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July 18, 2006

Control Number ED-OIG/A05G0013

Dr. Richard Herman
Chancellor
University of Illinois at Urbana-Champaign
Swanlund Administration Building
601 E. John Street
Champaign, Illinois 61820

Dear Dr. Herman:

This **Final Audit Report**, entitled *The University of Illinois at Urbana-Champaign's Compliance with the TRIO Programs' Fiscal Requirements*, presents the results of our audit. The objectives of our audit were to determine whether the University of Illinois at Urbana-Champaign (UIUC) (1) properly accounted for its use of TRIO program funds and (2) claimed only expenses that were allowable and adequately documented. UIUC received funding for three TRIO programs during the period June 1, 2003, through September 30, 2005: Upward Bound (UB), Student Support Services (SSS), and the Ronald E. McNair Postbaccalaureate Achievement Program (McNair). Our audit covered UB from June 1, 2003, through May 31, 2005; SSS from September 1, 2003, through August 31, 2005; and McNair from October 1, 2003, through September 30, 2005.

AUDIT RESULTS

UIUC (1) properly accounted for its use of TRIO program funds and (2) generally claimed only expenses that were allowable and adequately documented. We reviewed supporting documentation for 897 transactions with an absolute value of approximately \$271,000 from a universe of 3,757 transactions with an absolute value of approximately \$2.4 million. UIUC charged the TRIO programs for 7 expenses totaling \$5,897 that were unallowable pursuant to Office of Management and Budget (OMB) Circular A-21, Attachment, *Principles for Determining Costs Applicable to Grants, Contracts, and other Agreements with Educational Institutions* (Circular A-21), C.2. When we brought these 7 expenses to UIUC's attention, UIUC reversed the charges. Therefore, we are not recommending any corrective actions.

BACKGROUND

The UB program is designed to generate skills and motivation necessary for success in education beyond secondary school. This program serves high school students from low-income families; high school students from families in which neither parent holds a bachelor's degree; and low-income, first-generation military veterans who are preparing to enter postsecondary education. This program is governed by the Higher Education Act of 1965, as amended (HEA), § 402C, and 34 C.F.R. Parts 74, 75, and 645. UIUC was awarded \$785,418 in UB funds for the period June 1, 2003, through May 31, 2005.

The SSS program is designed to increase college retention and graduation rates for eligible students, increase the transfer rates of eligible students from two-year to four-year institutions, and foster an institutional climate supportive of the success of low-income and first generation college students and individuals with disabilities. This program provides opportunities for academic development, assists students with basic college requirements, and serves to motivate students towards the successful completion of their postsecondary education. This program is governed by the HEA, § 402D, and 34 C.F.R. Parts 74, 75, and 646. UIUC was awarded \$526,358 in SSS funds for the period September 1, 2003, through August 31, 2005.

McNair is designed to provide college students from disadvantaged backgrounds, and who have demonstrated strong academic potential, with effective preparation for doctoral study. Grants are awarded to institutions of higher education for projects designed to prepare participants for doctoral studies through involvement in research and other scholarly activities. Institutions work closely with these participants through their undergraduate requirements, encourage their entrance into graduate programs, and track their progress to successful completion of advanced degrees. This program is governed by the HEA, § 402E, and 34 C.F.R. Parts 74, 75, and 647. UIUC was awarded \$534,252 in McNair funds for the period October 1, 2003, through September 30, 2005.

In addition to complying with the requirements set forth in the HEA and regulations, UIUC is required to adhere to OMB Circular A-21 and OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. OMB Circular A-21 provides principles for determining the costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the federal government. The application of these cost accounting principles should require no significant changes in the generally accepted accounting practices of colleges and universities. However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles and must provide for adequate documentation to support costs charged to sponsored agreements. These principles shall be used in determining the allowable costs of work performed by colleges and universities under sponsored agreements.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether UIUC (1) properly accounted for its use of TRIO program funds and (2) claimed only expenses that were allowable and adequately documented. UIUC received funding for three TRIO programs during the period June 1, 2003, through September 30, 2005: UB, SSS, and McNair. Our audit covered UB from June 1, 2003, through May 31, 2005; SSS from September 1, 2003, through August 31, 2005; and McNair from October 1, 2003, through September 30, 2005.

To achieve our objectives, we

1. Interviewed UIUC TRIO and Grants and Contracts Office officials;
2. Reviewed the annual performance reports for all three programs for the audit period;
3. Reviewed the Single Audit Act reports for UIUC prepared by an independent public accountant for the years ended June 30, 2003, and June 30, 2004;
4. Reviewed written policies and procedures to obtain an understanding of the processes UIUC used to provide reasonable assurance of compliance with the TRIO programs' fiscal requirements;
5. Conducted a physical inventory of equipment and high-dollar value goods for UB, SSS, and McNair;
6. Reviewed supporting documentation such as purchase orders, invoices, receipts, and canceled checks for a random sample of non-personnel transactions for UB, SSS, and McNair;¹ and
7. Reviewed documentation such as payroll certifications, time sheets, and appointment letters supporting personnel transactions for UB, SSS, and McNair for four judgmentally² selected months: October 2003, February 2004, July 2004, and April 2005.³

We also relied, in part, on computer-processed data recorded in UIUC's Banner system. UIUC used Banner to record accounting transactions related to the TRIO programs. To assess the reliability of the data, we reviewed accounting records for the period June 1, 2003, through September 30, 2005, and applied logic tests to 100 percent of the accounting transactions for each program's audit period. We tested for missing data, the relationship of one data element to another, values outside of a designated range, and dates outside valid time frames or in an illogical progression. Based on these tests, we concluded that the computer-processed accounting data UIUC provided was sufficiently reliable for the purposes of our audit.

¹ See **Attachment** for the sizes of the universes, sample sizes, and the absolute values of the universes and samples.

² Because each program has a different fiscal year, we ensured that all four months selected would include the three programs. Further, UIUC did not always charge payroll directly to the programs each month, so we wanted to capture at least one payroll transaction for each program. Selecting these four months provided sufficient coverage to test personnel transactions for compliance.

³ See **Attachment** for the sizes of the universes, sample sizes, and the absolute values of the universes and samples.

We conducted our fieldwork from December 2005 through June 2006, at UIUC's offices in Champaign, Illinois, and at our offices in Chicago, Illinois, and Kansas City, Missouri. We discussed the results of our audit with UIUC officials on June 14, 2006. We performed our work in accordance with generally accepted government auditing standards appropriate to the scope of our audit.

ADMINISTRATIVE MATTERS

This report does not include any recommendations that require corrective action. No response to this report is required.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We wish to express appreciation for the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact Anjali Shah, at (312) 886-6503, or Lisa Robinson, at (816) 268-0500.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. Dawd", with a large, stylized flourish extending to the right.

Richard J. Dawd
Regional Inspector General
for Audit

Attachment

Universe and Sample Sizes				
What We Tested	Size of Universe	Absolute Value of Universe	Size of Sample	Absolute Value of Sample
Student Support Services - Personnel Expenses	434	\$871,759.37	37	\$24,759.10
Student Support Services – Non-Personnel Expenses	173	\$42,138.04	37	\$15,259.73
McNair – Personnel Expenses	71	\$107,856.78	4	\$4,245.36
McNair – Non-Personnel Expenses	372	\$341,644.03	77	\$66,340.25
Upward Bound – Personnel Expenses	1,132	\$689,388.45	426	\$109,815.90
Upward Bound – Non-Personnel Expenses	1,575	\$342,700.55	316	\$50,292.61
Totals	3,757	\$2,395,487.22	897	\$270,712.95