

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, 2013
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



CliftonLarsonAllen

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**Southern Illinois University
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Officers of Administration
Fiscal Year 2013**

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

Summary

The audit of the financial statements of 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 an 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 one matter involving the University's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying schedule of findings on pages 5-6 of this report as Finding 2013-001 (Misstatement of Accounts Receivable).

Exit Conference

The University waived an exit conference in correspondence dated January 3, 2014. A response to the recommendation was provided by Kim Labonte, Executive Director, Internal Audit, in correspondence dated January 6, 2014.

**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, 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 Southern Illinois University and the aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Southern Illinois University's basic financial statements, and have issued our report thereon dated January 6, 2014.

Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of Southern Illinois University's discretely presented component units, as described in our report on Southern Illinois 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 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

In planning and performing our audit of the financial statements, we considered Southern Illinois 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 Southern Illinois University's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Illinois University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings to be a material weakness (2013-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Illinois 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*.

Southern Illinois University's Response to Findings

Southern Illinois University's response to the finding identified in our audit is described in the accompanying schedule of findings. Southern Illinois 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 it.

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 result of that testing, and not to provide an opinion on the effectiveness of Southern Illinois 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 Southern Illinois University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Peoria, Illinois
January 6, 2014

STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2013

2013-001. Finding: Misstatement of Accounts Receivable

Southern Illinois University (the University) did not establish an adequate process to review receivables to ensure all amounts recorded are in conformity with accounting principles generally accepted in the United States of America.

The Carbondale campus implemented the use of a fixed fringe benefit rate negotiated with the federal Department of Health and Human Services in 2009 to facilitate the administration of grants. Consequently, a fringe benefit clearing account was established at that time to receive transfers from grant and overhead accounts when the negotiated fringe benefit rate was applied during each payroll run. These funds were then used to remit the actual cost of the associated fringe benefit expense to the vendors. Because the University is only allowed to request reimbursement for fringe benefit allocations to the extent allowed by the predetermined negotiated rate, the fringe benefit clearing account accumulated a negative balance when actual expenses exceeded the amounts reimbursed. Those excess expenses were subsequently accounted for as a receivable. Since amounts allocated in excess of those rates may not be reimbursable until future years, this negative balance should not have been recognized as revenue earned in the current period.

The University's method of accounting for unrecovered fringe benefit expense resulted in the Carbondale campus overstating receivables by \$6.0 million and \$3.4 million and understating operating expenses by \$2.6 million and \$1.5 million in fiscal years ended June 30, 2013 and 2012, respectively. The University's system of internal controls failed to identify this improper revenue recognition.

An audit adjustment was proposed to the University in order for the financial statements to be presented in accordance with accounting principles generally accepted in the United States of America. University management agreed to adjust the University's financial statements for the \$6.0 million receivable misstatement in fiscal year 2013. The University declined to restate prior year's financial statements because the adjustments to those financial statements were not material.

The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation to pay has been incurred. University receivables should be reviewed to ensure amounts recorded are in conformity with accounting principles generally accepted in the United States of America.

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, which shall provide assurances that revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2013**

2013-001. Finding: Misstatement of Accounts Receivable (Continued)

University officials stated that when a fringe benefit fixed rate is negotiated in advance for a fiscal year (or other time period), the over or under recovery for the previous year may be included as an adjustment to the fringe benefit cost for the next year's rate negotiation. The four negotiated fringe benefit rates approved subsequent to the fiscal year 2009 initial rate included a component to cover the shortfalls incurred. However, the University improperly accounted for the under recovery of fringe benefit expense to grant and overhead accounts as a receivable within the University's financial statements starting in fiscal year 2009. The carryforward provision allowed under OMB A-21 guidance is a change in the estimate of the allowable fringe benefit costs to be allocated to grant and overhead accounts and does not create any revenue recognition or deferral of expenses.

Failure to properly evaluate the adequacy of receivables could result in misstatement of the financial statements. (Finding Code No. 2013-001)

Recommendation

We recommend the University evaluate the adequacy of receivables to ensure revenue and expenses are properly recognized in accordance with generally accepted accounting standards to improve controls over financial reporting and ensure the University's annual financial statements are fairly presented.

University Response

The University agrees with the finding and recommendation.

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2013**

A. Finding: Financial Reporting Process for the University

During our review of the draft financial statements of Southern Illinois University (the University) provided to the auditors, several errors related to the draft financial statements were identified and corrected. Part of cash and cash equivalents, short-term investments and long-term investments were not properly classified as restricted on the Statement of Net Assets in accordance with Government Accounting Standards Board Statement No. 34. (Finding Code No. 12-1)

Status: Not Repeated

During the current year engagement, the auditors noted the University improved controls over financial reporting to ensure the presentation and disclosure of the University's annual financial statements were in accordance with generally accepted accounting standards.

B. 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. (Finding Code No. 12-2)

Status: Not Repeated

During the current year engagement, the auditors noted the University maintained 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.

C. 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. Text book inventory accounts were overstated by \$2.0 million and \$2.2 million at June 30, 2012 and 2011, respectively. (Finding Code No. 12-3)

Status: Not Repeated

During the current year engagement, the auditors noted the University adopted review procedures to evaluate the appropriate valuation of text book inventory.

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, 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 Southern Illinois University Housing and Auxiliary Facilities System (the "System"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 6, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 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. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 result of that testing, and not to provide an opinion on the effectiveness of the System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Peoria, Illinois
January 6, 2014

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2013**

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Status: Not Repeated

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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, 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 Southern Illinois University Medical Facilities System (the "System"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 6, 2014.

Internal Control Over Financial Reporting

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CliftonLarsonAllen LLP

Peoria, Illinois
January 6, 2014

**STATE OF ILLINOIS
SOUTHERN ILLINOIS UNIVERSITY
PRIOR FINDINGS NOT REPEATED - GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2013**

A. Finding: Financial Reporting Process for the University

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Status: Not Repeated

During the current year engagement, the auditors noted the University improved controls over financial reporting to ensure the presentation and disclosure of the University's annual financial statements were in accordance with generally accepted accounting standards.