

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY**

**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**

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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 Downen	Director of Internal Audit
<u>Financial Staff</u>	
Robert Albanese	Associate Vice President, Finance and Facilities
Keith Jackson	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 a significant deficiency. The significant deficiency is described in the accompanying Schedule of Findings on page 6 of this report, as finding 08-1, Financial Statement Preparation. The auditors also consider finding 08-1 to be a material weakness.

**Exit Conference**

The University waived an exit conference in correspondence dated February 2, 2009.

The response to the recommendation was provided by Keith R. Jackson in correspondence dated February 4, 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

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, 2008, and have issued our report thereon dated March 30, 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 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 deficiency described as finding 08-1 in the accompanying schedule of findings to be a significant deficiency 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, we consider the significant deficiency described above, finding 08-1, 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 noted a certain matter which we have reported to management of the University in a separate letter dated March 30, 2009.

The University's response to the finding 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 Anderson LLP*

Peoria, Illinois  
March 30, 2009

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2008**

**08-1. Finding: 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 statement of cash flows. These adjustments resulted in changes to the net cash used in operating activities and the net cash used in capital and related financing activities. Details of the adjustments follow:

- An increase in the amount reported as payment to suppliers of \$715,000 and a corresponding decrease in principal payments on capital debt, and
- A \$715,000 decrease in the amount reported as changes in accounts payable and accrued liabilities on the reconciliation section of the statement.

The University also had to make modifications to the Notes to the Basic Financial statements to include information required under Governmental Accounting Standards Board (GASB) Statement No. 48 related to future revenues pledged to debt service as noted by the Illinois Office of the Comptroller.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain an effective system of internal control. 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.

University management stated the GASB No. 48 presentation format was received by NIU from the State on October 31. The date was subsequent to submission deadlines, and revisions to existing footnotes to agree to the State presentation format were beyond the University's control. The Cash flow error was a presentation error that did not affect cash. Current portions of debt are reclassified as accounts payable in the balance sheet presentation. When calculating the change in debt for cash flow presentation, the change in debt calculation did not take into account the reclassified amount and it was included in payables instead of debt.

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 Nos. 08-1, 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 with the recommendation.

**STATE OF ILLINOIS  
NORTHERN ILLINOIS UNIVERSITY  
PRIOR FINDING NOT REPEATED  
For the Year Ended June 30, 2008**

**A. Finding: Fraud Prevention and Detection Program**

During the prior examination, we noted that the University did not have a formal fraud risk assessment program in place. (Finding Code No. 07-2)

**Disposition:**

In the current year, a variety of discussions were held at the Board level related to this topic, and a Fraud Prevention and Detection Program and Review Committee has been formed and a Policy for Fraud Detection and Prevention has been drafted.