LEGISLATIVE AUDIT COMMISSION

Review of
Chicago State University
Year Ended June 30, 2017

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REVIEW: 4487
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2017

FINDINGS/RECOMMENDATIONS - 18

IMPLEMENTED - 14
ACCEPTED and PARTIALLY IMPLEMENTED - 4

REPEATED RECOMMENDATIONS - 8

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 15

This review summarizes the auditors' reports on Chicago State University for the year ended June 30, 2017, filed with the Legislative Audit Commission on March 15, 2018. The auditors performed a compliance examination and a financial audit in accordance with *Government Auditing Standards,* State law, the requirements of the federal Single Audit Act, and OMB Circular A-133 Compliance Supplement. 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 that 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.

The University had three presidents during the one year audit period. Dr. Thomas J. Calhoun began serving as President on January 1, 2016 until his resignation effective September 16, 2016. Interim President, Mr. Cecil Lucy, served from September 16, 2016 until April 16, 2017. Dr. Rachel Lindsey served as Interim President from April 17, 2017 until the appointment of Zaldwaynaka "Z" Scott as President on July 1, 2018. President Scott served on the CSU's Board from 2009 to 2013. She is an attorney and a former federal prosecutor and university professor.

General Information

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

	2017	2016
Assets		
Current Assets	$ 17,700,000	$ 26,200,000
Non-current Assets	$ 151,500,000	$ 157,500,000
Total Assets	**$ 169,200,000**	**$ 183,700,000**
Deferred Outflows of Resources	**$ 200,000**	**$ 300,000**
Total Liabilities	**$ 27,500,000**	**$ 30,700,000**
Total Net Position	**$ 141,900,000**	**$ 153,300,000**

The decrease in net position by $11.4 million is predominantly attributed to the decreased operating result2 from lower enrollment and reduced appropriations which caused cash outlays for operating activities.

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:

Credit Hours		
	2017	**2016**
Undergraduate	51,429	75,685
Graduate	26,473	28,294
TOTAL	**77,902**	**103,979**

Head Count		
	2017	**2016**
Undergraduate	2,076	3,143
Graduate	1,174	1,299
TOTAL	**3,250**	**4,442**

The average number of University employees is as follows:

	2017	2016
Faculty and Staff	618	663
Students	150	247
TOTAL	**768**	**910**

Full-time equivalent cost per student per semester in 2017 was $8,090 compared to $7,444 in 2016. The University conferred 856 degrees in 2017.

Expenditures From Appropriations/Expenditure Authority and the University Income Fund

During the budget impasse in FY16, the Circuit Court of St. Clair County in AFSCME Council 31 v. Munger ordered the Comptroller to draw and issue warrants for wages of State employees at their normal rates of pay and this practice continued in FY16. PA 99-0524 authorized the University to pay FY16 costs using FY17 appropriations for non-payroll expenditures. During FY17, the University operated without enacted appropriations until PA 100-021 was approved in FY18 on July 6, 2017.

- The University planned to expend almost $12.6 million in FY17 appropriations to cover the cost of six invoices from FY16. The University did not incur any prompt payment interest.

Appendix A presents a summary of appropriations/expenditure authority and expenditures for FY17 and FY16. The University's expenditure authority in FY17 was $38,237,500 (including the additional $23.9 million approved in FY18) with $18.9 million from GRF, $17.3 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.

Total expenditures from appropriations and the income fund were $52 million in FY17 compared to $65 million in FY16. CSU spent $21.7 million in State appropriations and $43.2 million in Income Fund Revenues in FY16 compared to $38.2 million in State appropriations and $13.8 million in Income Fund revenues in FY17.

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, 2017 and 2016. The financial statement did not recognize the $23.9 million additional appropriation because it was received in FY18.

Total revenues were $112.5 million in FY17 compared to $124.6 million in FY16 due to decreased State appropriations and a reduction in student tuition and fees due to decreased enrollment of about 25%.

Expenses decreased from about $146.7 million in FY15 to $132.8 million in FY16 to $124.9 million in FY17 due to a $7.9 million reduction in instruction which is the result of lower enrollment and small decreases in almost every other expense category except State fringe benefits which increased $7.2 million. Due to the adoption of GASB 66 in FY15, the University is required 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.

Accounts Receivable

Appendix C provides a summary of the University's accounts receivable for FY17 and FY16. Net accounts receivable decreased from $6.8 million in FY16 to $4.2 million in FY17.

Gross receivable was $16.2 million in FY17. More than $12.9 million in unpaid student tuition and fees account for almost 80% of the gross receivable. Of the $11.2 million gross receivable due the Current Unrestricted Fund, $1.8 million is current while $9.4 million is considered uncollectible. Accounts receivable for student loans ($1.7 million in FY17) 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, 2016 was $285.2 million and the ending balance as of June 30, 2017 was $285.8 million.

Foundation Payments to the University

Chicago State University Foundation and the University Foundation at Chicago State (collectively the "Foundation") are considered a university-related organization. During FY17, CSU provided administrative support services to the Foundation valued at $323,826. 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 $695,997 to the University in FY17, compared to $522,570 in FY16. Appendix E provides a summary of all funds that the Foundation gave the University during the audit period.

Tuition and Fee Waivers

During FY17, Chicago State University granted $1.7 million in tuition and fee waivers to 557 undergraduate and graduate students compared to $2 million in FY16. Over $460,000 in tuition waivers went to veterans and $473,900 in tuition waivers went to athletes. Appendix F provides a summary of tuition and fee waivers for FY17 and FY16.

Accountants' Findings and Recommendations

Condensed below are the 18 findings and recommendations, eight repeated, presented in the compliance and financial reports. The following recommendations are classified on the basis of updated responses provided by Michael Mayo, former Chief Internal Auditor and Michelle Wilson, Assistant Chief Internal Auditor via electronic mail received July 22, 2018 and August 2, 2018.

Accepted or Implemented

1. Periodically review internal controls over financial reporting to provide assurance accounts are properly classified under generally accepted accounting principles.

Finding: Chicago State University (University) did not ensure restrictions from revenue bond covenants were properly reflected within the University's financial statements.

As of June 30, 2017, the University's Auxiliary Facilities System (System) consisted of certain facilities across campus which are not directly related to the University's instruction, research, or service units.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 1998) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the purposes related to the System.

During testing, auditors noted the University had controls to segregate the System's assets and include its net position with the University's financial statements; however, the University had not designed its internal controls to ensure accurate reporting of restricted assets and restricted net position. The University originally designed the control due to the drawing inferences from the implementation guidance published by the GASB that was not necessarily on point with the University's unique "closed system" situation and from discussions with other universities with closed systems.

Historically, auditors did not take exception to the design flaw until the current year. After this issue was noted during the current year, the Auditor General's Office and the Office of the State Comptroller consulted with staff of the GASB. After this consultation, the University (and all universities with closed systems) changed its accounting presentation in its final financial statements to show all non-capital assets associated with the System, totaling $1.0 million, as restricted assets and reclassified the System's portion of the University's net position to expendable restricted net position, totaling $0.9 million.

University management stated they were of the opinion they were properly reporting the Revenue Bond net position and revenues under the generally accepted accounting principles. They were unaware of the different reporting requirements for "closed systems," which they fall under.

Response: The University has commenced a review of internal controls over financial reporting, with special emphasis on bond covenant restrictions.

Updated Response: Accepted and Implemented.

Accepted or Implemented – continued

2. Review bond covenant compliance on a routine basis to identify and rectify any noncompliance conditions.

<u>Finding:</u> The University did not comply with its revenue bond covenants.

As of June 30, 2017, the University's Auxiliary Facilities System (System) consisted of certain facilities across campus which are not directly related to the University's instruction, research, or service units, including:

- student services facilities, such as the Cordell Reed Student Union Building;
- health services, including student health related operations of the Wellness Center and Insurance Support services; and,
- parking facilities.

As of June 30, 2017, the University had outstanding revenue bond issues (Series 1998) where the proceeds from these bonds had been used to finance certain projects within the System. These bond issues established a "closed system" where the revenues generated by the System could only be used for the system's purposes.

Any excess funds, after maximum deposits have been made to fund the foregoing purposes, being set aside to fund the redemption of previously issued bonds when callable; the purchase of the University's bonds on the open market; advance refund any series of bonds then outstanding; credit funds to utility reserve to provide for the payment of the System's utilities; establish a self-insurance reserve in connection with claims against or damage to the System; or purchase of capital equipment for the System. Notably, resources within the System are unavailable for use by the University outside of the System.

During testing, auditors noted the University calculated excess funds under the *University Guidelines* and transferred moneys out of the System to the University's Income Fund in violation of its debt covenants. Auditors reviewed the University's financial audits and compliance examinations dating back to FY99 and concluded the following:

- $594,748 was calculated as excess funds within the System at the end of FY12 and transferred from the System to the University's Income Fund during FY13; and,
- $387,018 was calculated as excess funds within the System at the end of FY16 and transferred from the System to the University's Income Fund during FY17.

University management stated that personnel familiar with both bond covenants and University Guidelines mistakenly believed the covenants allowed for these transfers and were executing them in accordance with the University Guidelines.

<u>Response:</u> The University has implemented a process to annually review the bond covenants and ensure that transactions conducted, and related financial reporting, are compliant with those covenants. Additionally, in January 2018 the University transferred back to the System, the $981,766 previously transferred to the Income Fund.

Updated Response: Accepted and Implemented.

3. Improve controls over financial reporting to allow for the accurate preparation of financial statements in accordance with GAAP.

Finding: The University's financial statements for FY17 contained inaccuracies.

During the audit of the University's financial statements, auditors noted the following:

- The University mistakenly recorded the loss on the disposal of capital assets, totaling $904,530, as an operating expense. As a result, operating expenses were overstated by $904,530 and loss on disposal of capital assets was understated by $904,530.

- The University incorrectly recorded two cash transactions, totaling $557,514, as restricted cash instead of unrestricted. As a result, the cash and cash equivalents – restricted balance was overstated by $557,514 and the cash and cash equivalents – unrestricted balance was understated by the same amount.

Proposed adjustments to correct these misstatements were recorded by the University.

University management stated the deficiencies noted were a result of the employee's misposting of these transactions.

Response: The University will implement a process to review all significant and infrequently processed transactions on a quarterly basis, verifying that they were properly recorded in the original accounting records. This will ensure that they are properly reflected in the financial statements.

Updated Response: Accepted and Implemented.

4. Continue evaluation of stale dated checks and comply with the requirements of the law.

Finding: The University did not fully comply with the Uniform Disposition of Unclaimed Property Act (Act).

At the end of each fiscal year, the University transfers its old outstanding checks to a liability account and removes them from its bank reconciliation. Auditors noted that these liability accounts (that were included in the accounts payable balance) contained stale dated checks which had never been cashed. Some of these checks were issued over

Accepted or Implemented – continued

nine years ago. The balance of checks older than five years old that remained as a liability on the University's Statement of Net Position as of June 30, 2017 was $288,869.

The Uniform Disposition of Unclaimed Property Act states that all tangible personal property or intangible personal property and all debts owed or entrusted funds or other property held by any federal, state or local government or governmental subdivision, agency, entity, officer or appointee thereof, shall be presumed abandoned if the property has remained unclaimed for five years, except as otherwise provided in the Act.

University management stated the condition noted in this finding is mainly the result of an oversight to the change in the time period for reporting from 7 years to 5 years which took effect January 1, 2017.

Response: In conjunction with our Director of Compliance, will train all applicable staff on current compliance requirements, especially those related to the Unclaimed Property Act. Additionally, we will take action to evaluate all stale checks that will have an initial issuance date of 5 years or greater, as of the end of June 30, 2018.

Updated Response: Accepted and Implemented.

5. Improve procedures to collect Federal Perkins Loans made to students in order to continue participation in this program. (Repeated-2015)

Finding: 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 Federal Perkins Loan cohort default rate as of June 30, 2017 was 45.24% and was obtained from the University's Federal Perkin's loan servicer.

The default rate on loans made under the Federal Perkins Loan Program to students for attendance at the institution that should not exceed 15 percent.

University management stated the lack of a collection staff made it difficult for the University to closely monitor students who were transitioning into repayment status, and work with them and the loan processor to ensure no defaults would occur.

Response: Accepted. The prior year's response determined the need to utilize additional support to manage the Perkins accounts. However, to date the University has been unable to satisfactorily fill the Collections position with an experienced candidate, and has contracted with a consultant to fulfill the role until the proper candidate is identified. These responsibilities will transition to permanent staff as soon as practical.

Updated Response: Accepted and Implemented.

6. Improve procedures to ensure the University complies with the requirements of federally funded programs and its policies and procedures. Further, ensure that contracts are properly executed prior to start of services. (Repeated-2015)

Finding: The University's policies related to the STEP-UP in Health Careers program and R&D Cluster expenditures were not followed. Auditors noted the following:

- Two purchase orders were approved from 31 to 171 days subsequent to the commencement of services.
- One contract totaling $15,000 was not supported by three price quotations from vendors on the University's bidders list, as required.
- Final Invention Statement and Certifications was submitted 32 days late to the National Institutes of Health.
- Four payroll expenditures totaling $7,282 were charged to programs using incorrect time and effort rates.
- Effort certification for one payroll expenditure was submitted 88 days after the due date.

University management stated that internal procedures were not adhered to for the time and effort certification. The delay in the submission of the invention report was due to an abrupt transfer of the Principal Investigator to another campus. The inaccurate time and effort reports were due to inadequate communication between Payroll, the Grant Accounting Office, and the Sponsored Programs Office. The awarding of a contract without competitive bids and starting services for two other contracts before the generation of purchase orders were oversights in the procurement process.

Response: Accepted. The University will review all time and effort reporting to ensure both accuracy and timeliness of the responses, and will compare the reported effort with the payroll distribution reported in Banner. A workflow will be developed to ensure that any changes to a payroll record will be approved by the appropriate departments and time and effort reporting updated to reflect those changes. The University will develop more detailed purchasing procedures for federal grant expenditures to ensure compliance with purchasing statutes, and will provide training to Principal Investigators regularly on this issue.

Updated Response: Accepted and Partially Implemented. Further review of the Grant purchasing process is in progress to ensure expenditures are compliant with Federal Grant guidelines. Potential exists for this finding to repeat.

7. Improve procedures to ensure compliance with the earmarking requirements of the TRIO Cluster program and proper classification of students being served by this program, and with University policies and procedures. Further, ensure compliance with the procurement, suspension and debarment requirements by approving purchase orders prior to the start of services. (Repeated-2016)

Accepted or Implemented – continued

<u>Finding:</u> The University's internal controls over the compliance requirements of allowable costs and cost principles, earmarking, and procurement, suspension, and debarment applicable to its TRIO Cluster were not followed.

During a review of the University's compliance with federal requirements for the TRIO Cluster, auditors noted the following:

- One of 25 participants tested for the Upward Bound program was classified and reported as a potential first-generation college student; however, as indicated in the application form submitted, this participant should also have been classified as a low-income individual.
- One purchase order was approved nine days subsequent to the start date of the contract.
- Four effort certifications for payroll expenditures (totaling $7,937) were submitted nine to 16 days after the due date.

University management stated the misclassification of one student was due to human error, and in no way affected the student's eligibility for the program. University management also stated services for health insurance covering the program's participants during the Summer 2016 residential program began nine days prior to the creation of a purchase order because the University does not allow students to live on campus without insurance. Regarding the time and effort certification, the late submission was due to a misunderstanding of the reporting period by the Program Director.

<u>Response:</u> Accepted. Both the TRIO Program Director and the TRIO Program Fiscal Officer will separately review participant classification data before reporting to the Agency. The University will continue to review time and effort reporting on a quarterly basis to ensure timeliness of the responses. The University will develop more detailed purchasing procedures for federal grant expenditures to ensure compliance with purchasing statutes.

<u>Updated Response:</u> Accepted and Implemented.

8. Review and implement stronger internal controls in order to monitor and maintain the accounts payable master vendor file.

<u>Finding:</u> The University has inadequate controls in place to monitor and maintain accounts payable master vendor file.

During a review of the University's accounts payable master vendor file (with 7,691 total vendors), auditors noted 184 vendors without an employer identification number (EIN) listed and 3,955 vendors with no activity within the 3 previous fiscal years.

University management stated, due to inadequate staffing and previous employee layoffs in the Purchasing Department, information in the system was not updated.

Response: Accepted. The University has already started addressing the vendor maintenance project. By December of 2017, the University filled the Purchasing Director and Buyer position. The staff has started working with the University's IT department to ensure vendor information updated in the University's financial system is properly captured in the Purchasing system, JAGGER, formerly known as SciQuest.

Updated Response: Accepted and Implemented.

9. Comply with the requirements of the Continuing Disclosure Undertaking of the Series 1998 Bond by submitting annual financial information and audited financial statements to Municipal Securities Rulemaking Board (MSRB) within the required time frame.

Finding: The University did not disseminate its annual financial information disclosures to the Municipal Securities Rulemaking Board (MSRB) in a timely manner.

During a review of the University's compliance with the Series 1998 Auxiliary Facilities Revenue Bonds (Series 1998 Bonds) requirements, auditors noted the University's FY16 audited financial statements and annual financial information were submitted to the Board 91 and 104 days late. The balance of the Series 1998 Bonds as of June 30, 2017 totaled $10,760,000.

University management stated the FY16 audited financial statements were not signed and officially released until March 17, 2017 due to delays in completing the Foundation's audits.

Response: Accepted. The University has documented the deadline associated with submittal of the Continuing Disclosure. The initial submittal has been completed as of January 25, 2018 and audited financials will be added to the submittal as soon as they are available.

Updated Response: Accepted and Implemented.

10. Improve controls to ensure compliance with University policy, the Illinois Procurement Code, and the State Finance Act. Also, ensure all contracts are fully executed prior to commencement of services. (Repeated-2016)

Finding: The University did not have adequate controls over its contractual service expenditures.

During a review of 45 contracts (totaling $6,954,779), including purchase orders, executed during the fiscal year ended June 30, 2017, auditors noted the following:

- Two contracts (totaling $1,511,601) of six were not approved by the Chief Legal Counsel).

Accepted or Implemented – continued

- One contract's change order (totaling $370,267) was not approved by the University's Board, as required.
- Eleven contracts (totaling $4,133,471) were executed from 5 to 298 subsequent to the start date of the contracts.
- One contract (totaling $155,000) was not procured through a competitive sealed bid process, as required.
- One contract's total expenditures (totaling $265,105) for the fiscal year exceeded the total contract amount (totaling $235,359) awarded.
- One contract (totaling $2,571,275) did not contain standard vendor certifications, as required.
- Twenty contracts (totaling $6,240,203) were not submitted to Office of the State Comptroller, as required. Of the 20, six contracts were filed 12 to 227 days late and 14 contracts were not filed at all.

During a review of six emergency purchases (totaling $3,159,300) that occurred during the FY17, auditors noted the following:

- Three emergency purchases were not published in the Illinois Procurement Bulletin within the required time frames. Delays in publishing ranged from 3 to 27 days after the required time frame.
- Four emergency purchases were not filed with the Office of the Auditor General, as required. One of 4 emergency purchases was filed 4 days late and 3 emergency purchases were not filed at all.

University management stated during Fiscal Year 2017, as a result of the University's Fiscal Exigency, the Purchasing Department lost all procurement staff which resulted in a delay of fulfilling procurement requests, filings, and publishing.

University management stated the contracts not approved by the Legal Department were deemed as Utilities contracts (utility service agreements), which were considered by the Legal Department as not requiring legal approval. Further, University management believed a change order to a multiyear contract which had Board approval need not be separately approved by the Board.

Response: Accepted. Once the hiring freeze was lifted, the University moved to re-staff the Procurement Office. In July 2017, the University hired a Procurement Buyer and added the Procurement Director position mid-December 2017. The staff has worked very closely with the State Procurement Office in bringing all State filings up to date as well as reviewing current practices and procedures with the University's Legal department to ensure contract compliance.

Updated Response: Accepted and Implemented.

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

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

Auditors noted the "Student Activities" accounting entity had negative cash balances at the beginning and the end of the fiscal year.

University management stated declining student fees have caused a reduction in income generated by the accounting entity. While efforts have been made to reduce expenses, this reduction effort has been offset by the reduced income.

Response: Accepted. The University continues to take a holistic approach to reducing the deficit. The University continues to engage in activities which emphasize revenue enhancement and operational efficiency.

Updated Response: Accepted and Partially Implemented. A procedure to address the subsidy of the Athletic function's operations has been created and is currently under review. Potential exists for this finding to repeat.

12. Ensure the accuracy of the quarterly accounts receivable reports prior to submission to the Comptroller's Office.

Finding: The University did not accurately report accounts receivable balances to the Office of the State Comptroller in accordance with reporting requirements.

During a review of these reports for the quarters ended March 31, 2017 and June 30, 2017, auditors noted the following:

- Current restricted accounts receivable greater than 90 days past due and over $1,000 reported in Form C-98 were understated by $55,000 for the quarter ended March 31, 2017.

- Current unrestricted accounts receivable over 180 days past due and over $15,000 reported in Form C-99A were overstated by 7,112 accounts totaling $12,027,766 for the quarter ended March 31, 2017, and 6,775 accounts totaling $11,568,567 for the quarter ended June 30, 2017. In addition, accounts over 180 days past due and less than $15,000 reported in Form C-99A were understated by 7,116

Accepted or Implemented – continued

- accounts totaling $12,036,124 for the quarter ended March 31, 2017, and 6,779 accounts totaling $11,755,503 for the quarter ended June 30, 2017.

University management stated the exceptions on the C-99A are a result of the misinterpretation of required disclosure by categories, by the staff. The total volume of accounts agreed in substance, but classification of those less than the $15,000 threshold were not properly segregated out. The exception on the C-98 was due to the University's belief that since the billing needed to be resubmitted to the granting agency, the receivable should be re-aged and thus not considered past due.

Response: The University has implemented procedures to ensure that detailed support is reviewed and tied to quarterly reports prior to submission to the Comptroller's Office.

Updated Response: Accepted and Implemented.

13. Improve controls to ensure expenditures are posted to the correct fiscal year, properly approved, paid timely, and incurred for reasonable and necessary purposes. (Repeated-2009)

Finding: The University did not properly process certain expenditures and did not pay certain expenditures in a timely manner.

Auditors tested 195 expenditures (totaling $5,211,759) and noted the following:

- Twelve invoices (totaling $1,221,558) were not approved for payment from 4 to 187 days after receipt of a proper bill.

- Eight invoices (totaling $608,824) were paid 2 to 157 days after receipt of a proper bill.

- One invoice (totaling $5,000) pertained to an expenditure which was not considered reasonable and necessary. Specifically, the University paid a fine for allowing a student-athlete to compete without meeting all eligibility requirements.

Auditors also tested another 75 federal expenditures (totaling $585,026) (not including student financial aid) and noted the following:

- Five invoices (totaling $47,611) were not approved for payment 30 to 184 days after receipt of a proper bill.
- Four invoices (totaling $7,530) were not paid were paid 29 to 1,057 days late after receipt of a proper bill.
- Two invoices (totaling $3,003) were recorded to the incorrect fiscal year.

University management stated the University underwent Fiscal Exigency from February 2016 to December 2016. During this period, vendors were notified of delay in payments with the issuance of a purchase order. In addition, key departments such as Accounts Payable, Athletics, Purchasing, and Grants experienced reduced staff which impacted the department's ability to operate more effectively.

Response: Accepted. In FY 2017, the University's financial situation resulted in payment delays. With the full support of the Board of Trustees, as the Fiscal Exigency was lifted, the University made vendor payments one of its top priority. The Accounts Payable Department restructured the invoice approval process which now incorporates an electronic approval for fiscal officers. Training has also been provided to University staff with more workshops scheduled in the coming months. The Accounts Payable Department is currently also working with specific vendors to move to electronic invoicing.

Updated Response: Accepted and Implemented. Potential exists for this finding to repeat.

14. Ensure timely performance of audits over all major systems of internal accounting and administrative controls as required by law and require all internal audit staff to comply with the continuing education requirements of the State of Illinois Internal Audit Advisory Board (SIAAB). Also, arrange an external assessment of its internal audit activity to comply with the Institute of Internal Auditors' Standards. (Repeated-2015)

Finding: The University failed to fully comply with the Fiscal Control and Internal Auditing Act (Act), International Standards for the Professional Practice of Internal Auditing, and State of Illinois Internal Audit Advisory Board Bylaws.

During a review of the University's Office of the Internal Audit (OIA), auditors noted the following:

- Audits of the University's major systems of internal accounting and administrative controls including testing of the obligation, expenditure, receipt and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations were not completed during FY16 and FY17.

- The University's Internal Audit division has not had their peer review since the last external assessment which was issued on June 21, 2011.

- One internal audit staff did not complete 20 hours of continuing professional education (CPE) for calendar year 2016. Specifically, the internal audit staff needed an additional 6.5 hours of CPE to be compliant.

University management stated resource constraint and competing priorities have resulted in delays in completing the items noted above.

Accepted or Implemented – continued

<u>Response:</u> Accepted. Testing of the obligation, expenditure, receipt and use of public funds is in progress and will be completed within 30 days. The University's internal preparation for the peer review is also in progress and has also been scheduled for completion within 30 days. The University identified the professional responsible for conducting the review and requested resources necessary to reimburse travel costs. Minimum CPE requirements were met and exceeded for the 2017 calendar year and a monitoring process has been implemented to assure compliance for the 2018-2019 reporting period.

<u>Updated Response:</u> Accepted and Partially Implemented. The expenditure audit has been completed and continuing professional education requirements have been met. Internal peer review self-assessment procedures remain in progress. The external peer review will be scheduled once self-assessment procedures are substantially completed.

15. Strengthen controls over personal services to ensure all timesheets are submitted and reviewed timely and ensure the accuracy of salaries being paid to its employees. Additionally, confirm and recoup the amount overpaid to the former employee. (Repeated-2015)

<u>Finding:</u> The University did not have adequate controls over personal services. During a review of 40 employees' personnel records and timesheets, auditors noted the following:

- Four employees' timesheets were not approved on a timely basis. The timesheets were approved 27 to 32 days after the pay period.
- Eight employees' timesheets were not approved by their Supervisors.
- Three employees' did not submit their timesheets for the pay periods tested.
- One employee was paid after termination date resulting in an overpayment of $6,348.

University management stated non-adherence to policy regarding the recording and approving of time resulted in timesheets not being filed or approved in a timely manner.

<u>Updated Response:</u> Accepted and Partially Implemented. A notice of progressive disciplinary procedures regarding late and missing timesheet approvals and late and missing timesheet submissions was issued, but has not been implemented. Instances of late and missing timesheet approvals and late and missing timesheet submissions continue to exist. The amount overpaid to the former employee has been confirmed, but not recouped as the employee filed for bankruptcy. Finding is expected to repeat.

16. Implement procedures to ensure fees imposed are accurately reported in accordance with reporting requirements.

<u>Finding:</u> The University did not accurately report fees to the General Assembly in accordance with reporting requirements.

During a review of the University's 2017 Agency Fee Imposition Report (Report), auditors noted the Continuing Education fees and Miscellaneous Service fees collected by the University totaling $186,390 and $28,504, respectively were not included on the Report.

The University submitted a revised Report to the Illinois Comptroller's Office on October 2, 2017 as a result of the auditors bringing the issue to the University's attention.

University management stated there was a misunderstanding on the types of fees that could be excluded from the Fee Imposition Report.

<u>Response:</u> Accepted. In the future, all fees imposed by the university will be included on the Agency Fee report.

<u>Updated Response:</u> Accepted and Implemented.

17. Implement procedures to ensure TA-2 forms are accurately completed and timely filed in compliance with the requirements of the State Finance Act.

<u>Finding:</u> The University did not have adequate controls over preparation and submission of Travel Headquarter Reports (TA-2 forms).

During a review of TA-2 forms submitted by the University, auditors noted the following:

- TA-2 forms were inaccurate. The location where identified employees spent the majority of their working time was the same as the headquarters, thus they are not required to be reported on the TA-2 forms.
- TA-2 forms were submitted 16 to 19 calendar days late to the Legislative Audit Commission (Commission).

University management stated, historically, the only University staffs working at a location outside of their official headquarters have been those working on grant funded programs that were being executed at an outside location. Therefore, the University's focus remains on grant funded programs. The University is unaware of any current employees who would qualify for reporting under the TA-2 requirements, but inadvertently listed some working on a particular grant program, although they weren't physically located away from their official headquarters. Moreover, according to University officials, the untimely submission of the TA-2 reports was due to lack of staff.

Accepted or Implemented – concluded

Response: Accepted. The University is reassessing the requirements of the TA-2 and determining which department is best suited to submit the semi-annual report. The January 2018 report has been properly and timely submitted.

Updated Response: Accepted and Implemented.

18. Ensure access rights are periodically reviewed and if necessary, appropriately adjusted based upon staff job responsibilities. Also, ensure access rights of separated employees are removed on a timely basis.

Finding: The University had not established adequate controls over system access.

During testing, auditors noted the following weaknesses:

- User access rights to the applications were not periodically reviewed.
- Access rights were not always timely removed.

University management stated the above weaknesses were due to resource constraints and shortage of staff that resulted in delays in staff training for all aspects of the computing environment.

Response: Accepted. Information Technology Division (ITD) will ensure that the access rights are reviewed on a quarterly basis by all unit leaders. Employees in the Office of Human Resources will be trained to remove the access of terminated employees in a timely manner instead of depending on ITD.

Updated Response: Accepted and Implemented.

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 three emergency purchase statements during FY17 for repairs or equipment replacement, estimated to cost $1,303,000.00.

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.

In a form filed August 1, 2017, CSU stated that four employees worked the majority of time away from their official headquarters.

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APPENDIX A

Summary of Expenditures from Appropriations and Income Fund

	FY17		FY16
APPROPRIATIONS/EXPENDITURE AUTHORITY	**$ 38,237,500**		**$ 21,707,300**
EXPENDITURES			
Education Assistance Fund	17,387,800		20,106,686
General Professions Dedicated Fund (Pharmacy)	307,000		-
Chicago State University Education Improvement Fund	1,600,000		1,600,000
General Revenue Fund	18,942,700		-
Total Expenditures from appropriated funds	**$ 38,237,500**	*	**$ 21,706,686**

	FY17	FY16
INCOME FUND REVENUES	**$ 31,214,322**	**$ 38,812,994**
EXPENDITURES		
Personal services	$ 660,040	$ 29,296,945
SURS	-	3,792
Social Security	573,877	1,789,343
Contractual services	6,603,772	6,245,883
Travel	80,385	51,076
Commodities	714,433	504,103
Equipment and library books	365,713	203,245
Telecommunications	448,242	425,084
Operation of automotive equipment	16,716	29,787
Permanent improvements	914,051	-
Awards, grants, and matching funds	150,222	143,492
Tuition and fee waivers	2,616,666	3,048,994
Other expenditures	736,976	1,500,202
Total Income Fund Expenditures	**$ 13,881,093**	**$ 43,241,946**

***** Includes $23,894,000 received in FY18 (PA100-0021) for FY17 expenses.

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APPENDIX B

Statement of Revenues, Expenses and Changes in Net Position

	FY17	FY16
Operating Revenues		
Student tuition and fees	$ 22,265,078	$ 26,472,595
Federal grants and contracts	6,448,567	7,101,139
State and local grants and contracts	4,451,978	3,198,762
Nongovernmental grants and contracts	6,812	23,948
Auxiliary enterprises	7,901,488	10,603,548
Other operating revenues	4,499	10,124
Total operating revenues	**$ 41,078,422**	**$ 47,410,116**
Operating Expenses		
Instruction	25,628,589	33,498,981
Research	1,147,619	1,697,821
Public service	2,192,976	2,960,937
Academic support	4,281,785	4,774,182
Student services	2,542,950	2,775,201
Institutional support	8,905,865	11,121,139
Operation & maintenance of plant	11,035,916	10,648,552
Depreciation	6,197,787	6,115,677
Scholarships and fellowships	6,679,700	8,949,904
Auxiliary enterprises	6,514,060	7,414,923
On-behalf State fringe benefits	48,015,921	40,760,468
Total Operating Expenses	**123,143,168**	**130,717,785**
Operating Income (Loss)	(82,064,746)	(83,307,669)
Nonoperating Revenues (expenses)		
State appropriations	14,343,500	21,707,300
State fringe benefits	48,015,921	40,760,468
State nonoperating grants	2,106,107	2,505,197
Federal nonoperating grants	6,578,930	10,186,943
Investment income	93,982	48,359
Interest on capital asset-related debt	(582,530)	(644,972)
Net nonoperating revenues	(392,594)	(1,500,000)
Net nonoperating revenues (expenses)	**70,163,316**	**73,063,295**
Income (loss)	(11,901,430)	(10,244,374)
Capital appropriations and grants	308,581	2,032,760
Capital grants & gifts	71,126	-
Gain (loss) on disposal of capital assets	(904,530)	(3,091)
Increase (Decrease) in Net Position	(12,426,253)	(8,214,705)
Net Position, beginning of year, as previously reported	153,332,586	161,547,291
Prior Period Adjustment (Note 19)	1,024,000	-
Net Position, beginning of year (as restated)	$ 154,356,586	$ 161,547,291
Net Position, end of year	**$ 141,930,333**	**$ 153,332,586**
Selected Account Balances		
Cash and investments	$ 14,055,207	$ 19,121,592
Capital assets, net of accumulated depreciation	$ 149,089,000	$ 154,683,000
Revenue bonds payable	$ 10,760,000	$ 12,000,000
Accrued compensated absences	$ 3,656,424	$ 4,074,145

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APPENDIX C

Accounts Receivable

	FY17	FY16	Change
Acccounts Receivable (Net)			
Current Unrestricted Fund	$ 1,786,602	$ 1,854,048	$ (67,446)
Current Restricted Fund	2,435,284	5,037,575	(2,602,291)
Total Accounts Receivable (Net)	**$ 4,221,886**	**$ 6,891,623**	**$ (2,669,737)**
Accounts Receivable - All Funds at Gross*	$ 16,273,842	$ 18,870,156	$ (2,596,314)
Less: Allowance for Uncollectible Accounts	(12,051,956)	(11,978,533)	(73,423)
Total Accounts Receivable (Net)	**$ 4,221,886**	**$ 6,891,623**	**$ (2,669,737)**
Aging of Current Unrestricted Fund			
Current (less than one year)	$ 1,872,321	$ 1,903,401	$ (31,080)
One Year Past Due	806,247	758,479	47,768
Two Years Past Due	649,400	982,746	(333,346)
Three Years Past Due	769,875	654,038	115,837
Older Than Three Years Past Due	7,108,861	6,948,381	160,480
Total Current Unrestricted Fund - Gross	**$ 11,206,704**	**$ 11,247,045**	**$ (40,341)**
Allowance for Uncollectible Accounts	(9,420,102)	(9,392,997)	(27,105)
Current Unrestricted Fund - Net	**$ 1,786,602**	**$ 1,854,048**	**$ (67,446)**
* Comprised of			
Student tuition and fees	$ 12,908,198	$ 12,804,703	
Federal, state, and private grants & contracts	2,492,718	4,978,772	
Third party and other receivable	872,926	1,086,681	
Total gross receivable	$ 16,273,842	$ 18,870,156	

APPENDIX D

Changes in Property and Equipment

	Ending Balance at June 30, 2016	Additions	Retirements	Net Transfers (CDB)	Ending Balance at June 30, 2017
Land	$ 9,611,000	$ -	$ -	$ -	$ 9,611,000
Works of art	41,000	-	-	-	41,000
Site Improvements	15,080,000	842,000	-	-	15,922,000
Buildings & Building Improvements	199,587,000	96,000	-	-	199,683,000
Equipment and library books	45,496,000	625,000	(374,000)	313,000	46,060,000
Capital Lease Assets	339,000	9,000	-	(313,000)	35,000
Intangible Assets	1,490,000	-	-	-	1,490,000
Construction in Progress	13,650,000	255,000	(905,000)	30,000	13,030,000
TOTAL	**$ 285,294,000**	**$ 1,827,000**	**$ (1,279,000)**	**$ 30,000**	**$ 285,872,000**

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APPENDIX E

Summary of Funds Provided by and to the Foundation

	FY17	FY16
Funds provided by the University	**$ 323,826**	**$ 210,000**
Considered unrestricted for guidelines purposes:		
Totally unrestricted from Foundation fundraising activities	23,240	47,092
Restricted only as to college or department	570,149	349,783
Total, unrestricted	**$ 593,389**	**$ 396,875**
Considered restricted for guidelines purposes:		
Given for scholarships	102,608	125,695
Total, restricted	**$ 102,608**	**$ 125,695**
Total funds provided to the University	**$ 695,997**	**$ 522,570**

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APPENDIX F

Tuition and Fee Waivers

	FY17	FY16
Mandatory Waivers		
ROTC	$ 130,100	$ 73,500
DCFS	47,300	52,600
Children of Employees	40,100	70,100
Senior Citizens	73,000	65,000
Illinois Veterans Grants	304,100	479,500
Illinois National Guard	114,200	140,100
Prisoners of War/MIA	42,100	54,700
Teacher/Special Education	14,300	65,800
Total Mandatory Waivers	**$ 765,200**	**$ 1,001,300**
Discretionary Waivers		
Faculty/Administrators	33,200	88,200
Civil Service	221,200	309,600
Athletic	239,800	210,700
Athletic/Gender Equity	234,100	251,300
Need Based--Special Programs	141,100	145,700
Cooperating Professionals	2,500	1,400
Teaching Assistants	63,400	38,400
Total Discretionary Waivers	**$ 935,300**	**$ 1,045,300**
GRAND TOTAL	**$ 1,700,500**	**$ 2,046,600**