



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

CHICAGO STATE UNIVERSITY

**Financial Audit
 For the Year Ended June 30, 2014**

Release Date: January 29, 2015

FINDINGS THIS AUDIT: 3	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2011		14-2	
Category 2:	2	1	3				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers the Chicago State University's financial audit as of and for the year ended June 30, 2014. The Chicago State University's compliance examination (including the Single Audit) covering the year ended June 30, 2014 will be issued at a later date.

SYNOPSIS

- (14-1) The University did not maintain appropriate controls over advances made to employees and did not comply with Internal Revenue Service regulations related to amounts advanced that were not substantiated under an accountable plan.
- (14-2) The University incorrectly accounted for accrued compensated absences and calculated accrued leave liability of the University.

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 information is summarized on the reverse page.}

CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT
For the Year Ended June 30, 2014

FINANCIAL OPERATIONS	2014	2013*
Operating Revenues		
Student tuition and fees, net.....	\$ 24,091,689	\$ 30,066,721
Federal grants and contracts.....	10,649,241	7,791,743
State and local grants and contracts.....	2,600,095	2,819,726
Nongovernmental grants and contracts.....	7,433	18,611
Auxiliary enterprises.....	10,599,857	11,337,664
Other operating revenues.....	2,421	2,840
Total Operating Revenues.....	47,950,736	52,037,305
Operating Expenses		
Instruction.....	39,152,593	37,112,398
Research.....	1,950,884	1,976,438
Public service.....	1,497,384	1,424,036
Academic support.....	10,581,254	11,208,877
Student services.....	7,572,746	8,357,301
Institutional support.....	13,492,998	14,626,379
Operations and maintenance of plant.....	11,919,117	10,968,704
Depreciation.....	6,456,366	6,050,828
Scholarship and fellowship.....	13,076,323	13,755,029
Auxiliary enterprises.....	11,582,937	11,227,006
On behalf State fringe benefits.....	38,593,745	40,982,998
Total Operating Expenses.....	155,876,347	157,689,994
Operating (Loss).....	(107,925,611)	(105,652,689)
Nonoperating Revenues (Expenses)		
State appropriations.....	42,108,205	37,019,788
State fringe benefits.....	38,593,745	40,982,998
Federal and State nonoperating grants.....	18,797,153	20,142,359
Investment income.....	49,491	34,011
Interest on capital assets - related debt.....	(755,195)	(803,023)
Other, net.....	3,025,128	2,393,477
Decrease in Net Position.....	(6,107,084)	(5,883,079)
Net position, beginning of year.....	152,170,951	158,054,030
Net position, end of year.....	\$ 146,063,867	\$ 152,170,951

STATEMENT OF NET POSITION	2014	2013
Cash and Cash Equivalents.....	\$ 14,905,759	\$ 16,290,920
Balance in State Appropriation and Accounts Receivable.....	15,383,429	22,386,152
Capital Assets, net.....	149,110,491	149,978,828
Other Assets.....	1,683,023	1,585,170
Total Assets.....	181,082,702	190,241,070
Current Liabilities.....	16,540,670	18,623,741
Bonds Payable.....	13,180,000	14,300,000
Other Noncurrent Liabilities.....	5,298,165	5,146,378
Total Liabilities.....	35,018,835	38,070,119
Net Position.....	\$ 146,063,867	\$ 152,170,951

*Certain reclassifications have been made to the 2013 amounts to conform to the 2014 presentation

PRESIDENT
During Audit Period and Current: Dr. Wayne Watson

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**NONCOMPLIANCE AND INADEQUATE CONTROLS
OVER ADVANCES TO EMPLOYEES**

**Need to improve controls over
advances made to employees**

The University did not maintain appropriate controls over advances made to employees that were provided to pay for University expenses and did not comply with Internal Revenue Service (IRS) regulations related to amounts advanced that were not substantiated under an accountable plan.

**\$228,095 was written off due to a
lack of appropriate documentation**

The University made advances of approximately \$260,000 and \$224,000 to employees (primarily athletics coaches) during fiscal years 2013 and 2012, respectively. In fiscal year 2014, the University made two adjusting journal entries totaling \$228,095 to write off the remaining amounts that were outstanding as of June 30, 2013 in which the University had not received appropriate documentation from the employees to substantiate the use of the funds for University business.

**The University is not pursuing
recovery of the amounts**

The University informed the auditors they were not pursuing recovery of these amounts or reporting it as compensation to those employees who failed to substantiate the use of the advances.

IRS Treasury Regulations (Regulation 1.62-2(c)) allow an employer to exclude from an employee's gross income amounts paid under an "accountable plan" under which the employer requires the employee to substantiate all expenses and repay any amounts received in excess of documented expenses. If not paid under an "accountable plan" such amounts are includable in the employee's gross income and is subject to all payroll taxes.

Failure to implement adequate controls over travel advances and failure to comply with IRS regulations could result in misappropriation of State funds and additional payroll tax liabilities and penalties. (Finding 1, page 43).

We recommended the University establish adequate controls over travel advances and comply with IRS regulations.

University agrees with the auditors

University officials agreed with the finding and stated that Athletic Department staff is being expanded to include a dedicated Business Officer to oversee the process of submitting timely documentation for all travel.

INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

Inaccurate accounting

The University did not properly account for accrued compensated absences and did not properly calculate the accrued leave liability.

During our testing of accrued compensated absences, we noted the following:

56 individuals were removed from the schedule as they were not allowed to accrue absences

The corrected error totaled \$332,866

7 of 24 employees had leave time that was not calculated correctly

Payouts of \$163,340 were not included in the calculation of the year-end liability

- We selected a sample of 5 employees from employment categories that do not vest accrued leave and noted that 3 of the employees were included on the accrued compensated absences schedule. We brought this information to the attention of the University and asked them to go through their records and remove all individuals that were not allowed to accrue absences. A total of 56 employees were removed from the schedule, totaling \$332,866. The University posted an adjusting entry to correct their financial statements for this error.
- We also tested a sample of 24 employees to determine if the University was properly accounting for leave time earned and used during the year. We noted seven employees in our sample that had accrued leave time that was not correctly accumulated. The miscalculation ranged from under accruing by 60.79 hours to over accruing by 40 hours. Once brought to the University's attention, these employees' records were corrected. The projected understatement based on our sample was \$20,092.
- We also noted the University failed to include payouts that were made to employees during the month of July 2014 in the year-end liability balances given to the auditors. An adjusting journal entry of \$163,340 was posted to correct this misstatement. (Finding 2, pages 44-45) **This finding was first reported in 2011.**

We recommended the University improve its system for accumulating and calculating compensated absences to ensure records and reporting are accurate.

University agrees with the auditors

University officials agreed with our finding and stated that all employees from the Human Resources and Accounting functions that are integral to this process will receive training to expand their knowledge of the entire process. (*For the previous University response, see Digest Footnote #1.*)

OTHER FINDING

The remaining finding is reportedly being given attention by the University. We will review the University's progress towards the implementation of our recommendations in our next engagement.

AUDITOR'S OPINION

Our auditors state the financial statements of the Chicago State University as of and for the year ended June 30, 2014 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were Borschnack Pelletier & Co.

DIGEST FOOTNOTES

#1 - Inaccurate Accounting of Accrued Compensated Absences – Previous University Response - During FY '13, the process for capturing vacation and sick time that supports the compensated absences calculation was manual in nature. To effectively eliminate the errors going forward, the University has conducted training that covers data gathering and input processes that support this calculation. The University has also initiated efforts to transition to an automated system that will support the calculation for the FY '14 time period. The University accepts the recommendation.