



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**GOVERNORS STATE UNIVERSITY**

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

**Release Date: May 15, 2013**

**Summary of Findings:**

<b>Total this audit:</b>	<b>12</b>
<b>Total last audit:</b>	<b>12</b>
<b>Repeated from last audit:</b>	<b>6</b>

**SYNOPSIS**

- The University's draft financial statements provided to auditors contained errors.
- The University had not established adequate procedures over verification of eligibility requirements for Student Financial Assistance Cluster programs.
- The University did not have adequate procedures over verification of eligibility requirements for Trio-Cluster – Upward Bound (Greater Success for U) program.
- A written agreement was not executed with teaching residents detailing requirements under its teaching residency program funded by the ARRA – Teacher Quality Partnerships, Recovery Act (ARRA-TQP) grant.
- The University failed to comply with certain required contracting procedures.

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

**GOVERNORS STATE UNIVERSITY**  
**FINANCIAL AUDIT AND COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2012**

<b>FINANCIAL OPERATIONS</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>		
Student tuition and fees, net.....	\$ 33,071,685	\$ 30,499,092
Grants and contracts .....	8,403,442	9,546,230
Sales and services of educational departments.....	6,258,494	6,263,669
Auxiliary enterprises.....	1,306,975	1,671,660
Other operating revenues.....	2,169,073	1,685,746
Total Operating Revenues.....	<u>51,209,669</u>	<u>49,666,397</u>
<b>Operating Expenses</b>		
Instruction.....	46,092,139	41,840,108
Research.....	1,019,479	1,092,589
Public service.....	14,695,209	13,867,709
Academic support.....	2,008,781	2,230,926
Student services.....	6,688,295	6,224,729
Institutional support.....	16,505,830	14,978,608
Operation and maintenance of plant.....	8,096,132	6,991,748
Auxiliary enterprises.....	1,071,820	1,519,539
Depreciation.....	3,558,226	3,165,298
Total Operating Expenses.....	<u>99,735,911</u>	<u>91,911,254</u>
Operating Income (Loss).....	<u>(48,526,242)</u>	<u>(42,244,857)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations.....	26,253,400	26,558,000
Payments made on behalf of the University.....	22,668,000	18,832,000
Federal Pell grant.....	6,606,874	6,519,196
Investment income.....	27,340	37,665
Interest expense.....	(1,162,385)	(295,619)
Other nonoperating expenses.....	(3,500)	(10,982)
Net Nonoperating Revenues (Expenses).....	<u>54,389,729</u>	<u>51,640,260</u>
Capital Additions - State .....	<u>2,811,723</u>	<u>282,600</u>
Increase in Net Assets.....	8,675,210	9,678,003
Net assets, beginning of year.....	87,867,001	78,188,998
Net assets, end of year.....	<u>\$ 96,542,211</u>	<u>\$ 87,867,001</u>
<b>SUPPLEMENTAL INFORMATION (Unaudited)</b>		
	<b>2012</b>	<b>2011</b>
<b>Employment Statistics- Full Time Equivalent</b>		
Faculty and Administrative.....	351	301
Civil Service.....	252	287
Other Professionals.....	206	260
Graduate Assistants and Students.....	79	47
Total.....	<u>888</u>	<u>895</u>
<b>Enrollment Statistics</b>		
Student Head Count - Fall Trimester.....	5,603	5,660
Degrees Awarded.....	1,701	1,832
Annualized Tuition and Fees		
Undergraduate		
Resident.....	\$ 7,202	\$ 7,048
Nonresident.....	\$ 13,034	\$ 12,736
Graduate		
Resident.....	\$ 5,882	\$ 5,746
Nonresident.....	\$ 10,670	\$ 10,408
<b>PRESIDENT</b>		
During Audit Period and Currently: Dr. Elaine Maimon		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**FINANCIAL STATEMENTS ADJUSTMENTS WERE  
REQUIRED**

The University's draft financial statements provided to auditors contained errors.

During our audit of the financial statements originally submitted by the University to the State of Illinois Office of the Comptroller (Comptroller), we noted the following:

**Overstatement of capital assets and  
understatement of interest expense**

- The University's deferred maintenance projects funded by its borrowed funds (Revenue Bonds, Series 2007 and Certificates of Participation, Series 2008) were fully completed during fiscal year 2012. However, the University capitalized the interest on these borrowed funds totaling \$660,159 instead of recognizing it as interest expense which resulted in an overstatement of capital assets and understatement of interest expense. This also resulted in an overstatement of \$14,713 in the related depreciation expense and accumulated depreciation accounts.

**Deferred revenue calculated  
incorrectly**

- Deferred revenue pertaining to the fiscal year 2013 portion of the Summer 2012 tuition and fees was incorrectly calculated. The University recognized as deferred revenue the uncollected portion of tuition and fees instead of adjusting it against accounts receivable. This resulted in an overstatement of \$615,403, \$575,526, and \$39,877 in accounts receivable, deferred revenue, and student tuition and fees, respectively.

**Inaccurate scholarship discounts  
and allowances**

- The University's calculation for fiscal year 2012 of the scholarship discounts and allowances was inaccurate which resulted in an understatement of \$1,526,715 in student tuition and fees revenue and related expenditures.

**Difference in the balance of  
accounts receivable**

- The difference in the balance of accounts receivable between the general ledger and the related subsidiary ledger was adjusted by the University to bad debts expense without first determining the nature of the difference. After the auditors made inquiries about this during the audit, the University subsequently performed an analysis and noted that the difference was due to the incorrect recording of the following: (a) application of Summer 2011 federal student financial aid against student accounts; and (b) student registration for Summer 2011 classes.

This resulted in an overstatement of \$406,468 in bad debts expense, and an understatement of \$499,242 in grants receivable, grants expense, and federal grants and contracts revenue. This also resulted in an understatement of \$92,774 in the related student tuition and fees revenue. (Finding 1, pages 18-20)

We recommended the University review its current process for the preparation of the annual financial statements to ensure that financial information is complete, accurate, and prepared in accordance with generally accepted accounting principles.

**University agrees with the auditors**

University officials agreed with this finding and accepted the recommendation.

**INADEQUATE PROCEDURES OVER VERIFICATION OF ELIGIBILITY REQUIREMENTS FOR STUDENT FINANCIAL ASSISTANCE CLUSTER PROGRAMS**

The University did not have adequate procedures over verification of eligibility requirements for Student Financial Assistance Cluster programs.

In our eligibility testing of 60 students who were awarded and disbursed with financial aid under the Student Financial Assistance Cluster, we noted the following:

- The University awarded financial aid to ten students in excess of their financial need which resulted in an overstatement of \$32,660 in awards made to the students.
- The University failed to properly monitor compliance with its established standards in determining whether eligible students are maintaining satisfactory progress in their educational programs. These conditions resulted in an overstatement of \$37,205 in awards made to students. (Finding 2, pages 21-23)

**Overstated financial aid of \$69,865 from excess awards and failure to monitor compliance**

We recommended the University strengthen its controls in the verification of the eligibility requirements for students awarded with financial aid to ensure that awards are only provided to eligible students and to ensure compliance with federal regulations and University policies and procedures.

**University agrees with the auditors**

University officials agreed with this finding and accepted the recommendation.

## **INADEQUATE PROCEDURES OVER VERIFICATION OF ELIGIBILITY REQUIREMENTS FOR TRIO CLUSTER PROGRAMS**

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

**Eligibility determination was not supported for some participants**

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

- The University's eligibility determination for three participants was either not supported or did not agree with the supporting documents on file.
- The University did not completely document its eligibility determination for two participants. Eligibility determinations whether the participants are low-income individuals and/or demonstrated academic need were not properly filled-out by the program evaluator in the related application review/eligibility determination forms. (Finding 5, pages 29-30) **This finding was first reported in 2010.**

We recommended the University strengthen its controls in the verification of the eligibility requirements for grant applicants and maintain supporting documentation to ensure compliance with federal regulations.

**University agrees with the auditors**

University officials agreed with this finding and accepted the recommendation. (For the previous University response, see Digest Footnote #1.)

## **FINANCIAL AGREEMENTS NOT EXECUTED BETWEEN THE UNIVERSITY AND TEACHING RESIDENTS**

The University did not execute a written agreement with teaching residents detailing requirements under its teaching residency program funded by the ARRA - Teacher Quality Partnerships, Recovery Act (ARRA-TQP) grant.

**University did not execute written agreement with some teaching residents**

In our eligibility testing of four teaching residents who participated in the University's teaching residency program funded by the ARRA-TQP grant for academic year 2011-2012, we noted that a written agreement for three teaching residents was not executed upon acceptance to the program. The University subsequently executed the required agreement with the three teaching residents after being noted during our examination. (Finding 7, pages 33-34)

We recommended the University ensure that a written agreement is executed with the teaching residents upon acceptance to the teaching residency program to comply with the requirements of the ARRA-TQP grant.

**University agrees with the auditors**

University officials agreed with this finding and accepted the recommendation.

### **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:

**Some contracts not signed by authorized contract signatory**

- Five contracts totaling \$235,099 were not signed by an authorized contract signatory. The University personnel who signed the contracts did not have the Contract Signature Card filed with the Office of the State Comptroller.

**Contract was not approved and executed prior to performance of services**

- A contract amounting to \$63,326 was not approved and executed prior to performance of service. The contract was executed 79 days after the start of related service.

**Contracts not filed with State Comptroller**

- Two contracts totaling \$76,040 and valued at more than \$10,000 individually were not filed with the Office of the State Comptroller.

**Contracts not filed timely with the Office of the State Comptroller**

- A contract amounting to \$316,597 was not filed with the Office of the State Comptroller within 15 days after execution. (Finding 9, pages 37-38) **This finding was first reported in 2010.**

We recommended the University ensure all contracts over the threshold amounts be approved by authorized signatories, executed prior to performance of services, and filed with the Office of the State Comptroller in accordance with State statutes and regulations.

**University agrees with the auditors**

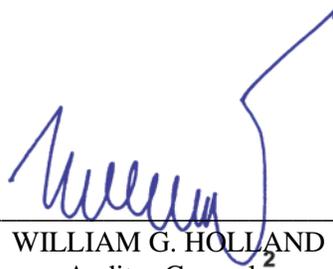
University officials agreed with this finding and accepted the recommendation. (For the previous University response, see Digest Footnote #2.)

### **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, 2012 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. The signature is stylized and cursive.

WILLIAM G. HOLLAND  
Auditor General<sup>2</sup>

WGH:JGR:rt

## **SPECIAL ASSISTANT AUDITORS**

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

## **DIGEST FOOTNOTES**

### **#1: INADEQUATE PROCEDURES OVER VERIFICATION OF ELIGIBILITY REQUIREMENTS FOR TRIO CLUSTER PROGRAMS** – Previous University Response

The University agrees with this finding and accepts the recommendation. The University is improving its processes and supervision to ensure compliance.

### **#2: NONCOMPLIANCE WITH REQUIRED CONTRACTING PROCEDURES** – Previous University Response

The University agrees with this finding and accepts the recommendation. Since this was brought to the University's attention, the University modified the contracting procedures to ensure compliance.