



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, 2015**

Release Date: February 25, 2016

| FINDINGS THIS AUDIT: 1 | AGING SCHEDULE OF REPEATED FINDINGS | | | | | | |
|-------------------------------|-------------------------------------|----------|----------|----------------|------------|------------|------------|
| | New | Repeat | Total | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | 0 | 0 | 0 | 2011 | | 15-1 | |
| Category 2: | 0 | 1 | 1 | | | | |
| Category 3: | <u>0</u> | <u>0</u> | <u>0</u> | | | | |
| TOTAL | 0 | 1 | 1 | | | | |
| FINDINGS LAST AUDIT: 1 | | | | | | | |

INTRODUCTION

This digest covers the Northern Illinois University’s Financial Audit as of and for the year ended June 30, 2015. The Northern Illinois University’s Compliance Examination (including the Single Audit) covering the year ended June 30, 2015 will be issued at a later date.

SYNOPSIS

- (15-1) The University’s internal controls over financial reporting are not sufficient to prevent misstatements.

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 information is summarized on the reverse page.}

NORTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2015

| STATEMENT OF NET POSITION (in thousands) | 2015 | 2014* |
|--|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents..... | \$ 24,567 | \$ 35,035 |
| Investments..... | 166,650 | 160,415 |
| Accounts and student loans receivable, net..... | 38,287 | 36,807 |
| Appropriations receivable from the State..... | 16,965 | 19,788 |
| Capital assets, net..... | 469,206 | 467,938 |
| Other..... | 11,297 | 11,367 |
| Total Assets..... | 726,972 | 731,350 |
| Deferred Outflows of Resources..... | 963 | 945 |
| Liabilities | | |
| Accounts payable and accrued liabilities..... | 54,412 | 51,849 |
| Accrued compensated absences..... | 16,769 | 17,840 |
| Revenue bonds, contracts and leases payable..... | 363,167 | 372,214 |
| Other..... | 22,131 | 19,884 |
| Total Liabilities..... | 456,479 | 461,787 |
| Net Position | | |
| Net investment in capital assets..... | 131,277 | 139,213 |
| Restricted..... | 3,726 | 3,832 |
| Unrestricted..... | 136,453 | 127,463 |
| Total Net Position..... | \$ 271,456 | \$ 270,508 |

*2014 Net Position was restated

| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands) | 2015 | 2014* |
|---|----------------|--------------------|
| Revenues | | |
| State appropriations..... | \$ 243,421 | \$ 231,457 |
| Tuition and fees, net..... | 134,730 | 130,772 |
| Auxiliary enterprises..... | 102,382 | 101,381 |
| Federal and State grants and other contracts..... | 80,068 | 92,950 |
| Sales and services of educational activities..... | 19,835 | 19,310 |
| Other..... | 13,358 | 17,984 |
| Total Revenues..... | 593,794 | 593,854 |
| Expenses | | |
| Instruction..... | 129,575 | 134,474 |
| Staff benefits..... | 153,649 | 145,548 |
| Auxilliary enterprises..... | 89,542 | 89,940 |
| Institutional support..... | 21,746 | 34,700 |
| Academic support..... | 33,262 | 31,991 |
| Operation and maintenance of plant..... | 39,660 | 33,681 |
| Public service..... | 21,525 | 32,827 |
| Student aid..... | 33,841 | 35,789 |
| Other..... | 70,046 | 65,484 |
| Total Expenses..... | 592,846 | 604,434 |
| Change in net position..... | \$ 948 | \$ (10,580) |

UNIVERSITY PRESIDENT

During Audit Period and Currently: Dr. Douglas D. Baker

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

IMPROVEMENTS NEEDED IN THE FINANCIAL REPORTING PROCESS

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

During our review of the draft financial statements provided by the University, several errors and deficiencies were identified. Some of the more significant items were as follows:

Cash used by operating activities was understated by \$9,130,676

Cash provided by noncapital financing was understated by \$9,130,676

The University should have eliminated the Illinois Board of Examiners' transactions from its financial statements

Construction in Progress was not properly recorded by \$2,582,960

Summer session revenues were overstated by \$898,300 and unearned tuition and fees were understated by \$898,300

- The University had mathematical and typographical errors in its cash flows worksheet which when corrected increased the amount of cash used by operating activities by \$9,130,676 and increased the amount of cash provided by noncapital financing activities by the same amount.
- In fiscal year 2014, the University entered into an intergovernmental agreement with the Illinois Board of Examiners (ILBOE). In the agreement the University agreed to collect and hold revenues earned by the ILBOE and pay expenses incurred by the ILBOE with those revenues. The University has reported the revenues and expenses of the ILBOE in its financial statements. These transactions should have been eliminated from the University's financial statements. As a result of this condition, fiscal year 2015 revenues and expenses are overstated by \$774,078 and \$1,232,001, respectively, beginning of year net position is overstated by \$434,412, and end of year net position is understated by \$23,511.
- During the closing process, the University expensed \$2,582,960 of construction in progress rather than including it as part of capital assets in accordance with GAAP.
- The University improperly capitalized \$1,267,471 of asbestos remediation costs as capital assets instead of expensing them when the remediation obligation was incurred.
- The University improperly excluded \$1,283,285 from its calculation of revenues that are earned over the course of the summer session and are therefore only partially earned as of year-end. This resulted in the University recognizing \$898,300 more summer session revenue in fiscal year 2015 than was earned and reporting \$898,300 less of unearned tuition and fees. (Finding 1, pages 5-9)
This finding has been repeated since 2011.

We recommended the University improve controls over financial reporting to ensure accurate presentation and disclosure of their annual financial statements.

University agrees with the auditors

University officials concurred with the finding and stated they have conducted a process review of each component of this finding and that they have implemented corrective actions. *(For the previous University response, see Digest Footnote #1.)*

AUDITOR'S OPINION

Our auditors stated the financial statements of Northern Illinois University as of June 30, 2015, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 – Financial Reporting Process – Previous University Response

2014: The University concurs with the auditor's comments and the following actions are in the process of being undertaken to improve controls over the financial reporting process.

The Controller's Office will document the policies and procedures for the year-end close process and financial reporting by April 30, 2015. These policies and procedures will be consolidated into one manual that will be available to the Controller's Office staff both in hard copy and on the Controller's Office network shared drive. Revisions to the manual will be made as needed to ensure the manual is current at all times. The Controller's Office staff will undergo refresher training and review of new accounting guidance prior to the beginning of the year-end audit processes each year.

Roles and responsibilities of individual members of the Controller's Office staff will be documented to ensure completeness of the year-end financial reporting process and eliminate duplication of effort. The year-end checklist will be expanded to include additional procedures, source of information and listing of the responsible staff member.