

Fiscal Year 2008 Audit Hours by Type of Project



Fiscal Year 2008 Productivity Rate



This chart depicts the productivity rate for all audit staff of the Office.

A higher than historical rate of employee leave usage impacted our productivity rate during the fiscal year.

Section 3

University of Illinois Foundation

Audit Recommendation Implementation Results for Fiscal Year 2008

After the expected implementation dates provided by management have passed, audit recommendations are revisited to determine the adequacy of management's corrective action. It is through this process that the Office validates the benefit provided via our audits.

The results of the audit recommendation follow-up activity for fiscal years 2007 and 2008 are presented in the following chart:

Implementation of Foundation Audit Recommendations

	Fiscal Years	
	2007	2008
Beginning Balance	12	12
New Recommendations	8	13
Audit recommendation implemented by Foundation management and controls implemented sufficiently address the concern(s).	(8)	(1)
Recommendation was not implemented and management has agreed to accept the risk. ¹	-	(1)
Ending Balance	12	23

Aging of outstanding audit recommendations at June 30, 2008, based on the original expected implementation date, is as follows:

Aging of Open Recommendations

Fiscal Year	Open Recommendations
2009	10
2008	6
2007	5
2004	2
Total	23

¹ This recommendation was issued jointly to the Foundation and the University of Illinois.

Section 4

University of Illinois Foundation

Two-Year Audit Plan for Fiscal Years 2009-2010

	Hours	
	FY09	FY10
Organization and Management		
Investment Policy and Risk Tolerance Monitoring	100	-
Compliance with Agreement with the University	-	100
Administrative Support Services		
Trust Department Operational and Financial Reporting Audit	130	-
Budgeting, Accounting, and Reporting		
Budget Development and Reporting	100	-
Purchasing, Contracting, and Leasing		
Payables Internal Controls Audit	-	100
Expenditure Control		
Travel Expenditures Compliance	-	100
Board Designated Expenditures/Administrative Allocations Compliance	-	100
Personnel and Payroll		
Personnel and Payroll Internal Controls Audit	100	-
Grant/Research Administration		
Compliance with Donor Intent	720*	720*
Information Technology		
Investments System Implementation Audit	50	-
University of Illinois Foundation Totals	1,200	1,120

*Hours are planned to evaluate donor intent. These hours are reflected on the University plan.

Section 5

University of Illinois Foundation

Number of Audit Projects Completed by Cycle During Fiscal Years 2005-2008

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

Audit Title	FY05	FY06	FY07	FY08
Organization and Management				
Conflict of Interest Administration		1		
Investment Management	1			
Line of Credit			1	
Administrative Support Services				
Trust Department	1			
Budgeting, Accounting, and Reporting				
Unrelated Business Income Tax			1	
Bank Reconciliations		1		
Purchasing, Contracting, and Leasing				
Purchasing, Contracting and Leasing				1
Expenditure Control				
Travel and Entertainment Expenditures	1			
Board Designated Expenditures	1	1		4
Personnel and Payroll				
Personnel and Payroll	1			
Revenues and Receivables				
Real Estate Portfolio Management			1	
Cash and Local Funds				
Gift Processing and Stewardship		1	A	
Review of Procedures Over Non-Gift Revenue				1
Grant/Research Administration				
Grant Administration/Donor Intent	X	X	X	X
Information Technology				
Information Privacy/Security				1
Review of FACTS Application System	1			
General Information Technology Review		1		

A – University Employee Gifts to their Own Program and Quasi Endowment Policies

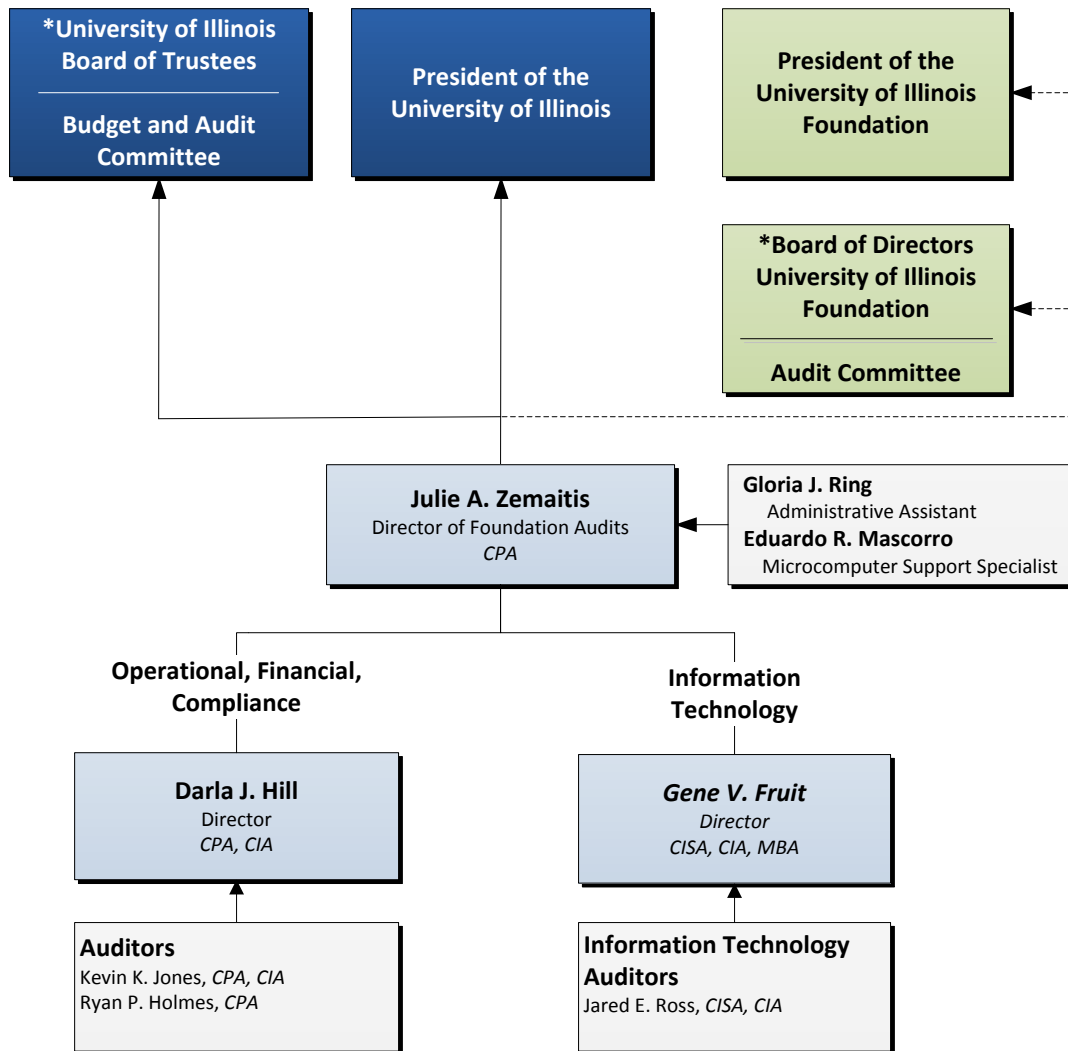
X – Multiple donor intent audits are performed every year.

Appendix A

University of Illinois Foundation

Organization Chart as of June 30, 2008

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



*Annually, a report of audit activities is provided to the Audit Committee of the University of Illinois Foundation 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
- 4 CPA = Certified Public Accountant

- 2 CISA = Certified Information Systems Auditor
- 1 MBA = Master of Business Administration

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.

It is the policy of the Board of Directors of the Foundation to establish and maintain an internal audit function that:

- Provides all levels of management with information about the managerial control of the operations for which it is responsible.
- Provides the Audit Committee of the Board of Directors with necessary information to discharge its responsibilities.
- Assists management and Audit Committee members in deciding how effective the total system of internal control is in achieving its broad objectives for the governance and operation of the Foundation.