

NOTE:

Illinois State University's FY2010 financial statements should be read in conjunction with the FY2011 financial statements. In the FY2010 financial statements, the June 30, 2010 net assets have been restated (decreased by \$5,189,664) to correct errors in reporting accounts receivable. Because the June 30, 2010 net assets have been restated, the previously issued auditors' report dated March 30, 2011 is not to be relied upon without consideration of the auditors' report dated March 2, 2012 on the restatement of the June 30, 2010 net assets.

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY

REPORT REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED JUNE 30, 2010

Performed as Special Assistant Auditors for
the Auditor General, State of Illinois



**Clifton
Gunderson LLP**

Certified Public Accountants & Consultants

**State of Illinois
Illinois State University
Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2010**

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**STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY**

AGENCY OFFICIALS

President	Dr. C. Alvin Bowman
Vice President - Finance and Planning	Dr. Dianne E. Ashby - Interim (5/1/09 - 9/14/09) Dr. Daniel T. Layzell (effective 9/15/09)
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Rick Papuga (retired 10/31/09) Mr. Robert Blemler (effective 1/4/10)

Agency offices are located at:

Illinois State University
Hovey Hall
Campus Box 1100
Normal, IL 61790-1100

**STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY**

Government Auditing Report Summary

The audit of the financial statements of Illinois State University (University) was performed by Clifton Gunderson LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

Based on their audit, the auditors expressed an unqualified opinion on the University's basic financial statements, issued under a separate cover.

Summary of Findings

The auditors identified one matter involving the University's internal control over financial reporting that they considered to be a material weakness.

**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards**

Honorable William G. Holland
Auditor General
State of Illinois

and

Ms. Anne Davis
Chair, Illinois State University Audit Committee

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Illinois State University and its discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2010, which collectively comprise Illinois State University's basic financial statements, and have issued our report thereon dated March 30, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Illinois State University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of Illinois State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Illinois State University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 10-1 in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Illinois State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Illinois State University's responses to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit Illinois State University's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees of Illinois State University, University management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
March 30, 2011

**STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010**

CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS

10-1. Finding: Lack of Reviewed and Approved Periodic Reconciliation of the Detailed Property and Equipment Listings to the General Ledger

The University does not perform a periodic reconciliation of the detailed property and equipment listings to the general ledger.

During our testing, we noted that the property and equipment detail maintained in Datatel (the subsidiary ledger) is not periodically reconciled to the general ledger. Without a reconciliation, the University can not ensure that the activity being recorded in the general ledger agrees to the activity recorded in the property and equipment database. We noted the following items:

- The University does not capitalize capital assets as of the date acquired. Instead, the University capitalizes capital assets as of the date they are tagged. We noted that in the first quarter of fiscal year 2010, approximately \$837,000 of capital assets were capitalized that had been previously expensed in fiscal year 2009. As of June 30, 2010, there are approximately \$207,000 of capital assets that were improperly expensed as they were not tagged until fiscal year 2011.
- The University improperly capitalized approximately \$2,339,000 of equipment in fiscal year 2009 that is below the capitalization threshold. The University corrected this misclassification in fiscal year 2010.
- The University recorded approximately \$2,863,000 in both the construction in progress and buildings accounts during fiscal year 2009 for the same costs. The University corrected this error in fiscal year 2010 by eliminating \$2,863,000 from the construction in progress account.
- The University improperly expensed approximately \$1,750,000 of building costs during fiscal year 2009. The University corrected this misclassification in fiscal year 2010.
- As a result of the above misclassifications, the June 30, 2010 C-15 report is incorrect.

The net effect of these misclassifications resulted in the expenses on the fiscal year 2009 financial statements being understated by approximately \$2,615,000. The expenses in the fiscal year 2010 financial statements are overstated by approximately \$2,822,000. The June 30, 2010 financial statements were not adjusted for these misclassifications as management deemed them immaterial.

Proper internal control procedures require that accounts be periodically reconciled at the detail level to ensure that the subledgers agree to the general ledger balances.

STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2010

CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS

10-1. Finding: Lack of Reviewed and Approved Periodic Reconciliation of the Detailed Property and Equipment Listings to the General Ledger (Continued)

University personnel stated that they have operated under the assumption that the reconciliations completed for the quarterly C-15 report by the capital asset accountant were adequate.

By not performing a periodic reconciliation at the detail level, the property and equipment balances could be materially misstated. (Finding Code No. 10-1)

Recommendation

We recommend that the University perform a reconciliation of the detailed property and equipment listings to the general ledger that is properly reviewed and approved on a quarterly basis.

University Response

The University agrees with the recommendation to perform a reconciliation of the property and equipment detailed listings to the general ledger on a quarterly basis. In addition, a comprehensive independent review of the reconciliation will be performed.

**STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY
PRIOR FINDINGS NOT REPEATED
For the Year Ended June 30, 2010**

None.