LEGISLATIVE AUDIT COMMISSION

Review of
Chicago State University Foundation
Two Years Ended June 30, 1998

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REVIEW: 4095
CHICAGO STATE UNIVERSITY FOUNDATION
TWO YEARS ENDED JUNE 30, 1998

FINDINGS/RECOMMENDATIONS - 3

ACCEPTED - 1
IMPLEMENTED - 2

REPEATED RECOMMENDATIONS - 3

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 16

This review summarizes a financial audit of the Chicago State University Foundation for the year ended June 30, 1998, filed with the Legislative Audit Commission May 20, 1999. The auditors stated that because many of the prior compliance audit findings related to weak internal controls over accounting and administrative functions, this follow-up procedure was performed to determine the status of the Foundation's efforts to implement the recommendations. The auditors stated that the financial statements were fairly presented except for the effects of adjustments, if any, as might have been determined to be necessary had they been able to examine evidence regarding Year 2000 disclosures.

Chicago State University Foundation was incorporated on December 20, 1968 as an independent, charitable, and educational not-for-profit organization. The Foundation is a "university related organization" under the Legislative Audit Commission's University Guidelines. Ms. Vicki Wilson was the Acting Executive Director of the Foundation during the period covered by the audit. Mr. Katèy Assem is the current Interim Executive Director of the Foundation and has held that position since September 1, 1998. He has held no other positions at CSU or the Foundation.

Financial Information

Appendix A provides the balance sheet for the Foundation at June 30, 1998 and 1997, and a summary of changes in fund balances for the year then ended. The balance sheet as of June 30, 1998 was $1,459,866 compared to $1,001,156, one year earlier. Included as an asset is a private gift from Earnest T. Collins Charitable Remainder Annuity Trust, which the Foundation assumed responsibility on behalf of the University in 1988. The trust agreement stipulated the gift be used to provide business administration scholarships to students.

Appendix B provides a summary of revenues, expenditures, and other changes. Revenues increased from FY97 to FY98, while at the same time expenditures increased.

Contributions increased from $740,964 in FY97, to $958,251 in FY98. Expenditures decreased from $693,740 in FY97 to $638,343 in FY98. Direct expenditures include expenditures for fund-raising such as the annual gala fund-raiser and many other purchases made on behalf of the University. Expenditures for scholarships and financial aid increased from $53,389 in FY97 to $67,608 in FY98.

Summary of Funds Provided by and to the Foundation

Appendix C provides a summary of funds provided by and to the Foundation. During FY98, the University provided administrative support services valued at $59,701 to the Foundation. The contract between the University and the Foundation requires the Foundation to provide the University with fund-raising and other services. The Foundation provided a total of $566,513 to the University in FY98, and a total of $608,329 to the University in FY97. Included were Foundation funds for scholarships, which increased from $51,363 in FY97 to $67,608 in FY98.

Accountants' Findings and Recommendation

Condensed below are the 3 findings and recommendations contained in the audit report. All three are repeated recommendations from prior audits. The following recommendations are classified on the basis of information provided by Katèy Assem, Executive Director, Chicago State University Foundation, in a letter dated July 9, 1999.

Accepted

3. Address the negative fund balance in board meetings and establish a plan to properly address the Board Designated Fund deficit and more closely monitor expenditures. (Repeated - 1997)

Findings: The Foundation's Board Designated Fund has a deficit of $326,670, which has been growing and needs to be closely monitored. The continued existence of a negative fund balance could raise concerns about the Foundation's ability to meet its ongoing operating expenditures.

Response: The Foundation concurs. The Finance Committee is addressing the issue.

Implemented

1. Review the current chart of accounts, remove any obsolete accounts and develop a chart of accounts that include a detailed description of each account.

Develop and implement an accounting manual and implement a general ledger with corresponding controls designed to ensure prompt accurate recording of transactions and regular reconciliation of the general ledger to supporting books and records. (Repeated - 1997)

Findings: The Foundation did not develop and use an accounting manual or an adequate chart of accounts, or maintain a complete general ledger. The Foundation had 133 funds/accounts, but did not have descriptions indicating the purpose of the fund for 121 of the funds/accounts. In addition, no expenditure activity occurred in 94 funds/accounts during FY98.

The Foundation did not record detailed transactions in the accounting system. The Foundation uses the University's accounting system for cash receipts and disbursements. All other financial information is maintained on spreadsheets such as balance sheet items. Therefore, the accounting system is fragmented and the components of the general ledger system do not interface.

Strong internal controls dictate that an accounting manual be developed and maintained, and that records are maintained in a form prescribed by management and conform to accounting standards. A well-defined chart of accounts should include a complete account description. The chart should be maintained periodically to remove obsolete accounts.

Response: Starting July 1, 1998, the Foundation implemented a new accounting system independent of the University. The new system performs periodic reconciliation and quarterly financial statements, and can process A/P and other disbursements, etc. The Foundation developed a new chart of accounts and an accounting manual as part of the implementation of the new accounting system.

2. Establish effective procedures to ensure a budget is prepared, approved by the Board of Directors, and monitored during the fiscal year. (Repeated - 1997)

Findings: The Foundation could not produce documentation to support a financial budget for FY96, FY97 or FY98. The Foundation had no evidence that a budget was prepared or approved by the Board for those fiscal years. Lack of a formal budgeting process is a clear violation of Foundation by-laws, and could result in the Foundation's inability to properly monitor expenditures, which could lead to inefficiencies, inability to meet goals, and loss due to fraud or theft.

Response: The Foundation's Board of Directors has approved a budget for FY99. To properly monitor the revenues and expenditures, a quarterly report comparing the "actual

to budget” is being presented to the Board for review at all quarterly meetings beginning in FY99.