LEGISLATIVE AUDIT COMMISSION

Review of
Illinois State University
Year Ended June 30, 2003

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REVIEW: 4198
ILLINOIS STATE UNIVERSITY
YEAR ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 5

ACCEPTED - 5

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 3

This review summarizes an audit of Illinois State University for the year ended June 30, 2003, filed with the Legislative Audit Commission on March 9, 2004. The auditors performed a financial and compliance audit in accordance with State law, *Government Auditing Standards*, and the requirements of the Federal Single Audit Act and OMB Circular A-133. The auditors stated the financial statements were fairly presented.

Illinois State University is a residential university with six colleges and 35 academic departments that offer more than 160 programs of study. The Graduate School coordinates 47 masters', specialist, and doctoral programs. Illinois State University is located in Normal, IL and governed by the Board of Trustees. It was founded in 1857 and is the oldest public institution of higher learning in Illinois.

Dr. Victor J. Boschini, Jr. was the President of Illinois State University during most of the audit period. He resigned on May 31, 2003. Dr. C. Alvin Bowman was appointed Interim President effective June 1, 2003. He became President on March 1, 2004. Dr. Bowman joined the ISU faculty in 1978.

General Information

Following is a comparative summary of total assets of the University at the dates indicated:

	At June 30	
	2003	***2002***
Currents Assets	$ 61,727,074	$ 56,905,785
Noncurrent Assets		
Long-term investments	27,421,406	15,572,370
Student loans	8,034,696	8,271,060
Capital assets, net	217,077,430	222,742,856
Other noncurrent assets	778,206	730,026
Total Noncurrent Assets	253,311,738	247,316,312
Total Assets	**$ 315,038,812**	**$ 304,222,097**

The total number of full-time equivalent employees, by function, is as follows:

	2003	*2002*
Faculty/administrative	1,800	1,815
Civil service	1,268	1,345
Student employees	588	576
Miscellaneous	146	144
Total	**3,804**	**3,882**

Student head count, full-time equivalent enrollment, including undergraduate, graduate, professional, and extension and average cost per full-time equivalent student was as follows at the beginning of the school year:

	2003	*2002*
Head count	21,183	21,240
Full-time equivalent students	18,707	18,672
Cost per FTE student	$ 7,901	$ 8,145

Expenditures From Appropriations and the Income Fund

Appendix A presents a summary of expenditures from appropriations and the Income Fund for FY03 and FY02. The General Assembly appropriated a total of $87,725,240 to Illinois State University in FY03. Appropriations were from the following funds: $73,278,800 from the General Revenue Fund; $14,394,700 from the Educational Assistance Fund; $6,390 from the Capital Development Fund; and $45,350 from the State College and University Trust Fund. In FY2000, the University began receiving lump-sum appropriations from the State to be spent at the discretion of the University. Though no longer appropriated, the University had $67.8 million available from the Income Fund and expended $62,172,898 from that Fund in FY03. Total expenditures from appropriated funds were $85,322,510 in FY03 compared to $92,437,141 in FY02, a decrease of $7,114,631, or 7.7%.

Accrued Vacation and Sick Pay

Illinois State University's liability for accrued vacation was $7,990,910 and sick leave was $11,518,514, for a total of $19,509,424 as of June 30, 2003. This represents a decrease over FY02 of $1,533,490, or 7.3%.

Revenues, Expenses, and Changes in Net Assets

The table appearing in Appendix B presents statements of revenues, expenses and changes in net assets for the years ended June 30, 2003 and 2002. The purpose of the statements is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

Operating revenues are received for providing goods and services. Operating expenses are those paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues, such as State appropriations, are received for which goods and services are not provided.

The University's net assets totaled almost $214.4 million in FY03. The increase in net assets was $17.6 million in FY03 compared to $7.7 million in FY02.

Sources of revenues for FY03 are as follows:

Revenues	***FY03***
Tuition & Fees	25%
State Appropriations	26%
Grants & Contracts	8%
Auxiliary Facilities	17%
Payments Made on Behalf of University	11%
Other	13%

Expenditures for FY03 by type are as follows:

Expenditures	***FY2003***
Instruction	29%
Research	4%
Payments on Behalf of University	11%
Plant	7%
Institutional Support	7%
Student Services	8%
Auxiliary Facilities	15%
Other	19%

The category "Other" contains public service, academic support, student aid, depreciation, and other expenses.

Accounts Receivable

Appendix C summarizes the accounts receivable of the University for FY03 and FY02. Accounts receivable for student loans are not included in Appendix C. Net accounts receivable totaled $7,381,213 as of June 30, 2003, with $793,128 for tuition receivable deemed uncollectible; $1,243,597 for room and board receivable deemed uncollectible; and $405,813 for fees receivable deemed uncollectible. This compares to a total of $2.3 million that was considered uncollectible one year earlier. All other accounts are considered collectible by the University. Total accounts receivable decreased from $7,842,799 as of June 30, 2002 to $7,381,213 as of June 30, 2003.

Property and Equipment

Appendix D summarizes the changes in property and equipment. The balance before depreciation in FY03 was $446.8 million, compared to $430.2 million at the end of FY02. Additions totaled about $35.35 million, of which $17.7 was buildings, and $11.6 million was construction in progress. The University's new Center for Performing Arts building was added to "buildings" in FY03. The University began construction of the College of Business building in FY03. Retirements totaled $18.78 million during FY03, with the majority again attributable to the completion of the new Center for Performing Arts building.

In FY03, the University changed the capitalization threshold for equipment from $500 to $5,000. The change resulted in writing off $45.2 million of equipment and $32.8 million of accumulated depreciation producing a $12.4 million reduction of net assets.

Foundation Payments to the University

During FY03 and FY02, the University engaged the Illinois State University Foundation under contract to provide fund raising services. As provided in the contract agreement, the University advanced funds to the Foundation of $260,000 in both years. As required by contract, the Foundation fully repaid the University, using funds considered unrestricted for purposes of the University Guidelines. In addition, the Foundation gave the University nonqualifying restricted funds. Total funds provided to the University from the Foundation were $4,448,552 in FY03, compared to $7,063,002 in FY02. Presented in Appendix E is a summary of all funds that the Foundation gave the University during FY03 and FY02.

Tuition and Fee Waivers

During FY03, Illinois State University granted $8,541,600 in tuition and fee waivers ($2,712,000 in mandated waivers and $5,829,600 in discretionary waivers) to 4,849 students. This compares to $7,168,700 waived in FY02, and reflects an increase of $1,372,900, or 19%, in FY03 when compared to FY02. Appendix F presents a summary of tuition waivers for FY03.

Accountants' Findings and Recommendations

Condensed below are the five findings and recommendations presented in the audit report. There were two repeated recommendations. The following recommendations are classified on the basis of information provided in the audit report by Greg Alt, Comptroller, Illinois State University.

Accepted or Implemented

1. **Coordinate current procedures for tracking property additions and deletions with procedures for conducting physical counts of inventories. Additional training may be necessary to ensure personnel are following procedures and are properly completing the annual inventory. (Repeated-2002)**

<u>Findings:</u> During testing of capital asset additions and deletions, the auditors noted the errors below. When brought to the attention of the University, the financial statements were adjusted accordingly.

- One item with a value of $112,000 was purchased during FY92, but was not reported as an addition until FY03 when it was incorrectly recorded as an addition for $162,316.
- One item with a value of $109,531 was recorded as an addition twice and capitalized twice.
- There were two items with a value of $20,220, purchased in FY01 that were not reported as additions until FY03.
- Assets with a value of $48,211 were inadvertently deleted from the property control records. When the error was discovered, the items were "re-added."

<u>Response</u>: The University agrees with the recommendation and has implemented new procedures to periodically review general ledger transaction activity to ensure the proper recording of capital asset additions and retirements. The University believes the items noted in the finding were isolated incidents and are not indicative of a systemic problem.

2. **Review the financial reporting practice related to construction projects. Further, record capital appropriations as well as funds received from the University's Foundation as revenue. University management should also establish policies to ensure that future construction projects are reported appropriately.**

Accepted or Implemented - continued

<u>Findings:</u> When the auditors tested the University's financial statements, they noted the following errors relating to construction in progress.

- Capital appropriations received from the Capital Development Board were reported as a reduction in operating expenditures rather than reported as capital appropriations. As a result, expenses and revenue were understated by $2 million in FY02 and $9.25 million in FY03.
- Prior to FY03, the University had recorded Capital Development Board capital appropriations one quarter late. The University's June 30, 2003 financial statements reflect five quarters of capital appropriations, resulting in an overstatement of $1.2 million in FY03.
- ISU Foundation reimbursed the University $116,007 in FY02 and $183,933 in FY03 for costs related to the construction of the College of Business building. Neither the additions to construction in progress for the costs incurred on the building nor the revenue from the Foundation were recorded, resulting in an understatement of assets and revenue.
- The University expensed $300,000 in FY02 and $550,000 in FY03 that should have been capitalized and reflected as construction in progress at June 30. The errors result in an overstatement of expenses and understatement of capital assets over the two year period.

Response: The University agrees with the recommendation and has completed a review of its practice for recording construction projects and has implemented new procedures to ensure that construction projects are properly reported. University policy has been modified to record capital appropriations and funds received from the Foundation as revenue.

3. Establish and implement procedures to ensure requests for approvals of outside employment and filing of annual reports are done in a timely manner.

Findings: The University did not comply with the University Faculty Research and Consulting Act. When the auditors tested 60 faculty requests for approval of outside employment, 30 requests were not approved prior to start of outside employment, 13 faculty members did not submit annual reports prior to June 30, 2003, and one faculty member did not file a request seeking approval for outside employment.

Response: The University agrees with the recommendation to modify its procedures to ensure requests for approval of outside employment and filing of annual reports are done more timely. The Provost's Office will send information to department chairpersons annually to ensure faculty awareness of the University Faculty Research and Consulting Act and the requirements for approvals and annual reports. Also, University policy will be revised to require annual reports to be submitted by August 31 of each year to better correlate with faculty presence on campus.

4. Proceed with the plan submitted to the Office of the State Fire Marshal if students are continuing to be housed in the complex.

Findings: The University has not implemented "The Plan for Compliance with Fire Alarm Requirements" submitted to the Office of the State Fire Marshal in March 1997.

The plan called for the University to upgrade two residence halls to contain smoke detectors in the hallways and connection of those detectors to a monitor panel. The plan, as submitted, was to be completed by the end of year 2000.

The residence halls in question were occupied during the audit period. They have heat detectors in the hallways and independent smoke detectors in the rooms. The heat detectors are connected to a monitor panel, which is connected to a central reporting point located in the University Police Department. The independent smoke detectors are not connected to a central monitor or reporting system.

Response: The University agrees with the recommendation to proceed with the plan submitted to the Office of the State Fire Marshal. All upgrades required by the plan were completed by January 30, 2004.

5. Ensure that contingency plans are adequate and tested to provide the capability to recover critical operations and systems within the required timeframes. Assure that contingency planning is a continuous process.

Continue efforts to establish an adequate alternate recovery site. Once established, ensure routine recovery tests are performed at least annually. A comprehensive test should also be done to ensure the contingency plan is adequate and any deficiencies within the plan are appropriately addressed. (Repeated-2001)

Findings: The University has not ensured adequate contingency planning for recovery of its computing operations. The University has over $26 million in computing equipment that is utilized to perform mission critical functions, including two computer systems (one for back-up) that are dedicated to the Financial Accounting System and another computer for its other administrative computing operations, in addition to more than 40 local area networks. The University had developed two disaster contingency plans, one for the recovery of the financial system and one for the recovery of the administrative system.

Although the University has made progress in its contingency planning, the following deficiencies in the University's disaster contingency planning efforts were noted:

- The University had not performed detailed comprehensive recovery tests to ensure its critical systems could be recovered with the required timeframe.
- The University does not have a guaranteed and tested alternate recovery site to ensure the capability to recover all critical systems from a disaster. Without an

Accepted or Implemented - concluded

- acceptable alternate-processing site, the University can't ensure the recovery of its critical computer systems within the required timeframe.

<u>Response</u>: The University agrees with the recommendation to continue its efforts to establish an adequate alternate recovery site. An alternate recovery facility for the Financial Accounting System has already been established on campus. Some additional work on this facility is needed, but in its current configuration, the University has the capability to use this system should the primary system fail or should access to the primary system be denied for any reason. This facility will be expanded to host mirror images of data files for departmental servers. In addition, a Request for Proposals for Disaster Recovery Services was issued July 28, 2003 to locate an alternate recovery site for the mainframe operations. Responses were evaluated and a recommendation was submitted to enter into a subscription with a disaster recovery services provider. This contract will be awarded once funding is identified.

The University also agrees to review the disaster recovery plan annually and test on a periodic basis.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY03, Illinois State University filed no affidavits for emergency purchases

Headquarters Designations

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The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

Illinois State University indicated as of July 2003, 58 employees were assigned to locations other than that at which their official duties require them to spend the largest part of their working time. The majority of such employees were student teacher supervisors.