

LEGISLATIVE AUDIT COMMISSION



Review of
Chicago State University
Year Ended June 30, 2015

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**REVIEW: 4468
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015**

FINDINGS/RECOMMENDATIONS - 15

**IMPLEMENTED - 11
ACCEPTED AND UNDER STUDY - 4**

REPEATED RECOMMENDATIONS - 7

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 20

This review summarizes the auditors' reports on Chicago State University for the year ended June 30, 2015, filed with the Legislative Audit Commission February 25, 2016 (compliance) and December 17, 2016 (financial). The auditors performed a compliance examination and a financial audit in accordance with *Government Auditing Standards*, State law and the requirements of the federal Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements were fairly presented.

Chicago State University is governed by the Chicago State University Board of Trustees, which is comprised of seven members appointed by the Governor with the advice and consent of the State Senate. There is also one voting student member elected to a one-year term by the student body. Chicago State University is a public, comprehensive university located on the south side of Chicago, which provides access to higher education for students of diverse backgrounds and educational needs. The University fosters the intellectual development and success of its student population through a rigorous, positive, and transformative education experience. The University is committed to teaching, research, service and community development including social justice, leadership and entrepreneurship.

Dr. Wayne Watson was President of the University during the audit period until December 31, 2015 when Dr. Thomas J. Calhoun began serving as President until his resignation effective September 16, 2016. The Interim President is Mr. Cecil Lucy, who had been serving the University for about a year as Vice President of Administration and Finance. Mr. Lucy, a CPA and attorney, was a former Vice President and CEO at Tuskegee State University.

General Information

On the following page appears a summary of the University's assets, liabilities, and net position.

	2015	2014
Assets		
Current Assets	\$ 31,400,000	\$ 26,049,131
Non-current Assets	\$ 165,000,000	\$ 155,033,571
Total Assets	\$ 196,400,000	\$ 181,082,702
Deferred Outflows of Resources	\$ 300,000	\$ -
Total Liabilities	\$ 35,200,000	\$ 35,018,835
Total Net Position	\$ 161,500,000	\$ 146,063,867

The increase in total assets was due to the University's net gain of \$5.4 million in current assets and the use of \$9.8 million in noncurrent assets to fund renovations, system upgrades, and library books.

Two standard enrollment statistics for colleges and universities are head count (number of students), and credit hours. The data indicated below for head count is as of the spring semester and the credit hour data is for the entire academic year:

Head Count		
	2015	2014
Undergraduate	3,554	4,015
Graduate	1,264	1,282
TOTAL	4,818	5,297

Credit Hours		
	2015	2014
Undergraduate	86,879	99,081
Graduate	27,976	28,401
TOTAL	114,855	127,482

The average number of University employees is as follows:

	2015	2014
Faculty and Staff	794	876
Students	231	275
TOTAL	1,025	1,151

Full-time equivalent cost per student per semester in 2015 was \$7,656 compared to \$7,900 in 2014. The University conferred 948 degrees in 2015.

Expenditures From Appropriations and the University Income Fund

Appendix A presents a summary of appropriations and expenditures for FY15 and FY14. The General Assembly appropriated \$38,237,500 to the University in FY15: \$36.3 million from the Education Assistance Fund; \$1.6 million from the newly created Chicago State University Education Improvement Fund (from transfers from the State Gaming Fund); and \$307,000 from the Professions Dedicated Fund for Pharmacy Training.

REVIEW: 4468

Total expenditures from appropriations decreased from \$42.2 million in FY14 to \$36.3 million in FY15 due to the decrease in appropriation. Total Income Fund revenues were \$40.9 million in FY15 compared to \$37.1 million in FY14, an increase of 10.3%, due to a \$3.2 million increase in Tuition Revenue. Expenditures from the Income Fund decreased in almost every line from \$42.2 million in FY14 to \$36.3 million in FY15, or 13.8%, with primary decreases of \$5.8 million in Personal Services and Contractual Services.

Current Revenues and Expenses

The table appearing in Appendix B presents a statement of revenues, expenses, and changes in net position, and selected account balances for the years ended June 30, 2015 and 2014. The most significant source of revenue was the State of Illinois, totaling \$101.5 million, or 62.7% of total revenues, which included:

- State appropriations of \$38 million,
- Fringe benefits of \$43.7 million,
- State grants of \$5.5 million, and
- Capital appropriations and grants of \$14.3 million.

Total revenues were \$161.8 million in FY15 compared to \$149.7 million in FY14 primarily due to an increase of \$11.3 million in capital appropriations and grants for funding of various capital projects. Student tuition and fees of \$27.8 million represented almost 17.2% of revenues. Federal grants and contracts were \$18.3 million, or 11.3% of revenues.

Expenses decreased from about \$155.9 million in FY14 to \$146.7 million in FY15 due to an \$8.4 million reduction in vendor and employee costs. Scholarship and fellowship decreased by \$2.2 million due to declining student enrollment. On-behalf State fringe benefits increased \$5.1 million due to the adoption of GASB 68 which required the University to recognize retirement benefits based on the University's allocated portion of the State's pension expenses, not just the State's contributions to the retirement plan for University employees which had been used in prior years.

Accounts Receivable

Appendix C provides a summary of the University's accounts receivable for FY15 and FY14. Net accounts receivable decreased from \$8.1 in FY14 to \$5.8 million in FY15.

Gross receivable was \$17.1 million in FY15. More than \$12.1 million in unpaid student tuition and fees account for almost 71% of the gross receivable, while \$3.7 million in federal, State and private grants and contracts accounted for 21.9% of the gross receivable, and \$1.2 million in third party and other receivables account for 7.2% of the gross receivable. Of the \$13.3 million gross receivable due the Current Unrestricted Fund, \$2.1 million is current while \$11.2 million is considered uncollectible. Accounts receivable for student loans (\$1.7 million in FY15) are not included in Appendix C.

Property and Equipment

Appendix D summarizes the changes in property and equipment. The beginning balance as of July 1, 2014 was \$267,928,000 and the ending balance as of June 30, 2015 was \$284,032,000, an increase of \$16.1 million, or 6%. Increases were primarily in construction in progress.

Foundation Payments to the University

Chicago State University Foundation is considered a university-related organization. During FY15, CSU provided administrative support services to the Foundation valued at \$525,085. The Foundation does not directly pay the University for these services; however, the Foundation reciprocates by providing fund raising and other services to the University. The Foundation provided a total of \$1,471,734 to the University in FY15, compared to \$1,302,876 in FY14. Appendix E provides a summary of all funds that the Foundation gave the University during the audit period.

Effective June 30, 2015, CSU elected to terminate its contractual agreement with the Chicago State University Foundation. A new foundation, The University Foundation at Chicago State (TUFCS), was established, but the transfer of assets to the new entity has not been finalized.

Tuition and Fee Waivers

During FY15, Chicago State University granted \$2,344,200 in tuition and fee waivers to 834 undergraduate and graduate students. This represents an increase of \$687,300, or 40.8%, when compared to the total tuition and fee waivers granted in FY14. Over \$608,000 in tuition waivers went to veterans and \$491,300 in tuition waivers went to athletes. Appendix F provides a summary of tuition and fee waivers for FY15 and FY14.

Accountants' Findings and Recommendations

Condensed below are the 15 findings and recommendations, seven repeated, presented in the compliance and financial reports. The following recommendations are classified on the basis of updated responses provided by Michael Mayo, Chief Internal Auditor via electronic mail received August 2, 2016.

Accepted or Implemented

- 1. Improve processes to account for accrued leave to ensure records and reporting are accurate and that employees are paid appropriately. Recoup the inaccurate sick leave payouts. (Repeated-2011)**

REVIEW: 4468

Finding: The University did not properly account for accrued compensated absences. Auditors obtained the University's schedule of accrued compensated absences and performed the following tests:

- From the University's directory, auditors selected a sample of five employees from employment categories that generally do not vest accrued leave (athletic coaches, one year contract employees, and employees funded by grants) and noted that one of the employees selected was included on the accrued compensated absences schedule. Auditors reviewed the employee's contract and verified the employee was not eligible for vested accrued leave. Auditors 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. The University reviewed their records and indicated that there were no other individuals required to be removed. The noted employee's accrued leave (\$15,216) was removed from the listing prior to the preparation of the financial statements.
- Auditors also tested a sample of 19 employees to determine if the University was properly accounting for leave time earned and used during the year. Auditors noted four employees in the sample that had beginning accrued leave time that did not agree to the prior year schedule prepared by the University. The differences in beginning balances ranged from accruals that were 44.25 hours under to accruals that were 70.21 hours over previously reported amounts. Auditors also noted one employee that was shorted eight hours of accrued leave during the fiscal year. The total projected misstatement based on the sample was \$61,595 of additional expense that was run through the current year Statement of Revenues, Expenses and Changes in Net Position.
- Auditors tested six of 12 employees that received sick leave payouts during the fiscal year. Of the six employees tested, auditors noted that three of them received a payout for 100% of their sick time (\$6,256 over the allowed amount). The projected error in payments made was \$7,531.

University officials stated that the University maintains all accrued leave records in its electronic information system. The data does require some manual input and manipulation. The errors noted were due to human error.

Response: The University agrees with the recommendation and will improve its process between the Office of Human Resources and Finance/Administration to ensure that the appropriate accrued leave is captured on the general ledger. We will further continue our practice to recoup any overpayment.

Updated Response: Accepted and Implemented.

Accepted and Implemented – continued

2. Improve procedures to collect Federal Perkins Loans made to students in order to continue participation in this program.

Finding: The University's Federal Perkins Loan cohort default rate is in excess of the 15% threshold for administrative capability stipulated by the U.S. Department of Education.

The Federal Perkins Loan cohort default rate as of June 30, 2015 was 20.59% and was obtained from the University's Federal Perkins loan servicer.

University officials stated that economic conditions continue to present challenges for CSU students in loan repayment status.

Response: The University agrees with the recommendation and is restructuring its collection department to fill the gaps of collection personnel due to limited resources. In addition, the University will work with its loan service provider to identify additional services available. Under extreme cases, the University will review where an institutional loan can be used to pay Perkins and redirect the collection efforts accordingly.

Updated Response: Accepted and Under Study until the University is able to hire a Collections Supervisor. Financial Aid Office assisting with borrower identification. Finding expected to repeat.

3. Improve controls over Federal awards and prepare an accurate Schedule of Expenditures of Federal Awards (SEFA).

Finding: The University did not prepare an accurate Schedule of Expenditures of Federal Awards (SEFA).

The University provided the auditors its "Final" SEFA on November 18, 2015. Auditors tested the accuracy and completeness of the SEFA provided and noted the following:

- Two programs were reported with the incorrect Catalog of Federal Domestic Assistance (CFDA) numbers and incorrectly identified the Federal agency that provided the funding. A Department of Defense award was mistakenly reported as a National Science Foundation Award and a Department of Agriculture pass-through award from the University of Minnesota was also mistakenly reported as a direct award from the National Science Foundation.
- One program passed awards through to nine subrecipients totaling \$86,231 that were not reported as such.
- A pass-through award from the American Society of Pharmacognosy Foundation was initially identified as a directly funded award from the National Institutes of Health and included in the University's R&D Cluster. The University subsequently determined

REVIEW: 4468

that the award was not federally funded and removed it from the R&D Cluster and their SEFA.

- A pass-through award from Union College was initially identified as a directly funded award from the National Science Foundation.

University officials stated that the inaccuracies were due to human error.

Response: The University agrees with the recommendation. The Office of Grants and Research Administration (OGRA) will increase review of all program descriptions and program numeration in preparation for next year's report. Subrecipient awards will be documented and reviewed by OGRA.

Updated Response: Accepted and Implemented.

4. Improve procedures to ensure compliance with the requirements of federally funded programs and University procedures.

Finding: The University's controls over the compliance requirement of allowable costs and cost principles applicable to its Research and Development Cluster were not followed.

During testing of 29 expenditures (totaling \$495,868), auditors noted that the University used an incorrect indirect cost rate to calculate the indirect cost on a \$500 expenditure. The University used a rate of 24.73%, when the rate allowed by the award agreement was 23.50% (a questioned cost of \$6 of indirect costs).

Auditors also noted one payroll expenditure (\$984) was charged to the program using a 33.3% time and effort rate. However, the effort certification report completed by the employee for the pay period indicated that only 10% of the employee's time should be charged to the program. (The questioned cost was \$689.) In addition, the effort certification was not signed by the employee's supervisor.

The University uses a method whereby employees compensated by sponsored agreements complete and submit a monthly individual time and effort report. This report is also to be signed by the fiscal officer. The University's procedures require a reconciliation of time and effort reported and program charges at least every grant year and at closeout.

University officials stated that the grant accountants did not have the proper authorization to input nonstandard indirect cost rates into the University's accounting system. The University never billed the Department of Defense at the higher indirect cost rate, but the higher indirect cost rate did appear in the University's General Ledger. The noted employee's time and effort report reflected salary distributions to two different sponsored agreements that differed from the estimates charged to the sponsored agreements and reconciliation had not been performed.

Response: The University agrees with the recommendation. To prevent future errors, the

Accepted and Implemented – continued

University will continue to review indirect cost rates quarterly and now has the ability to correct non-standard rates within the Banner System. Regarding the payroll expenditure finding, the grant accountants will maintain PCN files and will reconcile the files quarterly to actual payroll records to ensure accuracy in allocations.

Updated Response: Accepted and Implemented.

5. Adhere to employee compensation controls.

Finding: The University's internal controls over the compliance requirement of allowable costs and cost principles applicable to its Higher Education Institutional Aid program did not function as designed.

Auditors tested 25 expenditures totaling \$82,094 and noted one (\$583) payroll expenditure in which the employee's timesheet had not been approved by the employee's supervisor. The timesheet approval was overwritten by a Human Resources employee. (Questioned cost of \$630 including applicable indirect costs.)

University officials stated that in this case, the approver was not the direct supervisor of the employee. The direct supervisor failed to communicate with the Human Resources employee to ensure the submitted hours were accurate.

Response: The University agrees with the recommendation. The Office of Grants and Research Administration will audit a sample of Webtime entry submissions quarterly to ensure proper approval by supervisors of employees hired on grant funds.

Updated Response: Accepted and Implemented.

6. Improve procedures to ensure that students that have been selected for verification are accurately verified in accordance with U.S. Department of Education regulations.

Finding: The University's procedures to complete verification when the student was selected by the U.S. Department of Education (ED) for verification did not function as designed.

Auditors tested a sample of 60 students receiving student financial assistance and noted that 15 of those students were selected for verification. Auditors noted the following exception to the University's verification procedures:

- One student's parents' tax return information differed from the amounts reported on the Institutional Student Information Report (ISIR). The submitted verification documents evidenced an *Adjusted Gross Income* of \$99,720, but the ISIR showed

REVIEW: 4468

\$99,890 (a \$170 difference). In addition, the submitted verification documents indicated the receipt of *Untaxed Portions of Pensions* of \$29,801, but the ISIR showed \$0 (a \$29,801 difference). This error resulted in the student receiving a \$1,750 Subsidized Stafford Loan for which the student was not eligible. Instead, the student should have received an additional Unsubsidized Stafford Loan of the same amount.

The University's verification procedures include requesting and obtaining documentation from students and verifying that the student's ISIR is correct. In the above instance, the University's financial aid advisor failed to identify the noted errors.

University officials stated that the student had two file reviews that resulted in corrections made during the student's verification process. During the previous file reviews, corrections were made to the parents' income and income tax paid and the student's EFC was revised.

This student and the student's parents did not use the IRS Data Retrieval Tool and instead submitted a hard copy of the parents' tax return transcripts. Paper forms require a more extensive review process and unfortunately, while two reviews were completed, the employee overlooked the items noted above.

Response: The University agrees with the recommendation. The University will create a check list identifying items that need to be reviewed within the tax documents when hard copies of tax forms are submitted and used for verification purposes.

Updated Response: Accepted and Implemented.

7. Improve internal controls to ensure full compliance with the Federal regulations regarding the dissemination of institutional and financial assistance information to students. (Repeated-2010)

Finding: The University did not fully comply with the institutional and financial assistance information for students regulations as prescribed by the U.S. Department of Education (ED). Review of the University's reporting and disclosure information revealed the following:

- The University's annual notification to students of the availability of required general disclosures (financial assistance information and institutional information) did not include all of the information required to be disclosed. (The University discloses this information on Internet websites, however, the exact electronic addresses stated in the annual notification failed to provide the required information in its entirety.)
- The University did not make available to enrolled students, prospective students, and the public the Equity in Athletics Disclosure Act (EADA) Report by October 15th.

University officials stated a copyright policy exists, however it was not included in the annual notification due to a misinterpretation of the CFR. The EADA report was submitted to the ED timely, however due to another misinterpretation of the CFR, it was not made available to the University community until it was accepted by the ED (after the October 15 deadline).

Accepted and Implemented – continued

Response: The University agrees with the recommendation. To ensure compliance going forward, the template created to track compliance surrounding reporting and consumer disclosures will be expanded to include reporting deadline dates and shared with the Vice President of Enrollment Management to ensure accountability.

Updated Response: Accepted and Implemented.

8. Strengthen internal controls over the accountability of University equipment. Also, complete detailed assessments of any missing or lost computer devices in a timely manner. (Repeated-2013)

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

Auditors reviewed the University's property inventory certification as of March 31, 2015 that was submitted to the Department of Central Management Services (DCMS). The inventory certification to DCMS reported 163 items (\$269,905) of equipment that could not be located by the University. These assets were acquired by the University during the current as well as past fiscal years. Included in the equipment that was reported as "unlocated" were approximately 76 computers, servers, CPUs, or other electronic storage devices. The University did not immediately perform a complete assessment of one of the missing computers to determine if notification was required as outlined in the Personal Information Protection Act. After inquiry, the University performed further procedures and concluded that no sensitive data would have been on the computer.

Auditors also noted that the University owns six cellular devices that are assigned to and used by University employees. The phones were assigned a tag number by the University, but these items were not recorded on the University's property control records or reported in the University's property inventory certification to DCMS. Each of these cellular devices cost \$200 and would be considered an item subject to theft.

University officials stated that equipment processes intended to track the movement and storage of assets did not fully function as intended. The University's Office of Information Technology - Telecommunications maintained a list of all cell phones provided for use at the University, however, it did not provide the information to Property Control so the items could be included on the University's property control records. The loss of department personnel caused the assessment for sensitive data on the missing computer to be incomplete.

Response: The University agrees with the recommendation. After the Certification period the University has recovered 59 items for a value of \$134,589.46, which represents a 50% reduction in acquisition cost. The University continues to search for the assets and believes the number will continue to decrease. The six cellular devices were tagged and recorded in our system; however they were recorded under the wrong account. We have corrected the

REVIEW: 4468

account information in our system. The University transitioned from a manual process to an automated fixed asset management process at the start of the Certification period. The University has implemented monthly training sessions to provide additional education on the process of managing the University's fixed assets. In addition to the trainings, the University has reinforced accountability measures by implementing compliance sanctions on all University employees who do not adhere to the Property Control Policy.

Updated Response: Accepted and Implemented.

9. Comply with the requirements of the Campus Security Enhancement Act of 2008 and obtain criminal background investigations prior to hiring employees for security-sensitive positions. Further, identify employees in security sensitive positions who have not had a previous criminal background check and obtain one. (Repeated-2014)

Finding: The University did not have adequate controls in place to ensure that required criminal background investigations were conducted prior to employment for those employees hired for security sensitive positions.

Auditors obtained a listing of 210 security-sensitive positions identified by the University and selected 25 individuals for testing (15 employees that were hired in the current fiscal year and 10 employees that were hired in previous fiscal years). Auditors noted the following:

- Sixteen employees were hired prior to the completion of criminal background investigations (ten of these employees were hired in the current fiscal year). These background investigations were completed between two days to 9.4 years after hiring of the employee.
- Three employees that were hired for security sensitive positions in prior years had no evidence that a criminal background investigation had ever been obtained.

University officials stated they did not have a comprehensive policy or procedure affecting the processing of criminal background investigations prior to employing individuals in these positions.

Response: The University agrees with the recommendation. A written policy and procedure identifying security sensitive positions has been created and criminal background investigations have been completed. Going forward criminal background investigations will be completed on all new employees and employees transferring into sensitive security positions, prior to the actual hiring or transfer.

Updated Response: Accepted and Implemented.

10. Improve procedures to ensure compliance with policies applicable to hiring. (Repeated-2014)

Accepted and Implemented – continued

Finding: The University did not have sufficient controls in place to ensure compliance with University policies applicable to the hiring of certain new employees.

Auditors selected a sample of 10 employees that were hired during FY15 and noted the following:

- The University could not provide any documentation that the University had verified the employment history of any of the applicants.
- For seven of the new hires, the University could not provide evidence that it had verified the education credentials that were contained on the job applicant's resume.

University officials stated the University's corrective measures to ensure the newly hired personnel's educational credentials and employment history were verified as well as ensuring all new hires had the minimum requirements of the job posting had not been fully implemented during the fiscal year.

Response: The University agrees with the recommendation. The University has increased its pre-employment services to include background checks, verification of at least the last employment record, criminal record and education verification. The search committee memorandum will be reviewed for accuracy of process, procedures and expectations.

Updated Response: Accepted and Implemented.

11. Review the activities of accounting entities and ensure that fees charged for services are sufficient to cover expenditures and ensure that subsidies between accounting entities do not occur. (Repeated-2009)

Finding: The University had subsidies between accounting entities during the current fiscal year.

During testing of the University Guidelines, auditors 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.

University officials stated that the subsidy (cash deficit) to the Athletics department originated under a prior administration. The subsidy has grown in recent years because the University joined a new athletic conference that required additional expenditures to comply with requirements of the conference.

Response: The University agrees with the recommendation. The limited financial resources to adequately fund the Intercollegiate Athletic Program (Athletic(s)) over the years has contributed to the existing negative cash balance. The recommendation to assess the

REVIEW: 4468

student fee structure to sufficiently cover expenditures is one pathway to address the negative cash balance. The University will also need to take a more holistic approach that will include identifying other funding streams and assess existing operating costs for a more immediate resolution.

Updated Response: Accepted and Under Study until the University completes a process to restructure financial and fiscal operations applicable to our Athletic department and our Foundation. Finding expected to repeat.

12. Improve procedures to ensure that all debts owed to the University are placed in the Comptroller's Offset System once they exceed \$1,000 and are 90 days past due.

Finding: The University did not comply with the requirements of the Illinois State Collection Act.

Auditors tested a sample of 30 students (with receivables totaling \$192,631) from the University's December 2014 accounts receivable aging report that had balances greater than \$1,000 and were in excess of 90 days overdue. As of December 31, 2014, the University had 3,721 accounts totaling \$11,114,944 that had balances greater than \$1,000 and were in excess of 90 days past due. Auditors noted five students (with a total receivable balance of \$27,558) had not been submitted by the University for placement with the Comptroller's Offset System. As of November 11, 2015, the University had 5,778 accounts totaling \$10,772,404 placed with the Comptroller's Offset System.

University officials stated that in FY15, the Collections Department underwent staffing reductions that contributed to delays in the operations of the Department.

Response: The University agrees with the recommendation. The University will obtain an Accounts Receivable Report from Information Technology, isolate accounts meeting the State requirement, will call, bill, and mail final notices to students, and upload the file to the State Comptroller.

Updated Response: Accepted and Under Study until the University is able to hire a Collections Supervisor. All processes have been updated. Currently identifying alternative third party support. Finding expected to repeat.

13. Improve controls to ensure that expenditures and contracts are approved and paid timely and are posted to the correct fiscal year. Further, review pricing prior to the purchase of bulk fuel to ensure getting the lowest price possible. (Repeated-2009)

Accepted and Implemented – continued

Finding: The University did not process certain expenditures accurately and did not pay certain expenditures in a timely manner. Auditors tested 150 expenditures for purposes of State compliance from Contractual Services, Travel, Commodities, Equipment, Telecommunications, and Operation of Automotive Equipment and noted the following:

- Sixteen invoices were not approved for payment in a timely manner. These invoices were approved between 42 and 168 days (12 to 138 days late) after receipt of a proper bill.
- Two invoices were not dated by the fiscal officer; therefore, a determination could not be made on whether or not the invoice was approved for payment timely.
- Eleven invoices were not paid in a timely manner. The invoices were paid 102 to 247 days (12 to 157 days late) after the receipt of a proper bill.
- Two invoices totaling \$6,765 contained expenditures that were recorded to the incorrect fiscal year.
- One invoice totaling \$3,383 was for the purchase of bulk diesel fuel and regular unleaded gasoline. Auditors noted that the price was significantly higher than the average market rate at that time. The University was charged \$5.08 per gallon (for diesel) and \$5.61 per gallon (for regular unleaded gasoline). The market rate at the time of delivery was \$3.73 and \$3.65.

Auditors also tested another 79 Federal expenditures (not including student financial aid) and noted the following:

- Three invoices were not approved for payment in a timely manner. These invoices were approved between 45 to 92 days (15 to 62 days late) after receipt of a proper bill.
- Three invoices were not paid in a timely manner. These invoices were paid 93 to 196 days (three to 106 days late) after the receipt of a proper bill.
- One invoice included charges of \$15,000 that were for services performed by the vendor prior to full execution of the contract.

University officials stated that late processing of voucher payments was influenced by high processing volume, staff turnover and ineffective tracking of documents submitted for payment. The contract for the bulk diesel fuel and regular gasoline was not renegotiated on a timely basis after the decline of gas prices.

Response: The University agrees with the recommendation. The University is updating outdated policies and procedures as well as finalizing the implementation of an Accounts Payable software module that interfaces with the Banner system.

Updated Response: Accepted and Under Study pending hiring of Purchasing/Accounts Payable Director and implementation of ACH payment process. Electronic invoicing has been activated and training is ongoing. Finding expected to repeat.

14. Comply with the Fiscal Control and Internal Auditing Act by ensuring timely performance of audits over all major systems of internal accounting and administrative controls and performing reviews of new or major modifications to EDP systems prior to installation.

Finding: The University's internal auditing program did not review all major systems of internal accounting and administrative controls within a two year timeframe and did not perform a review of a new electronic documents management system prior to installation.

Testing of the University's internal audit program indicated that no internal audits of grants received or made by the University were performed to determine that the grants were monitored, administered, and accounted for in accordance with applicable laws and regulations during FY14 or FY15.

In FY15, the University implemented an electronic document management system. The system is used by the Office of Admissions to gather and store student information that students provided when applying for admission to the University. The system constitutes a major change and also contains personally identifiable information. The Office of Internal Audit (OIA) did not perform the required review of the system nor did OIA provide documentation supporting the lack of review.

University officials stated the OIA provided extensive and comprehensive advisory and consultative services in three grant related areas; specifically, U.S. Department of Education (DOE) related to stale dated Title IV refund checks; U.S. Department of Defense (DOD) Office of Naval Research (ONR) related to research grants; and US Agency for International Development (USAID) related to the Ghana textbook and learning materials grant. The OIA felt this body of work met the substance of the requirements set forth in the Fiscal Control and Internal Auditing Act. The review of major modifications to the EDP system review was not completed as the initial assessment performed by the OIA concluded that the installation of the document management system was not major as it did not result in financial transaction or processing of records; security access to records with personal identifiable information is controlled via Banner security rules and the modification was not a new infrastructure platform.

Response: The University agrees with the recommendation. The letter of the Fiscal Control and Internal Auditing Act (FCIAA) states an 'audit' of grants is to be performed. However, given the substantial body of work performed during the year by the Office of Internal Audit (OIA) focused on grants, we contend the spirit of FCIAA was appropriately met. We provided significant, comprehensive advisory and consultation services during the year for three grants. We are in process of conducting a grants audit as part of our FY16-17 Audit Plan. Also, with respect to the software application, it was not clear that this was a major application requiring a pre-implementation review. As a result of our subsequent research and follow-up, we agree that an implementation review should have been performed. Accordingly, we have scheduled such review in FY16 as part of our FY16-17 Audit Plan.

Accepted and Implemented – concluded

Updated Response: Accepted and Implemented.

- 15. Recover the under-withheld life insurance contributions and personal cell phone stipend. Further, strengthen controls over personal services and ensure accurate and correct withholding of payroll deduction items, maintain complete records for deductions and training, ensure termination payouts are correctly calculated, and improve procedures to ensure each employee receives an annual performance evaluation.**

Finding: The University did not have adequate controls over personal services. Auditors tested 35 employees' pay and personnel files and noted the following:

- For one employee that resigned from the University, the employee was paid a personal cell phone stipend (\$57.50) on their paycheck when they were paid for their accumulated unused sick leave after termination even though the employee was no longer working.
- For one employee tested, the University could not locate the authorization signed by the employee to withhold Federal and State employment withholding taxes (Form W-4 and IL-W-4) from the paychecks.
- For one employee tested, the University could not locate the authorization signed by the employee to withhold an amount to be sent to the employee's account at a Credit Union.
- For four employees tested, the University did not have the most recent performance evaluation in the employee's personnel file.
- For one employee tested, the amount withheld from the employee's paycheck for optional life insurance did not agree to the required contributions for life insurance elected by the employee. The University under-withheld \$2.48 per pay period from this employee.

Auditors also tested a sample of 25 employees to verify that the employees had received the required ethics and sexual harassment prevention training and noted that the University could not provide documentation that three of the employees had ever received sexual harassment prevention training.

University officials stated the reduced resources contributed to the inefficiencies associated with the organization of the records. Annual performance evaluations have not been timely submitted to the Office of Human Resources due to lack of timely follow-up. The inaccuracy in the employee election withholding and the over-payment was a clerical error as a result of a manual process.

Response: The University agrees with the recommendation. The University will review its record keeping practices to ensure documents are properly returned and maintained. In addition, we will add an additional point of review for payout and benefits calculations.

Updated Response: Accepted and Under Study pending hiring of Purchasing/Accounts Payable Director and implementation of ACH payment process. Electronic invoicing has been activated and training is ongoing. Finding expected to repeat.

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

CSU filed one emergency purchase affidavit during FY15 for dining, catering and concession services, estimated to cost \$1.1 million.

Headquarters Designation

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

REVIEW: 4468

In a form filed July 10, 2015, CSU stated that 23 employees worked the majority of time away from their official headquarters.

REVIEW: 4468
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015

APPENDIX A

Summary of Appropriations and Expenditures and Income Fund

	FY15	FY14
<u>APPROPRIATIONS</u>	\$ 38,237,500	\$ 42,169,800
<u>EXPENDITURES</u>		
<u>Education Assistance Fund</u>		
Personal services	\$ 34,548,400	\$ 35,634,400
Group Insurance	1,001,000	1,024,000
Grant to Financial Assistance Outreach Center	453,193	438,405
Awards and Grants	99,300	104,000
Total	36,101,893	37,200,805
Total Professions Dedicated Fund (Pharmacy)	307,000	307,000
Chicago State University Education Improvement Fund	1,600,000	4,600,000
Total Expenditures from appropriated funds	\$ 38,008,893	\$ 42,107,805
 INCOME FUND REVENUES	 \$ 40,973,566	 \$ 37,127,358
<u>EXPENDITURES</u>		
Personal services	\$ 19,474,459	\$ 24,062,275
SURS	-	29,150
Social Security	885,641	1,021,694
Contractual services	8,801,189	10,069,361
Travel	426,804	541,040
Commodities	1,135,022	1,765,623
Equipment and library books	1,437,476	1,097,599
Telecommunications	307,570	561,525
Operation of automotive equipment	44,499	59,700
Permanent Improvements	27,088	698,674
Awards, grants and matching funds	325,383	509,969
Tuition and fee waivers	3,472,692	1,763,751
Other expenditures	329	386
Total Income Fund Expenditures	\$ 36,338,152	\$ 42,180,747

REVIEW: 4468
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015

APPENDIX B

Statement of Revenues, Expenses and Changes in Net Position

	<u>FY15</u>	<u>FY14</u>
<u>Operating Revenues</u>		
Student tuition and fees	\$ 27,832,036	\$ 24,091,689
Federal grants and contracts	6,807,501	10,649,241
State and local grants and contracts	2,506,513	2,600,095
Nongovernmental grants and contracts	85,590	7,433
Auxiliary enterprises	11,677,750	10,599,857
Other operating revenues	3,986	2,421
Total operating revenues	\$ 48,913,376	\$ 47,950,736
<u>Operating Expenses</u>		
Instruction	32,560,710	39,152,593
Research	2,325,552	1,950,884
Public service	936,499	1,497,384
Academic support	9,255,643	10,581,254
Student services	7,594,711	7,572,746
Institutional support	11,925,039	13,492,998
Operation & maintenance of plant	10,962,559	11,919,117
Depreciation	6,263,385	6,456,366
Scholarships and fellowships	10,875,344	13,076,323
Auxiliary enterprises	10,375,155	11,582,937
On-behalf State fringe benefits	43,701,632	38,593,745
Total Operating Expenses	146,776,229	155,876,347
Operating Loss	(97,862,853)	(107,925,611)
<u>Nonoperating Revenues (expenses)</u>		
State appropriations	38,008,893	42,108,205
State fringe benefits	43,701,632	38,593,745
State nonoperating grants	5,515,213	6,034,575
Federal nonoperating grants	11,546,163	12,762,578
Investment income	28,680	49,491
Interest on capital asset-related debt	(703,549)	(755,195)
Net nonoperating revenues	98,097,032	98,793,399
Income (loss)	234,179	(9,132,212)
Capital appropriations and grants	14,322,576	3,017,640
Capital gifts	568,561	
Endowment contributions	-	
Gain (loss) on disposal of assets	(14,018)	7,488
Total other revenues	14,877,119	3,025,128
Increase (Decrease) in Net Position	15,111,298	(6,107,084)
	146,063,867	152,170,951
Cumulative effect of change in accounting principle (Note 18)	372,126	-
Net Position, beginning of year (as restated)	\$ 146,435,993	\$ 152,170,951
Net Position, end of year	\$ 161,547,291	\$ 146,063,867
<u>Selected Account Balances</u>		
Cash and investments	\$ 23,486,749	\$ 14,290,920
Capital assets, net of accumulated depreciation	\$ 158,917,000	\$ 149,110,000
Revenue bonds payable	\$ 13,180,000	\$ 14,300,000
Accrued compensated absences	\$ 5,507,902	\$ 6,131,481

REVIEW: 4468
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015

APPENDIX C

	<u>Accounts Receivable</u>		
	<u>FY15</u>	<u>FY14</u>	<u>Change</u>
Accounts Receivable (Net)			
Current Unrestricted Fund	\$ 2,107,653	\$ 2,178,582	\$ (70,929)
Current Restricted Fund	3,710,213	5,949,155	(2,238,942)
Total Accounts Receivable (Net)	\$ 5,817,866	\$ 8,127,737	\$ (2,309,871)
Accounts Receivable - All Funds at Gross	\$ 17,134,330	\$ 18,705,876	\$ (1,571,546)
Less: Allowance for Uncollectible Accounts	(11,316,464)	(10,578,139)	(738,325)
Total Accounts Receivable (Net)	\$ 5,817,866	\$ 8,127,737	\$ (2,309,871)
 <u>Aging of Current Unrestricted Fund</u>			
Current (less than one year)	\$ 2,129,138	\$ 1,372,211	\$ 756,927
One Year Past Due	1,398,460	1,118,217	280,243
Two Years Past Due	896,339	1,816,836	(920,497)
Three Years Past Due	1,684,024	2,211,882	(527,858)
Older Than Three Years Past Due	7,246,284	6,061,189	1,185,095
Total Current Unrestricted Fund - Gross	\$ 13,354,245	\$ 12,580,335	\$ 773,910
Allowance for Uncollectible Accounts	(11,246,592)	(10,401,753)	(844,839)
Total Current Unrestricted Fund - Net	\$ 2,107,653	\$ 2,178,582	\$ (70,929)
* Comprised of			
Student tuition and fees	\$ 12,134,725	\$ 11,426,448	
Federal, state and private grants & contracts	3,753,859	6,103,477	
Third party and other receivable	1,245,746	1,175,951	
Total gross receivable	\$ 17,134,330	\$ 18,705,876	

CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015

APPENDIX D

Changes in Property and Equipment

	Beginning Balance at June 30, 2014	Additions	Retirements	Reclassifications	Net Transfers (CDB)	Ending Balance at June 30, 2015
Land	\$ 9,611,000	\$ -	\$ -	\$ -	\$ -	\$ 9,611,000
Site Improvements	16,384,000	-	-	(1,304,000)	-	15,080,000
Buildings & Building Improvements	189,135,000	111,000	-	1,984,000	-	191,230,000
Equipment	31,926,000	1,709,000	(1,110,000)	-	-	32,525,000
Capital Lease Assets	296,000	-	-	-	-	296,000
Intangible Assets	545,000	631,000	-	-	-	1,176,000
Library Books	12,831,000	280,000	-	-	-	13,111,000
Construction in Progress	7,200,000	7,722,000	-	(680,000)	6,761,000	21,003,000
TOTAL	\$ 267,928,000	\$ 10,453,000	\$ (1,110,000)	\$ -	\$ 6,761,000	\$ 284,032,000

REVIEW: 4468
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015

APPENDIX E

Summary of Funds Provided by and to the Foundation

	<u>FY15</u>	<u>FY14</u>
Funds provided by the University	<u>\$ 525,085</u>	<u>\$ 623,085</u>
Funds provided to the University		
Considered unrestricted for guidelines purposes:		
Totally unrestricted	291,442	376,314
Restricted only as to college or department	<u>492,308</u>	<u>428,742</u>
Total, unrestricted	<u>\$ 783,750</u>	<u>\$ 805,056</u>
Considered restricted for guidelines purposes:		
Scholarships	<u>687,984</u>	<u>497,820</u>
Total, restricted	<u>\$ 687,984</u>	<u>\$ 497,820</u>
Total funds provided to the University	<u>\$ 1,471,734</u>	<u>\$ 1,302,876</u>

REVIEW: 4468
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2015

APPENDIX F

Tuition and Fee Waivers

	<u>FY15</u>	<u>FY14</u>
<u>Mandatory Waivers</u>		
General Assembly	\$ -	\$ 8,200
ROTC	91,200	80,100
DCFS	65,800	46,800
Children of Employees	117,800	110,200
Senior Citizens	36,700	8,500
Illinois Veterans Grants	608,600	747,500
Illinois National Guard	165,900	176,200
Prisoners of War/MIA	16,900	63,400
Teacher/Special Education	133,300	35,200
	<u>1,229,000</u>	<u>1,276,100</u>
<u>Total Mandatory Waivers</u>		
	<u>1,229,000</u>	<u>1,276,100</u>
<u>Discretionary Waivers</u>		
Faculty/Administrators	86,300	83,300
Civil Service	330,400	296,400
Athletic	254,100	-
Athletic/Gender Equity	237,200	-
Need Based--Special Programs	119,900	-
Cooperating Professionals	3,200	1,100
Teaching Assistants	82,000	-
	<u>1,115,200</u>	<u>380,800</u>
<u>Total Discretionary Waivers</u>		
	<u>1,115,200</u>	<u>380,800</u>
GRAND TOTAL	<u>\$ 2,344,200</u>	<u>\$ 1,656,900</u>
