STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY

REPORT REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED JUNE 30, 2007

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

State of Illinois
Northern Illinois University

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STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY

AGENCY OFFICIALS

John G. Peters	President
Raymond W. Alden III	Executive Vice President and Provost
Eddie R. Williams	Executive Vice President, Business and Finance, and Chief of Operations
Anne C. Kaplan	Vice President, Administration
Mike Malone	Vice President, Development and University Relations
Kathryn Buettner	Vice President, External Affairs
Kenneth Davidson	Vice President and General Counsel
Sharon Dowen	Director of Internal Audit
Financial Staff	
Robert Albanese	Associate Vice President, Finance and Facilities
Keith Jackson	Controller
Linda Timm	Assistant Controller
Julie Weber	Director of Grants, Fiscal Administration
Tamara Farley	Director of Treasury Operations
Kinga Mauger	Bursar

NIU Office is located at:

300 Altgeld Hall

DeKalb, Illinois 60115

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY

Government Auditing Report Summary

The audit of the financial statements of the Northern Illinois University (University) 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 University's basic financial statements, issued under a separate cover.

Summary of Findings

The auditors identified matters involving the University'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 page 6-8 of this report, as finding 07-1, Financial Statement Preparation and finding 07-2, Fraud Prevention and Detection Program. The auditors also consider finding 07-1 to be a material weakness.

Exit Conference

The finding and recommendation appearing in this report were discussed with University personnel at an exit conference on March 4, 2008. Attending were:

Northern Illinois University:

Eddie R. Williams	Executive Vice President, Finance Facilities and Chief of Operations
Robert C. Albanese	Associate Vice President, Finance and Facilities Operations
Keith R. Jackson	Controller
Linda Timm	Assistant Controller

Clifton Gunderson LLP:

Jeffrey R. Bonick, CPA	Partner
Paulette M. Hurd, CPA (via phone)	Senior Manager

Office of the Auditor General:

Jon A. Fox, CPA	Audit Manager

The response to the recommendations were provided by Keith R. Jackson in correspondence dated March 5, 2008.

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
Marc J. Strauss, Honorable Chair of the
Legislative, Audit and External Affairs Committee
of the Board of Trustees

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Northern Illinois University (University), as of and for the year ended June 30, 2007, and have issued our report thereon dated March 7, 2008. 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 University's internal control over financial reporting in order to determine 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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University'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 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 07-1 and 07-2 in 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 finding 07-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 are currently conducting State and Federal compliance examinations of the University as required by the Illinois State Auditing Act. The results of those examinations will be reported to management under separate cover.

The University's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, University management, the University Board of Trustees and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
March 7, 2008

State of Illinois
Northern Illinois University
Schedule of Findings
For the Year Ended June 30, 2007

07-1 - Financial Statement Preparation

The University did not provide the auditors with complete and accurate financial statements presented in accordance with generally accepted accounting principles.

Adjustments were made to the cash provided by and used in operating activities on the statement of cash flows. These adjustments did not impact the overall amount reported as cash used in operating activities, but they did result in the following adjustments:

- An increase in the amount reported as payment to employees of $3,737,000 and a corresponding decrease in payments to suppliers, and
- A $5,294,000 increase in the amount reported as loans to students and employees with a corresponding decrease in the amount collected on those loans.

In the Statement of Revenues, Expenses and Changes in Net Assets, we also noted that interest expense was overstated by $991,000, student aid was overstated by $559,000, and sales and service of educational activities was overstated by $264,000. These overstatements were offset by an understatement of operations and maintenance expense of $1,286,000. These amounts were deemed to be more than inconsequential but were not material to the financial statements and, therefore, were not corrected.

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

According to University personnel, the workpapers that create the statement of cash flows include edit checks for all totals, but do not include the possibility of offsetting errors within any given section of the statement.

Lack of a strong internal process for preparation of financial statements and lack of a thorough review procedure could result in misstatements or omissions in the financial statements. (Finding Code No. 07-1, 06-1)

Recommendation

We recommend the University review its current process for preparation and review of the annual financial statements and allocate the resources necessary to ensure a thorough review of the financial statements by personnel possessing the appropriate skills and knowledge.

University Response

The University agrees that adjustments to the Statement of Cash Flows and misclassifications in the Statement of Revenues, Expenses, and Changes in Net Assets did occur and will completely review the financial statement process to ensure that these adjustments/misclassifications do not occur in the future. While adjustments did occur, they did not impact the overall amount of cash reported as cash used in operating activities. The misclassifications of expenses did not materially misrepresent the financial activity and had no impact on the financial position of the University.

07-2 - Fraud Prevention and Detection Program

The University does not have a formal fraud risk assessment program in place.

The University relies on current internal controls that have been put in place to prevent and detect fraud but has not established a formal program to assess the specific risks associated with fraud.

The University is responsible for the development of internal controls and monitoring of their operating effectiveness. Additionally, it is management's responsibility to prevent and detect fraud. Therefore, the University should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect potential fraudulent activity within its organization. Preparing a written policy will serve to document the University's awareness and responsibility for fraud prevention and detection.

The University does not believe that a formal written policy is required by SAS 112 and the University was unaware of the level of importance that the Office of the Auditor General placed on their interpretation of this concept.

Without a formal program to identify and address the specific risks associated with fraud, fraudulent activities may go undetected and could result in misstatements in financial reporting or misappropriation of University assets. (Finding Code No. 07-2)

Recommendation

We recommend that management establish a continuous fraud prevention, deterrence and detection program. This program should include evaluating whether appropriate internal controls have been implemented in any areas identified as posing a higher risk of fraudulent activity, as well as controls over the financial reporting process. In addition, the Board of Trustees should evaluate management's identification of fraud risks, and implementation of anti-fraud measures.

University Response

The University does agree that a formal written policy is potentially beneficial and will create a comprehensive policy at the Board level that establishes a continuous fraud prevention, deterrence, and detection program.

07-3 - Capital Asset Reporting

During the prior examination, we noted that the University did not have an adequate system in place to ensure capital assets purchased are recorded in the proper accounting period for financial statement purposes. (Finding Code No. 06-2)

Disposition:

During the current examination, we noted the University had changed its process as of June 30, 2007, and based on our sample testing it appeared that all assets purchased in fiscal year 2007 were properly capitalized.