

NORTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois

Report Required Under
Government Auditing Standards

For the Year Ended June 30, 2021

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



WEALTH ADVISORY | OUTSOURCING
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NORTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
Government Auditing Standards Report
For the Year Ended June 30, 2021

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NORTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
Government Auditing Standards Report
For the Year Ended June 30, 2021

NORTHERN ILLINOIS UNIVERSITY

UNIVERSITY OFFICIALS

| | |
|--|---------------------|
| President | Dr. Lisa C. Freeman |
| Executive Vice President and Provost | Beth Ingram |
| Vice President for Administration and Finance and Chief Financial Officer | Sarah Chinniah |
| Associate Vice President for Finance and Treasury | Shyree Sanan |
| Vice President for Research and Innovation Partnerships | Gerald Blazey |
| Vice President and General Counsel | Bryan Perry |
| Vice President for Enrollment Management, Marketing and Communications | Sol Jensen |
| Vice President for Outreach, Engagement and Regional Development | Rena Cotsones |
| Vice President for University Advancement | Catherine Squires |
| Director of Internal Audit | Danielle Schultz |

FINANCIAL STAFF

| | |
|-----------------------------|----------------|
| Controller | Jason Askin |
| Deputy Controller | Greg Martyn |
| Financial Reporting Manager | Kathy Marshall |

NIU BOARD MEMBERS

| | |
|-----------------|---|
| Chair | Dennis L. Barsema |
| Vice Chair | Eric Wasowicz |
| Secretary | Robert W. Pritchard |
| Trustee | Rita Athas John R. Butler Montel Gayles Veronica Herrero |
| Student Trustee | Aidan Shields |

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

NORTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
***Government Auditing Standards* Report**
For the Year Ended June 30, 2021

Summary

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

Based on their audit and the reports of other auditors, the auditors expressed unmodified opinions on the University's basic financial statements.

Exit Conference

The University waived an exit conference in a correspondence from Jason Askin, Controller, on April 15, 2022. The responses to the recommendations were provided by Jason Askin, Controller, in a correspondence dated April 22, 2022.



**INDEPENDENT AUDITORS' 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 Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Northern Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, fiduciary activities, and the aggregate discretely presented component units of Northern Illinois University, collectively a component unit of the state of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Northern Illinois University's basic financial statements, and we have issued our report thereon dated May 3, 2022.

Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on Northern Illinois University's financial statements. The financial statements of the Northern Illinois University Foundation and the Northern Illinois Research Foundation, component units of Northern Illinois University, were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control or compliance and other matters associated with these component units.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Illinois University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Frank J. Mautino
Auditor General, State of Illinois
and
Board of Trustees
Northern Illinois University

Internal Control Over Financial Reporting

Management of Northern Illinois University is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered Northern Illinois University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northern Illinois University's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Illinois University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2021-001 that we consider to be a material weakness.

Northern Illinois University's Response to the Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northern Illinois University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Illinois University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

CliftonLarsonAllen LLP

Oak Brook, Illinois
May 3, 2022

NORTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
CURRENT FINDINGS – GOVERNMENT AUDITING STANDARDS
For the Year Ended June 30, 2021

2021-001 Inadequate Internal Controls over Census Data

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

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiemployer plans. Finally, CMS' actuaries use census data for employees of the State's public universities provided by SURS along with census data for the other participating members which is provided by the State's four other pension plans to prepare the projection of the OPEB plan's liabilities.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS and CMS to its internal records to establish a base year of complete and accurate census data.
- After establishing a base year, the University had not developed a process to annually obtain from SURS and CMS the incremental changes recorded by SURS and CMS in their census data records and reconcile these changes back to the University's internal supporting records.

Based on information we obtained while performing our audit, we learned these deficiencies are pervasive across the public universities participating in SURS and across the State's agencies participating in one of the other four State pension plans, the State Employees' Retirement System of Illinois. These conditions significantly increase the risk there could be errors at one or more employers within the plans, and these errors could have a significant impact on SURS' and CMS' measurement of pension and OPEB liabilities, respectively.

In addition, we noted errors within CMS' allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by \$1,542,712 as of July 1, 2020.

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For the Year Ended June 30, 2021

Based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census data related to the University's active employees.

For employers where their employees participate in plans with multiemployer and cost-sharing features, the American Institute of Certified Public Accountants' Audit and Accounting Guide: State and Local Governments (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiemployer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

- 1) not a student employed on a less than full-time temporary basis;
- 2) not receiving a retirement or disability annuity from SURS;
- 3) not on military leave;
- 4) not eligible to participate in the Federal Civil Service Retirement System,
- 5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;
- 6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
- 7) not a patient in a hospital or home;
- 8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
- 9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
- 10) currently on lay-off status of not more than 120 days after the lay-off date;
- 11) not on an absence without pay of more than 30 days; and
- 12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the IRS's substantial presence test and (2) became an employee on and after July 1, 1991.

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

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In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

University officials indicated that additional time was required in order to perform a complete base year reconciliation of the SURS and CMS data used in the actuarial valuations. Additional time was also required to establish a process or procedure for performing a complete annual reconciliation for the incremental changes during the year with SURS and CMS.

Failure to ensure complete and accurate census data was reported to SURS could result in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the pension and OPEB balances, which could result in a material misstatement of these amounts. Finally, the allocation error involving one component unit in the OPEB plan resulted in misstatements within each employer's allocation, which resulted in a restatement at the University. (Finding Code No. 2021-001, 2020-001)

Recommendation

We recommend the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

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University Response

Accepted. The University currently has real time processes and procedures in place for processing certifications, changes, and terminations in the SURS and CMS systems. The University is currently in the process of completing an initial full reconciliation of the census data. The University will revise its current processes and procedures to include an annual reconciliation of the incremental changes to the census data from the prior valuation, ensuring that census data submitted to its pension and other postemployment benefits (OPEB) plans is complete and accurate.

NORTHERN ILLINOIS UNIVERSITY
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PRIOR YEAR FINDINGS NOT REPEATED
For the Year Ended June 30, 2021

None noted.

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