



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, 2016**

Release Date: February 9, 2017

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2011		16-1	
Category 2:	1	0	1				
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers the Northern Illinois University’s Financial Audit as of and for the year ended June 30, 2016. The Northern Illinois University’s Compliance Examination (including the Single Audit) covering the year ended June 30, 2016 will be issued at a later date.

SYNOPSIS

- **(16-1)** 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, 2016

STATEMENT OF NET POSITION (in thousands)	2016	2015
Assets		
Cash and cash equivalents.....	\$ 42,925	\$ 24,567
Investments.....	112,406	166,650
Accounts and student loans receivable, net.....	49,851	38,287
Appropriations receivable from the State.....	21	16,965
Capital assets, net.....	455,331	469,206
Other.....	10,820	11,297
Total Assets.....	671,354	726,972
Deferred Outflows of Resources.....	1,029	963
Liabilities		
Accounts payable and accrued liabilities.....	54,331	54,412
Accrued compensated absences.....	15,540	16,769
Revenue bonds, contracts and leases payable.....	358,559	363,167
Other.....	18,715	22,131
Total Liabilities.....	447,145	456,479
Net Position		
Net investment in capital assets.....	114,845	131,277
Restricted.....	3,584	3,726
Unrestricted.....	106,809	136,453
Total Net Position.....	\$ 225,238	\$ 271,456
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)	2016	2015*
Revenues		
State appropriations.....	\$ 186,724	\$ 243,421
Tuition and fees, net.....	145,776	134,730
Auxiliary enterprises.....	100,220	102,382
Federal and State grants and other contracts.....	67,207	80,068
Sales and services of educational activities.....	18,963	19,835
Other.....	14,471	13,358
Total Revenues.....	533,361	593,794
Expenses		
Instruction.....	121,964	129,124
Staff benefits.....	168,457	153,649
Auxilliary enterprises.....	72,432	78,015
Institutional support.....	26,592	36,630
Academic support.....	28,918	29,764
Operation and maintenance of plant.....	25,573	39,085
Public service.....	18,035	21,489
Student aid.....	34,236	23,661
Other.....	83,372	81,429
Total Expenses.....	579,579	592,846
Change in net position.....	\$ (46,218)	\$ 948
*Certain amounts in the 2015 column have been reclassified to conform to the 2016 presentation.		
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 audit of the significant balances comprising the University's financial statements we noted errors and deficiencies. Some of the more significant items were as follows:

Prior year capital assets and current year operating expenses were overstated by \$1,267,471

- The University improperly capitalized \$1,267,471 of asbestos remediation costs as a capital asset instead of expensing them in fiscal year 2015. As the amount was not material to the financial statements, an audit adjustment was booked in fiscal year 2016 to remove the costs from capital assets by expensing them rather than restating opening net position. This corrects the year-end balance of capital assets and net position but results in current year operating expenses being overstated by \$1,267,471.

Library books were not properly capitalized

- The University has improperly capitalized net library book activity (additions – disposals) as an addition each year instead of separately tracking additions and deletions. This impacts the financial statements as the University is keeping older, fully depreciated books on its asset listing and expensing a portion of its additions each year instead of capitalizing them. Additionally, in fiscal year 2016, there was a formula error in the University's calculation and disposals were added to additions instead of subtracted. When informed of the error, the University recorded a correcting entry which reduced net capital assets by \$3,013,864 and increased operating expenses by the same amount. This partially corrected the error and an unrecorded audit adjustment was proposed to fully correct the misstatement. This results in net capital assets and opening net position being understated by \$2,512,884 and \$1,844,552 respectively, and current year operating expenses being overstated by \$668,332.

Net capital assets and opening net position are understated by \$2,512,884 and \$1,844,552 and current year operating expenses are overstated by \$668,332

Capital asset additions in FY2016 were improperly capitalized

- The University improperly capitalized the amounts noted below as fiscal year 2016 capital asset additions. They were evaluated together for the purposes of determining a proposed adjustment:

- \$3,100,743 of costs already capitalized as an addition in fiscal year 2015
- \$49,850 of costs billed in error by a vendor and refunded to the University
- \$32,908 of costs for which the University cannot provide a vendor invoice
- \$11,520 of employee training costs
- \$1,970 of overhead allocation for which there is not sufficient documentation to support that the costs were necessary to place the asset into service

No adjustment was recorded which results in net capital assets being overstated at year-end by \$3,012,275 and operating expenses being understated by the same amount. The year-end misstatement is less than the amount of errors noted above due to the depreciation the University recorded on the assets during the fiscal year totaling \$184,716.

The University improperly expensed \$398,006 of leasehold improvements

- The University expensed \$398,006 of leasehold improvements for one of its facilities in fiscal year 2015 instead of capitalizing the cost to capital assets and amortizing it over the life of the lease. The improvement should have been considered an intangible asset as the University has a legal right to use the improvements over the course of the lease. This results in a year-end understatement of net capital assets and ending net position of \$250,430 and a \$53,664 understatement of operating expenses. No adjustment was proposed as the dollar amounts were not individually significant to the financial statements.
- The University participates in the Perkins Loan program under which it makes loans to students using both institutional and federal funds. The University has a receivable recorded for the loans and interest owed by students under the program and a liability recorded for the amount of the receivable that must be repaid to the federal government when the program is closed. In fiscal year 2005 the University recognized revenue of \$784,920 for interest and fees students owed on the loans and increased the recorded loan receivable by the same amount. This receivable was to be reversed in fiscal year 2006 when the University received the interest and fees but was never reversed resulting in revenue being recorded twice. No adjustment was recorded in fiscal year 2016 to remove the receivable which results in an overstatement of net student loans, government loan fund advances, and opening net position by \$784,920, \$675,031, and \$109,889, respectively. The overstatement of the receivable is split between the University's opening net position and amount owed the federal government as the liability is adjusted each year based on the net income or loss generated by the loan program.

Perkins Loan receivables are overstated by \$784,920

Government Loan fund advances are overstated by \$675,031

Opening Net Position is overstated by \$109,889

Inter-university transactions were not properly eliminated

- The University did not properly eliminate all inter-university transactions from the financial statements. The proposed adjustment was not recorded resulting in operating revenues and expenses being overstated by \$2,087,937. (Finding 1, pages 5-11) **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 is taking corrective actions. *(For the previous University response, see Digest Footnote #1.)*

OTHER FINDING

The remaining finding is 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, 2016, 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

2015: 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.