



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, 2010**

Release Date: March 30, 2011

Summary of Findings:

Total this audit:	41
Total last audit:	13
Repeated from last audit:	11

SYNOPSIS

- The University did not perform accounting reconciliations of certain receivables, prepaid expenses, and capital assets at the end of the current accounting period. We noted errors in the prior periods which resulted in adjustments recorded by the University.
- The University did not comply with the Uniform Disposition of Unclaimed Property Act and recorded a prior period adjustment for old accounting errors.
- The University did not properly report financial information for the University Auxiliary Facilities System Revenue Bond Fund.
- The University did not comply with certain requirements related to federal awards received from the United States Agency for International Development (USAID).
- The University did not fully comply with reporting requirements applicable to its Research & Development Cluster programs.
- The University did not reconcile its student financial assistance awards and expenditures on a monthly basis.
- The University did not prepare a complete and accurate Schedule of Expenditures of Federal Awards (SEFA).
- 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 have adequate procedures to ensure compliance with OMB Circular A-133's requirement to notify pass-through grantors of the results of the University's audit.
- The University did not have adequate internal controls procedures over expenditures and activities related to the University's Convocation Center.
- The University did not have adequate control over contracting procedures.
- The University allowed students with outstanding balances to register and attend classes in violation of the University's policies and failed to send formal bills to students.

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

CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2010

FINANCIAL OPERATIONS	2010	2009
Operating Revenues		
Student tuition and fees, net.....	\$ 33,786,262	\$ 29,055,091
Federal grants and contracts.....	10,507,573	10,102,423
State and local grants and contracts.....	4,792,609	9,480,143
Nongovernmental grants and contracts.....	59,704	45,178
Auxiliary enterprises.....	4,083,970	4,119,394
Other operating revenues.....	2,743,420	2,335,300
Total Operating Revenues.....	<u>\$ 55,973,538</u>	<u>\$ 55,137,529</u>
Operating Expenses		
Instruction.....	\$ 41,130,797	\$ 39,531,380
Research.....	4,219,192	2,607,597
Public service.....	5,573,365	8,099,153
Academic support.....	8,053,543	7,745,016
Student services.....	8,122,443	12,282,348
Institutional support.....	9,991,980	9,999,481
Operation and maintenance of plant.....	11,723,886	12,884,408
Depreciation.....	5,761,265	6,906,656
Scholarships and fellowship.....	11,445,302	8,722,355
Auxiliary enterprises.....	2,856,109	2,311,469
On behalf State fringe benefits.....	24,519,164	19,345,061
Total Operating Expenses.....	<u>\$ 133,397,046</u>	<u>\$ 130,434,924</u>
Operating Income (Loss).....	\$ (77,423,508)	\$ (75,297,395)
NONOPERATING REVENUES (EXPENSES)		
State appropriations.....	\$ 42,725,974	\$ 41,673,200
State fringe benefits.....	24,519,164	19,345,061
Federal nonoperating grants.....	17,508,026	12,532,270
Investment income.....	24,676	125,945
Interest on capital assets - related debt.....	(954,917)	(664,240)
Other, net.....	425,639	647,556
INCREASE (DECREASE) IN NET ASSETS.....	<u>\$ 6,825,054</u>	<u>\$ (1,637,603)</u>
Net assets, beginning of year.....	\$ 126,033,731	\$ 127,671,334
Prior period adjustment.....	1,858,405	-
Net assets, beginning of year, as adjusted.....	<u>127,892,136</u>	<u>127,671,334</u>
Net assets, end of year.....	<u>\$ 134,717,190</u>	<u>\$ 126,033,731</u>

SUMMARY - BALANCE SHEET	2010	2009
Current Assets.....	\$ 28,334,758	\$ 22,279,438
Noncurrent Assets.....	145,489,237	146,928,071
Total Assets.....	<u>\$ 173,823,995</u>	<u>\$ 169,207,509</u>
Current Liabilities.....	14,992,120	17,889,656
Noncurrent Liabilities.....	24,114,685	25,284,122
Total Liabilities.....	<u>\$ 39,106,805</u>	<u>\$ 43,173,778</u>
Total Net Assets.....	<u>\$ 134,717,190</u>	<u>\$ 126,033,731</u>

PRESIDENT
During Audit Period: Acting President - Dr. Sandra Westbrooks (7-1-09 thru 9-30-09), Dr. Wayne Watson (10-1-09 thru 6-30-10)
Currently: Dr. Wayne Watson

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

FINANCIAL STATEMENT ADJUSTMENTS

The University did not perform accounting reconciliations of certain receivables, prepaid expenses and capital assets at the end of the current accounting period. We also noted errors reported in earlier reporting periods that resulted in prior period adjustments recorded by the University.

Some of the matters noted follow:

Construction in Progress understated by \$687,555

- Construction in progress as of June 30, 2009 was understated by \$687,555.

\$928,193 wrote off to misstated current year revenues

- The University had written off \$928,193 of old stale dated checks that it had determined were not valid liabilities of the University. The University wrote these off to other income thereby misstating its current year revenues.

Liabilities totaling \$142,657 were overstated

- The University had not reconciled its student payable and another liability account. Upon further review it was noted that the balances were overstated due to several stale dated checks. The University recorded entries totaling \$142,657 to remove these erroneous liabilities.

Allowances related to students accounts and loans were understated by \$796,268 and \$121,563 respectively

- The University did not use a reasonable methodology for estimating an allowance for doubtful accounts for its student loans and student accounts. After bringing this to the attention of the University, they revised their estimates and posted an entry to increase the student account allowance by \$796,268 and the student loan allowance by \$121,563.

Third party receivables were overstated by \$412,372

- The detail provided by the University relating to its third party accounts receivable had not been reconciled to the general ledger. After further review, it was determined that the balance was overstated by \$412,372.

Unsupported institutional loans written off totaling \$65,856

- The University's institutional loan receivable account did not show any activity since 1997. When this was brought to the University's attention it was determined they did not have any supporting documentation detailing these loans. An entry writing off these loans was made in the amount of \$65,856.

Unreconciled accounts payable amount of \$55,675

- The detailed accounts payable listing provided by the University included a vendor called "Unreconciled". The University had no idea whom these amounts were payable to or if they were payable. The University wrote off these balances totaling \$55,675.

Vouchers totaling \$139,180 were inappropriately charged to FY 10

- During our voucher testing, we noted that \$139,180 of vouchers charged to fiscal year 2010 that should have been recorded in the June 30, 2009 accounts payable. The University did not record this proposed adjustment.

Attorney General approval was not obtained

- The University did not obtain the necessary approvals from the Attorney General's Office to write off the receivables that exceeded \$1,000. (Finding 1, pages 21-24)

We recommended that the University enhance its procedures to ensure that accounting records are properly reconciled and evaluated and allow for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.

University agrees with the auditors

University officials agreed with our recommendation.

NONCOMPLIANCE WITH THE UNCLAIMED PROPERTY ACT AND ACCOUNTING ERROR WRITE OFFS

The University did not fully comply with the Uniform Disposition of Unclaimed Property Act and recorded a prior period adjustment for old accounting errors.

Some stale checks were 11 years old

After the completion of each calendar year, the University transfers its old outstanding checks to a liability account and removes them from its bank reconciliation. During our audit, we noted that these liability accounts contained stale checks which had never been cashed. Some of these checks were issued over eleven years ago.

\$1,071,000 write off related to stale checks

We also noted that the University wrote off approximately \$1,071,000 of stale checks that were payable to businesses and individuals that it believes were not valid liabilities of the University. The University recorded a prior period adjustment to its 2009 net assets to remove these liabilities. Although we concur that most of these stale checks were likely the result of accounting errors, the University still has a due diligence requirement to investigate each one of these stale dated checks and comply with the Act.

University should perform due diligence to investigate stale checks

The Uniform Disposition of Unclaimed Property Act states that every person holding funds or other property, tangible or intangible, presumed abandoned under this Act shall report and remit all abandoned property specified in the report to the State Treasurer. This property shall be presumed abandoned if the property has remained unclaimed for 7 years. (Finding 2, pages 25-26)

We recommended that the University continue its evaluation of stale checks and comply with the requirements of the Act.

University agrees with the auditors

University officials agreed with the recommendation and stated that they will make every effort to comply.

INACCURATE FINANCIAL REPORTING FOR THE UNIVERSITY AUXILIARY FACILITIES SYSTEM REVENUE BOND FUND

The University did not properly report financial information for the University Facilities System Revenue Bond Fund (System).

Corrections made to the System's financial statements totaling \$2,571,589

In testing the financial statements of the System we noted that the University did not have a proper system to ensure that the reporting for the System was done correctly and consistently. After inquiries by the auditor, the University made a correction to the beginning net assets in the amount of \$2,571,589 which related to a \$2,306,469 overstatement of cash, a \$23,714 understatement of accounts receivable and a \$288,834 understatement of accounts payable. (Finding 3, page 27)

We recommended that the University ensure that proper financial reporting is achieved so that bond holders are provided financial information for the University and the System in accordance with generally accepted accounting principles.

University agrees with the auditors

University officials agreed with the recommendation.

INAPPROPRIATE COSTS CHARGED TO U.S. AID PROGRAM

The University did not comply with the compliance requirements related to its award from the United States Agency for International Development (USAID).

We examined 27 expenditures totaling \$175,809. Some of the issues noted follow:

Questioned costs totaling \$14,197

- Four expenditures included charges for unnecessary and unreasonable expenses. These charges were for roaming costs for a cellular phone (\$7,271), purchase of additional airline tickets because the travelers were unaware of the check-in procedures on tickets already purchased (\$6,800), and medication for a traveler (\$126).
- One expenditure included charges of \$7,123 that were incurred prior to the period of availability.
- One expenditure was for a travel advance in the amount of \$1,500. The traveler indicated that receipts were

No formal travel voucher or reconciliation prepared

submitted to the former program director but no formal travel voucher or reconciliation of expenses was completed by the traveler.

- Two expenditures (\$2,446) included charges that related to the prior fiscal year. (Finding 5, pages 30-31) **This finding was first reported in 2003.**

We recommended that the University improve its procedures to ensure that the University complies with requirements applicable to its Federally funded programs. Further, the University should report expenditures in the correct fiscal year.

University agrees with the auditors

University officials agreed with the recommendation and stated that a new management team has been installed for the US Aid grant and that a system of internal controls has been implemented. (For the previous University response, see Digest footnote #1)

CONTROLS OVER RESEARCH AND DEVELOPMENT CLUSTER REPORTING NEED IMPROVEMENT

The University did not fully comply with compliance requirements of reporting applicable to its Research and Development Cluster programs.

Our testing results follow:

University unable to provide a listing of the required reports

- The University was unable to provide the auditors a complete listing of reports that were required to be submitted for the Research and Development Cluster programs. This has been reported as a scope limitation.
- One report submitted under the American Recovery and Reinvestment Act was missing required data. The report was missing the recipient's account number. (Finding 7, pages 34-35)

We recommended that the University improve its controls to comply with the requirements applicable to Federal programs.

University agrees with the auditors

University officials agreed with the recommendation and stated that Sponsored Programs will establish policies, procedures and controls to ensure compliance with their Federal programs.

STUDENT FINANCIAL ASSISTANCE NOT RECONCILED ON A MONTHLY BASIS

Lack of reconciliation between program records and fiscal records

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

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 could not provide us with any reconciliations of program and fiscal records. As a result, we compared the University's program records and fiscal records. Some of the differences noted follow:

Questioned costs of \$69,818

- For the Pell Grant Program (PELL) the program records indicated total PELL awards were \$17,487,399 and the fiscal records reported expenditures of \$17,557,217 resulting in questioned costs of \$69,818.
- For the Federal Perkins Loan Program - Prior to adjustment, the University's general ledger showed outstanding loans of \$1,731,920 at June 30, 2010. The University's Perkins Loan servicer reported outstanding loans of \$1,663,661. The University subsequently posted an adjustment of \$66,732 to write down its outstanding loan balance, leaving an unadjusted difference of \$1,527. (Finding 8, pages 36-37) **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 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. (For the previous University response, see Digest footnote #2)

INADEQUATE CONTROLS OVER PREPARATION OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 October 14, 2010. The Notes to the SEFA were provided on December 16, 2010. We tested the accuracy and completeness of the SEFA and noted:

Direct Loan Program not on the Schedule

- The Federal Direct Loan Program (\$3,469,287) was missing from the SEFA and related notes.

State Fiscal Stabilization Fund not on the Schedule

- The State Fiscal Stabilization Fund Cluster (\$3,451,674) was missing from the SEFA.
- An interest subsidy that the University has received on an annual basis (since approximately 1971) from the Department of Housing and Urban Development of \$55,812 was missing from the SEFA.
- American Reinvestment and Recovery Act funds were not identified as such. (Finding 9, pages 38-39)

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 will improve its internal controls over financial reporting to ensure the preparation of a complete and accurate SEFA.

INADEQUATE CONTROLS OVER SUSPENSION AND DEBARMENT

Suspension and debarment controls were not in place until December 2009

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.

While obtaining and understanding of University's internal controls over compliance applicable to Federal award programs, we determined that the University did not have any internal controls related to suspension and debarment until December 2009 (when the University's standard contract was revised to include a certification by the vendor related to suspension and debarment).

None of the 12 contracts tested included a vendor certification regarding suspension and debarment

We tested 12 contracts totaling \$6,394,425 and noted that none of the contracts tested included a vendor certification stating that the vendor was not suspended or debarred. None of the vendors were included on the Excluded Parties List System. (Finding 14, pages 46-47)

We recommended that the University implement 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 Sponsored Programs will work closely with Legal and Purchasing to implement the necessary internal controls.

INADEQUATE CONTROL PROCEDURES TO NOTIFY PASS-THROUGH GRANTORS OF AUDIT RESULTS

The University did not have adequate procedures to ensure compliance with Office of Management and Budget (OMB), Circular A-133's requirement to notify pass-through grantors of the results of the University's audit.

For the year ended June 30, 2009, the University reported expenditures totaling \$3,270,390 from 18 separate Federal awards that were received from pass-through entities. We asked the University what procedures they had for notifying pass-through grantors of the results of the University's Single Audit. University personnel indicated that they send a copy of the University's audit reports to those pass-through grantors that request a copy.

The University could not provide documentation that pass-through grantors were notified of audit results

We selected 5 pass-through grants that were reported on the University's fiscal year 2009 Schedule of Expenditures of Federal Awards and requested to see documentation of the University having notified pass-through grantors of their audit results. The University could not provide such documentation. (Finding 27, pages 64-65)

We recommended that the University implement procedures to ensure that all pass-through entities are informed of the University's audit results as required by OMB Circular A-133.

University agrees with the auditors

University officials agreed with the recommendation and stated that Sponsored Programs will establish a mechanism for informing all pass-through entities of the University's audit results as required by OMB Circular A-133.

INADEQUATE CONTROLS OVER CONVOCATION CENTER EXPENDITURES

The University did not have adequate internal control procedures over expenditures and activities of the University's Convocation Center (Center).

Under an agreement dated June 1, 2007, the University engaged a vendor to manage the Center. The agreement calls for the gross ticket receipts for the Center to be deposited into a "Box Office" bank account in the name of the University. All direct event related expenses are then paid from this account and the net revenue is transferred to another "Operating" bank account in the name of the University. The "Operating" account is used to fund general operating costs of the Center as well as the general operating costs of the vendor relating to the management of the Center. These are University accounts and were under the supervision of a University employee assigned to the Center.

We selected and tested 11 expenditures totaling \$205,138 related to the operations of the Center. Some of the exceptions noted follow:

No evidence of competitive procurement

- One contract totaling \$90,000 (facilities management services) had no evidence of having been competitively procured.

Contract not signed until a year after the first invoice

- A second contract totaling \$53,816 (design services) also had no evidence of having been competitively procured and was not signed by the University until a year after the first invoice was submitted.

Late payments

- Eight expenditures (\$134,185) did not have a completed purchase requisition.
- One expenditure, made up of two invoices, totaling \$53,816 was not paid timely. These two invoices were paid 380 and 318 days after the invoice date. (Finding 29, pages 67-68)

We recommended that the University improve its controls over the operations of the Convocation Center and comply with the State law.

University agrees with the auditors

University officials agreed with the recommendation and stated that a new Events Director has come on board and is managing the Convocation Center.

INADEQUATE CONTROLS OVER CONTRACTING PROCEDURES

The University did not have adequate controls over contracting procedures.

During our testing of 25 contracts totaling \$6,608,224 some of the issues noted follow:

22 of 25 contracts tested were missing information

- 22 of 25 contracts tested did not contain the minimum requirements for written contracts.
- 3 contracts that exceeded \$250,000 did not have the signature of the Chief Fiscal Officer of the University on the contract.

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

- Five contracts totaling \$2,883,541, were dated and signed by a University official and the vendors. However the date of the University's or vendors' signature was after the date of the commencement of services according to the contract or invoice.

Some vendors were paid more than the contract maximum without an amendment

- Two vendors were paid more than the contracted amount. The vendors were paid an additional \$42,312 and \$5,778 without contract amendments. (Finding 31, pages 71-73) **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, and the SAMS Manual. Further, the University should ensure that all contracts are completed, approved, and executed prior to the start of the contract.

University agrees with the auditors

University officials agreed with the recommendation and stated that 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. (For the previous University response, see Digest footnote #3)

CONTROLS OVER STUDENT REGISTRATION AND BILLING NEED IMPROVEMENT

The University allowed students with outstanding loan balances to register and attend classes in violation of the University's policies and failed to send formal bills to students.

No bills were sent to students for the Spring semester

During our audit testing, the University's Bursar informed us that the University did not send any formal bills to students for the Spring semester. The gross student receivable for this semester was \$2,119,941 as of June 30, 2010 as compared to \$1,592,512 for the previous Spring semester as of June 30, 2009.

Some students were allowed to register despite owing the University \$116,032

We also tested 26 students owing the University a total of \$249,144 and noted that 7 students with balances totaling \$116,032 were allowed to enroll and take courses even though they had not paid their prior outstanding balances.

The Chicago State University Undergraduate Catalog states "Students must have met all their financial obligations to the University before they are eligible to register for classes unless special arrangements for meeting such obligations have been made with the bursar." (Finding 32, page 74)

We recommended that the University follow its procedures as stated in the Catalog and review the controls over billing and ensure that bills are sent to students regularly.

University agrees with the auditors

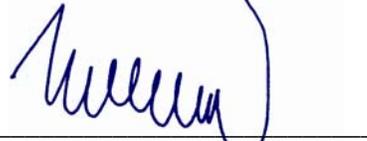
University officials agreed with the recommendation and stated that the new Bursar has implemented a hold release process in November, 2010 which includes the documenting of special arrangements with students who have prior unpaid balances in order to facilitate the continuation of their education.

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, 2010 and for the year then ended, are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

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

DIGEST FOOTNOTE

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

The University agrees with the recommendation. All federal program expenditures will have a dual review for proper supporting documentation and other cited deficiencies performed by Financial Affairs.

#2 STUDENT FINANCIAL AID NOT RECONCILED ON A TIMELY BASIS - Previous University Response

The University agrees with this recommendation. A monthly reconciliation of student financial aid records will be completed. The University intends to comply with all federal program requirements.

#3 INADEQUATE CONTROLS OVER CONTRACTING PROCEDURES - Previous University Response

The University agrees with the recommendation. The University has revised the contract processing system to comply with the procurement code requirements and all other compliance sources cited in the audit finding.