

STATE OF ILLINOIS ILLINOIS STATE UNIVERSITY

Report Required under *Government Auditing Standards*
For the Year Ended June 30, 2018
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois



**State of Illinois
Illinois State University**

**Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2018**

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Other Reports Issued Under a Separate Cover

- The annual financial statements of the University as of and for the year ended June 30, 2018, have been issued under a separate cover.
- The University's compliance examination (including the Single Audit) for the year ended June 30, 2018, has been issued under a separate cover.

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Agency Officials

University Officials

Chair of the Board of Trustees	Mr. Rocky Donahue
President	Dr. Larry Dietz
Vice President for Finance and Planning	Mr. Dan Stephens
Vice President for Academic Affairs and Provost	Dr. Jan Murphy
Vice President for Student Affairs	Dr. Levester Johnson
Vice President for University Advancement	Mr. Pat Vickerman
Interim Comptroller	Mr. Doug Schnittker
Legal Counsel	Ms. Lisa Huson
Director – Internal Audit	Mr. Robert Blemler

Board of Trustees

Member	Mr. Rocky Donahue
Member	Mr. Bob Churney
Member	Dr. Mary Ann Louderback
Member	Mr. Robert Dobski
Member	Ms. Julie Annette Jones
Member	Mr. John Rauschenberger
Member	Ms. Sharon Rossmark
Student Member	Mr. Zach Schaab (07/01/17 – 06/30/18) Ms. Sarah Aguilar (07/01/18 – present)

Office Locations

The University's administrative offices are located at:

Hovey Hall
Campus Box 1100
Normal, Illinois 61790-1100

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Summary

The audit of the financial statements of the Illinois State 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 an unmodified opinion on the Illinois State University's basic financial statements, issued under a separate cover.

Summary of Findings

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	2	3
Repeated findings	1	0
Prior recommendations implemented or not repeated	2	1

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
2018-001	6	Inadequate Control over Accounting and Financial Reporting	Significant Deficiency
2018-002	8	Information Security Related Weaknesses	Significant Deficiency
PRIOR FINDINGS NOT REPEATED			
A	10	Inadequate Control over Reporting Restricted Accounts	
B	10	Noncompliance with Bond Covenants	

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Summary

Exit Conference

The findings and recommendations appearing in this report were discussed with University personnel at an exit conference on November 21, 2018. Attending were:

Illinois State University:

Dan Stephens	Vice President for Finance and Planning
Doug Schnittker	Interim Comptroller
Erika Jones	Accounting Associate
Robert Blemler	Director - Internal Audit
Rendi Cottrell	Assistant Treasurer

Office of the Auditor General:

Daniel J. Nugent, CPA	Senior Audit Manager
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RSM US LLP:

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

The responses to the recommendations were provided by Ms. Erika Jones, Accounting Associate, in correspondence dated November 28, 2018.



**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

Board of Trustees
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 of the Illinois State University and its discretely presented component units, collectively a component unit of the State of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Illinois State University's basic financial statements, and have issued our report thereon dated November 30, 2018. Our report includes a reference to other auditors who audited the financial statements of the Illinois State University's discretely presented component units, as described in our report on the Illinois State University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Illinois State University's 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 the Illinois State University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Illinois State 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 and 2018-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State 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 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*.

Illinois State University's Responses to Findings

The Illinois State University's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Illinois State 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 Illinois State University'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 Illinois State University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
November 30, 2018

**State of Illinois
Illinois State University**

**Schedule of Findings
For the Year Ended June 30, 2018**

Current Findings – Government Auditing Standards

Finding 2018-001 Inadequate Control over Accounting and Financial Reporting

The Illinois State University (University) did not ensure certain transactions were properly reported within the University's financial statements.

During testing, we noted the following:

- During testing of the University's capital assets, we noted the University did not capitalize retainage – which represents a portion of a construction contract withheld by the University and reported as a liability until the project is determined to be substantially completed – of \$1,391,329 on the Bond Student Center Revitalization Project. University management corrected this error in the University's final financial statements.
- The University did not properly capitalize capital asset additions of \$803,968 in the proper fiscal year. This amount was deemed immaterial by University management and was not corrected in the University's final financial statements; however, we determined this exception represented a significant deficiency in the University's internal control over financial reporting.

Governmental Accounting Standards Board Statement No. 34, Paragraph 18, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, notes the cost of a capital asset should include ancillary charges and be reported at historical cost.

In accordance with generally accepted accounting principles (GAAP), all of the University's assets, liabilities, revenues, and expenses should be properly reported in the University's financial statements. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the University establish and maintain a system, or systems, of fiscal and administrative controls to provide assurance revenues, expenses, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources. Additionally, good internal controls over financial reporting include establishing and maintaining a system, or systems, of internal administrative controls to provide assurance the University's accounting functions comply with GAAP. Finally, a significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is important enough to merit attention by those charged with governance of the University.

University officials indicated these errors were due to employee oversight.

Failure to ensure all transactions are properly reported could result in a material misstatement of the University's financial statements and reduces the overall reliability of Statewide financial reporting. (Finding Code No. 2018-001, 2017-003)

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**Schedule of Findings
For the Year Ended June 30, 2018**

Current Findings – *Government Auditing Standards*

Finding 2018-001 Inadequate Control over Accounting and Financial Reporting (Continued)

Recommendation

We recommend the University enhance its internal control over financial reporting to ensure transactions are properly reported, including capital asset additions and retainage.

University Response

The University agrees with the recommendation. Procedures relative to each of the noted exceptions have been modified to ensure against future occurrence.

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**Schedule of Findings
For the Year Ended June 30, 2018**

Current Findings – Government Auditing Standards

Finding 2018-002 Information Security Related Weaknesses

The Illinois State University (University) had computer security related 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 our review, we identified the following security-related weaknesses:

- The University had policies and procedures related to user access management which had not been updated for several years and did not reflect the current environment.
- Access was not always timely removed upon employee termination. For example, we found one former Database Administrator had administrator access privileges within the University's network used to process credit card transactions. Additionally, we found one out of the 25 sampled of terminated users still had access to the University's network.
- Required quarterly user access reviews of the University's primary financial system were not formally documented. Additionally, University personnel stated the reviews performed did not include system administrators.
- Password change requirements stated in the University policy were not being enforced to all users. We found several thousand user-IDs, some of which had administrative access privileges, were not forced to change their passwords.
- Formal periodic reviews of firewall configuration rules were not performed.

Generally accepted information systems audit guidance endorses the development of computer security policies that adequately address the current technological environment and well-designed and well-managed controls to protect computer systems and data.

University management stated that changes to University-wide policies and procedures takes time for review and approvals by all parties concerned, thus contributing to the delay in making all of them current. The review of user access had been focused on non-IT administrators. With regard to the password policy, the University is transitioning to the use of an identity management tool across all applicable systems. The passwords are for mostly service accounts, not all of which can be transferred or changed. Finally, although informal reviews of firewall configurations are periodically performed, the University formally documents the review only when there are exceptions.

Failure to properly terminate user access, formally review access, enforce periodic password changes, or routinely review firewall configurations could result in unauthorized access and modification to University systems. (Finding Code No. 2018-002)

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**Schedule of Findings
For the Year Ended June 30, 2018**

Current Findings – *Government Auditing Standards*

Finding 2018-002 Information Security Related Weaknesses (Continued)

Recommendation

We recommend the University enhance computing resource security and controls. Specifically, we recommend the University:

- Update the policies and procedures related to user access management to reflect the current environment. Additionally, policies and procedures should be periodically reviewed to reflect changes in process and new systems.
- Ensure that access of terminated employees is removed in a timely manner.
- Perform and document quarterly reviews as required and include all users, including system administrators, in the reviews.
- Ensure password requirements comply with policies and are consistently enforced to all users.
- Ensure firewall configurations are periodically reviewed and documented to ensure the configurations are adequate for safeguarding University computer resources.

University Response

The University agrees with the recommendation.

- Policies and procedures are being updated to reflect the current system environment.
- The University will continue to work on new off-boarding procedures to document terminated employees and remove access in a timely manner.
- The University will continue to perform quarterly access review, including administrators.
- The University is transitioning to the use of an identity management tool that will ensure our ULID password policy is enforced.
- The University will continue to perform its periodic review of firewall configurations and document exceptions as identified.

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**Schedule of Findings (Continued)
For the Year Ended June 30, 2018**

Prior Findings Not Repeated

A. Finding – Inadequate Control over Reporting Restricted Accounts

During the prior engagement, the Illinois State University (University) did not ensure restrictions from revenue bond covenants were properly reflected within the University's financial statements.

During the current engagement, we did not identify any similar issues regarding the reporting of restricted balances within the financial statements. (Finding Code No. 2017-001)

B. Finding – Noncompliance with Bond Covenants

During the prior engagement, the Illinois State University (University) did not comply with its revenue bond covenants.

During the current engagement, our sample testing did not identify any similar issues regarding noncompliance with the University's bond covenants. (Finding Code No. 2017-002)