

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY  
FOUNDATION**

**REPORT REQUIRED UNDER  
*GOVERNMENT AUDITING STANDARDS*  
FOR THE YEAR ENDED JUNE 30, 2008**

Performed as Special Assistant Auditors for  
the Auditor General, State of Illinois

**State of Illinois  
Northern Illinois University Foundation**

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**State of Illinois  
Northern Illinois University Foundation**

*Agency Officials*

Robert L. Bovinette	Chairman
Christina Valaitis	Vice Chairman
Jeffrey A. Eckmann	Treasurer (Through November 8, 2007)
William E. Taylor	Treasurer (Effective November 9, 2007)
Mallory M. Simpson	President and Secretary
Jean Jagodzinski, CPA	Controller

*NIU Foundation Office is located at:*

Altgeld Hall 135  
DeKalb, Illinois 60115-2882

# **State of Illinois Northern Illinois University Foundation**

## **Government Auditing Report Summary**

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

Based on their audit, the auditors expressed an unqualified opinion on the Foundation's basic financial statements. The financial statement report was issued under a separate cover.

## **Summary of Findings**

The auditors identified matters involving the Foundation's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 5-6 of this report, as findings 08-1, Financial Statement Preparation and 08-2, Lack of a Formal Capitalization Policy. The auditors also consider finding 08-1 to be a material weakness.

## **Exit Conference**

The findings and recommendations appearing in this report were discussed with Foundation personnel at an exit conference on February 18, 2009. Attending were:

### **Northern Illinois University Foundation**

Mallory Simpson	President and Secretary
Jean Jagodzinski	Controller
Michael Cullen	Board of Directors-Audit Committee Chairman
John Castle	Board of Directors-Audit Committee Member

### **Clifton Gunderson LLP**

Jeffrey R. Bonick, CPA	Partner
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### **Office of the Auditor General**

Jon A. Fox, CPA	Audit Manager
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The responses to the recommendations were provided by Jean Jagodzinski in correspondence dated February 23, 2009.

**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 William G. Holland  
Auditor General  
State of Illinois

and

Honorable Chairman and  
Members of the Board of Directors  
Northern Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Northern Illinois University Foundation (Foundation), as of and for the year ended June 30, 2008, and have issued our report thereon dated March 31, 2009. We conducted our audit in accordance with 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 08-1 and 08-2 of the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 08-1 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation'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 also noted a certain matter which we have reported to management of the Foundation in a separate letter dated March 31, 2009.

The Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Foundation Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Gunderson LLP*

Peoria, Illinois  
March 31, 2009

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY FOUNDATION  
CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*  
For the Year Ended June 30, 2008**

**08-1 - Financial Statement Preparation**

The Foundation did not provide the auditors with accurate financial statements.

Upon initial review of the draft statements provided by Foundation personnel, we raised various questions and made suggestions regarding the preparation of the cash flow statement. In our review we noted the following:

- Interest paid on note and bonds payable was understated by \$153,624,
- Payments for the construction of a building for NIU were understated by \$1,749,597, and
- Receipts of interest and dividend income were understated by \$450,155.

The Board of Directors and management share the ultimate responsibility for the Foundation's internal control system and the accuracy and completeness of the Foundation's financial statements and disclosures to ensure that those financial statements are presented in accordance with generally accepted accounting principles. 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.

According to Foundation personnel, a number of factors contributed to this result. Significant new and complex transactions, balancing insufficient resources, and timeline pressure led to a less than optimal process for review.

Lack of a strong internal process for preparation of the statement of cash flows and lack of a thorough review procedure could result in misstatements or omissions in the statement of cash flows. (Finding Code No. 08-1, 07-1)

**Recommendation**

We recommend the Foundation review its current process for preparation and review of the statement of cash flows and allocate the resources necessary to ensure a thorough review of the statement of cash flows by personnel possessing the appropriate skills and knowledge.

**Foundation Response**

The Foundation agrees. The NIU Foundation will carefully review the opportunities to improve the financial reporting and focus efforts and resources to improve this.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY FOUNDATION  
CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS*  
For the Year Ended June 30, 2008**

**08-2 - Lack of a Formal Capitalization Policy**

The Foundation does not have a formal capitalization policy in place.

The Foundation has \$17 million in capital assets. According to Foundation management, the Foundation has informal capitalization guidelines in place that are followed in preparing the financial statements; however, it has not adopted a formal written capitalization policy to determine at what dollar amount it is appropriate to capitalize various types of capital assets with useful lives that exceed one year.

Governmental Accounting Standards Board Codification section 2300.106a(7) requires disclosure of the reporting entity's capitalization policy in the notes to the financial statements. Accepted business practices require an organization to establish the dollar level that assets with useful lives exceeding one year will be capitalized.

Management officials stated they do not have a formal capitalization policy in place and do not believe a formal written policy is required.

Lack of a formal capitalization policy could lead to inconsistencies in the treatment of capital items in the financial statements. Inconsistencies in capitalizing items could lead to manipulation of the results of operations or it could create inefficiencies if an excessive amount of items are capitalized, inventoried and depreciated. (Finding Code Nos. 08-2, 07-3)

**Recommendation**

We recommend the Foundation adopt a formal capitalization policy for its various types of capital assets.

**Foundation Response**

There were no instances detected of assets not properly classified. This is the result of the NIU Foundation's operating practices that are strictly adhered to and prescribe a review process to ensure adherence. The Foundation will continue to evaluate and assess the suggestion of formalizing the capitalization policy.

**Auditor's Comment**

We believe the formal documentation of a capitalization policy provides a formal authorization for existing policies and assists in avoiding the confusion that can be associated with undocumented informal management operating practices.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY FOUNDATION  
PRIOR FINDINGS NOT REPEATED - *GOVERNMENT AUDITING STANDARDS*  
For the Year Ended June 30, 2008**

**A. Fraud Prevention and Detection Program**

The Foundation did not have a formal fraud risk assessment program in place. (Finding Code No. 07-2)

During the current fiscal year audit, it was noted that the Audit Committee of the Foundation Board of Directors met to discuss a draft risk assessment policy. Sufficient progress has been made on implementation of a fraud risk assessment policy, therefore, the finding is not repeated.