STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

WESTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT
For the One Year Ended: June 30, 2010

Release Date: February 16, 2011

Summary of Findings:	
Total this audit:	**2**
Total last audit:	**0**
Repeated from last audit:	**0**

INTRODUCTION

This report contains only findings pertaining to the Financial Statement Audit.

The State Compliance Examination and Federal Single Audit Report will be issued at a later date.

SYNOPSIS

- The University did not ensure adequate internal control over the acquisition of a public television station.
- The University had not established an adequate process for evaluating the estimated allowance for doubtful accounts receivable.

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

WESTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For The Year Ended June 30, 2010 (in thousands)

STATEMENT OF NET ASSETS	2010	2009
Assets		
Cash and cash equivalents	$ 43,889	$ 44,161
Investments	10,000	4,018
Accounts and student loans receivable, net	9,141	8,155
Due from primary government	17,926	5,345
Capital assets, net	153,934	151,834
Other	3,663	$ 3,487
Total	$ 238,553	$ 217,000
Liabilities		
Accounts payable, accrued payroll, liabilities	$ 18,660	$ 18,756
Compensated absences	15,664	15,940
Revenue bonds, certificates of participation	56,563	49,388
Other	6,873	7,311
Total	$ 97,760	$ 91,395
Net Assets		
Invested in capital assets, net of related debt	$ 106,815	$ 101,559
Restricted	2,028	1,931
Unrestricted	31,950	22,115
Total	$ 140,793	$ 125,605

REVENUES, EXPENSE AND CHANGES IN NET ASSETS	2010	2009
Revenues		
State appropriations	$ 113,351	$ 100,007
Tuition and fees, net	73,193	71,646
Auxiliary enterprises	49,639	51,488
Grants and other contracts	26,494	20,994
Sales and services of educational activities	5,152	5,341
Other	7,943	4,659
Total	$ 275,772	$ 254,135
Expenses		
Instruction	$ 61,812	$ 59,987
Staff benefits	7,800	7,552
Auxilliary enterprises	40,066	43,258
Institutional support	12,485	12,716
Student services	19,747	20,430
Academic support	17,687	18,099
Operation and maintenance of plant	16,909	15,906
Student aid	8,135	6,479
On-behalf payments	50,456	38,585
Other	25,487	24,733
Total	$ 260,584	$ 247,745
Change in net assets	$ 15,188	$ 6,390

AGENCY DIRECTOR
During Examination Period: Dr. Alvin Goldfarb
Currently: Dr. Alvin Goldfarb

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROLS OVER ACQUISITION OF PUBLIC TV STATION

The University did not perform adequate due diligence regarding the acquisition of a public television station (Station).

The University and a community college (College) entered into an agreement on October 16, 2009 to transfer the license and ownership of the Station to the University and its Foundation. The agreement included donation of assets, properties, interests and rights in connection with the operation of the Station. Upon approval of the license transfer by the Federal Communications Commission, the agreement was finalized on May 1, 2010. We noted the following control weaknesses over equipment acquired by the University:

Listing of property transferred was not obtained prior to closing

Equipment was disposed of and loaned out prior to closing

- Schedules of the Station's tangible personal property referenced in the original agreement were not provided until one month after closing. Before closing, the College disposed of analog Station equipment without the University's written consent. Other equipment was loaned out without itemizing or tagging, making identification of Station property impossible.

Revenues and expenses were overstated by $1.9 million

- The University capitalized equipment at the incorrect value. The University also overstated non-operating revenue and depreciation expense accounts by $1.9 million.

Lack of physical controls over equipment

- Equipment was not tagged and inventoried by the University upon closing in May 2010 or prior to physical transfer to a new location in June 2010.

Untimely inventory of transfers

$1.9 million of property was missing and $0.2 million of unlisted assets were identified

- Physical inventory of fixed assets at the Station was not performed by the University until two months after closing. Based on the inventory, equipment transferred and recorded at $1.9 million was missing, and assets with a $0.2 million cost were found which had not been included in the schedule of transferred property.

Equipment was recorded prior to verifying existence

- The University capitalized equipment without verifying whether the equipment existed or the accuracy of the property list.

Equipment was transferred to other entities in violation of the acquisition agreement

- Prior to closing, 29 equipment items were transferred to another station in lieu of rent, unknown to the University and in violation of the terms of the agreement. Management stated the University did not seek recourse because the equipment was no longer used and this agreement would help sustain the Station's budget.

Equipment could not be located

- During our testing of equipment at the Station, we noted that one of 25 (4%) items tested, a system satellite valued at $77,977, could not be located. (Finding 1, pages 45-49)

University management stated they were not sufficiently aware of the complex steps involved in the acquisition process to ensure adequate controls were in place.

We recommended that the University implement a formal risk assessment process, perform thorough due diligence, and re-evaluate its financial reporting risk every time it undergoes an unusual, non-recurring, or other complex type of transaction such as acquisition of a business, so that management and the Board of Trustees can make informed decisions. We also recommended that the University implement comprehensive review procedures to ensure that the transactions and account balances are properly recorded in accordance with generally accepted accounting principles. Further, we recommended the University ensure that equipment records are accurately maintained and updated in a timely manner. Finally, the University should evaluate whether any legal remedies can and should be pursued.

University agrees with auditors

University officials accepted the finding and stated that the Station acquisition was a complex, one-time transaction, compounded by the Station relocation, conversion from analog to digital transmission and the outsourcing of technological functions during the period of license transfer. Officials stated they will ensure that future new equipment is properly inventoried and timely tagged, and management will conduct a review of functions to ensure that appropriate business practices are followed. Management also stated the University has evaluated its options and does not plan to seek legal remedies.

INADEQUATE ALLOWANCE FOR DOUBTFUL ACCOUNTS EVALUATION PROCESS

The University did not establish an adequate process to evaluate the estimated allowance for doubtful accounts for financial reporting purposes.

Estimates of $3.9 million were not properly evaluated and supported

The University estimated the allowance for doubtful accounts of the student accounts receivable to be $3.9 million at year-end, representing 51% of the ending balance. The University did not establish a process to evaluate the reasonableness of the estimates used. There was not sufficient data on which the estimates were based that were available for our review and testing. (Finding 2, pages 50-51)

We recommended that the University establish an adequate process to prepare annual accounting estimates including: sufficient, reliable supporting data; factors to consider; adequate review and approval by appropriate levels of authority; and presentation and disclosure in conformity with applicable accounting principles.

University agrees with auditors

University officials agreed with the finding and stated they will develop a process to evaluate reasonableness of the accounting estimate.

AUDITORS' OPINION

Our auditors stated the financial statements of Western Illinois University as of June 30, 2010, and for the year then ended, are fairly stated in all material respects.

WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED: Our special assistant auditors for this examination were E. C. Ortiz & Co. LLP.