

**State of Illinois**  
**Illinois State University**

Report Required Under *Government Auditing Standards*  
For the Year Ended June 30, 2013

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, 2013**

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**Other Reports Issued Under a Separate Cover**

The annual financial statements of the University for the year ended June 30, 2013 have been issued under a separate cover.

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2013, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, will be issued at a later date under a separate cover.

**State of Illinois**  
**Illinois State University**  
**Financial Audit**  
**For the Year Ended June 30, 2013**

***Agency Officials***

President	Dr. C. Alvin Bowman (07/01/12 - 05/15/13)
President (Interim)	Dr. Sheri Noren Everts (05/15/13 - 08/14/13)
President	Dr. Timothy Flanagan (08/15/13 - Current)
Vice President for Finance and Planning	Dr. Daniel Layzell
Vice President for Academic Affairs and Provost	Dr. Sheri Noren Everts
Vice President for Student Affairs	Dr. 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, 2013)***

Chair	Hon. Judge Michael McCuskey
Member	Mr. Jay D. Bergman
Member	Ms. Anne Davis
Member	Mr. Bob Churney
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, 2013**

**Government Auditing Report Summary**

The audit of the financial statements of the 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 unmodified opinion on the Illinois State University's basic financial statements, issued under a separate cover.

**Summary of Findings**

<b>Number of</b>	<b>Current Report</b>	<b>Prior Report</b>
Findings	1	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	1

<b>Item No.</b>	<b>Page</b>	<b>Description</b>	<b>Finding Type</b>
<b>Finding (Government Auditing Standards)</b>			
2013-001	6	Inadequate Control over Reporting Investments	Material Weakness
<b>Prior Finding Not Repeated (Government Auditing Standards)</b>			
A.	7	Inadequate Control over Revenue Recognition	

**State of Illinois**  
**Illinois State University**  
**Summary**  
**June 30, 2013**

***Exit Conference***

The Illinois State University waived an exit conference and provided a response to the finding and recommendation in an e-mail from Mr. Greg Alt, Comptroller, dated November 1, 2013.

**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**

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, in accordance with the 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, 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 year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 5, 2013. Our report includes a reference to other auditors who 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 auditors' 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 (internal control).

In planning and performing our audit of the financial statements, we considered the Illinois State University's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois State University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Illinois State University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control 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 the accompanying schedule of findings as item 2013-001 to be a material weakness.

### **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*.

### **Illinois State University's Response to Finding**

The Illinois State University's response to the finding identified in our audit is described in the accompanying schedule of findings. The Illinois State University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Illinois State University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Illinois State University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Decatur, Illinois  
November 5, 2013

**State of Illinois**  
**Illinois State University**  
**Schedule of Findings**  
**June 30, 2013**

**Current Finding – Government Auditing Standards**

**2013-001. Finding – Inadequate Control over Reporting Investments**

The Illinois State University (University) did not exercise adequate internal control over the financial reporting of investments.

During testing, the auditors noted the University did not adjust the University's book value of investments to reflect changes in each investment's fair market value at June 30, 2013. As a result, the University overstated investments and investment income by \$4,947,293. The auditors proposed an adjusting journal entry to the University to correct this error, which the University recorded in the financial statements.

Governmental Accounting Standards Board Statement No. 31, Paragraph 7, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires the University report investments at fair value, which is "the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale." 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 resources 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 officials stated the premium and discount on securities was not included in the book value amount when compared to the market value in order to determine the fair value adjustment due to oversight.

Failure to exercise adequate internal control over financial reporting by properly reporting investments and revenues of the University could have, if not detected and corrected, resulted in a material misstatement of the University's financial statements and reduced the overall reliability of Statewide financial reporting. (Finding Code No. 2013-001)

Recommendation

We recommend the University implement controls to review and adjust investment balances to reflect fair market value changes, if any, to each investment's net position recorded in the University's financial records.

University Response

The University agrees with the recommendation to review investment balances and reconcile valuations with third party custodial statements to ensure the accuracy of market value adjustments. The occurrence of this oversight during Fiscal Year 2013 is believed to be an isolated incident and the valuation reconciliation is normally performed as part of the financial reporting process.

**State of Illinois**  
**Illinois State University**  
**Schedule of Findings**  
**June 30, 2013**

**Prior Finding Not Repeated – *Government Auditing Standards***

**A. Finding – Inadequate Control over Revenue Recognition**

During the prior engagement, the Illinois State University (University) did not exercise adequate internal control over revenue recognition. (Finding Code No. 12-1)

Status: Implemented

During the current engagement, the auditors noted the University improved its methodology to record tuition and fee revenues due from the State of Illinois for entitlement scholarships, recognized deferred revenues from the sale of season tickets to University athletic events, and remitted proceeds from the sale of scrap metal to the Department of Central Management Services for deposit into the State Surplus Property Revolving Fund.