



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

NORTHEASTERN ILLINOIS UNIVERSITY

**Financial Audit
 For the Year Ended June 30, 2016**

Release Date: February 2, 2017

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	No Repeat Findings			
Category 2:	3	0	3				
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	3	0	3				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers the Northeastern Illinois University's (University) Financial Audit as of and for the year ended June 30, 2016. The Northeastern Illinois University's Compliance Examination (including the Single Audit) covering the year ended June 30, 2016 will be issued at a later date.

SYNOPSIS

- (16-01) The University has not established adequate internal controls over recording of bond issuance costs.
- (16-03) The University did not establish an adequate process to evaluate the estimated allowance for doubtful accounts receivable and did not have adequate controls in place to monitor the completion of its construction projects.

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 information is summarized on next page.}

NORTHEASTERN ILLINOIS UNIVERSITY

FINANCIAL AUDIT

For the Year Ended June 30, 2016

FINANCIAL OPERATIONS	2016	2015
Operating Revenues		
Student tuition and fees, net.....	\$ 48,851,607	\$ 46,741,433
Federal grants and contracts	19,697,354	16,941,667
State and local grants.....	1,895,321	2,345,836
Nongovernmental grants and contracts.....	1,001,507	416,645
Auxiliary enterprises.....	2,937,532	3,335,193
Other operating revenues.....	4,147,599	4,721,416
Total Operating Revenues.....	<u>78,530,920</u>	<u>74,502,190</u>
Operating Expenses		
Instruction.....	87,352,075	85,647,459
Research.....	1,200,863	1,355,888
Public service.....	18,434,739	16,037,620
Academic support.....	10,066,336	10,851,107
Student services and programs.....	16,537,739	16,663,729
Institutional support.....	18,236,139	18,907,110
Operation and maintenance of plant.....	16,343,573	18,628,002
Scholarships and fellowships.....	7,853,324	8,895,232
Auxiliary enterprises.....	5,055,280	5,401,735
Depreciation expense.....	5,560,519	4,818,688
Other operating expenses.....	1,275,614	179,226
Total Operating Expenses.....	<u>187,916,201</u>	<u>187,385,796</u>
Operating Loss.....	(109,385,281)	(112,883,606)
NONOPERATING REVENUES (EXPENSES)		
State appropriations - general revenue fund.....	10,694,997	36,898,800
Payments on behalf of the University.....	60,747,243	55,534,524
Federal grants - Pell and SEOG.....	16,059,826	17,244,083
State Grants - MAP.....	3,419,612	7,398,845
Investment income.....	19,431	27,022
Interest on indebtedness.....	(2,318,862)	(2,131,665)
Capital additions provided by the State of Illinois.....	255,757	2,676,269
Gain (Loss) on disposal of capital assets.....	1,861	(20,222)
Net Nonoperating Revenues (Expenses).....	<u>88,879,865</u>	<u>117,627,656</u>
INCREASE (DECREASE) IN NET POSITION.....	<u>(20,505,416)</u>	<u>4,744,050</u>
Net position, beginning of year.....	160,693,589	155,057,089
Cumulative effect of a change in accounting principle.....	-	892,450
Net Position, beginning of year, as restated.....	<u>160,693,589</u>	<u>155,949,539</u>
Net position, end of year.....	<u>\$ 140,188,173</u>	<u>\$ 160,693,589</u>
SELECTED ACCOUNT BALANCES		
Cash and cash equivalents.....	\$ 28,734,042	\$ 51,228,838
Cash and cash equivalents - Restricted.....	\$ 2,219,474	\$ 1,452,706
Receivables, net.....	\$ 14,936,178	\$ 20,720,866
Capital Assets, net	\$ 167,403,927	\$ 163,182,297
Accrued Compensated Absences.....	\$ 6,803,544	\$ 7,146,808
Revenue Bonds Payable.....	\$ 15,513,782	\$ 15,477,549
Certificates of Participation, net.....	\$ 42,837,253	\$ 43,924,866
Net Position.....	<u>\$ 140,188,173</u>	<u>\$ 160,693,589</u>
PRESIDENT		
During Audit Period: Dr. Sharon K. Hahs (until 9/30/16); Dr. Richard Helldobler (Interim effective 10/1/16)		
Currently: Dr. Richard Helldobler (Interim)		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**INADEQUATE CONTROLS OVER RECORDING OF
BOND ISSUANCE COSTS**

The University has not established adequate internal controls over recording of bond issuance costs.

University incorrectly recorded bond discount of \$201,582 on COP Series 2015

During fiscal year 2016, the University issued Certificates of Participation (COP) Series 2015 in the amount of \$9,510,000 as a result of refunding all the outstanding COP Series 2006. During testing, auditors noted the University incorrectly recorded a bond discount of \$201,582, composed of underwriters' discounts of \$152,332 and a bond insurance premium of \$49,250. The bond discount is presented as a reduction in COP Series 2015 in the University's originally submitted financial statements. The University also has recorded an amortization of the bond discount of \$20,158 during fiscal year 2016.

University incorrectly recorded bond discount of \$300,020 on Revenue Bond Series 2014

Further, in fiscal year 2015 when the University issued Revenue Bond Series 2014, the auditors noted that the University also incorrectly recorded a bond discount of \$300,020 for Revenue Bond Series 2014, composed of underwriters' discounts of \$266,570 and a bond insurance premium of \$33,450. The bond discount is presented as a reduction in Revenue Bond Series 2014 in the University's prior year financial statements. The University recorded an amortization of bond discount for Revenue Bond Series 2014 of \$7,501 and \$15,001 in fiscal years 2015 and 2016, respectively.

The auditors proposed audit adjustments to correct the matters described above. University management reviewed and accepted the proposed adjustments; however, the University recorded the entire unamortized amount of \$458,942 to expense during the current fiscal year since the adjustment to beginning net position and prepaid expenses was determined to be immaterial in relation to the financial statements (Finding 1, pages 65-66).

We recommended the University implement procedures to ensure bond related costs are properly identified and recorded in the University's accounting records in order to facilitate accurate financial reporting.

University agrees with the auditors

University officials agreed with the recommendation.

INADEQUATE CONTROLS OVER ALLOWANCE FOR DOUBTFUL ACCOUNTS AND MONITORING OF CONSTRUCTION PROJECTS

The University did not establish an adequate process to evaluate the estimated allowance for doubtful accounts receivable and did not have adequate controls in place to monitor the completion of its construction projects.

We noted the following:

- The University estimated the allowance for doubtful accounts of the student accounts receivable to be \$10,826,833 (60%) of the gross student accounts receivable balance of \$18,055,339 at June 30, 2016. The allowance for doubtful accounts was calculated by applying estimated percentages of allowance for doubtful accounts to the outstanding receivables based on aging categories. The University has not recently evaluated its process to determine the reasonableness of the estimated percentages and could not provide auditors with any substantive basis for the percentages used that were available for review. As such, we could not test the information used by management to develop the estimates.
- The University's capital assets as of June 30, 2016 included construction in progress (CIP) account totaling \$8,584,892. During our testing, there were 10 CIP projects as of June 30, 2016; however, the University could not provide the percentage of completion for three CIP projects totaling \$1,766,623. Although the University provided a listing of CIP projects with accumulated costs incurred as of June 30, 2016, the University could not provide the percentage of completion for said projects (Finding 3, pages 69-71).

The University has not recently evaluated its process to determine the reasonableness of the estimated percentages and could not provide auditors with any substantive basis for the percentages used

The University could not provide percentage of completion information for 10 construction projects totaling \$8,584,892

We recommend the University accumulate relevant, sufficient, and reliable data for analysis and adjust its methodology for calculating the allowance for doubtful accounts, as necessary. We further recommended the University should perform a retrospective review of the estimate developed in the preceding year to determine if the estimate was reasonable based upon actual results in the subsequent period. Lastly, we recommended the University implement procedures to ensure CIP projects are properly and regularly monitored to facilitate accurate financial reporting.

University agrees with the auditors

University officials agreed with the recommendations.

OTHER FINDING

The remaining finding pertains to inadequate controls over compliance with University investment policy. We will review the University's progress towards the implementation of our recommendations in our next audit and examination

AUDITOR'S OPINION

Our auditors stated the financial statements of Northeastern Illinois University as of and for the year ended June 30, 2016 are fairly presented in all material respects

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JGR

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were E.C Ortiz & Co., LLP.