

# LEGISLATIVE AUDIT COMMISSION



Review of  
Northeastern Illinois University  
Year Ended June 30, 2012

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**REVIEW: 4399  
NORTHEASTERN ILLINOIS UNIVERSITY  
YEAR ENDED JUNE 30, 2012**

**FINDINGS/RECOMMENDATIONS - 12**

**ACCEPTED - 6  
IMPLEMENTED - 6**

**REPEATED RECOMMENDATIONS - 5**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 9**

This review summarizes the reports on Northeastern Illinois University for the year ended June 30, 2012, filed with the Legislative Audit Commission on February 28, 2013. 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:

	<b>At June 30</b>	
	<b>FY12</b>	<b>FY11</b>
Current assets	\$ 70,542,000	\$ 67,631,000
Restricted cash & cash equivalent	2,945,000	7,635,000
Restricted investment	1,359,000	1,347,000
Receivables, net	2,418,000	2,406,000
Bond issue costs	680,000	718,000
Capital assets, net	119,292,000	105,329,000
Other assets	428,000	-
<b>Total</b>	<b>\$ 197,664,000</b>	<b>\$ 185,066,000</b>

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The average number of employees at the University during FY12 and FY11 was as follows:

	<b>FY12</b>	<b>FY11</b>
Administration	331	302
Faculty	541	415
Civil Service	522	528
Students	521	277
<b>TOTAL</b>	<b>1,915</b>	<b>1,522</b>

Enrollments of both undergraduate and graduate students for each term (including extension centers and part-time students) for FY12 and FY11 were as follows:

	<b>2011-12</b>	<b>2010-11</b>
Fall	11,580	11,746
Spring	10,801	11,166
Summer	5,072	5,638

Using the above enrollment data, in FY12 the University had an average full-time equivalent enrollment of 8,473 students, comprised of 7,173 undergraduates, and 1,300 graduate students. This compares to a total full-time equivalent enrollment of 8,611 in FY11 and 8,500 in FY10.

The University's cost per full-time equivalent undergraduate student was \$9,265 in FY12 compared to \$8,397 in FY11. The cost per full-time equivalent graduate student was \$13,781 compared to \$11,627 in FY11.

**Expenditures From Appropriations**

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of \$40,228,500 to Northeastern Illinois University in FY12. Total expenditures were \$40,228,500 in FY12, compared to \$40,711,218 in FY11, which is a decrease of \$472,018, or 1.1%. In FY12, NEIU received \$62.1 million from the Income Fund. Expenditures from the Income Fund totaled \$47.3 million.

**Revenues and Expenses**

The table appearing in Appendix B presents a statement of revenues, expenses and changes in net assets for the years ended June 30, 2012 and 2011. Revenues stood at \$177,447,000 as of June 30, 2012 compared to \$171,855,000 in FY11. The following chart indicates the source of revenue and percent of the total during FY12 and FY11:

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<b>Revenues</b>	<b>FY12</b>	<b>FY11</b>
Tuition & Fees	31.7%	30.9%
State Appropriation	22.7%	23.7%
On Behalf Payments	22.0%	19.4%
Pell Grant	9.2%	11.6%
Other	14.4%	14.4%

Operating expenses during FY12 totaled \$163,265,000, with net assets increasing from \$129.9 million in FY11 to \$144.1 million in FY12. Expenses during FY12 and FY11 and percent of the total were as follows:

<b>Expenses</b>	<b>FY12</b>	<b>FY11</b>
Instruction	48.3%	46.1%
Public Service	7.7%	8.7%
Institutional Support	7.3%	8.7%
Plant Maint & Operation	9.4%	9.1%
Student Svcs & Programs	8.0%	7.6%
Other	19.3%	19.8%

**Receivables**

Appendix C summarizes the University's receivables for FY12 and FY11. The University's receivables (net of allowance for doubtful accounts) totaled \$22,620,798 in FY12. Total receivables (net) totaled \$26.5 million one year earlier. Receivables decreased \$3.9 million, or 14.9% in FY12, compared to FY11. 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 more timely reimbursement payments for payroll expenses from the State Comptroller.

**Property and Equipment**

Appendix D summarizes the changes in property and equipment. The ending balance in FY12 was \$225,667,280 compared to \$207,173,729 in FY11.

**Funds Provided by and to the Foundation**

Appendix E provides a summary of funds provided by and to the Foundation. During FY12, the University provided \$281,857 in services to the Foundation. As required by the contract, the Foundation repaid the University and gave the University funds of \$578,027 in FY12. This compares to \$393,932, which the Foundation provided to the University one year earlier.

## **Tuition and Fee Waivers**

During FY12, Northeastern Illinois University granted \$4,723,500 in tuition and fee waivers, which compares to \$4,990,800 granted in FY11. In FY12, Northeastern Illinois University granted \$1,401,800 in waivers mandated by statute, and \$3,321,700 in waivers which are discretionary. The largest categories of FY12 waivers were for academic scholarships, veterans and foreign exchange students. Appendix F provides a summary of the tuition waivers granted in FY12 and FY11.

## **Accountants' Findings and Recommendations**

Condensed below are the 12 recommendations, five repeated, presented in the audit reports. The following recommendations are classified on the basis of information provided by Mark Wilcockson, Vice President for Finance and Administration, Northeastern Illinois University, in a memo received via email on August 1, 2013.

### **Accepted or Implemented**

- 1. Implement procedures to ensure that refunds are processed timely and accurately in order to facilitate accurate financial reporting and to be in compliance with federal regulations. (Repeated – 2010)**

**Finding:** Northeastern Illinois University (University) did not properly identify all students who withdrew from the University. The University also did not determine or return the unearned portion of Title IV aid provided to all students who withdrew from the University resulting in inaccuracies in the amounts reported in their financial statements and noncompliance with federal regulations.

- In testing of unofficial withdrawal determinations over students receiving Title IV aid and who failed to receive a passing grade in any of their classes (473 students), auditors noted 18 students that received Title IV aid and should have been considered to have unofficially withdrawn from the University, but for which the University had not made this determination.
- In response to testing and inquiries, the University identified \$26,157 in unearned Title IV aid which should have been refunded to ED and for which the University has recourse against the students for payment.

Since the liability to ED had not been identified timely, the University's financial statements understated current liabilities for refundable grant revenues by \$26,157 and also understated student receivables, net of an allowance for doubtful accounts, by \$13,079. A proposed adjustment was deemed immaterial and not recorded by the University.

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- Furthermore, the University does not have adequate procedures in place to determine if a student began attendance in a payment period. This determination is necessary to correctly calculate the refundable amount of Title IV aid. Specifically, if an institution cannot document that a student began attendance in any class during the payment period, all Title IV grant or loan assistance provided to the student is considered unearned and should be refunded to ED instead of 50% if the recipient began attendance and withdrew.

The University's current process requests that University instructors notify the Registrar of students that do not attend at least one day of class. Based on inquiries of University management, this process is not mandatory and instructors may not always respond. Furthermore, unless the instructor specifically responds to the request, the student will be considered as having attended at least one day of class.

- In addition to the testing described above, auditors tested the calculation of unearned Title IV funds for 40 students who withdrew from the University and noted one student's refund was not calculated correctly resulting in a \$211 over-refund to ED. Furthermore, one student's return of Title IV funds was not refunded within the required 45-day time period.

University officials indicated that the conditions noted in this finding related to the timely refunding of Title IV aid were the result of a computer system error.

University officials stated that they believe the procedures in place to identify students who did not begin attendance are consistent with federal regulations regarding institutions that do not require the taking of attendance.

**Updated Response:** Accepted. The University engaged Financial Aid Services, Inc. to perform a focused assessment of our financial aid operations (conducted February 18-22, 2013). The purpose of the engagement was to review the problem areas and develop corrective action recommendations. The report and recommendations were provided to the University and the recommendations are being implemented.

## **2. Improve controls over financial reporting so that it can prepare an accurate Schedule of Expenditures of Federal Awards (SEFA).**

**Finding:** The University did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA). The University provided the auditors its "final" SEFA on September 18, 2012. In testing of the accuracy of the SEFA, the University had not identified federal programs included in the research and development (R&D) cluster.

University officials stated that the inaccuracy was due to a change in personnel responsible for the preparation and oversight of the SEFA.

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### Accepted or Implemented – continued

**Updated Response:** Implemented. The University has addressed the control issue by implementing the recommended corrective action. The University believes the finding has been corrected and will not be repeated.

### 3. Improve procedures over the awarding of student financial aid to ensure that students are awarded accurately. (Repeated-2010)

**Finding:** The University did not have adequate controls in place over the awarding of student financial aid. Through testing of 43 students that received federal student financial aid, auditors noted the following errors:

- For one student, an incorrect number of credit hours were used to calculate the budgeted cost of attendance.
- For one student, three months were used to calculate the summer budgeted cost of attendance instead of the approved 2 months.
- One student was eligible for an annual amount of \$6,000 in unsubsidized direct loans, but was initially awarded \$7,000. Of this over award, \$500 was paid to the student during the Fall 2011 semester. The University subsequently detected the over award, and corrected for it by subtracting it from the corrected Spring 2012 award.

University officials stated that the three instances identified above were random occurrences with three different causes. The first item was the result of a known programming error and an oversight in the workaround. The second item was the result of a student who, at time of certification, was only enrolled for the two-month mini summer session and later changed enrollment. Since there was no over award, the advisor failed to make the adjustment. In the third instance, the Loan Officer failed to follow appropriate procedures.

**Updated Response:** Accepted. The University engaged Financial Aid Services, Inc. to perform a focused assessment of our financial aid operations (conducted February 18-22, 2013). The purpose of the engagement was to review the problem areas and develop corrective action recommendations. The report and recommendations were provided to the University and the recommendations are being implemented.

### 4. Review controls over the verification process to ensure that all students are awarded the correct amount of financial aid. (Repeated-2011)

**Finding:** The University did not properly perform required verification procedures for students receiving financial aid. Through testing of the verification procedures performed on 57 students, auditors noted errors affecting eight students as follows:

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- One student had an amount listed on the federal tax return that was excluded from the expected family contribution (EFC) calculation, and the wrong budget was used for this student. This resulted in a reduction of the EFC by \$4,611.
- One student had taxes paid included in the EFC calculation, which were not applicable. The EFC calculation did not change.
- One student had an amount excluded from the EFC calculation that was listed on the federal tax return. This resulted in an increase in EFC of \$42.
- One student had an amount excluded from the EFC calculation that was included on the federal tax return. This resulted in an increase of the EFC by \$220.
- One student had an EFC calculated from a foreign tax return. The tax return was not converted to U.S. dollars and therefore the EFC was calculated based on the foreign currency. The EFC calculation did not change.
- One student had an amount excluded from the EFC calculation that was on the federal tax return. This resulted in an increase in EFC of \$167.
- Two students had an incorrect family household size used in the EFC calculation. One student's EFC did not change as a result of the correct calculation. The other student had a decrease in EFC of \$869.

None of the errors described above resulted in an over award of financial aid.

University officials stated that the errors noted above were random and were due to the volume of transactions processed by the financial aid office.

**Updated Response:** Accepted. The University engaged Financial Aid Services, Inc. to perform a focused assessment of our financial aid operations (conducted February 18-22, 2013). The purpose of the engagement was to review the problem areas and develop corrective action recommendations. The report and recommendations were provided to the University and the recommendations are being implemented.

### **5. Review procedures to ensure that the ending cash balance per the Direct Loan Cash Summary is being reconciled on a monthly basis. (Repeated-2011)**

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

**Accepted or Implemented – continued**

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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 a documented reconciliation of the cash balance to University records.

University officials stated that the Financial Aid Office reviews the draw downs and reconciliations from the Finance Office and compares these with the SAS. Any discrepancies are resolved by the Loan Officer reviewing specific direct loan files. These actions are being performed. The cause of this finding is process documentation and improvements must be made in documenting procedures and reconciliations made between the Financial Aid Office and the Finance Office.

**Updated Response:** Implemented. The University has addressed the control issue by implementing the recommended corrective action. The University believes the finding has been corrected and will not be repeated.

### **6. Review procedures to ensure that approval for required locations is obtained prior to the disbursement of Title IV funds.**

**Finding:** The University awarded student financial aid to students at an unapproved location. Auditors noted that one location (El Centro) in which a student can complete more than 50% of a degree program and receive student financial aid, was not approved by the Department of Education.

University officials stated that this is an oversight. The program at El Centro has expanded to the point where it could be possible for someone to complete 50% of their degree at that facility. El Centro has since been added to the Program Participation Agreement.

**Response:** Implemented. This finding has been addressed and the recommendation implemented.

### **7. Review procedures to ensure that Title IV funds are applied correctly to student accounts and to ensure that credit balances are refunded within required timeframes.**

**Finding:** The University did not refund credit balances on student accounts within the required 14-day period. Through testing of 43 students, auditors noted that one student did not have their credit balance refunded within 14 days of the credit occurring.

University officials stated that this occurred because these funds were applied originally, in error, to the student's forthcoming fall term account balance. Bursar Services noted this error in the Banner Application of Payments process and reversed this action, correctly leaving the student with a credit balance in the term for which the funds were originally

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intended. Upon doing so a refund was promptly processed for this student, but 36 days had elapsed at this time. To prevent any future occurrence Bursar Services has thoroughly reviewed and updated the Application of Payments process.

**Updated Response:** Implemented. The University has addressed the control issue by implementing the recommended corrective action. The University believes the finding has been corrected and will not be repeated.

**8. Review procedures to ensure compliance with Direct Loan exit counseling requirements.**

**Finding:** The University was not in compliance with the Federal Direct Loan Program exit counseling requirements.

Through testing of 11 students that required Direct Loan exit counseling, auditors noted that one student did not complete the required exit counseling online, nor did the University notify the student within the required 30-day time frame of when the school first became aware that the student withdrew. The University notified the student by mail; however, the letter was mailed five days late.

University officials stated that this was an oversight by the Financial Aid advisor for this particular student.

**Updated Response:** Accepted. The University engaged Financial Aid Services, Inc. to perform a focused assessment of our financial aid operations (conducted February 18-22, 2013). The purpose of the engagement was to review the problem areas and develop corrective action recommendations. The report and recommendations were provided to the University and the recommendations are being implemented.

**9. Review procedures to ensure compliance with enrollment status reporting regulations under the Direct Loan program.**

**Finding:** The University did not submit changes in the enrollment status of borrowers under the Federal Direct Loan program within required timeframes.

Through testing of 31 students that received direct loans, auditors noted one student whose status change under the Direct Loan program was inaccurately reported to the National Student Loan Data System (NSLDS) as full-time rather than as withdrawn status. Upon further review, this item relates to a student whose withdrawal was not processed until after the last status update in Spring 2012.

**Accepted or Implemented – concluded**

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University officials stated that this was an oversight. The student was internally reported as an unofficial withdrawal but the National Student Clearinghouse database was not updated with this information.

**Response:** Accepted.

**10. Review procedures to ensure compliance with cash management regulations.**

**Finding:** The University made some federal cash draws in excess of amounts paid out for program purposes.

Based on testing of 21 federal funding draws for programs on the reimbursement funding method, auditors noted the excess of the draws over the amounts already paid out for program purposes totaled the following for those programs tested as major programs:

- TRIO Cluster \$398,190
- Gear Up \$1,270,648
- Higher Education – Institutional Aid \$337,854

The excess drawdowns were corrected by the University in the month following the draws.

University officials stated that the condition noted above was due to oversight. The University has procedures in place to assure that funds will not be drawn in advance of actual expenditures; however, the procedures were not followed in the instances noted above.

**Updated Response:** Implemented. The University has addressed the control issue by implementing the recommended corrective action. The University believes the finding has been corrected and will not be repeated.

In addition, the University submitted its revised procedure to the Department of Education and was informed by the Department that no additional action on the part of the University is necessary.

**11. 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 28 faculty members and nine graduate assistants were not required to file timesheets.

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University procedures did not require time reporting documenting the time spent each day on official State business to the nearest quarter hour to be submitted for faculty, instructors, and graduate assistants. The employees documenting time to the nearest quarter hour are administrative and professional, civil service, miscellaneous hourly, student aide, work study, and resource professionals.

University officials stated that the University currently requires time reports from all hourly employees and administrative staff. The time reporting requirement has not been implemented for faculty or graduate assistants.

**Response:** Accepted. The University is reviewing policies and faculty union agreements to comply with this requirement.

**12. Develop and approve an identity protection policy as required in the Identity Protection Act.**

**Finding:** The University failed to implement the provisions of the Identity Protection Act.

University officials stated that while a policy has not yet been approved, a draft of the policy has been created and is in the review process.

**Updated Response:** Implemented. The University has addressed the control issue by implementing the recommended corrective action. The University believes the finding has been corrected and will not be repeated.

**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 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 FY12, Northeastern Illinois University did not file any affidavits for emergency purchases.

### **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 13, 2012, 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.