



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE UNIVERSITY

**Financial Audit, Single Audit, and Compliance Examination
 For the Year Ended June 30, 2017**

Release Date: March 20, 2018

FINDINGS THIS AUDIT: 7	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	0	3	2012		17-05	
Category 2:	2	2	4	2005		17-07	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	5	2	7				

FINDINGS LAST AUDIT: 4

SYNOPSIS

- (17-02) The University did not comply with its revenue bond covenants.
- (17-03) The University did not ensure certain transactions were properly reported within the University's financial statements.
- (17-04) The University failed to request an appropriation for its proportion of collegiate license plates sold to support scholarships for its in-State students.
- (17-05) The University did not always ensure compliance with the University Faculty Research and Consulting Act and University policies regarding outside employment.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

ILLINOIS STATE UNIVERSITY
FINANCIAL AUDIT, SINGLE AUDIT, AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2017

STATEMENT OF NET POSITION	2017	2016
Assets and Deferred Outflows of Resources		
Unrestricted		
Cash and cash equivalents.....	\$ 42,713,305	\$ 35,479,445
Receivables.....	35,638,801	34,348,428
Investments.....	59,002,520	73,758,331
Inventories, prepaid expenses, deposits, and other.....	5,532,184	6,382,085
Restricted		
Cash and cash equivalents.....	5,749,277	6,207,625
Receivables.....	4,291,589	2,825,459
Investments.....	160,799,200	140,490,965
Inventories, prepaid expenses, deposits, and other.....	765,990	792,927
Capital assets, net.....	424,705,388	438,748,233
Deferred Outflow of Resources.....	650,920	671,749
Total.....	<u>739,849,174</u>	<u>739,705,247</u>
Liabilities		
Accounts payable and accrued liabilities.....	17,412,671	16,682,639
Bond obligations.....	125,985,083	133,080,417
Other.....	41,388,133	42,197,996
Total.....	<u>184,785,887</u>	<u>191,961,052</u>
Net Position		
Net investment in capital assets.....	300,049,604	308,084,556
Restricted, expendable.....	165,088,485	142,698,896
Unrestricted.....	89,925,198	96,960,743
Total.....	<u>\$ 555,063,287</u>	<u>\$ 547,744,195</u>
REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Revenues		
Tuition and fees, net.....	\$ 221,234,933	\$ 201,074,476
State appropriations.....	38,291,000	20,934,900
Auxiliary enterprises.....	85,221,127	85,467,251
Payments on behalf of the University - State.....	176,090,829	152,071,777
Other.....	78,305,112	100,674,893
Total.....	<u>599,143,001</u>	<u>560,223,297</u>
Expenses		
Instruction.....	289,991,715	266,717,820
Student services.....	42,644,836	41,253,322
Student aid.....	56,740,837	51,994,936
Auxiliary enterprises.....	52,584,518	49,946,816
Other.....	149,862,003	150,563,486
Total.....	<u>591,823,909</u>	<u>560,476,380</u>
Change in net position.....	<u>\$ 7,319,092</u>	<u>\$ (253,083)</u>
EMPLOYMENT STATISTICS (Unaudited)		
Faculty and Administrative.....	1879.8	1922.6
Civil Service.....	1214.9	1214.3
Students.....	307.3	475.4
Miscellaneous Contractual.....	49.5	50.6
Total Employees.....	<u>3451.5</u>	<u>3662.9</u>
ENROLLMENT STATISTICS (Unaudited)		
Cost per full-time equivalent student.....	\$ 14,020	\$ 11,929
Full-time equivalent students.....	19,594	19,256
UNIVERSITY PRESIDENT		
During Audit Period: Dr. Larry Dietz		
Currently: Dr. Larry Dietz		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

NONCOMPLIANCE WITH BOND COVENANTS

The Illinois State University (University) did not comply with its revenue bond covenants.

\$10,082,135 transferred out of the System in violation of debt covenants

During testing, we noted the University calculated excess funds under the *University Guidelines* and transferred moneys out of the University's Auxiliary Facilities System (System) to the University's Income Fund in violation of its debt covenants. We reviewed the University's financial audits and compliance examinations dating back to Fiscal Year 1982 and concluded the following:

- \$1,763,614 was calculated as excess funds within the System at the end of Fiscal Year 2016 and transferred from the System to the University's Income Fund during Fiscal Year 2017; and,
- \$8,318,521 was calculated as excess funds within the System at the end of Fiscal Year 2017 and transferred from the System to the University's Income Fund during Fiscal Year 2018.

\$10,082,135 returned by the University to the System

In order to remedy this matter, the University returned \$10,082,135 on January 17, 2018, to the System from the University's Income Fund. University management corrected the Fiscal Year 2016 error on its Fiscal Year 2017 financial statements by reclassifying \$1,763,614 in unrestricted cash and cash equivalents within the Income Fund to restricted cash and cash equivalents for the System. (Finding 2, pages 17-18)

We recommended the University review its bond covenant compliance on a routine basis to identify and rectify any noncompliance conditions.

University officials agree

University officials agreed with the recommendation.

INADEQUATE CONTROL OVER ACCOUNTING AND FINANCIAL REPORTING

The University did not ensure certain transactions were properly reported within the University's financial statements.

During testing, we noted the following:

Foundation directly pays certain costs on behalf of the University

- Throughout the fiscal year, the Illinois State University Foundation (Foundation) pays certain costs on behalf of the University. Frequently, these transactions arise when departments across the University choose to submit an invoice for payment by the Foundation instead of charging the expense against their University accounts. The auditors noted

Unrecorded on-behalf payments of \$4,257,836 by the Foundation not recorded by the University

the University and Foundation did not have a process in place to identify and report the revenues and expenses associated with these on-behalf nonexchange transactions within the University's financial statements, which totaled \$4,257,836 during Fiscal Year 2017. University management corrected this error in the University's final financial statements.

Accounts receivable and unearned revenue understated by \$907,636

- During our review of the University's grant accounting at June 30, 2017, we noted the University netted the accounts receivable portion of several grants against the unearned revenue portion of other grants. This error resulted in the University understating both accounts receivable and unearned revenue by \$907,636.

\$1,300,492 in internal revenue and expense transactions not eliminated

- During the academic year, the faculty members of the University's laboratory schools spend time observing the University's College of Education's student teachers. Initially, the laboratory schools incur the expense associated with these transactions. At the end of the academic year, the University performs an internal transaction to charge these expenses against the College of Education's accounts, which was not eliminated for financial reporting purposes. As such, the revenues and expenses recorded in the University's draft financial statements were overstated by \$1,300,492.

\$4,223,295 in demolition costs incorrectly recorded as capital assets

- During analytical reviews of the University's accounts, we noted the University improperly capitalized demolition costs associated with the University's South Campus Complex (the former Atkin-Colby and Hamilton-Whitten residence halls and the attached Feeney Dining Center), totaling \$4,223,295, as land improvements.

\$196,757 in construction costs not recorded in the proper fiscal year

- One of 44 (2%) tested cash disbursements subsequent to fiscal year end, totaling \$327,929, was not split between Fiscal Year 2017 activity occurring before June 30, 2017, totaling \$196,757, and Fiscal Year 2018 activity occurring after June 30, 2017, totaling \$131,172. This invoice pertained to interior painting at the South Tower of the Watterson Towers over the summer.

Unsupported reconciling error

- During our review of the University's cash reconciliations at June 30, 2017, we noted an unsupported reconciling error, totaling \$235,581. After discussions with the University, it appears this amount represents an unrecorded equity adjustment from a prior period. (Finding 3, pages 19-21)

We recommended the University enhance its internal control over financial reporting to ensure transactions with the Foundation are properly reported, accounts receivable and unearned revenue from grants are properly reported, internal activity is eliminated, demolition costs are properly recorded, transactions split among fiscal years are properly recorded, and bank reconciliations are prepared with proper documentation to support reconciling items.

University officials agree

University officials agreed with the recommendation.

NONCOMPLIANCE WITH THE ILLINOIS VEHICLE ACT

The University failed to request an appropriation for its proportion of collegiate license plates sold to support scholarships for its in-State students.

\$127,100 in collegiate license plate revenues not requested for appropriation since Fiscal Year 2012

During testing, the auditors noted the University had not requested, drawn down, and disbursed scholarships of \$127,100 to eligible students from the University's proportion of collegiate license plates sold. This amount represents fees collected and deposited into the State Treasury by the Secretary of State from Calendar Year 2010 through Calendar Year 2015, which were available for appropriation to the University during Fiscal Year 2012 through Fiscal Year 2017. (Finding 4, page 22)

We recommended the University request an appropriation from the General Assembly for its proportional share of collegiate license plates sold and award scholarships to residents of the State using those moneys.

University officials agree

University officials agreed with the recommendation.

NONCOMPLIANCE WITH THE UNIVERSITY FACULTY RESEARCH AND CONSULTING ACT

The University did not always ensure compliance with the University Faculty Research and Consulting Act and University policies regarding outside employment.

During testing, we noted:

Approvals not obtained prior to the start date of outside employment

- 44 of 93 (47%) cases of outside employment had the Request for Approval of Secondary/Outside Employment Form (Form PERS 927) approved by the University's Provost between one to 321 days late.

Faculty members did not submit required reports

- 29 of 91 (32%) cases of outside employment did not have the Annual Report of Secondary/Outside Employment Form submitted by the faculty member

by the deadline of August 31, 2017. (Finding 5, pages 23-24) **This finding has been repeated since 2012.**

We recommended the University Provost implement internal controls to ensure faculty members with outside research, consulting services, or employment receive written pre-approval to conduct the requested activity and annually disclose the time spent on these activities in accordance with State law and University policy.

University officials agree

University officials agreed with the recommendation and stated they will continue to assess the faculty research and consulting approval process to ensure more timely approvals and disclosures. *(For the previous University response, see Digest Footnote #1.)*

OTHER FINDINGS

The remaining findings pertain to inadequate controls over reporting restricted accounts, noncompliance with the Illinois Human Rights Act, and noncompliance with the State Officials and Employees Ethics Act. We will review the University's progress towards the implementation of our recommendations in our next financial audit and compliance examination.

AUDITOR'S OPINIONS

The auditors stated the financial statements of the University as of and for the year ended June 30, 2017, are fairly stated in all material respects.

The auditors also conducted a Single Audit of the University as required by the Uniform Guidance. The auditors stated the University complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on the University's major federal programs for the year ended June 30, 2017.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance for Findings 2017-001, 2017-002, and 2017-003. Except for the noncompliance described in these findings, the accountants stated the University complied, in all material respects, with the requirements described in the report.

This financial audit, Single Audit, and compliance examination was conducted by RSM US LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:djn

DIGEST FOOTNOTES

#1 – Noncompliance with the University Faculty Research and Consulting Act – Previous University Response

2016: The University agrees with the recommendation and will continue to assess the faculty research and consulting approval process and implement modifications to ensure more timely approvals and annual disclosures of outside research, consulting and employment activities.