



Dave Yost • Auditor of State

March 30, 2017

Chancellor John Carey
Ohio Department of Higher Education
25 South Front Street
Columbus, Ohio 43215

Dear Chancellor Carey:

Consistent with your request dated January 25, 2017 and with provisions of Chapter 126:3-1-01(F)(1)(b) of the Ohio Administrative Code, we reviewed the Financial Accounting Report we issued on September 16, 2015 pertaining to Central State University.

Our review is detailed in the attached report which will indicate that the University has fully remediated all but three conditions that led to reportable comments. The three conditions not fully remediated are in process of implementation and we have written representation from the University that the implementation will be completed in a timely manner.

Based on our review, the Auditor of State's Office has determined that Central State University has implemented or is in the process of implementing an effective financial accounting and reporting system.

If you have any questions please feel free to contact Dave Thompson from our office at (614)728-6475.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

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Dave Yost • Auditor of State

Central State University
Greene County, Ohio

Report on the Status of the Central State University
Financial Accounting Report

Local Government Services

Central State University, Greene County

Report on the Status of the Central State University Financial Accounting Report

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CERTIFICATION

Pursuant to a request submitted to the Auditor of State by the Chancellor of Higher Education and as provided by Ohio Administrative Code Section 126:3-1-01(F)(1)(b), the Auditor of State performed an analysis of Central State University's financial accounting report that was issued by the Auditor of State's Office on September 16, 2015. The purpose of the analysis was to determine whether the University has remediated the reportable events outlined in the aforementioned report. Based on our analysis, the Auditor of State certifies that all reportable events have been remediated or is substantially in process of being remediated.

Accordingly, this report is hereby submitted to the Chancellor of the Ohio Department of Higher Education and to the Board of Trustees of Central State University.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

March 30, 2017

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Report on the Status of the Central State University Financial Accounting Report

At the request of the Chancellor of the Ohio Department of Higher Education and as provided by Ohio Administrative Code Section 126:3-1-01(F)(1)(b), the Auditor of State has reviewed the status of deficiencies outlined in the Financial Accounting Report issued by the Auditor of State on September 16, 2015 to determine if the University has substantially remediated the reportable events described in the aforementioned report.

It is understood that this report's determination is for the use of the Chancellor of the Ohio Department of Higher Education, the Auditor of State of Ohio, the Board of Trustees of Central State University (the University), and others as designated by the Auditor of State and is not to be used for any other purpose. Our procedures and findings follow.

Section 1 - Financial Accounting and Reporting System

When a University is placed in fiscal watch, the Auditor of State is required to report on the effectiveness of the University's financial accounting and reporting system. The Auditor of State, in accordance with Chapter 126:3-1-01(D)(1)(b) of Ohio Administrative Code assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the University and issued a Financial Accounting Report. The report identified areas which the University's financial accounting and reporting system were not in compliance with Chapter 126:3-1-01(D)(1)(b) of Ohio Administrative Code and the requirements of the Auditor of State.

A termination from fiscal watch status by the Ohio Department of Higher Education includes a consultation with the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct these issues identified in the Financial Accounting Report. A summary of each area of noncompliance identified in the Financial Accounting Report and the status of each corrective action is presented below:

Governance Overview

Auditor of State Comment from Financial Accounting Report

Section 3345.05 of the Ohio Revised Code provides the Board of Trustees with the exclusive authority, direction, supervision and control over the operations and conduct of the University. We encourage the Board to redouble their efforts to provide oversight particularly in the areas of student accounts receivable, cash reconciliations, long term planning and related budgetary matters, and staff turnover within the fiscal operation of the University.

Implemented

As it relates to the fiscal operations, we have observed an increase in financial/budgetary information being submitted to the Board for review. Specifically, there is now a Board of Trustee Briefing Book that is prepared by the Division of Administration and Finance for each quarterly Board meeting. Among other information this book contains monthly operating reports by division, detail of monthly budget versus actual, contingency and reserve balances, budget versus forecast and actual versus forecast results, cash balances per month, University staffing history and Senate Bill 6 projections.

In addition to Quarterly Briefing Book, the Board receives on a regular basis a summary of the University's financial status from the Vice President of Administration and Finance. This summary is the

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product of the Division of Administration and Finance Executive Team. This team meets every Monday morning to discuss the past week's financial and budgetary information/issues which may include bank reconciliations, budget comparisons, staffing issues, operating forecast, bad debt impact and financial statements.

In addition, the Board on June 9, 2016 approved new Board policies for budgetary transfers, purchasing and cash disbursements (including staffing levels), modified bidding procedure and vendor relations, and reserve posting procedures. On February 3, 2017, the Board approved updated policies for payment of tuition and fees, payroll procedures, investments, and committing to annually having a five-year forecast with the purpose of continuing financial stability.

Budgetary Process

Auditor of State Comment from Financial Accounting Report

The University policies and procedures related to the budgetary process indicate that the University can take several actions to maintain a balanced budget and protect academic quality. The budget policies and procedures should be modified to contain specific steps to be taken to maintain a balanced budget. These steps should include a mandated review process of estimated revenues based on actual revenues and trigger variances to start the process of modifying the overall unrestricted budget. This enhancement should include a timeline and a requirement for tracking enrollment and related revenues to predict the accuracy of the current budget. Also, to ensure disclosure of approved transfers and budget modifications as well as grant budgets approved by the President, these approved transfers, modifications and budgets should be presented and reviewed with the Board of Trustees Budget and Finance Committee.

In Process

The Board of Trustees approved and adopted modified policies related to the budgetary process on June 9, 2016. The updated policies now require the President to approve transfers between departments and transfers involving salary operations to operation appropriations or vice versa. The policy no longer requires these same types of budget transfers be ratified by the Board through approval of appropriate summary documentation of these transfers. The Board approves budget modifications only on an overall budget increase or decrease. Grant (restricted) budgets are not listed within the policies or procedure. Restricted budgets are still approved by the President but not the Board. Within the quarterly Board of Trustee Briefing Book prepared by the administration and finance department, restricted revenues and expenditures are also included in the financial statements presented.

The Budget Office also has developed new desk procedures for budget development and budget monitoring. Both are for internal use in the Budget Office to guide them through the budget process and the monitoring of the budget for revenues and expenditures. The procedures state to maintain a balanced budget; the Budget Office shall forecast revenues and expenditures on a monthly basis and prepare and monitor forecasted revenues and expenditures on a monthly basis as well as actual enrollment to estimated enrollment on a daily basis. Any large fluctuations are communicated quarterly to the Board of Trustees during the review of the Board of Trustee Briefing Book. No written trigger variances have been developed to provide the University a means to start the process of modifying the overall unrestricted budget.

Auditor of State Comment from Financial Accounting Report

The University within the budgetary process has budgeted expenditures below estimated resources and has kept actual unrestricted expenditures below unrestricted estimated revenues. In addition to continuing this approach, the Board should approve a cash reserves policy for their unrestricted cash balance. The

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cash reserve policy should require the University to not only calculate cash reserves through the unrestricted budget process but also include any balance sheet items, such as debt obligations, that cannot be budgeted within Banner. The integration of the cash reserve policy into their budgetary process as well as balance sheet items will help ensure that budgeted operating expenditures are at a level that will permit the growth of the unrestricted cash balance to a level desired by the Board. GFOA has issued a best practice resource for determining the appropriate level of unrestricted fund balance in the general fund. This best practice should be reviewed as a guide in determining levels of unrestricted fund balance and the variety of factors to consider.

In Process

The University has developed an unrestricted fund balance policy that has been approved by the President and is on the agenda for Board of Trustee approval at the April, 2017 Board meeting. The policy states that the University will maintain a minimum level of unrestricted fund balance equivalent to three months of regular, on-going operating expenditures. The University will measure the unrestricted fund balance on a monthly basis, as soon as month end financial statements are produced. The policy defines the roles and responsibilities of those that procure the information and monitor the balances for the University. Within the policy, the University also requires that in an event that the unrestricted fund balance falls below the three month minimum requirement, a plan will be developed to replenish the fund immediately. The policy does not clarify if the balance sheet items are also included within this policy.

Auditor of State Comment from Financial Accounting Report

Current policies on budget modifications and transfers are outdated compared to the University's current practices and procedures. The University should review, update and obtain Board approval of updated versions of these policies.

Implemented

The Board of Trustees approved and adopted modified policies related to the budgetary process on June 9, 2016. The updated policies now require the President to approve transfers between departments and transfers involving salary operations to operation appropriations or vice versa. The policy no longer requires these same types of budget transfers to be ratified by the Board through approval of appropriate summary documentation of these transfers. The Budget Modification sheets now must specify fund number, organization number, account number, and amounts in whole dollars.

Revenue Activity

Auditor of State Comment from Financial Accounting Report

The policies and procedures related to the receipting process are outdated and should be revised. The revised policies and procedures should clearly indicate the employee responsible for each step of the process and the timing of each step. They should also include sufficient review steps by supervisors to ensure that receipts are posted timely and accurately. Once developed, the policies and procedures should be approved by the Board of Trustees and implemented. The Interim Controller has a policy in progress and this would be a good starting point.

Implemented

The Board of Trustees approved and adopted a modified revenue posting policy on June 9, 2016. The Cashier Management Supervisor and staff prepared new detailed desk procedures over the following: posting and charging to the student's accounts, posting of student account payments, and posting of

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miscellaneous payments. These desk procedures clearly indicate the steps of collecting each type of payment made to the University for collections. Another desk procedure over cashier end of day reporting (cash detail reports) detailed out the employee responsibility and timing of Cashier Detail Report for all collections during the day, the review process by the Cashier Management Supervisor, and the preparation and deposit of the bank deposit for the day.

Auditor of State Comment from Financial Accounting Report

Due to the absence of an employee in the Bursar position, the daily receipts posted by Cash Management department employees are not reviewed by a supervisor. The Controller should ensure the daily receipts are all accounted for and are posted completely and accurately by reviewing the postings or appointing someone to review the postings.

Implemented

Instead of a Bursar position, a Cashier Management Supervisor position has been designated as the supervisory approval position for the Cash Management department. Within the daily review procedures, the Cashier Management Supervisor now reviews the end of the day reporting for accuracy and completeness.

Auditor of State Comment from Financial Accounting Report

Receipts received by wire transfer are not being posted on a daily basis. Due to staff turnover and staff shortages, the Accountants or the Interim Controller have been notifying the Office Manager of wire transfers on a weekly basis. This creates a large volume of transactions for posting at one time and leads to delays. Wire transfers should be receipted and reviewed promptly, in order for the general ledger to reflect accurate cash balances.

Implemented

A new desk procedure was developed for wire transfers that details they must be posted daily along with the types of revenues received by wire and how they should be posted. The procedures also indicate that they are to be processed by the Cash Management Office and reviewed daily by the Cashier Management Supervisor.

Auditor of State Comment from Financial Accounting Report

Student accounts with past-due balances are not causing the students to be automatically withdrawn from classes on the 14th day of class as per the University's policy. Although this process is being partially followed for the current term, it has not been used for several semesters. The policy should be followed, or if the University does not feel that the policy is currently feasible it should be revised and the revised policy should be approved by the Board of Trustees and implemented.

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Implemented

The Board of Trustees approved a modified payment of tuition and fees policy along with related procedures on February 3, 2017. The policy and procedures state that students that fail to have one hundred percent of their fees covered could result in the automatic withdrawal of the student from the current semester's classes on the 14th day. (One hundred percent of their fees covered definition means that the student has financial aid, scholarships, and/or payment plan to cover semesters balance.) The policy also states that students may be allowed to continue throughout the semester as long as their balances do not exceed the established threshold of \$500. The threshold amount is determined and published by the Vice President of Administration and Finance on a semester basis.

The Controller's office under the management of the Vice President of the Administration and Finance developed new desk procedures for debt collection for current students. The desk procedures stipulates several different steps that can occur if the student fails to satisfy the financial obligations of covering one hundred percent of the current semester's bill. The steps include: administrative withdrawal from the University, removal from residence hall and the dining meal plan, account being submitted to a third party influencer, monthly late payment fees and/or interest added to the past due balance, administrative hold(s) on your transcript and diploma, non-participation in commencement activity, and inability to register for future semester. For those students that become over 60 days delinquent on covering one hundred percent of their semester bill, the delinquent student receives emails stating they have an unpaid student debt, a timeline to avoid consequences, and a list of potential consequences outlined within the desk procedures. Once the deadline that was stated in the email has passed without action by the delinquent student, the Default Manager prepares a list of the students, their balances, and consequence for review by the Vice President of Administration and Finance. During our review of the new process, we noted that in the spring 2017 semester there were withdrawal notices for those students with balances over 60 days delinquent within the 14th day withdrawal period.

Auditor of State Comment from Financial Accounting Report

Although student accounts are being reviewed periodically, there is not a formal policy in place to do so. Therefore, former students with past-due account balances are not currently being regularly contacted to attempt collection, either by the University or by a third-party vendor. The University should develop and implement a policy regarding the timeline and criteria upon which these accounts will be reviewed. The policy should also include how collection of these balances will be attempted. This could include working with Tuition Management Services through the students' online accounts, working with another third-party collection agency, or having University employees attempt to collect on the debt. Timely and thorough review and collection of past-due accounts could reduce the amount of tuition revenue lost by the University. The decision not to withdraw students along with the lack of substantial follow up on the pursuing of the collection of delinquent accounts has significantly contributed to the elevation of student account balances over 360 days past due to over \$12.1 million at June 30, 2014. The following table demonstrates the increase in student account balances greater than 360 days of almost four million dollars from June 30, 2012 to June 30, 2014.

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Student Accounts Receivable[1]

	6/30/2012	6/30/2013	6/30/2014
Per Aging Reports:			
Total Account Balance	\$ 20,381,055	\$ 20,709,048	\$ 20,434,772
0 to 120 Days[2]	\$ 10,268,917	\$ 8,360,313	\$ 5,954,572
121 to 270 Days	898,271	1,036,427	1,193,870
271 to 360 Days	841,676	934,138	1,134,102
361 + Days	\$ 8,372,191	\$ 10,378,170	\$ 12,152,228
	\$ 20,381,055	\$ 20,709,048	\$ 20,434,772
	FY 12	FY 13	FY 14
Amounts Billed Students	\$ 17,039,368	\$ 14,516,201	\$ 11,413,936

[1] This is the latest audited information available.

[2] Amounts include Pre-Bills for the following year.

Implemented

New desk procedures have been developed for the debt collection for both current and prior students. The procedures state criteria on how delinquent accounts are reviewed, how often they are reviewed, and that the Default Manager may work with Tuition Management Services (Student Online Accounts), third party collection agency or University employees in an attempt to collect the debt of current students. Furthermore, procedures also detail as to how often the Default Manager would review current and prior students delinquent balances along with what reports would be used for review and the actions to be taken on delinquent accounts. Records show the Default Manager contacting current students when 100 percent of semester bill is not covered within 60 days to rectify their situation through many means, such as payment plan or student aid. For the prior delinquent students not currently enrolled, the Default Manager marks those students within Banner and determines the accuracy of the balances shown on their accounts. Once the balances have been determined to be accurate, the accounts are reviewed and submitted to the Attorney General's Office to be collected on behalf of the University.

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Student Accounts Receivable

	<u>6/30/2015[1]</u>	<u>6/30/2016[1]</u>	<u>1/31/2017[2]</u>
Per Aging Reports:			
Total Account Balance	\$ 15,544,216	\$ 26,669,041	\$ 18,364,954
0 to 120 Days [2]	\$ 142,143	\$ 9,738,325	\$ 2,232,061
121 to 270 Days	1,276,897	1,167,958	853,779
271 to 360 Days	1,670,936	2,206,410	90,602
361 + Days	<u>12,454,240</u>	<u>13,556,348</u>	<u>15,188,512</u>
	<u>\$ 15,544,216</u>	<u>\$ 26,669,041</u>	<u>\$ 18,364,954</u>

	FY 15	FY 16
Amounts Billed Students	\$ 9,731,920	\$ 10,129,444

[1] This is the latest audited information available.

[2] Amounts include Pre-Bills for the following year except for 6/30/15 column.

Purchasing Process, Bidding, and Cash Disbursements

Auditor of State Comment from Financial Accounting Report

Contrary to Section 9.10, Revised Code, the University uses a rubber stamp signature to sign purchase orders. This signature stamp is used by the Buyer. Purchase orders should be signed electronically or manually by the Buyer.

Implemented

The Buyer now manually signs all purchase orders.

Auditor of State Comment from Financial Accounting Report

The University bidding procedures should address competitive bidding procedures for printed materials as stated in Sections 3345.10 and 125.11(B), Revised Code.

Implemented

The Board of Trustees approved modified bidding procedures and vendor relations policy on June 9, 2016. The updated bidding procedures states that guidelines detailed in the entire policy should be followed by the end-user prior to submitting an electronic requisition for purchase to include the purchase of printed material per Sections 3345.10, Revised Code. Section 3345.10 of the Revised Code references 125.09(C)(1) and (2) of the Revised Code. Section 125.09(C) references requirements by Section 125.11(B), Revised Code. The updated vendor relations policy also states to give preference to products produced or mined in the United States and in Ohio, in accordance with the state law. Section 125.11(B), Revised Code, requires a state agency to evaluate a contract for purchase of products within a bid to determine if a product is produced or mined in the United States.

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Auditor of State Comment from Financial Accounting Report

The University does not utilize the Auditor of State Findings for Recovery Database when entering into all contracts. Section 9.24, Revised Code, prohibits any State agency or political subdivision from awarding a contract for goods, services, or construction, paid for in whole or in part with State funds to any person against whom a finding for recovery has been issued by the Auditor of State, if that finding is unresolved. The University should verify vendors against the State's database of findings for recovery before entering into a contract for goods, services, or construction, paid for in whole or in part with State funds.

Implemented

The Director of Auxiliary Services verifies vendors against the State's database of findings for recovery before entering into a contract for goods, services or construction, paid for in whole or in part with the State funds. The Director maintains records of this search of vendors on the State's database.

Auditor of State Comment from Financial Accounting Report

In general, the University issued policies and procedures for this section that were adopted in September, 1998. Most of these policies and procedures have not been updated since that time, and many of the procedures, staffing levels, and forms are outdated. For example, per the procedures, requisitions were a manual process; however, requisitions are now completed electronically. The University should review and update the policies and procedures and have them approved by the Board. Additionally, all applicable employees should read and certify their understanding of the updated policy and procedures.

Implemented

The Board of Trustees approved new purchasing and cash disbursement policies and procedures on June 9, 2016. The new policies and procedures updated the procedure for purchasing and cash disbursements, staffing levels and forms that are now being currently used. Employees are required to read and sign a form to indicate that they have read the policy and procedures.

Payroll Processing

Auditor of State Comment from Financial Accounting Report

Current policies on payroll have sections that are outdated compared to the University's practices and forms that are currently being used. The payroll policies should be reviewed, updated and Board-approved to reflect the current policies and forms used.

Implemented

The Board of Trustees approved updated payroll policies and procedures on February 3, 2017. The policies and procedures reflect the current practices and forms used by University staff.

Auditor of State Comment from Financial Accounting Report

The Human Resources Department has detailed procedures for benefits, pension payments and reporting and the hiring process. The Human Resource department should further document the remaining procedures related to payroll processing. These procedures should include but are not limited to a review of accuracy of employee records within Banner and employee files, withholding payments and reporting, and payroll preparation process for hourly and salary employees

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Implemented

The policies and procedures approved by the Board of Trustees on February 3, 2017, include detailed procedures for the Human Resources and Payroll Department. They include the following: disposition of leave upon employee internal transfer, internal transfer of annual leave, personnel actions, annual leave for non-bargaining staff, donation of leave to other employees, allowing administrative and professional non-bargaining staff to adjunct teaching, performance appraisals for non-bargaining administrative professional staff, payroll preparation process for hourly and salary employees, withholding payment and reporting, and auditing accurate and timely employee set up within Banner system, which includes employee records and files.

Debt Administration

Auditor of State Comment from Financial Accounting Report

The University paid principal and interest on the 1992 Department of Education Notes thirty-eight days past the due date. The Controller should closely monitor when debt payments are due and remit payment by the specified due date in order to avoid any penalties or interest that may be assessed.

Implemented

The University has implemented procedures to pay all creditors electronically (ACH Wire) prior to the debt payments' due date. The Senior Accountant prepares a "Request for ACH Vendor Payment" for the amount of the payment and completes the ACH at the bank. The Controller approves ACH at the bank. The Senior Accountant monitors the bank activity to notify the Disbursement Staff when to post the activity into the accounting system. As of the date of this report, all debt payments have been made as scheduled.

Cash Management and Investing

Auditor of State Comment from Financial Accounting Report

The signature blocks are not cut out of voided checks. All voided checks should have the signature cut out.

Implemented

All voided checks are reviewed by the Controller's Office personnel and the signature lines are cut out and removed.

Auditor of State Comment from Financial Accounting Report

The monthly bank reconciliations are not occurring in a timely manner as required in the University Policy. The bank reconciliations should be completed at the beginning of the following month and there should be a contingency plan in place if the Controller is not available to reconcile. The monthly bank reconciliations should be provided to the Board of Trustees Budget and Finance Committee for review on a monthly basis. The most recent month that had a complete reconciliation was April, 2015. As identified, a contributing factor to the lack of timely reconciliations appeared to be turnover, including but not limited to compensation and work environment. We are certainly aware of the University's current financial condition, but are also aware of the risk factors of turnover in the cash management area.

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Implemented

The University created a Director of Financial Reporting who is in charge of the monthly bank reconciliations and who reports directly to the Vice President for Administration and Finance. Monthly bank reconciliations are provided to the Executive Team, which consists of the Vice President of Administration and Finance, Director of Financial Reporting, Budget Director, Director of Natural Resources, and the Director of Facilities Executive Team for review on a monthly basis. The Vice President for Administration and Finance notifies the Board of Trustees of any issues that may arise. The most recent complete bank reconciliation was January 2017.

Auditor of State Comment from Financial Accounting Report

The University does not have an investment policy or Investment Committee as required by Section 3345.05(C), Revised Code. The University should develop an investment policy as required by Revised Code and have the policy approved by the Board. In addition to this investment policy, the University should establish an Investment Committee consisting of investment/finance professionals. This Investment Committee would evaluate and recommend the types and amounts of investments that would maximize return on investment.

Implemented

The University adopted an investment policy consistent with the requirements of Revised Code Section 3345.05(C) on February 3, 2017. The University's Budget & Finance/Audit Committee serves as the Investment Committee and is chaired by a financial professional.

Financial Reporting

Auditor of State Comment from Financial Accounting Report

There were two quarterly reports that were submitted to the Board of Regents past the 30 day requirement. The 3rd Quarter 2014 report and the 3rd Quarter 2015 report were submitted on May 8, 2014 and May 12, 2015, respectively. The quarterly reports should be filed with the Board of Regents within 30 days after the end of the calendar quarter.

Implemented

The University filed all fiscal year 2016 and the first two fiscal year 2017 quarterly reports to the Board of Regents within 30 days after the end of the calendar quarter.

Auditor of State Comment from Financial Accounting Report

In accordance with Ohio Administrative Code Section 126:3-1-01(D)(1)(d), the University should establish a process by which the Board of Trustees or a committee will undertake monthly review of revenues, expenditures, and encumbrances consistent with the financial recovery plan.

Implemented

On a monthly basis, the Executive Team reviews the monthly financial statements, operating reports, and the Senate Bill 6 ratio calculation. The financial statements consist of detailed level Statements of Net Position and Net Activities. The operating reports consist of education and general revenue and expenses. The Senate Bill 6 ratio calculation is monitored with scenarios being plotted to assess the impacts of any movements in income and/or expenditures. All reports presented for review include prior year amounts

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for comparative information. The Vice President of Administration and Finance updates the Board of Trustees through conference calls in the months when the Board of Trustee meetings are not scheduled. Quarterly, the Board of Trustees review a Board of Trustee Briefing Book that is prepared by the Division of Administration and Finance for each quarterly Board meeting. Among other information this book contains a monthly operating report by division, detail of monthly budget versus actual, contingency and reserve balances, budget versus forecast and actual versus forecast results, cash balances per month, University staffing history and Senate Bill 6 projections.

Auditor of State Comment from Financial Accounting Report

In accordance with Ohio Administrative Code Section 126:3-1-01(D)(1)(e), the University should establish a process by which they approve and monitor the monthly levels of expenditures and encumbrances and require supporting documentation to substantiate any departure from any approved level.

Implemented

On a monthly basis, the Executive Team reviews the monthly financial statements, operating reports, and the Senate Bill 6 ratio calculation. The financial statements consist of detailed level Statements of Net Position and Net Activities. The operating reports consist of education and general revenue and expenses. The Senate Bill 6 ratio calculation is monitored with scenarios being plotted to assess the impacts of any movements in income and/or expenditures. All reports presented for review include prior year amounts for comparative information and any major variance (greater than 10 percent) are investigated further by the Executive Team members.

Forecasting and Planning

Auditor of State Comment from Financial Accounting Report

The University should consult with other higher education institutions, industry associations or groups, and national finance organizations to research methods and best practices related to forecasting and planning. These methods and best practices should be developed into a comprehensive forecasting and planning policy for the University. The policy should include a listing of the employee or employees responsible for each component of the forecasts and planning, a timeline of when forecasts and plans are to be performed, and a requirement for ongoing monitoring of forecast and plans.

Implemented

The University has worked with the Ohio Board of Regents and inquired with other Universities that are involved in the Inter-University Council of Ohio to develop a model to be used for comprehensive forecasting. The University has developed a desk procedure for internal use and on February 3, 2017, the University Board of Trustees approved the annual five year forecast process. The process dictates that the University administration will annually develop a five-year rolling financial plan with the purpose of continuing financial stability. Based on this processes timeline, the Budget Advisory Group (which includes the Office of the President, Academic Affairs, Student Affairs, Scholarship, Institutional Advancement, Information Technology, and Administration and Finance as well as representatives from faculty, athletics, residence life, grants and budget office) meetings are to begin in January to develop assumptions. The Revenue Committee finalizes assumptions in February and then the revenue and expense modeling are incorporated into the model in March. In April, the five-year plan is consolidated by the Administration and Finance (Budget Office) and presented to Cabinet for review, discussion, and approval. Once the Cabinet approves the five-year plan, it is presented to the Board of Trustee's for approval in June. The approved five-year plan is distributed to the Campus Community at the end of

June. The annual five-year financial plan is contained within the Annual Report to the Chancellor. This plan is currently being completed on an annual basis with the most recent one being dated April 21, 2016.

Auditor of State Comment from Financial Accounting Report

The University should integrate a rolling financial forecasting component with each of their planning documents. For instance, as each compelling priority of the strategic plan is researched and implemented, it should be incorporated into the assumptions that form the basis for a long-term forecast. This would ensure that plans are only implemented with a clear understanding of the financial impact of doing so.

Implemented

As part of the budget monitoring process, the items with the highest priority and that are consistent with the University's strategic priorities are funded as long as there is projected revenue to cover them. These items are submitted to the Budget Office where it is compiled to generate the total budget expense and analyzed with the projected revenue. This analysis has allowed the University to enter information into the rolling five-year forecast to determine what future items from the strategic plan can be implemented. For example, the University Center was completed in the fall of 2016 out of the Capital Plan. Once completed, the operational costs are being paid from the operations budget. The strategic plan addresses that the University will be charging a University Center Fee to all students to cover the cost of operation. The fee was determined using a sensitivity analysis and is included in the General Fees line of the five-year rolling forecast.

Auditor of State Comment from Financial Accounting Report

The University should use long-term forecasting to assist in the negotiations process with employee union groups. Although the University calculates the financial impact of potential employee pay and benefit changes on expenses, that information is not incorporated into a more comprehensive forecast that would include estimated revenues and estimated remaining fund balances as impacted by the forecasted expenses.

In Process

The University is beginning to renegotiate with the individual employee unions and plans on using the long-term forecasting combined with sensitivity analysis when comparing the different scenarios.

Section 2 - Audit Report

The Board of Trustees receive a compliance and management letter at the conclusion of each audit. The letter that accompanied the June 30, 2016 audit identified a number of noncompliance issues and several recommendations.

Most of the findings within the report were federal grant related. There was a finding in the audit report that related to timely bank reconciliations. The University has addressed this issue as part of their work to correct the Financial Accounting Report.

Conclusion

Based on our review, the Auditor of State's Office has determined that the Central State University has implemented or is in the process of implementing an effective financial accounting and reporting system.



Dave Yost • Auditor of State

CENTRAL STATE UNIVERSITY

GREENE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2017**