

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, 2017

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



CliftonLarsonAllen

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Southern Illinois University Board of Trustees and Officers of Administration Fiscal Year 2017

BOARD OF TRUSTEES OF SOUTHERN ILLINOIS UNIVERSITY

Randal Thomas, Chair	Springfield
Donna Manering, Vice Chair (7/1/16 to 2/9/17); member (7/1/16 to 3/17/17)	Makanda
J. Phil Gilbert, member; Vice Chair (2/9/17 to 6/30/17)	Carbondale
Joel Sambursky, Secretary	Carbondale
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Ryan Johnson	Edwardsville
Shirley Portwood	Godfrey
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Amy Sholar	Alton
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OFFICERS OF SOUTHERN ILLINOIS UNIVERSITY

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OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY CARBONDALE

W. Bradley Colwell, Interim Chancellor
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Jerry Kruse, Dean and Provost, School of Medicine
Kevin D. Bame, Vice Chancellor for Administration and Finance (7/1/16 to 4/28/17)
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Lori Stettler, Interim Vice Chancellor for Student Affairs
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OFFICERS OF ADMINISTRATION, SOUTHERN ILLINOIS UNIVERSITY EDWARDSVILLE

Stephen Hansen, Interim Chancellor (7/1/16 to 7/31/16)
Randall Pembroke, Chancellor (8/1/16)
Denise Cobb, Provost and Vice Chancellor for Academic Affairs, Interim Provost and Vice Chancellor for Academic Affairs (7/1/16 to 4/30/17)
Jeffrey Waple, Vice Chancellor for Student Affairs
Rich Walker, Vice Chancellor for Administration, Interim Vice Chancellor for Administration (7/1/16 to 4/30/17)
Rachel Stack, Vice Chancellor for University Advancement

**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 unmodified opinion on the University's basic financial statements. Based on their audits, the auditors expressed unmodified 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 5-7 of this report as Finding No. 2017-001 (Inadequate Control over Reporting Financial Statement Accounts).

Exit Conference

The University waived an exit conference in correspondence dated February 23, 2018. A response to the recommendation was provided by Kim Labonte, Executive Director, Internal Audit, in correspondence dated February 20, 2018.



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 Frank J. Mautino
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 its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2017, 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 February 28, 2018.

Our report includes 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 opinion 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item 2017-001, which we consider to be a material weakness.

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 Finding

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.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Peoria, Illinois
February 28, 2018

SOUTHERN ILLINOIS UNIVERSITY
(A Component Unit of the State of Illinois)
CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017

2017-001. Finding: Inadequate Control over Reporting Financial Statement Accounts

Southern Illinois University (University) did not ensure all restrictions from revenue bond covenants, as well as classification between unrestricted and restricted current and noncurrent cash and investments, were properly reflected within the University's financial statements.

As of June 30, 2017, the University's Housing and Auxiliary Facilities System and Medical Facilities System consisted of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- Individual housing units
- Student centers
- Recreation-related facilities, such as the Carbondale Student Recreation Center and Edwardsville Student Fitness Center;
- Student services facilities, such as the Carbondale Student Health Services building and the student information system on the Carbondale campus, Edwardsville Student Success Center, the Carbondale child care center; and the Carbondale Student Services Building
- Athletic facilities, such as the Carbondale softball field, Carbondale baseball stadium, Carbondale football stadium, and the Carbondale SIU Arena;
- Edwardsville traffic and parking
- Various clinical facilities

As of June 30, 2017, the University's Housing and Auxiliary Facilities System (HAFS) had outstanding revenue bond issues (Series 1993A, Series 1997A, Series 1999A, Series 2006A, Series 2008A, Series 2009A, Series 2012A, Series 2012B-1, Series 2012B-2, Series 2015A, and Series 2015B) and the University's Medical Facilities System (MFS) had outstanding revenue bond issues (Series 2015A) where the proceeds from these bonds had been used to finance certain projects within the System. Both the HAFS and the MFS are established as "closed systems" (systems) where the revenues generated by each system can only be used for the following purposes:

- 1) expenses necessary for the operation and reasonable upkeep and repair of the system;
- 2) payment of principal and/or interest amounts when due;
- 3) amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the system beyond ordinary maintenance and operation of the system; and,
- 4) amounts set aside limited to and used for constructing new space or additions to existing facilities within the system.

However, if any funds existed following the use of revenues for the above purposes, restrictions differed for HAFS and MFS. For MFS, all the moneys and investments in these accounts are required to be used and held for use only in the manner and in the order as specified above, with no provision to remove any surplus from the MFS system. For HAFS, any excess funds remaining may be used by the Board (i) to redeem previously issued bonds when callable; or (ii) for any expenditures, including the payment of debt service, incurred in improving or restoring portions of the HAFS, or to provide for additional facilities for the HAFS; or (iii) to pay the cost of unusual or extraordinary maintenance or repairs, renewals and replacements and renovating or replacement of the furniture and equipment not paid as part of the ordinary maintenance and operation of the HAFS. Notably, resources within both HAFS and MFS are unavailable for use by the University outside of each system.

SOUTHERN ILLINOIS UNIVERSITY
(A Component Unit of the State of Illinois)
CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017

2017-001. Finding: Inadequate Control over Reporting Financial Statement Accounts
(Continued)

During testing, we noted the University had controls to segregate both systems' assets and include their net position with the University's financial statements; however, the University had not designed its internal controls to ensure accurate reporting of restricted assets and restricted net position under generally accepted accounting principles. Specifically, the University reported all portions of the HAFS and MFS net position as restricted on its University financial statements, except that portion used for the expenses necessary for the operation and reasonable upkeep of the systems, which was classified as unrestricted. The University originally designed the control due to the implementation of Governmental Accounting Standards Board Statement No. 34 by drawing inferences from the implementation guidance published by the Governmental Accounting Standards Board that was not necessarily on point with the University's unique "closed system" situation and from discussions with other universities with closed systems.

Historically, auditors did not take exception to the design flaw until the current year. After this issue was noted during the current year, the Auditor General's Office and the Office of the State Comptroller consulted with staff of the Governmental Accounting Standards Board. After this consultation, the University (and all Illinois public universities with closed systems) changed its accounting presentation in its final financial statements to show all non-capital assets associated with both systems, totaling \$29.40 million, as restricted assets and reclassified the systems' portion of the University's net position to expendable restricted net position, totaling \$28.80 million.

Also, the University did not have sufficient internal controls to ensure restricted and unrestricted cash and short and long-term investments were properly reflected within the University's financial statements. The University pooled its cash and investments in an external investment pool, and used an allocation methodology to determine the year-end balances of restricted and unrestricted cash and investments. While making financial statement adjustments for restrictions on net position and assets, University staff identified flaws in the pooled investments allocation methodology, which overstated restricted cash and understated restricted investments. Staff had not identified the misallocation in their draft financial statements previously provided for Fiscal Year 2017. As a result, the University reclassified \$45.08 million in cash from restricted to unrestricted accounts, and reclassified \$43.74 million of long-term investments and \$1.34 million of short-term investments from unrestricted to restricted accounts.

Governmental Accounting Standards Board Statement No. 34, Paragraph 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, requires net position should be reported as restricted when constraints imposed upon the use of the net position are externally imposed by creditors, such as through debt covenants. Further, Governmental Accounting Standards Board Statement No. 34, Paragraph 99, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, requires the reporting of restricted assets when constraints imposed upon the use of the net position are externally imposed by creditors change the nature or normal understanding of the availability of the asset, such as assets that cannot be used to extinguish liabilities outside of those allowed by the bond covenants.

SOUTHERN ILLINOIS UNIVERSITY
(A Component Unit of the State of Illinois)
CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2017

2017-001. Finding: Inadequate Control over Reporting Financial Statement Accounts
(Continued)

In addition, 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, expenses, resources, and funds 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.

University officials stated they consistently reported system operating funds in the past and they had not considered the need to question their longstanding practice until the OAG consulted with the Governmental Accounting Standards Board on the matter. The misclassification of cash and investments between unrestricted and restricted was due to flaws in the pooled investments allocation methodology for fiscal year 2017 which were not identified during the original financial statement preparation and review process.

Failure to report the non-capital assets and net position related to the operating funds of the systems as restricted resulted in a material misstatement of the University's financial statements and reduced the overall reliability of Statewide financial reporting. Insufficient internal controls to ensure accuracy of the pooled investments allocation misrepresented the liquidity of unrestricted and restricted funds and resulted in material misstatements in the University's financial statements. (Finding Code No. 2017-001)

Recommendation

We recommend the University periodically review its internal controls over financial reporting to provide assurance accounts are properly classified under generally accepted accounting principles.

University Response

Agree. The necessary reclassifications have been made in order to ensure the accuracy of the University's financial statements with respect to this matter. Additionally, it should be noted that despite the design flaw in the allocation methodology, there has been no instance of misuse with respect to the restricted operating funds of the closed systems that have since been reclassified as restricted on the University's financial statements.



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 Frank J. Mautino
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, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated February 28, 2018.

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.

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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*.

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CliftonLarsonAllen LLP

Peoria, Illinois
February 28, 2018



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

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