



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

CHICAGO STATE UNIVERSITY

Financial Audit / Single Audit / Compliance Examination
 For the Year Ended June 30, 2016

Release Date: March 29, 2017

FINDINGS THIS AUDIT: 15	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2015		16-3, 16-4, 16-5, 16-6, 16-12, 16-14, 16-15	
Category 2:	5	10	15				
Category 3:	0	0	0				
TOTAL	5	10	15				
FINDINGS LAST AUDIT: 15					2011		16-1
					2009		16-11, 16-13

INTRODUCTION

This digest covers our Financial Audit, Single Audit and Compliance Examination of Chicago State University (University) for the year ended June 30, 2016. In total, this report contains 15 findings.

SYNOPSIS

- (16-01) The University did not properly account for accrued compensated absences.
- (16-02) The University did not properly account for its unearned revenue and grant receivables.
- (16-03) The University's Federal Perkins Loan cohort default rate is in excess of the threshold for administrative capability stipulated by the U.S. Department of Education.
- (16-04) The University did not prepare an accurate Schedule of Expenditures of Federal Awards and related notes.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on next page.}

CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT, SINGLE AUDIT, AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2016

INCOME FUND REVENUES AND EXPENDITURES	2016	2015
Income Fund Revenues		
Tuition Revenue.....	\$ 37,989,904	\$ 39,748,810
Laboratory Fee.....	200,925	204,535
Late Registration Fee.....	89,885	71,300
NSF Check Fee.....	1,145	2,065
Deferred Payment Fee.....	60,750	53,800
Graduation Fee - Undergraduate.....	31,125	31,340
Graduation Fee - Graduate.....	13,400	11,615
Transcript Fee.....	99,966	64,400
Application Fee.....	117,271	113,999
Interest Income.....	18,572	4,764
Miscellaneous Other Income.....	190,051	666,938
Total Income Fund Revenues.....	\$ 38,812,994	\$ 40,973,566
Income Fund Expenditures		
Personal Services.....	\$ 29,296,945	\$ 19,474,459
SURS Retirement.....	3,792	-
Social Security.....	1,789,343	885,641
Contractual Services.....	6,245,883	8,801,189
Travel.....	51,076	426,804
Commodities.....	504,103	1,135,022
Equipment and Library Books.....	203,245	1,437,476
Telecommunications.....	425,084	307,570
Operation of Automotive Equipment.....	29,787	44,499
Permanent Improvements.....	-	27,088
Awards, Grants, and Matching Funds.....	143,492	325,383
Tuition and Fee Waivers.....	3,048,994	3,472,692
Other Expenditures.....	202	329
Total Income Fund Expenditures.....	\$ 41,741,946	\$ 36,338,152
SUPPLEMENTARY INFORMATION (UNAUDITED)	2016	2015
Employment Statistics		
Faculty and staff.....	663	794
Students.....	247	231
Total Employees.....	910	1,025
Enrollment Statistics		
Head Count:		
Undergraduate.....	3,143	3,554
Graduate.....	1,299	1,264
Total Head Count.....	4,442	4,818
Total Cost Per Full-Time Equivalent.....	\$ 7,444	\$ 7,656
Credit Hours:		
Undergraduate.....	75,685	86,879
Graduate.....	28,294	27,976
Total Credit Hours.....	103,979	114,855
PRESIDENT		
During Audit Period: Dr. Wayne Watson (to 12-31-15), Dr. Thomas J. Calhoun (1-1-16 to 9-15-16)		
Current: Interim President - Mr. Cecil B. Lucy (9-16-16 to present)		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE ACCOUNTING OF ACCRUED
COMPENSATED ABSENCES**

The University did not properly account for accrued compensated absences.

We obtained the University's schedule of accrued compensated absences and selected a sample of 40 employees in order to test the accuracy of the accrual. Our testing noted 6 of 40 (15%) employees (1 coach and 5 grant funded employees) were not eligible for vested accrued leave but were included on the accrued leave schedule.

**Accrued compensated absences was
improperly reported by \$150,759**

Further testing revealed that an additional 5 coaches and 18 grant employees were included in the list. Total accrued compensated absences reported on the University's financial statements for all of the employees improperly included in the accrued compensated absences schedule totaled \$150,759. A proposed adjustment for this amount was not recorded by the University. (Finding 1, pages 17-18) **This finding has been repeated since 2011.**

We recommended the University improve its process to account for accrued leave to ensure records and reporting are accurate.

University agrees with the auditors

University officials agreed with the finding. *(For the previous University response, see Digest Footnote #1.)*

**NEED TO IMPROVE ACCOUNTING OF UNEARNED
REVENUE AND GRANT RECEIVABLES**

The University did not properly account for its unearned revenue and grant receivables.

During our review of the University's financial statements as of June 30, 2016, we noted the following:

**Unearned revenue and grant
receivables were overstated by
\$727,134 and \$101,279**

- The balance of unearned revenue and grant receivables in relation to the Douglas Hall renovation project from the Capital Development Board was overstated by \$727,134. It was also noted during the audit that other smaller grants had unearned revenue and grant receivable balances that were overstated by \$101,279. A proposed adjustment for these errors was not recorded by the University.
- Federal, state and private grants and contracts receivable details included credit balances totaling \$196,270 that should have been adjusted or

reclassified to other accounts such as unearned revenue for advance payments from both federal and private grants (\$154,044); prepaid expenses (\$3,955); accounts payable (\$8,929); grant revenue or expenses (\$29,323); and, allowance for doubtful accounts (\$19). A proposed adjustment for these errors was not recorded by the University. (Finding 2, pages 19-20)

We recommended the University ensure all transactions are properly accounted for and recorded in the financial statements in accordance with generally accepted accounting principles.

University agrees with the auditors

University officials agreed with the finding.

FEDERAL PERKINS LOAN COHORT DEFAULT RATE TOO HIGH

The University's Federal Perkins Loan cohort default rate is in excess of the threshold for administrative capability stipulated by the U.S. Department of Education.

Cohort default rate was 45.24%

The Federal Perkins Loan cohort default rate as of June 30, 2016 was 45.24% and was obtained from the University's Federal Perkins loan servicer.

Regulations require that the rate not exceed 15%

The Code of Federal Regulations (34 CFR 668.16) states "To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution – (m)(l) Has a cohort default rate – (iii) as defined in 34 CFR 674.5, on loans made under the Federal Perkins Loan Program to student for attendance at the institution that does not exceed 15 percent". (Finding 3, pages 21-22)

We recommended the University improve procedures to collect its Federal Perkins Loans made to students in order to continue participation in this program.

University agrees with the auditors

University officials agreed with the finding.

NEED TO IMPROVE THE CONTROLS OVER THE PREPARATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Inaccurate Schedule of Expenditures of Federal Awards

The University did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA) and related notes.

The University provided the auditors its "Final" SEFA on October 26, 2016. We tested the accuracy and completeness of the SEFA and related notes provided, and noted the

following:

\$51,731,277 of federal awards were not reported on the face of the SEFA as required

- Federal awards amount expended totaling \$51,731,277 during the fiscal year for two loan programs from the Department of Education were not reported on the face of the SEFA, as required.
- Two awards from the Department of Health and Human Services related to a program for providing education and training to eligible individuals on identified health care related professions were improperly classified under the Student Financial Assistance Cluster.
- Notes to the SEFA did not include a disclosure on whether or not the University elected to use the 10% de minimis cost rate during the fiscal year, as required. (Finding 4, pages 23-24)

We recommended the University improve its controls over federal awards to ensure preparation of an accurate SEFA and related notes.

University agrees with the auditors

University officials agreed with the finding.

OTHER FINDINGS

The remaining findings are reportedly being given attention by University officials. We will review the University's progress towards the implementation of our recommendations in the next financial audit, Single Audit, and compliance examination.

AUDITOR'S OPINIONS

The auditors stated the financial statements of the University as of and for the year ended June 30, 2016 are fairly stated in all material respects.

The auditors also conducted a Single Audit of the University as required by the Uniform Guidance. The auditors stated the University complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on the University's major federal programs for the year ended June 30, 2016.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the University complied, in all material respects, with the requirements described in the report.

This financial audit, Single Audit and compliance examination was conducted by E.C. Ortiz & Co., LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 – Inaccurate Accounting of Accrued Compensated Absences: The University agrees with the recommendation and will improve its process between the Office of Human Resources and Finance/Administration to ensure that the appropriate accrued leave is captured on the general ledger. We will further continue our practice to recoup any overpayment.