

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
Reports Required Under
***Government Auditing Standards* for**
Southern Illinois University
Housing and Auxiliary Facilities System
and
Medical Facilities System
For the Year Ended June 30, 2012
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



CliftonLarsonAllen

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**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
Government Auditing Standards Report**

Summary

The audit of the financial statements of the Southern Illinois University (University), Southern Illinois University Housing and Auxiliary Facilities System (HAFS), and Southern Illinois University Medical Facilities System (MFS) was performed by CliftonLarsonAllen LLP in accordance with *Government Auditing Standards*. This report is and integral part of that audit.

Based on their audit and the reports of other auditors, the auditors expressed an unqualified opinion on the University's basic financial statements. Based on their audits, the auditors expressed unqualified opinions on HAFS's and MFS's basic financial statements.

Summary of Findings

Southern Illinois University

The auditors identified three matters involving the University's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying schedule of findings on pages 5-8 of this report as Findings 12-1 (Financial Reporting Process for the University), 12-2 (Allowance for Doubtful Accounts), and 12-3 (Misstatement of Inventory).

Housing and Auxiliary Facilities

The auditors identified a matter involving the HAFS's internal control over financial reporting that they considered to be a significant deficiency. This significant deficiency is described in the accompanying schedule of findings on page 11 of this report as Finding 12-1 (Financial Reporting Process for the University).

Medical Facilities System

The auditors identified a matter involving the MFS's internal control over financial reporting that they considered to be a significant deficiency. This significant deficiency is described in the accompanying schedule of findings on page 14 of this report as Finding 12-1 (Financial Reporting Process for the University).

Exit Conference

The University waived an exit conference in correspondence dated March 8, 2013. Responses to the recommendations were provided by Kim Labonte in correspondence dated March 8, 2013.



**Independent Auditors' 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
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Southern Illinois University (University) and its aggregate discretely presented component units (University Related Organizations), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements and have issued our report thereon dated March 25, 2013. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with 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. Other auditors audited the financial statements of the University's discretely presented component units, as described in our report on the 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. The financial statements of one University Related Organization, the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale), was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as items 12-1, 12-2, and 12-3 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the University's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Trustees, University management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Peoria, Illinois
March 25, 2013

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2012**

12-1. Finding: Financial Reporting Process for the University

Southern Illinois University (the University), the Housing and Auxiliary Facilities System (HAFS), and the Medical Facilities System (MFS) need to improve control over financial reporting.

During our review of the draft financial statements of the University provided to the auditors, several errors related to the draft financial statements were identified and corrected.

Part of the cash and cash equivalents, short-term investments and long-term investments were not properly classified as restricted on the Statement of Net Assets in the current and prior fiscal years. This resulted in the following reclassifications on the University, HAFS and MFS financial statements from unrestricted cash and investments to restricted cash and investments:

- On the University financial statements a reclassification of \$68,870,186 in fiscal year 2012 and \$45,910,047 in fiscal year 2011,
- On the HAFS financial statements a reclassification of \$66,663,321 for fiscal year 2012 and \$43,588,363 for fiscal year 2011, and
- On the MFS financial statements a reclassification of \$1,712,233 for fiscal year 2012 and \$1,353,044 for fiscal year 2011.

This also resulted in a reclassification on the University discretely presented component unit's (University Related Organizations) financial statements of \$145,637,820 in fiscal year 2012 from unrestricted cash and investments to restricted cash and investments and of \$154,040,969 in fiscal year 2011 from unrestricted cash and investments to restricted cash and investments.

Governmental Accounting Standards Board Statement No. 34, paragraph 99, *Reporting restrictions on asset use*, requires that "Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset."

According to University management, the University adopted GASB 34 in 2002 and has been consistently reporting assets on the Statement of Net Assets. The missing reclassifications for restricted assets were first brought to the attention of University management in 2012, resulting in revised statements.

Submitting incomplete and inaccurate draft financial statements could result in the misstatement of financial statement balances and disclosures, and delay the timely release of the University's financial reports to users. (Finding Code No. 12-1)

Recommendation

We recommend the University improve controls over financial reporting to ensure accurate presentation and disclosure of the University's annual financial statements.

University Response

Accepted.

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2012**

12-2. Finding: Allowance for Doubtful Accounts

Southern Illinois University (the University) did not establish an adequate process to estimate the allowance for doubtful accounts for accounts and notes receivable.

The Carbondale campus estimated the allowance for doubtful accounts and notes receivables to be \$9.4 million (18%) of the gross receivables of \$53.7 million and \$2.6 million (15%) of notes receivable balance of \$17.8 million at June 30, 2012. The allowance was calculated by applying historical percentages to some categories of outstanding receivables based on aging categories and by specific identification for other categories of receivables.

For student tuition and fees and auxiliary enterprise receivables the allowance percentages had not changed for several years and the University could not provide auditors with any substantive basis for the percentages used when they were initially requested by the auditors. The University had not performed a substantive analysis to support the percentages used in determining fiscal year 2012 amounts. Similarly for general operating receivables, which is a balance made up of a variety of separate receivables balances, the University had difficulty providing auditors with a complete aged listing of the general operating receivables that tied to the financial statements and the University had difficulty providing support for the allowances reserved for the various general operating receivables balances.

After notification of the control weakness by auditors the University performed additional analysis of the estimated allowance for doubtful accounts and notes receivable and auditors determined the allowance for student tuition and fees and auxiliary enterprise receivables were not materially misstated and required no adjustment. However after further analysis, the University determined that certain receivables from State agencies totaling \$5.0 million at June 30, 2012 and \$5.2 million at June 30, 2011 should have had an allowance for doubtful accounts of \$2.6 million and \$3.1 million, respectively. In addition, the University determined that its Perkins loans were over-reserved by \$2.3 million and \$2.0 million at June 30, 2012 and 2011, respectively. The University passed recording these adjustments because they were not material to the financial statements.

According to generally accepted accounting principles (GAAP), the allowance for doubtful accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for bad debts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used. Typically organizations will perform a retrospective review to determine if the methodology used in developing the estimate compares to the actual results achieved in a subsequent period. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls.

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2012**

12-2. Finding: Allowance for Doubtful Accounts (Continued)

University officials stated that they used the established percentages from an analysis performed in fiscal year 2009 to determine the allowance in the current year. An analysis was not performed in the previous two fiscal years or the current year because there were no accounts written off to bad debt which resulted in there being no basis for analysis to ensure the allocations were still appropriate. Fiscal year 2012 was the first year in which the University processed actual bad debt write offs and plans to assess the allowance percentages for appropriateness in fiscal year 2013 given two years of data.

Having a sound methodology to establishing the allowance for doubtful accounts is necessary to ensure proper reserves are established. Failure to maintain documentation used for determining and analyzing the estimated allowance for doubtful accounts increases the likelihood of material misstatements of the financial statements. (Finding Code No. 12-2)

Recommendation

We recommend the University maintain documentation used to arrive at the accounting estimates for the allowance for doubtful accounts using relevant, sufficient and reliable data in accordance with generally accepted accounting principles. The University should perform a retrospective review of the estimate developed in the preceding year to determine if the estimate was reasonable based upon actual results in the subsequent period.

University Response

Accepted. Please note that the state agency receivables referenced in this finding are associated with the Illinois Veterans Grant, an entitlement program in which eligible recipients receive their awards regardless of the annual appropriation to the Illinois Student Assistance Commission (ISAC) which in turn reimburses the University. The University has received reimbursements at a rate averaging 28 percent of total cost during the last three fiscal years although the pattern of payment is not predictable, ranging from a high of 44 percent in fiscal year 2010 to a low of 12 percent in fiscal year 2011.

Instead of recording an allowance for doubtful accounts and the associated bad debt expense, we have reversed the receivables attributable to the prior year balances at the end of the following year.

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2012**

12-3. Finding: Misstatement of Inventory

Southern Illinois University (the University) did not establish an adequate process to value text book services inventory at fiscal year-end.

The Edwardsville campus accounts for text book services inventory values by running fiscal year-end reports from its Paradox inventory system. The system generates reports using a replacement cost (most recent purchase price) and a retail average cost report. The University's policy is to record text book services inventory at lower of cost or market. The retail average cost report generates a cost that approximates lower of cost or market; however, the University incorrectly utilized the replacement cost report to value fiscal year-end inventory for fiscal years 2012 and 2011. Text book services inventory accounts were overstated at June 30, 2012 and 2011 by \$2.0 million and \$2.2 million, respectively.

Auditors proposed an adjustment to the University in order to properly value the textbook inventory in its financial statements. University management declined to record the adjustment because it was immaterial to the University's financial statements.

According to generally accepted accounting principles and University accounting policies, the text book services inventory should be stated at lower of cost or market. Inventory account reconciliations and related review controls are an important part of an effective internal control environment to ensure that inventory balances are properly valued. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls.

University officials indicated that they generated text book services inventory reports at fiscal year-end and incorrectly used the replacement cost to value the text book services inventory. The University's system of internal controls failed to identify and correct the inventory valuation.

Failure to properly evaluate the value of inventory could result in misstatement of the financial statements. (Finding Code No. 12-3)

Recommendation

We recommend that the Edwardsville campus adopt review procedures to evaluate whether text book inventory is being valued appropriately.

University Response

Accepted.



CliftonLarsonAllen

Independent Auditors' 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
Southern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the Southern Illinois University Housing and Auxiliary Facilities System (the "System") as of and for the year ended June 30, 2012, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

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 a 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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*.

The System's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the System's responses and, accordingly, we express no opinion on the response.

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CliftonLarsonAllen LLP

Peoria, Illinois
March 25, 2013

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2012**

12-1. Finding: Financial Reporting Process for the University

Southern Illinois University (the University), the Housing and Auxiliary Facilities System (HAFS), and the Medical Facilities System (MFS) need to improve control over financial reporting.

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Governmental Accounting Standards Board Statement No. 34, paragraph 99, *Reporting restrictions on asset use*, requires that "Restricted assets should be reported when restrictions on asset use change the nature or normal understanding of the availability of the asset."

According to University management, the University adopted GASB 34 in 2002 and has been consistently reporting assets on the Statement of Net Assets. The missing reclassifications for restricted assets were first brought to the attention of University management in 2012, resulting in revised statements.

Submitting incomplete and inaccurate draft financial statements could result in the misstatement of financial statement balances and disclosures, and delay the timely release of the University's financial reports to users. (Finding Code No. 12-1)

Recommendation

We recommend the University improve controls over financial reporting to ensure accurate presentation and disclosure of the University's annual financial statements.

University Response

Accepted.



Independent Auditors' 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
Southern Illinois University

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Compliance and Other Matters

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CliftonLarsonAllen LLP

Peoria, Illinois
March 25, 2013

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2012**

12-1. Finding: Financial Reporting Process for the University

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Recommendation

We recommend the University improve controls over financial reporting to ensure accurate presentation and disclosure of the University's annual financial statements.

University Response

Accepted.