

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY**

Report Required Under  
*Government Auditing Standards*  
For the Year Ended June 30, 2015  
Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois



**State of Illinois**  
**Northern Illinois University**  
**Report Required Under *Government Auditing Standards***  
**For the Year Ended June 30, 2015**

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**State of Illinois  
Northern Illinois University**

**Agency Officials**

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Douglas D. Baker	President
Lisa C. Freeman	Executive Vice President and Provost
Bill Nicklas (outgoing 10/31/14)	Vice President, Operations and Community Relations
Alan Phillips (incoming 3/1/15)	Vice President of Administration and Finance & Chief Financial Officer
Anne C. Kaplan	Vice President, Outreach, Engagement, and Regional Development
Brett Coryell	Vice President, Information Technology
Lesley Rigg (outgoing 6/30/15)	Vice President, Research and Innovation Partnerships
Jerry Blazey (incoming 6/30/15)	Interim Vice President, Research and Innovation Partnerships
Sean T. Frazier	Associate Vice President and Director, Intercollegiate Athletics
Eric A. Weldy	Vice President, Student Affairs and Enrollment Management
Raymond W. Alden III (outgoing 3/31/15)	Vice President, International Affairs
Michael P. Malone (outgoing 6/30/15)	Vice President, University Advancement
Catherine Squires (incoming 5/1/15)	Vice President, University Advancement
Harlan Teller	Interim Vice President, Marketing and Communications
Jerry D. Blakemore	Vice President and General Counsel
Vernese Edghill-Walden (incoming 7/1/15)	Senior Associate Vice President for Academic Diversity
Mike Mann (incoming 3/1/15)	Associate Vice President of State Government Relations & Board Liaison
Danielle Schultz	Director of Internal Audit

**Financial Staff**

Nancy D. Suttentfield (outgoing 2/28/15)	Interim Chief Financial Officer
Alan Phillips (incoming 3/1/15)	Chief Financial Officer
Linda J. Blair (outgoing 4/30/15)	Acting Controller
Shyree Sanan (incoming 5/1/15)	Acting Controller

**NIU Office is located at:**

300 Altgeld Hall  
DeKalb, Illinois 60115

**State of Illinois  
Northern Illinois University**

***Government Auditing Standards Report***

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**Financial Statement Report**

**Summary**

The audit of the financial statements of Northern Illinois University (University) was performed by RSM US LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

Based on their audit, the auditors expressed an unmodified opinion on the University's basic financial statements.

**Summary of Findings**

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. This significant deficiency is 2015-001, Financial Reporting Process.

**Exit Conference**

The University waived an exit conference in correspondence dated January 25, 2016. Responses to the recommendations were provided by Larry Pinkelton in correspondence dated February 1, 2016.

**Independent Auditor's 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

Cherilyn G. Murer, Honorable Chair of the  
Compliance, Audit, Risk Management, and Legal Affairs Committee

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 Northern Illinois University (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, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 3, 2016. Our report contains an emphasis of matter paragraph for the implementation of Governmental Auditing Standards Board Statement Nos. 68 and 71 which resulted in the restatement of the University's opening net position and the reporting of deferred outflows of resources related to pension contributions. Our opinion is not modified with respect to this matter. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component units, as described in our report on the 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2015-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*.

### **Northern Illinois University's Response to Findings**

The University's response to the finding identified in our audit is described in the accompanying schedule of findings. The 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 the response.

### **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 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 the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Schaumburg, Illinois

February 3, 2016

**State of Illinois**  
**Northern Illinois University**  
**Current Findings – Government Auditing Standards**  
**For the Year Ended June 30, 2015**

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**Schedule of Findings**

**Finding 2015-001      Financial Reporting Process**

Northern Illinois University's (the University) 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. The following error was corrected in the financial statements:

- 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.

The following errors were not corrected in the financial statements:

- 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 since the start of the agreement. These transactions should have been eliminated from the University's statement of revenues, expenses, and changes in net position as the agreement with ILBOE establishes it as an agency fund of the University. GASB 34, paragraph 110 states that agency fund transactions are not recognized in the statement of revenues, expenses, and changes in net position. 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.

**State of Illinois**  
**Northern Illinois University**  
**Current Findings – Government Auditing Standards**  
**For the Year Ended June 30, 2015**

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**Schedule of Findings (Continued)**

**Finding 2015-001 Financial Reporting Process (Continued)**

- 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.
- The University did not record all revenues and indirect expenses associated with a grant in the grant fund. This resulted in the University improperly recognizing \$289,707 of grant revenue as revenue from other sales, recognizing \$289,707 more expenses than were actually incurred, and recognizing \$496,434 as unearned grant revenue when it was actually earned. As it could not be determined that this error was isolated to a specific grant, the error was extrapolated. The results indicate that an additional \$516,928 of reported unearned grant revenue was actually earned during fiscal year 2015.
- The University initially expenses all fixed asset additions and then reverses the expense in subsequent entries prior to year-end. In the current year, the University did not properly match-up the accounts used to reverse the expense with where the expense was recorded. This resulted in \$9,192,396 more of Operation and Maintenance of Plant expense being recognized than was actually incurred and \$9,192,396 less of Institutional Support expense.

The following errors did not have adjustments proposed as the amounts were not considered significant to the financial statements but are listed as additional deficiencies noted during our audit of the financial statements:

- The University did not properly eliminate a transfer of resources between University departments. This elimination decreased the amount of revenue and expense reported by the University by \$80,272.
- The University used salary rates in effect as of July 15, 2015 to determine its year-end accrual for compensated absences instead of using rates in effect as of June 30, 2015. When the correct salary rates were obtained it was determined that this caused the accrual to be overstated by \$25,530.

**State of Illinois**  
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**Current Findings – Government Auditing Standards**  
**For the Year Ended June 30, 2015**

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**Schedule of Findings (Continued)**

**Finding 2015-001 Financial Reporting Process (Continued)**

- The University did not properly account for scholarships awarded to students. An institutional waiver of \$6,667 was charged as scholarship expense instead of reducing gross tuition revenue while \$3,081 was charged to expense in fiscal year 2015 when it was a fiscal year 2014 scholarship expense.
- The University did not post all faculty tuition waivers for the summer session prior to year-end and failed to record the reversal of dorm room charges for a student who dropped out of the University. This resulted in the University reporting \$3,415 more in accounts receivable than was actually owed to the University and recognizing \$3,415 more in net revenues than was actually earned.

Governmental Accounting Standards Board Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, states that, “a statement of cash flows should classify cash receipts and cash payments as resulting from operating, noncapital financing, capital and related financing, or investing activities.”

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus - an Amendment of GASB Statements No. 21 and No. 34*, states that, “capital assets should be reported at historical cost. The cost of a capital asset should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition — such as freight and transportation charges, site preparation costs, and professional fees.”

Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, states that, except in certain circumstances, “pollution remediation outlays, including outlays for property, plant, and equipment, should be reported as an expense.” None of the circumstances applied to the University.

**State of Illinois**  
**Northern Illinois University**  
**Current Findings – Government Auditing Standards**  
**For the Year Ended June 30, 2015**

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**Schedule of Findings (Continued)**

**Finding 2015-001 Financial Reporting Process (Continued)**

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus - an Amendment of GASB Statements No. 21 and No. 34*, states that, “the statement of net position and the statement of revenues, expenses, and changes in net position should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place.”

Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, states that “compensated absences liability should be calculated based on the pay or salary rates in effect at the balance sheet date.”

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall 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 accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources.

According to University management, the errors noted above were due to human oversight.

Submitting incomplete and inaccurate draft financial statements delays completion of the audit process and delays the timely release of the University’s financial reports to users. Also insufficient and/or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements. (Finding Code Nos. 2015-001, 2014-001, 2013-001, 2012-001, 2011-001)

**Recommendation**

We recommend the University improve controls over financial reporting to ensure accurate presentation and disclosure of the University’s annual financial statements.

**State of Illinois**  
**Northern Illinois University**  
**Current Findings – *Government Auditing Standards***  
**For the Year Ended June 30, 2015**

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**Schedule of Findings (Continued)**

**Finding 2015-001 Financial Reporting Process (Continued)**

**University Response**

The University accepts the Auditor's recommendation. Management has conducted a process review of each component of this finding and has implemented corrective actions that include the following:

- 1) Expand training for staff accountants on accounting guidelines, standards and reconciliation procedures.
- 2) Expand use of technology and systems to automate manual processes.
- 3) Update and refine policies and procedures for departments that provide data feeds to the accounting function.

These steps will eliminate all material exceptions referenced in this audit finding.