

**STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY**

Report Required Under
Government Auditing Standards
For the Year Ended June 30, 2013
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, 2013

Table of Contents

	<u>Page(s)</u>
Agency Officials	1
Summary	2
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Schedule of Findings	5

**State of Illinois
Northern Illinois University**

Agency Officials

John G. Peters	President, July 1, 2012 – June 30, 2013
Douglas D. Baker	President, Effective July 1, 2013
Raymond W. Alden III	Executive Vice President and Provost
Steven D. Cunningham	Acting Executive Vice President, Business and Finance, and Chief of Operations
Anne C. Kaplan	Vice President, Outreach and Engagement and Information Technology
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
<u>Financial Staff</u>	
Keith Jackson	Controller

NIU Office is located at:

300 Altgeld Hall
DeKalb, Illinois 60115

**State of Illinois
Northern Illinois University**

Government Auditing Standards Report

Financial Statement Report

Summary

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

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

Summary of Findings

The auditors identified a matter involving the University's internal control over financial reporting that they considered to be a significant deficiency. This significant deficiency is 2013-001, 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 University waived an exit conference in correspondence dated November 13, 2013. Responses to the recommendations were provided by Keith Jackson in correspondence dated November 21, 2013.



Independent Auditor's 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, External Affairs, and Compliance Committee

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 (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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 21, 2013. Our report includes a reference to other auditors who audited the financial statements of the 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

In planning and performing our audit of the financial statements, we considered the 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 the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. 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.

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 were not identified. Given those limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northern Illinois University's Response to Findings

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

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 results of that testing, and not to provide an opinion on the effectiveness of the 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 the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Schaumburg, Illinois
November 21, 2013

**State of Illinois
Northern Illinois University
Current Findings – Government Auditing Standards
For the Year Ended June 30, 2013**

Schedule of Findings

2013-001. **Finding** **Financial Reporting Process**

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

During our review of the draft financial statements, we noted the University did not properly accrue interest on a capital lease. As a result of bringing this to their attention, the University recorded an adjustment of approximately \$4,300,000 million to increase interest expense.

Government Accounting Standards Board (GASB) No. 62 paragraph 218 – During the lease term, each minimum lease payment should be allocated between a reduction of the obligation and interest expense/expenditure to produce a constant periodic rate of interest on the remaining balance of the obligation.

According to the University management, the error resulted from management using a cash based repayment schedule for the principal and interest instead of re-calculating interest expense over the entire term of the agreement.

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. (Finding Code No. 2013-001, 12-1, 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.