



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE UNIVERSITY

**Financial Audit, Single Audit, and Compliance Examination
For the One Year Ended June 30, 2012**

Release Date: February 28, 2013

Summary of Findings:

Total this audit:	6
Total last audit:	5
Repeated from last audit:	2

SYNOPSIS

- The University did not exercise adequate internal control over revenue recognition.
- The University was unable to locate seven laptop computers. These items were deemed by the University to have been lost or stolen during Fiscal Year 2012.
- The University had not established adequate University-wide procedures for disposal of confidential information.
- The University did not exercise adequate internal control over the University's vehicles.

{Expenditures and Activity Measures are summarized on the reverse page.

ILLINOIS STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2012

STATEMENT OF NET ASSETS (in thousands)	2012	2011
Assets		
Cash and cash equivalents.....	\$ 31,613	\$ 25,622
Restricted cash and cash equivalents.....	4,761	11,061
Investments.....	156,239	109,747
Receivables.....	46,119	53,955
Capital assets, net.....	439,664	420,890
Other.....	9,111	13,770
Total.....	687,507	635,045
Liabilities		
Accounts payable and accrued liabilities.....	23,250	21,510
Deferred revenues.....	7,861	6,998
Assets held in custody for others and deposits.....	3,628	3,512
Current portion of long-term liabilities.....	10,078	9,070
Long-term liabilities.....	157,723	141,569
Total.....	202,540	182,659
Net Assets		
Invested in capital assets, net of related debt.....	295,964	298,586
Restricted.....	9,481	9,467
Unrestricted.....	179,522	144,333
Total.....	\$ 484,967	\$ 452,386
REVENUES, EXPENSE AND CHANGES IN NET ASSETS (in thousands)	2012	2011
Revenues		
Tuition and fees, net.....	\$ 180,763	\$ 167,142
State appropriations.....	78,947	80,499
Auxiliary enterprises.....	85,908	83,018
Payments on behalf of the University - State.....	100,385	86,470
Federal, state, and private grants and gifts.....	26,276	23,478
Laboratory Schools.....	8,865	9,086
Other.....	50,619	48,380
Total.....	531,763	498,073
Expenses		
Instruction.....	116,825	113,992
Research.....	14,624	13,991
Public Service.....	14,318	15,695
Academic support.....	19,192	18,134
Student services.....	37,093	35,748
Institutional support.....	34,841	29,544
Auxilliary enterprises.....	60,476	57,127
Student aid.....	38,003	36,920
Payments on behalf of the University.....	100,385	86,470
Operation and maintenance of plant.....	29,822	24,246
Depreciation.....	22,183	19,779
Other.....	11,420	8,670
Total.....	499,182	460,316
Change in net assets.....	\$ 32,581	\$ 37,757
EMPLOYMENT STATISTICS (UNAUDITED)	FY 2012	FY 2011
Faculty and Administrative.....	2,005	1,895
Civil Service.....	1,255	1,297
Student Employees.....	554	566
Miscellaneous Contractual.....	72	82
Total Employees.....	3,886	3,840
ENROLLMENT STATISTICS (UNAUDITED)	FY 2012	FY 2011
Annual full-time equivalent students.....	19,235	19,059
COST PER STUDENT (UNAUDITED)	FY 2012	FY 2011
Cost per full-time equivalent student.....	\$ 11,163	\$ 11,171
UNIVERSITY PRESIDENT		
During Examination Period: Dr. C. Alvin Bowman		
Currently: Dr. C. Alvin Bowman		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE REVENUE RECOGNITION
PROCEDURES FOR FINANCIAL REPORTING**

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

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.

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. 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.

University determined \$883,000 in receivables from the State were uncollectible

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.

Athletic event revenues totaling \$146,276 not properly recognized

- 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.

Improper recognition of scrap metal receipts totaling \$138,598

- 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.

These amounts were deemed immaterial by University management and were not adjusted in the University's financial statements.

According to University personnel, they were unaware of the change in collectability of certain State funded scholarships from the University's past historical experience. In addition, failure to properly recognize deferred revenues and remit scrap metal proceeds was due to employee oversight. (Finding 1, pages 18-19)

We recommended 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 officials agree with the auditors

University officials agreed with the finding, indicating they will modify the University's procedures to correct these noted errors.

NEED TO ENHANCE CONTROLS OVER THE UNIVERSITY'S COMPUTER INVENTORY

The University was unable to locate seven laptop computers. These items were deemed by the University to have been lost or stolen during Fiscal Year 2012.

Computers not protected with encryption software

During testing, the auditors noted the University had not protected its computers with encryption software, thus increasing the risk that confidential information could be exposed. Confidential information routinely collected and maintained by the University includes education records, health records, personal information, and sensitive information.

At the time of our review, the University had not performed a detailed assessment and therefore was unable to assess whether the missing computers contained confidential information. However, after notification from the auditors, the University performed an assessment concluding the nature of the use of the computers limits the likelihood they contained confidential information.

According to University personnel, this resulted from the lack of a cohesive IT Governance structure including a common, formal, and disciplined approach for managing IT. (Finding 2, pages 20-21)

We recommended the University review current practices to determine if enhancements can be implemented to prevent the theft or loss of computers, establish procedures to immediately notify security personnel of any missing or stolen computers to allow them to assess if a computer may have contained confidential information and document the results of the assessment, and ensure confidential information is adequately secured with methods such as encryption or redaction.

University officials agree with the auditors

University officials agreed with the recommendation, indicating they will work on implementing the auditors' recommendations.

NEED TO ENHANCE CONTROLS OVER CONFIDENTIAL INFORMATION

The University had not established adequate University-wide procedures for disposal of confidential information.

Although the University had established various policies relating to the security of confidential information, the University failed to establish and implement procedures for adequately protecting and disposing of confidential information. During our review, the following weaknesses were noted:

Risk assessment to identify and secure confidential or personal information not completed

- The University had not performed a comprehensive risk assessment to identify confidential or personal information and its location to assure such information is protected from unauthorized disclosure.

Inadequate processes for the wiping and destruction of media and data

- While the University had established a uniform process for the wiping and destruction of media and data, the process had not been completely implemented. The University did not have a process for the removal of information from certain types of computers nor for the physical destruction of computer drives that failed and could not be cleaned using software.

HIPAA risk assessment to identify and secure protected health information not completed

- Although the University's Student Health Services maintained protected health information, a Health Insurance Portability and Accountability Act (HIPAA) risk assessment had not been completed.
- The University had not formally approved notification procedures in the event of a breach of security regarding personal information.

According to University personnel, this resulted from the lack of a cohesive IT Governance structure including a common, formal, and disciplined approach for managing IT. (Finding 3, pages 22-24) **This finding was first reported in 2009.**

We recommended the University perform a risk assessment to identify and secure all forms of confidential or personal information, implement a comprehensive process for the wiping and destruction of media, perform and document a HIPAA risk assessment for personal health information, and obtain formal approval of policies and procedures for notification following a breach of security regarding personal information.

University officials agree with the auditors

University officials accepted the finding, indicating the University is in the process of implementing corrective action across the campus. (For the previous University response, see Digest Footnote #1.)

NEED TO IMPROVE CONTROLS OVER UNIVERSITY-OWNED VEHICLES

The University did not exercise adequate internal control over the University's vehicles.

During testing, the auditors noted the following:

Auditors identified five apparently underutilized vehicles

- The University has not performed an analysis of the University's vehicles to determine whether maintaining each vehicle can be justified as the most cost effective solution for the specific operational needs of the University. The auditors noted five underutilized University-owned vehicles during Fiscal Year 2012. Four of the five vehicles were driven less than 100 miles during the year.
- The University does not have a policy in place requiring all University vehicles to undergo regular service and/or repairs in order to maintain the vehicles in a road worthy and safe operating condition.
- The University was unable to provide documentation supporting regular maintenance for three of 25 (12%) vehicles tested.
- The University did not survey its vehicle inventory for transferable equipment. The auditors noted one vehicle driven three miles during the year not utilized due to excessive rust and the vehicle's overall poor mechanical condition and another vehicle driven zero miles during the year with 460,614 total miles.

University was unable to provide maintenance documentation

According to University personnel, the University's department-level fiscal officers are responsible for ensuring all University-owned equipment is necessary for University operations and properly maintained. As such, the exceptions noted are likely due to fiscal officer oversight. (Finding 4, pages 25-27)

We recommended the University perform an analysis of the University's vehicles to determine whether each vehicle can be justified as the most cost effective solution for the University's specific operational needs, adopt a policy and implement internal controls to ensure all University vehicles undergo regular service and/or repair, and survey the University's equipment to identify and report transferable equipment.

University officials agree with the auditors

University officials accepted the finding, indicating the University will perform a cost benefit analysis of the utilization of University-owned vehicles, assess vehicle maintenance documentation and history, and identify obsolete or transferable vehicles.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the University. We will review the University's progress towards the implementation of our recommendations in our next audit.

AUDITORS' OPINION

Our auditors stated the financial statements of the Illinois State University as of and for the year ended June 30, 2012 are fairly stated in all material respects.

WILLIAM G. HOLLAND
Auditor General

WGH:djn

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this engagement were BKD, LLP.

DIGEST FOOTNOTE

#1: NEED TO ENHANCE CONTROLS OVER CONFIDENTIAL INFORMATION

FY2011:

Accepted. The University agrees with the recommendation related to risk assessment and procedures for wiping and destruction of media. As of the date this response, Administrative Technologies, Campus Technology Support Group, and Internal Audit have teamed together to perform a risk assessment of information technology at the University. It is expected the preliminary risk assessment, including HIPAA, will be completed by December 2012.

In terms of the wiping procedures, the University currently degausses media that cannot be wiped with available tools. Examples of such media include Apple/Macintosh computers, some servers and USB flash drives. While there is a centrally-managed program at Property Control, several units also perform their own media wiping efforts. The University understands there is an effort required to implement a coordinated electronic media wiping for the institution.

As for breach notification procedures, the draft *Information Technology Security Incident Response Plan (ITSIR)*, includes such procedures. Approval of this plan is expected to be finalized by the end of fiscal year 2012.