

State of Illinois
Illinois State University

Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2012

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



State of Illinois
Illinois State University
Financial Audit
For the Year Ended June 30, 2012

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Other Reports Issued Under a Separate Cover

The annual financial statements of the University for the year ended June 30, 2012 have been issued under a separate cover.

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2012, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, has been issued under a separate cover.

State of Illinois
Illinois State University
Financial Audit
For the Year Ended June 30, 2012

Agency Officials

President	Dr. C. Alvin Bowman
Vice President for Finance and Planning	Dr. Daniel Layzell
Vice President for Academic Affairs and Provost	Dr. Sheri Everts
Vice President for Student Affairs	Mr. Larry Dietz
Vice President for University Advancement	Ms. Erin Minne'
Comptroller	Mr. Greg Alt
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

Board of Trustees (as of June 30, 2012)

Chair	Hon. Judge Michael McCuskey
Secretary	Ms. Joanne Maitland
Member	Mr. Jay D. Bergman
Member	Ms. Anne Davis
Member	Mr. Bob Dobski
Member	Mr. Rocky Donahue
Member	Ms. Betty Kinser
Student Member	Mr. Aaron Von Qualen

Office Locations

Agency offices are located at:

Hovey Hall
Campus Box 1100
Normal, IL 61790-1100

State of Illinois
Illinois State University
Summary
June 30, 2012

Government Auditing Report Summary

The audit of the financial statements of Illinois State University (University) was performed by BKD, 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

Number of	Current Report	Prior Report
Findings	1	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	1

Item No.	Page	Description	Finding Type
Finding (<i>Government Auditing Standards</i>)			
12-1	6	Inadequate Control over Revenue Recognition	Significant deficiency
Prior Finding Not Repeated (<i>Government Auditing Standards</i>)			
A.	8	Inadequate Controls over Accounts Receivable	

State of Illinois
Illinois State University
Summary
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Exit Conference

Findings and recommendations appearing in this report were discussed with University personnel at an exit conference on January 23, 2013. Attending were:

Representing Illinois State University

Vice President for Finance and Planning	Dr. Daniel Layzell
Comptroller	Mr. Greg Alt
Assistant Comptroller	Ms. JoEllen Bahnsen
Director - Internal Audit	Mr. Robert Blemler
Associate Vice President for Administrative Technology	Ms. Andrea Ballinger

Representing BKD LLP

Senior Manager	Ms. Heather M. Powell, CPA
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Representing the Office of the Auditor General

Audit Manager	Mr. Daniel J. Nugent, CPA
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Responses to the recommendations were provided by Mr. Greg Alt, Comptroller, in an e-mail dated January 31, 2013.

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

Board of Trustees
Illinois State University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Illinois State University and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the years ended June 30, 2012 and June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 14, 2013. 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 Illinois State University's discretely presented component unit, as described in our report on the Illinois State 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

Management of the Illinois State University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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, but not for the purpose of expressing an opinion on the effectiveness of the Illinois State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois State University's internal control over financial reporting.

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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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings as item 12-1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The Illinois State University's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Illinois State University's responses 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, the Illinois State 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.

BKD, LLP

February 14, 2013

State of Illinois
Illinois State University
Schedule of Findings
June 30, 2012

Current Finding – Government Auditing Standards

12-1. Finding – Inadequate Control over Revenue Recognition

The Illinois State University (University) did not exercise adequate internal control over revenue recognition.

During testing, the auditors noted the following:

- The University needs to improve its methodology for recording tuition and fee revenues due from the State for entitlement scholarships awarded to eligible students based upon various State laws. As a part of this methodology, the University should communicate with other State agencies to determine the collectability of receivables from other State agencies.

During the prior examination, the auditors identified the University had overstated tuition and fees receivable by amounts originally estimated to be received from the State, but were not adjusted by the University to reflect actual amounts received. Upon notification from the auditors, the University analyzed Fiscal Year 2011 receivables, determining \$883,000 in amounts due from the State was collectable as of June 30, 2011 based upon the University's review of another State agency's website and historical collection information. The University recorded an adjustment of \$1,289,557 for amounts recorded above \$883,000, as these amounts would not be collected from the State.

During the current period, the University determined the remaining \$883,000 receivable reported as collectable by the University as of June 30, 2011 was not collectable and recorded an adjustment to the University's records during Fiscal Year 2012. This amount was deemed immaterial by University management and was not adjusted in the financial statements.

- The University did not properly recognize deferred revenues earned during the year, totaling \$146,276, from the sale of season tickets to University athletic events. This amount was deemed immaterial by University management and was not adjusted in the financial statements.
- The University improperly recognized revenue by not remitting proceeds from the sale of scrap metal, totaling \$138,598 from Fiscal Year 2007 through Fiscal Year 2012, to the Department of Central Management Services for deposit into the State Surplus Property Revolving Fund within the State Treasury, as required by the State Finance Act (30 ILCS 105/6p-3) and the Illinois Administrative Code (44 Ill. Admin. Code 5010.1010). This amount was deemed immaterial by University management and was not adjusted in the financial statements.

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Illinois State University
Schedule of Findings
June 30, 2012

Current Finding – Government Auditing Standards

12-1. Finding – Inadequate Control over Revenue Recognition (continued)

In accordance with Generally Accepted Accounting Principles, all assets, liabilities, revenues, and expenses should be properly recorded in the financial statements. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance revenues applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

University personnel stated they were unaware of the change in collectability of certain State funded scholarships from the University's past historical experience. In addition, University personnel stated the failure to properly recognize deferred revenues and remit scrap metal proceeds were due to employee oversight.

Failure to exercise adequate internal control over financial reporting by properly reporting revenues and deferred revenue representing the rights and obligations of the University could result in a material misstatement of the University's financial statements and reduces the overall reliability of Statewide financial reporting. (Finding Code No. 12-1)

Recommendation

We recommend the University:

- develop a methodology which includes communication with other relevant State agencies for estimating tuition and fee revenues due from the State for entitlement scholarships;
- recognize deferred revenues from athletic ticket sales as earned; and,
- remit scrap metal proceeds to the Department of Central Management Services.

University Response

The University agrees with the recommendation and believes the revenue recognition exceptions noted to be isolated incidents. Procedures relative to each of the exceptions noted have been modified to ensure against future occurrence.

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Prior Finding Not Repeated – *Government Auditing Standards*

A. Finding – Inadequate Controls over Accounts Receivable

During the prior engagement, the Illinois State University (University) did not exercise adequate internal controls over accounts receivable. (Finding Code No. 11-1)

Status: Not Repeated

During the current engagement, the auditors noted improvement within the University's internal controls over recording tuition and fees receivable; however, the auditors noted continued difficulty with revenue recognition estimates noted within Finding 12-1.