# STATE OF ILLINOIS
# NORTHERN ILLINOIS UNIVERSITY

Report Required Under
*Government Auditing Standards*
For the Year Ended June 30, 2011
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

**State of Illinois**
**Northern Illinois University**
**Report Required Under *Government Auditing Standards***
**For the Year Ended June 30, 2011**

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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 |
| Michael P. Malone | Vice President, University Advancement |
| Kathryn Buettner | Vice President, University Relations |
| Jerry D. Blakemore | Vice President and General Counsel |
| Danielle Schultz | Director of Internal Audit |
| Financial Staff | |
| Robert C. Albanese | Associate Vice President, Finance and Facilities |
| Keith Jackson | Controller |

**NIU Office is located at:**

300 Altgeld Hall

DeKalb, Illinois 60115

## *Government Auditing Standards* Report

### Summary

The audit of the financial statements of the Northern Illinois University (University) was performed by McGladrey & Pullen, 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.

### Summary of Findings

The auditors identified matters involving the University's internal control over financial reporting that they considered to be a significant deficiency. This significant deficiency is described in the accompanying schedule of findings on pages 5 - 6 of this report as Finding 11-1, Financial Reporting Process.

The auditors did not identify any matters involving the University's internal control over financial reporting that they considered to be a material weakness.

### Exit Conference

The finding and recommendation appearing in this report was discussed with Agency personnel at an exit conference on January 11, 2012. Attending were:

| | |
|---|---|
| <u>Northern Illinois University</u> | |
| Keith Jackson | Controller |
| Robert Albanese | Associate Vice President, Finance and Facilities-Operations |
| Dr. Eddie R. Williams | Executive Vice President, Business and Finance, and Chief of Operations |
| Dr. John G. Peters | President |
| | |
| <u>Office of the Auditor General</u> | |
| Jon Fox | Manager |
| | |
| <u>McGladrey & Pullen, LLP</u> | |
| Joseph Evans | Partner |
| Jeremy Creamean | Manager |

The response to the recommendation was provided by Keith Jackson, Controller, in a letter dated January 17, 2012.

McGladrey

**Independent Auditors' 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

Anthony A. Iosco, Honorable Chair of the
Legislation, Audit, and External Affairs Committee

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of Northern Illinois University (University) and its aggregate discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated February 17, 2012**.** Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the University's discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but 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.

A *deficiency in internal control* 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 and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting described in finding 11-1 in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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*.

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 the response.

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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
February 17, 2012

## Schedule of Findings

### Finding 11-1 Financial Reporting Process

Northern Illinois University (the University) needs to improve internal control over financial reporting.

During our review of the draft financial statements of the University provided to the auditors, several errors and omissions relating to the draft financial statements and note disclosures were identified and corrected. Some of the more significant items were as follows:

- In January 2011, the University issued $67,135,000 of Auxiliary Facilities System Revenue Bonds (Series 2011) to refund the outstanding principal amount of the Series 1999 and the Series 2001 Auxiliary Facilities System Revenue Bonds. In relation to the issuance of the Series 2011 Bonds, the University did not disclose the economic gain resulting from the transaction of $500,000 or the difference in debt service between the new and old debt, a loss of $1,200,000, as required by generally accepted accounting principles (GAAP).

- Part of the restricted investments and marketable securities balance related to proceeds from bonds that will be used for capital additions, improvements and renovations was not properly classified between the current and noncurrent assets on the Statement of Net Assets, resulting in a reclassification of $42,160,000 in restricted investments and marketable securities from current assets to noncurrent assets.

- The University did not include “Unpaid state appropriation revenue” totaling $45,307,000 and the “Cost of capital assets not being depreciated included in accounts payable” totaling $1,193,000 as “Noncash investing, capital, noncapital and investing activities” in the Statement of Cash Flows, as required by GAAP.

- The University did not disclose a related party lease of a facility from the Northern Illinois University Foundation as required by GAAP. The ten year lease that began in August 2007 requires the University to make semi-annual lease payments of approximately $349,500 to the Foundation. The University is also responsible for the insurance and maintenance costs of the building during the term of the lease.

Governmental Accounting Standards Board Statement No.7, *Advance Refundings Resulting in Defeasance of Debt*, states “governmental entities that defease debt through an advance refunding should provide a general description of the transaction in the notes to financial statements in the year of the refunding. At a minimum, the disclosures should include (a) the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding and (b) the economic gain or loss resulting from the transaction.”

**Schedule of Findings**

**Finding 11-1 Financial Reporting Process (Continued)**

Accounting Research Bulletin, No. 43, *Restatement and Revision of Accounting Research Bulletins*, states that "…the nature of current assets contemplates the exclusion from that classification of such resources as cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets…"

Governmental Accounting Standards Board Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, states that "Information about all investing, capital, and financing activities of a governmental enterprise during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported."

National Council on Governmental Accounting Statement No. 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, requires that "…the disclosure requirements of Statement of Financial Accounting Standard (SFAS) No. 13 be followed for financial reporting purposes." SFAS No. 13, *Accounting for Leases*, states that "the nature and extent of leasing transactions with related parties shall be disclosed."

Further, 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, which shall provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

According to University management, the missing disclosures were due to an oversight by management when the draft financial statements were prepared.

Submitting incomplete and inaccurate draft financial statements delays completion of the audit process and delays the timely release of the University's financial reports to users. Also, insufficient and/or ineffective controls over financial reporting could lead to significant reporting inaccuracies in the financial statements and notes to the financial statements. (Finding Code No. 11-1)

**Recommendation**

We recommend the University improve controls over financial reporting to ensure accurate presentation and disclosure of the University's annual financial statements.

**University Response**

The University agrees.