

LEGISLATIVE AUDIT COMMISSION



Review of
Northern Illinois University
Year Ended June 30, 2017

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**REVIEW: 4491
NORTHERN ILLINOIS UNIVERSITY
YEAR ENDED JUNE 30, 2017**

FINDINGS/RECOMMENDATIONS - 14

**ACCEPTED and PARTIALLY IMPLEMENTED - 4
IMPLEMENTED - 10**

REPEATED RECOMMENDATIONS - 5

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 12

This review summarizes the reports of Northern Illinois University for the year ended June 30, 2017, filed with the Legislative Audit Commission March 15, 2018 and March 29, 2018. The auditors performed a financial audit and compliance examination in accordance with State law, *Government Auditing Standards*, and the requirements of the federal Single Audit Act. The auditors stated that the financial statements presented fairly.

Northern Illinois University was founded as a State teachers' school in 1895. The vision of the University now is to be the premier student-centered, research-focused public university in the Midwest. The University's main campus is located in DeKalb, Illinois, with other Centers in Rockford, Hoffman Estates, Naperville, Chicago, Oregon, and Lake County. Northern Illinois University Board is comprised of seven trustees appointed by the Governor with the advice and consent of the Senate, and one student trustee elected by NIU students.

Dr. Douglas D. Baker was the President of the University during the audit period, serving from 2013 until his resignation on June 30, 2017. Dr. Lisa Freeman was appointed Acting President in July 2017 and then President effective September 20, 2018. Dr. Freeman has served in many capacities at NIU, from Vice President for Research and Graduate Studies beginning in 2010 to Executive Vice President and Provost in 2017. She earned a doctor of veterinary medicine from Cornell and a doctor of philosophy degree from Ohio State University.

General Information

Following is a comparative summary of Net Position of the University at June 30.

	2017	2016
Current Assets	\$ 73,270,000	\$ 75,219,000
Noncurrent Assets	555,913,000	595,315,000
Deferred Outflows	1,894,000	1,029,000
Current Liabilities	(62,208,000)	(63,152,000)
Noncurrent Liabilities	(374,032,000)	(383,173,000)
TOTAL	\$ 194,837,000	\$ 225,238,000

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Information on full-time equivalent employees by function is as follows:

	2017	2016
Facility/Administrative	2,207.9	2,251.3
Civil Service	1,399.0	1,351.1
Student Employees	405.5	438.9
Miscellaneous Contracts	129.0	211.7
Total	4,141.4	4,253.0

Full-time equivalent student enrollment, including undergraduate, graduate, and professional, and average cost per full-time equivalent student, was as follows on the tenth day of the school year:

	FY17	FY16
Full-time Equivalent Students	14,982	15,712
Cost Per FTE Student	\$ 13,222	\$ 13,194

Appropriations and Expenditures

Appendix A summarizes appropriations and expenditures by fund for FY17 and FY16. During FY17, the University operated without enacted appropriations until Public Act 100-0021 was approved on July 6, 2017. During the Impasse, the Circuit Court of St. Claire County in *AFSCME Council 31 v. Munger* ordered the Comptroller to draw and issue warrants for wages of State employees at their normal rates of pay. The University incurred reimbursable payroll and non-payroll expenses; the University was unable to process any reimbursements for these expenditures incurred by the University's Income Fund until the passage of the previously mentioned Public Act. The Department was authorized by Public Act 100-0021 to pay for all costs incurred prior to July 1, 2018, using either its FY17 or FY18 appropriations for non-payroll expenditures.

- The University planned to expend its FY17 appropriations received during lapse period to cover \$42.7 million in costs incurred in FY17.
- The University did not incur any Prompt Payment Interest.
- The University's vendors were paid from funds and accounts that are ineligible for Prompt Payment Interest.

During FY16, the University operated without enacted appropriations until PA99-0502 and PA99-0524 were signed into law on April 25, 2016, and June 30, 2016, respectively. As a result of the Court order during the impasse, the University's court-ordered involuntary withholding payroll payments previously processed through the State Treasury were merged into the enacted appropriation for Fund 007. Furthermore, the University incurred reimbursable payroll and non-payroll expenses within Fund 0007 and 0417; the University was unable to process any reimbursements for these expenditures incurred by the University's Income Fund until the passage of the Public Acts previously mentioned. Public Act 99-0524 authorized the Department to pay FY16 costs using FY17 appropriations for non-payroll expenditures.

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- The University planned to expend FY17 appropriations to cover operational expenditures totaling \$48.1 million incurred in FY16.

The General Assembly appropriated a total of \$91,128,700 in FY17. Total expenditures from appropriations in FY17 were \$91,115,275, compared to \$26,424,175 in FY16, an increase of \$64,691,100, or 244%. The University spent an additional \$161 million from the Income Fund. Most of the increase in expenditures from appropriated funds in FY17 compared to FY16 were related to no appropriations for the Educational Assistance Fund.

Accrued Vacation and Sick Pay

Northern Illinois University's liability, as of June 30, 2017, for accrued vacation was \$13 million compared to \$12.4 million one year earlier. As of June 30, 2017, the liability for sick leave totaled \$2.5 million, compared to \$3 million one year earlier. The accrued compensated absences liability will be funded through future State of Illinois General Revenue Fund appropriations as the terminating employees leave the University.

Current Income and Expenditures

The table appearing in Appendix B presents a statement of revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016. The University saw a decrease of \$30.4 million in its net position in FY17, compared to a decrease of \$46.2 million in FY16. The decrease in FY17 is primarily due to a reduction in student tuition and related auxiliary revenues of \$16.6 million, and increased operating expenses of \$11.8 Million.

Total revenues as of June 30, 2017 were \$552.1 million compared to \$525.3 million as of June 30, 2016. The following chart shows revenues by source for FY17:

Revenues	FY17
State Appropriations	10.1%
On-Behalf Payments	32.5%
Tuition and Fees	23.0%
Student Grants	6.6%
Auxiliary Enterprises	15.8%
Sales & Services Educational Activities	5.2%
Other, Private Gifts, Investment Income	6.8%

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Expenditures increased from \$571.5 million in FY16 to \$582.5 in FY17. The chart on the following page indicates expenditures by type for FY17:

Expenditures	FY17
Instruction	34.8%
Research	3.1%
Public Service	4.5%
Academic Support	7.3%
Student Services	5.3%
Operations & Plant	4.8%
Depreciation	4.3%
Institutional Support	9.4%
Student Aid	6.3%
Auxiliary Enterprises	16.2%
Interest	4.0%

Accounts Receivable

The University's accounts receivable, excluding student loans, totaled \$69.1 million, as of June 30, 2017, with an allowance for doubtful accounts of \$25.8 million, resulting in a net of \$43.3 million. One year earlier gross accounts receivable totaled \$58.1 million, and net receivable totaled \$41.9 million. The University's gross accounts receivable increase of \$11.1 million was due primarily to untimely State appropriations of the Monetary Award Program (MAP). Accounts receivable consists primarily of amounts due from students (\$31.1 million), customer accounts (\$2.6 million), and grants receivable (\$9.6 million).

Property and Equipment

Appendix C summarizes the changes in property and equipment for FY17 and FY16. The FY17 ending balance showed an increase of \$6.4 million over the beginning balance. In FY17, the \$1.083 billion in property and equipment was comprised of \$103.1 million in land and land improvements; \$671.7 million in buildings and leasehold improvements; \$254.8 million in equipment; \$3.8 million in intangible assets; and \$50.3 million in construction in progress.

Foundation Payments to the University

Appendix D summarizes funds provided by and to Northern Illinois University Foundation during FY17 and FY16. During FY17, the University engaged the Northern Illinois University Foundation under contract to provide fund-raising services. The University paid or provided services to the Foundation totaling \$1,149,081 during FY17. As required by the contract, the Foundation fully repaid the University. Total funds provided by the Foundation to the University equaled \$11,659,709, compared to \$11,482,496 in FY16.

Tuition and Fee Waivers

Appendix E summarizes tuition and fee waivers during FY17 and FY16. During FY17, Northern Illinois University granted almost \$25.7 million in tuition and fee waivers compared to \$22.9 million in FY16.

Accountants' Findings and Recommendations

Condensed below are the 14 findings and recommendations presented in the audit report. There were five findings repeated from the previous audit. The following recommendations are classified on the basis of information provided by Shyree Sanan, Associate Vice President for Finance and Treasury, Northern Illinois University, in a memo dated October 11, 2018 and received via email.

Partially Implemented and Implemented

- 1. Continue to improve controls over financial reporting to ensure amounts reported within the University's annual financial statements are accurate and presented in accordance with generally accepted accounting principles. (Repeated-2011)**

Finding: Northern Illinois University's (University) internal controls over financial reporting are not sufficient to prevent material misstatements.

During the audit of the significant balances comprising the University's financial statements, auditors noted the University's process to estimate uncollectible student accounts included assumptions over collection rates that have been used since FY09, and are not considered reasonable as of June 30, 2017. The allowance rate for the greater than 365 day past-due receivables was reduced from 70% to 60% in FY08 and has not been updated since.

During testing over student accounts receivable, auditors noted that certain collections of overdue student accounts did not occur within one year of the original invoice date. Additionally, upon further investigation and discussion with University officials, auditors also noted the University did not perform a detailed review over the amount of past-due student accounts considered to be probable of collection.

As of June 30, 2017, the University had \$24.7 million of gross student accounts receivable that was greater than 365 days past-due. As discussed above, the University's original estimate of probable non-collection was 60% of that amount, or \$14.8 million. Upon further testing, however, auditors noted actual cash collections on historical balances over 365 days past-due did not support a collection rate of 40%.

In response to this, the University prepared an additional analysis based on new information supporting an average annual collection for those greater than 365 days past-due of approximately \$1.6 million during the fiscal years ended June 30, 2017 and 2016. Based on

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Partially Implemented and Implemented - continued

this new information, the University's estimated net realizable student accounts receivable balance was overstated by \$8.5 million as of June 30, 2017. The University recorded an audit adjustment to correct this matter in the financial statements as of and for the year ended June 30, 2017.

Some of the other items noted during the audit of University financial statements were as follows:

- During the follow-up on the prior year findings, the University recorded transactions during the fiscal year to correct errors in recorded balances as of June 30, 2017, pertaining to errors that existed in previous financial reporting periods. These entries were included in the schedule of passed audit adjustments for the prior period (FY16) audit. The entries recorded by management during the fiscal year ended June 30, 2017 corrected certain balances on the statement of net position as of June 30, 2017, but created other inaccuracies within the University's reporting of operating results as follows:
 - Understatement of operating expenses-depreciation totaling \$4,663,182;
 - Overstatement of operating expenses-auxiliary enterprises totaling \$3,233,385; and
 - Overstatement of operating expenses-operation and maintenance of plant totaling \$2,150,298.
- During testing over 23 disbursements subsequent to year end (totaling \$5.6 million), auditors noted one transaction (totaling \$28,839) was not appropriately accrued as of June 30, 2017. The transaction was subject to a service period of April 1, 2017 through September 30, 2017 and \$14,419 should have been accrued as of June 30, 2017.

In response to the matter noted above, the University performed an analysis over certain similar expense accounts, including software licenses, membership dues, and other online services. The University's analysis indicated that approximately \$812,000 should have been reported as prepaid expenses as of June 30, 2017, representing an overstatement of operating expenses for the year ended June 30, 2017 and an understatement of prepaid expenses as of June 30, 2017 of the same amount. The University recorded an audit adjustment to correct these amounts as of and for the year ended June 30, 2017.

University officials stated the errors and deficiencies noted above were due to the following: (1) business practices that have been adhered to by the University for many years related to its estimate for uncollectible student accounts, application of credit memos, and recording of prepaid expenses were inadequate; (2) the classification errors related to the correction of prior year passed audit adjustments were due to a misunderstanding between management and its former and current external auditors as to the appropriate resolution during a period of transition

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between external auditors; and (3) the Build America Bond subsidy misclassification was due to an oversight in management review.

Response: Accepted. Management has conducted a comprehensive review of each component of this finding and has taken corrective action measures to redesign related business practices and processes, and to finalize critical hires to level the staff workloads that will yield improvements in the work product. In addition, the University will enhance communications during the audit planning stage to ensure appropriate alignment with the external auditors with respect to financial reporting of prior period corrections.

Updated Response: Implemented.

2. Periodically review internal controls over financial reporting to ensure accounts are properly classified under generally accepted accounting principles.

Finding: The University did not ensure restrictions imposed through revenue bond covenants were properly reflected within the University's financial statements.

As of June 30, 2017, the University's Auxiliary Facilities System (the System) consists of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- Athletic-related facilities, such as Evans Field House, Huskie Stadium, and the Convocation Center;
- Recreation-related facilities, such as the Student Recreation Center;
- Housing facilities, except for New Residence Hall and Northern View Community;
- Dining facilities, including the dining facilities located in the New Hall Community Center;
- Student services facilities, such as the Holmes Student Center and Campus Life Building; and
- Parking facilities.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 2010 and Series 2011) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the following purposes:

1. Expenses necessary for the operation and reasonable upkeep and repair of the System;
2. Payment of principal and/or interest amounts when due;
3. Amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4. Amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and
5. Amounts set aside limited to and used for acquisition of movable equipment to be installed in facilities constituting the System.

Partially Implemented and Implemented - continued

With any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to (i) fund the redemption of previously issued bonds when callable, (ii) purchase any of the University's bonds on the open market for cancellation by the bond registrar, or (iii) advance refund any series of the University's bonds outstanding. Notably, resources within the System are unavailable for use by the University outside of the System.

During testing, auditors noted the University had controls to segregate the System's assets and net position within the University's accounting records and financial statements; however, the University had not designed its internal controls to ensure accurate reporting of restricted assets and restricted net position under generally accepted accounting principles.

The Auditor General's Office and Office of the State Comptroller consulted with staff of the GASB. After this consultation, the University (and all Illinois universities with closed systems) changed its accounting presentation in its final financial statements to show all non-capital assets associated with the System, totaling \$78.1 million, as restricted assets and reclassified the System's portion of the University's net position to expendable restricted net position, totaling \$77.1 million. Because restricted assets includes temporarily invested debt proceeds and resources offset by current liabilities, the amount reported as restricted assets does not equal restricted net position.

University officials stated that its financial statement presentation of non-capital assets and net position related to its Auxiliary Facilities System was prepared based on their interpretation of the authoritative accounting guidance, which they believed to have been accurate and reliable.

Response: Accepted. Management has conducted a comprehensive review of this finding and has taken corrective measures to redesign its financial reporting processes to appropriately reflect the Auxiliary Facilities System.

Updated Response: Implemented.

3. Review bond covenant compliance on a routine basis to prevent and detect instances of noncompliance.

Finding: The University did not comply with its revenue bond covenants.

As of June 30, 2017, the University's Auxiliary Facilities System (the System) consists of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- Athletic-related facilities, such as Evans Field House, Huskie Stadium, and the Convocation Center;
- Recreation-related facilities, such as the Student Recreation Center;

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- Housing facilities, except for New Residence Hall and Northern View Community (see further discussion over the public-private partnership below);
- Dining facilities, including the dining facilities located in the New Hall Community Center;
- Student services facilities, such as the Holmes Student Center and Campus Life Building; and
- Parking facilities.

As of June 30, 2017, the University had outstanding revenue bonds (Series 2010 and Series 2011) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a “closed system” whereby the revenues generated by the System could only be used for the following purposes:

1. Expenses necessary for the operation and reasonable upkeep and repair of the System;
2. Payment of principal and/or interest amounts when due;
3. Amounts set aside limited to and used for financing the costs of renovating or replacing capital assets of the System beyond ordinary maintenance and operation of the System;
4. Amounts set aside limited to and used for constructing new space or additions to existing facilities within the System; and
5. Amounts set aside limited to and used for acquisition of movable equipment to be installed in facilities constituting the System.

With any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to (i) fund the redemption of previously issued bonds when callable, (ii) purchase any of the University’s bonds on the open market for cancellation by the bond registrar, or (iii) advance refund any series of the University’s bonds outstanding. Notably, resources within the System are unavailable for use by the University outside of the System.

Further, the University manages certain facilities owned by a private entity as part of a public-private partnership which are not directly related to the University’s instruction, research, or service units, including the housing facilities known as New Residence Hall and Northern View Community. As manager of the facilities, the University collects revenues related to the operation of the facilities. Such revenues are to be held by the University in a restricted accounting fund, per the Management Agreement executed between the University and the owner of the facilities. Additionally, the University pays all operating expenses and debt service payments related to the public-private partnership from the revenues collected from the public-private partnership housing facilities.

At the inception of the public-private partnership and the execution of the Management Agreement in fiscal year 2011, the University established the segregated accounts for the public-private partnership within the segregated accounting funds restricted for indentured System activity. The commingling of the indentured System and public-private partnership activity created difficulties for University management to segregate the activities for external reporting purposes. Additionally, the commingling of the two activities within the same funds allowed transfers made from the System to the public-private partnership’s segregated accounts to go undetected by management.

Partially Implemented and Implemented - continued

During the review of the financial activity for the public-private partnership's segregated accounts for the fiscal year ending June 30, 2017, auditors noted \$2.5 million (net) of transfers made from System resources to the public-private partnership. At the auditors' request, the University quantified an additional \$72 thousand (net) in transfers made from fiscal year 2012 through fiscal year 2016.

In order to remedy this default, the University returned \$2.6 million on February 2, 2018 to the System from the public-private partnership's segregated accounts. Additionally, because the public-private partnership did not have available restricted resources as of June 30, 2017, the University reclassified \$2.6 million of unrestricted investments to restricted investments to reflect the transfer of resources into the System as of June 30, 2017. An additional reclassification was made to adjust unrestricted net position to expendable restricted net position for the same amount to reflect the transfer of resources back into the closed system.

University officials stated that the University's original intent, as disclosed in Appendix A to the 2010/2011 Bond Series Official Statement, was to subsidize any revenue shortfall of the public-private partnership not sufficient to make required distributions in accordance with the Management Agreement from its Auxiliary Facilities System's housing revenues. However, it was determined that this was in conflict with the University's Bond Resolution.

Response: Accepted. After further consultation with the University's bond counsel, it was determined that the initial intent to integrate operating results of the Public Private Partnership into its Auxiliary Facilities System did not materialize in its Bond Resolution. The University has taken corrective action measures to ensure appropriate segregation of the Public Private Partnership and its Auxiliary Facilities System to maintain compliance with the bond debt covenants.

Updated Response: Implemented.

4. Establish and maintain internal controls to ensure the timely preparation and review of all cash reconciliations.

Finding: The University's monthly reconciliations for cash accounts were not prepared and reviewed on a timely basis during FY17.

During testing, auditors selected the month of December to review the timeliness of the preparation and review of the reconciliations. The December 2016 Payroll Reconciliation was prepared and reviewed in April 2017, while the December 2016 Trust Reconciliation was prepared in April 2017 and not reviewed until May 2017.

At our request, the University prepared a summary of monthly cash reconciliation completion dates. The summary indicated that cash reconciliations were being completed and reviewed

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between 3 to 6 months after the close of the monthly general ledger for the months of July 2016 through December 2016.

University officials stated the delays in the preparation and review of cash reconciliations were caused by a combination of employee turnover and a complete redesign of the bank reconciliation process to better capture financial activities thereby allowing for more robust financial analysis and monitoring by management.

Response: Accepted. During fiscal year 2017, a thorough review and redesign of the cash reconciliation process was completed to reduce inefficiencies and to increase clarity of the data. The University continues to finalize critical hires to level staff workloads that will yield an enhancement to the quality of the work product.

Updated Response: Implemented.

5. Establish and maintain internal controls to ensure Return of Title IV Funds (R2T4) calculations are performed accurately and the proper amount of refunds is returned to the U.S. Department of Education.

Finding: The University did not accurately calculate amounts due back to the U.S. Department of Education. During testing of 40 Return of Title IV Funds (R2T4) transactions, from a statistically valid sample, auditors noted the University returned more than what was required for nine of those transactions (totaling \$266).

University officials stated the R2T4 calculations error was a training issue that resulted in a staff member using the actual (gross) amount of a student's loan rather than the net amount less the origination fee in the calculation of total Title IV aid. This resulted in returns that were marginally higher than the required returns.

Response: Accepted. The University took immediate action to review the process, conduct staff training, update policies, and to correct the calculation error. Use of the gross amount resulted in a return of \$2.00 to a maximum of \$32.00 more than required; as such, the full obligation of the University to return funds was met in a timely manner. All R2T4 calculations have used the correct amounts effective with the Fall 2017 term.

Updated Response: Implemented.

6. Establish and maintain internal controls to ensure enrollment status reporting by the University to the National Student Loan Data System (NSLDS) is complete, accurate, and performed in a timely manner in accordance with U.S. Department of Education regulations.

Finding: The University did not complete enrollment status reporting to the U.S. Department of Education accurately and in a timely manner.

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Partially Implemented and Implemented - continued

During testing from a statistically valid sample, auditors noted four of 25 students whose enrollment status was either not reported timely, not reported with the correct enrollment status or a combination thereof to the National Student Loan Data System (NSLDS). The enrollment status changes were submitted between 33 and 125 days late.

University officials stated staffing reductions, turnover, and inadequate system report programming resulted in individual status changes not being reported in the immediate subsequent cycle.

Response: Accepted. During fiscal year 2018, management conducted a comprehensive review of each component of this finding and has initiated corrective actions, which include revising current processes, reports, and updating operating procedures for enrollment reporting. The University has also reviewed the reporting schedule to ensure all reporting timeframes are met.

Updated Response: Implemented.

7. Establish and maintain internal controls to ensure outstanding refund checks are returned to the U.S. Department of Education in accordance with program regulations.

Finding: The University did not comply with regulations regarding outstanding refund checks.

Auditors noted the University is not returning funds to the U.S. Department of Education within the required timeframe. In three of 40 items tested, from a statistically valid sample, the University did not return \$6,077 of funds to the U.S. Department of Education.

University officials stated the deficiency noted above was due to inaccurate staff training and a lack of properly documented procedures.

Response: Accepted. The University has taken immediate action to review and revamp the current process, conduct staff training, and to update policies and procedures to ensure all outstanding student refund checks are returned to the U.S. Department of Education in a timely manner.

Updated Response: Implemented.

8. Establish and maintain internal control procedures to ensure contracts are complete and properly approved prior to performance. (Repeated-2012)

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Finding: The University has not established adequate internal controls over contracts to ensure they are approved prior to performance and comply with all applicable State requirements.

During review of 40 contracts for year ending June 30, 2017, auditors noted the following:

- Four contracts were missing one or more of the required certifications or clauses.
- Seven contracts (18%) were not approved prior to goods or services being provided. The contract execution dates ranged from 16 to 55 days from the commencement of service.
- Nine contracts (23%) did not have a contract obligation document filed with the Illinois State Comptroller's Office. Each contract contained an order for delivery that exceeded \$20,000.
- Ten contracts (25%) contained a contract obligation document that was not filed within 30 days of execution of contract. The contract obligation documents were filed between two and 402 days late.
- Two of 19 contracts (11%) were missing the required Financial/Conflict of Interest Disclosure form.

University officials stated the errors and deficiencies noted above were due to several factors: (1) business practices that have been adhered to by the University for many years stipulating when certifications are required; (2) the continued challenge for the University to mitigate the number of services/products received prior to a fully executed contract; and (3) the lack of financial disclosures was an oversight of management during the review process.

Response: Accepted. The University has conducted a comprehensive review of each component of this finding and has taken corrective actions in fiscal year 2018 to address the deficiencies noted. These steps include the following: (1) Revamping internal workflow process to initiate correspondence and provide a copy of the certifications to all vendors for completion based on incoming requisitions; (2) Adopt an all-inclusive (combined State and NIU) certification form to be used in the University's request for proposal and invitation to bid process to ensure adherence to all other certifications; (3) Continue to educate campus departments through direct communications, training, reminders, and Procurement Services' website, to mitigate performance prior to purchase order; and (4) Revamp the process for filing contract obligation documents with the State of Illinois to ensure all purchases exceeding \$20,000 are filed timely.

Updated Response: Partially Implemented.

9. **Continue efforts to develop and implement a program to require all employees to submit time sheets in accordance with the Act. (Repeated-2005)**

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Partially Implemented and Implemented - continued

Finding: The University did not require all employees to submit time sheets as required by the State Officials and Employees Ethics Act.

During testing over 40 payroll transactions, auditors noted 13 employees (nine faculty and four graduate assistants) did not submit time sheets documenting the time spent each day on official State business to the nearest quarter hour.

University officials stated plans for implementing faculty and graduate assistants time reporting are still in process.

Response: Accepted. The University has a system in place that can capture time worked and benefit usage. However, there are ongoing efforts to explore alternative strategies to capture time worked by unionized faculty and graduate assistants.

Updated Response: Partially Implemented.

10. Continue to strengthen internal controls over the accountability of University property. (Repeated-2015)

Finding: The University did not fully comply with requirements applicable to its property and equipment.

Auditors reviewed the University's property inventory certification as of November 29, 2016, which was submitted to the Illinois Department of Central Management Services (DCMS). The inventory certification to DCMS reported 1,288 items (\$1,624,740) of equipment that could not be located by the University. These assets were acquired by the University during past fiscal years. Included in this listing were approximately 520 computers, servers, CPUs, or other electronic storage devices.

University officials stated controls are in place over property and equipment; however, the 2016 inventory cycle was not representative of a "normal" cycle. There had been several years where items were unable to be located and were not removed from inventory, as the University felt it would eventually locate the missing equipment. However, the University revised its processes during 2017 inventory cycle to remove all missing assets from inventory. In addition, campus-wide turnover of responsible officers requires continuous training on property control policies and procedures.

Response: Accepted. The University has taken corrective measures to strengthen controls over the accountability of assets. To assist in locating missing assets, a Missing Asset Internal Investigation Form has been developed that also captures detail of any sensitive data stored on the device. In addition, Vice-Presidents are notified of missing items to exert a sense of urgency and resources needed to locate missing assets. Also, the University has developed training for responsible officers and revamped its asset transfer process to better track when assets move between departments.

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Updated Response: Implemented.

11. Submit the fiscal impact report to the Illinois Board of Higher Education timely in compliance with the Higher Education Veterans Service Act. (Repeated-2016)

Finding: The University did not fully comply with the Higher Education Veterans Service Act (Act).

During a review of the University's compliance with the Act, auditors noted the University did not report to the Illinois Board of Higher Education on the fiscal impact of the programs and services provided for veterans, active duty military personnel, and their families in a timely manner. With regard to the FY16 filing due September 1, 2016, the University reported to the Board of Higher Education on July 10, 2017 (312 days late).

University officials stated the underlying cause for the untimely filing of the fiscal year 2016 report was due to staff turnover.

Response: Accepted. The University has taken corrective action to report the submission of the fiscal impact survey on a timely basis. The 2017 fiscal impact survey was submitted on its due date of September 1, 2017.

Updated Response: Implemented.

12. Review and enhance internal controls in order to appropriately monitor and maintain the accounts payable master vendor file.

Finding: The University has inadequate internal controls in place to monitor and maintain the accounts payable master vendor file.

The University's accounts payable master vendor file had 46,007 active vendors that included 35,757 suppliers, 5,372 employees, and 4,878 students as of June 30, 2017. During a review of the master vendor file, auditors noted the following:

- There were 35,610 (77%) active vendors with no activity in the past 2 years; 24,447 (53%) active vendors with no activity in the past 5 years; and 2,987 (7%) active vendors with no activity in the past 10 years.
- The master vendor file included 717 (1.6%) vendors to which there has never been a payment.
- There was one active vendor with 198 different addresses approved for payment; another 27 active vendors with over 25 different addresses approved for payment and another 582 active vendors with over 5 different addresses approved for payment.

Partially Implemented and Implemented - continued

University officials stated the underlying cause of the audit exceptions varies by situations and the last archival of vendor files performed by the University on February 21, 2015 was not as robust and fully effective as originally planned and designed due to program coding errors and deficiencies.

Response: Accepted. The University has conducted a comprehensive review of each component of this finding and is taking the following corrective actions to eliminate material exceptions: (1) Develop a program that will archive any vendor not used or paid in the last two years, and schedule a yearly automated process to archive vendor files; (2) Develop a program to inactivate vendor addresses that have not been used to make a payment within the last two years; (3) The university will target vendors with multiple addresses for electronic payment set-up.

Updated Response: Implemented.

13. Provide sufficient detail within agendas provided in advance of meetings of the Board of Trustees and various committees to ensure compliance with the Illinois Open Meetings Act.

Finding: The University violated the requirements of the Illinois Open Meetings Act.

During the examination, auditors became aware of pending litigation for which the Board of Trustees of Northern Illinois University was named the Defendant in a lawsuit challenging the Board's compliance with the Open Meetings Act related to an agenda item (Agenda Item: "13. Presidential Employment (review and approval)") for the Board's regularly scheduled meeting on June 15, 2017.

The pending litigation concluded on December 1, 2017 in the Plaintiff's favor with the judge ruling the agenda item violated the requirements of the Open Meetings Act because it failed to describe the general subject matter of the resolution that was the subject of final action at the meeting with regard to a transition agreement with the former University President.

The Open Meetings Act requires any agenda under this section shall set forth the general subject matter of any resolution or ordinance that will be the subject of final action at the meeting.

University officials stated this was a unique situation, unlike routine University recommendations that concern general operations, concerning a personnel matter subject to the exclusive prerogatives of the Board. To preserve the Board's ability to determine the most appropriate course of action, the general subject matter of "13. Presidential Employment (review and approval)" was put on the agenda and posted 48 hours in advance of the meeting.

Response: Without waiving any argument raised in the litigation or its right to appeal the

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judgment of the court once it is made final, the University accepts that the finding accurately summarizes the December 1, 2017 ruling of the court, and accepts the recommended remedial action. This audit finding appears to be a direct consequence of the Court decision in the case referenced, and not separate from the plaintiff's cause of action in the case. On June 15, 2017, the Board of Trustees voted in open session on approval of a Presidential Transition Agreement, which impacted the employment of President Doug Baker. Under the proposed Presidential Transition Agreement, Dr. Baker agreed to resign from the presidency of the University, and he also agreed to relinquish his tenured faculty position with the University, and provide the University with a release of any and all claims associated with his employment at NIU, among other considerations. It was incumbent upon the Board to consider this proposed agreement or any other appropriate action in relation to President Baker at the June 15th meeting. Unlike routine university recommendations that concern general operations, this was a personnel matter subject to the exclusive prerogatives of the Board, marked by significant urgency and limited opportunity. In the litigation, the Board asserted a range of potential outcomes that prevented a more specific item. This was a unique situation that is not anticipated to occur again and certainly not with any regularity. To preserve the Board's ability to determine the most appropriate course of action, the general subject matter of "13. Presidential Employment (review and approval)" was put on the agenda and posted 48 hours in advance of the meeting. In the end, the Board agreed with the Presidential Transition Agreement as the appropriate course of action and approved the entering of the agreement in open session, in line with the stated intent of the Open Meetings Act "to ensure that the actions of public bodies be taken openly and that their deliberations be conducted openly."

As noted above, the Illinois Open Meetings Act requires any agenda to "set forth the general subject matter of any resolution or ordinance that will be the subject of final action at the meeting." The Illinois Open Meetings Act does not define "general subject matter." In addition, there are no court opinions or other authorities that identify the minimum level of sufficient detail that needs to be put onto an agenda of a public meeting, in order to meet the "general subject matter" standard. In fact, the Court in this case expressly noted in its Order and Decision that "This Court has not found any cases that discuss the sufficiency of compliance with the phrase 'general subject matter.'"

In the end, the Court concluded that new amendments to the Northern Illinois University Law were not applicable to the case. The Court further concluded that the Board complied with sections a and b of 5 ILCS 120/2.02, as well as section e of 5 ILCS 120/2. Lastly, the Court concluded that Agenda Item 13 for the June 15, 2017 meeting violated the requirements of section 2.02(c) of the Open Meetings Act because it failed to describe the general subject matter of the resolution that was the subject of the final action at the meeting with regard to a transition agreement with Dr. Baker. The Court declined to opine on the level of specificity that would be necessary to meet the "general subject matter" standard, but concluded that the necessary level of specificity was not present for Agenda Item 13. The Court's order and decision, promulgated after the Board's action, and after considerable review and debate, therefore, established the deficiency at issue in this audit finding.

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Partially Implemented and Implemented - concluded

For clarification, while the judge did issue an Order and Decision, and the Board and University did take action to address that Order and Decision, the case is still pending in DeKalb County Circuit Court.

Updated Response: Implemented.

- 14. Review and update the disaster recovery plan at least annually or when significant changes occur. Perform and document tests of the disaster recovery plan at least once a year. In addition, continuously update the plan to reflect environmental changes and address any weaknesses identified from tests.**

Finding: The University did not adequately plan for the recovery of its applications and data. Auditors noted the University has not updated its Disaster Recovery Plan since calendar year 2013 and it did not accurately reflect the current information technology environment. In addition, recovery testing has not been performed since 2013.

University officials stated several personnel, including personnel responsible for maintaining the Plan, had departed the University and the University had not yet reassigned this responsibility.

Response: Accepted. The University has conducted a comprehensive review of each component of this finding and will take corrective action to define a team to review, update, and test its current disaster recovery plan.

Updated Response: Partially Implemented.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, “It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

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Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than three business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY17, the University filed two affidavits for emergency purchases totaling \$49,282.02 for short-term lease renewal.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time. Northern Illinois University indicated as of July 2017, the University had 127 employees assigned to locations other than official headquarters.

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YEAR ENDED JUNE 30, 2016

APPENDIX A

Summary of Appropriations and Expenditures and the Income Fund

<u>Appropriations</u>	<u>FY17</u>	<u>FY16</u>
General Revenue Fund	\$ 30,769,900	\$ 26,403,200
Educational Assistance Fund	60,322,800	-
State College and University Trust Fund	<u>36,000</u>	<u>36,000</u>
TOTAL APPROPRIATIONS	<u>\$ 91,128,700</u>	<u>\$ 26,439,200</u>
<u>Expenditures</u>		
<u>General Revenue Fund</u>		
Personal services	30,769,900	\$ 26,403,150
Contractual services	-	<u>50</u>
Total General Revenue Fund	<u>30,769,900</u>	<u>26,403,200</u>
<u>Education Assistance Fund</u>		
Personal services	56,712,962	-
Contractual services	68,538	-
CMS health insurance	<u>3,541,300</u>	<u>-</u>
Total Education Assistance Fund	<u>60,322,800</u>	<u>-</u>
<u>State College and University Trust Fund</u>	<u>\$ 22,575</u>	<u>20,975</u>
TOTAL EXPENDITURES FROM APPROPRIATIONS	<u>\$ 91,115,275</u>	<u>\$ 26,424,175</u>
Income Fund Revenues	\$ 151,468,472	\$ 165,747,764
<u>Income Fund Expenses</u>		
Personal Services	106,084,907	128,015,872
FICA/Medicare	2,184,487	3,062,839
Unemployment compensation benefits	38,430	35,337
Group insurance	2,514,895	3,541,300
Contractual services	34,010,482	39,440,874
Travel	1,119,544	471,149
Commodities	2,246,567	2,651,375
Equipment and library books	5,369,618	5,586,783
Telecommunications	96,070	1,023,959
Automotive	535,103	302,555
Award/grants and matching funds	5,445,382	8,617,175
Permanent improvements	363,296	1,023,690
Transfers out for non-revenue bond debt service	<u>6,948,863</u>	<u>6,275,728</u>
Expense Subtotal	<u>\$ 166,957,644</u>	<u>\$ 200,048,636</u>

Appx A - continued

GASB No. 35 Adjustments

Depreciation Expense	1,403,954	4,225,354
Capital asset additions/disposals	<u>(7,285,144)</u>	<u>(2,621,962)</u>

GASB No. 35 Adjustments Total **(5,881,190)** **1,603,392**

Total Income Fund Expenses **161,076,454** **201,652,028**

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APPENDIX B

Current Funds
Statement of Revenues, Expenses, and Changes in Net Position

	FY17	FY16
<u>Revenues</u>		
Operating revenues		
Tuition & Fees	\$ 127,256,000	\$ 138,598,000
Federal & State grants & other contracts	24,770,000	25,090,000
Private gifts, grants & contracts	4,593,000	4,869,000
Sales & services of educational activities	28,805,000	29,676,000
Other sources	2,971,000	2,269,000
Auxiliary enterprises	87,173,000	92,460,000
Total Revenues	275,568,000	292,962,000
<u>Expenses</u>		
Operating expenses		
Instruction	202,903,000	197,293,000
Research	18,198,000	18,614,000
Public service	26,122,000	23,600,000
Academic support	42,486,000	42,570,000
Student services	31,039,000	24,514,000
Operation & maintenance of plant	28,123,000	29,399,000
Depreciation	25,052,000	27,562,000
Institutional support	54,720,000	47,685,000
Student aid	36,865,000	39,145,000
Auxiliary enterprises	93,731,000	97,040,000
Total operating expenses	559,239,000	547,422,000
Net Operating (loss) gain	(283,671,000)	(254,460,000)
Nonoperating Revenues (Expenses)		
State appropriations - general	48,316,000	26,424,000
State appropriations - on behalf payments	179,204,000	158,477,000
Build America Bonds subsidy	3,235,000	3,290,000
Net Investment income	1,988,000	1,612,000
Pell Grants	26,536,000	29,284,000
Federal Supplemental Educational Opportunity Grant (FSEOG)	835,000	837,000
State of IL Monetary Award Program (MAP)	8,660,000	9,760,000
Interest expense	(23,314,000)	(23,635,000)
Net Operating revenues	245,460,000	206,049,000
Loss before other revenue, gains, or losses	(38,211,000)	(48,411,000)

Appx B - continued

Other Revenues and Gains (Losses)

State appropriations - capital	6,995,000	1,823,000
Gifts and contributions	736,000	836,000
Gain (loss) on Disposal of capital assets	<u>79,000</u>	<u>(466,000)</u>
(Decrease) Increase in Net Position	(30,401,000)	(46,218,000)
Net Position, Beginning of Year	225,238,000	271,456,000
Net Position, End of Year	<u>\$ 194,837,000</u>	<u>\$ 225,238,000</u>

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APPENDIX C

Summary of Property and Equipment

	<u>FY17</u>	<u>FY16</u>
Balance, July 1	\$ 1,077,525,591	\$ 1,066,763,405
Additions	20,536,905	17,485,720
Transfers	-	-
Deductions	(14,084,779)	(6,723,534)
Total additions	1,083,977,717	1,077,525,591
 *Represented by:		
Land	19,280,619	19,280,619
Land Improvements	83,897,233	83,663,913
Buildings	671,307,143	673,096,130
Leasehold Improvements	431,320	-
Equipment	254,860,696	260,008,473
Intangible assets	3,820,547	3,820,547
Construction in progress	50,380,159	37,655,909
Balance, June 30	\$ 1,083,977,717	\$ 1,077,525,591

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APPENDIX D

Summary of Funds Provided by and to the Foundation

	<u>FY17</u>	<u>FY16</u>
Funds/Services provided by the University	\$ 1,149,081	\$ 1,273,000
Funds provided to the University		
Funds considered unrestricted for Guidelines purposes:		
Totally unrestricted - administrative services	644,207	658,746
Administrative & office expense	1,045,336	862,357
Restricted only as to campus, college, or department and generally available for ongoing University operations	5,172,417	5,263,111
Provided for library books, equipment, and improvements	77,075	20,029
Total funds considered unrestricted	6,939,035	6,804,243
Funds Considered restricted for guidelines purposes:		
Provided for Scholarships & awards	2,670,145	2,785,359
Provided for library books, equipment, and improvements	37,857	41,344
Other restricted funds provided to the University:		
Restricted Fund	1,347,403	1,255,146
Endowment Fund	665,269	596,404
Total funds considered restricted	4,720,674	4,678,253
Total funds provided to the University by the Foundation	\$ 11,659,709	\$ 11,482,496

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APPENDIX E

Tuition and Fee Waivers

	<u>FY17</u>	<u>FY16</u>
<u>Mandatory Waivers</u>		
Teacher/Special Education	\$ 770,300	\$ 738,000
General Assembly	-	8,000
ROTC	384,600	301,000
DCFS	244,700	239,000
Children of Employees	578,700	595,000
Senior Citizens	21,600	9,000
Veterans Grant-Scholarship	3,381,500	-
Total Mandatory Waivers	\$ 5,381,400	\$ 1,890,000
<u>Discretionary Waivers</u>		
Faculty/Administrative	\$ 506,400	\$ 531,000
Civil Service	528,300	580,000
Academic/Other Talent	3,880,700	3,235,000
Athletic	1,726,500	1,467,000
Gender Equity in Intercollegiate Athletics	1,569,600	1,644,000
Foreign Students	182,600	257,000
Cooperating Professionals	1,024,500	1,154,000
Research Asst	2,738,200	-
Teaching Asst	5,689,100	-
Graduate Asst	-	9,211,000
Interinstitutional/Related Agencies	69,500	72,000
Retired University Employees	35,200	39,000
Children of Deceased Employees	29,000	43,000
Student Need-Special Program	17,600	20,000
Other Assistants	1,547,500	1,757,000
Fellowships	45,600	89,000
Contract/Training Grants	723,600	960,000
Total Discretionary Waivers	\$ 20,313,900	\$ 21,059,000
Grand Total	\$ 25,695,300	\$ 22,949,000