



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

GOVERNORS STATE UNIVERSITY

**Financial Audit, Compliance Examination
and Single Audit
For the Year Ended: June 30, 2011**

Release Date: March 8, 2012

Summary of Findings:

Total this audit:	12
Total last audit:	12
Repeated from last audit:	7

SYNOPSIS

- The University did not properly account for the costs capitalized to intangible assets in accordance with accounting principles generally accepted in the United States of America.
- The University did not have adequate procedures over verification of eligibility requirements for Trio-Cluster – Upward Bound (Greater Success for U) program.
- The University did not have adequate controls over its equipment acquired from federal funds.
- The University did not have adequate monitoring procedures for its subrecipients under a Recovery Act-funded grant from the Employment Training Administration of the U.S. Department of Labor.
- The University did not comply with certain required contracting procedures.
- The University did not comply with the state law on Board membership terms, vacancies and meetings.

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

**GOVERNORS STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**

For The Year Ended June 30, 2011

FINANCIAL OPERATIONS	2011	2010
Operating Revenues		
Student tuition and fees, net.....	\$ 30,499,092	\$ 29,882,217
Grants and contracts	9,546,230	6,975,962
Sales and services of educational departments.....	6,263,669	6,278,087
Auxiliary enterprises.....	1,671,660	2,080,224
Other operating revenues.....	1,685,746	1,150,338
Total Operating Revenues.....	\$ 49,666,397	\$ 46,366,828
Operating Expenses		
Instruction.....	41,840,108	39,975,168
Research.....	1,092,589	1,344,335
Public service.....	13,867,709	11,656,065
Academic support.....	2,230,926	2,175,037
Student services.....	6,224,729	6,411,820
Institutional support.....	14,978,608	14,136,343
Operation and maintenance of plant.....	6,991,748	6,969,225
Auxiliary enterprises.....	1,519,539	1,589,064
Depreciation expense.....	3,165,298	2,921,072
Total Operating Expenses.....	91,911,254	87,178,129
Operating Income (Loss).....	(42,244,857)	(40,811,301)
NONOPERATING REVENUES (EXPENSES)		
State appropriations - general revenue fund.....	\$ 26,558,000	\$ 25,986,000
ARRA fund.....	-	2,338,400
Payments on behalf of the University.....	18,832,000	17,363,000
Pell Grant.....	6,519,196	5,593,162
Investment income.....	37,665	54,664
Interest on capital assets and related debt.....	(295,619)	(299,857)
Other nonoperating expenses.....	(10,982)	(33,246)
NET NONOPERATING REVENUES (EXPENSES)	51,640,260	51,002,123
Capital Additions - State	282,600	-
INCREASE IN NET ASSETS.....	\$ 9,678,003	\$ 10,190,822
Net assets, beginning of year.....	\$ 78,188,998	\$ 67,998,176
Net assets, end of year.....	\$ 87,867,001	\$ 78,188,998
SUPPLEMENTAL INFORMATION (Unaudited)	2011	2010
Employment Statistics- Full Time Equivalent.....		
Faculty and Administrative.....	470	471
Civil Service.....	287	288
Other Professionals.....	90	89
Graduate Assistants and Students.....	48	47
Total.....	895	895
Enrollment Statistics- Fall Trimester.....		
Student Head Count.....	5,660	5,674
Degrees Awarded.....	1,832	1,718
Annualized Tuition and Fees.....		
Undergraduate.....		
Resident.....	\$ 7,048	\$ 6,606
Nonsident.....	\$ 12,736	\$ 14,670
Graduate.....		
Resident.....	\$ 5,746	\$ 5,364
Nonresident.....	\$ 10,408	\$ 13,104
PRESIDENT		
During Audit Period and Currently: Dr. Elaine Maimon		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE ACCOUNTING FOR INTANGIBLE ASSETS

The University did not properly account for the costs capitalized to intangible assets in accordance with accounting principles generally accepted in the United States of America (GAAP).

Intangible assets and related depreciation expense were overstated

During our detailed testing of related costs capitalized to intangible assets for fiscal year 2011, we noted that training and other post-implementation costs totaling \$369,825 were capitalized instead of being recorded as an expense resulting in an overstatement of assets. This also resulted in an overstatement of \$52,832 in the related depreciation expense. The University subsequently made the necessary adjustments in the financial statements.

Failure to properly account for intangible assets resulted in an overstatement of assets and related depreciation expense on the University's financial statements. (Finding 1, Pages 17-18)

We recommended that the University review its current process for the preparation and review of the annual financial statements to ensure that financial information is accurate and in accordance with GAAP.

University agrees with the auditors

University officials accepted the recommendation.

INADEQUATE PROCEDURES OVER VERIFICATION OF ELIGIBILITY REQUIREMENTS

The University did not have adequate procedures over verification of eligibility requirements for TRIO Cluster - Upward Bound (Greater Success for U) program.

In our eligibility testing of 37 participants under the TRIO Cluster, we noted the following:

Eligibility determination was not supported for some participants

- The University's eligibility determination for two participants was either not supported or did not agree with the supporting documents on file.
- The University did not document its eligibility determination for three participants. The related application of review/eligibility determination forms were not prepared by the program evaluator.

Failure to document and verify the required eligibility

information may result in providing benefits or scholarship awards to ineligible applicants thereby resulting in noncompliance with Federal regulations, policies and procedures. (Finding 3, Pages 21-22)

We recommended that the University verify the eligibility requirements for grant applicants and maintain supporting documentations to ensure compliance with Federal regulations.

University agrees with the auditors

University officials accepted the recommendation and stated it is improving its processes and supervision to ensure compliance.

INADEQUATE CONTROLS OVER UNIVERSITY EQUIPMENT ACQUIRED FROM FEDERAL FUNDS

The University did not have adequate controls over its equipment acquired from federal funds.

During our detailed testing, we obtained a general ledger listing of equipment acquired from federal funds during the fiscal year 2011 and noted that the following items were not identified as equipment acquired from federal funds in the property records:

Equipment items not listed as acquired with federal funds on the University's property listing

- Six items with a total value of \$3,197 acquired and charged to R&D Cluster – Minority Health and Health Disparities Research grant fund. These items consisted of an iPad, two central processing units, and three monitors.
- A laptop, valued at \$792, acquired and charged to ARRA – Head Start grant fund.

In our physical identification of nine items from the property records, we also noted the following:

Missing equipment was not reported as stolen

- Information in the property records for a laptop acquired and charged to ARRA – Head Start grant fund, valued at \$2,795, was not updated. The item was found in a different location and no Property Change Request form was prepared to support the change in location. The University subsequently updated the property records.
- A mobile workstation acquired and charged to TRIO Cluster – Student Support Services grant fund, valued at \$2,085, was not found. The University subsequently reported this item as stolen and obtained the related police report after being noted during the audit. (Finding 4, pages 23-25)

We recommended that the University adhere to its

procedures to ensure that equipment records are accurately maintained and updated to ensure compliance with federal regulations.

University agrees with the auditors

University officials accepted the recommendation.

INADEQUATE MONITORING PROCEDURES FOR SUBRECIPIENTS

The University did not have adequate monitoring procedures for its subrecipients under a Recovery Act-funded grant from the Employment Training Administration of the U.S. Department of Labor.

The University awarded \$3,190,000 to seven subrecipients under the ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Program (program). Total expenditures incurred by the University for the subrecipients amounts to \$966,395 during the current fiscal year.

In our detailed testing of University’s compliance with the subrecipient monitoring requirements, we noted the following:

University did not obtain required information from subrecipient

- The University does not have procedures in place to monitor whether subrecipients expending \$500,000 or more in Federal awards during the subrecipients’ fiscal year have met the audit requirement of OMB Circular A-133. The University subsequently obtained the information as to the subrecipients’ fiscal year end, Federal awards expended and related A-133 audits (as applicable) after being noted during the audit.
- At the time of subaward, the University did not identify all its subrecipients the program’s Federal award information such as Catalog of Federal Domestic Assistance (CFDA) title, CFDA number, award name and award number. In addition, the University did not advise all its subrecipients of the requirement to identify Recovery Act Funds in the Schedule of Expenditure of Federal Awards (SEFA) and the SF-SAC (A-133 Data Collection Form). The University subsequently advised its subrecipients of these requirements after being noted during the audit.
- One of the subrecipients was not registered in the Central Contractor Registration (CCR) and did not have Dun and Bradstreet Data Universal Numbering System (DUNS) number as required.
- The University did not document at the time of disbursement of funds to subrecipients the program’s

Subrecipient was not registered as required

CFDA and Federal Award numbers for all five expenditure vouchers reviewed totaling \$163,015. The University subsequently advised its subrecipients of this requirement after being noted during the audit. (Finding 7, pages 31-33)

We recommended that the University establish and implement procedures to ensure adequate monitoring of subrecipients in compliance with Federal regulations.

University agrees with the auditors

University officials accepted the recommendation and stated that it has reorganized its grant organization and has invested in additional grant staff and technology as well as improved processes and communications to ensure compliance.

Some contracts did not have the required signatures

NONCOMPLIANCE WITH REQUIRED CONTRACTING PROCEDURES

The University did not comply with certain required contracting procedures.

During our tests of 25 contracts, we noted the following:

Contracts were not filed or filed late with the Office of the State Comptroller

- Three contracts totaling \$2,217,736 did not have the three signatures required for contracts of \$250,000 or more.

Contracts were not approved and executed prior to performance of services

- Two contracts each valued at more than \$10,000 were not filed with the Office of the State Comptroller within 15 days after execution (three and four days late). These contracts were incurred against locally-held funds.

Contract was not procured through competitive selection

- Two contracts each valued at more than \$10,000 were not filed with the Office of the State Comptroller. These contracts were incurred against locally-held funds.

Contracts did not meet contract content requirements

- Three contracts totaling \$397,736 were not approved and executed prior to performance of services. These contracts were executed one to 83 days after the start of related services.

- A contract for \$385,000 was not procured through competitive selection. Further, the disclosure of financial interest statement was also not obtained.

- Three contracts totaling \$980,000 did not meet the contract content requirements. The State Board of Elections Certification was not marked as required. (Finding 9, pages 36-38)

We recommended that the University ensure all contracts over the threshold amounts are approved and executed prior to

performance of services and filed with the Office of the Comptroller in accordance with State statutes and regulations. We also recommended that the required disclosure of financial interest statement, contract certifications and signatures be obtained. Further, we recommended the required competitive solicitation procedures be observed.

University agrees with the auditors

University officials accepted the recommendation and stated that since this was brought to their attention, the University has modified the contracting procedures to ensure compliance.

NONCOMPLIANCE WITH THE UNIVERSITY'S LAW ON BOARD MEMBERSHIP, TERMS, VACANCIES AND MEETINGS

The University did not comply with the state law on Board membership, terms, vacancies and meetings.

Quorum not present during Board meeting

During our tests of statutory mandates, we noted that a quorum was not present during the University's regular Board of Trustees (Board) meeting on October 8, 2010. There were only three board members present during the meeting, which was less than the required quorum of five. This raises a concern as to the legitimacy of actions taken by the Board during that meeting.

Board not composed of required number of members

In addition, we noted that the University's Board is not composed of eight members as required by its law. As of the current fiscal year's audit, the University's Board has only four members appointed by the Governor and one student member elected by the student body, leaving the University's Board with three vacancies. Two of these vacancies have existed for several years now and one has been recently vacant from a resignation during the current fiscal year. (Finding 12, pages 45-46)

We recommended that the University continue to work with the Governor's Office to ensure that the Board vacancies are filled. Further, the University should ensure that it meets the required quorum at all regular Board meetings to comply with the provisions of the Law.

University agrees with the auditors

University officials accepted the recommendation and stated the Governor's Office appointed two additional Board members in October 2011.

OTHER FINDINGS

The remaining findings are reportedly being given attention by University officials. We will review progress toward implementation of our recommendations in our next audit.

AUDITORS' OPINION

Our auditors state the University financial statements as of June 30, 2011 and for the year then ended, are fairly presented in all material respects.

A handwritten signature in blue ink, appearing to read "William G. Holland", is written over a horizontal line.

WILLIAM G. HOLLAND
Auditor General

WGH:TLK:RT

SPECIAL ASSISTANT AUDITORS

E.C. Ortiz & Co., LLP were our special assistant auditors.