

State of Illinois
Illinois State University

Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2016

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, 2016

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Other Reports Issued Under a Separate Cover

The annual financial statements of the University for the year ended June 30, 2016, have been issued under a separate cover.

The University’s Compliance Examination (including the Single Audit) for the year ended June 30, 2016, which includes the reports of independent auditors, Schedule of Findings and Questioned Costs, and Supplementary Information for State Compliance Purposes, has been issued under a separate cover.

State of Illinois
Illinois State University
Financial Audit
For the Year Ended June 30, 2016

Agency Officials

President	Dr. Larry Dietz
Vice President for Finance and Planning	Mr. Greg Alt
Vice President for Academic Affairs and Provost	Dr. Janet Wessel Krejci
Vice President for Student Affairs (Interim)	Dr. Brent Paterson (07/01/15 – 06/30/16)
Vice President for Student Affairs	Dr. Levester Johnson (07/01/16 – current)
Vice President for University Advancement	Mr. Pat Vickerman
Comptroller	Vacant
Legal Counsel	Ms. Lisa Huson
Director - Internal Audit	Mr. Robert Blemler

Board of Trustees (as of June 30, 2016)

Chair	Mr. Rocky Donahue
Secretary	Ms. Anne Davis
Member	Mr. Jay D. Bergman
Member	Mr. Bob Churney
Member	Mr. Robert Dobski
Member	Ms. Betty Kinser
Member	Dr. Mary Ann Louderback
Student Member	Mr. Ryan Powers

Office Locations

Agency offices are located at:

Hovey Hall
Campus Box 1100
Normal, Illinois 61790-1100

State of Illinois
Illinois State University
Financial Audit
For the Year Ended June 30, 2016

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

Number of	Current Report	Prior Report
Findings	1	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

Item No.	Page	Description	Finding Type
Findings (Government Auditing Standards)			
2016-001	6	Inadequate Control over Revenue Recognition	Significant Deficiency

Prior Findings Not Repeated (Government Auditing Standards)

The University did not have any prior findings.

State of Illinois
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Financial Audit
For the Year Ended June 30, 2016

Exit Conference

This report was discussed with University personnel at an exit conference on November 29, 2016.
Attending were:

Representing Illinois State University

Vice President for Finance and Planning	Mr. Greg Alt
Senior Associate Comptroller	Ms. JoEllen Bahnsen
Associate Comptroller	Mr. Doug Schnittker
Director - Internal Audit	Mr. Robert Blemler
Accounting Associate	Ms. Erika Jones
Information Security Officer	Mr. Kevin Crouse
Assistant Vice President for Administrative Technologies and CTO	Mr. Charles Edamala

Representing BKD, LLP

Managing Director	Ms. Heather M. Powell, CPA
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Representing the Office of the Auditor General

Audit Manager	Mr. Daniel J. Nugent, CPA
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The response to the recommendation was provided by Ms. JoEllen Bahnsen, Senior Associate Comptroller, in an e-mail dated December 2, 2016.

**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 Frank J. Mautino
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 discretely presented component unit, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Illinois State University's basic financial statements, and have issued our report thereon dated December 5, 2016, which contained emphasis of matters paragraphs regarding the Federal Perkins Loan Program, appropriations revenue recognition related to Public Act 099-0524, and the lack of appropriations to fund the Illinois State University's Fiscal Year 2017 operations. 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

In planning and performing our audit of the financial statements, we considered the Illinois State University's internal control over financial reporting (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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2016-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State University's financial statements are free from 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.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
December 5, 2016

State of Illinois
Illinois State University
Schedule of Findings and Recommendations
June 30, 2016

Current Finding – Government Auditing Standards

2016-001. Finding – Inadequate Controls over Revenue Recognition

The Illinois State University (University) did not exercise adequate internal control over revenue recognition.

During testing, the auditors noted the following:

- The University prepared its financial statements with an improper listing of entitled scholarships, which resulted in an understatement of accounts receivable and revenue by \$264,962 at June 30, 2016.
- The University did not record certain rent revenues, which resulted in an understatement of accounts receivable and revenue by \$978,648 at June 30, 2016.

These amounts were deemed immaterial by University management and were not corrected in the University's final financial statements; however, the auditors determined these exceptions represent a significant deficiency in the University's internal control over financial reporting.

In accordance with generally accepted accounting principles (GAAP), all of the University's assets, liabilities, revenues, and expenses should be properly reported in the University's financial statements. 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 that revenues 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. Finally, a significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is important enough to merit attention by those charged with governance of the University.

University officials stated these misstatements were due to employee oversight.

Failure to properly recognize revenues and associated accounts receivable could result in a material misstatement of the University's financial statements and reduces the overall reliability of Statewide financial reporting. (Finding Code No. 2016-001)

Recommendation

We recommend the University review and make any necessary improvements in its internal controls over revenue recognition from entitled scholarships and rental income.

State of Illinois
Illinois State University
Schedule of Findings and Recommendations
June 30, 2016

Current Finding – *Government Auditing Standards*

2016-001. Finding – Inadequate Controls over Revenue Recognition (continued)

University Response

The University agrees with the recommendation and believes the revenue recognition exceptions to be isolated incidents. Procedures relative to each of the exceptions noted have been modified to ensure against future occurrence.