

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
ALUMNI ASSOCIATION**

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

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

**State of Illinois
Northern Illinois University Alumni Association**

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**State of Illinois
Northern Illinois University Alumni Association**

Agency Officials

Howard Blietz	President
Rene Hernandez	Vice President
Jack Tierney	Vice President
Robert Kugel	Treasurer
Joseph Matty	Executive Director (Current)
Michael Malone	Interim Executive Director (to 6/30/07)

NIU Alumni Association Office is located at:

Barsema Alumni & Visitors Center
Dekalb, Illinois 60115

State of Illinois Northern Illinois University Alumni Association

Government Auditing Standards Report Summary

The audit of the financial statements of the Northern Illinois University Alumni Association (Association) 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 Association's basic financial statements. The financial statement report was issued under a separate cover.

Summary of Findings

The auditors identified matters involving the Association'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 pages 6-9 of this report, as Finding 07-1, Financial Statement Preparation and 07-2, Fraud Prevention and Detection Program. The auditors also consider Findings 07-1 to be a material weakness.

Exit Conference

The finding and recommendation appearing in this report was discussed via conference call with Association personnel at an exit conference on February 20, 2008. Attending were:

Northern Illinois University Foundation (NIU-F) Northern Illinois University Alumni Association (NIU-AA)

Mallory Simpson	NIU-F President and Secretary
Joseph Matty	NIU-AA Executive Director
Jean Jagodzinski	NIU-F Controller
John Castle	NIU-F Audit Committee
Michael Cullen	NIU-F Audit Committee
Richard Ryan	NIU-F Audit Committee, chair
Kenneth Chessick, M.D., J.D.	NIU-F Audit Committee

**State of Illinois
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Exit Conference (Continued)

Clifton Gunderson LLP

Jeffrey R. Bonick, CPA
Paulette M. Hurd, CPA

Partner
Senior Manager

Office of the Auditor General

Jon A. Fox, CPA

Audit Manager

The responses to the recommendations were provided by Jean Jagodzinski in correspondence dated February 26, 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
Honorable President and
Members of the Board of Directors
Northern Illinois University Alumni Association

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Northern Illinois University Alumni Association (Association) as of and for the year ended June 30, 2007, and have issued our report thereon dated March 10, 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 Association'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 Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association'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 certain 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 of 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 Association'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 Association's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Association's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Association Board and management, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Peoria, Illinois
March 10, 2008

State of Illinois Northern Illinois University Alumni Association

Schedule of Findings For the Year Ended June 30, 2007

07-1 - Financial Statement Preparation

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

During our audit of the Association's financial statements, we made suggestions to correct the presentation of the cash flows statement reconciliation of net operating loss to cash flow from operating activities. The reconciliation was out of balance by \$242,097.

In addition required disclosures to the notes to the financial statements were added or modified for the following five areas:

1. Paragraph regarding presentation of prior year summarized information.
2. Government Accounting Standards Board (GASB) Statement No. 40 disclosures for cash and investments.
3. Policy regarding application of Financial Accounting Standard Board (FASB) statements issued prior to November 30, 1989.
4. Policy regarding whether first to apply restricted or unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.
5. Definition of cash equivalents.

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

According to Association personnel, a number of factors contributed to this result. Insufficient resources and timeline pressure led to a less than optimal process for review.

Lack of a thorough review process could result in misstatements or omissions in the financial statements. (Finding Code No. 07-1)

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

07-1 - Financial Statement Preparation (Continued)

Recommendation:

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

Alumni Association Response:

The Association agrees. The NIU Alumni Association will carefully review the opportunities to improve the financial reporting and focus efforts and resources to improve this.

State of Illinois Northern Illinois University Alumni Association

Schedule of Findings For the Year Ended June 30, 2007

07-2 - Fraud Prevention and Detection Program

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

The Alumni Association relies on current internal controls that have been put in place as well as several other key policies and practices to prevent and detect fraud but has not established a formal program to assess the specific risks associated with fraud.

The Alumni Association 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 Alumni Association should implement a formal policy regarding evaluation of fraud risk and a system of controls to help prevent and detect fraudulent activity within its organization. Preparing a written policy will serve to document the Alumni Association's awareness and responsibility for fraud prevention and detection.

Management officials stated they believe the Association has adequate policies and procedures in place to address fraud risks.

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 Association assets. (Finding Code No. 07-2)

Recommendation:

We recommend that management establish and clearly document 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 Directors should evaluate management's identification of fraud risks, and implementation of anti-fraud measures.

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**Schedule of Findings
For the Year Ended June 30, 2007**

07-2 - Fraud Prevention and Detection Program (Continued)

Alumni Association Response:

The NIU Alumni Association Board of Directors and management and all employees take seriously the responsibility for prevention and detection of fraud. A great deal of time and thought has been invested in researching best practices and in creating and adopting policies and practices to prevent and detect fraud, including an ethics statement and conflict of interest policy, and a system of internal controls. The auditors could not identify a written reference in the current authoritative guidance requiring a formalized documented assessment program and, therefore, the Association does not believe a finding characterizing a weakness is warranted. Because this new authoritative guidance has been very recently established and communicated to us, the Association will evaluate and assess a formalized documented fraud risk assessment program with the expectation of implementing such program as may be deemed appropriate.

Auditors' Comment:

The Alumni Association was not able to provide any evidence during the course of our audit work that it had established a formal fraud risk assessment program. In today's business environment, fraud risk assessment is a necessary component of accepted business practices and serves as the basis of our recommendation. We acknowledge that the Alumni Association has adopted internal controls and policies that may work toward mitigating fraud risk, but without a formal fraud risk assessment program it is unclear if the controls and policies in place fully address the risks associated with fraud for the Alumni Association.