STATE OF ILLINOIS
NORTHERN ILLINOIS UNIVERSITY
FOUNDATION

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

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

State of Illinois
Northern Illinois University Foundation

Table of Contents

State of Illinois
Northern Illinois University Foundation

Agency Officials

Robert L. Bovinette	Chairman
Christina Valaitis	Vice Chairman
Jeffrey Eckmann	Treasurer
Mallory M. Simpson	President and Secretary
Jean Jagodzinski, CPA	Controller

NIU Foundation Office is located at:

Altgeld Hall 135

DeKalb, Illinois 60115-2882

State of Illinois
Northern Illinois University Foundation

Government Auditing Report Summary

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

Summary of Findings

The auditors identified matters involving the Foundation'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 5-9 of this report, as findings 07-1, Financial Statement Preparation, 07-2, Fraud Prevention and Detection Program, and 07-3, Lack of a Formal Capitalization Policy. 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 Foundation 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

Clifton Gunderson LLP

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

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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 Chairman and
Members of the Board of Directors
Northern Illinois University Foundation

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of Northern Illinois University Foundation (Foundation), 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 Foundation'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 Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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, 07-2, and 07-3 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 Foundation'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 Foundation's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Foundation'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 Foundation 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 Foundation
Schedule of Findings
For the Year Ended June 30, 2007

07-1 - Financial Statement Preparation

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

Upon initial review of the draft statements provided by Foundation personnel, we raised various questions and made suggestions regarding the accounting for and/or presentation of the following accounts, transactions and disclosures:

- An adjustment was made to capitalize construction period interest in the amount of $389,945 related to the Jeffrey and Kimberly Yordon Center. This change, along with other items, resulted in net changes to the cash flows statement as follows: Net cash provided by operating activities decreased by $300,629. Net cash provided by noncapital financing activities increased $335,015.
- Disclosures in the notes were also modified to include all of the required information in the following six areas:
    1. Remaining commitment on construction contract
    2. Remaining commitment to fund certain limited partnerships
    3. Future debt service requirements displaying both principal and interest requirements
    4. Method and amortization period for amortizing debt issuance costs
    5. Future operating lease payments due from the University
    6. Government Accounting Standards Board (GASB) Statement No. 40 disclosures for cash and investments
- The amount of accrued compensated absences reported in the financial statements was overstated by $71,064. The amount was more than inconsequential but was not deemed material to the financial statements and, therefore, was not corrected by the Foundation in its Financial Statements.

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

07-1 - Financial Statement Preparation (Continued)

According to Foundation personnel, a number of factors contributed to this result. Significant new and complex transactions, balancing insufficient resources and timeline pressure led to a less than optimal process for review.

Lack of a strong internal process for preparation of financial statements and lack of a thorough review procedure could result in misstatements or omissions in the financial statements. (Finding Code No. 07-1)

Recommendation

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

Foundation Response

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

State of Illinois
Northern Illinois University Foundation
Schedule of Findings
For the Year Ended June 30, 2007

07-2 - Fraud Prevention and Detection Program

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

The Foundation 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 Foundation 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 Foundation 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 Foundation's awareness and responsibility for fraud prevention and detection.

Management officials stated they believe the Foundation 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 Foundation 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.

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

Foundation Response

The NIU Foundation 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 Foundation 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 Audit Committee 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 Foundation 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 Foundation 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 Foundation.

07-3 - Lack of a Formal Capitalization Policy

The Foundation does not have a formal capitalization policy in place.

The Foundation has $5 million in capital assets. According to Foundation management, the Foundation has informal capitalization guidelines in place that are followed in preparing the financial statements; however, it has not adopted a formal written capitalization policy to determine at what dollar amount it is appropriate to capitalize various types of capital assets with useful lives that exceed one year.

Governmental Accounting Standards Board Codification section 2300.106a(7) requires disclosure of the reporting entity's capitalization policy in the notes to the financial statements. Accepted business practices require an organization to establish the dollar level that assets with useful lives exceeding one year will be capitalized.

Management officials stated they do not have a formal capitalization policy in place and do not believe a formal written policy is required.

Lack of a formal capitalization policy could lead to inconsistencies in the treatment of capital items in the financial statements. Inconsistencies in capitalizing items could lead to manipulation of the results of operations or it could create inefficiencies if an excessive amount of items are capitalized, inventoried and depreciated. (Finding Code No. 07-3)

Recommendation

We recommend the Foundation adopt a formal capitalization policy for its various types of capital assets.

Foundation Response

There were no instances detected of assets not properly classified. This is the result of the NIU Foundation's operating practices that are strictly adhered to and prescribe a review process to ensure adherence. The Foundation will evaluate and assess the suggestion of formalizing the capitalization policy.

Auditors' Comment

We believe the formal documentation of a capitalization policy provides a formal authorization for existing policies and assists in avoiding the confusion that can be associated with undocumented informal management operating practices.