

**State of Illinois
Illinois State University**

Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2011

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, 2011

Table of Contents

Agency Officials 1

Financial Statement Report

Summary 2

Independent Auditor’s 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* 4

Schedule of Findings

Current Finding..... 6

Prior Finding Not Repeated..... 8

Other Reports Issued Under a Separate Cover

The annual financial statements of the University for the year ended June 30, 2011 have been issued under a separate cover.

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2011, 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, 2011

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. Steve Adams |
| 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, 2011)

| | |
|----------------|-----------------------------|
| Chair | Hon. Judge Michael McCuskey |
| Secretary | Ms. Joanne Maitland |
| Member | Mr. Jay D. Bergman |
| Member | Ms. Anne Davis |
| Member | Mr. Bob Dobski |
| Member | Ms. Betty Kinser |
| Student Member | Mr. Sean Palmer |

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, 2011

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 | 0 |

| Item No. | Page | Description | Finding Type |
|--|-------------|---|---------------------|
| Finding (<i>Government Auditing Standards</i>) | | | |
| 11-1 | 6 | Inadequate Controls Over Accounts Receivable | Material Weakness |
| Prior Finding Not Repeated (<i>Government Auditing Standards</i>) | | | |
| A. | 8 | Lack of Reviewed and Approved Periodic Reconciliation of the Detailed Property and Equipment Listings to the General Ledger | |

State of Illinois
Illinois State University
Summary
June 30, 2011

Exit Conference

Findings and recommendations appearing in this report were discussed with University personnel at an exit conference on February 6, 2012. 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 |
| Associate Vice President – Chief Technology Officer | Mr. Mark Walbert |

Representing BKD LLP

| | |
|---------|----------------------------|
| Manager | Ms. Heather M. Powell, CPA |
|---------|----------------------------|

Representing the Office of the Auditor General

| | |
|---|------------------------------|
| Audit Manager | Mr. Daniel J. Nugent, CPA |
| Information Systems Audit Manager (via phone) | Ms. Kathleen A. Devitt, CISA |

Responses to the recommendations were provided by Mr. Greg Alt, Comptroller, in an e-mail dated February 10, 2012.

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
State of Illinois – Illinois State University

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of State of Illinois – Illinois State University (University) and its aggregate discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 2, 2012, which contains a reference to the report of 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

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

State of Illinois
Illinois State University
Report Required Under Government Auditing Standards
June 30, 2011

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 deficiencies, 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 11-1 in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether State of Illinois – 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*.

We noted certain matters that we reported to management of Illinois State University in a separate letter dated March 2, 2012.

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

March 2, 2012

State of Illinois
Illinois State University
Schedule of Findings
June 30, 2011

Current Findings – Government Auditing Standards

11-1. Finding – Inadequate Controls over Accounts Receivable

Illinois State University (University) did not exercise adequate internal control over accounts receivable.

During testing, we noted the following:

- The University overstated tuition and fees receivable by amounts originally estimated to be received from the State, but were not adjusted to reflect actual amounts received. The University recorded tuition and fees accounts receivable for entitlement scholarships awarded to eligible students based upon various State laws. The University is reimbursed for the tuition and fee revenue at a later date, based upon the availability of funds within the State's budget. In the event of insufficient appropriations, the University must bear the cost of the awards. As the State did not pay the cost of tuition and fees waived, the University did not monitor and properly account for the nonpayment, resulting in an overstatement of receivables. The University recorded a prior period adjustment of \$5,189,665 for overstated receivables from FY06 to FY10 and a current period adjustment of \$1,289,557 for overstated receivables occurring in FY11.
- The University does not have a formal methodology to record, review, and adjust the allowance for uncollectible accounts receivable that takes into account historical factors, such as collections, with qualitative factors.
- The University has not reviewed the allowance for uncollectible accounts receivable since FY09.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain fiscal and administrative controls to provide assurance that resources applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

University personnel stated this overstatement was the result of employees not being aware that certain scholarship payments from the State were no longer collectible.

Failure to perform a periodic analysis of amounts due to the University and develop a consistent methodology to support the amounts recorded as uncollectible accounts receivable resulted in a material misstatement of accounts receivable. (Finding Code No. 11-1)

Recommendation

We recommend the University implement controls to periodically review accounts receivable and adopt a methodology to record, review, and adjust an allowance for uncollectible accounts receivable based upon historical collectability data, adjusted for any potential qualitative considerations.

State of Illinois
Illinois State University
Schedule of Findings
June 30, 2011

11-1. Finding – Inadequate Controls over Accounts Receivable (continued)

University Response

Accepted. The University will review its methodology and controls for reviewing and adjusting the allowance for uncollectible accounts receivable and incorporate a more formal analysis that accounts for historical and potential qualitative considerations.

State of Illinois
Illinois State University
Schedule of Findings
June 30, 2011

Prior Finding Not Repeated – *Government Auditing Standards*

A. Lack of Reviewed and Approved Periodic Reconciliation of the Detailed Property and Equipment Listings to the General Ledger

During the prior year engagement, Illinois State University (University) did not perform a periodic reconciliation of the detailed property and equipment listings to the general ledger. (Finding Code No. 10-1)

Status: Partially implemented

During the current year engagement, we noted the University improved upon reconciling detailed property and equipment listings to the general ledger. The auditors uncovered a single, immaterial condition of noncompliance that will be reported in the Report of Immaterial Findings.