

**City Colleges of Chicago
Community College
District No. 508**

Single Audit Act
Supplementary Financial and Compliance Report
June 30, 2013

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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
City Colleges of Chicago
Community College District No. 508

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City Colleges of Chicago, Community College District No. 508 (City Colleges) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City Colleges' basic financial statements, and have issued our report thereon dated October 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City Colleges' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City Colleges' internal control. Accordingly, we do not express an opinion on the effectiveness of City Colleges' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2013-001).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City Colleges' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City Colleges' Response to Findings

City Colleges' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City Colleges' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Chicago, Illinois
October 14, 2013



Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Trustees
City Colleges of Chicago
Community College District No. 508

Report on Compliance for Each Major Federal Program

We have audited City Colleges of Chicago, Community College District No. 508's (City Colleges) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City Colleges' major federal programs for the year ended June 30, 2013. City Colleges' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management of City Colleges is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City Colleges' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City Colleges' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City Colleges' compliance.

Basis for Qualified Opinion on Head Start Program

As described in the accompanying schedule of findings and questioned costs, City Colleges did not comply with requirements regarding CFDA 93.600 Head Start as described in finding number 2013-002 for Allowable Costs and Cost Principles. Compliance with such requirements is necessary, in our opinion, for City Colleges to comply with the requirements applicable to that program.

Qualified Opinion on Head Start Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, City Colleges complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Head Start Program for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, City Colleges complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-002 and 2013-003. Except for the qualified opinion on the Head Start Program noted on the previous page, our opinion on each major federal program is not modified with respect to these matters.

City Colleges' responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City Colleges' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of City Colleges is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City Colleges' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City Colleges' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-003 to be a significant deficiency.

City Colleges' responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. City Colleges' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of City Colleges as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City Colleges' basic financial statements. We issued our report thereon dated October 14, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

Chicago, Illinois

March 24, 2014, except for the Schedule of Expenditures of Federal Awards, as to which the date is October 14, 2013

City Colleges of Chicago, Community College District No. 508
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Total Expenditures
U.S. Department of Education -			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063	P063P111341	\$ 107,257,317
Federal Work-Study Program	84.033	P033A111123	1,912,187
Federal Supplemental Educational Opportunity Grants Program	84.007	P007A111123	1,407,536
Total Student Financial Assistance			<u>110,577,040</u>
Federal Direct Student Loans			
Kennedy King College	84.268	P268K126807	7,892,370
Olive Harvey College	84.268	P268K126999	6,239,767
Harold Washington College	84.268	P268K126870	5,084,200
Truman College	84.268	P268K126996	4,830,544
Malcolm X College	84.268	P268K126907	3,168,843
Wright College	84.268	P268K126997	1,297,945
Daley College	84.268	P268K126878	970,264
Total Federal Direct Student Loans			<u>29,483,933</u>
Total Student Financial Assistance Cluster:			<u>140,060,973</u>
TRIO Cluster:			
TRIO - Student Support Services			
Student Support Services Program	84.042A	P042A100449-11	33,770
Student Support Services Program	84.042A	P042A100449-12	176,448
Student Support Services Program	84.042A	P042A100110-11	30,032
Student Support Services Program	84.042A	P042A100110-12	203,706
			<u>443,956</u>
TRIO - Talent Search Program:			
Talent Search Grant	84.044A	P044A110877-11	12,053
Talent Search Grant	84.044A	P044A110877-12	133,123
Talent Search Grant	84.044A	P044A110382-11	43,644
Talent Search Grant	84.044A	P044A110382-12	246,272
			<u>435,092</u>
TRIO - Upward Bound Program:			
Upward Bound Grant	84.047A	PO47A080685-11	62,647
Upward Bound Grant	84.047A	P047A121219	85,800
			<u>148,447</u>
TRIO - Educational Opportunity Centers			
Educational Opportunity Centers Program	84.066A	P066A110111-11	34,401
Educational Opportunity Centers Program	84.066A	P066A110111-12	145,529
			<u>179,930</u>
Total TRIO Cluster			<u>1,207,425</u>
Adult Education - Basic Grants to States			
Passed through the Illinois Community College Board			
Adult Education Grant - Basic	84.002A	50800	1,955,192
Adult Education Grant - Civic	84.002A	50800	293,368
			<u>2,248,560</u>

**City Colleges of Chicago, Community College District No. 508
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Total Expenditures
U.S. Department of Education (Continued)			
Adult Education - Basic Grants to States			
Passed through the Illinois Community College Board			
Bridge Lesson Plan Development	84.002A	AEL 13009	\$ 45,000
Higher Education Institutional Aid			
Strengthening Institutions Programs (SIP)	84.031A	P031A090185-11	255,595
Strengthening Institutions Programs (SIP)	84.031A	P031A090185-12	129,351
			<u>384,946</u>
Higher Education Institutional Aid			
Predominantly Black Institutions Program	84.031P	P031P100013	22,113
Predominantly Black Institutions Program	84.031P	P031P100011	46,604
Predominantly Black Institutions Program - Formula Grant	84.031P	P031P110013-11	63,347
Predominantly Black Institutions Program - Formula Grant	84.031P	P031P110013-12	156,120
Predominantly Black Institutions Program - Formula Grant	84.031P	P031P110014-11	107,114
Predominantly Black Institutions Program - Formula Grant	84.031P	P031P110014-12	170,261
Predominantly Black Institutions Program - Formula Grant	84.031P	P031P110015-11	243,295
Predominantly Black Institutions Program - Formula Grant	84.031P	P031P110015-12	151,966
			<u>960,820</u>
Higher Education Institutional Aid			
Wright Start: Increasing Hispanic Student Success in the First Year of College	84.031S	P031S120098	145,336
Career and Technical Education - Basic Grants to States			
Passed through the Illinois Community College Board			
Perkins III Grant	84.048	CTE50813	3,327,424
Career and Technical Education Program / Innovation grant	84.048	CTEL13508	65,065
			<u>3,392,489</u>
Gaining Early Awareness and Readiness for Undergraduate Programs			
Passed through Northeastern University			
Chicago Gear Up Alliance	84.334	P334A050146	19,928
Chicago Gear Up Alliance	84.334	P334A110082	45,001
			<u>64,929</u>
Strengthening Minority-Serving Institutions			
Project GEMS	84.382A	P382A110034-11	212,480
Project GEMS	84.382A	P382A110034-12	456,660
			<u>669,140</u>
Strengthening Minority-Serving Institutions			
Learning Communities for STEM	84.382A	P382A110046-11	327,735
Learning Communities for STEM	84.382A	P382A110046-12	193,865
			<u>521,600</u>

**City Colleges of Chicago, Community College District No. 508
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Total Expenditures
U.S. Department of Education (Continued)			
Race to the Top			
Passed through Illinois Community College Board STEM College and Career Readiness	84.413A	13 RTTT508	\$ 8,899
Total Expenditures - U.S. Department of Education			149,710,117
U.S. Department of Health and Human Services -			
Head Start			
Passed through the City of Chicago Department of Family and Support Services:			
Head Start Program	93.600	25062-1	302,473
Head Start Program	93.600	25062-3	402,188
Head Start Support Services Program	93.600	26005-1	167,870
Head Start Support Services Program	93.600	26005-2	177,630
			<u>1,050,161</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund			
Passed through the City of Chicago Department of Family and Support Services:			
Child Care Services Program	93.596	25062-1	122,506
Child Care Services Program	93.596	25062-2	102,594
			<u>225,100</u>
Total Expenditures - U.S. Department of Health and Human Services			1,275,261
U.S. Department of Agriculture -			
Child and Adult Care Food Program			
Passed through the Illinois State Board of Education			
Child and Adult Care Food Program	10.558	15016508051	65,820
Summer Food Service Program for Children			
Passed through Illinois State Board of Education			
Summer Food Service Program	10.559	15016508051	91,450
Higher Education - Institution Challenge Grants Program			
Passed through Chicago State University			
Chicago South Side Urban Agricultural Initiative	10.217	2011-38411-30640	1,083
Total Expenditures - U.S. Department of Agriculture			158,353
U.S. Department of Labor -			
Green Jobs Innovation Fund Grants			
Passed through Jobs For The Future			
Green Jobs Innovation Fund	17.279	IF-21926-11-60-A-25	29,168

**City Colleges of Chicago, Community College District No. 508
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Total Expenditures
U.S. Department of Labor (Continued) -			
Green Jobs Innovation Fund Grants			
Passed through Opportunity Advancement Innovation Calumet Green Manufacturing Partnership	17.279	A2012-00340	<u>\$ 91,129</u>
Trade Adjustment Assistance Community College and Career Training Grants			
Passed through Cincinnati State Technical and Community College Health Professionals Pathways Consortium (H2P)	17.282	TC-22486-11-60-A-39	<u>367,713</u>
Total Expenditures - U.S. Department of Labor			<u>488,010</u>
National Science Foundation -			
Research and Development Cluster			
Engineering Grants			
Passed through Thermal Conservation Technologies Supplemental Opportunity for Small Business Innovation Research and Small Business Technology Transfer Community College Research Teams (SBIR/STTR)	47.041	IIP-1230294	<u>4,251</u>
Mathematical and Physical Sciences			
Exploring New Models for Authentic Undergraduate Research with Two-Year College Students	47.049	CHE-0629174	<u>9,842</u>
Education and Human Resources			
Pass through Cabrillo Community College Bridging Community College Chemistry Faculty into the National Educational Community	47.076	0737166	<u>1,153</u>
Education and Human Resources			
Biotechnology Program & Research: The Road to Career Development in Two Year Colleges	47.076	DUE-0903067	<u>881</u>
Education and Human Resources			
Passed through DePaul University Building a STEM Pipeline in Chicago	47.076	DUE-0653198	<u>25,630</u>
Education and Human Resources			
Passed through Chicago State University Illinois Louis Stokes Alliance for Minority Participation	47.076	HRD-0904024	<u>5,429</u>

**City Colleges of Chicago, Community College District No. 508
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Total Expenditures
National Science Foundation (Continued) -			
Research and Development Cluster (Continued)			
Education and Human Resources			
Passed through Chicago State University			
Urban Science, Technology, Engineering, and			
Mathematics Talent Expansion Program (USTEP)	47.076	DUE-0856827	\$ <u>33,586</u>
Education and Human Resources			
Passed through Loyola University			
Introduction to Mass Spectrometry to the Chemistry			
Curriculum of the Chicago-area Community Colleges	47.076	DUE-0837344	<u>6,061</u>
Education and Human Resources			
Passed through National Center for Science and Civic			
Engagement Post Institute Implementation Award	47.076	0717407	<u>1,033</u>
Education and Human Resources			
Passed through Northwestern University			
Enhance Critical Thinking in STEM Disciplines	47.076	DUE-0942404	<u>14,943</u>
Education and Human Resources			
Passed through University of Massachusetts Boston			
Broadening Advanced Technological Education			
Connections	47.076	DUE-1104145	<u>27,151</u>
Total Research and Development Cluster			<u>129,960</u>
Total Expenditures - National Science Foundation			<u>129,960</u>
U.S. Department of Commerce			
Special Projects			
Passed through Public Broadcasting Service (PBS)			
Warning, Alert, and Response Network Act (WARN)	11.553	51-51-W10606	<u>354,876</u>
U.S. Department of Transportation			
Federal Highway Administration			
Highway Planning and Construction			
Passed through the Illinois Community College Board			
Highway Construction Careers Training Program	20.205	HCCTP508 13	<u>291,496</u>

**City Colleges of Chicago, Community College District No. 508
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Project or Pass-Through Grantor's Number	Total Expenditures
National Aeronautics and Space Administration - Education Passed Through Jobs for the Future Building a Diverse Green Workforce: Integrating Climate Change Science Into Community College Green Career Education and Training	43.008	NNX11AM95G	\$ <u>12,200</u>
ARRA/Recovery Act Programs			
U.S. Department of Commerce National Institute of Standards and Technology Broadband Technology Opportunities Program Passed through The Chicago Community Trust Broadband Technology Opportunities Program and Public Computers Centers	11.557	17-42-B10553	<u>886,431</u>
U.S. Department of Labor - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors Passed through National Council of La Raza Health Care Sector and Other High Growth and Emerging Industries	17.275	GJ-20037-10-60-A-11	<u>403,486</u>
U.S. Department of Energy - Weatherization Assistance for Low-Income Persons Weatherization Assistance Program Training Centers and Programs	81.042	DE-EE0003859	<u>84,932</u>
Total Expenditures - Other Federal Agencies			<u>2,033,421</u>
Total All Programs			<u>\$ 153,795,122</u>

**City Colleges of Chicago
Community College District No. 508**

Notes to Schedule of Expenditures of Federal Awards

Note 1. Scope of Entity

City Colleges of Chicago, Community College District No. 508 (City Colleges) is a separate taxing body created under the Illinois Public Community College Act of 1965, with boundaries coterminous with the City of Chicago. City Colleges delivers educational and student services through seven colleges, each of which is separately accredited by the North Central Association. The seven colleges are Richard J. Daley College, Harold Washington College, Kennedy-King College, Malcolm X College, Olive-Harvey College, Harry S. Truman College, and Wilbur Wright College. The Board of Trustees, appointed by the Mayor of the City of Chicago and ratified by the City Council of Chicago, is responsible for establishing the policies and procedures by which City Colleges is governed. The U.S. Department of Education has been designated as the City Colleges' cognizant agency for the Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit).

Fiscal period audited: Single Audit testing procedures were performed for program transactions that occurred during the fiscal year ended June 30, 2013.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The accompanying schedule of expenditures of federal awards includes the federal grant activity of City Colleges and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The amounts presented in this schedule have been reconciled to the City College's basic financial statements.

Cost allocation: City Colleges has a plan for allocation of common and indirect costs related to grant programs. The amounts allocated to grant programs during the fiscal year ended June 30, 2013, are primarily based on a federally negotiated higher education rate agreement.

Note 3. Student Loan Programs

Loans made under the Federal Direct Student Loan program issued to eligible students of City Colleges during the fiscal year ended June 30, 2013, are summarized as follows:

Guaranteed loan programs:	
Subsidized	\$ 17,865,718
Unsubsidized	11,327,811
Parent plus	<u>290,404</u>
Total federal student loan programs	<u><u>\$ 29,483,933</u></u>

There was no federal capital contributions received for the year ended June 30, 2013 under the Federal Perkins Loan Program (Perkins). There were no new Perkins loans issued to students during the year ended June 30, 2013. Total Perkins loan balances outstanding at June 30, 2013 were \$953,669.

**City Colleges of Chicago
Community College District No. 508**

Notes to Schedule of Expenditures of Federal Awards

Note 4. Other Noncash Assistance

City Colleges did not receive federal noncash assistance during the fiscal year ended June 30, 2013.

Note 5. Findings and Noncompliance

The findings and noncompliance identified in connection with the 2013 Single Audit are disclosed in the schedule of findings and questioned costs.

Note 6. Subrecipients

City Colleges did not provide federal awards to subrecipients during the fiscal year ended June 30, 2013.

Note 7. Amount of Federal Insurance in Effect During the Year

No federal insurance was received by City Colleges during the year ended June 30, 2013.

**City Colleges of Chicago
Community College District No. 508**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified? Yes No
Significant deficiency(ies) identified? Yes None Reported
Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No
Significant deficiency(ies)? Yes None Reported

Type of auditor's report issued on compliance for major programs: Modified for 93.600 (Head Start Program) and unmodified for all other major programs listed below.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.063, 84.033, 84.038, 84.007, 84.268	Student Financial Assistance Cluster
84.042, 84.044, 84.047, 84.066	TRIO Cluster
84.031	Higher Education Aid
84.382	Strengthening Minority-Serving Institution
93.600	Head Start
17.275	ARRA - Health Care Sector and Other High Growth and Emerging Industries
11.557	ARRA - Broadband Technology Opportunities Program

Dollar threshold used to distinguish between Type A and Type B programs: \$412,024

Auditee qualified as low-risk auditee? Yes No

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

II. FINANCIAL STATEMENT FINDINGS

Finding 2013-001: Capital Assets

Criteria:

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities – an Amendment of GASB Statement No. 34*, require that:

- Capital assets be reported at historical cost and include land, improvements to land, buildings, building improvements, vehicles, equipment, and all other tangible or intangible assets that are used in operations and have a useful life extending beyond a single reporting period;
- Capital assets be depreciated over their estimated useful lives;
- Depreciation expense be reported in the statement of revenues, expenses, and changes in net position;
- Governments provide detail in the notes to the financial statements about capital assets, including beginning- and end-of-year balances with accumulated depreciation presented separately from historic cost, capital acquisitions, sales or other dispositions, and current-period depreciation expense.

In addition, GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that all identifiable intangible assets subject to GASB Statement No. 51 (GASB Statement No. 51 applies to those assets which lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period, with limited exceptions) be classified as capital assets.

City Colleges of Chicago (the District) policies also require that:

- Capital assets be reported at cost at the date of acquisition or at their estimated fair value at the date of donation.
- Major outlays for assets or improvements to assets over \$200,000 are capitalized.
- Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure be capitalized.
- Moveable property (i.e. equipment) with a unit cost of over \$25,000 and an estimated useful life of greater than one year be capitalized.
- Renovations that increase the utility of a structure but do not extend its useful life are depreciated over the remaining balance of the building’s estimated useful life.
- Other capital assets be depreciated using the straight-line method over useful lives that range from three to 40 years, depending on the class of asset.

Condition:

We were informed of the following errors in relation to the District’s opening capital assets:

- Construction work-in-progress was understated by \$14,858,562 due to unrecorded contributions from the Illinois Capital Development Board.
- Construction work-in-progress was overstated by \$6,128,030 and buildings and improvements were understated by \$6,128,030 due to construction work-in-progress completed in previous years but not placed in service. Accumulated depreciation for buildings and improvements was also understated by \$111,223 due to the items not being placed in service.
- Construction work-in-progress was also understated by \$444,683 related to internal software development costs that were improperly expensed in previous years.

**City Colleges of Chicago
Community College District No. 508**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

Finding 2013-001: Capital Assets (Continued)

- Accumulated depreciation for buildings and improvements was overstated by \$11,257,993 due to erroneous useful lives being used for some buildings and improvements.
- Accumulated depreciation for buildings and improvements was understated by \$11,449,391 due to the erroneous disposal of certain capital assets.

In addition, we tested 45 items on the equipment detail, noting that two items with a cost basis of \$25,000 or more could not be identified, and 6 instances whereby the asset tag numbers or other identifying information did not agree to the equipment register.

Context:

At the end of fiscal year 2012, the District reported total capital assets at cost of \$866,923,276, which included \$58,677,994 in construction work-in-progress and \$711,320,407 in gross buildings and improvements. At the end of fiscal year 2012, the District reported total accumulated depreciation of \$266,588,199, which included \$225,247,268 in accumulated depreciation for buildings and improvements. Total net capital assets at the end of fiscal year 2012 amounted to \$600,335,077.

At the end of fiscal year 2013, the total cost basis of capital assets is \$903,122,114, which includes \$80,178,270 in construction work-in-progress and \$725,256,411 in gross buildings and improvements. Total accumulated depreciation at the end of fiscal year 2013 is \$281,982,383, which includes \$239,271,415 in accumulated depreciation for buildings and improvements. Total net capital assets at the end of fiscal year 2013 are \$621,139,731.

Cause and Effect:

These errors are due to (1) the lack of a comprehensive asset management module, (2) errors in manual calculation, (3) not updating asset records, and (4) the lack of inter-departmental communications.

As a result of these errors, District management recorded adjustments to the net capital asset balances as noted above. Failure to maintain accurate fixed asset ledgers results in inaccurate accounting records and increases the likelihood that the District's financial statements are materially misstated.

Recommendation:

We recommend that the District acquire and implement a capital assets module that is fully integrated with the general ledger system. We also recommend that the District update its capital asset policies to include policies related to intangible assets.

Management Response:

See the Corrective Action Plan.

**City Colleges of Chicago
Community College District No. 508**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2013-002: Pension Costs Charged to Federal Programs

Federal Agency; Federal Program Title; Pass-Through Entity (if applicable); CFDA Number:

Major Programs:

US Department of Health and Human Services; Head Start; Passed through the City of Chicago
Department of Family and Support Services; 93.600

US Department of Education; Strengthening Minority-Serving Institutions; 84.382A

US Department of Education; Higher Education Institutional Aid; 84.031A

US Department of Education; TRIO Cluster – Student Support Services; 84.042A

US Department of Education; TRIO Cluster – Talent Search Program; 84.044A

US Department of Education; TRIO Cluster – Educational Opportunity Centers; 84.066A

Nonmajor Programs:

US Department of Labor; Trade Adjustment Assistance Community College and Career Training
Grants; Passed through Cincinnati State Technical and Community College; 17.282

US Department of Education; Adult Education – Basic Grants to States; Passed through the
Illinois Community College Board; 84.002A

**City Colleges of Chicago
Community College District No. 508**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

Finding 2013-002: Pension Costs Charged to Federal Programs (Continued)

Questioned costs: Cannot be determined.

Criteria:

Cost Principles for Educational Institutions (2 CFR Parts 215 and 220) states that the costs of an institution's pension plan are allowable if they are incurred in accordance with the established policies of the institution, provided such policies meet the test of reasonableness, the methods of cost allocation are equitable for all activities, the amount of pension cost assigned to each fiscal year is determined in accordance with generally accepted accounting principles and the cost assigned to a given fiscal year is paid or funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.

Condition:

City Colleges charged the federal grants using an actuarially determined rate that is based on the annual required employer contribution instead of a rate based on the actuarially determined normal cost. As a result, City Colleges overcharged the grants for pension costs.

Context:

Fiscal 2013 expenditures for the above noted grants totaled \$7,600,698. The total amount overcharged to the grants cannot reasonably be determined at this time.

Cause and Effect:

City Colleges charged pension costs based the actuarially determined annual required employer contribution instead charging pension costs based on the actuarially determined normal cost due to management oversight.

Failure to charge employee pension benefit expenses in accordance with Federal Cost Principles may result in funding agencies requiring the overcharges be returned to the funding agency.

Recommendation:

We recommend that the District use the actual employer contribution rates established by State Universities Retirement System (SURS) when requesting federal funds. Additionally, the District should contact the affected awarding agencies and request guidance on how to resolve the overcharges identified.

Management Response:

See the Corrective Action Plan.

**City Colleges of Chicago
Community College District No. 508**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

Finding 2013-003: Noncompliance with Federal Perkins Loan Program Requirements

Federal Agency: US Department of Education (ED)

Federal Program Title: Federal Perkins Loan Program

Pass-Through Entity: Not applicable.

CFDA Number: 84.038

Questioned Costs: None.

Criteria:

The Department of Education requires the District to maintain a Federal Perkins Loan Program fund (Fund) in a separate interest-bearing bank account or investment account consisting predominately of low-risk, income-producing securities, such as obligations issued or guaranteed by the United States. Interest on Fund proceeds are retained by the institution as part of the Fund. Additionally, the Department of Education requires that principal repayments and reimbursements for canceled loans are reinvested in the FPL revolving fund (34 CFR §668.163 and §674.8).

Additionally, the Department of Education requires institutions to exercise due care and diligence in the collection of loans. For the Federal Perkins Loan Program, such due diligence procedures include, but are not limited to the following:

1. Specific billing procedures to notify borrowers of overdue payments and to demand overdue amounts (34 CFR §674.43).
2. Specific collection procedures to recover amounts from defaulted borrowers who do not respond satisfactorily to demands routinely made as part of the institution's billing procedures, including litigation procedures (34 CFR §674.45).

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), §__,310 (b) requires that the auditee prepare a schedule of expenditures of federal awards that includes, amongst other requirements, in the schedule or as a note to the schedule that discloses the value of loans outstanding at year end.

§__.320 (b) of OMB Circular A-133 also requires that the auditee submit a data collection form which includes, amongst other requirements, the Catalog of Federal Domestic Assistance (CFDA) number for each federal program, the name of each federal program, and the amount of expenditures (which OMB Circular A-133 §__.205(a) defines as including use of loan proceeds under loan programs) in the schedule of expenditures of federal awards associated with each federal program.

**City Colleges of Chicago
Community College District No. 508**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013**

Finding 2013-003: Noncompliance with Federal Perkins Loan Program Requirements (Continued)

OMB Circular A-110 also requires nonfederal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Condition:

The District did not maintain a Federal Perkins Loan Program fund (Fund) in a separate interest-bearing bank account.

Additionally, the District did not maintain documentation to support that it complied with the due care and diligence requirements of the Department of Education regarding the collection of loans.

The District has not reported the outstanding loan balance on the Schedule of Expenditures of Federal Awards and the Data Collection Form as required by OMB Circular A-133 since at least fiscal year ending June 30, 2006.

Context:

The District has not received any new Federal Perkins Loan capital contributions or made any new Federal Perkins Loans in the past 15 or more years. Total outstanding loan balance as of June 30, 2013 is \$953,669, which includes accrued interest.

Cause and Effect:

City Colleges of Chicago has not been actively administering its Federal Perkins Loan program since it ended its servicer agreement in 2009. CCC did have a segregated account for the program; however, it was closed because no students were paying on their loans at the time of its closure. CCC's lack of stringent controls for this program are due to the age of the loan accounts and management turnover.

Failure to properly administer and report the District's Perkins Loan program results in violations of Department of Education requirements for the Perkins Loan program.

Recommendation:

We recommend the District follow the Department of Education's liquidation guidance so that the District can be relieved of its responsibility to comply with the compliance requirements applicable to the Federal Perkins Loan Program.

Management Response:

See the Corrective Action Plan.

**City Colleges of Chicago
Community College District No. 508**

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013**

Finding 2012-01: Return of Title IV Funds

Student Financial Assistance Cluster – CFDA 84.007, 84.033, 84.063, 84.268, 84.375

Federal Agency - U.S. Department of Education

Condition – Out of 60 Return of Title IV funds calculations tested, one selection was not deposited into the student financial aid accounts or returned to the appropriate lender within the required 45 days after the withdrawal date.

Corrective action was taken

Current Status – No exceptions in FY13.

March 24, 2014

McGladrey LLP
1 South Wacker Drive, Suite 800
Chicago, IL 60606

City Colleges of Chicago's Corrective Action Plan for the findings identified in the June 30, 2013 Single Audit is identified below. The findings are titled and numbered consistently with the titles and numbers assigned in the schedule of findings and questioned costs.

Finding 2013-001: Capital Assets

Corrective Action Plan:

1. City Colleges is in the process of implementing PeopleSoft Asset Management module that is fully integrated with the general ledger system. This module will automatically determine the useful lives based on pre-determined asset profiles and interface with Accounts Payable module to capture, tag and record capital assets. In addition, it will accurately calculate the depreciation expense, accumulated depreciation, book value, and any gain and loss in disposal of asset. This module is expected to go live in April 2014.
2. Accounting department will monitor the monthly board reports and purchase orders to identify all capital projects. Furthermore, Accounting will conduct monthly meetings with Administrative Service and Office of Information Technology to review the status of capital projects and internally generated software. (On-going).
3. Accounting department will remind all units to update their asset registers and notify Accounting on any changes in asset status.

Contact person(s): Vincent Chiu, Director of Accounting

Anticipated completion date: On-going

Finding 2013-002: Pension Costs Charged to Federal Programs

Corrective Action Plan:

City Colleges of Chicago has implemented a new process to calculate and distribute the correct employer pension benefit expenses. Controls are in place to ensure proper rates are used in computing amounts for eligible employees. Furthermore, City Colleges of Chicago is implementing the auditor's recommendation. CCC has contracted external auditors to perform a reconciliation of amounts due to reimburse federal grants for overcharges and will contact the funding agencies to resolve the overcharges.

Contact person(s): Daryl Okrzesik, Associate Vice Chancellor Finance

Anticipated completion date: April 30, 2014

Finding 2013-003: Noncompliance with Federal Perkins Loan Program Requirements

Corrective Action Plan:

City Colleges of Chicago is implementing the auditor's recommendation. CCC is currently in the process of liquidating its Federal Perkins Loan portfolio. CCC will be contracting with a firm to conduct an independent audit so that the amount it must return in order to end its affiliation with this program can be determined.

Contact person(s):

Cynthia Grunden, Associate Vice Chancellor of Student Financial Services

Kristen McRoberts, District Director of Financial Aid

Anticipated completion date: June 30, 2014

Department of Finance
City Colleges of Chicago