

**Northern Illinois University**  
**A Component Unit of the State of Illinois**

Report Required under *Government Auditing Standards*  
For the Year Ended June 30, 2023

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

**NORTHERN ILLINOIS UNIVERSITY**  
**A Component Unit of the State of Illinois**

**Financial Audit**  
**For the Year Ended June 30, 2023**

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Other Reports Issued Under a Separate Cover	
The Northern Illinois University's Federal Single Audit and State Compliance Examination for the year ended June 30, 2023, will be issued under a separate cover. Additionally, the University's financial statements as of and for the year ended June 30, 2023, have been issued under a separate cover.	

**NORTHERN ILLINOIS UNIVERSITY**  
**A Component Unit of the State of Illinois**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2023**

**UNIVERSITY OFFICIALS**

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President	Lisa C. Freeman
Executive Vice President and Provost	Beth Ingram
Vice President for Administration and Finance and Chief Financial Officer (from January 17, 2023)	George Middlemist
Vice President for Research and Innovation Partnerships	Gerald Blazey
Vice President and General Counsel	Bryan Perry
Vice President for Enrollment Management, Marketing and Communications	Sol Jensen
Vice President for Outreach, Engagement and Regional Development	Rena Cotsones
Vice President for University Advancement	Catherine Squires
Director of Internal Audit	Danielle Schultz

**Financial Management**

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Associate Vice President for Finance and Treasury Controller Deputy Controller Financial Reporting Manager	Shyree Sanan Jason Askin Greg Martyn Kathy Marshall
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**NIU Board Members**

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Chair	Eric Wasowicz
Vice Chair	Rita Athas
Secretary	Montel Gayles
Trustees	Bob Pritchard John R. Butler Dennis Barsema Veronica Herrero
Student Trustee	Tim Moore

**NIU Office is located at:**  
300 Altgeld Hall  
DeKalb, Illinois 60115

**Northern Illinois University  
A Component Unit of the State of Illinois**

**Financial Audit  
For the Year Ended June 30, 2023**

**Report Required Under *Government Auditing Standards***

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**Summary**

The audit of the accompanying financial statements of Northern Illinois University (University) was performed by RSM US 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, issued under a separate cover.

**Summary of Findings**

The auditors identified four matters involving the University's internal control over financial reporting that they considered to be significant deficiencies.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
<b>Current Findings</b>				
2023-001	6	New	Capital Assets	Significant Deficiency
2023-002	7	New	Financial Statements	Significant Deficiency
2023-003	9	New	Leases	Significant Deficiency
2023-004	10	New	Effective Interest Rate	Significant Deficiency
<b>Prior Findings Not Repeated</b>				
A	11	2022/2020	Inadequate Internal Controls over Census Data	
B	11	2022/2022	Inadequate Controls over Revenue Recognition	

**Northern Illinois University  
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**Financial Audit  
For the Year Ended June 30, 2023**

***Report Required Under Government Auditing Standards***

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The University waived an exit conference in a correspondence from George Middlemist, Vice President of Administration and Finance/Chief Financial Officer via email correspondence on March 12, 2024. The responses to the recommendations were provided by Jason Askin, Controller via email correspondence on March 13, 2024.

**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***

**Independent Auditor's Report**

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

and

Board of Trustees  
Northern Illinois University

As Special Assistant Auditors to 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 (*Government Auditing Standards*), the financial statements of the business-type activities, fiduciary activities, and the aggregate discretely presented component units of Northern Illinois University (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 19, 2024. That report includes an emphasis of matter relating to the restatement of opening intangible right-to-use assets and subscription liabilities due to the adoption of Governmental Accounting Standards Board's Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

The financial statements of the Northern Illinois University Foundation and the Northern Illinois Research Foundation, discretely presented component units of the University, were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control or compliance and other matters associated with these component units.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2023-001 through 2023-004 that we consider to be significant deficiencies.

### **Report on 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 financial statements. 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*.

### **University's Responses to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the University's responses to the findings identified in our audit and described in the accompanying schedule of findings. The University's responses were not subjected to the other 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Schaumburg, Illinois  
March 19, 2024

## Northern Illinois University

### Schedule of Findings For the Year Ended June 30, 2023

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#### Finding 2023-001      Capital Assets

Northern Illinois University (the University) did not properly record and reconcile its capital asset balances.

During our testing of the University's capital assets, we noted the following matters which are not corrected in the financial statements as management determined they do not cause a material misstatement:

- Two projects totaling \$672,496, substantially completed and put in use in prior years, are included in year-end construction in progress and no depreciation has been recorded for the projects. The projects should have been moved from construction in progress to buildings in the year of completion and depreciation started in that year. The University elected not to record an adjusting entry for this matter.
- A balance of \$469,593, unassociated with any specific project and carried forward for several years, is included in year-end construction in progress. The University plans to expense this amount in fiscal year 2024 and therefore elected not to record an adjusting entry for this matter.
- The University's schedule of accumulated depreciation exceeds the recorded balance of accumulated depreciation by \$2,950,528. This is a historical variance unrelated to current year depreciation, which has been rolling forward for several years. The University elected not to record an adjusting entry for this matter.

Section 1400 *Reporting Capital Assets* of the Governmental Accounting Standards Board Codification states capital assets should be depreciated over their estimated useful lives which begins when an asset is complete and in service. Additionally, capital assets are defined as assets that have a useful life extending beyond a single reporting period. In order to determine an asset will have a useful life beyond a single reporting period, amounts included in construction in progress must be associated with an identifiable asset. Finally, capital assets are to be reported net of accumulated depreciation on the statement of net position. This should include the accumulated depreciation associated with each capital asset.

Also, 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. Proper internal controls should ensure all transactions are properly captured for the financial statements.

University officials indicated the errors were due to oversight and historical variances that existed prior to the current management team.

As a result of the issues noted above, capital assets, net of accumulated depreciation and net investment in capital assets on the University's statement of net position are both overstated by approximately \$3,420,000. (Finding Code No. 2023-001)

#### **Recommendation:**

We recommend the University adjust its capital asset records in fiscal year 2024 for the noted errors and review its internal controls over the recording and reconciling of capital assets.

#### **University Response:**

Accepted. The University will improve communications to ensure open CIP projects are capitalized upon determination of substantial completion. Additionally, the University will ensure that the historical variances noted in construction in progress and accumulated depreciation are investigated and appropriately adjusted.



## Northern Illinois University

### Schedule of Findings For the Year Ended June 30, 2023

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#### Finding 2023-002      Financial Statements

Northern Illinois University (the University) did not properly adjust its financial statements for certain revenue and expense transactions.

The University prepares year-end entries to adjust the financial statements for transactions recorded during the year that do not represent revenues or expenses for the fiscal year. When testing the University's recorded revenues and expenses we noted the following matters, which are not adjusted for in the financial statements as management determined they did not result in a material misstatement.

- The University's entry to remove from revenue and expense cash basis transactions related to direct loans was miscalculated. The University properly adjusted expenses but did not remove \$1,621,668 of revenue. This resulted in year-end accounts receivable and revenue being overstated by the same amount. The University elected not to record an adjusting entry for this matter.
- The University billed a commercial customer for internet service on a calendar year basis, in arrears, and recorded the revenue when billed instead of when earned. This resulted in \$875 of fiscal year 2022 revenue being recognized in fiscal year 2023. While the error could be isolated to a specific set of accounts, as we do not test 100% of the transactions, there is an additional projected error of current year revenue being overstated by \$737,774. The University elected not to record an adjusting entry for this matter.
- The University's entry to set-up prepaids (classified in current other assets on the statement of net position) for invoices paid in fiscal year 2023 that benefit fiscal year 2024 did not include all necessary invoices. When testing expenses, we identified \$163,919 that should have been expensed in fiscal year 2024 instead of 2023. As we do not test all transactions, there is an additional projected error of prepaids being understated and expenses overstated by \$1,592,922. The University elected not to record an adjusting entry for this matter.

Generally accepted accounting principles require transactions be reported in the period incurred. Additionally, 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. Proper internal controls should ensure all transactions are properly recorded in the financial statements.

University officials indicated the errors were due to oversight and its review process for identifying prepaids being limited to certain accounts, which do not include the accounts in which the noted prepaid errors were identified.

Errors in year-end entries could result in material misstatements within the University's financial statements. (Finding Code No. 2023-002)

#### **Recommendation:**

We recommend the University review its process to record year-end prepaids and cash basis transactions to ensure revenue and expense amounts are properly recorded in the University's financial statements.

**Northern Illinois University**

**Schedule of Findings  
For the Year Ended June 30, 2023**

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**Finding 2023-002      Financial Statements (Continued)**

**University Response:**

Accepted. The University will conduct a comprehensive review of each component of the finding. The University will review the closing entry for elimination of direct loan revenue and expense to ensure compliance with GAAP financial reporting standards. Additionally, the University will review and modify business practices and process related to accounts receivable and prepaid expenses to eliminate all material exceptions.

**Northern Illinois University**

**Schedule of Findings  
For the Year Ended June 30, 2023**

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**Finding 2023-003      Leases**

Northern Illinois University (the University) did not record a right-to-use asset nor a related lease liability for a lease agreement entered into during fiscal year 2023 which met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*.

During our testing of the completeness of the University's lease agreement detail, we noted a five-year lease agreement for copiers and printers that was not included. The University's year-end assets and liabilities would have increased by approximately \$2,800,000 if this lease was accounted for appropriately.

GASB Statement No. 87 states assets which an entity has a non-cancellable right to use for a period longer than one year should be captured on the statement of net position as intangible right-to-use assets and lease liabilities.

Additionally, 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. Proper internal controls should ensure all transactions are properly recorded in the financial statements.

University officials indicated during the initial determination of whether the agreement met the requirements of GASB Statement No. 87, they incorrectly determined the agreement was cancellable and therefore did not include the agreement in the analysis.

Failure to include all required lease agreements could result in a material misstatement within the University's financial statements. (Finding Code No 2023-003)

**Recommendation:**

We recommend the University add the lease to its tracking software in fiscal year 2024. We further recommend the University enhance their procedures over the review of potential lease agreements for proper inclusion within the University's financial statements.

**University Response:**

Accepted. The University will update its procedures to ensure that all leases are properly evaluated and accounted for in accordance with GASB Statement No. 87, *Leases*.

**Northern Illinois University**

**Schedule of Findings  
For the Year Ended June 30, 2023**

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**Finding 2023-004      Effective Interest Rate**

Northern Illinois University (the University) was not utilizing the effective interest rate method for amortizing debt premiums on bond issuances as required by generally accepted accounting principles.

During the fiscal year 2023 audit, after noting the University had been historically amortizing debt premiums using the straight line method, we requested the University calculate the related amortization using the effective interest rate method. Upon review of the calculation, the University determined there was a difference between the periodic outcomes of the two methods and converted to the effective interest rate in the current year. To switch to the correct method, the University recognized a reduction in current year interest expense of \$4,375,305. Of this amount, \$1,625,226 is the fiscal year 2023 amortization difference between the two methods while the remaining \$2,750,079 is for prior year differences.

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 185, states that the difference between the present value and the face amount of a bond should be treated as a discount or premium and amortized as interest expense or revenue over the life of the bond in such a way to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. This is the effective interest rate method.

Additionally, 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. Proper internal controls should ensure management is recording amounts in accordance with generally accepted accounting principles.

University officials indicated prior to preparing the calculation, they believed the difference between the straight-line method and the effective interest rate method would not result in a significant difference. Therefore, the straight-line basis was used for consistency each year.

Failure to use the proper amortization method may cause the University's financial statements to be materially misstated. (Finding Code No. 2023-004)

**Recommendation:**

We recommend the University use the effective interest rate method to amortize bond premiums in accordance with generally accepted accounting principles.

**University Response:**

Accepted. The University adjusted the amortization of bond premiums on all outstanding bond issuances from straight-line to the effective interest method during the year ended June 30, 2023. The University will ensure that future bond issuances, if any, are in accordance with generally accepted accounting principles regarding the amortization of premium/discount.

## Northern Illinois University

### Schedule of Findings For the Year Ended June 30, 2023

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#### Prior Findings Not Repeated

##### A. Inadequate Internal Controls over Census Data

Northern Illinois University (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans were complete and accurate.

During the current audit, the University implemented controls over reporting of census data, including a reconciliation of data with the plans. Current year census data testing did not identify any similar matters. (Finding Code No. 2022-001, 2021-001, 2020-001)

##### B. Inadequate Internal Controls over Revenue Recognition

Northern Illinois University (University) did not have adequate internal controls over the reclassification of unearned revenue to revenue once earned.

During the current audit, our testing over unearned revenue balances did not identify any similar matters. (Finding Code No. 2022-002)