STATE OF ILLINOIS

NORTHERN ILLINOIS UNIVERSITY

Report Required Under
Government Auditing Standards

For the Year Ended June 30, 2017

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

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STATE OF ILLINOIS

NORTHERN ILLINOIS UNIVERSITY

UNIVERSITY OFFICIALS

Acting President (from July 1, 2017)	Dr. Lisa C. Freeman
President (through June 30, 2017)	Dr. Douglas D. Baker
Acting Executive Vice President and Provost (from July 1, 2017)	Christopher McCord
Executive Vice President and Provost (through June 30, 2017)	Dr. Lisa C. Freeman
Senior Associate Vice President for Human Resource Services	Laura Alexander
Vice President for Research and Innovation Partnerships	Gerald Blazey
Acting Vice President and General Counsel (from January 1, 2017)	Gregory A. Brady
Vice President and General Counsel (through December 31, 2016)	Jerry D. Blakemore
Vice President for Information Technology and Chief Information Officer	Brett Coryell
Senior Associate Vice President for Academic Diversity and Chief Diversity Officer	Vernese Edghill-Walden
Associate Vice President and Director of Intercollegiate Athletics	Sean Frazier
Associate Vice President for Facilities Management and Campus Services	John Heckmann
Vice President for Enrollment Management, Marketing and Communications (from June 19, 2017)	Sol Jensen
Vice President for Outreach, Engagement and Regional Development	Anne C. Kaplan
Vice President for Administration and Finance and Chief Financial Officer (from January 8, 2018)	Sarah McGill
Associate Vice President for Finance and Budget and Acting Chief Financial Officer (March 1, 2017 through January 7, 2018)	Lawrence Pinkelton
Vice President for Administration and Finance (through February 28, 2017)	Alan Phillips
Chief of Police, Department of Public Safety	Thomas Phillips
Director of Internal Audit	Danielle Schultz
Chief of Staff to the President, Liaison to the Board of Trustees (from May 5, 2017)	Matt Streb
Associate Vice President for State Government Relations, Liaison to the Board of Trustees (through May 4, 2017)	Mike Mann
Vice President for University Advancement	Catherine Squires
Vice President for Student Affairs and Enrollment Management (through December 31, 2016)	Eric A. Weldy
Associate Vice President for Student Affairs and Dean of Students	Kelly Wesener-Michael

Financial Staff

Controller	Shyree Sanan
Deputy Controller	Raul Garcia

NIU Office is located at:

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DeKalb, Illinois 60115

STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
***Government Auditing Standards* Report**

Summary

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

Based on their audit and the reports of other auditors, the auditors expressed an unmodified opinion on the University's basic financial statements.

Summary of Findings

The auditors identified certain deficiencies in the University's internal control over financial reporting that they considered to be material weaknesses and a significant deficiency. The material weaknesses are described in the accompanying schedule on pages 5-13 of this report as item 2017-001, *Financial Reporting Process*, item 2017-002, *Inadequate Control over Reporting Restricted Accounts*, and item 2017-003, *Noncompliance with Debt Covenants*. The significant deficiency is described in the accompanying schedule on pages 14-15 of this report as item 2017-004, *Untimely Cash Reconciliations*.

Exit Conference

The University waived an exit conference in correspondence dated February 23, 2018. Responses to the recommendations were provided by Larry Pinkelton, Associate Vice President for Finance and Budget, in correspondence dated February 23, 2018.

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 Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Northern Illinois University

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the business-type activities of Northern Illinois 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, 2017, and the related notes to the financial statements, which collectively comprise Northern Illinois University's basic financial statements, and have issued our report thereon dated February 26, 2018.

Our report includes a reference to other auditors. Other auditors audited the financial statements of Northern Illinois University's discretely presented component units, as described in our report on Northern Illinois 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

In planning and performing our audit of the financial statements, we considered Northern Illinois University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northern Illinois University's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Illinois University's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule, we have identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies described in the accompanying schedule as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. We consider the deficiency described in the accompanying schedule as item 2017-004 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Illinois University's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule as item 2017-003.

Northern Illinois University's Response to Findings

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Northern Illinois University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Illinois University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Oak Brook, Illinois
February 26, 2018

2017-001. Finding: Financial Reporting Process

Northern Illinois University's (the University) internal controls over financial reporting are not sufficient to prevent material misstatements.

During our audit of the significant balances comprising the University's financial statements, we noted the following:

I. Errors and Deficiencies Related to Revenue Recognition

The University's process to estimate uncollectable student accounts included assumptions over collection rates that have been used since fiscal year 2009, and are not considered reasonable as of June 30, 2017. The allowance rate for the greater than 365 day past-due receivables was reduced from 70% to 60% in fiscal year 2008 and has not been updated since.

During testing over student accounts receivable, we noted that certain collections of overdue student accounts did not occur within one year of the original invoice date. Additionally, upon further investigation and discussion with University officials, we also noted the University did not perform a detailed review over the amount of past-due student accounts considered to be probable of collection. As of June 30, 2017, the University had $24.7 million of gross student accounts receivable that was greater than 365 days past-due. As discussed above, the University's original estimate of probable non-collection was 60% of that amount, or $14.8 million. Upon further testing, however, we noted actual cash collections on historical balances over 365 days past-due did not support a collection rate of 40%. In response to this, the University prepared an additional analysis based on new information supporting an average annual collection for those greater than 365 days past-due of approximately $1.6 million during the fiscal years ended June 30, 2017 and 2016. Based on this new information, the University's estimated net realizable student accounts receivable balance was overstated by $8.5 million as of June 30, 2017. The University recorded an audit adjustment to correct this matter in the financial statements as of and for the year ended June 30, 2017.

Governmental Accounting Standards Board (GASB) Codification 1600.104 states revenue from exchange transactions should be recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that collection of the exchange price is not reasonably assured. Accordingly, revenues from exchange transactions should generally be accounted for at the time a transaction is completed, with appropriate provision for uncollectable accounts.

Additionally, Statewide Accounting Management System (SAMS) (Procedure 03.40.10) states an estimated loss for uncollectable receivables should be reported as an expense/expenditure or reduction of revenue, if appropriate and a contra asset (i.e. allowance for uncollectable receivables) if both of the following conditions are met:

2017-001. Finding: Financial Reporting Process (continued)

a. Information available before the financial statements are issued indicates that it is probable that all or part of the receivable at the date of the financial statements will not be collectable; and

b. The amount of the loss can be reasonably estimated.

II. Errors and Deficiencies Related to Classification and Presentation

During our follow-up on the prior year findings, we noted the University recorded transactions during the fiscal year to correct errors in recorded balances as of June 30, 2017, pertaining to errors that existed in previous financial reporting periods. These entries were included in the schedule of passed audit adjustments for the prior period (fiscal year 2016) audit.

The entries recorded by management during the fiscal year ended June 30, 2017 corrected certain balances on the statement of net position as of June 30, 2017, but created other inaccuracies within the University's reporting of operating results as follows:

- Understatement of operating expenses-depreciation totaling $4,663,182;
- Overstatement of operating expenses-auxiliary enterprises totaling $3,233,385; and
- Overstatement of operating expenses-operation and maintenance of plant totaling $2,150,298.

The University recorded an audit adjustment to reclassify the noted errors to operating expenses-institutional support for the fiscal year ended June 30, 2017.

The University did not properly present asset balances for certain vendors who had a net debit position in the University's accounts payable system. These vendors provided the University with credit memos for the return of goods to be used to offset the cost of future purchases, and had debit balances in their overall accounts payable balance at June 30, 2017. The error resulted in accounts payable and other current assets, representing prepaid expenses, being understated by $450,056 as of June 30, 2017. The University recorded an audit adjustment to correct the matter in the financial statements as of and for the year ended June 30, 2017.

The University misclassified an accounting transaction pertaining to its Build America Bonds subsidy and investment income. The error resulted in the Build America Bonds subsidy being overstated by $870,353, and investment income being understated by the same amount for the year ended June 30, 2017. The University recorded an audit adjustment to correct this matter in the financial statements as of and for the year ended June 30, 2017.

2017-001. Finding: Financial Reporting Process (continued)

GASB Codification 2200.115 states the statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets and liabilities should not be offset except where a right of offset exists.

GASB Codification 2200.203 states it is necessary that prior-period figures shown for comparative purposes be, in fact, comparable with those shown for the most recent period.

III. Errors and Deficiencies Related to Year End Cutoff

During testing over 23 disbursements subsequent to year end (totaling $5.6 million), we noted one transaction (totaling $28,839) was not appropriately accrued as of June 30, 2017. The transaction was subject to a service period of April 1, 2017 through September 30, 2017 and $14,419 should have been accrued as of June 30, 2017.

In response to the matter noted above, the University performed an analysis over certain similar expense accounts, including software licenses, membership dues, and other online services. The University's analysis indicated that approximately $812,000 should have been reported as prepaid expenses as of June 30, 2017, representing an overstatement of operating expenses for the year ended June 30, 2017 and an understatement of prepaid expenses as of June 30, 2017 of the same amount. The University recorded an audit adjustment to correct these amounts as of and for the year ended June 30, 2017.

GASB Codification 1600.130 states "proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting," which requires transactions to be reported in the period in which they are incurred.

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, to 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 statistical reports and to maintain accountability over the State's resources.

University officials stated the errors and deficiencies noted above were due to the following: (1) business practices that have been adhered to by the University for many years related to its estimate for uncollectable student accounts, application of credit memos, and recording of prepaid expenses were inadequate; (2) the classification errors related to the correction of prior year passed audit adjustments were due to a misunderstanding between management and its former and current external auditors as to the appropriate resolution during a period of transition between external auditors; and (3) the Build America Bond subsidy misclassification was due to an oversight in management review.

2017-001. Finding: Financial Reporting Process (continued)

Inaccuracies in the recorded amounts of the University's financial statement balances 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. (Finding Code No. 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-1, 11-1)

Recommendation

We recommend the University continue to improve its controls over financial reporting to ensure amounts reported within the University's annual financial statements are accurate and presented in accordance with generally accepted accounting principles.

University Response

The University accepts the Auditors' recommendation. Management has conducted a comprehensive review of each component of this finding and has taken corrective action measures to redesign related business practices and processes, and to finalize critical hires to level the staff workloads that will yield improvements in the work product. In addition, the University will enhance communications during the audit planning stage to ensure appropriate alignment with the external auditors with respect to financial reporting of prior period corrections.

2017-002. Finding: Inadequate Control over Reporting Restricted Accounts

Northern Illinois University (the University) did not ensure restrictions imposed through revenue bond covenants were properly reflected within the University's financial statements.

As of June 30, 2017, the University's Auxiliary Facilities System (the System) consists of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- Athletic-related facilities, such as Evans Field House, Huskie Stadium, and the Convocation Center;
- Recreation-related facilities, such as the Student Recreation Center;
- Housing facilities, except for New Residence Hall and Northern View Community;
- Dining facilities, including the dining facilities located in the New Hall Community Center;
- Student services facilities, such as the Holmes Student Center and Campus Life Building; and
- Parking facilities.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 2010 and Series 2011) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the following purposes:

1. Expenses necessary for the operation and reasonable upkeep and repair of the System;
2. Payment of principal and/or interest amounts when due;
3. Amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4. Amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and
5. Amounts set aside limited to and used for acquisition of movable equipment to be installed in facilities constituting the System.

With any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to (i) fund the redemption of previously issued bonds when callable, (ii) purchase any of the University's bonds on the open market for cancellation by the bond registrar, or (iii) advance refund any series of the University's bonds outstanding. Notably, resources within the System are unavailable for use by the University outside of the System.

During testing, we noted the University had controls to segregate the System's assets and net position within the University's accounting records and financial statements; however, the University had not designed its internal controls to ensure accurate reporting of restricted assets and restricted net position under generally accepted accounting principles. The University originally designed the control due to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 by drawing inferences from the implementation guidance published by the GASB that was not necessarily on point with the University's unique "closed system" situation.

2017-002. Finding: Inadequate Control over Reporting Restricted Accounts (continued)

Historically, auditors did not take exception to the design flaw until the current year. After this issue was noted during the current year, the Auditor General's Office and Office of the State Comptroller consulted with staff of the GASB. After this consultation, the University (and all Illinois universities with closed systems) changed its accounting presentation in its final financial statements to show all non-capital assets associated with the System, totaling $78.1 million, as restricted assets and reclassified the System's portion of the University's net position to expendable restricted net position, totaling $77.1 million. Because restricted assets includes temporarily invested debt proceeds and resources offset by current liabilities, the amount reported as restricted assets does not equal restricted net position.

GASB Statement No. 34, Paragraph 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*, requires net position to be reported as restricted when constraints imposed upon the use of the net position are externally imposed by creditors, such as through debt covenants. Further, GASB Statement No. 34, Paragraph 99, requires the reporting of restricted assets when constraints imposed upon the use of the net position are externally imposed by creditors change the nature or normal understanding of the availability of the asset, such as assets that cannot be used to extinguish liabilities outside of those allowed by the bond covenants.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance that revenues, expenses, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

University officials stated that its financial statement presentation of non-capital assets and net position related to its Auxiliary Facilities System was prepared based on their interpretation of the authoritative accounting guidance, which they believed to have been accurate and reliable.

Failure to implement the necessary restricted accounting funds to appropriately classify restricted assets and net position resulted in a material misstatement of the University's financial statements and reduced the overall reliability of Statewide financial reporting. (Finding Code No. 2017-002)

Recommendation

We recommend the University periodically review its internal controls over financial reporting to ensure accounts are properly classified under generally accepted accounting principles.

University Response

The University accepts the Auditors' recommendation. Management has conducted a comprehensive review of this finding and has taken corrective measures to redesign its financial reporting processes to appropriately reflect the Auxiliary Facilities System.

2017-003. Finding: Noncompliance with Debt Covenants

Northern Illinois University (the University) did not comply with its revenue bond covenants.

As of June 30, 2017, the University's Auxiliary Facilities System (the System) consists of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- Athletic-related facilities, such as Evans Field House, Huskie Stadium, and the Convocation Center;
- Recreation-related facilities, such as the Student Recreation Center;
- Housing facilities, except for New Residence Hall and Northern View Community (see further discussion over the public-private partnership below);
- Dining facilities, including the dining facilities located in the New Hall Community Center;
- Student services facilities, such as the Holmes Student Center and Campus Life Building; and
- Parking facilities.

As of June 30, 2017, the University had outstanding revenue bonds (Series 2010 and Series 2011) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" whereby the revenues generated by the System could only be used for the following purposes:

1. Expenses necessary for the operation and reasonable upkeep and repair of the System;
2. Payment of principal and/or interest amounts when due;
3. Amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4. Amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and
5. Amounts set aside limited to and used for acquisition of movable equipment to be installed in facilities constituting the System.

With any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to (i) fund the redemption of previously issued bonds when callable, (ii) purchase any of the University's bonds on the open market for cancellation by the bond registrar, or (iii) advance refund any series of the University's bonds outstanding. Notably, resources within the System are unavailable for use by the University outside of the System.

2017-003. Finding: Noncompliance with Debt Covenants (continued)

Further, the University manages certain facilities owned by a private entity as part of a public-private partnership which are not directly related to the University's instruction, research, or service units, including the housing facilities known as New Residence Hall and Northern View Community. As manager of the facilities, the University collects revenues related to the operation of the facilities. Such revenues are to be held by the University in a restricted accounting fund, per the Management Agreement executed between the University and the owner of the facilities. Additionally, the University pays all operating expenses and debt service payments related to the public-private partnership from the revenues collected from the public-private partnership housing facilities.

At the inception of the public-private partnership and the execution of the Management Agreement in fiscal year 2011, the University established the segregated accounts for the public-private partnership within the segregated accounting funds restricted for indentured System activity. The commingling of the indentured System and public-private partnership activity created difficulties for University management to segregate the activities for external reporting purposes. Additionally, the commingling of the two activities within the same funds allowed transfers made from the System to the public-private partnership's segregated accounts to go undetected by management.

During our review of the financial activity for the public-private partnership's segregated accounts for the fiscal year ending June 30, 2017, we noted $2.5 million (net) of transfers made from System resources to the public-private partnership. At our request, the University quantified an additional $72 thousand (net) in transfers made from fiscal year 2012 through fiscal year 2016.

In order to remedy this default, the University returned $2.6 million on February 2, 2018 to the System from the public-private partnership's segregated accounts. Additionally, because the public-private partnership did not have available restricted resources as of June 30, 2017, the University reclassified $2.6 million of unrestricted investments to restricted investments to reflect the transfer of resources into the System as of June 30, 2017. An additional reclassification was made to adjust unrestricted net position to expendable restricted net position for the same amount to reflect the transfer of resources back into the closed system.

The Northern Illinois University Revenue Bond Law (110 ILCS 686/31-25) states the provisions of this Article and of any resolution or other proceeding authorizing the issuance of bonds shall constitute a contract with the holders of such bonds and the provisions thereof shall be enforceable by civil action, mandamus, injunction or other proceeding in the appropriate circuit court to enforce and compel the performance of all duties required by this Article and by any resolution authorizing the issuance of bonds adopted responsive hereto. Appropriate internal controls over compliance should include procedures to ensure all bond covenants are adhered to by the University. Additionally, transfers of System resources should be appropriately restricted to purposes stipulated in bond covenants.

2017-003. Finding: Noncompliance with Debt Covenants (continued)

University officials stated that the University's original intent, as disclosed in Appendix A to the 2010/2011 Bond Series Official Statement, was to subsidize any revenue shortfall of the public-private partnership not sufficient to make required distributions in accordance with the Management Agreement from its Auxiliary Facilities System's housing revenues. However, it was determined that this was in conflict with the University's Bond Resolution.

Failure to ensure all bond covenants were adhered to by the University resulted in noncompliance with the University's revenue bond covenants. (Finding Code No. 2017-003)

Recommendation

We recommend the University review its bond covenant compliance on a routine basis to prevent and detect instances of noncompliance.

University Response

The University accepts the Auditors' recommendation. After further consultation with the University's bond counsel, it was determined that the initial intent to integrate operating results of the Public Private Partnership into its Auxiliary Facilities System did not materialize in its Bond Resolution. The University has taken corrective action measures to ensure appropriate segregation of the Public Private Partnership and its auxiliary facilities system to maintain compliance with the bond debt covenants.

2017-004. Finding: Untimely Cash Reconciliations

Northern Illinois University's (the University) monthly reconciliations for cash accounts were not prepared and reviewed on a timely basis during the year ended June 30, 2017.

During our review of the design and implementation of the University's internal control procedures over the preparation and review of monthly cash account reconciliations, University officials stated the normal timeframe to prepare and review cash account reconciliations is 30 days after the monthly close of the general ledger, which normally takes place on the 9th day of a given month. The University's process includes preparation of two separate account reconciliations performed on a monthly basis: one reconciliation is prepared over the payroll cash deposit account ("Payroll Reconciliation"), and the other is prepared over all the remaining operating cash deposit accounts ("Trust Reconciliation").

During testing, we selected the month of December to review the timeliness of the preparation and review of the reconciliations. The December 2016 Payroll Reconciliation was prepared and reviewed in April 2017, while the December 2016 Trust Reconciliation was prepared in April 2017 and not reviewed until May 2017. The December 2016 reconciliations were prepared and reviewed in excess of three months after the normal timeframe as discussed above.

At our request, the University prepared a summary of monthly cash reconciliation completion dates. The summary indicated that cash reconciliations were being completed and reviewed between 3 to 6 months after the close of the monthly general ledger for the months of July 2016 through December 2016.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system or systems of internal fiscal and administrative controls to provide assurance: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and cost are in compliance with applicable law; (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) 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; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exists. Effective internal controls should include procedures to ensure timely preparation and review of all cash account reconciliations.

University officials stated the delays in the preparation and review of cash reconciliations were caused by a combination of employee turnover and a complete redesign of the bank reconciliation process to better capture financial activities thereby allowing for more robust financial analysis and monitoring by management.

2017-004. Finding: Untimely Cash Reconciliations (continued)

Untimely preparation and review of cash account reconciliations could delay the detection and correction of inaccurate account balances in the University's accounting records and adversely affect the usefulness of financial reports utilized by University personnel in making management decisions. (Finding Code No. 2017-004)

Recommendation

We recommend the University establish and maintain internal controls to ensure the timely preparation and review of all cash reconciliations.

University Response

The University accepts the Auditors' recommendation. During fiscal year 2017, a thorough review and redesign of the cash reconciliation process was completed to reduce inefficiencies and to increase clarity of the data. The University continues to finalize critical hires to level staff workloads that will yield an enhancement to the quality of the work product.

A. Finding: 2016-002 Inadequate Controls over Compensated Absences Data

Northern Illinois University (the University) did not use accurate information to determine its year-end accrual for compensated absences.

During the prior audit, other auditors noted errors during testing over account balances related to compensated absences.

Disposition:

During the current audit, we noted management adjusted its process to accumulate compensated absences data during the preparation of the fiscal year 2017 financial statements and there were no exceptions noted during our sample testing over account balances related to compensated absences. (Finding Code No. 2016-002)

CliftonLarsonAllen

A member of Nexia International