

LEGISLATIVE AUDIT COMMISSION



Review of
Chicago State University
Year Ended June 30, 2010

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

**REVIEW: 4351
CHICAGO STATE UNIVERSITY
YEAR ENDED JUNE 30, 2010**

FINDINGS/RECOMMENDATIONS - 41

**ACCEPTED - 21
IMPLEMENTED - 20**

REPEATED RECOMMENDATIONS - 11

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 13

This review summarizes the auditors' reports on Chicago State University for the year ended June 30, 2010, filed with the Legislative Audit Commission March 30, 2011. The auditors performed a compliance examination and a financial audit in accordance with 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, urban institution of higher education located on the south side of Chicago. The University's mission is to: (1) provide access to higher education for residents of the region, the State and beyond, with an emphasis on meeting the educational need, undergraduate through doctoral levels, of promising graduates from outstanding secondary schools, as well as, educating students where academic and personal growth potential and promise may have been inhibited by lack of economic, social or educational opportunity and (2) produce graduates who are responsible, discerning and informed global citizens with a commitment to lifelong learning and service.

Dr. Wayne Watson is the current President of Chicago State University. The president during the first three months of the audit period was Acting President Dr. Sandra Westbrooks. Dr. Wayne Watson began serving as President on October 1, 2009. He had no previous association with the University.

General Information

The following is a summary of net assets of the University.

REVIEW: 4351

	2010	2009
Assets		
Current Assets	\$ 28,334,758	\$ 22,279,438
Non-current Assets	\$ 145,489,237	\$ 145,941,214
Total Assets	\$ 173,823,995	\$ 169,207,509
Total Liabilities	\$ 39,106,805	\$ 43,173,778
Net Assets	\$ 134,717,190	\$ 126,033,731

One significant change to current assets is the \$5.5 million increase in the balance the University is owed in State appropriation.

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		
	2010	2009
Undergraduate	5,276	4,855
Graduate	1,767	1,533
TOTAL	6,814	6,631

Credit Hours		
	2010	2009
Undergraduate	129,594	120,353
Graduate	30,957	25,590
TOTAL	160,551	145,943

The average number of University employees is as follows:

	2010	2008
Faculty and Staff	903	982
Students	253	272
TOTAL	1,156	1,254

Full-time equivalent cost per student per semester in 2010 was \$6,814 compared to \$6,631 in 2009.

Expenditures From Appropriations and the University Income Fund

Appendix A presents a summary of appropriations and expenditures for 2010 and 2009. The General Assembly appropriated \$42,726,000 to the University in FY10 mostly from the General Revenue Fund, including \$3.4 million in ARRA funds for personal services, and \$614,000 from the General Professions Dedicated Fund, which is exactly the same as FY09. Total Income Fund revenues were \$38,079,000 in FY10 compared to \$30,220,014 in FY09. Total expenditures from appropriations increased from \$41,673,200 in FY09 to \$42,725,974 in FY10. Funds used for special projects in FY09 were converted to operating use in FY10. Although revenues in the Income Fund increased \$7.8 million in FY10 over FY09, expenditures from the Fund were \$30,197,110 in FY10 compared to \$30,431,155 in FY09.

Current Revenues and Expenses

The table appearing in Appendix B presents a statement of revenues, expenses, and changes in net assets, and other account balances for the years ended June 30, 2010 and 2009. State appropriations are the single largest source of revenue, followed by student tuition and fees. The largest areas of expenditure are instruction (30.8%), and on-behalf State fringe benefits (15.4%).

Accounts Receivable

Appendix C provides a summary of the University's accounts receivable for FY10 and FY09. Net accounts receivable decreased from \$14.1 million in FY09 to \$10.2 million. About \$8.4 million in unpaid student tuition and fees account for 57.6% of the gross receivable, while \$4.5 million in federal, State and private grants and contracts accounted for 30.9% of the gross receivable, and almost \$1.7 million in third party and other receivables account for 11.5% of the gross receivable. Of the \$10.1 million gross receivable due the current unrestricted fund, almost \$4.2 million is current while \$4.4 million is considered uncollectible. Accounts receivable for student loans (\$1.66 million in FY10) 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, 2009 was \$250,546,000, compared to an ending balance at June 30, 2010 of \$254,162,000, an increase of \$3.6 million or 1.4%.

Foundation Payments to the University

Chicago State University Foundation is considered a university-related organization. During FY10, CSU provided administrative support services to the Foundation valued at \$73,085. 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 \$808,214 to the University in FY10, compared to \$899,967 in FY09. Appendix E provides a summary of all funds that the Foundation gave to the University during the audit period.

Tuition and Fee Waivers

During FY10, Chicago State University granted \$1,965,500 in tuition and fee waivers (both undergraduate and graduate). This represents a decrease of \$93,600, or 4.5%, as compared to the total tuition and fee waivers granted in FY09. The University provided 24 fewer tuition waivers during FY10 than FY09.

Accountants' Findings and Recommendations

Condensed below are the 41 findings and recommendations presented in the compliance examination report. There were 11 repeated recommendations. The following recommendations are classified on the basis of updated responses provided by Kenneth Clow, Chief Internal Auditor, via electronic mail received July 7, 2011.

Accepted or Implemented

- 1. Enhance procedures to ensure that accounting records are properly reconciled and evaluated and allow for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America.**

Finding: Chicago State University (University) did not perform accounting reconciliations of certain receivables, payables, prepaid expenses, and capital assets at the end of the current accounting period. Auditors also noted errors reported in prior reporting periods that resulted in prior period adjustments recorded by the University.

Some of the matters noted are as follows:

- Construction in progress as of June 30, 2009 was understated by \$687,555.
- The University had written off \$928,193 of old stale dated checks that it had determined were not valid liabilities of the University. The University wrote these off to other income, thereby misstating its current year revenues.

REVIEW: 4351

- The University had not reconciled its student payable account and another liability account. Upon further review, it was noted that the balances were overstated due to several stale dated checks. The University recorded entries totaling \$142,657 to remove these erroneous entries and liabilities.
- The University did not use a reasonable methodology for estimating an allowance for doubtful accounts for its student loans and student accounts. The University revised their estimates and posted adjustments that increased the student account allowance by \$796,268 and the student loan allowance by \$121,563.
- A review of Auxiliary Enterprise revenues and expenses noted a sharp decline in revenues and expenses. Upon investigation, auditors were told that the food service revenues and expenses for students in University housing had been removed (or netted out) from the accounting records. The University posted an adjustment to gross up those revenues and expenses of \$1,204,693.
- The detail provided by the University relating to its third party accounts receivable had not been reconciled to the general ledger. After further investigation, it was determined that the balance was over stated by \$412,372.
- The University's institutional loan receivable account showed no activity since 1997. After bringing this to the University's attention, it was determined that the University did not have any supporting documentation detailing these loans. The University posted an entry of \$65,856 to write-off these loans that could not be collected.
- The detailed accounts payable listing provided by the University included a vendor called "Unreconciled". The University had no idea to whom these amounts were payable or if they were payable. The University wrote off these balances totaling \$55,675.
- During voucher testing, auditors noted \$139,180 of vouchers charged to FY10 that should have been recorded in the June 30, 2009 accounts payable. The University did not record this proposed adjustment.
- After being informed that the University was making these entries, auditors inquired whether the University obtained the necessary approvals from the Attorney General's Office to write off the receivables that exceeded \$1,000 and performed the other procedures required by the Uncollectible State Claims Act. Auditors were informed that they had not as of the date of the inquiry.

University management stated that they are in the process of cleaning up certain accounts on its books and has been assisted in this effort through the audit testing. The approval of the Attorney General had not been requested earlier due to a focus on completing the financials and the audit.

Updated Response:

Accepted -

- All accounting staff will be assigned ledger accounts and other accounting activities to review and reconcile on a monthly basis.

Accepted or Implemented – continued

- The Controller, Associate Director of Accounting and Chief Accountant will perform a second review on a quarterly basis to verify all reconciliations have been completed and to address any issues that still require attention.

Implemented -

- A compliance reviewer was designated to verify that all assignments have been completed by the end of the subsequent month and any problem areas reported to the Controller.

2. Comply with statute and continue evaluation of stale checks. (Repeated-2007)

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

After the completion of each calendar year, the University transfers its old outstanding checks to a liability account and removes them from its bank reconciliation. Auditors noted that these liability accounts contained stale dated checks which had never been cashed. Some of these checks were issued over eleven years ago. The balance of checks older than 7 years old that remained as a liability on the University's Statement of Net Assets as of June 30, 2010 was \$148,552.

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

University officials stated the expectation of the new management coming on board in mid-FY10 was that checks older than the seven-year holding period under the Unclaimed Property Act would need to be remitted to the State Treasurer at the next regular reporting date of November 1, 2010 or otherwise disposed of prior to that date.

Updated Response: Accepted.

- The Controller will designate key staff to address the review of stale-dated checks; to perform due diligence activity; to file unclaimed property reports; and to make appropriate disposition of all stale-dated checks that exceed the seven-year holding period under Illinois law.
- The Controller will require monthly status reports and meet regularly with the responsible staff.
- Review of the \$1,070,000 in stale dated checks written-off to revenue in FY10 and determination for each check is required by auditors.

3. Ensure that proper financial reporting is achieved to ensure that bond holders have proper financial information for the University and the Auxiliary Facilities System in accordance with generally accepted accounting principles.

Finding: The University did not properly report financial information of the University Auxiliary Facilities System Revenue Bond Fund (System).

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

University officials stated that the accounting system captured all the transactions of the auxiliary activities; however, the financial reports are not generated automatically and had to be manually prepared from extracted reports.

Updated Response:

Implemented -

- The Controller appointed the Associate Director of Accounting to oversee a review of the process for preparing the Revenue Bond financial statements and the Entity Level statements and to reconcile the two bases of reporting.

Accepted -

- The plan will be to have draft financials prepared within 60 days after fiscal year end including Revenue Bond and Entity level statements.
- The Controller will review the draft financials to ensure they are in good form.
- The Associate Director of Accounting and the Accounting Associate will update the financials prior to the GAAP Package reporting due October 1, 2011.

4. Re-evaluate Purchasing Card Policies and Procedures Manual to determine if existing policies are still appropriate for the changes that have been made to the program. After re-evaluation, adhere to the Purchasing Card Policy and Procedures Manual. (Repeated-2008)

Finding: The University did not process certain expenditures in compliance with its Purchasing Card Policy and Procedures. During testing of 40 purchasing card transactions totaling \$73,212 for expenditures for services, travel, commodities, and equipment, auditors noted the following:

- Nineteen transactions totaling \$63,488 exceeded the single transaction limit of \$1,000.
- Two transactions totaling \$968 were for purchases involving labor or services.

REVIEW: 4351

Accepted or Implemented – continued

- None of the 40 transactions were coded to the general ledger timely, ranging from 30 to 95 days late.

During a review of all of the cardholder agreements (three) still open, auditors noted the following:

- One of the cardholder agreements was noted to have been signed (as cardholder) and approved (as fiscal officer) by the same individual.
- One of the cardholder agreements was noted to have been signed by the cardholder in July 2009, but was not approved by the fiscal officer until July 2010.
- All of the cardholder agreements failed to include the official date of training on the cardholder agreement.
- Three of 12 statements tested exceeded the monthly spending limit of \$15,000.

University officials stated the \$1,000 limit was intended for individual P-card users only, whereas Purchasing and Physical Plant card holders were intended as exceptions because they were making purchases on behalf of the University at-large. Similarly, the monthly spending limit was not intended to be \$15,000 since two cards were intended to be used to make purchases for the University at-large. A revised policy was prepared to account for the limits but it had not been posted on the web site. The purchases involving labor were unintended exceptions. The timing of posting to the ledger is due to batch processing. All posting is done following the month to facilitate reconciliation to the monthly invoice from the bank. The other exceptions noted occurred during the transition to new management at the University. New management has reemphasized adherence to written policies and training sessions have been offered to the University at large and the number of cardholders has been kept to a minimum.

Updated Response:

Implemented –

- The Controller has ensured the Purchasing Card procedures have been revised to reflect business needs and the business process.

Accepted -

- The staff accountant responsible for P-Card monthly posting and reconciliation will report to the Controller monthly on any P-Card problems or occurrences of noncompliance.
- The staff accountant will notify Fiscal Officers of any exceptions and occurrences of noncompliance on a monthly basis following completion of the reconciliation.
- The Controller will address any non-responses to exceptions or occurrences of noncompliance at least every other month.

REVIEW: 4351

5. Improve procedures to ensure compliance with requirements applicable to federally funded programs from the United States Agency for International Development. Report expenditures in the correct fiscal year. (Repeated-2003)

Finding: The University did not comply with the requirements related to its award from the United States Agency for International Development (USAID). Auditors examined 27 expenditures totaling \$175,809 and noted the following:

- Four expenditures included charges for unnecessary or unreasonable expenses. These charges were for roaming costs for a cellular phone (\$7,271), purchase of additional airline tickets because the travelers were unaware of the check-in procedures on tickets already purchased (\$6,800), and medication for a traveler (\$126).
- One expenditure included charges of \$7,123 that were incurred prior to the period of availability for the program that was charged.
- One expenditure was a travel advance in the amount of \$1,500. The traveler indicated that receipts were submitted to the former program director, but no formal travel voucher or reconciliation of actual expenses was completed by the traveler.
- Two expenditures included charges of \$2,446 that related to the prior fiscal year.

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: On February 1, 2010, a new management team was installed and since then a system of internal controls has been implemented to ensure that all expenditures and reporting, are in compliance with the US Agency for International Development, State of Illinois and University guidelines. The changes that have been implemented include:

- Hired a Licensed CPA to be responsible for the processing of all expenditures for the grant and staying apprised of changes effecting University financial policies, procedures, etc.
- An in-office tracking system has been put in place. All expenditures since January 2011 have been input into the spreadsheet. We will input all expenditures since July 1, 2010
- All documents and expenditures encumbered in CSU-Buy are reviewed for proper approvals, supporting documentation and prompt payment, as appropriate.
- Frequent ongoing reviews of TLMP expenditures are conducted with the Executive Director to determine the status of supporting documents and expenditures as they move through the University financial system.
- Contact with vendors to instruct them to mail/fax invoices to the TLMP office; and reconciling the monthly financial reports from Sponsored Programs to the spreadsheet.

Accepted or Implemented – continued

- Under the guidance of Sponsored Programs, meet quarterly to ensure that the corrective plan is effective, make any necessary changes, if needed, and ensure that all reporting requirements are met as per the grant requirements.

Accepted. Internal procedures within the Office of Grants & Research department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. For long term retention, all files will be converted to digital form, cataloged and uploaded into a database for more manageable retrieval. At the end of each grant budget year, fiscal officers are required to meet with OGRA for a grant year-end and/or close-out interviews. Interviews will include an audit of the complete file to ensure that all supporting documents are present, complete and accurate.

6. Improve controls to ensure compliance with requirements applicable to federally funded programs from the Department of Energy.

Finding: The University did not fully comply with the requirements related to its grant from the Department of Energy (DOE). Auditors examined 10 expenditures totaling \$224,710, and noted the following unallowable costs:

- One travel expenditure of \$1,304 for an employee attending a science conference included hotel charges for a room upgrade.
- The University charged retirement benefits of \$893 to the program. However, the award document specifically disallows indirect costs and fringe benefits.
- The University initially could not locate or provide documentation for one expenditure of \$14,280 that was requested in August 2010. The University finally provided the documentation on March 3, 2011.

Auditors examined the only procurement for this program and noted the contract amendment/renewal had not been signed by the University or the Contractor.

The review of progress and financial reports submitted for this program included the following:

- The Federal Cash Transactions Report (SF-272) had not been completed by the University. The University submitted a single report for the period January 1, 2008 to June 30, 2010. The grant agreement specifically requires quarterly reporting.
- The University did not submit its progress reports on a timely basis. Three separate reports were submitted between 37 – 129 days after the due date. Additionally, the University was able to provide copies of these progress reports; however, they did not have any evidence of having submitted these reports to DOE, and re-sent all the reports on August 17, 2010 to ensure that DOE received the required reports.

REVIEW: 4351

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. During this time the oversight, monitoring and follow up in regard to compliance with grant requirements was not at an optimum level until a new Director could be brought on board to make the intended improvements in grants administration. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: Accepted.

- Chicago State University travel regulations will be reviewed, updated and posted to the Office of Grants and Research Administration (OGRA) for reference. The institution's travel policy will be part of the grant activation packet and require the fiscal officer to acknowledge and sign.
- Internal procedures within the OGRA department will be conducted quarterly. Additional support staff will be used to review grant fund. OGRA staff will work closely with other departments to ensure that grant expenditures are supported by source documentation. Fiscal Officers will be required to acknowledge written procedures in accordance with the terms and conditions of the award.
- OGRA department is currently establishing a database showing all grant deadlines for fiscal and progress reports. From this database, an OGRA operational calendar will be established and distributed among the staff. Fiscal Officers will include as part of the activation package all report due dates. Activation package will include a statement addressing the consequences of failing to meet reporting deadlines. OGRA will, however, work closely with fiscal agents to ensure that reports are submitted in a timely fashion to the granting agencies.
- Implemented: The Notice of Financial Assistance Award (Award) part 4 of the special terms and conditions states that indirect costs and fringe benefits are not reimbursable for this program. To stay current with OMB guidelines and regulations OGRA staff and administrators are required to attend federal and State compliance conferences and workshops annually.

7. Improve controls to ensure compliance with requirements applicable to Research and Development Cluster federally funded programs.

Finding: The University did not fully comply with compliance requirements of reporting applicable to its Research and Development Cluster programs. Testing of reporting by the University identified the following:

- The University was unable to provide the auditors a complete listing of reports that were required to be submitted for the Research & Development Cluster programs.
- One report submitted under the American Recovery and Reinvestment Act was missing required data. The report was missing the recipient's account number.

REVIEW: 4351

Accepted or Implemented – continued

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: Accepted.

- Internal procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. For long term retention, all files will be converted to digital form, cataloged and uploaded into a database. At the end of each grant budget year, fiscal officers are required to meet with OGRA for a grant year-end and/or close-out interviews. Interviews will include an auditing of the complete.
- OGRA department is currently establishing a database showing all grant deadlines for fiscal and progress reports. From this database, an OGRA operational calendar will be established and distributed among the staff. Fiscal Officers will include as part of the activation package all report due dates. Activation package will include a statement addressing the consequences of failing to meet reporting deadlines. OGRA will; however, work closely with fiscal agents to ensure that reports are submitted in a timely fashion to the granting agencies.

8. Properly reconcile all student financial awards and cost allowances to the University's fiscal records for each student financial assistance program on a monthly basis. (Repeated-2008)

Finding: The University did not reconcile its student financial assistance awards and expenditures on a monthly basis. The University could not provide auditors with any reconciliations of program and fiscal records. Therefore, auditors compared the University's program records and fiscal records and some of the differences noted are as follows:

- For the Federal PELL Grant Program (PELL) – The program records indicated total PELL awards were \$17,487,399 and the fiscal records reported expenditures of \$17,557,217.
- For the Federal Work Study Program (FWS) – The program records indicated FWS awards of \$564,988 and the fiscal records reported expenditures of \$534,296.
- For the Federal Perkins Loan Program – Prior to adjustment, the University's general ledger showed outstanding loans of \$1,731,920 at June 30, 2010. The University's Perkins Loan servicer reported outstanding loans of \$1,663,661 as of June 30, 2010. The University subsequently posted an adjustment of \$66,732 to write down its outstanding loan balance as of June 30, 2010, but did not record an adjustment for the remaining \$1,527.

REVIEW: 4351

University officials stated the Sponsored Research department has been performing ongoing monthly reconciliations and analyses with the full intent of meeting the requirement of monthly reconciliation on federally funded programs. The exceptions cited above are caused by inadequate tools for matching data among the Financial Aid system, the student accounts and the general ledger. In general, awards have first been disbursed to student accounts in advance of the related funds being drawn down from the U.S. Department of Education's GAPS web site and the University typically is in a net receivable position with respect to the U.S. Department of Education.

Updated Response: Implemented.

- Interfaced financial transactions from Financial Aid to the Bursar's Office and into the General Ledger are reconciled on a monthly basis for Financial Aid, Grants and General Ledger.
- Draw down funds are consistent with the completed account reconciliation and any appropriate adjustments are promptly made.
- Supporting documents for any ledger adjustments are recorded and produced.
- Financial Aid, Sponsored Programs and Financial Affairs meet quarterly to review progress, address any issues and make any appropriate adjustments to plan.

9. Improve controls over financial reporting to ensure preparation of a complete and accurate SEFA.

Finding: The University did not prepare a complete and accurate Schedule of Expenditures of Federal Awards (SEFA). The University provided the auditors its "Final" SEFA on October 14, 2010. The Notes to the SEFA were provided on December 16, 2010. Auditors tested the accuracy and completeness of the SEFA provided and noted the following:

- The Federal Direct Loan Program (\$3,469,287) was missing from the SEFA and the Notes to the SEFA.
- The State Fiscal Stabilization Funds Cluster (\$3,451,674) was missing from the SEFA.
- An interest subsidy that the University has received on an annual basis (since approximately 1971) from the Department of Housing and Urban Development of \$55,812 was missing from the SEFA.
- American Reinvestment and Recovery Act (ARRA) funds were not identified as such.

University officials stated this was an oversight during a period of heavy workload.

Updated Response: Accepted.

- OGRA is currently reviewing the procedure and internal controls for ensuring that SEFA reports are complete and accurate before submission. Our corrective action

Accepted or Implemented – continued

plan will include the hiring of a Grant and Compliance Administrator who will work closely with the accountants and will also be responsible for reviewing and approving the SEFA reports prior to submission.

- OGRA Department is currently establishing a database showing all grant deadlines for fiscal and progress reports. From this database, an OGRA operational calendar will be established and distributed among the staff.

10. Improve controls to ensure that the University complies with requirements applicable to Research and Development Cluster federally funded programs.

Finding: The University did not fully comply with compliance requirements of allowable costs/cost principles applicable to its Research and Development Cluster programs. Auditors tested 25 expenditures totaling \$12,636 and noted the following:

- One travel voucher (\$267) that was submitted for reimbursement was approved by the supervisor prior to being signed by the traveler.
- One payroll expenditure (\$371) was charged to the program using a 66.67% time and effort rate. However, the effort certification report completed by the employee and signed by the employee's supervisor indicated that only 50% of the employee's time should be charged to the program. (The questioned cost was \$93).

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: Accepted.

- The time and effort established in the budget will be verified upon activation of the grant fund. OGRA will develop a form for verifying time and effort that will be included in the activation packet. OGRA will conduct workshops on correctly completing time and effort reports and examples of these reports will be posted on OGRA's website for easy access. Internal audit procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund.
- OGRA is in the process of changing their authorization forms for submitting grants to include the indirect cost rates for that year. OGRA is in the process of hiring a Grant and Compliance Administrator who will ensure that the indirect cost rates are used for the life of the sponsored program.
- Internal procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. OGRA staff will work closely with Accounts Receivable, Accounts Payable and Purchasing departments to ensure that grant expenditures are supported by source

REVIEW: 4351

documentation. Fiscal Officers will be required to acknowledge written procedures for determining the reasonableness, allocation and allowability of costs in accordance with the terms and conditions of the award.

11. Improve controls to ensure that each student meets the eligibility requirements prior to awarding aid.

Finding: The University did not ensure that all students receiving TEACH Grants met eligibility requirements as determined by the U.S. Department of Education. Auditors tested 60 students that received student financial assistance (2 students in the sample received TEACH grants). Auditors noted that the University awarded \$1,000 to a student that did not meet the eligibility requirements pertaining to grade point average.

University officials stated the University is aware of one student only who did not meet the grade point average eligibility requirement. In this case, the human error was that the staff person looked at a semester grade point average of 4.0 versus the cumulative grade point average. This error was subsequently corrected and the award was reversed from the student's account in FY11.

Updated Response: Implemented. The Director designates key staff to periodically review the award eligibility of students receiving the award. The Director addresses any exceptions noted by a review.

12. Implement adequate internal controls to ensure that all calculations are accurate and that refunds are made on a timely basis to the Department of Education.

Finding: The University did not properly calculate and remit the proper amount of "Title IV Funds" for students who withdrew from classes, and did not remit funds timely to the Department of Education (ED). A review of 60 students who withdrew from the classes revealed the following:

- One student's refund (\$3,913) was not returned to ED until questioned by the auditor.
- A refund for another student who never attended classes (\$668) was not returned to ED.
- Three students' refunds (\$8,092) were returned from 47 days to 180 days after the withdrawal determination was made.
- Twenty three refund calculations were incorrect because the University did not use the correct withdrawal date or used an incorrect number of days for the semester.
- For 15 students (25%), the University returned student loan funds to the lender when it was not required to do so.

REVIEW: 4351

Accepted or Implemented – continued

The above items resulted in a net over-refund to ED and/or lenders of \$31,846.

University officials stated the return calculation error was a result of not including a Sunday in the count of days which was an atypical human error. Had resources and conditions been at optimum levels, the University believes these exceptions would more likely have been avoided.

Updated Response: Accepted.

- The Director will coordinate the information exchange from the Office of the Registrar in order to ensure timely processing of the Return of Title IV Funds in the event of a student withdrawal.
- The U.S. Department of Education’s “Return of Title IV Funds on the Web” system is used instead of manual calculations.

13. Properly document student eligibility prior to awarding scholarships.

Finding: The University did not adequately document that all students were eligible for financial assistance prior to making payments on their accounts.

During testing of 40 students that received financial assistance from the program, auditors noted that the University awarded \$988 of assistance to a student that did not apply for federal student financial aid which is a prerequisite for receiving TANF assistance. The University was also unable to document that the student’s income was below 200% of the federal poverty level.

University officials stated this was a processing oversight within a department having a reduced staffing level and was not a typical occurrence.

Updated Response: Implemented. The Director designates key staff to periodically review the award eligibility of students receiving the award. The Director addresses any exceptions noted by a review.

14. Implement controls to ensure that each vendor engaged in a covered transaction is not suspended or debarred from federal award programs.

Finding: The University did not have adequate controls to ensure that vendors had not been suspended and debarred from participating in contracts funded by federal awards. Auditors tested twelve contracts totaling \$6,394,425 and noted the following:

- None of the contracts tested included a vendor certification stating that the vendor was not suspended or debarred.
- None of the vendors were included on the Excluded Parties List System.

REVIEW: 4351

University officials stated the intent has been to include significant vendors in grant proposals in order to allow the granting agency to review up front the vendors the University intends to use. Due to resource issues, more complete testing of vendor debarment and suspension has not been possible on a consistent basis.

Updated Response:

- Accepted: OGRA in in the process of changing their authorization forms for submitting grants and seeking approval for subcontracting with a specific party or agency. These changes include a checklist which verifies that the fiscal officer has checked the Excluded Parties List System prior to submitting a subcontract.
- Implemented: Administrator of OGRA also verifies prior to approving the subcontract. OGRA works closely with Finance and Legal Departments to revise contracts to include a clause or condition certifying that vendor has not been debarred and suspended prior to entering into a covered transaction with CSU.

15. Properly monitor student accounts and improve procedures to refund all credit balances within the 14-day time limit in accordance with the Federal regulation.

Finding: The University did not pay credit balances resulting from the application of student financial aid to the students in a timely manner. During testing of 60 students' financial assistance awards, 22 students (one student had 2 credit balances during the fiscal year) were paid the credit balance on their account one to 23 days late.

University officials stated the Bursar position turned over twice in FY10. Also, new management discovered that schedules were not appropriately set to ensure compliance with the 14-day rule for making refunds of Title IV funds to students. The current Bursar has established proper student refund schedules in order to comply with the applicable federal regulations.

Updated Response: Implemented.

- Effective with the Spring 2010 term a new schedule was established with the specific aim of complying with the federal regulations and the 14-day rule for the initial refund distribution at the beginning of each term.
- A new Bursar took office in October 2010 and established a weekly refund schedule intended to continue compliance with the 14-day rule on an ongoing basis.
- The Bursar monitors all accounts with credit balances weekly to ensure refunds are issued timely.

Accepted or Implemented – continued

16. Improve procedures to ensure compliance with reporting requirements for the U.S. Aid program.

Finding: The University did not have adequate procedures to ensure that reports were properly and timely filed and that special contract terms and provisions were followed. During testing of the U.S. Aid program, auditors noted the following:

- The University could not provide any documentation that the final performance report for the project that ended August 31, 2009 had been submitted.
- The University did not submit two quarterly performance reports for the periods ended December 31, 2009 and August 31, 2009.
- The University submitted the August 31, 2009 quarterly financial report on October 16, 2009, one day late.
- The University submitted the Activity Identification and Design Report on April 26, 2010. The report was due December 17, 2009, 130 days late.
- The University could not provide documentation for the base amounts used to calculate indirect costs reported on 2 of its financial status reports. On its report for the period ended August 31, 2009, the University reported a base amount for claiming indirect costs that was \$29,227 less than the actual costs. On its report for the period ended March 31, 2010, the University reported a base amount that was \$1,681 greater than the federal share of expenses incurred. In both cases, the University was backing into a base amount to report by taking the recorded indirect costs and dividing by the indirect cost rate for the program.

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. Also, there was a break in service for the Principal Investigator of the U.S. Aid program. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: On February 1, 2010, a new management team was installed and since then a system of internal controls has been implemented. The changes that have been implemented are as follows:

- Hired a Licensed Certified Public Accountant (CPA), to be responsible for the processing of all expenditures for the grant and staying apprised of changes effecting University financial policies, procedures, etc.
- An in-office tracking system has been put in place utilizing an Excel spreadsheet. All expenditures are recorded from date initiated through final payment.
- All documents and expenditures encumbered in CSU-Buy are reviewed for proper approvals, supporting documentation and prompt payment, as appropriate.
- Frequent ongoing reviews of TLMP expenditures are conducted with the Executive Director to determine the status of supporting documents and expenditures as they move through the University financial system.

REVIEW: 4351

- Contact with vendors to instruct them to mail/fax invoices to the TLMP office; and reconciling the monthly financial reports from Sponsored Programs to the spreadsheet.
- Under the guidance of Sponsored Programs, meet quarterly to ensure that the corrective plan is effective, make any necessary changes, if needed, and ensure that all reporting requirements are met as per the grant requirements.

Accepted:

- Internal procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. For long term retention, all files will be converted to digital form, cataloged and uploaded into a database for more manageable retrieval. At the end of each grant budget year, fiscal officers are required to meet with OGRA for a grant year-end and/or close-out interviews. Interviews will include an auditing of the complete file.
- OGRA department is currently establishing a database showing all grant deadlines for fiscal and progress reports. From this database, an OGRA operational calendar will be established and distributed among the staff. Fiscal Officers will include as part of the activation package all report due dates. Activation package will include a statement addressing the consequences of failing to meet reporting deadlines. OGRA will, however, work closely with fiscal agents to ensure that reports are submitted in a timely fashion to the granting agencies.

17. Improve procedures and ensure that all reimbursement requests are based on cumulative program expenditures in excess of program receipts.

Finding: The University did not have adequate procedures to ensure that federal funds were expended prior to being reimbursed by the federal agency.

The University operates all of its directly funded federal programs on a reimbursement basis. Auditors tested 72 requests for reimbursement of federal funds and noted 3 requests for reimbursement that exceeded the amount of cumulative expenditures incurred less award receipts to date. The excess funds drawn resulting from the 3 reimbursement requests totaled \$154,890.

University officials stated the over-reimbursements caused via excess draw down of funds by the University were as of an interim month and the cumulative draw downs/reimbursements did match the cumulative expenditures as of the fiscal year end at June 30, 2010. The over-reimbursements were due to miscalculations made possible by timing differences, cutoffs and similar complexities during interim periods and are exceptions rather than the rule.

Updated Response: Accepted. OGRA is in the process of hiring a Grant and Compliance Administrator who will be responsible for approving all spending requests and monitoring drawdowns. Grant and Compliance Administrator will also work closely with

Accepted or Implemented – continued

accountants and with other OGRA administrators to ensure that reimbursable funds are approved only after allowable expenses have been incurred. Grant activation packages will include a statement acknowledging reimbursements only after having incurred allowable expenses.

18. Ensure that documentation is retained to support each report submitted to the grantor.

Finding: The University did not retain supporting documentation for reports submitted to the grantor. Auditors examined the only report submitted during the audit period for the Strengthening Minority-Serving Institutions program and noted the following:

- The annual performance report submitted on July 16, 2009 reported expenditures for the period of \$216,791. The University did not retain documentation for the amount reported. The University printed its general ledger for the period which showed expenditures totaling \$217,289
- The annual performance report indicated that an attachment was included with the original submission. The University was unable to provide the auditors with a copy of what was included in the attachment.

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: Accepted. Internal procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. For long term retention, all files will be converted to digital form, cataloged and uploaded into a database for more manageable retrieval. At the end of each grant budget year, fiscal officers are required to meet with OGRA for a grant year-end and/or close-out interviews. Interviews will include an auditing of the complete file.

OGRA department is currently establishing a database showing all grant deadlines for fiscal and progress reports. From this database, an OGRA operational calendar will be established and distributed among the staff. Fiscal Officers will include as part of the activation package all report due dates. Activation package will include a statement addressing the consequences of failing to meet reporting deadlines. OGRA will, however, work closely with fiscal agents to ensure that reports are submitted in a timely fashion to the granting agencies.

19. Implement procedures to ensure that federal funds are not disbursed or credited to a student's account prior to 10 days before the first day of classes.

REVIEW: 4351

Finding: The University credited student accounts with federal funding earlier than allowed by the Department of Education's regulations. Auditors tested 60 students and noted that 28 students received federal funds 2-7 days early.

University officials stated this was an oversight which occurred when other aid year awards were still being processed which in turn led to the mistaken inclusion of some awards from the current aid year awards.

Updated Response: Implemented. The Office of Student Financial Aid adheres to federal regulations regarding the disbursement of Financial Aid funds.

20. Improve procedures and ensure that only eligible students receive Pell grants.

Finding: The University distributed a Federal Pell Grant (Pell) to a student that was ineligible at the time of disbursement. During testing of 60 students, it was noted one student received a Pell grant in the amount of \$2,675 for the fall semester on August 7, 2009. However, upon further investigation, it was noted that the student had sent a letter to the Admissions Office of the University stating that they were not going to attend the University for the fall semester. The University returned the Pell funds to the Department of Education on January 14, 2010.

University officials stated there was a delay in the Financial Aid Department receiving notice of the student's letter of intent not to attend during the Fall semester.

Updated Response: Implemented. The Director of the Office of Student Financial Aid coordinates the information exchange from the Office of the Registrar in order to ensure timely processing of the Return of Title IV Funds in the event of a student withdrawal.

21. Properly complete the FISAP and have another individual review it to ensure that all required information is included.

Finding: The University did not include all the required information when completing its Fiscal Operations Report (FISAP) relating to the Federal Work Study Program.

Auditors noted the University did not complete the information for Federal Work Study related to students employed in community service activities and students employed as reading tutors or in family literacy activities on its FISAP. After bringing this to the University's attention, they revised the FISAP and resubmitted a corrected FISAP on January 10, 2011.

University officials stated these errors occurred as a result of employee oversight.

Accepted or Implemented – continued

Updated Response: Implemented. Once the FISAP becomes available for an upcoming year, the Office of Student Financial Aid notifies all departments from which data is required and sets deadlines for submission of the required information.

22. Ensure that a written distribution of the items required by the Drug-Free Schools and Communities Act is completed on an annual basis.

Finding: The University did not comply with the requirements of the Drug-Free Schools and Communities Act by annually distributing the following information to each student and employee:

- Standards of conduct that clearly prohibit the unlawful possession, use, or distribution of illicit drugs and alcohol on its property.
- Description of the legal sanctions.
- Description of health risks.
- Description of programs available to students and employees relating to abuse.
- Statement regarding sanctions and a description of those sanctions.

University officials stated the policy on a drug free workplace is in the Student Handbook which is available both online and in hard copy form to all students. In addition, the drug free workplace policy is separately available on the University's web site to all employees and students. The University has been moving to encourage all students and employees to access policies on the web to improve delivery and reduce costs.

Updated Response: Implemented. The University has ensured that a written distribution of the items required under the Drug Free Schools and Communities Act is completed on an annual basis.

23. Revise procedures and ensure that all students receive proper written notification of loan proceed disbursements and their rights to cancel such loans in accordance with federal regulations.

Finding: The University did not provide the required notification to students regarding the anticipated date and amount of each disbursement and the student's (or parent's) right to cancel student loans.

A sample testing of 60 students that received financial assistance included 45 students who received student loans. None of the students received the required notification regarding the disbursement of loan proceeds.

University officials stated that although the technical detail of sending notification in writing was not complied with to the letter, the students were counseled and made aware of aid and loan requirements. Financial Aid counselors work closely with students prior to

REVIEW: 4351

awarding aid and issuing loans. The student is required to accept aid and loans before they are applied to the students' account.

Updated Response: Implemented. Notification is now being sent to all recipients of Federal Perkins and Federal Direct Student Loans within one business day of each disbursement received. The Assistant Director and Project Counselor monitor the process to ensure that Notification is being sent in a timely manner.

24. Ensure that a disclosure form is filed for all lobbying activities.

Finding: The University did not comply with the disclosure requirements regarding lobbying activities. On February 2, 2010, the University entered into a contract with a lobbyist and calls for payments totaling \$99,000 for federal lobbying services. The University did not file a disclosure form during the fiscal year.

University officials stated the University had not used an external lobbyist immediately prior to FY10 and was unfamiliar with the requirement to file quarterly reports and the conditions that cause such a requirement.

Updated Response: Implemented.

- The Governmental Affairs office has ensured that quarterly reports are filed as required in regard to lobbying activities and has ensured that the lobbyist completes his/her requirements related to the quarterly report to be filed by the University. The Governmental Affairs office works collaboratively with the Financial Aid office so that the Financial Aid Office has the information necessary to meet the disclosure requirement on the FISAP report.
- The Financial Aid office has provided a copy of the FISAP report to Governmental Affairs when it is received in July of each year.
- Governmental Affairs completed the lobbyist portion of the FISAP and provided it to Financial Aid.
- Financial Aid will file the FISAP by September 15th each year.

25. Improve controls to ensure that adequate documentation is retained to support activity for federal awards to subrecipients.

Finding: The University did not fully comply with compliance requirement of subrecipient monitoring applicable to its Research and Development Cluster programs. Auditors tested five subrecipients of the University for the current period and noted the University could not provide a contract or agreement for one of the subrecipients.

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. A new Director is

Accepted or Implemented – continued

now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: Accepted. Internal procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. For long term retention, all files will be converted to digital form, cataloged and uploaded into a database for more manageable retrieval. At the end of each grant budget year, fiscal officers are required to meet with OGRA for a grant year-end and/or close-out interviews. Interviews will include an auditing of the complete file.

OGRA department is currently establishing a database showing all grant deadlines for fiscal and progress reports. From this database, an OGRA operational calendar will be established and distributed among the staff. Fiscal Officers will include as part of the activation package all report due dates. Activation package will include a statement addressing the consequences of failing to meet reporting deadlines. OGRA will, however, work closely with fiscal agents to ensure that reports are submitted in a timely fashion to the granting agencies.

26. Prepare and publish completion or graduation rates no later than July 1.

Finding: The University did not comply with the requirement of preparing and making available its completion or graduation rates report. The auditors requested the graduation rate report for the 12-month period ended August 31, 2009 from the University. The University stated it had not completed the report on completion or graduation rates. This report should have been available to the public by July 1, 2010.

University officials stated that, due to turnover and reorganization of the Institutional Research Department, the required information regarding graduation and completion rates was not prepared and was not available to be disclosed for public viewing or otherwise made available to students.

Updated Response: Implemented. The statistics from IBHE are currently published going back five years at this link, University Demographics. <http://www.csu.edu/Admissions/admissioninformation.htm> Going forward we will have this data published by July 1 of each year.

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

Finding: The University did not have adequate procedures to ensure compliance with OMB Circular A-133's requirement to notify pass-through grantors of the results of the University's audit.

REVIEW: 4351

Auditors selected five pass-through grants that were reported on the University's FY09 Schedule of Expenditures of Federal Awards, and requested to see documentation of the University having notified pass-through grantors of their audit results. The University could not provide such documentation.

University officials stated the Office of Grants and Research experienced a strain on its resources while a former Director transitioned out of service in FY10. A new Director is now in place and is focused on restoring ongoing improvements and efficiencies in grants administration.

Updated Response: Accepted. OGRA department is currently establishing a database showing all grant deadlines for fiscal and progress reports. This database will include pass through entities. From this database, an OGRA operational calendar will be established and distributed among the staff and will include sending written notification of the results of any audits in an appropriate and timely fashion in accordance with the OMB Circular A-133 regulations on reporting audits.

28. Ensure that the data collection form is properly completed.

Finding: The University failed to include its loan programs on its Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations (Form) for the FY09.

The University failed to report its two loan programs that are part of its Student Financial Assistance Cluster which includes \$2,300,294 of Federal Perkins Loans outstanding and \$36,214,385 of Federal Family Education Loan Program awards.

University officials stated the loans were overlooked because they were not on the face of the Schedule of Expenditures of Federal Awards.

Updated Response: Accepted. OGRA is seeking to hire a Grants and Compliance Administrator who will work closely with accountants to ensure that all loan programs that are part of the Student Financial Assistance Cluster are reported on the CSU Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations for each fiscal year. OGRA administrators will ensure that the form is properly completed.

29. Improve controls over the operations of the Convocation Center and comply with State law.

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

REVIEW: 4351

Accepted or Implemented – continued

Under an agreement dated June 1, 2007, the University engaged a vendor to manage the Center. The agreement calls for the gross ticket receipts for the Center to be deposited into a “Box Office” bank account in the name of the University. All direct event related expenses are then paid from this account and the net revenue is transferred to another “Operating” bank account in the name of the University.

The auditors selected and tested 11 expenditures totaling \$205,138 related to the operations of the Center, and noted the following (some expenditures had several exceptions):

- One contractual service expenditure on a contract totaling \$90,000 (facilities management services) had no evidence of having been competitively procured.
- A second contract totaling \$53,816 (design services) also had no evidence of having been competitively procured and was not signed by the University until a year after the first invoice was submitted.
- Eight expenditures (\$134,185) did not have a completed purchase requisition.
- One expenditure (two invoices totaling \$53,816) was not timely paid. These two invoices were paid 380 and 318 days after the invoice date.
- Two expenditures were paid using a check card linked to the “Operating” bank account. These payments amounted to \$6,679.

University officials stated new management recognized procedural issues with the arrangement and the management contract with an external vendor for running the University’s Convocation Center and terminated the contract at the earliest opportunity. The exceptions cited above were directly related to the former arrangement which has now been addressed.

Updated Response: Implemented. Previously, an external management company was involved in running the Convocation Center. This contract was cancelled effective June 30, 2010. A new Events Director has come on board and is managing the Convocation Center. The new Director has committed to complying with all University policies and procedures in the administration of the Convocation Center in FY11 and ongoing.

30. Properly document procurement decisions as required by the Procurement Code and administrative rules.

Finding: The University did not comply with the Procurement Code relative to an invitation for bids and an awarded contract. During testing of contracts, auditors noted the following related to the University’s procurement of a “data archiving and data cleansing solution”:

REVIEW: 4351

- The solicitation did not contain any information relative to how the bids would be evaluated. This procurement should have been procured via “Competitive Sealed Proposals” instead of an “Invitation for Bids”.

The University received four proposals from vendors. Auditors requested documentation for the University’s selection process and received a copy of the bid opening tabulation dated February 25, 2010 and noted the following:

- No documentation of the successful bidder’s Department of Human Rights bidder eligibility number.
- The tabulation indicated “Applied” for two of the bidders’ certification that they had registered with the State Board of Elections. Auditors found a certification in one of these proposals but no certification in the other. For the proposal which was marked “Yes” for the certification with the Board of Elections registration, auditors found the certification and the certificate of registration in the hard copy of the proposal, however, it was not found in the electronic copy that the auditors were later provided.
- Auditors also requested the electronic copies of the proposals submitted by the three proposers, but the University could not locate any of the CDs of the successful proposer. The University then asked the vendor to send the University another copy (which was lacking the certificate of registration with the State Board of Elections) which was identified as “Yes” in the previous bullet point.
- The University selected this third bidder’s (the one whose Board of Elections registrations was marked “Yes”) revised proposal (\$594,926) even though it was more than \$150,000 higher than the other two bidders. The University later re-negotiated the price to \$478,800.
- No additional evidence of proposal evaluation was provided by the University. Although it was not formally documented, auditors were informed by University personnel that the successful bidder was the only “qualified bidder”.

University officials stated the University believed it was following the applicable requirements of the Procurement Code and had every intention of doing so. In consideration of all the information available for decision making, it was the judgment of University officials that the bidder that was ultimately selected provided the most suitable solution to meet the University’s objectives for a very important project goal that is projected to have a long term beneficial impact and that the selection was consistent with the procurement requirements.

Updated Response: Implemented. Reviewed Procurement Code and the higher education administrative rules implementing the Procurement Code.

Implemented competitive bid review process and signoff list for use in documenting procedures used from bid issuance through final vendor selection and require dual review and signoff at each key milestone of the process. The bid review process list must be signed and dated by two reviewers at each milestone.

REVIEW: 4351

Accepted or Implemented – continued

Obtain third review by State Procurement Compliance Monitor assigned to the University and document confirmation of review.

31. Establish internal controls to ensure compliance with the Illinois Procurement Code, State Statutes, and the SAMS Manual. Ensure that all contracts are completed, approved, and executed prior to the start of the contract. (Repeated-2006)

Finding: The Illinois Procurement Code requires multi-year contracts to include a statement that they are subject to the termination or cancellation in any year for which the General Assembly fails to make an appropriation to make payment.

During testing of 25 contracts totaling \$6.6 million, some of the issues noted include:

- 22 of 25 contracts tested did not contain the minimum requirements for written contracts.
- Three contracts that exceeded \$250,000 did not have the signature of the Chief Fiscal Officer of the University.
- Five contracts totaling \$2.88 million, were dated and signed by a University official and the vendors. However, the dates of some of the signatures were after the date of the commencement of services.
- Two vendors were paid more than the contracted amount, \$42,312 and \$5,778 without contract amendments.

University officials stated the majority of the exceptions cited in regard to contracts relate to contracts originated under prior senior management who are no longer with the University. They involved use of a contract form that was not timely updated to reflect all mandatory contractual content requirements imposed by Illinois statutes. The new management team is endeavoring to achieve overall compliance with all applicable Illinois statutes and sound business practices related to contracts.

Updated Response: Implemented.

- Legal Affairs has removed outdated contract forms from the intranet.
- Legal Affairs is conducting quarterly evaluations to determine whether updates to the form contract are required.
- Legal Affairs will post a revised contract form on the intranet and notify the University community as appropriate.
- Purchasing will perform dual review of all contracts attached and/ or required to be attached to requisitions for goods and services.
- Purchasing will reject requisitions and purchase orders which have a contract attached that does not fully comply with contracting procedures.
- Purchasing will develop and use a checklist to test each procurement contract for compliance.

32. Follow procedures as stated in the Catalog and review the controls over billing and ensure that bills are sent to students regularly. (Repeated-2009)

Finding: The University allowed students with outstanding balances to register and attend classes in violation of the University's policies and failed to send formal bills to students. During testing, the Bursar informed the auditors that the University did not send any formal bills to students for the Spring semester. The gross student receivable for the semester was \$2,119,941 as of June 30, 2010 as compared to \$1,592,512 for the previous Spring semester as of June 30, 2009.

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

University officials stated the Bursar position turned over twice in FY10. This accounts for some omissions, including the students in question being allowed to register while having a prior account balance and a gap in billing statements being provided to students.

Updated Response: Implemented.

- University policy states: "Students must have met all their financial obligations to the university before they are eligible to register for classes unless special arrangements for meeting such obligations have been made with the bursar. In addition, all financial accounts must be clear before a transcript of academic records can be issued."
- The new Bursar has implemented a hold release process in November, 2010 which is intended to address adherence to policy while taking into account the special economic needs of the University population. The hold release process includes the documenting of special arrangements with students who have prior unpaid balances in order to facilitate the continuation of their education. The new Bursar has also put in place regular monthly billings which include the required notification regarding the State support to the University that decreases the cost of tuition.
- The University aims to administer its policies and business practices responsibly while also striving to be sensitive to the needs of its students.

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

Finding: The University had subsidies between accounting entities (auxiliary enterprises and activities) during FY10. 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.

Accepted or Implemented – continued

REVIEW: 4351

University officials stated this matter only came to light at the end of the audit of FY09. The University has made it a high priority to prevent or minimize new subsidies and to work toward reducing existing subsidies.

Updated Response:

Accepted -

- The subsidy of the NCAA Division I Intercollegiate Athletic Program has existed for several years. The issue of a subsidy violation failed to be identified by prior management.
- As much as prudent management will permit in the current severe economic environment, the University will commence a plan aimed at making accounting entities self supporting through a combined effort of increasing fee revenue and curtailing operating costs. This may include fund raising efforts through the University or the Foundation.

Implemented -

- Management and the Board of Trustees requested from Athletics an Athletics funding plan. A subsidy was not done for FY10 and will not be done for FY11.
- Management has set a goal of reducing the de facto subsidy caused by a cumulative deficit. This will require multiple fiscal years due to the size of the deficit and the formidable challenge it presents.

34. Improve controls to ensure that expenditures are approved and paid timely, paid accurately, in accordance with University policies, and posted to the correct fiscal year. Further, purchase only premium and mid-grade gasoline when there is a documented need for higher grade fuel and require appropriate documentation of car washes. (Repeated-2009)

Finding: The University did not process certain expenditures accurately and did not pay certain expenditures in a timely manner. During testing of 125 expenditures for Contractual Services, Commodities, Equipment, Telecommunications, and Operation of Automotive Equipment, some of the deficiencies noted are as follows:

- Five invoices amounting to \$136,733, contained expenditures that were recorded to the incorrect fiscal year.
- One invoice in the amount of \$1,750,000, was paid using a "Direct Payment Voucher". The approval by the Administrator on the Direct Payment Voucher was made eight days after the date of the check.
- Six invoices were not approved for payment in a timely manner, 14 to 110 days late.
- Eight invoices were not paid in a timely manner, three to 154 days late.
- Two invoices were charged to the incorrect Statewide Accounting Management System (SAMS) code.

REVIEW: 4351

- Seven invoices were for gasoline purchases that included premium or midgrade gasoline. The premium and midgrade purchases amounted to \$1,658. Two of these invoices were for bulk gasoline purchases to be used on University premises.
- One invoice contained a listing of car washes purchased for University vehicles. This invoice included a total of 70 car washes for 13 vehicles, totaling \$347 for the statement period. The vendor invoice did not identify the dates of any of the car washes and the University was unable to provide any information on the dates either.

University officials stated most of these voucher exceptions occurred under former management and do not constitute a material amount. Current management understands the importance of compliance with the applicable policies and is committed to improved internal controls to reduce or eliminate these kinds of exceptions.

Updated Response: Accepted.

- Purchasing will conduct ongoing monitoring to ensure timely processing of requisitions, purchase orders and contracts while taking into account cash availability.
- Purchasing and Financial Affairs will implement a dual review of contract dates and terms and seek to ensure they precede delivery of services and include language to the effect that payment is subject to cash availability.
- Purchasing will continue to offer periodic training on the automated procurement processing system (CSU Buy) to promote skill and ease among authorizing parties including fiscal officers.
- Accounts Payable will likewise conduct ongoing monitoring to ensure timely payment of invoices and will employ a dual review process while taking into account cash availability.
- Financial Affairs has prepared and will update as appropriate a compliance checklist to assist in the review of requested expenditures processed in Purchasing and Accounts Payable.
- The Vice President of Finance and Administration has initiated monthly knowledge sharing meetings for all Fiscal Officers to keep them updated on various matters including state expenditure regulations and how these are applied at the University.

35. Submit the proper documentation of actual program expenditures when requesting reimbursement from special appropriations.

Finding: The University's submitted invoices for reimbursement from special State appropriations that had nothing to do with the specially funded program. The General Assembly made a special appropriation of \$614,000 for costs associated with the development, support, or administration of pharmacy practice education or training programs.

Accepted or Implemented – continued

REVIEW: 4351

Auditors selected 10 of the 62 vouchers submitted by the University to the Office of the Comptroller to request reimbursements from these appropriated funds and noted eight of the 10 reimbursements tested were charged to the special appropriations noted above. Two of those reimbursement requests, totaling \$75,052, had nothing to do with the special appropriation that was charged as follows:

- \$31,500 to students attending other State universities for stipends in the Minority Internship Program,
- Cleaning of humidifiers in the library (\$2,625),
- Payments for natural gas supplied to the University (\$15,659),
- Payments for food (\$4,100),
- Payment for advertising (\$18,000), and
- Payment for computer software support (\$3,168).

University officials stated the specific applicable pharmacy expenditure documents were not available in time for the August 23, 2010 deadline date for submission of vouchers to the Office of the Comptroller to obtain reimbursement from the State appropriation. The Office of the Comptroller requires copies of the actual paid vouchers in order to qualify for reimbursement. The University swapped other expenditures in order not to lose the appropriated dollars which it could ill afford to lose. According to the University, it did incur and pay actual expenditures that fully qualified for the appropriation but was unable to submit them by the deadline.

Updated Response: Implemented. Financial Affairs contacted other departments and notified them to complete their appropriated expenditures as early as possible so that vouchers can be prepared and submitted to the Office of the Comptroller by the deadline in accordance with the specified purpose for which appropriations have been approved.

36. Amend policies to require all employees to submit time reports in compliance with statute. (Repeated-2005)

Finding: The University did not require all employees to submit time sheets as required by the State Officials and Employee Ethics Act. Of the 25 employees that were selected for testing, auditors noted the following:

- Three employees submitted timesheets; however, they only reported days off.
- Twelve employees did not complete time sheets.

University officials stated that, due to a full range of improvement projects that have been identified, it was not feasible to make improvements to timekeeping in FY10, so the time and attendance reporting has continued according to past practice. In addition, the faculty union contract precludes time and attendance reporting on the part of faculty in all the State universities including Chicago State University. The new administration plans to improve time keeping to a more automated method for as many employees and employee classes as possible in calendar 2011.

Updated Response: Accepted.

- Develop a comprehensive and consistent process for accounting of employees' time in accordance with the Illinois State Official and Employee Ethics Act.
- Presently all offices should require time sheet sign-in and track employee reporting in order to comply with the Ethics Act. The union representation for faculty covering all State universities has decided not to comply with the Act.
- Provide training to department or unit heads on how to monitor their subordinates' time.

37. Establish procedures for maintaining supporting documentation for required reports and forms. (Repeated-2009)

Finding: The University did not maintain adequate supporting documentation for its Quarterly Summary of Accounts Receivable Forms C-97, C-98, and C-99.

University officials stated the accountant preparer has gone back over the FY10 reports and has fully explained the adjustment line items and will continue to do so going forward.

Updated Response: Accepted.

- A dual review and approval process will be established which designates different parties as preparers and dual reviewers/approvers of the Quarterly Summary of Accounts Receivable reports.
- The Director of Accounting will prepare quarterly financial reports which will set the control totals to which the quarterly filed reports will be required to reconcile.
- A guide and procedure for preparing Quarterly Summary of Accounts Receivable reports including the type of support documentation required will be established by April 30, 2011.
- Internal procedures within the OGRA department are being established that will be conducted quarterly. Additional support staff will be used to review grant fund files. For long term retention, all files will be converted to digital form, cataloged and uploaded into a database for more manageable retrieval.

38. Develop an emergency response plan and a campus violence prevention plan that comply with the Campus Security Enhancement Act of 2008. Further, file the plan with the Illinois Emergency Management Agency as required by law. (Repeated-2009)

Finding: The University did not develop a complete Campus Violence Prevention Plan or Emergency Response Plan. The University developed an Emergency Response

Accepted or Implemented – continued

REVIEW: 4351

Guide in February 2009. The plan did not contain much of the information required by the Act such as:

(1) Develop a National Incident Management System-compliant, all-hazards, emergency response plan in partnership with the county or major municipal emergency management official, report the plan to this official, and have training and exercises for the plan annually at a minimum; and

(2) Develop an inter-disciplinary and multi-jurisdictional campus violence prevention plan, including coordination of and communication among all available campus and local mental health and first response resources as well as communication with governmental agencies and school districts contiguous to the University's boundaries, in partnership with the county or major municipal emergency management official, report the plan to this official, and have training and exercises for the plan annually at a minimum. The campus violence prevention plan shall include the development and implementation of a campus violence prevention committee and campus threat assessment team."

University officials stated the University has been working on updating its compliance with the Campus Security Enhancement Act and is currently holding regular weekly meetings with a goal of being compliant within the first half of the new fiscal year. Unfortunately, due to the demands of this effort and the strain on resources, it was not possible to achieve compliance within fiscal year 2010.

Updated Response: Implemented.

- The University engaged in a review and revision process of the emergency response plan and the violence prevention plan, which was approved and signed by the University President. The plan was sent to the Illinois Emergency Management Agency, The City of Chicago Office of Emergency Management and Communications, and to the Illinois Board of Higher Education.
- The Campus Violence Prevention Plan (CVPP) was submitted to the President's Executive Management team for review and was approved and signed by the University President. The plan was sent to the Illinois Emergency Management Agency, The City of Chicago Office of Emergency Management and Communications, and to the Illinois Board of Higher Education. The Campus Violence Prevention Plan was published to the University website and a Campus Violence Prevention Committee and a Campus Threat Assessment Team was formed.
- The University has established a Campus Violence Prevention Committee (CVPC). The CVPC is charged with implementing the CVPP.

39. Comply with the Public University Tuition Statement Act.

Finding: The University did not include the specific language on students' invoices regarding the amount of tuition subsidy received from the State of Illinois on the student's tuition bill or other statement of tuition charges. Auditors noted that the July 2009 statement contained the language as required by statute; however, the June 2010 statement did not.

REVIEW: 4351

University officials stated the Bursar is responsible for issuance of student invoices. The former Bursar left the University in late 2009. The new Bursar who prepared the June 2010 invoices was unfamiliar with the Public University Tuition Statement Act and did not include the language required by the statute on the invoices.

Updated Response: Implemented. The new Bursar has put in place regular monthly billings which include the required notification regarding the State support to the University that decreases the cost of tuition.

40. Comply with the requirements of the Code and require all elementary teachers to complete the required course in the teaching of physical education and training.

Finding: The University did not comply with the requirements of the School Code that requires all elementary teacher graduates to have completed a course in the teaching of physical education and training. Auditors selected and tested all nine students that graduated with a major in elementary education during FY10 and noted that one student had not completed a course.

University officials stated this exception was due to an oversight.

Updated Response: Implemented. The College of Education addressed this finding in fall 2010 by making a curriculum change to add PE 2040—Health and Physical Education for Elementary Teachers.

41. Strengthen computer security within the computing environment specifically, as follows:

- **Restrict programmer access to all production programs and data. If the University determines that programmer access in some situations may be necessary, establish and enforce compensating controls to ensure appropriate management oversight.**
- **Review user access rights on a periodic pro-active basis. Review access to systems and data, as well as ensuring appropriate password security parameters are in compliance with University procedures.**
- **Ensure policies and procedures are communicated to all users and monitored for compliance. In addition, require all users to sign a statement (annually) acknowledging that they understand and agree to comply with the policies.**

Accepted or Implemented – concluded

REVIEW: 4351

Finding: The University had not established adequate controls over some aspects of its computer environment. Auditors reviewed the University's computer environment and noted the following weaknesses:

- Programmers had access to production systems.
- Most programmers never had to change their passwords.
- Passwords for student accounts never expired.
- The University's Computer Usage Policies are posted on the University website; however, only new employees were required to read and acknowledge the acceptance of these policies by signing an agreement form.

University officials stated that there was only one staff member dedicated to monitoring and maintaining the system security applications and equipment. During the fiscal year, security responsibilities had to be shifted because this employee was on military assignment in Afghanistan.

Updated Response: Implemented.

- Programmer access to production systems. By April 1, 2011 CSU implemented a reporting system to report transactions in the production system initiated by ITD, as an interim step. Our long-term solution is to provide better tools for programmers and coordinators to troubleshoot end user problems. Our staffing levels make it prohibitive for programmers and coordinators to go to the desk of each user to help resolve problems.
- Programmers are required to change their passwords on a periodic basis.
- Students are required to change their passwords on a periodic basis.
- Beginning Fall 2012, all employees will be required to execute an annual certification that they have read and agree to the Computer use policy. Employees who fail to comply will have their network access removed until they complete the task, and it will be reported as a compliance violation to their manager and HR.

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.

REVIEW: 4351

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.

During FY10, CSU filed one emergency purchase affidavit totaling \$396,065.61 for the purchase of a computer processing system.

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 January 11, 2010, CSU stated that no employees worked the majority of time away from their official headquarters.