



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

CHICAGO STATE UNIVERSITY

**Financial Audit, Compliance Examination
and Single Audit
For the Year Ended June 30, 2011**

Release Date: March 20, 2012

Summary of Findings:

| | |
|----------------------------------|-----------|
| Total this audit: | 34 |
| Total last audit: | 41 |
| Repeated from last audit: | 22 |

SYNOPSIS

- The University had multiple policies addressing the requirements for a student's Satisfactory Academic Progress. Further, as a result of a misapplication of an academic policy that had been suspended, University officials initially determined that overawards were made to students totaling \$740,030.
- The University did not have appropriate internal controls to monitor the compliance of the subrecipient of its Head Start Cluster program.
- The University did not fully comply with compliance requirements of activities allowed and unallowed, allowable cost/cost principles, period of availability of Federal funds, and reporting applicable to the Strengthening Minority-Serving Institution program.
- The University did not prepare a complete and accurate Schedule of Expenditures of Federal Awards.
- The University did not reconcile its student financial assistance awards and expenditures on a monthly basis.
- The University did not have adequate controls to ensure that vendors had not been suspended or debarred from participating in contracts funded by Federal awards.
- The University did not fully comply with the compliance requirements related to its grant from the Department of Energy.
- The University did not fully comply with requirements applicable to its property and equipment.
- The University did not have adequate control over contracting procedures.
- The University did not follow their policies regarding their "Incomplete" grade process.

{Expenditures and Activity Measures are summarized on the reverse page.}

CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2011

| FINANCIAL OPERATIONS | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Operating Revenues | | |
| Student tuition and fees, net..... | \$ 37,774,246 | \$ 33,786,262 |
| Federal grants and contracts..... | 15,360,785 | 10,507,573 |
| State and local grants and contracts..... | 3,844,820 | 4,792,609 |
| Nongovernmental grants and contracts..... | 21,211 | 59,704 |
| Auxiliary enterprises..... | 4,505,372 | 4,083,970 |
| Other operating revenues..... | 3,092,798 | 2,743,420 |
| Total Operating Revenues..... | <u>\$ 64,599,232</u> | <u>\$ 55,973,538</u> |
| Operating Expenses | | |
| Instruction..... | \$ 41,762,045 | \$ 41,130,797 |
| Research..... | 3,539,508 | 4,219,192 |
| Public service..... | 5,603,164 | 5,573,365 |
| Academic support..... | 6,265,881 | 8,053,543 |
| Student services..... | 14,718,362 | 8,122,443 |
| Institutional support..... | 9,594,423 | 9,991,980 |
| Operation and maintenance of plant..... | 10,849,699 | 11,723,886 |
| Depreciation..... | 5,857,473 | 5,761,265 |
| Scholarships and fellowship..... | 11,101,360 | 11,445,302 |
| Auxiliary enterprises..... | 4,580,166 | 2,856,109 |
| On behalf State fringe benefits..... | 26,537,411 | 24,519,164 |
| Total Operating Expenses..... | <u>\$ 140,409,492</u> | <u>\$ 133,397,046</u> |
| Operating Income (Loss)..... | \$ (75,810,260) | \$ (77,423,508) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations..... | \$ 40,014,775 | \$ 42,725,974 |
| State fringe benefits..... | 26,537,411 | 24,519,164 |
| Federal nonoperating grants..... | 20,745,572 | 17,508,026 |
| Investment income..... | 18,646 | 24,676 |
| Interest on capital assets - related debt..... | (902,259) | (954,917) |
| Other, net..... | 3,416,968 | 425,639 |
| INCREASE (DECREASE) IN NET ASSETS..... | <u>\$ 14,020,853</u> | <u>\$ 6,825,054</u> |
| Net assets, beginning of year..... | \$ 134,717,190 | \$ 126,033,731 |
| Prior period adjustment..... | - | 1,858,405 |
| Net assets, beginning of year, as adjusted..... | 134,717,190 | 127,892,136 |
| Net assets, end of year..... | <u>\$ 148,738,043</u> | <u>\$ 134,717,190</u> |
| SUPPLEMENTARY INFORMATION (UNAUDITED) | 2011 | 2010 |
| Employment Statistics | | |
| Faculty and staff..... | 894 | 903 |
| Students..... | 253 | 253 |
| Total Employees..... | <u>1,147</u> | <u>1,156</u> |
| Selected Activity Measures | | |
| Head Count: | | |
| Undergraduate..... | 5,483 | 5,276 |
| Graduate..... | 1,720 | 1,767 |
| Total Head Count..... | <u>7,203</u> | <u>7,043</u> |
| Institutional cost per student..... | <u>\$ 7,216</u> | <u>\$ 6,814</u> |
| PRESIDENT | | |
| During Audit Period and Current: Dr. Wayne Watson | | |

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**SUSPENDED ACADEMIC POLICY RESULTED IN
OVERSTATED LIABILITY ON THE FINANCIAL
STATEMENTS**

**University officials initially
determined overawards to students
totaled \$740,030**

The University had multiple policies addressing the requirement for a student's Satisfactory Academic Progress. As a result of a misapplication of the academic policy that had been suspended, University officials initially determined that there were overawards made to students totaling \$740,030. The University recorded this as an adjustment to their financial statements. These adjustments included a \$134,836 reduction in receivables, a \$605,194 increase in liabilities and revenue and expense adjustments netting to \$740,030.

In August 2011, the Department of Education (ED) requested the University to look into and report back to ED, as to whether the University improperly awarded Federal aid to students during the past four years.

The University's enrollment management department calculated Federal and Illinois MAP overawards to 126 unduplicated students from fiscal years 2008 through 2010 due to poor scholarship totaling \$740,030.

**The policy used for the analysis had
in fact been suspended by previous
administration since June 2008**

In October 2011, the University reported the results of this analysis back to ED and recorded various entries on the University financial statements to record these results. In December 2011, it was determined that the policy used for this analysis had in fact been suspended by previous administrations of the University since June 2008.

**Proposed auditor adjustments to
University's financial statements
total \$636,345**

We performed various procedures to determine the University's compliance relative to its Student Financial Assistance Cluster. Among those procedures, we selected a sample of 20 students from the 126 students identified by the University as students who improperly received student financial aid. We noted students who received a total of \$28,992 (of which \$21,668 was aid awarded in fiscal year 2011) of Federal student financial aid and \$4,160 of Illinois MAP awards when they were not eligible. As a result of this testwork, financial statement adjustments were made totaling \$636,345 by the University. (Finding 1, Pages 22-24)

We recommended that the University improve its administrative controls to ensure that policies are clearly stated, communicated and enforced. Further, the University should report accurate amounts on their financial statements and submit a revised analysis to the Department of Education.

University agrees with auditors

University officials accepted the recommendation.

NEED TO IMPROVE HEAD START SUBRECIPIENT MONITORING CONTROLS

The University did not have appropriate internal controls to monitor the compliance of the subrecipient of its Head Start Cluster program.

The University is not properly monitoring the subrecipient

We inquired with the University as to how it monitors the activities and compliance of the subrecipient of its Head Start Cluster program. We were informed that when the invoice of the subrecipient is received, it is approved by the program director and is paid. No other monitoring procedures (such as obtaining audit reports, performing site visits to review programmatic records and observe operations, or review subrecipient reports) are performed.

We examined the subaward and contract. Some of the information that we noted that was not provided to the subrecipient follows:

Required information was not provided to the subrecipient

- CFDA number and program title,
- Award name,
- Name of the Federal Awarding Agency, and
- Research and development award determination.

Required certifications were not included in the contract

Other compliance and internal control issues that were noted follow:

In-kind match was not adequately supported

- The contract did not include any required Federal certifications.
- The University did not have adequate procedures to ensure that in-kind matching amounts reported were adequately substantiated by supporting documentation.
- One expenditure for \$48,128 was not approved by the fiscal officer until 10 days after the check was prepared and the check cleared the bank two days before approval. (Finding 4, Pages 29-31)

We recommended that the University comply with the Federal regulations and improve its controls to ensure that appropriate information is provided to all subrecipients, that all subrecipients are properly monitored, and all relevant documentation is obtained and retained.

University agrees with auditors

University officials agreed with the recommendation.

COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE STRENGTHENING MINORITY-SERVING INSTITUTIONS PROGRAM NEED TO BE IMPROVED

The University did not fully comply with compliance requirements of activities allowed and unallowed, allowable costs/cost principles, period of availability of Federal funds, and reporting applicable to the Strengthening Minority-Serving Institution Program.

Some of the problems noted during our testing follow:

Expenditures made were not in accordance with program regulations

\$7,890 in questioned costs

University overexpended the award by \$53,658 and will not be able to receive a cost reimbursement

Budgeted amounts reported instead of actual

Incorrect reporting period used

- We tested 25 expenditures totaling \$41,945 and noted that two expenditures were not in accordance with program regulations. One charge for \$7,500 was for tour guide services for 16 students and 2 staff participants in New Orleans. The tours were to include: cultural night in New Orleans, plantation tour, city tour, swamp tour, D Day Museum, and African American Museum. The other charge for \$390 was for the purchase of 10 IPAD cases. These charges do not meet the criteria of allowable activities or charges for this program and resulted in questioned costs of \$7,890.
- One payroll expenditure for \$1,944 was charged to the program using a 100% time and effort rate. However, the effort certification report completed by the employee and signed by the employee's supervisor for that month indicated that only 75% of the employee's time should be charged to the program resulting in questioned costs of \$486.
- One payroll expenditure for \$1,222 was incurred after the period of availability of the award. The award expired on March 31, 2011, but the University continued to charge costs to the award. This resulted in questioned costs of \$1,222. Further, for this particular award, the University overexpended the award by \$53,658. The University will not be able to receive a cost reimbursement from the Department of Education for the overexpended amount.
- The final performance report for the award mentioned above reported the budgeted expenditures instead of actual expenditures. The total budget for the project was \$1,084,211 and the total expenditures recorded for the project were \$1,137,869. The University indicated on the report that it was for the period October 1, 2008 until September 30, 2010 instead of the correct performance period October 1, 2008 through March 31, 2011. (Finding 5, pages 32-34)

We recommended that the University improve its controls to ensure that the University complies with requirements applicable to its Federally funded programs.

University agrees with the auditors

University officials agreed with the recommendation.

INADEQUATE CONTROLS OVER PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Incomplete SEFA

The University did not prepare a complete and accurate Schedule of Expenditures of Federal Awards (SEFA).

The University provided the auditors its “Final” SEFA on November 8, 2011. The Notes to the SEFA were provided on November 9, 2011. We tested the accuracy and completeness of the SEFA and some of the issues noted are as follows:

- A pass thru program with a Catalogue of Federal Domestic Assistance (CFDA) number of 93.575 was identified as being part of the Head Start Cluster. There is no such program that is part of the Head Start Cluster.
- An incorrect CFDA number was reported for one program.
- Two programs passed awards through to sub-recipients totaling \$195,373 that were not reported.
- The Federal Pell Grant Program and Federal Work Study did not include the administrative cost allowances charged to the program in the amount reported on the SEFA.
- The notes to the SEFA did not properly report the balance of Federal Perkins Loans outstanding at year end. (Finding 6, pages 35-37)

Two programs passed awards through that were not reported

We recommended that the University improve its controls over financial reporting so that it can prepare a complete and accurate SEFA.

University agrees with the auditors

University officials agreed with the recommendation and stated that Sponsored Programs has established new policies and procedures to ensure compliance with Federally funded program regulations and reporting expenditures in current fiscal years.

STUDENT FINANCIAL ASSISTANCE NOT RECONCILED ON A MONTHLY BASIS

The University did not reconcile its student financial assistance awards (SFA) and expenditures on a monthly basis.

Lack of reconciliations between program records and fiscal records

We requested the University provide us with their monthly reconciliations of program and fiscal records related to all programs of their Student Financial Assistance Cluster. The University provided us with reconciliations for Federal Direct Loan and Federal PELL. All reconciliations, however, were prepared after the end of the fiscal year and there was no evidence that records had been reconciled throughout the year. No other reconciliations of the other SFA awards were provided. Although a reconciliation of Federal PELL was provided, certain information used in the reconciliation could not be verified and agreed to external records. (Finding 8, pages 39-40) **This finding was first reported in 2008.**

We recommended that the University properly reconcile all student financial awards and cost allowances to the University's fiscal records for each student financial assistance program on a monthly basis.

University agrees with the auditors

University officials agreed the recommendation and stated that Sponsored Programs has established new written policies and procedures to ensure compliance with our Federally funded program regulations and reporting of expenditures in the current fiscal year. (For the previous University response, see Digest footnote #1)

INADEQUATE CONTROLS OVER SUSPENSION AND DEBARMENT

The University did not have adequate controls to ensure that vendors had not been suspended and debarred from participating in contracts funded by Federal awards.

Contracts in place prior to December 2009 did not have the clause

We made inquiries of University personnel to obtain an understanding of the University's internal controls relative to suspension and debarment of vendors. Although the University added a clause in its standard contract in December 2009, contracts in place prior to this date did not have this clause. Further, few contracts were amended to include it when the contract was renewed.

We examined 13 covered transactions totaling \$6,632,266 and noted that four of the contracts tested totaling \$863,943 did not include a vendor certification stating that the vendor was not suspended or debarred and did not include a clause or condition relative to suspension and debarment. The University also did not examine the Excluded Parties List to determine if these vendors were suspended or debarred. (Finding 12, pages 47-48)

We recommended that the University improve its controls to ensure that each vendor engaged in a covered transaction is not suspended or debarred from Federal award programs.

University agrees with the auditors

University officials agreed with the recommendation and stated that they have implemented processes to ensure that all of their contracts including those that are executed pursuant to a grant renewal contain all the required certifications.

NONCOMPLIANCE WITH DEPARTMENT OF ENERGY GRANT REQUIREMENTS

The University did not fully comply with the compliance requirements related to its grant from the Department of Energy (DOE).

Retirement benefits are not allowed

We scanned the general ledger for this grant program and noted that it included an expenditure for retirement benefits in the amount of \$548. However, the award document specifically disallows indirect costs and fringe benefits. After this was brought to the University's attention by the auditor, the University corrected the entry to ensure financial reporting was correct.

Contract was not signed by the University until April 29, 2011

We inquired whether there were any procurements in the current year for this program and noted the contract was not signed by the University until April 29, 2011. The contract states that this contract term "shall begin on December 1, 2010 and end April 30, 2011." The University later informed us that this contract was not a new contract but was intended to be an extension of a previous contract amendment. Instead of writing an amendment to the previous contract amendment, they mistakenly wrote a new contract. As was reported last year, the first contract amendment was not signed by the University or the Contractor and was to have expired on August 31, 2010. (Finding 26, pages 72-73)

We recommended that the University improve its controls to ensure that the University complies with requirements applicable to its Federally funded programs.

University agrees with the auditors

University officials agreed with the recommendation.

INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT

The University did not fully comply with requirements applicable to its property and equipment.

We reviewed the University's property inventory certification as of March 31, 2011 that was submitted to the Department of Central Management Services (DCMS). The inventory certification to DCMS reported 1,840 items (\$3,808,329) of equipment that could not be located by the University. These assets were acquired by the University over the past 39 fiscal years. Included in this missing equipment were approximately 950 computers, servers, CPUs, or other electronic storage devices. In addition, the University did not perform a detailed assessment and therefore was unable to determine whether the missing computers contained confidential information.

Some of the exceptions we noted during our audit testing follow:

1,840 equipment items with a cost of \$3,808,329 could not be located

The University was unable to determine if the missing computers contained confidential information

- Two items, out of 92 items tested, with a cost of \$9,659 could not be located by the University. These items consisted of a robotic chassis and a tablet computer. The tablet computer was reported as stolen after the auditors requested to see it.
- One item with a cost of \$106,175 was removed from the property control records. This item was a book drop and sorter for the new library that was purchased in 2006, but was never put into service by the University due to software conflicts. In the current fiscal year, the University returned the item to the vendor for a \$15,000 credit on future expenditures. (Finding 27, pages 74-76)

We recommended that the University locate the missing equipment. Also, the University should perform a detailed assessment to determine if any of the missing computers contained confidential information. Further, the University should adhere to its procedures and ensure that the property and equipment records are properly maintained and updated when necessary.

University agrees with the auditors

University officials accepted the recommendation and stated they have taken steps to enhance the control environment by establishing a corrective action plan.

INADEQUATE CONTROLS OVER CONTRACTING PROCEDURES

The University did not have adequate controls over contracting procedures.

Some of the issues noted during our testing of 25 contracts totaling \$4,125,909 follow:

Some contracts tested were missing required information

- 13 of 25 contracts tested did not contain the minimum requirements for written contracts.
- One contract totaling \$436,892 did not have the signature of the Chief Fiscal Officer or the Chief Legal Counsel of the University on the contract.
- One contract amendment (\$350,000 increase) exceeded the \$250,000 threshold which required approval by the Board of Trustees. The University could not provide evidence that the amendment was approved by the Board of Trustees.

Some contracts were signed by the University and/or vendor after the start of services

- Four contracts totaling \$853,362, were dated and signed by a University official or vendors' after the date of the commencement of services. (Finding 28, pages 77-80)
This finding was first reported in 2006.

We recommended that the University establish internal controls to ensure compliance with the Illinois Procurement Code, State Statutes, the SAMS Manual and University policies.

University agrees with the auditors

University officials agreed with the recommendation and stated that their legal department has implemented processes to ensure that all of its contracts including lease agreements are timely executed by the appropriate person and that any and all contracts contain the required certifications. (For the previous University response, see Digest footnote #2)

INADEQUATE CONTROLS OVER "INCOMPLETE" GRADE PROCESS

The University is not following their policies

The University did not follow their policies regarding their "Incomplete" grade process.

During our testing of student financial assistance we noted several students received a grade of "Incomplete". The University catalog states that students who request a grade of incomplete must submit an Incomplete Grade Request and Contract, which requires the student to indicate the reason(s) why she/he was unable to complete the required course work.

21 of 25 students tested failed to submit an Incomplete Grade Request and Contract

The student's instructor must indicate the specific work the student is expected to complete. The instructor must also indicate a default grade to which the "Incomplete" will revert if the student does not complete the work by the end of the subsequent Spring or Fall term. Our testing of 25 students who received an "Incomplete" grade identified 21 (84%) students who failed to submit an Incomplete Grade Request and Contract. (Finding 30, page 84)

We recommended that the University adhere to or amend its published policy over the "Incomplete" grade process.

University agrees with auditors

University officials agreed with the recommendation and stated that the Office of the Registrar has redefined the policies and procedures to ensure compliance.

OTHER FINDINGS

The remaining findings are reportedly being given attention by University officials. We will review progress toward implementation of our recommendations in our next audit.

AUDITORS' OPINION

Our auditors state the University financial statements as of June 30, 2011 and for the year then ended, are fairly presented in all material respects.



WILLIAM G. HOLLAND
.. Auditor General

WGH:TLK:rt

SPECIAL ASSISTANT AUDITORS

Borschnack, Pelletier & Co. were our special assistant auditors.

DIGEST FOOTNOTE

#1 STUDENT FINANCIAL AID NOT RECONCILED ON A TIMELY BASIS – Previous University Response

The University agrees with the recommendation. Sponsored Programs will work closely with Finance and Financial Aid to establish interdepartmental policies, procedures and controls to ensure monthly reconciliation of all student financial awards and cost allowances to the University's fiscal records.

#2 INADEQUATE CONTROLS OVER CONTRACTING PROCEDURES - Previous University Response

The University agrees with the recommendation. The Legal Affairs department has removed outdated contract forms from the intranet and is conducting quarterly evaluations to determine whether updates to the form contract are required. A revised contract form will be posted on the intranet with notice to the University community as appropriate. Purchasing is ensuring that a dual review occurs for all contracts involved with procurement activities that are received in the department for processing.