LEGISLATIVE
AUDIT
COMMISSION

Review of
Northeastern Illinois University
Year Ended June 30, 2014

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REVIEW: 4439
NORTHEASTERN ILLINOIS UNIVERSITY
YEAR ENDED JUNE 30, 2014

FINDINGS/RECOMMENDATIONS - 15

ACCEPTED - 3
ACCEPTED AND PARTIALLY IMPLEMENTED - 4
IMPLEMENTED - 8

REPEATED RECOMMENDATIONS - 8

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 14

This review summarizes the reports on Northeastern Illinois University for the year ended June 30, 2014, filed with the Legislative Audit Commission on January 29, 2015. The auditors performed a financial and compliance audit in accordance with State law and the requirements of the federal Single Audit Act and OMB Circular 133. The auditors stated that the financial statements were fairly presented.

Northeastern Illinois University's mission, with locations throughout Chicago, is to provide an exceptional environment for learning, teaching and scholarship and prepare a diverse community of students for leadership and service in the region and in a dynamic multicultural world.

Dr. Sharon K. Hahs is the current President of the University. Dr. Hahs became President in February 2007. She was not previously employed by the University.

General Information

Following is a summary of net assets of the University:

	At June 30	
	FY14	FY13
Current assets	$ 84,089,000	$ 91,657,000
Restricted cash & cash equivalent	8,869,000	15,885,000
Restricted investment	1,080,000	1,342,000
Receivables, net	2,325,000	2,454,000
Bond issue costs	-	1,353,000
Capital assets, net	145,514,000	120,847,000
Other assets	503,000	552,000
Total	**$ 242,380,000**	**$ 234,090,000**

The average number of employees at the University during FY14 and FY13 was as follows:

	FY14	FY13
Administration	327	323
Faculty	560	601
Civil Service	601	598
Students	399	430
TOTAL	**1,887**	**1,952**

Enrollments of both undergraduate and graduate students for each term (including extension centers and part-time students) for FY14 and FY13 were as follows:

	2013-14	2012-13
Fall	10,821	11,149
Spring	9,703	10,276
Summer	4,589	4,771

Using the above enrollment data, in FY14 the University had an average full-time equivalent enrollment of 7,477 students, comprised of 6,420 undergraduates, and 1,057 graduate students. This compares to a total full-time equivalent enrollment of 8,004 in FY13 and 8,473 in FY12.

The University's cost per full-time equivalent undergraduate student was $11,166 in FY14 compared to $9,622 in FY13. The cost per full-time equivalent graduate student was $16,056 in FY14 compared to $13,162 in FY13.

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of $37,847,400 to Northeastern Illinois University in FY14. Total expenditures from appropriations were $37,847,400 in FY14, and $37,807,600 in FY13. In FY14, NEIU received $58 million from the Income Fund. Expenditures from the Income Fund totaled $60.9 million, leaving a year-end fund balance of $55.8 million. 2014 was the first year since 2006 that the University expenditures from the Income Fund exceeded Income Fund revenues.

Revenues and Expenses

The table appearing in Appendix B presents a statement of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013. Revenues were $186,274,000 as of June 30, 2014 compared to $190,639,000 in FY13. The following chart indicates the source of revenue and percent of the total during FY14 and FY13:

Revenues	FY14	FY13
Tuition & Fees	26%	29.2%
State Appropriation	20%	20.2%
On Behalf Payments	26%	26.7%
Other Revenues	15%	10.7%
Grants & Contracts	11%	11.3%
Auxiliary Activities	2%	1.9%

Operating expenses during FY14 totaled $181,964,000, with net position increasing from $152.9 million in FY13 to $155 million in FY14. Expenses during FY14 and FY13 as a percent of the total were as follows:

Expenses	FY14	FY13
Instruction	44%	46.3%
Public Service	8%	9.3%
Institutional Support	11%	9.0%
Plant Maintenance & Operation	9%	8.8%
Student Services & Programs	10%	9.3%
Academic Support	6%	6.3%
Auxiliary, Depreciation, Other	12%	11%

Receivables

Appendix C summarizes the University's receivables for FY14 and FY13. The University's receivables (net of allowance for doubtful accounts) totaled $21,214,273 in FY14. Total receivables (net) totaled $24.6 million one year earlier. Receivables decreased $3.4 million, or 13.8% in FY14, compared to FY13. Other receivables consist primarily of amounts due from State appropriation, parking fines, library fines and miscellaneous receivables. The significant decrease in other receivables was due to the decrease in appropriation receivables.

Property and Equipment

Appendix D summarizes the changes in property and equipment. The ending balance in FY14 was $255,222,140 compared to $233,325,340 in FY13. Much of the increase was due to construction in progress.

Funds Provided by and to the Foundation

Appendix E provides a summary of funds provided by and to the Foundation. During FY14, the University provided $133,134 in services to the Foundation. As required by the contract, the Foundation repaid the University and gave the University funds of $615,452 in FY14. This compares to $641,548, which the Foundation provided to the University in FY13.

Tuition and Fee Waivers

During FY14, Northeastern Illinois University granted $4,742,100 in tuition and fee waivers, which compares to $4,878,400 granted in FY13. In FY14, Northeastern Illinois University granted $1.6 million in waivers mandated by statute, and $3.1 million in waivers which are discretionary. The largest categories of FY14 waivers were for academic scholarships, veterans and foreign exchange students. Appendix F provides a summary of the tuition waivers granted in FY14 and FY13.

Accountants' Findings and Recommendations

Condensed below are the 15 recommendations, eight repeated, presented in the audit reports. The following recommendations are classified on the basis of information provided by Michael Pierick, Vice President for Finance and Administration, Northeastern Illinois University, in a memo received via email on June 19, 2015.

Accepted or Implemented

1. **Implement procedures to ensure that all accrued liabilities are properly identified and recorded in the University's accounting records in order to facilitate accurate financial reporting.**

Finding: Northeastern Illinois University (University) has not established adequate internal controls over identifying and recording accrued liabilities for financial reporting purposes.

Subsequent to the release of the University's financial statements for the year ended June 30, 2013, University management determined that expenses and the related liability for employees who had completed their contracted services as of June 30, 2013, but had not received final payment for these services, had not been properly recorded. Consequently, University management recorded a prior period adjustment to correct this error. The adjustment reduced unrestricted net position as of June 30, 2013 by $2,832,752 for the unrecorded liability as of that date.

University management indicated that the University had historically recorded the salaries in question in the months in which faculty was paid, instead of when the compensation was earned, inadvertently failing to follow accrual basis for accounting in this situation. Specifically, for faculty on a 9-month contract who were paid over 12 months, the compensation that they were paid in July and August was recorded in the new fiscal year even though it was earned in the previous fiscal year.

Updated Response: Implemented.

2. **Implement procedures to ensure that the historical cost of capital assets is properly calculated and recorded in the University's accounting records in order to facilitate accurate financial reporting.**

Finding: The University has not established adequate internal controls over recording the historical cost of capital assets.

Subsequent to the release of the University's financial statements for the year ended June 30, 2013, University management determined that net interest cost incurred on borrowed funds during the period of construction of capital assets through June 30, 2013 had incorrectly been charged to expense rather than properly capitalized as a component of the cost of acquiring those assets. Consequently, University management recorded a prior period adjustment to correct this error. The adjustment recorded by the University increased net position as of June 30, 2013 by $439,138 for the cumulative capitalized interest costs as of that date.

University management indicated that during the course of the 2014 audit, the University determined that net interest cost incurred on borrowed funds during the period of construction of capital assets should be capitalized. The University was aware of the standards and applied the provisions of FASB 34 to the best of its interpretation. Later in the audit, after the GAAP package was submitted, the University was made aware of additional applicable standards in GASB 62.

Updated Response: Accepted and Partially Implemented. The technical correction was quickly completed. To prevent a recurrence, the University will encourage and support a program of continuing education of its professional accounting staff. The Controller's office staff, particularly those involved in the generation and preparation of financial statements, will attend and participate in seminars, webinars and training programs for professional development and industry updates. This is in progress. The University will also work closely with the State Comptroller's office and the external auditors for updates on new pronouncements and regulations affecting the financial statements of the University.

3. **Implement procedures to ensure that financial reporting is in accordance with accounting principles generally accepted in the United States of America.**

Finding: The University did not properly apply Generally Accepted Accounting Principles (GAAP) in the preparation of its financial statements. Auditors noted the following financial statement matters:

Accepted or Implemented – continued

- In implementing the provisions of Governmental Accounting Standards Board (GASB) Statement 65 Items Previously Reported as Assets and Liabilities, the University erroneously wrote off premiums and discounts related to outstanding debt obligations totaling $166,954 and $59,699, respectively.

- The originally submitted financial statements reflected a negative net position of $738,235 as restricted for capital projects.

With regard to the University's implementation of GASB 65, University management indicated that it based its initial interpretation on the GASB's guideline which states: "…debt issuance costs include all costs incurred to issue the bonds, including but not limited to insurance costs, financing costs, and other related costs." This statement made no reference to premiums and discounts, as such; initially the University included these items as part of debt issue costs.

With regard to the negative net position, University management indicated that the University's initial statement presentation for June 30, 2014 was based on past year calculations which made the balances of negative net position for restricted capital projects comparable to prior years. In the fiscal year ended June 30, 2014, due to GASB 65 implementation, debt issue costs were written off and consequently changed this year's net position balances.

Updated Response: Accepted and Partially Implemented. The technical correction was quickly accomplished. To prevent a recurrence, the University will encourage and support a program of continuing education of its professional staff. The Controller's office staff, particularly those involved in the generation and preparation of financial statements, will attend and participate in seminars, webinars and training programs for professional development and industry updates. This is in progress. The University will also work closely with the State Comptroller's office and the external auditors for updates on new pronouncements and regulations affecting the financial statements of the University.

4. Properly reconcile the cash balance for the Federal Direct Loan Program on a monthly basis and maintain sufficient documentation to support the performance of the reconciliation procedures.

Finding: The University did not reconcile its cash balance for the Federal Direct Loan Program on a monthly basis.

During testing of program compliance requirements, auditors requested monthly reconciliations of the University's Direct Loan records to the ending cash balance on the School Account Statements (SAS) provided by the Common Origination and Disbursement (COD) System. Although the University was able to provide evidence that it had separately analyzed components of the SAS, the University could not provide us with consistent documentation of reconciliation of the cash balance to University records.

University officials indicated that while the University reconciled the direct loans as required, it failed to assure that its documentation properly and consistently demonstrated the comparison of records from month to month.

Updated Response: Implemented.

5. Review procedures to ensure that the TRIO program information is being accurately reported. (Repeated-2013)

Finding: The University did not accurately report on the participants of the TRIO program cluster in the program's annual performance report. In testing of reported performance data for 40 TRIO program participants, auditors noted the following errors:

- Two eligible participants were reported under incorrect eligibility classifications.
- One participant's enrollment date at the University was reported incorrectly.

University officials stated that this finding was due to data entry errors by new staff who were being trained. The TRIO Director was in the process of training new staff to replace her duties after retirement, including collecting and reporting data to the Annual Performance Report. Errors were made in this training period.

Updated Response: Implemented.

6. Improve procedures over the notification of student financial aid awards to ensure that students are notified timely.

Finding: Northeastern Illinois University (the "University") did not provide notification to a student of a financial aid award prior to disbursement.

During testing of 40 students that received financial aid, auditors noted the University was unable to provide documentation that substantiated one student had received notification of their awards prior to disbursing funds to the student's account.

University officials stated that the notification of the Direct Loan Award is generated by the "NEIUWorks Workflow" system. Despite working with the University's technology department, the Financial Aid Office was unable to extract a copy of the actual notification for one student.

Updated Response: Implemented.

Accepted or Implemented – continued

7. Improve procedures over the awarding of student financial aid to ensure that awards are made accurately. (Repeated-2010)

<u>Finding:</u> The University did not have adequate controls in place over the awarding of student financial aid.

Through testing of 40 students that received federal student financial aid, auditors noted one student received excess subsidized Direct Loan monies totaling $500.

University officials stated that the student in question registered for a course twice, and the automated budgeting process did not update after this double registration. Once the duplicate course was removed, the over-award was corrected by staff.

<u>Updated Response:</u> Implemented.

8. Review procedures to ensure that unearned Title IV funds are identified and returned within required timeframes. (Repeated-2010)

<u>Finding:</u> The University did not determine or return the unearned portion of Title IV aid provided to all students who withdrew from the University resulting in noncompliance with federal regulations.

In testing of 42 refunds of unearned Title IV aid, auditors noted two refunds totaling $93 that were not returned within 45 days of the school determining the student withdrew.

University officials stated that this finding was due to oversight and entering of an incorrect amount on behalf of staff member.

<u>Updated Response:</u> Implemented.

9. Review procedures to ensure compliance with Perkins loan past due notification requirements.

<u>Finding:</u> The University did not mail out Perkins loan past due notices to students in a timely manner. Through testing of seven Perkins loans going into default during the year, auditors noted the University did not notify five students of their delinquency within the required time frame.

University officials stated that a staff member was being trained on new duties of notification to students who are federal Perkins loans borrowers. Through this process, a number of notifications were not completed. Proper internal controls were not in place to catch this oversight.

Updated Response: Implemented.

10. Review internal policies and procedures regarding the timely completion of signed statements on abused and neglected child reporting and ensure employees comply with the requirements of the Statute. (Repeated-2013)

Finding: The University did not have adequate policies in place to obtain and retain signed statements to acknowledge that employees understand the reporting requirements under the Abused and Neglected Child Reporting Act. During testing of 50 employees of the University, auditors noted that 15 did not have a signed form or proof of a completed training.

University officials stated that extensive efforts were made to ensure compliance with the new Abused and Neglected Child Reporting Act training requirement, yet a minority of current employees ignored the various requests from University administrators to complete the training. Additionally, a small percentage of new employees did not submit a signed compliance form during orientation.

Updated Response: Accepted and Partially Implemented. More effective follow up is needed to ensure stronger compliance with the new Abused and Neglected Child Reporting Act training requirement. Email reminders will be followed up with phone calls to those employees not in compliance. It is especially important to enlist Academic Affairs to assist with these calls to ensure faculty compliance. Since most of the noncompliance was from faculty, the calls will help promote stronger compliance. Additionally, the Director of Affirmative Action, Equal Opportunity, and Ethical Compliance now has a role in overseeing compliance and that involvement will help to stress the importance of faculty responsiveness.

11. Continue to review and monitor internal policies and procedures regarding the timely completion of background checks, and complete all required background checks in accordance with the Statute. (Repeated-2013)

Finding: The University did not have adequate controls in place for required background checks to be conducted prior to employment for those employees listed in security sensitive positions.

Auditors selected 21 employees listed in security sensitive positions for testing and noted that background checks were not completed for 4 of the 21 selected.

University officials stated the University's new Background Check Policy was not finalized and implemented until Fall 2014, which resulted in some Checks not being completed.

Updated Response: Accepted and Partially Implemented. The University will fully implement its background check policy, which includes protocol to assure that all required background checks are completed in accordance with the Statute. Better compliance from

Accepted or Implemented – continued

new faculty is critical, as is support from Academic Affairs. This is unfortunately likely to lead to a repeat finding for FY15.

12. Comply with statute by ensuring the timely performance of audits over all major systems. (Repeated-2013)

Finding: The University's internal auditing program did not review all major systems within the required time frame.

In testing of the University's internal audit program, auditors noted that the University had not audited all major systems of internal accounting and administrative control within the required two-year timeframe. Specifically, the audit of grants and contracts had not been performed since FY11.

University officials stated that the University experienced internal audit resource constraints related to an increase in the number and scope of internal audits, reviews and reports. Such constraints resulted in this report not being finalized. This report is now in progress and due for completion June 30, 2015 which is in accordance with the current two-year Internal Auditing Plan, FY 2014 through 2015.

Updated Response: Implemented.

13. Amend policies to require all employees to submit time reports in compliance with statute. (Repeated-2005)

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

Based on detailed testing of 75 employees' timesheets, auditors noted that 22 employees were not required to file timesheets.

University officials stated that the University currently requires time reports from all hourly and administrative employees. While progress was made to draft policies and procedures for faculty time sheets, this has not yet been implemented.

Updated Response: Accepted. The University is implementing timesheet reporting for full time faculty at the beginning of the 2015-16 academic year in August, following successful negotiations with the faculty union to develop an acceptable means of tracking and reporting faculty time spent on state business. That new faculty contract was finalized in April, and we are now ready for August.

14. Adhere to procedures to ensure that property and equipment records are accurately maintained and updated.

Finding: The University did not have adequate controls over its property and equipment.

In testing to physically identify 50 items listed in the property records, 5 items with a total cost of $6,059 were disposed of or scrapped or missing and the locations were not updated in the property records. Four items were listed in the system as disposed in the fixed asset system, but were located during procedures. No Property Change Notice (PCN) forms were prepared to support the changes in location.

University officials stated that it was previously determined that when the Acoustical Panels were labeled, the labels ended up hidden from view once the Panels were installed. Neither dissembling the Panels nor affixing new Fixed Asset numbers was considered reasonable alternatives, so these were left as is. For the other equipment, Property Change Notices were not completed as required by departments. Many departments were in the middle of doing their Inventory Certification when the audit sampling was completed.

Updated Response: Accepted. Property Control will continue to work with departments and their financial managers to help improve the accuracy of their inventory. Departments already have access to the database where they can review their current, to date, inventory and correct any inaccuracies. We are reviewing the equipment receiving process to determine if it is possible to require departments to receive their equipment at the loading dock when it arrives. And we are trying to discover a systematic method for matching procurement records to department equipment records. However, this will likely be a repeat finding for FY15.

15. Review and update disaster plan at least annually or when significant changes occur. Perform and document tests of the plan at least once a year. In addition, continuously update the plan to reflect environmental changes and improvements identified from tests. (Repeated-2013)

Finding: The University did not have a current disaster recovery plan and formal recovery testing had never been performed.

Based on a review of University procedures and inquiry of University personnel, auditors noted that computer system backups were being performed by University personnel and stored at a site separated from the computing facility. However, the University lacked a written disaster recovery plan and had not formally tested its backups to assure the University's critical systems could be recovered within an acceptable timeframe.

University officials stated that the primary cause has been the lack of IT resources to implement the disaster recovery method to enable a plan. Furthermore, the University has made progress in implementing a method, but critically need database administrator resources to complete it.

Accepted or Implemented – concluded

<u>Updated Response:</u> Accepted. NEIU has established the basic requirements and approach to implement the initial stage of disaster recovery which includes the ability to bring up Banner (Internet Native Banner component) at the new El Centro facility. We have also purchased necessary hardware and put in place a robust network between the sites. And we have hired a senior database administrator to oversee ongoing database replication, testing, and recovery. Data logs confirm that a full copy of the Enterprise Resource Program is being conducted, but the University has not fully tested recovery of the ERP from the clone following a shutdown of the ERP itself. That test requires bringing down the ERP for 3-1/2 days and is now scheduled for February, 2016.

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.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 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 FY14, Northeastern Illinois University filed two emergency purchases totaling $183,195 for repairs after a fire at the electricity cogeneration plant.

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.

Northeastern Illinois University indicated as of July 2015, there were no employees assigned to locations other than that at which their official duties require them to spend the largest part of their working time.