

**ILLINOIS INSTITUTE OF TECHNOLOGY**

OMB Circular A-133 Audit Report

Year ended May 31, 2008

(With Independent Auditors' Reports Thereon)

# ILLINOIS INSTITUTE OF TECHNOLOGY

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Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Consolidated Statements of Financial Position

May 31, 2008 and 2007

(In thousands of dollars)

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash	\$ 2,189	1,901
Bond proceeds held by trustees	6,980	23,758
Investments (note 3)	293,458	345,226
Notes and accounts receivable:		
Grants and contracts, less allowance of \$105 in 2008 and 2007	13,274	14,924
Students:		
Tuition, less allowance of \$205 in 2008 and \$7,775 in 2007	7,000	7,168
Notes, less allowance of \$373 in 2008 and 2007	10,320	9,239
Pledges, less allowance of \$254 in 2008 and \$283 in 2007 (note 4)	13,015	17,926
Other	2,687	2,185
Inventories, prepaid expenses, and deferred charges	2,312	2,924
Physical properties, less accumulated depreciation (note 5)	268,390	246,919
Beneficial interest in perpetual trusts (note 6)	21,836	22,333
Total assets	\$ 641,461	694,503
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,434	22,986
Accrued salaries and wages	16,902	14,148
Deferred revenue	20,057	24,255
Deposits by students and others	2,407	3,650
Accrued postretirement benefit obligation (note 8)	1,462	1,417
Obligation under split-interest ag		



**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statement of Activities

Year ended May 31, 2007

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<b>Total</b>
Operating revenue:				
Tuition and fees, net of scholarships of \$38,740	\$ 85,249	—	—	85,249
Government grants and contracts	44,474	—	—	44,474
Private grants and contracts	15,415	—	—	15,415
Private gifts	11,630	7,586	—	19,216
Endowment spending distribution (note 3)	14,723	—	—	14,723
Sales and services of auxiliary enterprises	12,760	—	—	12,760
Other sources	13,159	293	—	13,452
Net assets released from restrictions	5,484	(5,484)	—	—
<b>Total operating revenue</b>	<b>202,894</b>	<b>2,395</b>	<b>—</b>	<b>205,289</b>
Operating expenses:				
Faculty salaries	42,901	—	—	42,901
Administrative salaries	36,142	—	—	36,142
Part-time salaries	12,821	—	—	12,821
Employee benefits	15,598	—	—	15,598
Operations and maintenance	20,709	—	—	20,709
Supplies and services	38,133	—	—	38,133
Professional fees and advertising	10,077	—	—	10,077
IITRI research	20,406	—	—	20,406
Depreciation	12,640	—	—	12,640
<b>Total operating expenses</b>	<b>209,427</b>	<b>—</b>	<b>—</b>	<b>209,427</b>
Increase (decrease) in net assets from operating activities	(6,533)	2,395	—	(4,138)
Nonoperating revenue and expenses:				
Private gifts	—	—	9,029	9,029
Change in donor restriction	—	(845)	845	—
Interest on indebtedness	(9,025)	—	—	(9,025)
Net gain on investments (note 3)	31,928	140	1,469	33,537
Endowment income (note 3)	7,456	—	—	7,456
Net loss on disposal of assets	(291)	—	—	(291)
Faculty incentive retirement benefit	(1,417)	—	—	(1,417)
Asset retirement obligation accretion	(193)	—	—	(193)
Other	1,928	106	414	2,448
<b>Increase (decrease) in net assets from nonoperating activities</b>	<b>30,386</b>	<b>(599)</b>	<b>11,757</b>	<b>41,544</b>
<b>Increase in net assets</b>	<b>23,853</b>	<b>1,796</b>	<b>11,757</b>	<b>37,406</b>
Net assets at beginning of year	222,669	24,209	146,931	393,809
Net assets at end of year	\$ <u>246,522</u>	<u>26,005</u>	<u>158,688</u>	431,215

See accompanying notes to consolidated financial statements.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Consolidated Statements of Cash Flows

Years ended May 31, 2008 and 2007



# ILLINOIS INSTITUTE OF TECHNOLOGY

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

## (1) Nature of Organization

### *Illinois Institute of Technology*

Illinois Institute of Technology (the University) is a private not-for-profit coeducational technical institution that is dedicated to superior teaching and excellent scholarship. Located in Chicago, Illinois, the University enrolls a diverse student body from across the nation and a number of foreign countries.

IIT India is a private not-for-profit coeducational technical institution that is dedicated to superior teaching and excellent scholarship. Located in Bangalore, India, the institution services students from across India.

IIT France is a private not-for-profit entity located in Paris, France. The entity has been created to promote French and European students to the programs of the University and to welcome visiting students from the University.

### *IIT Research Institute*

IIT Research Institute (IITRI) is a not-for-profit corporation working for the advancement of knowledge and the beneficial application of science to meet the needs of society. IITRI's articles of incorporation provide that in addition to its primary purpose, it will support and assist the University and, in event of dissolution, IITRI's assets would be distributed to the University. Members of the executive committee of the board of trustees of the University elect IITRI's Board of Governors. IITRI also prepares separate annual financial statements as of September 30, its fiscal year-end.

## (2) Summary of Significant Accounting Policies and Reporting Practices

### (a) *Principles of Consolidation*

The accompanying consolidated financial statements, which have been prepared on the accrual basis of accounting, include the accounts of Illinois Ins

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

Net assets and related activity are classified and reported as follows:

***Unrestricted*** – Net assets that are not subject to donor-imposed restrictions.

***Temporarily Restricted*** – Net assets that are subject to donor-imposed restrictions that will be met either by actions of the University or the passage of time. Items that affect this net asset category are

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

Contributions received with donor-imposed restrictions that are met in the same year as the gifts are received are reported as revenue of the unrestricted net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building, and equipment with such donor restrictions are reported as revenue of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Revenue from University government grant and contract agreements is recognized as it is earned through expenditure in accordance with the agreement.

Tuition and other revenue received prior to the end of one fiscal year, which relates to future periods, are recorded as deferred revenue.

IITRI's research project revenue results from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost plus fees and others, which are fixed-price or time and materials type contracts. IITRI generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, delivery of the services or product has occurred, and collectibility of the contract pri

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# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

Upon sale or retirement of an asset, cost and the related accumulated depreciation are deducted from the accounts, and a gain or loss is recorded. Minor expenditures for renovations, construction, and replacement of equipment are charged to current operations and are not capitalized.

(i) ***Impairment of Long-lived Assets***

The University and IITRI account for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

(j) ***Beneficial Interest in Perpetual Trusts***

The University has a beneficial interest in certain perpetual trusts which are held by third parties. The University recognizes contribution revenue equal to its proportionate share of the fair value of the trust assets upon notification and determination that its right to receive benefits under the agreement is unconditional. Changes in the fair value of the University's interest in the trust assets are reflected as gains or losses in the period they occurred.

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

*(1) Income Taxes*

The University and IITRI have each received a determination letter from the Internal Revenue Service indicating that they are tax-exempt organizations as provided in Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes related to unrelated business income, are exempt from Federal and state income taxes.

Management has included a provision for income taxes on unrelated business income related the University's interest in certain partnership investments. The unrelated business income liability of

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

**(3) Investments**

Investments consist of the following at May 31:

	<b>2008</b>		<b>2007</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Cash equivalents	\$ 9,441	9,459	22,522	22,606
Real estate	13,803	14,412	13,803	14,417
Stocks	123	138	215	240
Equity mutual funds	170,963	167,376	133,459	146,550
Bonds	14,025	13,983	14,563	14,521
Fixed income mutual funds	25,531	24,944	25,911	25,666
Hedge funds	841	2,051	8,427	19,574
Private equity funds	6,194	8,100	18,992	27,315
Alion notes and warrants	32,202	52,995	32,202	74,337
Total investments	\$ <u>273,123</u>	<u>293,458</u>	<u>270,094</u>	<u>345,226</u>

For investment purposes, the University pools substantially all assets of its endowment accounts. Each account owns “units” of the consolidated investment pool. The pooled assets are valued on a monthly basis

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

Return on investments consists of the following for the years ended May 31:

	<u>2008</u>	<u>2007</u>
Return on investments:		
Interest and dividends	\$ 7,108	8,255
Net realized gain on sale of investments	28,177	32,235
Net unrealized gain (loss) on investments	<u>(54,797)</u>	<u>14,545</u>
Net return on investments	\$ <u>(19,512)</u>	<u>55,035</u>

The return on investments reflects interest income of \$815 for 2008 and \$799 for 2007 and an unrealized loss of \$42 for 2007 from investments held by IITRI.

**(4) Pledges Receivable**

Pledges receivable consist of unconditional promises to give and are summarized as follows at May 31:

	<u>2008</u>	<u>2007</u>
Pledges receivable	\$ 16,064	21,263
Allowance for uncollectible pledges	(254)	(283)
Discount to present value future cash flows	<u>(2,795)</u>	<u>(3,054)</u>
Net pledges receivable	\$ <u>13,015</u>	<u>17,926</u>

The following is a summary showing the expected timing of collection of total unconditional pledges receivable outstanding as of May 31, 2008:

<u>Fiscal year(s)</u>	<u>Amount</u>
2009	\$ 4,148
2010 through 2014	10,336
2015 and thereafter	<u>1,580</u>
	\$ <u>16,064</u>



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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

**(7) Notes and Bonds Payable**

Notes and bonds payable consist of the following at May 31:

	<u>Interest rate</u>	<u>2008</u>	<u>2007</u>
University:			
IFA Bonds, Series 2006, payable in varying installments through 2036	5.0% and 6.10%	\$ 160,000	160,000
Note payable to ISAC for student lender program	Various	261	230
City of Chicago Energy Loan	Interest free	300	450
IITRI ( IFA Series 2004, payable in varying installments through 2034	Variable	16,830	17,540
Short-term line of credit	Various	<u>10,500</u>	—
Total notes and bonds payable		\$ <u><u>187,891</u></u>	178,220

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

The University has also been designated a lender by the U.S. Department of Education for the Federal Stafford

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

**(8) Accrued Postretirement Benefit Obligation**

The University created a retirement incentive program for tenured faculty in November 2006. As part of the incentive program, certain medical benefits are offered to participants. A reconciliation of the plan's funded status with the accrued benefit cost reported on the statement of financial position at May 31, 2008 and May 31, 2007 is presented below. The accumulated postretirement benefit obligation disclosed below is the actuarial value of future benefits used on employees' service rendered through the measurement date.

	<u>2008</u>	<u>2007</u>
Change in accumulated postretirement benefit obligation at beginning of the period	\$ 11,059	10,945
Service cost	99	285
Interest cost	186	372
Plan amendments	(9,817)	—
Actuarial gain	(47)	(492)
Actuarial benefit payments net contributions	(18)	(50)
Accumulated postretirement benefit obligation at end of the period	<u>1,462</u>	<u>11,060</u>
 Change in fair value of plan assets		
Fair value of plan assets at beginning of period	—	—
Employer contribution	18	50
Participant contributions	30	—
Total benefit payments	<u>(48)</u>	<u>(50)</u>
Fair value of plan assets at end of the period	—	—
 Funded status	\$ <u>(1,462)</u>	\$ (11,060)
 Unrecognized net actuarial loss		492
Unrecognized prior service cost		<u>(10,135)</u>
 Net amount recognized in the statement of financial position		\$ <u>1,417</u>
 Amounts recognized in the statement of financial position consist of:		
Liability	\$ (1,462)	(1,417)

The incremental effect for the adoption of SFAS 158 was a decrease in accrued postretirement benefit obligation of \$462 with a corresponding increase in net assets. The accumulated charge to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit cost as follows: unrecognized actuarial loss of \$539 and unrecognized prior service costs of \$77. These amounts will be subsequently recognized in future years as components of net periodic pension cost.

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

***Estimated Future Benefits Payments***

The following benefit payments, which reflect expected future service, are expected to be paid for each of the fiscal years ending May 31:

<u>Fiscal year</u>		
2009	\$	29
2010		41
2011		53
2012		66
2013		85
2014-2018		586

***Plan Amendment***

Effective August 1, 2007, the plan was amended to eliminate post-65 benefits for all retirees, both current and future. There was also a group of faculty participants who were offered a special option under which the University would reimburse their premiums for post-65 retiree coverage. This special benefit option was only available through May 31, 2008. Participants had to sign up by this date in order to participate.

**(9) Employee Benefit Plans**

***Pension Plan***

Substantially all full time employees of the University and IITRI are participants in defined contribution retirement plans that are funded by contributions from the University, IITRI, and participating employees. Total contributions made under the plans for the years ended May 31, 2008 and 2007 were \$4,960 and \$4,818 by the University and \$402 and \$404 by IITRI, respectively.

***Health Care Benefit Plans***

The University maintains a health care benefits plan (the Plan) that provides for certain major medical, surgical, and other benefits for all eligible employees and dependents. The Plan is partially self-funded by the University, subject to stop loss arrangements. Under this Plan, the University makes contributions to cover benefits not funded by employees, limited by stop loss amounts.

IITRI offers a health care benefits plan (the Plan) that provides for certain medical and dental expense coverage including certain vision discounts for all eligible emuees

# ILLINOIS INSTITUTE OF TECHNOLOGY

## Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

### (10) Functional Classification of Expenses

Expenses are reported in the statements of activities by natural business category. The University's primary program services are instruction and research. Expenses reported as academic support, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services.

Consolidated expenses by functional classification are as follows for the years ended May 31:

	<u>2008</u>	<u>2007</u>
Instruction	\$ 80,311	72,428
Research and other grant activities	67,615	57,668
Academic support	27,562	26,758
Student services	16,056	15,044
Institutional support	40,367	36,139
Auxiliary enterprises	13,136	12,025
Total	<u>\$ 245,047</u>	<u>220,062</u>

### (11) Net Assets

Certain unrestricted net assets are designated for specific purposes by the board of trustees of the University and are summarized as follows at May 31:

	<u>2008</u>	<u>2007</u>
Net investment in land, buildings, and equipment	\$ 74,957	76,046
Funds designated by the board of trustees for endowment	73,533	20,201
Undesignated	35,742	150,275
Total	<u>\$ 184,232</u>	<u>246,522</u>

Included in the net investment in land, buildings, and equipment amount above are \$5,423 and \$5,731 of IITRI net assets at May 31, 2008 and 2007, respectively.

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Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

Donor restrictions on temporarily restricted net assets consist of the following at May 31:

	<u>2008</u>	<u>2007</u>
Net investment in land, buildings, and equipment	\$ 5,885	6,743
Scholarships	2,351	1,851
Instruction and academic departments	5,901	6,328
Library	427	518
General operations	8,137	9,492
Split-interest annuity agreements	1,065	1,073
Total	<u>\$ 23,766</u>	<u>26,005</u>

Permanently restricted net assets consist of the following at May 31:

2008	2007
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# **ILLINOIS INSTITUTE OF TECHNOLOGY**

## Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(In thousands of dollars)

IIT State Street, NFP is a 501(c)(3) corporation that is affiliated with, but not controlled by the University, and accordingly, is not included in the University's financial statements. IIT State Street, NFP, has borrowed \$28,800 from IEFA to construct the dorms and \$1,000 from the University for a supplemental reserve fund. The University has no obligation for the corporation's liabilities or debts. However, the University has provided \$1,000 loan to State Street to establish the supplemental reserve fund, which was subsequently used to fund construction costs of the housing complex.

In August 2003, the University entered into a five year operating lease with IIT State Street, NFP. If there are vacancies in the IIT State Street housing complex, the lease obligates the University to lease unoccupied beds from IIT State Street to the extent necessary to permit IIT State Street to pay its annual debt service.

In January 2006, the University entered into a fifty-five year ground lease agreement with Townsend





**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

<b>Program title</b>	<b>Award number</b>	<b>CFDA number</b>	<b>Federal expenditures</b>
Department of Energy Contracts – passed through:			
Battelle		81.xxx	\$ (34,805)
Brookhaven National Lab	103720	81.xxx	99,197
Argonne National Laboratory		81.xxx	511,070
Fermilab		81.xxx	66,520
University of California – Berkeley	SC6813695	81.xxx	81,345
University of Illinois – Chicago		81.xxx	17,606
Los Alamos National Lab		81.xxx	70,397
Muons Inc.	DE-FG02-06ER86281	81.xxx	30,362
National Renewable Energy Lab		81.xxx	57,970
			899,662
Department of Energy:			
Office of Science Financial Assistance Program – passed through:			
Argonne National Laboratory		81.049	365,876
Fermilab		81.049	61,512
University of Missouri – Columbia	C00000975-01	81.049	1
Aspen Systems		81.049	245,501
			672,890
Oral Diseases and Disorders Research – passed through:			
University of Illinois at Chicago	2R01DE007989-09	93.121	35,882
Mental Health Research Grants – passed through:			
Children’s Memorial Hospital	2003-230V-IIT	93.242	5,928
Discovery and Applied Research for Technological Innovations to Improve Human Health – passed through			
	0600 370 ZC68 815	93.286	(80,671)
National Center for Research Resources – passed through:			
University of Florence		93.389	100
Cell Biology and Biophysics Research – passed through:			
University of Maryland Biotechnology Institute		93.821	70,824
Heart and Vascular Diseases Research – passed through:			
University of Illinois at Chicago		93.837	63,831
University of Wisconsin		93.837	48,238
			112,069
Arthritis, Musculoskeletal and Skin Diseases Research – passed through:			

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

<u>Program title</u>	<u>Award number</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Department of Homeland Security – passed through:			
University of Minnesota	X9106033101	97.061	\$ 142,176
University of Minnesota	R9106000114	97.xxx	85,179
			<u>227,355</u>
US Agency for International Development:			
US Agency for International Development Contract – passed through:			
Association for Liaison Office for University Cooperation in Development	A-00-97-59-0	98.xxx	<u>198,295</u>
Research and Development Cluster – Indirect awards			<u>3,871,486</u>
Total Research and Development Cluster			<u>18,753,648</u>
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grants		84.007	368,921
Federal Family Education Loans		84.032	44,977,673
Federal Work-Study Program		84.033	1,001,277
Federal Perkins Loan Program		84.038	1,590,064
Federal Pell Grant Program		84.063	1,632,436
Academic Competitiveness Grants		84.375	81,579
National Science and Mathematics Access to Retain Talent (SMART) Grants		84.376	<u>168,000</u>
Total Student Financial Aid Cluster			49,819,950
Total Major Programs			68,573,598
Nonmajor Programs:			
Direct awards:			
Department of Agriculture:			
Grants for Agricultural Research – Competitive Research Grants		10.206	278,240
Department of Education:			
Rehabilitation Long-Term Training		84.129	426,857
Byrd Honors Scholarships		84.185	16,592
Other – Direct Awards			721,689
Indirect Awards:			
Department of Education – passed through:		84.366	
Illinois State Board of Education			126,063
Other – Indirect awards			126,063
Total Nonmajor Programs			847,752
Total Federal Awards			\$ 69,421,350

See accompanying independent auditors' reports and notes to schedule of expenditures of federal awards.

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Schedule of Expenditures of Federal Awards

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

**ILLINOIS INSTITUTE OF TECHNOLOGY**

Notes to Schedule of Expenditures of Federal Awards

Year ended May 31, 2008

**(4) Summary of Subrecipient Payments**

Expenditures made to subrecipients under federal awards for the year ended May 31, 2008, were as follows:

Research and Development Cluster:		
Department of Defense	\$	18,333
Department of Justice		94,048
National Science Foundation		300,983
Environmental Protection Agency		8,982
Department of Transportation		13,424





### **Compliance and Other Matters**

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

We noted certain matters that we reported to University management in a separate letter dated October 2, 2008.

This report is intended solely for the information and use of the Board of Trustees and management of the University, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller font to the right, all in white on a dark grey rectangular background.

Chicago, Illinois  
October 2, 2008



U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, for the year ended June 30, 2008. Our report does not include the results of the other accountants' examination of IDAPP's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements described within the Compliance Supplement that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended May 31, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings 08-01 to 08-06.

### **Internal Control over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing billing, collection, and due diligence functions in the Student Financial Assistance Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by ACS. Internal control over compliance relating to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of ACS' internal control over compliance related to such functions.

Requirements governing Reporting and Special Tests and Provisions 1 through 14 in the Federal Family Education Loan Program as described in Section 84.032L of the Compliance Supplement (school as lender) are performed by IDAPP. Internal control over compliance related to such functions was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, for the year ended June 30, 2008. Therefore, the scope of our work did not extend to internal control maintained at IDAPP. Our report does not include the results of the other accountants' examination of IDAPP's internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the University's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 08-01 to 08-06 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the loyees,

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Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**(1) Summary of Auditors' Results:**

- (a) The type of opinion issued on the consolidated financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the consolidated financial statements: **None reported**

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Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**Findings and questioned costs relating to federal awards:**

**Federal Agency:** U.S. Department of Education (USDE)

**Program Name:** Student Financial Assistance Cluster – Federal Family Education Loan Program (FFEL)

**CFDA # and Program Expenditures:** 84.032 (\$44,977,673)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 08-01 Special Tests and Provisions – Student Status Changes**

***Requirement***

In accordance with 34 CFR Section 682.10, the University is required to notify National Student Loan Data System (NSLDS) of changes in a student's status within 30 days of discovering the change, unless the University expects to complete its next Roster File within 60 days.

Additionally, OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* requires nonfederal entities receiving federal awards establish a

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**Federal Agency:** U.S. Department of Education (USDE)

**Program Name:** Student Financial Assistance Cluster – Federal Family Education Loan Program (FFEL)

**CFDA # and Program Expenditures:** 84.032 (\$44,977,673)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 08-02 Special Tests and Provisions – Student Disbursements**

***Requirement***

In accordance with 34 CFR Section 668.167, the University is required to disburse student loan funds within three business days following the date the institution receives the funds from the lender.

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Year ended May 31, 2008

*Views of Responsible Officials*

We concur with the recommendation to review the student disbursement process to ensure that student loan funds are disbursed in a timely manner. Reorganization of the Financial Aid Office places the responsibility of ensuring that loans are applied to student accounts within 3 days of disbursement on the Loan and Grants Administrator of the Financial Aid Office. He or she reviews disbursed loans daily and returns/reissues any funds that have not been applied to student accounts. The Loan and Grants Administrator of the Financial Aid Office reports any issues to the Assistant Director of Financial Aid. The office is in the process of automating this process.

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## Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**Federal Agency:** U.S. Department of Education (USDE)

**Program Name:** Student Financial Assistance Cluster – Federal Pell Grant Program (Pell)

**CFDA # and Program Expenditures:** 84.063 (\$1,632,436)

**Award Numbers:** P063P071349

**Questioned Costs:** None

### **Finding 08-03 Reporting – Pell Payment Data**

#### ***Requirement***

In accordance with 34 CFR Section 690.83, the University is required to submit to the U.S. Department of Education (USDE), using the Common Origination and Disbursements (COD) System, all students receiving Pell awards and their respective payment information.

Additionally, OMB Circular A-110 requires nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Effective internal controls should include establishing a supervisor review to ensure the information submitted to the COD system is accurate and is updated within the required timeframes as federally prescribed.

#### ***Condition Found***

During our testwork over 59 Pell transactions submitted through the USDE's COD system during the fiscal year, we noted the following:

- The disbursement date reported for 21 disbursements reported in USDE's COD System were incorrect. Errors in disbursement dates reported ranged from 5 to 96 days prior/subsequent to the actual disbursement date.
- The disbursement amounts reported for three disbursements reported in USDE's COD System were incorrect. Errors in amounts reported ranged from \$539 to \$2,155.
- The disbursement amount reported for one disbursement, included in the previous bullet, was never reported in the USDE's COD System. An error in the amount of \$2,155 was incorrectly reported as one disbursement, rather than two separate disbursements, in the USDE COD System.
- Eighteen disbursements were not reported in USDE's COD System within the required 30 day timeframe. Delays in reporting these disbursements ranged from 15 to 171 days after the required timeframes.

#### ***Effect***

Failure to report accurate Pell payment data in a timely manner may result in the institution becoming ineligible to participate in the Title IV program.

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Schedule of Findings and Questioned Costs

Year ended May 31, 2008

***Recommendation***

We recommend the University review and update its process to ensure that the information reported in the COD System is reported in a timely manner and is accurate.

***Views of Responsible Officials***

We concur with the recommendation to review and update the process to ensure that information is reported to COD in a timely and accurate manner. With the implementation of Banner, information sent to COD will be created in Banner. Since reporting, awarding, and disbursing of Pell is integrated in one system there will be no errors in the disbursement date, amount, or number. In the previous year, intermediate software requiring manual data entry was necessary.

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Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**Federal Agency:** U.S. Department of Education (USDE)

**Program Name:** Student Financial Assistance Cluster:  
Federal Supplemental Educational Opportunity Grants  
Federal Family Education Loan Program  
Federal Work Study Program  
Federal Pell Grant Program  
Academic Competitiveness Grant Program  
National Science and Mathematics Access to Retain Talent (SMART) Grants

**CFDA # and Program Expenditures:** 84.007 (\$368,921)  
84.032 (\$44,977,673)  
84.033 (\$1,001,277)  
84.038 (\$1,590,064)  
84.063 (\$1,632,436)  
84.375 (\$81,579)  
84.376 (\$168,000)

**Award Numbers:** None

**Questioned Costs:** None

**Finding 08-04 Special Tests and Provisions – Institutional Eligibility  
Requirement**

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Schedule of Findings and Questioned Costs

Year ended May 31, 2008

***Recommendation***

We recommend the University review its process for the reporting changes in personnel to the USDE and make any revisions necessary to ensure changes in

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Schedule of Findings and Questioned Costs

Year ended May 31, 2008

**Federal Agency:** U.S. Department of Health and Human Se

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Year ended May 31, 2008

***Views of Responsible Officials***

Management agrees with the finding and the below measures have been implemented to insure swift disposal of inoperative equipment. IIT Asset Tags are affixed to the item as soon as the tag is received by NCFST. IIT Asset Disposal Forms will be submitted as soon as possible once it is known that an asset has been disposed. IIT Fixed Asset Listing for Moffett Campus will be reviewed during February each year so that it can be updated before May 31. IIT Policy on Fixed Assets will be reviewed annually by the NCFST management.



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Year ended May 31, 2008

**Federal Agency:** U.S. Department of Health and Human Services – Food and Drug Administration

**Program Name:** Research and Development Cluster

**CFDA # and Program Expenditures:** Various (\$18,753,648)

**Award Numbers:** 5U01FD000431-20/5U01FD000431-19 REVISED

**Questioned Costs:** None

**Finding 08-06 Procurement and Suspension and Debarment**

***Requirement***

OMB Circular A-110 requires recipients of federal funding to only procure goods and services from or subcontract with responsible organizations which possess the ability to perform successfully under the terms and conditions of the proposed procurement. Contracts with orga

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Year ended May 31, 2008

New procedures published in November 2008 state with greater clarity the requirement to determine vendor status regarding suspension and debarment by requiring vendor certification of status as part of the solicitation of bids and proposals.

Additionally, a new procedure is being written to address adding new vendors to the IIT database. This procedure will require vendor certification of suspension and debarment status. Addition of a vendor to the IIT database will be dependent on receipt of this certification.