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, 2018

Performed as Special Assistant Auditors for the Auditor General, State of Illinois
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Agency offices are located at:

Southern Illinois University Carbondale 
1263 Lincoln Dr. 
Carbondale, IL 62901

Southern Illinois University Edwardsville 
1 Hairpin Dr. 
Edwardsville, IL 62025
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 Plante Moran, PLLC 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 financial statements.

Summary of Findings

Southern Illinois University

The auditors identified one matter involving the University’s internal control over depreciation expense that they consider to be a significant deficiency. The significant deficiency is described in the accompanying schedule of findings on pages 5-6 of this report as Finding No. 2018-001 (Insufficient Controls over Depreciation Calculation).

Exit Conference

The finding and recommendation appearing in this report was discussed with University personnel on December 18, 2018. Participating were:

Kimberly Labonte, Executive Director, Internal Audit – SIU
Charlie Cox, Director of Accounting Services, SIUC
Karen Stovall, Controller, SIUE
Richard Hampton, Director of Financial Affairs, SIUE
Patricia Kloostra, Asst. Director of Financial Affairs, SIUE
Vicki VanDenBerg, CPA, Partner, Plante & Moran, PLLC
Samantha Norman, CPA, Associate, Plante & Moran, PLLC
Lisa Warden, Senior Audit Manager, Office of the Auditor General, State of Illinois

A response to the recommendation was provided by Kim Labonte, Executive Director, Internal Audit, in correspondence dated December 20, 2018.
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 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 June 30, 2018 and for the year then ended, 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 13, 2019.

Our report includes a reference to other auditors, who as described in our report on the University's financial statements, audited the financial statements of Southern Illinois University's discretely presented component units. 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 under 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 Southern Illinois University'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 a certain deficiency in internal control, described in the accompanying schedule of findings as item 2018-001 that we consider to be a significant deficiency.

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 results 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 COPY ON FILE

Plante & Moran, PLLC

Portage, Michigan

February 13, 2019
Southern Illinois University (University) Edwardsville campus overstated depreciation expense by approximately $0.5 million for building improvements placed into service from construction in process during the fiscal year.

When testing the recorded depreciation expense on a transfer of construction in process (CIP) related to renovations on the Old Science Building, we noted renovations were completed and placed into service over a two-year period of time. However, University personnel recorded all CIP costs under a single asset number. A portion of the renovated building was placed in service on July 15, 2016. Subsequently, through Fiscal Year 2018, additional costs were capitalized and added to the asset number, bringing the total cost of the renovation to $25.8 million. However, only portions of the building due to the renovation were in use throughout the entire time. The depreciation calculation was performed based solely upon the initial placed-in-service date of the first portion of renovations on the Old Science Building on July 15, 2016, rather than when each portion of the renovation was acquired or placed in service. As a result, the University began depreciating the Fiscal Year 2018 costs one to two years before the acquisition date and accordingly, depreciation expense was overstated.

We noted the University had recorded depreciation expense totaling $2.1 million on the renovated science building. When the calculation was independently validated, the depreciation expense that should have been recorded was determined to be $1.6 million, resulting in a variance of approximately $0.5 million for fiscal year 2018. The misstatement was identified during our financial audit procedures.

The University’s informal policy on depreciation is to allocate the net cost of depreciable assets over their estimated useful lives in a systematic and rational manner. According to GASB 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, paragraph 22, depreciation may be calculated for a class of assets, a network of assets, a subsystem of a network, or individual assets. As disclosed in Note 2 of the financial statements, the University’s policy on depreciation is to begin depreciation effective on the first day of the month following the date placed in service.

In this case, depreciation expense should have been calculated beginning with the month after each portion of the renovations were placed into service, rather than when the first portion of construction had been originally placed in service and recorded in the fixed asset system.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or 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.
2018-001. FINDING: Insufficient Controls over Depreciation Calculation (Continued)

Management stated the overstatement of depreciation expense was due to a project where only a portion of the building was placed in service. Typically, a building renovation of this type is capitalized into construction in progress and depreciation begins once the building is placed in service. The asset number was assigned once a portion of the building was placed in service and there was not consideration of the timing of future costs. In addition, depreciation was not reviewed by project. We noted staff had not sufficiently monitored the progress of renovations and anticipated future costs, evaluated the appropriateness of depreciating costs before they were incurred, or considered if multiple asset numbers (tags) should be used throughout the renovation process on the building.

The impact affected the total expense recognized during the fiscal year, as well as the total net book value of capital assets, by overstating depreciation expense and understating the value of the asset by approximately $0.5 million. Insufficient internal controls over recording construction in process and related depreciation increases the likelihood that misstatements could occur and not be prevented or detected. (Finding Code No. 2018-001)

RECOMMENDATION

We recommend the University strengthen and review its internal controls and policies related to financial reporting over CIP and placed in service dates specifically on projects that might have staggered completion dates. We also recommend accounting staff obtain any necessary CIP progress status information to make informed decisions, consider whether more than one asset number is warranted, and review CIP depreciation assumptions and calculations for accuracy.

UNIVERSITY RESPONSE

The University agrees with the finding and will put procedures in place based upon the recommendation.
A. 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 being properly reflected within the University’s financial statements. (Finding Code 2017-001)

Status: Not Repeated

During the current year, the auditors tested the beginning and ending restricted cash and investments, as well as net position, to ensure they were properly reported within the University's financial statements in accordance with generally accepted accounting principles.
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 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 Housing and Auxiliary Facilities System (the "System"), a segment of Southern Illinois University, as of and for the year ended June 30, 2018, 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 13, 2019.

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 System'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 results 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.

Plante & Moran, PLLC

Portage, Michigan
February 13, 2019
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As Special Assistant Auditors for the Auditor General we have audited, in accordance with 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"), a segment of Southern Illinois University, as of and for the year ended June 30, 2018, 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 13, 2019.

Internal Control Over Financial Reporting

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