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, 2012

Release Date: March 28, 2013

Summary of Findings:

Total this audit:	**29**
Total last audit:	**34**
Repeated from last audit:	**16**

SYNOPSIS

- The University maintained deposits in excess of the Federal Deposit Insurance Coverage and pledged collateral. Uninsured and uncollateralized deposits totaled $18,633,636 at June 30, 2012.
- The University did not properly account for vested sick time absences of employees and did not properly calculate the accrued leave liability of the University.
- The University did not fully comply with compliance requirements related to matching and reporting related to its award from the Department of Health and Human Services and passed through the City of Chicago pertaining to the Head Start Cluster.
- The University did not reconcile its student financial assistance awards and expenditures on a monthly basis.
- The University awarded Title IV student financial aid to students at unreported locations.
- The University did not adhere to compliance requirements related to eligibility, earmarking, and reporting related to the Trio Cluster award from the Department of Education.
- The University's controls over the compliance requirements of allowable costs and cost principles applicable to its Strengthening Minority-Serving Institution program did not function as designed.
- 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.
- The University diverted tuition from credit-bearing degree programs from its Income Fund to an accounting activity.
- The University had subsidies between accounting entities and advanced funds to the Chicago State University Foundation that were not repaid within a one year period.

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

CHICAGO STATE UNIVERSITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2012

FINANCIAL OPERATIONS	2012	2011
Operating Revenues		
Student tuition and fees, net	$ 40,432,815	$ 37,774,246
Federal grants and contracts	8,170,333	15,360,785
State and local grants and contracts	3,143,671	3,844,820
Nongovernmental grants and contracts	24,871	21,211
Auxiliary enterprises	3,656,912	4,505,372
Other operating revenues	2,989,417	3,092,798
Total Operating Revenues	58,418,019	64,599,232
Operating Expenses		
Instruction	41,217,864	41,762,045
Research	2,567,754	3,539,508
Public service	4,392,720	5,603,164
Academic support	7,579,922	6,265,881
Student services	10,047,812	14,718,362
Institutional support	11,375,091	9,594,423
Operations and maintenance of plant	10,709,405	10,849,699
Depreciation	5,826,126	5,857,473
Scholarship and fellowship	10,052,382	11,101,360
Auxiliary enterprises	4,884,555	4,580,166
On behalf State fringe benefits	31,002,371	26,537,411
Total Operating Expenses	139,656,002	140,409,492
Operating (Loss)	(81,237,983)	(75,810,260)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	39,491,674	40,014,775
State fringe benefits	31,002,371	26,537,411
Federal nonoperating grants	17,768,711	20,745,572
Investment income	26,307	18,646
Interest on capital assets - related debt	(851,294)	(902,259)
Other, net	3,116,201	3,416,968
INCREASE IN NET ASSETS	9,315,987	14,020,853
Net assets, beginning of year	148,738,043	134,717,190
Net assets, end of year	$ 158,054,030	$ 148,738,043

SUPPLEMENTARY INFORMATION (UNAUDITED)	2012	2011
Employment Statistics		
Faculty and staff	856	894
Students	260	253
Total Employees	1,116	1,147
Enrollment Statistics		
Head Count:		
Undergraduate	4,688	5,483
Graduate	1,574	1,720
Total Head Count	6,262	7,203
Institutional cost per student	$ 7,435	$ 7,216

PRESIDENT
During Audit Period and Current: Dr. Wayne Watson

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED FOR PLEDGED COLLATERAL FOR UNINSURED DEPOSIT ACCOUNTS

The University maintained deposits in excess of the Federal Deposit Insurance Coverage (FDIC) and pledged collateral.

$18,633,626 uninsured without pledged collateral

The University's deposits (bank balances) at one of its financial institutions totaled $18,883,641 at June 30, 2012. The FDIC plus pledged collateral coverage for these accounts totaled $250,015, which left uninsured deposits of $18,633,626.

The State Finance Act (30 ILCS 105/6a-1c(6)) requires the University to obtain a bond or pledged security whenever the University deposits funds with a bank and the amount of the deposit exceeds the federal deposit insurance coverage. (Finding 1, Page 21)

We recommended that the University obtain sufficient collateral to cover its deposit accounts.

University agrees with auditors

University officials accepted the recommendation and stated that they have obtained sufficient collateral to cover its deposit account.

INACCURATE ACCOUNTING OF ACCRUED COMPENSATED ABSENCES

Inaccurate accounting

The University did not properly account for vested sick time absences of employees and did not properly calculate the accrued leave liability of the University.

We compared 100% of the employees' accrued sick leave days/hours as of June 30, 2012 to June 30, 2011 in order to ensure that there were not any increases in accrued vested sick days/hours for any employees. Since January 1, 1998, sick time no longer vests and should not be accrued as a compensated absence by the University.

We noted 13 employees in which the accrued sick leave days/hours payable at June 30, 2011 was zero but a balance was present at June 30, 2012. The University had inadvertently left these employees' vested time off of the 2011 listing. Further, another employees' number of days had been incorrectly transferred as of June 30, 2012.

FY 12 expenses overstated

These omissions of vested sick time at June 30, 2011 understated the accrued leave liability for the year ending June 30, 2011 and overstated the fiscal year 2012 expenses by approximately $60,396. (Finding 2, pages 22-23)

University agrees with auditors

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

University officials agreed with the recommendation.

NEED TO IMPROVE COMPLIANCE WITH THE REQUIREMENTS RELATED TO THE HEAD START CLUSTER PROGRAM

The University did not fully comply with compliance requirements related to matching and reporting related to its award from the Department of Health and Human Services and passed through to the City of Chicago for the Head Start Cluster Program.

Unable to locate documents

We examined eight monthly reports. and noted Non-Federal Share (In-Kind) Report for award number 18107 submitted for July 2011 showed total in-kind contributions for the month of $15,284. The University, however, could only substantiate $14,962. The University was unable to locate documents relating to the difference.

We also examined the final "Non-Federal Share (In-Kind) Report" for each award and noted that the University reported "Administrative In-Kind in addition to the Program In-Kind. We noted the following:

Failure to satisfy the In-Kind match

Award Number	Program In-Kind Required	Program In-Kind Reported
18107	$113,684	$77,095
18137	$36,775	$8,673

The University did not fully satisfy the program In-Kind required by the grantor in the award budget summaries.

Failure to comply with Federal requirements may result in disallowed program costs and could jeopardize future Federal funding. (Finding 4, pages 26-27)

University agrees with the auditors

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

University officials agreed with the recommendation and stated standard procedures and processes are being developed that document the accounting treatment and management of "In Kind" costs.

NEED TO PERFORM MONTHLY RECONCILIATIONS FOR STUDENT FINANCIAL ASSISTANCE

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

We requested the University provide their October 2011, February 2012, and June 2012 monthly reconciliations of program and fiscal records related to all programs pertaining to the Student Financial Assistance Cluster.

No evidence that reconciliations were performed monthly

After some time and several requests, the University provided us with reconciliations for Federal Direct Loan, Federal PELL, Federal Perkins Loan, Federal Work Study, Federal Supplemental Educational Opportunity Grant, and Teacher Education Assistance for College and Higher Education (TEACH). However, there was no evidence that records had been reconciled monthly throughout the year. Some of the problems noted follow:

- A reconciliation of Federal Pell was provided; however, certain information used in the reconciliation could not be verified and agreed to external records. There was no evidence that the University had reconciled to the Department of Education's (ED) Common Origination and Disbursement System (COD).

Drawdown data not provided

- A reconciliation of Federal Direct Loan was provided, however, there was no evidence of reconciliation to COD or that monthly reconciliations of the Direct Loan School Account Statement were performed.

- The University did not provide any of ED's G-5 drawdown data for the Federal supplemental Educational Grant Reconciliation.

- The University did not provide any of ED's G-5 drawdown data for the February 2012 reconciliation pertaining to Teacher Education Assistance for College and Higher Education (TEACH) grants.

- The University did not provide any reconciliation information for the University Scholarships for Health Professions Students from Disadvantaged Backgrounds. (Finding 6, pages 31-32)
  This finding was first reported in 2008.

We recommended the University properly reconcile all student financial awards to its fiscal records for each student financial assistance program on a monthly basis and retain documentation of the data being reconciled.

University agrees with the auditors

University officials agreed with the recommendation and stated that resources have been expanded and improved to facilitate ongoing monthly reconciliation of financial aid to students. (For the previous University response, see Digest footnote #1)

STUDENT FINANCIAL AID AWARDED TO STUDENTS AT UNAPPROVED LOCATIONS

The University awarded Title IV student financial aid to students at unreported locations.

$127,176 in Title IV funds awarded to students prior to ED approval

Our testing of the United States Department of Education (ED) School Participation Management Division, Eligibility and Certification Approval Report disclosed 5 offsite locations where Chicago State University was providing education courses that were not reported to ED prior to providing Title IV funds to students at the locations. The University provided a listing of students receiving Title IV student financial aid at these locations during FY 2012 that totaled $127,176.

The Code of Federal Regulations (34 CFR 600.21(a)) states "Reporting requirements. Except as provided in paragraph (b) of this section, an eligible institution must report to the Secretary in a manner prescribed by the Secretary no later than 10 days after the change occurs, of any change in the following: (3) Its establishment of an accredited and licensed additional location at which it offers, or will offer 50 percent or more of an educational program if the institution wants to disburse Title IV, HEA program funds to students enrolled at that location under the provisions in paragraph (d) of this section.... (d) Disbursement rules related to additional locations. When an institution must report to the Secretary about an additional location under paragraph (a) (3), the institution may not disburse Title IV, HEA funds to students at that location before it reports to the Secretary about that location". (Finding 7, page 33)

We recommended that the University properly report all offsite locations to the Department of Education, prior to disbursing Title IV funds at those locations.

University agrees with the auditors

University officials agreed with the recommendation and stated they have developed a Corrective Action Plan to address the process for reporting an offsite location.

NONCOMPLIANCE WITH THE REQUIREMENTS OF THE TRIO CLUSTER

The University did not fully comply with the compliance requirements related to eligibility, earmarking, and reporting related to its TRIO Cluster award from the Department of Education.

Lack of supporting documentation led to questioned costs of $44,277

The University was unable to provide the auditors with supporting documentation to: (1) test the eligibility of beneficiaries, (2) test compliance with the earmarking requirements, and (3) determine the accuracy of reports related to this award. Therefore, the entire 2012 expenditures for the Talent Search Program are being reported as a questioned cost ($44,277).

During our review of the reports submitted for the TRIO Cluster, we noted the following:

- The Annual Performance Report for the TRIO - Talent Search Program was completed on December 29, 2011. However, the report was due to the Department of Education by November 29, 2011 (30 days late).

- The Annual Performance Report for the TRIO - Student Services was submitted; however, the University did not retain evidence that the report was approved by the Provost (or designee) as described in the University's controls over compliance with programmatic reporting. (Finding 8, pages 34-35)

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

University agrees with the auditors

University officials agreed with the recommendation and stated they have a corrective action plan in place to ensure that all annual reports are submitted on a timely basis and that all program records are maintained and secured for the mandatory number of years as deemed by the federal regulation.

INTERNAL CONTROLS DID NOT FUNCTION AS DESIGNED

The University's controls over the compliance requirements pertaining to allowable costs and cost principles applicable to its Strengthening Minority-Serving Institution program did not function as designed.

We tested 25 expenditures totaling $66,754 and noted that two employees were paid for services that were not performed. Upon examination of the attendance records and other documents for the pay periods selected in our sample, we noted that employees were paid for time that they did not work and the University's controls did not identify the inappropriate cost being charged to the Sponsored agreement. Specifically, we noted the following:

- For one employee, a report of absence was completed and provided to the payroll office for the pay period informing them of the absence. This employee did not have any accrued leave available and should have resulted in a loss of pay. The employee, however, received their normal paycheck. The auditors' questioned costs totaling $1,549 including indirect costs.

No loss of pay for time not worked

- For the second employee, the employee attendance records indicated that the employee was absent for two days during the testing period. Accrued leave records did not indicate that any accrued leave was used for these days. The employee was still paid their regular semi-monthly pay. The auditors' questioned cost of $374 including indirect costs for the two days absent. (Finding 14, pages 46-47) **This finding was first reported in 2010.**

Accrued leave records did not indicate any leave was used

We recommended the University improve its controls to ensure that the University complies with requirements applicable to its Federally funded programs and correct the errors noted above.

University agrees with the auditors

University officials agreed with the recommendation and stated that the Office of Human Resources is developing a policy to address the recording of time worked by temporary administrators which included procedures for the submission of their time worked for the purpose of determining accurate compensation. (For the previous University response, see Digest footnote #2)

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 18%

The Federal Perkins Loan cohort default rate as of June 30, 2011 (the default rate data trails the fiscal year by approximately ten months) was 18% and was obtained from the Department of Education's website.

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".

Regulations require that the rate not exceed 15%

The Secretary considers an institution to have that administrative capability if the institution has a cohort default rate that does not exceed 15 percent. (Finding 19, page 57)

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 recommendation and stated that with staffing changes in the department and the conversion to a new billing service provider, that they have tightened their default prevention program.

TUITION DIVERTED TO ACCOUNTING ENTITY

The University diverted tuition from credit-bearing degree programs from its Income Fund to an accounting activity.

While testing the Student Financial Assistance (SFA) Cluster, we were informed that the University disbursed SFA to students attending off-campus locations. To verify the accuracy of that information, we reviewed student account activity and came across two students that had SFA applied to their student account. However, there was no related tuition charges posted to those student's accounts during the fiscal year.

We asked the University for evidence that the tuition revenue was recorded. The University provided the requested documentation and we noted the revenue account where the transactions were recorded was not part of the University's Income Fund. The revenue was recorded in an account that is an accounting activity for purposes of the University Guidelines.

$140,419 in tuition and fees was not recorded in the University's Income Fund

We expanded our testing and noted a total of 87 students enrolled in these cohorts with tuition and fees totaling $140,419 that were not recorded in the University's Income Fund. On the University financial statements this revenue was reported as other operating revenue instead of tuition and fees. (Finding 22, pages 61-62)

We recommended the University improve its revenue accounting procedures to ensure that all tuition charged for credit bearing courses is recorded in the University's Income Fund.

University agrees with the auditors

University officials agreed with the recommendation.

SUBSIDIES BETWEEN ACCOUNTING ENTITIES AND TO THE FOUNDATION

The University had subsidies between accounting entities (auxiliary enterprises and activities) during the fiscal year. The University also advanced funds to the Chicago State University Foundation (Foundation) that were not repaid within a one year period.

Student Activities subsidized by other funds

During our testing of the University Guidelines, we noted the "Student Activities" accounting entity 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.

Foundation owes the University $669,226 as of June 30, 2012

We also noted that the University was owed a balance from the Foundation of $669,226 and $565,861, as of June 30, 2012 and June 30, 2011 respectively. There was no evidence that the prior year balance had been paid by the Foundation. (Finding 23, pages 63-64)

We recommended 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. Further, the University should review and monitor the activities of the Foundation to ensure that advances and receivable balances are repaid by the Foundation within one year.

University agrees with the auditors

University officials agreed with the recommendation.

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, 2012 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 NEED FOR MONTHLY STUDENT FINANCIAL ASSISTANCE AWARD RECONCILIATION – Previous University Response

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. Staff has been trained and provided copies of the new procedures. Sponsored Programs accountants will report to the Chief Fiscal Officer and all fiscal reports will be approved by the Chief Fiscal Officer. A Grants and Finance Accounting Specialist has been hired who will work closely with the Office of Financial Aid and Finance to reconcile student financial aid on a monthly basis. The University agrees with the recommendation.

#2 INADEQUATE CONTROLS AND NONCOMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE STRENGTHENING MINORITY-SERVING INSTITUTIONS PROGRAM – Previous University Response

Sponsored Programs will work closely with Legal and Labor Affairs to improve upon the policies and procedures for reviewing and approving contracts and amendments. As part of those improvements, Sponsored Programs has hired a Post-Grant and Compliance Administrator who will provide oversight and work with fiscal officers and principle investigators on active Federal and State funded contracts and subcontracts. Oversight will involve staff training on relevant grant processes. The Office of Grants and Research Administration (OGRA) has implemented new procedures for three month closeouts and quarterly reconciliations. All approvals for expenses have been transferred from the grant accountants to the Post-Grant and Compliance Administrator and VPA of Sponsored Programs. The University agrees with the recommendation.