



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, 2017

Release Date: March 15, 2018

FINDINGS THIS AUDIT: 18	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	0	2	2016		17-7, 17-10	
Category 2:	8	8	16	2015		17-5, 17-6, 17-14, 17-15	
Category 3:	0	0	0	2009		17-11, 17-13	
TOTAL	10	8	18				
FINDINGS LAST AUDIT: 15							

INTRODUCTION

This digest covers our Financial Audit, Single Audit and Compliance Examination of Chicago State University (University) for the year ended June 30, 2017. In total, this report contains 18 findings.

SYNOPSIS

- (17-2) The University did not comply with its revenue bond covenants.
- (17-3) The University financial statements for the fiscal year ended June 30, 2017 contained inaccuracies.
- (17-5) 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.
- (17-10) The University did not have adequate controls over its contractual service expenditures.
- (17-14) The University failed to comply with the Fiscal Control and Internal Auditing Act, International Standards for the Professional Practice of Internal Auditing, and State of Illinois Internal Audit Advisory Board Bylaws.

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, 2017

INCOME FUND REVENUES AND EXPENDITURES	2017	2016
Income Fund Revenues		
Tuition Revenue.....	\$ 30,604,092	\$ 37,989,904
Laboratory Fee.....	146,782	200,925
Late Registration Fee.....	57,500	89,885
NSF Check Fee.....	1,215	1,145
Deferred Payment Fee.....	47,100	60,750
Graduation Fee - Undergraduate.....	23,650	31,125
Graduation Fee - Graduate.....	16,480	13,400
Transcript Fee.....	89,313	99,966
Application Fee.....	60,841	117,271
Interest Income.....	65,133	18,572
Miscellaneous Other Income.....	102,216	190,051
Total Income Fund Revenues.....	\$ 31,214,322	\$ 38,812,994
Income Fund Expenditures		
Personal Services.....	\$ 660,040	\$ 29,296,945
SURS Retirement.....	-	3,792
Social Security.....	573,877	1,789,343
Contractual Services.....	6,603,772	6,245,883
Travel.....	80,385	51,076
Commodities.....	714,433	504,103
Equipment and Library Books.....	365,713	203,245
Telecommunications.....	448,242	425,084
Operation of Automotive Equipment.....	16,716	29,787
Permanent Improvements.....	914,051	-
Awards, Grants, and Matching Funds.....	150,222	143,492
Tuition and Fee Waivers.....	2,616,666	3,048,994
Other Expenditures.....	736,976	1,500,202
Total Income Fund Expenditures.....	\$ 13,881,093	\$ 43,241,946
SUPPLEMENTARY INFORMATION (UNAUDITED)		
	2017	2016
Employment Statistics		
Faculty and staff.....	618	663
Students.....	150	247
Total Employees.....	768	910
Enrollment Statistics		
Head Count:		
Undergraduate.....	2,076	3,143
Graduate.....	1,174	1,299
Total Head Count.....	3,250	4,442
Total Cost Per Full-Time Equivalent.....	\$ 8,090	\$ 7,444
Credit Hours:		
Undergraduate.....	51,429	75,685
Graduate.....	26,473	28,294
Total Credit Hours.....	77,902	103,979
PRESIDENT		
During Audit Period: Dr. Thomas J. Calhoun (1-1-16 to 9-15-16), Interim President - Mr. Cecil Lucy (9-16-16 to 4-16-17), Interim President - Dr. Rachel Lindsey (effective 4-17-17)		
Current: Interim President - Dr. Rachel Lindsey		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

NONCOMPLIANCE WITH BOND COVENANTS

The University did not comply with its revenue bond covenants.

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

The System consists of Student Union Building, health services and parking facilities

- student services facilities, such as the Cordell Reed Student Union Building;
- health services, including student health related operations of the Wellness Center and Insurance Support services; and,
- parking facilities.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 1998) 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:

The bond issues established a "closed system"

- 1) expenses necessary for the operation and maintenance 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 acquiring movable equipment to be installed in the facilities constituting the System;

with any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to fund the redemption of previously issued bonds when callable; the purchase of the University's bonds on the open market; advance refund any series of bonds then outstanding; credit funds to utility reserve to provide for the payment of the System's utilities; establish a self-insurance reserve in connection with claims against or damage to the System; or purchase of capital equipment for the System. Notably, resources within the System are unavailable for use by the University outside of the System.

Resources within the System are unavailable for use by the University outside of the System

In addition, we noted the System's activities were subject to *University Guidelines* adopted by the Legislative Audit Commission. The *University Guidelines* (Chapter V) requires the University, after fulfilling all of the reserve and debt service requirements of a revenue bond's indentures, determine if any of the excess funds exist under Chapter IV of the *University Guidelines*. The *University Guidelines* (Chapter IV) includes a calculation methodology (Figure 2) for determining if the System has current excess funds required to be transferred into the University's locally-held Income Fund. However, the *University Guidelines* (Chapter V, Section C) provides a priority order that in the case of a conflict between the University's bond indenture and the *University Guidelines*, the University's bond indenture will prevail.

During testing, we noted the University calculated excess funds under the *University Guidelines* and transferred moneys out of the System to the University's Income Fund in violation of its debt covenants. We reviewed the University's financial audits and compliance examinations dating back to Fiscal Year 1999 and concluded the following:

\$594,748 was transferred from the System in FY 2013

- \$594,748 was calculated as excess funds within the System at the end of Fiscal Year 2012 and transferred from the System to the University's Income Fund during Fiscal Year 2013; and,

\$387,018 was transferred from the System in FY 2017

- \$387,018 was calculated as excess funds within the System at the end of Fiscal Year 2016 and transferred from the System to the University's Income Fund during Fiscal Year 2017.

University returned \$981,766 back to the System to remedy the default

In order to remedy this default, the University returned \$981,766 on January 29, 2018, to the System from the University's Income Fund. University management corrected the Fiscal Year 2012 and 2016 errors on its Fiscal Year 2017 financial statements by reclassifying \$981,766 in unrestricted cash and cash equivalents within the Income Fund to restricted cash and cash equivalents for the System. (Finding 2, pages 22-24)

We recommended the University review its bond covenant compliance on a routine basis to identify and rectify any noncompliance conditions.

University agrees with the auditors

University officials agreed with the finding.

FINANCIAL STATEMENT ADJUSTMENTS

The University financial statements for the fiscal year ended June 30, 2017 contained inaccuracies.

During our audit of the University' financial statements, we noted the following:

\$904,530 loss on the disposal of capital assets was mistakenly recorded as an operating expense

- The University mistakenly recorded the loss on the disposal of capital assets, totaling \$904,530, as an operating expense. As a result, operating expenses were overstated by \$904,530 and loss on disposal of capital assets was understated by the same amount.
- The University incorrectly recorded two cash transactions, totaling \$557,514, as restricted cash instead of unrestricted. As a result, the cash and cash equivalents-restricted balance was overstated by \$557,514 and the cash and cash equivalents unrestricted was understated by the same amount.

The University corrected their financial statements

Proposed adjustments to correct these misstatements were recorded by the University. (Finding 3, pages 25-26)

We recommended the University improve its controls over financial reporting to allow for the accurate preparation of its 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 5, pages 29-30) **This finding has been repeated since 2015.**

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. *(For the previous University response, see Digest Footnote #1.)*

INADEQUATE CONTROLS OVER CONTRACTUAL SERVICES EXPENDITURES

The University did not have adequate controls over its contractual service expenditures.

During our review of 45 contracts (totaling \$6,954,779), including purchase orders, executed during the fiscal year ended June 30, 2017, we noted the following:

2 contracts were not approved by Chief Legal Counsel

- Two contracts (totaling \$1,511,601) were not approved by the Chief Legal Counsel out of six contracts (totaling \$5,405,491) sampled requiring this level of approval.

11 contracts, totaling \$4,133,471 were executed after the start date of contract

- One contract's change order (totaling \$370,267) was not approved by the University's Board, as required.
- Eleven contracts (totaling \$4,133,471) were executed subsequent to the start date of the contracts. The contract execution dates ranged from 5 to 298 days from the commencement of services.
- One contract (totaling \$155,000) was not procured through a competitive sealed bid process, as required.
- One contract's total expenditures (totaling \$265,105) for the fiscal year exceeded the total contract amount (totaling \$235,359) awarded.
- One contract (totaling \$2,571,275) did not contain standard vendor certifications, as required.

20 contracts were not submitted to the Office of the State Comptroller as required

- Twenty contracts (totaling \$6,240,203) were not submitted to Office of the State Comptroller, as

required. Of the 20, six contracts were filed 12 to 227 days late and 14 contracts were not filed at all.

During our review of 6 emergency purchases (totaling \$3,159,300) that occurred during the fiscal year ended June 30, 2017, we noted the following:

3 emergency purchase contracts were not filed with the Office of the Auditor General

- Three emergency purchases were not published in the Illinois Procurement Bulletin within the required time frames. Delays in publishing ranged from 3 to 27 days after the required time frame.
- Four emergency purchases were not filed with the Office of the Auditor General, as required. One of 4 emergency purchases was filed 4 days late and 3 emergency purchases were not filed at all. (Finding 10, pages 40-42)

We recommended the University improve controls to ensure compliance with University policy, the Illinois Procurement Code and the State Finance Act. We also recommended management ensure all contracts are fully executed prior to commencement of services.

University agrees with the auditors

University officials agreed with the finding.

INTERNAL AUDIT

The Chicago State University (University) failed to fully comply with the Fiscal Control and Internal Auditing Act (Act), International Standards for the Professional Practice of Internal Auditing, and State of Illinois Internal Audit Advisory Board Bylaws.

During our review of the University's Office of the Internal Audit (OIA), we noted the following:

Audits of major systems were not completed during FY16 and FY17

- Audits of the University's major systems of internal accounting and administrative controls including testing of the obligation, expenditure, receipt and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations were not completed during fiscal years 2016 and 2017.

Internal Audit Peer Review is not current

- The University's Internal Audit division has not had their peer review since the last external assessment which was issued on June 21, 2011.

- One internal audit staff did not complete 20 hours of continuing professional education (CPE) for calendar year 2016. Specifically, the internal audit staff needed an additional 6.5 hours of CPE to be compliant. (Finding 14, pages 48-49) **This finding has been repeated since 2015.**

We recommended the University ensure timely performance of audits over all major systems of internal accounting and administrative controls as required by the Act and require all internal audit staff to comply with the continuing education requirements of the SIAAB. We also recommend the University promptly arrange an external assessment of its internal audit activity to comply with the Institute of Internal Auditors' Standards.

University agrees with the auditors

University officials agreed with the finding. *(For the previous University response, see Digest Footnote #2.)*

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, 2017 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, 2017.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the University for the year ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants qualified their report on State Compliance for Finding 2017-002. Except for the noncompliance described in this finding, 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

Jane Clark
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 – Federal Perkins Loan Cohort Default Rate Too High: The University agrees with the recommendation. The University continues to explore options to reduce the default rate as well as ensuring the University is implementing a full service plan that will utilize the services of existing staff in the Bursar area, Financial Aid as well as outside contractual support to manage the Perkins accounts.

#2 – Internal Audit:

The University agrees with the recommendation. The Office of Internal Audit management updated administrative procedures and revised the audit plan. The grant audit and the electronic document management post implementation reviews have been completed.