

**STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY**

Report Required under *Government Auditing Standards*
For the Year Ended June 30, 2021
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

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Other Reports Issued Under a Separate Cover

The University's *Federal Single Audit* and *State Compliance Examination* for the year ended June 30, 2021, have been issued under separate covers. Additionally, the University's financial statements as of and for the year ended June 30, 2021, have been issued under a separate cover.

**State of Illinois
Illinois State University**

**Financial Audit
For the Year Ended June 30, 2021**

University Officials

President (07/01/21 – present)	Dr. Terri Goss Kinzy
President (07/01/20 – 06/30/21)	Dr. Larry Dietz
Vice President for Finance and Planning	Mr. Dan Stephens
Vice President for Academic Affairs and Provost	Dr. Andover Tarhule
Vice President for Student Affairs	Dr. Levester Johnson
Vice President for University Advancement	Mr. Pat Vickerman
Comptroller	Mr. Doug Schnittker
Legal Counsel	Ms. Lisa Huson
Director – Internal Audit	Mr. Robert Blemler

Officers of the Board of Trustees

Chair of the Board (07/01/21 – present)	Dr. Mary Ann Louderback
Chair of the Board (07/01/20 – 06/30/21)	Ms. Julie Annette Jones
Secretary of the Board (07/01/21 – present)	Dr. Kathryn Bohn
Secretary of the Board (07/01/20 – 06/30/21)	Dr. Mary Ann Louderback

Members of the Board of Trustees

Member	Ms. Kathryn Bohn
Member	Mr. Robert Dobski
Member	Mr. Rocky Donahue
Member	Ms. Julie Annette Jones
Member	Dr. Mary Ann Louderback
Member	Dr. Robert Navarro
Member (12/14/20 – present)	Vacant
Member (07/01/19 – 12/14/20)	Ms. Sharon Rossmark
Student Member (07/01/21 – present)	Ms. Devin Paoni
Student Member (07/01/20 – 06/30/21)	Ms. Jada Turner

Office Location

The University's primary administrative offices are located at:

Hovey Hall
Campus Box 1100
Normal, Illinois 61790-1100

**State of Illinois
Illinois State University**

**Financial Audit
For the Year Ended June 30, 2021**

Report Required Under Government Auditing Standards

Summary

The audit of the financial statements of the Illinois State University (University) was performed by RSM US LLP in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

Based on their audit, the auditors expressed unmodified opinions on the University's basic financial statements, issued under a separate cover.

Summary of Findings

The auditors identified two matters involving the University's internal control over financial reporting that they considered to be material weaknesses. Further, the auditors identified one noncompliance matter.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2021-001	6	2020/2020	Inadequate Internal Controls over Census Data	Material Weakness and Noncompliance
2021-002	10	2020/2018	Information Security Weaknesses	Material Weakness
Prior Findings Not Repeated				
A	12	2020/2020	Lack of Adequate Controls over the Review of Internal Controls over Service Providers	

**State of Illinois
Illinois State University**

**Financial Audit
For the Year Ended June 30, 2021**

Report Required Under Government Auditing Standards

Exit Conference

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on April 21, 2022.

Attending were:

Illinois State University:

Dan Stephens	Vice President for Finance and Planning
Doug Schnittker	Comptroller
Erika Jones	Assistant Comptroller
Emily Duffield	Chief Accountant
Dan Taube	Interim Chief Information Security Officer
Charles Edamala	Associate Vice President and Chief Information Officer
Rob Blemler	Director – Internal Audit

Office of the Auditor General:

Daniel J. Nugent, CPA	Technical Specialist
Jennifer Rankin, CPA	Audit Manager

RSM US LLP:

Joseph Evans, CPA	Partner
Dan Sethness, CPA	Senior Manager
Erik Ginter, CPA	Manager

The responses to the recommendations were provided by Ms. Erika Jones, Assistant Comptroller, in a correspondence dated April 26, 2022.



**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*** RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Governing Board
Illinois State University

As Special Assistant Auditors for the Auditor General, 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 the business-type activities, fiduciary activities, and aggregate discretely presented component units of the Illinois State University (University), collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and we have issued our report thereon dated May 12, 2022. Our report includes a reference to other auditors who audited the financial statements of the aggregate discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting (internal control) or compliance and other matters of the Illinois State University Foundation and INTO Illinois State University, LLC, component units of the University, associated with these component units that are reported on separately by those auditors.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's 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 financial statements. 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2021-001.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2021-001 and 2021-002 that we consider to be material weaknesses.

University's Responses to the Findings

The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
May 12, 2022

**Schedule of Findings
For the Year Ended June 30, 2021**

Current Findings – Government Auditing Standards

Finding 2021-001 Inadequate Internal Controls over Census Data

The Illinois State University (University) did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into each employer's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split among the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan must record and retain these records for active employees and then transmit this census data to the plan's actuary.

We noted the University's employees are members of both the State Universities Retirement System (SURS) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple-employer plans. Finally, CMS' actuaries use census data for employees of the State's public universities provided by SURS along with census data for the other participating members which is provided by the State's four other pension plans to prepare the projection of the OPEB plan's liabilities.

During testing, we noted the following:

- The University had not performed an initial complete reconciliation of its census data recorded by SURS to its internal records to establish a base year of complete and accurate census data.
- After establishing a base year, the University had not developed a process to annually obtain from SURS the incremental changes recorded by SURS in their census data records and reconcile these changes back to the University's internal supporting records.

Based on information we obtained while performing our audit, we learned these deficiencies are pervasive across the public universities participating in SURS and across the State's agencies participating in one of the other four State pension plans, the State Employees' Retirement System of Illinois. These conditions significantly increase the risk there could be errors at one or more employers within the plans, and these errors could have a significant impact on SURS' and CMS' measurement of pension and OPEB liabilities, respectively.

In addition, we noted errors within CMS' allocation of OPEB-related balances across the State's funds, public universities, and the Illinois State Toll Highway Authority related to a failure by CMS to account for a separately financed specific OPEB liability for certain groups of employees at one component unit of the State. The impact of these errors resulted in the University restating its beginning net position by \$4,618,471 as of July 1, 2020.

Schedule of Findings
For the Year Ended June 30, 2021

Current Findings – Government Auditing Standards

Finding 2021-001 Inadequate Internal Controls over Census Data (continued)

Based upon the significance of these issues alone, we concluded a material weakness exists within the University's internal controls related to ensuring both SURS and CMS can provide their respective actuaries with complete and accurate census data related to the University's active employees. Even given these exceptions, we performed detail testing of a sample of employees and certain data analysis tests of the total population of the University's census data transactions reported to SURS. Based on our analysis of transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2019, we noted one of 618 (<1%) employees reported as terminated was initially incorrectly reported as eligible to participate in SURS by the University and subsequently determined by the University to be ineligible for SURS approximately 2.5 months later. While this event was reported by the University to SURS as a termination, this event did not result in SURS correcting previously recorded payroll records and contributions for this employee, which ultimately resulted in an overstatement of the employee's total service credit by 0.50 years.

For employers where their employees participate in plans with multiple-employer and cost-sharing features, the American Institute of Certified Public Accountants' *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate against the risk of a plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

Additionally, eligibility criteria for participation in SURS under the Illinois Pension Code (Code) (40 ILCS 5/15-134(a)) states any person who is an employee of the University becomes a participant in SURS. Under the Code (40 ILCS 5/15-107), an employee is a person who works for the University in a secretarial, mechanical, labor, clerical, educational, administrative, or other staff position which is either (a) permanent and continuous or (b) for a period of four months or an academic term, whichever is less, who is:

- 1) not a student employed on a less than full-time temporary basis;
- 2) not receiving a retirement or disability annuity from SURS;
- 3) not on military leave;
- 4) not eligible to participate in the Federal Civil Service Retirement System,
- 5) not currently on a leave of absence without pay more than 60 days after the termination of SURS' disability benefits;
- 6) not paid from funds received under the Federal Comprehensive Employment and Training Act as a public service employment program participant hired on or after July 1, 1979;
- 7) not a patient in a hospital or home;
- 8) not an employee compensated solely on a fee basis where such income would net earnings from self-employment;
- 9) not providing military courses pursuant to a federally-funded contract where the University has filed a written notice with SURS electing to exclude these persons from the definition of an employee;
- 10) currently on lay-off status of not more than 120 days after the lay-off date;
- 11) not on an absence without pay of more than 30 days; and,
- 12) a nonresident alien on a visa defined under subparagraphs (F), (J), (M), or (Q) of Section 1101(a)(15) of Title 8 of the United States Code who (1) has met the Internal Revenue Service's substantial presence test and (2) became an employee on and after July 1, 1991.

Current Findings – Government Auditing Standards

Finding 2021-001 Inadequate Internal Controls over Census Data (continued)

Further, for CMS' OPEB plan, we noted participation in OPEB is derivative of an employee's eligibility to participate in SURS, as members of SURS participate in OPEB as annuitants under the State Employees Group Insurance Act of 1971 (Act) (5 ILCS 375/3(b)).

In addition, the Illinois Pension Code (40 ILCS 5/15-157) requires the University to, at a minimum, withhold contributions of each employee's total compensation of 8% (9.5% for firefighters or police officers) for their participation in SURS, unless further contributions by the employee would either exceed the maximum retirement annuity in the Code (40 ILCS 5/15-136(c)) or the Tier 2 earnings limitation within the Code (40 ILCS 5/15-111(b)), and remit these amounts to SURS. Further, the Code (40 ILCS 5/15-155(b)) requires the University remit employer contributions to SURS reflecting the accruing normal costs of an employee paid from federal or trust funds. Additionally, the Act (5 ILCS 375/10) requires active employees to make contributions as set by CMS and the Act (5 ILCS 375/11) requires employer contributions by the University for all employees not totally compensated from its Income Fund, local auxiliary funds, and the Agricultural Premium Fund.

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

University officials indicated they routinely reviewed and reconciled events in the SURS system based upon the data that was available, but that a full reconciliation of the census data with SURS had not previously been completed because they were unaware the University needed to fully reconcile every census data element to SURS' records.

Failure to ensure complete and accurate census data was reported to SURS could result in a material misstatement of the University's financial statements and reduced the overall accuracy of pension/OPEB-related liabilities, deferred inflows and outflows of resources, and expense recorded by the State, the State's agencies, and other public universities and community colleges across the State. In addition, failure to reconcile active members' census data reported to and held by SURS to the University's internal records could result in each plan's actuary relying on incomplete or inaccurate census data in the calculation of the pension and OPEB balances, which could result in a material misstatement of these amounts. Finally, the allocation error involving one component unit in the OPEB plan resulted in misstatements within each employer's allocation, which resulted in a restatement at the University. (Finding Code No. 2021-001, 2020-001)

Current Findings – Government Auditing Standards

Finding 2021-001 Inadequate Internal Controls over Census Data (continued)

Recommendation

We recommend the University implement controls to ensure census data events are timely and accurately reported to SURS.

Further, we recommend the University work with SURS to annually reconcile its active members' census data from its underlying records to a report of census data submitted to SURS' actuary and CMS' actuary. After completing an initial full reconciliation, the University may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods. Any errors identified during this process should be promptly corrected by either the University or SURS, with the impact of these errors communicated to both SURS' actuary and CMS' actuary.

Finally, we recommend the University work with SURS and CMS to identify and address any unremitted or erroneously remitted employee and, if applicable, employer contributions related to these events.

University Response

The University has subsequently completed its initial full reconciliation of census data as of July 1, 2020, and submitted required changes to SURS.

The University will dedicate extra staff resources to focus greater attention on working with SURS, CMS, and other State schools to establish jointly agreed upon procedures leading to a more comprehensive reconciliation process for the census data on an annual basis. Additionally, the University is working to evaluate and improve its internal reporting processes to help prevent the types of errors found during the reconciliation audit.

**State of Illinois
Illinois State University**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2021**

Current Findings – Government Auditing Standards

Finding 2021-002 Information Security Weaknesses

The Illinois State University (University) had multiple computer security weaknesses.

The University relies on its computing environment for maintaining several critical, sensitive, and/or confidential systems used to meet the University's needs.

During testing, we identified the following security weaknesses:

- The University's Information Technology (IT) policies and procedures were not reviewed and updated during the examination period to reflect the University's current environment or address future changes in processes and new systems.
- The University did not document whether users' roles within its applications were appropriate.
- The University did not conduct segregation of duties reviews between development and production environments for systems where University personnel have development responsibilities.
- For Colleague, an application used for financial reporting, and iPeople, the University's human resources and payroll application, we noted some users still had access to the application after the University's period for removing access had passed.
- During our review of user access listings during December 2021, we noted some users with general access to the various University systems, which was previously necessary based on their prior job duties, still had this access after their termination. While it is possible some of this access was appropriate after the employee's termination date, the University was unable to show the access rights which remained were appropriate.
- The University has not established a process or procedure for timely documenting its risk analysis and reasoning for when a failed patch of its system endpoints and servers can be exempted.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance University property and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

In addition, *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section, sanctions the appropriateness of access rights, timely termination, and periodic review of access rights to ensure appropriateness. Additionally, Special Publication 800-53's Configuration Management section, enforces logical restrictions with changes to systems.

**Schedule of Findings (Continued)
For the Year Ended June 30, 2021**

Current Finding - Government Auditing Standards

Finding 2021-002 Information Security Weaknesses (continued)

University officials indicated:

- the policies were drafted and presented to the University's executive management team; however, these policies were not formally adopted due to COVID-19 pandemic;
- the appropriateness of users' roles were not documented due to resource constraints;
- the University's capacity, due to resource constraints, limited its ability to better segregate duties;
- access approval documentation was not retained due to employee oversight;
- access for terminated employees' accounts was not documented due to resource constraints; and,
- monitoring, performance, and validation of patch management was not adequately documented due to resource constraints.

Failure to maintain current policies and procedures could result in the University's security requirements not being met. Additionally, failure to maintain documentation on access approvals and review of all access rights could result in unauthorized access and modification to the University's systems. Also, failure to timely patch information systems or document why a patch was not appropriate under the circumstances could result in a compromise and expose confidential, sensitive, or personal information to unauthorized parties. (Finding Code No. 2021-002, 2020-003, 2019-001, 2018-002)

Recommendation

We recommend the University implement adequate security, including:

- finalizing the policies and procedures to (1) reflect the University's current environment and (2) address future changes in processes and new systems;
- document, during formal user access reviews, the appropriateness of each user's access to the University's applications;
- ensuring adequate segregation of duties or compensating controls exist for University personnel with development responsibilities;
- ensuring access to all applications is terminated in a timely manner and any access remaining after an individual departs from the University is limited and appropriate; and,
- establishing a process or procedure to ensure all devices are timely patched with vendor updates and that any failed patches of system endpoints and servers have a documented risk assessment and reasoning for why an exemption to the patching requirement is necessary.

University Response

The University acknowledges the statements on weaknesses, cause, and potential risks as detailed in this finding. The University agrees that the statements are accurate and relevant. Due to the time and resources necessary to correct all weaknesses identified, the University plans to develop a corrective action plan (CAP) that will detail the resources, actions, and timeline required to address each item.

The CAP will be developed by the Chief Information Security Officer (CISO) in collaboration with other University officials and University governance groups as appropriate and necessary. The CISO plans to recognize work efforts of the CAP within projects requested, scoped, and managed by the Information Security Program of the University. The CISO will begin developing the CAP immediately with the closure of the Fiscal Year 2021 audit cycle and plans to have the CAP developed by June 30, 2022.

**Schedule of Findings – Prior Findings Not Repeated
For the Year Ended June 30, 2021**

A. Lack of Adequate Controls over the Review of Internal Controls over Service Providers

During the prior audit, the Illinois State University (University) did not obtain or conduct timely independent internal controls reviews over its service providers.

During the current audit, we noted the University requires departments to prepare a Data Usage Form that is provided to the University's Information Security Office to review and document what procurement language needs to be added to the University's contract with a vendor and, if necessary, initiate a process to obtain and review an annual System and Organization Control report from the vendor. (Finding Code No. 2020-002)