

LEGISLATIVE AUDIT COMMISSION



Review of
Governors State University
Year Ended June 30, 2011

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REVIEW: 4377
GOVERNORS STATE UNIVERSITY
YEAR ENDED JUNE 30, 2011

FINDINGS/RECOMMENDATIONS - 12

IMPLEMENTED - 10
UNDER STUDY - 2

REPEATED RECOMMENDATIONS - 7

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 12

This review summarizes the reports on Governors State University for the year ended June 30, 2011, filed with the Legislative Audit Commission March 8, 2012. The auditors performed a financial audit in accordance with *Government Auditing Standards* and a compliance examination in accordance with State law and the requirements of the Single Audit Act and OMB Circular A-133. The auditors stated that the financial statements were fairly presented.

Governors State is a senior university created in July 1969 and located in University Park, a southern suburb of Chicago. GSU was chartered to provide affordable and accessible undergraduate and graduate education to its culturally and economically diverse life-long learners in the Chicago metropolitan area. GSU pursues the following primary goals: 1) academic excellence; 2) high quality faculty and staff; 3) continuous process improvement; 4) visibility, outreach and economic catalyst; 5) social, ethical and environmental responsibility; and 6) financial growth and sustainability. The Board of Higher Ed granted GSU permission to begin accepting freshman and sophomore students in 2014. Dr. Elaine Maimon was President of GSU during the audit period and since November 2007.

General Information

Following is a comparative summary of assets of the University at the dates indicated:

	At June 30	
	2011	2010
Current assets	\$ 50,544,000	\$ 48,982,000
Noncurrent assets	82,053,000	78,085,000
TOTAL assets	\$ 132,597,000	\$ 127,067,000

Student headcount in the 2010 fall trimester was 5,660. Student enrollment as measured in full-time equivalent for the fall term is as follows:

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Annual full-time equivalent	2011	2010
Undergraduate	2,279	2,261
Graduate	1,937	2,180
Total FTE	4,216	4,441

According to the audit report, the cost per FTE student in FY11 was \$5,356 compared to \$5,036 in FY10.

Information on the number of full-time equivalent employees by function and source of funding is as follows:

	2011	2010
Funded by State appropriated funds:		
Faculty	240.7	243.1
Administrative	30.5	36.7
Civil Service	203.0	199.7
Other professionals	90.0	88.9
Graduate assistants	19.7	19.7
Students	16.1	4.9
TOTAL	599.8	593.0
Funded by nonappropriated funds:		
Faculty & administrative	199.2	191.6
Civil service	84.0	88.5
Students	11.7	21.9
TOTAL	294.9	302.0
GRAND TOTAL	894.7	895.0

Expenditures From Appropriations and the Income Fund

Appendix A presents a summary of revenues and expenditures for FY11 and FY10 from appropriations and the Income Fund. The General Assembly appropriated a total of \$26,558,000, all from GRF to Governors State University in FY11. Revenues from the Income Fund totaled \$28,890,115 in FY11. Total appropriated expenditures decreased from \$28,324,400 in FY10 to \$26,558,000 in FY11, a decrease of \$1,766,400, or 6.2%. Overall expenditures decreased from \$46.7 million in FY10 to \$46.2 million in FY11.

Accrued Vacation and Sick Pay

As of June 30, 2011, the University had \$4,856,000 in accumulated unpaid vacation and sick pay. This compares to \$5,048,000 as of June 30, 2010 and represents a decrease of 3.8% in FY11 over FY10.

Current Income and Expenses

Appendix B presents a statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010. As of June 30, 2011, net assets totaled \$87,867,001 as compared to \$78,188,998 as of June 30, 2010. University operating and nonoperating revenues increased as the result of an increase in tuition, federal grants and contracts, increases in the Pell grant funds and payments made on behalf of the University for healthcare and retirement costs. The following chart shows the sources of revenues for FY11:

Revenues	FY10
State Appropriations	26.2%
Tuition and Fees	30.1
Grants and Contracts	15.8
Payments on Behalf of University	18.5
Sales & Services of Educational Depts	6.1
Other	3.3

Operating expenses increased from \$87.2 million in FY10 to \$91.9 in FY11. The increases in expenses were primarily from instruction, public service, and institutional support.

Expenditures	FY10
Instruction	45.5%
Student Services	6.8
Institutional support	16.3
Plant	7.6
Public Service	15.1
Other	8.7

Student services includes counseling and career services, student health services, student financial assistance, and other activities carried out with the objective of contributing to the emotional and physical well-being of students. Institutional support includes activities carried out to provide for both the day-to-day functioning, as well as the long-range viability, of the University as an operating organization and includes executive and financial management, general administration and logistical services, and public relations. "Other" includes research, academic support, scholarships, depreciation, and auxiliary enterprise expenditures.

Accounts Receivable

Appendix C provides a summary of the University's accounts receivable for FY11 and FY10. Net accounts receivable increased from \$4,558,640 in FY10 to \$5,150,953 in FY11;

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and the allowance for doubtful accounts increased to almost \$3.6 million. State appropriation receivable increased in FY11 due to delayed payments from the State.

Property and Equipment

Appendix D summarizes the changes in property and equipment for the period under review. The ending balance in FY11 was \$141.7 million, which was \$7.3 million more than the balance at the beginning of FY11. The total is comprised of about \$1.4 million in land, \$19.3 million in equipment, \$268,323 in sculptures and artwork, \$13.2 million in library books and \$106.4 million in buildings and improvements. The increase was due primarily to the substantial completion of deferred maintenance projects underway for the past three years.

Foundation Payments to the University

During FY11 and FY10, the University engaged Governors State University Foundation under contract to provide fund-raising services. As provided in the contract agreement, the University provided \$179,686 of services to the Foundation equal to the cost of the services the Foundation provided to the University for FY11. In addition the Foundation supported the University \$103,159 in unrestricted funds and \$139,362 in restricted funds, for a total of \$242,521. The amount made available to the University in FY10 was \$187,461.

Tuition and Fee Waivers

During FY11, the University granted \$2,992,800 in tuition and fee waivers to about 736 students, consisting of \$1.3 million in mandated waivers and \$1.6 million in discretionary waivers. Approximately 292 veterans received tuition and fee waivers valued at \$1,159,000 in FY11. Tuition and fee waivers in FY10 totaled almost \$3.3 million. Appendix F provides a summary of tuition and waivers for the period under review.

Accountants' Findings and Recommendations

Condensed below are the 12 findings and recommendations presented in the audit report. Seven recommendations are repeated from prior audits. The following recommendations are classified on the basis of updated information provided by Karen Kissel, Vice President for Finance and Administration, Governors State University via email on July 26, 2012.

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1. Review current process for the preparation and review of the annual financial statements to ensure that financial information is accurate and in accordance with GAAP.

Finding: Governors State University (University) did not properly account for the costs capitalized to intangible assets in accordance with accounting principles generally accepted in the United States of America (GAAP).

During detailed testing of the related costs capitalized to intangible assets for the fiscal year 2011, auditors noted that training and other post-implementation costs totaling \$369,825 were capitalized instead of being recorded as an expense resulting in an overstatement of assets. This also resulted in an overstatement of \$52,832 in the related depreciation expense. The University subsequently made the necessary adjustments in the financial statements.

University officials stated that the condition noted above was due to oversight.

Updated Response: Implemented. During the audit, the University made the necessary adjustments to the financial statements.

2. Implement controls to monitor the activities of SURMA and properly account for participation in SURMA in accordance with GAAP.

Finding: The University did not properly account for its participation in the State Universities Risk Management Association (SURMA) in accordance with accounting principles generally accepted in the United States of America (GAAP).

SURMA was created as a successor to the Board of Governors' Self-Insurance Liability Program. SURMA was initially funded by the surplus of the Board of Governors' Self-Insurance Liability Program upon its termination (treated as capital contributions of the original participants), as well as additional contributions which were assessed to the members.

While all past payments made by the University to SURMA have been recorded to prepaid insurance and amortized over the term of the current insurance policies, the capital contributions to SURMA have not been recorded as an asset on the books of the University. The University's share of the excess capital contributions to SURMA was \$149,497 and \$135,102 as of June 30, 2011 and June 30, 2010, respectively. SURMA's bylaws state that in the event of termination, if there are surplus funds available, such surplus shall be distributed to the then-existing members in the same proportion that each existing member's contributions over the immediately previous five years were in

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proportion to the contributions of all members. Similar provisions also apply to members who elect to withdraw.

Further, the University did not adequately monitor SURMA to ensure SURMA underwent an annual audit to provide assurance as to the accuracy of financial information required to be reported by the University as is required by the SURMA contract and by-laws. An audit for fiscal year 2010 was not performed.

The condition found is the result of SURMA's failure to review and revise the by-laws and the member institutions' interpretation that the return of the funds is not probable and hence the failure to record the related accounting entries, as pointed out in the new audit finding this year.

Updated Response: Implemented. During the audit, the University made the necessary adjustments to the financial statements.

3. Verify the eligibility requirements for grant applicants and maintain supporting documentation to ensure compliance with Federal regulations. (Repeated-2010)

Finding: The University did not have adequate procedures over verification of eligibility requirements for the Greater Success for U program.

In eligibility testing of 37 participants under the TRIO Cluster, auditors noted the following:

- The University's eligibility determination for two participants was either not supported or did not agree with the supporting documents on file.
- The University did not document its eligibility determination for three participants. The related application review/eligibility determination forms were not prepared by the program evaluator.

University officials stated that the conditions noted above were the result of oversight during eligibility processing.

Updated Response: Implemented. Since the FY11 audit, the university has made a significant investment in our grant organization and support structure in the following areas: people, technology, and process improvements to improve our grant operations and overall compliance.

4. Adhere to procedures to ensure that equipment records are accurately maintained and updated and to ensure compliance with federal regulations. (Repeated-2010)

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Finding: The University did not have adequate controls over its equipment acquired from federal funds.

During detailed testing, auditors obtained a general ledger listing of equipment acquired from federal funds during FY11 and noted that the following items were not identified as equipment acquired from federal funds under location 65 in the property records:

- Six items with a total value of \$3,197 acquired and charged to R&D Cluster - Minority Health and Health Disparities Research grant fund. These items consisted of an iPad, two central processing units, and three monitors.
- A laptop, valued at \$792, acquired and charged to ARRA - Head Start grant fund.

In the physical identification of nine items from the property records, auditors also noted the following:

- Information in the property records for a laptop acquired and charged to ARRA - Head Start grant fund, valued at \$2,795, was not updated. The item was found in a different location and no Property Change Request form was prepared to support the change in location.
- A mobile workstation acquired and charged to TRIO Cluster - Student Support Services grant fund, valued at \$2,085, was not found. The University subsequently reported this item as stolen and obtained the related police report after being noted during the audit.

University officials stated that the conditions noted above were due to oversight.

Updated Response: Implemented. Since the FY11 audit, the university has made a significant investment in our grant organization and support structure in the following areas: people, technology, and process improvements to improve our grant operations and overall compliance.

5. Comply with the reporting requirements of grant programs and ensure timely submission of all reports. Also, instruct program directors to monitor their report submission requirements to ensure compliance. (Repeated-2010)

Finding: The University is a recipient of grants from the National Institutes of Health (NIH) and Agency for Healthcare Research and Quality (AHRQ) of the U.S. Department of Health and Human Services (HHS). The required federal reports were either not submitted or submitted late by the University.

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In detailed testing of Research and Development Cluster - Minority Health and Health Disparities Research, auditors noted that the Annual Financial Status Report for the budget period September 1, 2009 to August 31, 2010 was submitted by the University on November 30, 2010, which was a day late from the November 29, 2010 deadline.

In detailed testing of Research and Development Cluster - Research on Healthcare Costs, Quality and Outcomes, auditors also noted the following:

- The Final Progress Report for the budget period July 1, 2009 to April 30, 2011 due for submission on July 29, 2011 was not yet submitted by the University. The grant's program director is still completing the report as of this time.
- The Final Invention Statement and Certification for the budget period July 1, 2009 to April 30, 2011 was submitted by the University on November 7, 2011, which was 101 days late from the July 29, 2011 deadline.
- The Quarterly Federal Financial Reports were either not submitted or submitted late by the University.

University officials stated that the conditions noted above were the result of oversight in the monitoring of the report submission requirements.

Updated Response: Implemented. Since the FY11 audit, the university has made a significant investment in our grant organization and support structure in the following areas: people, technology, and process improvements to improve our grant operations and overall compliance.

6. Ensure that PELL and SMART disbursements are reported to the U.S. Department of Education within 30 days of being disbursed as required. (Repeated-2010)

Finding: The disbursements made by the University to students awarded with Federal Pell Grant Program (PELL) and National Science and Mathematics Access to Retain Talent Grants (SMART) were not reported timely.

In detailed testing of 60 students who received student financial aid during the academic year 2010-2011, auditors noted that disbursements were not reported to the U.S. Department of Education within 30 days from disbursement dates as follows:

- PELL disbursement in Fall 2010 for a student was reported four days late.
- SMART disbursements in Fall 2010 for two students were reported three and 57 days late.

University officials stated that the condition noted above was due to administrative oversight.

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Updated Response: Implemented. In the past 18 months, the University has made a significant investment in our financial aid organization in the following areas: people, technology, and process improvements to improve our financial aid operations and overall compliance.

7. Establish and implement procedures to ensure adequate monitoring of subrecipients in compliance with federal regulations.

Finding: The University is a recipient of a Recovery Act-funded grant from the Employment Training Administration of the U.S. Department of Labor. The University did not have adequate monitoring procedures for its subrecipients under the grant.

The University subawarded \$3,190,000 to seven subrecipients under the ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors program (program). Total expenditures incurred by the University for the subrecipients amounted to \$966,395 during the current fiscal year.

In detailed testing of University's compliance with the subrecipient monitoring requirements, we noted the following:

- The University does not have procedures in place to monitor whether subrecipients expending \$500,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements of OMB Circular A-133. The University subsequently obtained the information as to the subrecipients' fiscal year end, federal awards expended and related A-133 audits.
- At the time of subaward, the University did not identify to all its subrecipients the program's federal award information. The University subsequently advised its subrecipients of these requirements after being noted during the audit.
- One of the subrecipients is not registered in the Central Contractor Registration (CCR) and has no Dun and Bradstreet Data Universal Numbering System (DUNS) number as required.
- The University did not document at the time of disbursement of funds to subrecipients the program's CFDA and federal award numbers for all five expenditure vouchers reviewed totaling \$163,015. The University subsequently advised its subrecipients of this requirement after being noted during the audit.

University officials stated that the conditions noted above were due to oversight.

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Updated Response: Implemented. Since the FY11 audit, the university has made a significant investment in our grant organization and support structure in the following areas: people, technology, and process improvements to improve our grant operations and overall compliance.

8. Establish and implement procedures to ensure that all required payroll certifications are obtained in compliance with federal regulations.

Finding: The University is a recipient of a Recovery Act-funded grant from the Administration for Children and Families of the U.S. Department of Health and Human Services (HHS). The University did not obtain the required weekly certified payrolls from a construction contractor paid from this federal fund.

In detailed testing of University's compliance with the Davis-Bacon Act, auditors noted that the University did not obtain the required weekly certified payrolls from one of the three contractors reviewed. The construction cost incurred by the University for this contractor amounted to \$11,300 during the current fiscal year.

University officials stated that the condition noted above was due to oversight.

Updated Response: Implemented. Since the FY11 audit, the university has made a significant investment in our grant organization and support structure in the following areas: people, technology, and process improvements to improve our grant operations and overall compliance.

9. Ensure all contracts over the threshold amounts be approved and executed prior to performance of services and filed with the Office of the Comptroller in accordance with State statutes and regulations. Further, obtain the required disclosure of financial interest statement, contract certifications and signatures, and the required competitive solicitation procedures must be observed. (Repeated-2010)

Finding: The University did not comply with certain required contracting procedures. During tests of 25 contracts, auditors noted the following:

- Three contracts totaling \$2,217,736 did not have the three signatures required for contracts of \$250,000 or more.
- Two contracts each valued at more than \$10,000 were not filed with the Office of the State Comptroller within 15 days after execution (three and four days late).
- Two contracts each valued at more than \$10,000 were not filed with the Office of the State Comptroller. These contracts were incurred against locally held funds.

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- Three contracts totaling \$397,736 were not approved and executed prior to performance of services. These contracts were executed one to 83 days after the start of related services.
- A contract amounting to \$385,000 was not procured through competitive selection and the disclosure of financial interest statement was also not obtained.
- Three contracts totaling \$980,000 did not meet the contract content requirements. The State Board of Elections Certification was not marked as required.

University officials stated that the conditions noted above were due to oversight.

Updated Response: Implemented. The University will continue to improve its contracting processes and procedures to ensure compliance.

10. Adhere to procedures to ensure that property and equipment records are accurately maintained and updated. Periodic physical inventories should be conducted to ensure existence of equipment, and property records should be updated with the results of the inventory. Also, ensure submission of a complete inventory of equipment with DCMS. In addition, ensure proper completion of the quarterly C-15 Reports. (Repeated-2010)

Finding: The University did not have adequate controls over its property and equipment. In the identification of items in the property records, auditors noted equipment not tagged with the University decal, property record information not updated, equipment not recorded, and equipment not deleted.

During a review of the Quarterly Agency Report of State Property (C-15 Reports) for the fiscal year, auditors also noted that the University's capital lease equipment with a total cost of \$169,545 was included as part of the general equipment category instead of being reflected separately in the quarterly C-15 Reports. The University subsequently revised the fourth quarter C-15 Report to reflect the capital lease equipment as a separate line item.

University officials stated that the conditions noted above were a result of human errors and the ease of mobility of property from room to room.

Updated Response: Implemented. To improve future compliance, the university will continue to improve its property control process and reporting procedures.

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11. Amend policies and revise procedures to ensure that all employees submit timesheets documenting the time spent each day on official State business to the nearest quarter hour. (Repeated-2005)

Finding: The University is not maintaining time sheets for its faculty and graduate assistants in compliance with the State Officials and Employees Ethics Act. During a review of timesheets for 25 employees during the fiscal year, auditors noted the following:

- Four faculty members used the “negative” timekeeping system whereby the employee is assumed to be working unless noted otherwise.
- Two adjunct faculty members not required by the University to submit timesheets since they worked on a contract basis.
- A graduate assistant used positive timekeeping system wherein total contract hours worked per week is reported instead of time worked each day to the nearest quarter hour.

Updated Response: Under Study. University officials stated that the University is reviewing along with other State universities, time reporting for faculty, as it related to existing collectively bargained contractual obligations. The President’s council and the individual universities will continue to discuss and explore time reporting.

12. Continue to work with the Governor’s Office to ensure that Board vacancies are filled. Further, ensure the required quorum is met at all regular Board meetings to comply with statute.

Finding: The University did not comply with the law on Board membership, terms, vacancies and meetings.

During testing of statutory mandates, auditors noted that a quorum was not present during the University’s regular Board of Trustees meeting on October 8, 2010. There were only three Board members present during the meeting, which was less than the required quorum of five.

In addition, the University’s Board is not composed of eight members as required by its law. As of the current fiscal year’s audit, the University’s Board has only four members appointed by the Governor and one student member elected by the student body, leaving the University’s Board with three vacancies. Two of these vacancies have existed for several years now and one has been recently vacant from a resignation during the current fiscal year.

University officials stated that the Governor is responsible for making these appointments to the Board and they have been in constant communication with the Governor’s Office to fill the vacancies.

Updated Response: Under Study. At the beginning of the FY11 audit, the university had four open Trustee positions. In October 2011, the Governor's Office appointed two of the four open Trustees positions. We are hopeful that the Governor will fill the two remaining Trustee positions shortly.

Emergency Purchases

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

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

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

During FY11, the University filed no affidavits for emergency purchases.

Headquarters Designations

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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 of its officers and employees whose official duties require them to spend more than 50% of their time at locations other than their official headquarters.

Governors State University indicated as of June 29, 2011, no employees were assigned to locations other than that at which their official duties require them to spend the largest part of their working time.