



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

NORTHERN ILLINOIS UNIVERSITY

**Financial Audit
 For the Year Ended June 30, 2018**

Release Date: March 7, 2019

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2017		18-2	
Category 2:	0	1	1	2011	18-1		
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	0	2	2				
FINDINGS LAST AUDIT: 4							

INTRODUCTION

This digest covers the Northern Illinois University’s Financial Audit as of and for the year ended June 30, 2018. The Northern Illinois University’s Compliance Examination (including the Single Audit) covering the year ended June 30, 2018 will be issued at a later date.

SYNOPSIS

- **(18-1)** The University’s internal controls over financial reporting are not sufficient to prevent material misstatements.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on next page.}

NORTHERN ILLINOIS UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2018

STATEMENT OF NET POSITION (in thousands)	2018	2017
Assets		
Cash and cash equivalents.....	\$ 68,197	\$ 49,826
Investments.....	116,887	69,229
Accounts and student loans receivable, net.....	29,987	50,779
Appropriations receivable from the State.....	2,096	23
Capital assets, net.....	434,872	447,926
Other.....	13,457	11,400
Total Assets.....	665,496	629,183
Deferred Outflows of Resources.....	8,564	1,894
Liabilities		
Accounts payable and accrued liabilities.....	45,133	43,849
Accrued compensated absences.....	15,141	15,603
Revenue bonds, contracts, notes and leases payable.....	312,889	349,780
Other post-employment benefits.....	49,837	-
Other.....	54,076	27,008
Total Liabilities.....	477,076	436,240
Deferred Inflows of Resources.....	4,732	-
Net Position		
Net investment in capital assets.....	106,526	115,432
Restricted.....	83,314	83,513
Unrestricted.....	2,412	(4,108)
Total Net Position.....	\$ 192,252	\$ 194,837
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)	2018	2017
Revenues		
State appropriations.....	\$ 316,873	\$ 234,515
Tuition and fees, net.....	104,152	127,256
Auxiliary enterprises.....	87,487	87,173
Federal and State grants and other contracts.....	93,766	65,394
Sales and services of educational activities.....	28,995	28,805
Other.....	13,229	9,009
Total Revenues.....	644,502	552,152
Expenses		
Instruction.....	211,652	202,903
Research.....	18,956	18,198
Auxilliary enterprises.....	82,678	93,731
Institutional support.....	61,423	54,720
Academic support.....	45,331	42,486
Student services.....	30,740	31,039
Operation and maintenance of plant.....	30,376	28,123
Public service.....	26,000	26,122
Student aid.....	46,563	36,865
Depreciation.....	29,238	25,052
Interest.....	22,832	23,314
Total Expenses.....	605,789	582,553
Increase/(Decrease) in net position.....	\$ 38,713	\$ (30,401)
UNIVERSITY PRESIDENT		
During Audit Period: Acting President Dr. Lisa Freeman (July 1, 2017 thru September 19, 2018)		
Current: President, Dr. Lisa C. Freeman (Effective September 20, 2018)		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

FINANCIAL REPORTING PROCESS

Need to improve controls over financial reporting

The University's 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 Capital Asset Recognition and Reporting

Six completed construction projects were not transferred to depreciable assets

During testing over the University's balance of construction project expenditures capitalized as construction-in-progress as of June 30, 2018 (totaling \$57,908,960 prior to any audit adjustments), we noted six projects, totaling \$9,098,946, which were completed and placed in-service, but not appropriately transferred to a depreciable asset. It was determined that each of these projects were completed during the fiscal years ended June 30, 2013, 2014, or 2015.

The result of these errors in the University's financial records as of June 30, 2018 were as follows:

Construction-in-progress was overstated by \$9,099,000

- Overstatement of capital assets, construction-in-progress totaling \$9,099,000
- Understatement of capital assets, buildings totaling \$7,714,000
- Understatement of capital assets, land improvements totaling \$1,223,000
- Overstatement of net position, unrestricted totaling \$162,000
- Understatement of accumulated depreciation totaling \$1,548,000
- Overstatement of net position, net investment in capital assets totaling \$1,548,000

Accumulated depreciation was understated by \$1,548,000

University corrected the financial statements

The University recorded an audit adjustment to correct this matter in the financial statements as of and for the year ended June 30, 2018.

Impairment test should have been performed by the University in fiscal year 2014

During the fiscal year 2018 audit, University officials made us aware of an asset impairment totaling \$1,396,000, recognized in the University's financial statements for the fiscal year ending June 30, 2018. Although the University appropriately identified a residence hall (Lincoln Hall) in need of an impairment analysis, an impairment trigger occurred during fiscal year 2014, which should have prompted the University to perform an impairment test at that time.

An internal memo regarding the future use of Lincoln Hall was issued in August 2013 by University management stating that academic and academic-related services would be relocated to other campus facilities beginning with the 2013-2014 academic year because the Lincoln Hall facilities are dated and demand for housing is significantly less than other residential options.

The result of this error is a likely understatement of accumulated depreciation and an overstatement of net position in the University's fiscal year 2014 financial statements. The result of this error is a likely overstatement of opening net position as of July 1, 2017 totaling \$1,396,000. The University did not record an audit adjustment to correct this matter in its fiscal year 2018 financial statements as it was not considered to be material to the users of the financial statements.

II. Errors and Deficiencies Related to Inter-Entity Transactions

During testing over the University's implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (OPEB)*, specifically as to whether the Northern Illinois University Foundation (the Foundation), the Northern Illinois University Alumni Association (the Alumni Association), and the Northern Illinois Research Foundation (the Research Foundation) (collectively, the University Related Organizations, or UROs) should be allocated a portion of the University's share of its net OPEB liability, it was determined that the UROs, discretely presented component units of the University, were not preparing their financial statements under the appropriate financial reporting framework.

The UROs, non-profit corporations and separate legal entities from the University, do not meet the definition of a governmental entity under accounting principles generally accepted in the United States of America and should prepare their financial statements in accordance with financial reporting standards issued by the Financial Accounting Standards Board (FASB). Historically, the UROs have prepared their financial statements in accordance with financial reporting standards issued by GASB. The Foundation and the Alumni Association changed their financial reporting framework and prepared financial statements in accordance with financial reporting standards issued by FASB for the year ended June 30, 2018, for inclusion in the University's financial statements as discretely presented component units. The Research Foundation chose to continue presentation of their financial statements in accordance with financial reporting standards issued by GASB.

24 gift accounts totaling \$3,347,000 should have been recorded by the University instead of the Foundation

During the Foundation's process to convert its financial records to accommodate the change in its financial reporting framework, the Foundation identified 24 gift accounts with gift dates occurring from 1983 through 2018 totaling \$3,347,000 previously considered to be resources owned by the Foundation and included in its net assets, which should have been reported as resources owned by the University and included in the University's net position. The Foundation recorded audit adjustments to recognize a liability for the resources owned by the University in the gift accounts mentioned above.

The result of this error in the University's financial records as of June 30, 2018 were as follows (amounts rounded to 000's):

- Understatement of due from component units totaling \$3,347,000
- Understatement of net position (beginning balance) totaling \$3,093,000
- Understatement of private gifts, grants, and contracts totaling \$248,000
- Understatement of non-operating revenues totaling \$115,000
- Understatement of operating expenses totaling \$109,000

University recorded an audit adjustment to correct the financial statements

The University recorded an audit adjustment to correct this matter in the financial statements as of and for the year ended June 30, 2018.

III. Errors and Deficiencies Related to Revenue Recognition

During testing over the University's process to estimate its allowance for doubtful student accounts and implementation of corrective actions related to a prior year finding, we noted the University has not fully implemented planned corrective actions over this area.

During the prior year audit, we noted the University's process to estimate its allowance for doubtful student accounts included assumptions over collection rates that had been used and unchanged since fiscal year 2009, and were not considered reasonable given the conditions noted during the prior year audit. An audit adjustment totaling \$8.5 million was proposed and recorded for the fiscal year ended June 30, 2017.

The University's corrective action plan related to the prior year condition was to utilize the accounts receivable analysis developed during the prior year audit and to perform collections analysis to determine if an adjustment to its allowance for doubtful student accounts is necessary.

We noted that the University did update their overall estimate for its allowance for doubtful student accounts; specifically, the University updated percentages applied to its aging buckets (Current: 1%; 1-180 days past due: 45%; 181-364 days past due: 75%; 365+ days past due: 80%).

We also noted the University did contract with a consultant to assist with analyzing collections. The University, however, was unable to complete its analysis over collection trends to support its current allowance estimate for doubtful student accounts for the preparation of its fiscal year 2018 financial statements. No audit adjustments were proposed in relation to the University's estimate for its allowance for doubtful student accounts reported in its statement of net position as of June 30, 2018. (Finding 1, pages 5-8) **This finding has been repeated since 2011.**

We recommended 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 accounting principles generally accepted in the United State of America.

University agrees with the auditors

University officials accepted the finding. *(For the previous University response, see Digest Footnote #1.)*

OTHER FINDING

The remaining finding pertaining to untimely cash reconciliations is reportedly being given attention by the University. We will review the University's progress towards implementation of our recommendation in our next engagement.

AUDITOR'S OPINION

Our auditors stated the financial statements of Northern Illinois University as of June 30, 2018, and for the year then ended, are fairly stated in all material respects.

This financial audit was conducted by CliftonLarsonAllen LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 – Financial Reporting Process – Previous University Response

2017: 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.