



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

NORTHERN ILLINOIS UNIVERSITY

**Financial Audit
 For the Year Ended June 30, 2017**

Release Date: March 15, 2018

FINDINGS THIS AUDIT: 4	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	1	3	2011	17-1		
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	3	1	4				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the Northern Illinois University’s Financial Audit as of and for the year ended June 30, 2017. The Northern Illinois University’s Compliance Examination (including the Single Audit) covering the year ended June 30, 2017 will be issued at a later date.

SYNOPSIS

- (17-1) The University’s internal controls over financial reporting are not sufficient to prevent material misstatements.
- (17-3) The University did not comply with its revenue bond covenants.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on next page.}

NORTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2017

STATEMENT OF NET POSITION (in thousands)	2017	2016*
Assets		
Cash and cash equivalents.....	\$ 49,826	\$ 42,925
Investments.....	69,229	112,406
Accounts and student loans receivable, net.....	50,779	49,851
Appropriations receivable from the State.....	23	21
Capital assets, net.....	447,926	455,331
Other.....	11,400	10,000
Total Assets.....	629,183	670,534
Deferred Outflows of Resources.....	1,894	1,029
Liabilities		
Accounts payable and accrued liabilities.....	43,849	49,235
Accrued compensated absences.....	15,603	15,540
Revenue bonds, contracts, notes and leases payable.....	349,780	358,559
Other.....	27,008	22,991
Total Liabilities.....	436,240	446,325
Net Position		
Net investment in capital assets.....	115,432	114,845
Restricted.....	83,513	86,404
Unrestricted.....	(4,108)	23,989
Total Net Position.....	\$ 194,837	\$ 225,238

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)	2017	2016*
Revenues		
State appropriations.....	\$ 234,515	\$ 186,724
Tuition and fees, net.....	127,256	138,598
Auxiliary enterprises.....	87,173	92,460
Federal and State grants and other contracts.....	65,394	69,840
Sales and services of educational activities.....	28,805	29,676
Other.....	9,009	7,541
Total Revenues.....	552,152	524,839
Expenses		
Instruction.....	202,903	197,293
Research.....	18,198	18,614
Auxilliary enterprises.....	93,731	97,040
Institutional support.....	54,720	47,685
Academic support.....	42,486	42,570
Student services.....	31,039	24,514
Operation and maintenance of plant.....	28,123	29,399
Public service.....	26,122	23,600
Student aid.....	36,865	39,145
Depreciation.....	25,052	27,562
Interest.....	23,314	23,635
Total Expenses.....	582,553	571,057
Decrease in net position.....	\$ (30,401)	\$ (46,218)

*Certain amounts in the 2016 column have been reclassified to conform to the 2017 presentation.

UNIVERSITY PRESIDENT

During Audit Period: Dr. Douglas D. Baker (through June 30, 2017)
Current: Acting President, Dr. Lisa C. Freeman (Effective July 1, 2017)

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FINANCIAL REPORTING PROCESS

The University's internal controls over financial reporting are not sufficient to prevent material misstatements.

Allowance rate has not been updated since FY 2008

During our audit of the significant balances comprising the University's financial statements, we noted the University's process to estimate uncollectible student accounts included assumptions over collection rates that have been used since fiscal year 2009, and are not considered reasonable as of June 30, 2017. The allowance rate for the greater than 365 day past-due receivables was reduced from 70% to 60% in fiscal year 2008 and has not been updated since.

Detailed review of past-due student accounts considered to be probable of collection was not performed

During testing over student accounts receivable, we noted that certain collections of overdue student accounts did not occur within one year of the original invoice date. Additionally, upon further investigation and discussion with University officials, we also noted the University did not perform a detailed review over the amount of past-due student accounts considered to be probable of collection.

Actual cash collections did not support the estimated collection rate used by the University

As of June 30, 2017, the University had \$24.7 million of gross student accounts receivable that was greater than 365 days past-due. As discussed above, the University's original estimate of probable non-collection was 60% of that amount, or \$14.8 million. Upon further testing, however, we noted actual cash collections on historical balances over 365 days past-due did not support a collection rate of 40%.

Accounts receivable balance was overstated by \$8.5 million

In response to this, the University prepared an additional analysis based on new information supporting an average annual collection for those greater than 365 days past-due of approximately \$1.6 million during the fiscal years ended June 30, 2017 and 2016. Based on this new information, the University's estimated net realizable student accounts receivable balance was overstated by \$8.5 million as of June 30, 2017. The University recorded an audit adjustment to correct this matter in the financial statements as of and for the year ended June 30, 2017.

University corrected the financial statements

Some of the other items we noted during the audit of the University financial statements were as follows:

- During our follow-up on the prior year findings, we noted the University recorded transactions during the fiscal year to correct errors in recorded balances as of June 30, 2017, pertaining to errors that existed in previous financial reporting periods. These entries were included in the schedule of passed audit adjustments for the prior period (fiscal year 2016)

Entries recorded by management created other inaccuracies

audit. The entries recorded by management during the fiscal year ended June 30, 2017 corrected certain balances on the statement of net position as of June 30, 2017, but created other inaccuracies within the University's reporting of operating results as follows:

Depreciation was understated by \$4,663,182

- Understatement of operating expenses-depreciation totaling \$4,663,182;

Auxiliary operating expenses were overstated by \$3,233,385

- Overstatement of operating expenses-auxiliary enterprises totaling \$3,233,385; and

Operation and maintenance of plant expenses were overstated by \$2,150,298

- Overstatement of operating expenses-operation and maintenance of plant totaling \$2,150,298.

The University recorded an audit adjustment to reclassify the noted errors to operating expenses-institutional support for the fiscal year ended June 30, 2017.

- During testing over 23 disbursements subsequent to year end (totaling \$5.6 million), we noted one transaction (totaling \$28,839) was not appropriately accrued as of June 30, 2017. The transaction was subject to a service period of April 1, 2017 through September 30, 2017 and \$14,419 should have been accrued as of June 30, 2017.

\$812,000 should have been reported as prepaid expenses at June 30, 2017

In response to the matter noted above, the University performed an analysis over certain similar expense accounts, including software licenses, membership dues, and other online services. The University's analysis indicated that approximately \$812,000 should have been reported as prepaid expenses as of June 30, 2017, representing an overstatement of operating expenses for the year ended June 30, 2017 and an understatement of prepaid expenses as of June 30, 2017 of the same amount. The University recorded an audit adjustment to correct these amounts as of and for the year ended June 30, 2017. (Finding 1, pages 5-8) **This finding has been repeated since 2011.**

University recorded an audit adjustment to correct the amount

We recommended the University continue to improve controls over financial reporting to ensure amounts reported within the University's annual financial statements are accurate and presented in accordance with generally accepted accounting principles.

University agrees with the auditors

University officials accepted the finding. *(For the previous University response, see Digest Footnote #1.)*

NONCOMPLIANCE WITH DEBT COVENANTS

Northern Illinois University (the University) did not comply with its revenue bond covenants.

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

The System consists of Athletic-related facilities, most Housing facilities

- Athletic-related facilities, such as Evans Field House, Huskie Stadium, and the Convocation Center;
- Recreation-related facilities, such as the Student Recreation Center;
- Housing facilities, except for New Residence Hall and Northern View Community (see further discussion over the public-private partnership below);
- Dining facilities, including the dining facilities located in the New Hall Community Center;
- Student services facilities, such as the Holmes Student Center and Campus Life Building; and
- Parking facilities.

The System also consists of Dining facilities, Student service facilities and Parking facilities

The bonds issued established a "closed system"

As of June 30, 2017, the University had outstanding revenue bonds (Series 2010 and Series 2011) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" whereby the revenues generated by the System could 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;
4. Amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and
5. Amounts set aside limited to and used for acquisition of movable equipment to be installed in facilities constituting the System.

Resources within the System are unavailable for use by the University outside of the System

With any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to (i) fund the redemption of previously issued bonds when callable, (ii) purchase any of the University's bonds on the open market for cancellation by the bond registrar, or (iii) advance refund any series of the University's bonds outstanding. Notably, resources within the System are unavailable for use by the University outside of the System.

University manages certain facilities owned by a private entity as part of a Public-Private Partnership

Further, the University manages certain facilities owned by a private entity as part of a public-private partnership which are not directly related to the University's instruction, research, or service units, including the housing facilities known as New Residence Hall and Northern View Community. As manager of the facilities, the University collects revenues related to the operation of the facilities. Such revenues are to be held by the University in a restricted accounting fund, per the Management Agreement executed between the University and the owner of the facilities. Additionally, the University pays all operating expenses and debt service payments related to the public-private partnership from the revenues collected from the public-private partnership housing facilities.

University commingled the System with the Public-Private Partnership

At the inception of the public-private partnership and the execution of the Management Agreement in fiscal year 2011, the University established the segregated accounts for the public-private partnership within the segregated accounting funds restricted for indentured System activity. The commingling of the indentured System and public-private partnership activity created difficulties for University management to segregate the activities for external reporting purposes. Additionally, the commingling of the two activities within the same funds allowed transfers made from the System to the public-private partnership's segregated accounts to go undetected by management.

\$2.5 million of System resources were transferred in FY17 to the Public-Private Partnership

During our review of the financial activity for the public-private partnership's segregated accounts for the fiscal year ending June 30, 2017, we noted \$2.5 million (net) of transfers made from System resources to the public-private partnership. At our request, the University quantified an additional \$72 thousand (net) in transfers made from fiscal year 2012 through fiscal year 2016.

\$72,000 was transferred from FY12 through FY16

The University returned \$2.6 million to the System to remedy the default

In order to remedy this default, the University returned \$2.6 million on February 2, 2018 to the System from the public-private partnership's segregated accounts. Additionally, because the public-private partnership did not have available restricted resources as of June 30, 2017, the University reclassified \$2.6 million of unrestricted investments to restricted investments to reflect the transfer of resources into the System as of June 30, 2017. An additional reclassification was made to adjust unrestricted net position to expendable restricted net position for the same amount to reflect the transfer of resources back into the closed system. (Finding 3, pages 11-13)

We recommended the University review its bond covenant compliance on a routine basis to prevent and detect instances of noncompliance.

University agrees with the auditors

University officials agreed with the finding.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the University. We will review the University's progress towards implementation of our recommendations in our next engagement.

AUDITOR'S OPINION

Our auditors stated the financial statements of Northern Illinois University as of June 30, 2017, and for the year then ended, are fairly stated in all material respects.

This financial audit was conducted by CliftonLarsonAllen LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 – Financial Reporting Process – Previous University Response

2016: The University accepts the auditor's recommendation. Management has conducted a comprehensive review of each component of this finding and is taking the following corrective actions that will eliminate all material exceptions:

- 1) University will modify procedures to track and report capital projects and all fixed assets to ensure proper accounting for capital assets.
- 2) University has begun to modify written policies and procedures, and develop communication and training programs around revenue recognition to ensure proper year-end recognition of revenue.
- 3) University has assessed opportunities for system enhancements and will work towards implementation of various functionalities and ERP modules that will streamline workflows, create efficiencies, and reduce opportunities for human errors.
- 4) And finally the University has initiated recruitment efforts to fill critical positions to meet year-end financial reporting objectives.