



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

NORTHEASTERN ILLINOIS UNIVERSITY

**Financial, Compliance, and Single Audit
For the Year Ended: June 30, 2012**

Release Date: February 28, 2013

Summary of Findings:

Total this audit:	12
Total last audit:	9
Repeated from last audit:	5

SYNOPSIS

- The University did not properly identify all students who withdrew from the University and did not determine or return the unearned portion of Title IV aid provided to all students who withdrew from the University. This resulted in inaccuracies in the amounts reported in the financial statements and noncompliance with federal regulations.
- The University did not prepare an accurate Schedule of Expenditures of Federal Awards.
- The University did not reconcile its cash balance for the Federal Direct Loan Program on a monthly basis.
- The University awarded student financial aid to students at an unapproved location.
- The University made some Federal cash draws in excess of amounts paid out for program purposes.

{Expenditures and Activity Measures are summarized on the reverse page.}

NORTHEASTERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012

FINANCIAL OPERATIONS	2012	2011
Operating Revenues		
Student tuition and fees, net.....	\$ 56,276,791	\$ 53,052,879
Federal grants and contracts	13,005,164	13,561,635
State and local grants.....	2,272,522	2,706,114
Nongovernmental grants and contracts.....	1,057,662	1,495,146
Auxiliary enterprises.....	3,743,385	3,912,966
Other operating revenues.....	4,458,941	4,317,416
Total Operating Revenues.....	80,814,465	79,046,156
Operating Expenses		
Instruction.....	78,899,658	70,745,029
Research.....	1,031,275	764,946
Public service.....	12,623,930	13,439,552
Academic support.....	10,569,274	9,603,298
Student services and programs.....	13,077,999	11,608,228
Institutional support.....	11,957,194	13,440,062
Operation and maintenance of plant.....	15,309,594	14,014,069
Scholarships and fellowships.....	8,498,231	9,124,810
Auxiliary enterprises.....	4,999,239	4,052,508
Depreciation expense.....	4,836,851	4,944,041
Other operating expenses.....	1,462,165	1,763,866
Total Operating Expenses.....	163,265,410	153,500,409
Operating Income (Loss).....	(82,450,945)	(74,454,253)
NONOPERATING REVENUES (EXPENSES)		
State appropriations - general revenue fund.....	40,228,500	40,711,218
Payments on behalf of the University.....	39,101,845	33,390,867
Pell Grant.....	18,719,529	19,972,301
Investment income.....	186,144	164,381
Interest on Indebtedness.....	(1,673,942)	(1,499,699)
Other, net.....	49,250	(128,072)
NET NONOPERATING REVENUES (EXPENSES)	96,611,326	92,610,996
INCREASE IN NET ASSETS.....	14,160,381	18,156,743
Net assets, beginning of year.....	129,986,200	111,829,457
Net assets, end of year.....	\$ 144,146,581	\$ 129,986,200
SUPPLEMENTARY INFORMATION (UNAUDITED)	2012	2011
Employment Statistics		
Administration	331	302
Faculty.....	541	415
Civil Service.....	522	528
Students.....	521	277
Total Employees.....	1,915	1,522
Selected Activity Measures		
Average Annular Full-time equivalent students.....	8,473	8,661
Full-time equivalent cost per student - Undergraduate.....	\$ 9,265	\$ 8,397
Full-time equivalent cost per student - Graduate.....	\$ 13,781	\$ 11,627
PRESIDENT		
During Audit Period and Currently: Dr. Sharon K. Hahs		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**FAILURE TO IDENTIFY AND REFUND TITLE IV AID
IN A TIMELY MANNER**

**Controls over Title IV Aid need
improvement**

The University did not properly identify all students who withdrew from the University. The University also did not determine or return the unearned portion of Title IV aid provided to all students who withdrew from the University. This resulted in inaccuracies in the amounts reported in the financial statements and noncompliance with Federal Regulations.

**18 students should have been
considered to have unofficially
withdrawn**

In our testing of unofficial withdrawal determinations over students receiving Title IV aid and who failed to receive a passing grade in any of their classes (473 students), we noted that 18 students, should have been considered to have unofficially withdrawn from the University, but for which the University had not made this determination.

\$26,157 should have been returned

In response to our testing and inquiries, the University identified \$26,157 in unearned Title IV aid which should have been refunded to the U.S. Department of Education (ED) and for which the University has recourse against the students for payment.

The Federal Government requires that an institution have a procedure for determining whether a Title IV aid recipient who began attendance during a period completed the period or should be treated as a withdrawal. If a student who began attendance and has not officially withdrawn fails to earn a passing grade in at least one course offered over an entire period, the institution must assume, for Title IV purposes, that the student has unofficially withdrawn, unless the institution can document that the student completed the period.

**Determination of student attendance
not adequate**

Furthermore, we noted that the University does not have adequate procedures in place to determine if a student began attendance in a payment period. This determination is necessary to correctly calculate the refundable amount of Title IV aid. Specifically, if an institution cannot document that a student began attendance in any class during the payment period, all Title IV grant or loan assistance provided to the student is considered unearned and should be refunded.

In addition, we tested the calculation of unearned Title IV funds for 40 students who withdrew from the University. We noted that one student's refund was not calculated correctly resulting in a \$211 over-refund to ED. Furthermore, we noted that one student's return of Title IV funds was not refunded within the required 45 day time period. (Finding 1, Pages 15-17) **This finding was first reported in 2010.**

We recommended the University implement procedures to ensure that refunds are processed timely and accurately in order to facilitate accurate financial reporting and to be in compliance with federal regulations.

University agrees with the auditors

University officials agreed with the finding and recommendation. (For the previous University response, see Digest footnote #1)

IMPROVEMENTS NEEDED IN PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Research and Development Cluster was incomplete

The University did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA).

The University provided the auditors its “final” SEFA on September 18, 2012. In our testing of the accuracy of the SEFA, we noted that the University had not identified Federal programs included in the research and development cluster. (Finding 2, Pages 18-19)

We recommended the University improve its controls over financial reporting so that it can prepare an accurate SEFA.

University agrees with the auditors

University officials agreed with the finding and recommendation.

NEED TO PERFORM DIRECT LOAN CASH SUMMARY RECONCILIATION

Federal Direct Loan Program not reconciled monthly

The University did not reconcile its cash balance for the Federal Direct Loan Program on a monthly basis.

We requested monthly reconciliations of the University’s Direct Loan records to the ending cash balance on the School Account Statements (SAS) provided by the Common Origination and Disbursement (COD) System. Although the University was able to provide evidence that it had separately analyzed components of the SAS, the University could not provide us with a documented reconciliation of the cash balance to University records. (Finding 5, Pages 24-25).

The Department of Education’s “Direct Loan School Guide”, Chapter 6, *Reconciliation*, requires that the University reconcile the ending cash balance on the SAS with its internal records on a monthly basis, ensuring that any discrepancies are resolved, and documents any reason for a positive or negative balance. (Finding 5, Pages 24-25)

We recommended the University review its procedures to ensure that the ending cash balance per the Direct Loan Cash Summary is being reconciled on a monthly basis.

University agrees with the auditors

University officials agreed with the finding and recommendation.

FINANCIAL AID MADE TO STUDENTS AT AN UNAPPROVED LOCATION

Student Financial Aid was awarded at an unapproved location

The University awarded student financial aid to students at an unapproved location.

Through our testing of the United States Department of Education School Participation Management Division, Eligibility and Certification Approval Report, we noted that one location in which a student can complete more than 50% of a degree program and receive student financial aid, was not approved by the Department of Education. (Finding 6, Page 26)

We recommended the University review its procedures to ensure that approval for required locations is obtained prior to the disbursement of Title IV funds.

University agrees with the auditors

University officials agreed with the finding and recommendation.

NEED TO IMPROVE CASH MANAGEMENT PRACTICES

Draw downs in excess of amounts expended

The University made some Federal cash draws in excess of amounts paid out for program purposes.

Based on our testing of 21 federal funding draws for programs on the reimbursement funding method, we noted that the University received federal funds in excess of amounts paid out for program purposes at the time of the draw request. The excess draws over the amounts already paid out for program purposes follow:

- TRIO Cluster \$398,190
- Gear Up \$1,270,648
- Higher Education - Institutional Aid \$337,854

The excess draw downs were corrected by the University in the month following the draws.(Finding 10, pages 32-33)

We recommended the University review its procedures to ensure compliance with cash management regulations.

University agrees with the auditors

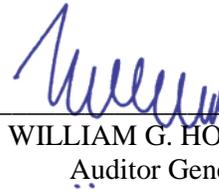
University officials agreed with the finding and recommendation.

OTHER FINDINGS

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

AUDITORS' OPINION

Our auditors state the University financial statements as of June 30, 2012 and for the year then ended, are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General ²

WGH:TLK:rt

SPECIAL ASSISTANT AUDITORS

CliftonLarsonAllen were our special assistant auditors.

DIGEST FOOTNOTE

#1 FAILURE TO IDENTIFY AND REFUND TITLE IV AID IN A TIMELY MANNER – Previous University Response - The University concurs with this recommendation.