

REPORT DIGEST

CHICAGO STATE UNIVERSITY

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

(In accordance with the
Single Audit Act and OMB
Circular A-133)

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this year	13
Total last year	20
Repeated from last year	7

Release Date:
March 16, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- ◆ The University **did not** have procedures in place to periodically monitor unclaimed monies to determine proper and timely disposition of the funds in compliance with the Uniform Disposition of Unclaimed Property Act.
- ◆ The University **did not** process certain expenditures accurately and did not pay certain expenditures in a timely manner.
- ◆ The University **did not** process certain expenditures in compliance with Purchasing Card Policy and Procedures.
- ◆ The University **did not** have supporting documentation for certain expenditures charged to Federal programs and charged expenditures to the incorrect fiscal year.
- ◆ The University **did not** reconcile its Student Financial Aid awards and expenditure records on a monthly basis.
- ◆ The University **did not** have adequate controls over contracting procedures.
- ◆ The University **did not** establish appropriate controls to prohibit subsidies between accounting entities (auxiliary enterprises and activities) during the current fiscal year.

{Financial Information is summarized on the reverse page.}

CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2009

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	FY 2009	FY 2008*
OPERATING REVENUES		
Student tuition (net of scholarship allowances of \$7,573,293 and \$7,721,000	\$29,055,091	\$25,129,353
Auxiliary enterprises (net of scholarship allowances of \$13,664 and \$35,336	4,119,394	4,322,723
Grants and contracts	19,627,744	19,852,460
Other sources	<u>2,335,300</u>	<u>2,907,252</u>
Total Operating Revenues	<u>\$55,137,529</u>	<u>\$52,211,788</u>
OPERATING EXPENSES		
Instruction	\$39,531,380	\$38,707,378
Research	2,607,597	3,658,509
Public service	8,099,153	6,180,486
Academic support	7,745,016	7,850,205
Student services	12,282,348	13,573,193
Institutional support	9,999,481	9,736,245
Operation and maintenance of plant	12,884,408	12,297,088
Scholarships and fellowships	8,722,355	7,151,009
Auxiliary enterprises	2,311,469	4,800,965
Depreciation	6,906,656	5,713,803
On-behalf State fringe benefits	<u>19,345,061</u>	<u>17,937,985</u>
Total Operating Expenses	<u>\$130,434,924</u>	<u>\$127,606,866</u>
OPERATING LOSS	\$(75,297,395)	\$(75,395,078)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	41,673,200	42,857,200
State fringe benefits	19,345,061	17,937,985
Federal nonoperating grants	12,532,270	11,170,584
Investment income	125,945	9,186
Interest on capital asset – related debt	<u>(664,240)</u>	<u>(1,345,346)</u>
Net nonoperating revenues	<u>\$73,012,236</u>	<u>\$70,629,609</u>
	<u>(\$2,285,159)</u>	<u>(\$4,765,469)</u>
Capital appropriations and grants	\$816,882	\$6,211,789
Gain (Loss) on disposal of capital assets	(169,326)	1,300
Total other revenues	<u>\$647,556</u>	<u>\$6,213,089</u>
Increase/(Decrease) in net assets	<u>(\$1,637,603)</u>	<u>\$1,447,620</u>
NET ASSETS		
Net assets, beginning of the year	<u>127,671,334</u>	<u>126,223,714</u>
Net assets, end of the year	<u>\$126,033,731</u>	<u>\$127,671,334</u>
* - Certain reclassifications have been made to the 2008 amounts to conform to the 2009 presentation.		
SUPPLEMENTARY INFORMATION (Unaudited)	FY 2009	FY 2008
<u>Employment Statistics</u>		
Faculty/administrative	982	961
Student employees	272	265
Total Employees	1,254	1,226
<u>Selected Activity Measures</u>		
Students (Spring Term)		
Undergraduate	4,855	4,971
Graduate	1,533	1,573
Total Students	6,388	6,544
UNIVERSITY PRESIDENT		
During Audit Period: Acting President: Dr. Sandra Westbrooks (7-1-08 thru 7-14-08), Interim President Dr. Frank G. Pogue (7-15-08 thru 6-30-09), Acting President Dr. Sandra Westbrooks (7-1-09 thru 9-30-09) President – Dr. Wayne Watson (10-1-09 thru current)		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**FAILURE TO MONITOR COMPLIANCE WITH
UNCLAIMED PROPERTY ACT**

The University did not have procedures in place to periodically monitor unclaimed monies to determine proper and timely disposition of the funds in compliance with the Unclaimed Property Act.

**Some outstanding checks
were issued over 11 years ago**

During our audit we noted that the University had three accounts included in the accounts payable balance that solely contained stale checks. Stale checks are old outstanding checks that have not been cashed. During the current year, the University had been reviewing these accounts. However, the balance in all three accounts increased. Some of these checks were issued over eleven years ago.

The Uniform Disposition of Unclaimed Property Act (765 ILCS 1025/11(a)) states that every person holding funds or other property, tangible or intangible, presumed abandoned under this Act shall report and remit abandoned property specified in the report to the State Treasurer with respect to the property as hereinafter provided. According to the Act (765 ILCS 1025/8.1(a)), all tangible personal property or intangible personal property and all debts owed or entrusted funds or other property held by any federal, state or local government or governmental subdivision, agency, entity, officer or appointee thereof, shall be presumed abandoned if the property has remained unclaimed for 7 years. (Finding 1, page 18)

We recommended that the University establish appropriate procedures for stale checks. We also recommended that the University comply with the requirements of the Act.

**University agrees with the
auditors**

University officials agreed with the recommendation and stated that an analysis of the disbursement database has been ongoing and additional resources will be dedicated to this process.

IMPROVEMENTS NEEDED IN VOUCHER PROCESSING

The University did not process certain expenditures accurately and did not pay certain expenditures in a timely manner.

Our sample testing of 211 different expenditures totaling \$5,370,023 disclosed:

Invoices totaling \$444,069 were not approved timely

Invoices totaling \$2,015,045 were not paid timely

Payments totaling \$676,800 were not supported by a contract

University agrees with auditors

- Twenty-six invoices (\$444,069) that were not approved for payment in a timely manner. These invoices were approved between 33 and 567 days after receipt of a proper bill.
- Thirty-eight invoices (\$2,015,045) that were not paid in a timely manner. The invoices were paid between 61 and 566 days after receipt of a proper bill.
- Eight invoices (\$42,777) that contained expenditures which were recorded to the incorrect fiscal year.
- Eight payment packages (\$129,049) that contained purchase requisitions that were approved after the purchase was made. The purchase requisitions were approved between 1 day and 75 days after the invoice date.
- One payment package (\$676,800) for a contractual service expenditure that was not supported by a contractual agreement.
- Two invoices (\$36,623) that had approval signatures dated after the check issue date.
- One payment package (\$13,663) that was paid for using grant funds after the grant had expired. (Finding 2, Pages 19-21)

We recommended that the University implement additional controls to ensure that expenditures are paid timely and are accurate.

University officials agreed with our recommendation and stated that a dual review by Financial Affairs of all fiscal year expenditures will be performed.

PURCHASING CARD PROCESSING ERRORS

The University did not process certain expenditures in compliance with Purchasing Card Policy and Procedures.

Some of the issues noted during our sample testing of 84 purchasing card transactions totaling \$66,809 follow:

- Fourteen transactions totaling \$40,031 exceeded the single transaction limit of \$1,000.
- Four transactions totaling \$11,873 were for purchases of services involving labor.
- There was no approval documented for ten transactions totaling \$2,930.
- There was no documentation provided to support five transactions totaling \$859.
- For two transactions totaling \$1,261, documentation was provided, however, not in enough detail to determine what was purchased.
- All 84 transactions tested were not coded to the general ledger in a timely manner. The transactions were coded to the accounting system between 19 and 71 days after the transaction was posted to the payment system.
- None of the fifteen employees that had purchasing cards had signed a purchasing card agreement as is required by policy. (Finding 3, Pages 22-23)

We recommended the University adhere to its policies and procedures for purchasing card expenditures.

University officials agreed with our recommendation and stated that they will revise the Purchasing Card Agreement and that all fiscal year 2010 purchases will be reviewed and explanations for policy exceptions that occurred prior to the revised agreement will be documented prior to the next audit.

INADEQUATE DOCUMENTATION FOR FEDERAL PROGRAM EXPENDITURES

The University did not have supporting documentation and proper approvals for certain expenditures charged to federal programs and charged expenditures to the incorrect fiscal year.

Some transactions sampled exceeded the single transaction limit of \$1,000

All transactions sampled were not timely coded to the general ledger

None of the University employees had signed a purchasing card agreement as required

University agrees with auditors

Lack of approvals and documentation

During our audit of federal programs we noted the following:

Expenditures totaling \$32,443 were charged to the wrong fiscal year

- One of forty-eight (2%) expenditures (\$32,443) tested for the Research and Development Cluster, was charged to the wrong fiscal year.
- Two of forty-six (4%) expenditures (\$26,850) tested for the U.S. Agency for International Development – Textbook and Learning Materials program were charged to the wrong fiscal year.
- One of forty-six (2%) expenditures (\$5,921) tested for the U.S. Agency for International Development – Textbook and Learning Materials program had no fiscal officer approval.
- One of forty-six (2%) expenditures (\$2,909) tested for the U.S. Agency for International Development – Textbook and Learning Materials program was supported by an invoice that was mathematically incorrect. The total invoice was overstated by \$400. (Finding 4, Pages 24-25) **This finding was first reported in 2003.**

We recommended that the University improve control procedures to ensure that payments are only made once a proper invoice with appropriate documentation is received and approved. We also recommended that the University report their expenditures in the correct fiscal year.

University officials agreed with our recommendation and stated that all federal program expenditures will have a dual review for proper supporting documentation and other cited deficiencies performed by Financial Affairs. (For the previous University response, see Digest footnote #1.)

University agrees with auditors

STUDENT FINANCIAL AID NOT RECONCILED ON A MONTHLY BASIS

The University did not reconcile its Student Financial Aid awards and expenditure records on a monthly basis.

During the audit we noted several instances where reconciliations were not being performed or errors were noted as follows:

The University was not reconciling Pell Grants

- During testing, it was noted that reconciliations of the Pell Grants recorded on the University's general ledger expenditures and program award records were not performed. Amounts recorded for each of these items were different. Expenditure records used for preparation of the University's financial statements recorded expenditures of \$48,566 greater than program award records.
- During testing, it was noted that reconciliations of Federal Work Study Program expenditures recorded on the University's general ledger and program award records were not performed. Amounts recorded for each of these items for the Job Location and Development Program agreed in total; however expenditure records used for preparation of the University's financial statements recorded expenditures of federal funds of \$16,595 more than program award records. This resulted in the program being overstated on the Schedule of Expenditures of Federal Awards by \$16,595. The University's drawdowns are based on the amounts recorded in the general ledger, so the University erroneously requested and received reimbursements in the amount of \$16,595 that it was not entitled to receive.
- During testing, it was noted that reconciliations of Federal Academic Competitiveness Grant expenditures recorded on the University's general ledger and program award records were not performed. Amounts recorded for each of these items were different. Expenditure records used for the preparation of the University's financial statements recorded expenditures of \$750 less than program award records. This resulted in the grant being understated on the Schedule of Expenditures of Federal Awards by \$750. (Finding 5, Pages 26-27)

University requested and received \$16,595 that it was not entitled to receive

We recommended that the University properly reconcile all student financial aid program and fiscal records. We also recommended that the University return funds to the U.S. Department of Education or adjust future drawdowns.

University agrees with the auditors

University officials agreed with the recommendation and stated that a monthly reconciliation of federal student financial aid records to financial reporting records will be completed.

NEED TO IMPROVE CONTROLS OVER CONTRACTING PROCEDURES

Inadequate controls

The University did not have adequate controls over contracting procedures.

We sampled 30 contracts. Some of the items noted in our examination follow:

- Four of the contracts tested, totaling \$112,000, were dated and signed by the vendor after the commencement of services date. The total amount of services provided prior to the signature date was not determinable.
- Fourteen of the contracts tested, totaling \$2,308,116, were dated and signed by the University official after the date of the commencement of services per the contract. The total amount of services provided prior to the signature date was not determinable.
- One contract selected was not provided to the auditors. It was determined that no contract was executed for the services provided. The payments made were for health insurance for students and totaled \$1,250,190.
- During the audit we noted that the bookstore that operates on campus had not been under contract during fiscal year 2009. The vendor previously signed extensions to the initial contract. However, no extensions were prepared in fiscal year 2009. The prior contract term ended in March of 2008.
- Two contracts were approved by the Board of Trustees after the contract term start date.
- Two contracts (\$39,935) were with former employees; however, this was not disclosed or presented in Conflict of Interest Disclosures.
- Nine contracts were not approved by the Board of Trustees as required. All of these were executed after April, 2009, when the Board of Trustees required all contracts over \$25,000 to have Board

No formal contract existed for student health insurance services - payments totaled \$1,250,190

University bookstore operated without a formal contract

Some contracts were not approved by the Board of Trustees

approval.

The University provided the auditors with a list of 142 contractual agreements they had entered into for fiscal year 2009 through June 12, 2009. Subsequently, an electronic file was provided to the auditors that listed 223 contractual agreements executed through June 30, 2009. There were 81 contracts initially omitted from the list given to the auditors. Only 4 of the 81 contracts omitted from the initial list were executed between June 12, 2009 and June 30, 2009. (Finding 6, Pages 28-32) **This finding was first reported in 2006.**

The initial list provided to the auditors was incomplete

We recommended that the University establish internal controls to ensure compliance with the Illinois Procurement Code, SAMS Manual, University policies and procedures, and to ensure that contracts are fully executed prior to commencement.

University officials agreed with the recommendation and stated that they have revised the contract processing system to comply with the procurement code requirements and all other compliance sources cited in the audit finding. (For the previous University response, see Digest footnote #2.)

University agrees with auditors

SUBSIDIES BETWEEN ACCOUNTING ENTITIES

The University had subsidies between accounting entities (auxiliary enterprises and activities) during the current fiscal year.

During our testing of compliance with the Legislative Audit Commission's University Guidelines, we noted certain accounting entities had negative cash balances at the beginning and the end of the fiscal year, (a negative cash balance is in effect an unbooked interfund payable/receivable), thereby causing a subsidy between funds to occur. The accounting entities were:

- Student Activities, and
- Student Health Services.

Noncompliance with LAC University Guidelines

The Legislative Audit Commission's University Guidelines of 1982, as amended in 1997, states (Chapter 3, Section D, Part 1) "There shall be no subsidies between accounting

**Guidelines do not permit
subsidies**

entities. Subsidies include cash advances and interfund payables/receivables outstanding for more than one year.” (Finding 13, Page 40)

We recommended that the University review the activities of the accounting entities and ensure that fees charged for services are sufficient to cover expenditures and ensure that subsidies between accounting entities do not occur.

University officials stated that they will evaluate the subsidy issue and take corrective action.

OTHER FINDINGS

The remaining findings are reportedly being given attention by University management. We will review the University’s progress toward implementation of our recommendations in our next examination.

AUDITORS’ OPINION

Our auditors stated the University’s financial statements at June 30, 2009 and for the year then ended are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were DeRaimo Hillger & Associates.

DIGEST FOOTNOTE

#1 INADEQUATE DOCUMENTATION FOR FEDERAL PROGRAM EXPENDITURES - Previous University Response

The University agrees with the recommendation. All federal program expenditures will be reviewed for proper approval, supporting documentation and prompt payment. The Accounting Office will designate a supervisor to review all federal program expenditures to insure that tracking and filing processes are complete and properly maintained.

#2 INADEQUATE CONTROLS OVER CONTRACTING PROCEDURES - Previous University Response

The University agrees with the recommendation. The University will enhance its processing system to satisfy compliance with procurement code and contractual service requirements. All fiscal year 2009 contracts above \$25,000 are currently under review for compliance. Fiscal officer training on appropriate contracting procedures will be held at least annually.