

**STATE OF ILLINOIS
ILLINOIS STATE UNIVERSITY**

Report Required under *Government Auditing Standards*
For the Year Ended June 30, 2022
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

**State of Illinois
Illinois State University**

**Financial Audit
For the Year Ended June 30, 2022**

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Other Reports Issued Under a Separate Cover

The Illinois State University's *Federal Single Audit* and *State Compliance Examination* for the year ended June 30, 2022, will be issued under separate covers. Additionally, the University's financial statements as of and for the year ended June 30, 2022, have been issued under a separate cover.

**State of Illinois
Illinois State University**

**Financial Audit
For the Year Ended June 30, 2022**

University Officials

President	Dr. Terri Goss Kinzy
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 (7/1/2021 – 4/30/2022)	Ms. Lisa Huson
Legal Counsel (5/1/2022 – 5/31/2022)	Ms. Alice Maginnis
Legal Counsel (6/1/2022 – Present)	Ms. Jeannie Barrett
Director – Internal Audit	Mr. Robert Blemler

Officers of the Board of Trustees

Chair of the Board	Dr. Mary Ann Louderback
Secretary of the Board	Dr. Kathryn Bohn

Members of the Board of Trustees

Member	Dr. Kathryn Bohn
Member	Mr. Robert Dobski
Member (7/1/2021 – 7/22/2022)	Mr. Rocky Donahue
Member (7/23/2022 – Present)	Vacant
Member	Ms. Julie Annette Jones
Member	Dr. Mary Ann Louderback
Member	Dr. Robert Navarro
Member (12/14/20 – 8/7/2022)	Vacant
Member (8/8/2022 – 11/29/2022)	Mr. Anthony Byrd
Member (11/30/2022 – Present)	Vacant
Student Member (7/1/2021 – 6/30/2022)	Ms. Devin Paoni
Student Member (7/1/2022 – 8/7/2022)	Vacant
Student Member (8/8/2022 – Present)	Mr. Aselimhe Ebikhumi

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, 2022**

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 three matters involving the University's internal control over financial reporting that they considered to be material weaknesses and a significant deficiency. 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				
2022-001	5	2021/2020	Inadequate Internal Controls over Census Data	Material Weakness and Noncompliance
2022-002	7	2021/2018	Information Security Weaknesses	Material Weakness
2022-003	10	New	Improper Calculation of the Net Investment in Capital Assets	Significant Deficiency

Exit Conference

The findings and recommendations in this report were discussed with University personnel at an exit conference on January 3, 2023 via Zoom. In attendance were:

Illinois State University:

Dan Stephens	Vice President for Finance and Planning
Doug Schnittker	Comptroller
Erika Jones	Assistant Comptroller
Dan Taube	Chief Information Security Officer
Charles Edamala	Associate Vice President and Chief Information Officer
Rob Blemler	Director – Internal Audit
Rendi Cottrell	Assistant Treasurer
Janice Bonneville	Associate Vice President – Human Resources

Office of the Auditor General:

Thomas Kizziah, CPA	Senior Audit Manager
Kathy Lovejoy	Principal of Information Security Audits

RSM US LLP:

Joseph Evans, CPA	Partner
Dan Sethness, CPA	Senior Manager
Erik Ginter, CPA	Manager
Lennie Char	Senior Associate



RSM US LLP

**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***

Independent Auditor's Report

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, fiduciary activities, and the 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, 2022, 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 January 17, 2023. That report includes emphasis of matters relating to the implementation of Governmental Accounting Standards Board's Statement No. 87, *Leases*, as well as one of the component units ceasing operations. Our report includes a reference to other auditors who audited the financial statements of the Illinois State University Foundation and INTO Illinois State University, LLC, 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 or compliance and other matters that are reported on separately by those auditors.

Report on 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.

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 have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings as items 2022-001 and 2022-002 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings as item 2022-003 to be a significant deficiency.

Report on 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 accompany Schedule of Findings as item 2022-001.

University's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the University's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The University's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
January 17, 2023

Schedule of Findings
For the Year Ended June 30, 2022

Current Findings – Government Auditing Standards

Finding 2022-001 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 the 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 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. Additionally, CMS' actuary uses census data for employees of the State's public universities provided by SURS, along with census data for the other participating members provided by the State's four other pensions plans, to prepare their projection of the liabilities of CMS' plan. Finally, SURS' actuary and CMS' actuary used census data transmitted by the University during Fiscal Year 2020 to project pension and OPEB-related balances and activity at the plans during Fiscal Year 2021, which is incorporated into the University's Fiscal Year 2022 financial statements.

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.
- During our cut-off testing of data transmitted by the University to SURS, we noted 41 instances of an active employee becoming inactive or part-time and 1 instance of an active employee becoming deceased, and 2 instances of an inactive employing being active were reported to SURS after the close of the fiscal year in which the event occurred. There was also 1 instance previously reported that impacted the June 30, 2020 census data.
- During our testing of instructor eligibility testing, we noted 1 of 1,393 instructors tested was not reported as eligible to participate in SURS by the University. SURS determined the total potential impact of this error was the instructor's service credit was off by 1 year.

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Current Findings – Government Auditing Standards

Finding 2022-001 Inadequate Internal Controls over Census Data (Continued)

We provided SURS' actuary and CMS' actuary with the exceptions we identified during our testing, along with the results of census data testing at the State Employees Retirement System of Illinois, and determined the net effect of these errors, along with the errors of other plan participants, was immaterial to SURS' and CMS' pension and OPEB-related balances and activity at the plans during Fiscal Year 2021.

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 reports and to maintain accountability over the State's resources.

University officials indicated the base year reconciliation process was not established until Fiscal Year 2021, which is currently being performed by University staff. In addition, they indicated the late reported events were due to the difficulty in timely reporting events which occur near the end of the fiscal year to SURS.

Failure to ensure complete and accurate census data was reported to SURS reduces the overall reliability of pension and OPEB-related balances and activity reported in the University's financial statements, the financial statements of other employers within both plans, and the State of Illinois' Annual Comprehensive Financial Report. (Finding Code No. 2022-001, 2021-001, 2020-001)

Recommendation

We recommend the University continue to work with SURS to complete the base year reconciliation of Fiscal Year 2021 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.

Further, we recommend the University ensure all events occurring within a census data accumulation year are timely reported to SURS so these events can be incorporated into the census data provided to SURS' actuary and CMS' actuary.

University Response

The SURS Census Reconciliation base year audit has been completed by ISU in April 2022 and is awaiting review by SURS auditors. The University continues to review our processes and improve accuracy and timeliness of reportable events.

**State of Illinois
Illinois State University**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Current Findings – Government Auditing Standards

Finding 2022-002 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 updated during the audit period to reflect the University's current environment or address future changes in processes and new systems, however the updates have not been reviewed and approved.
- The University did not formally document whether users' roles within its applications were appropriate for all departments.
- 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.

**State of Illinois
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**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Current Finding - Government Auditing Standards

Finding 2022-002 Information Security Weaknesses (continued)

University officials indicated updates to organizational policy require considerable time and resources. In addition, due to an unusual number of retirements and exits in relevant key roles, as well as prioritization of critical work to maintain institutional operations, remediation efforts have been slowed.

Failure to review and approve current policies and procedures could result in the University's security requirements not being met or followed consistently. 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 remove access to programs timely could result in improper access and improper transactions being recorded in the financial statements. Lastly, 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. 2022-002, 2021-002, 2020-003, 2019-001, 2018-002)

Recommendation

We recommend the University implement adequate security, including:

- approving the updated 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 for all departments;
- perform an annual review of segregation of duties or compensating controls 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 agrees that the weaknesses identified in this finding are accurate and acknowledges the finding itself has been repeated.

The University takes Information Security very seriously and since the origination of the finding itself, the University has committed considerable resources to information security. In 2018, the University established the Office of Identity and Access Management to centralize and mature how individuals were granted and use access. In 2020, the University established the first institution-wide Information Security Program to develop, implement, and maintain critical functions to protect sensitive information. By 2023, despite the major direct impacts of COVID-19 pandemic, the program successfully achieved implementation of many critical capabilities to detect, respond to, and prevent threats to information and information systems. The University believes that this past progress was necessary to provide the foundation to correct for the material nature of this finding.

**State of Illinois
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**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Current Finding - Government Auditing Standards

Finding 2022-002 Information Security Weaknesses (continued)

The University is now prioritizing the finalization and publication of new and updated information security policy, procedures, and standards directly associated with the weaknesses. The University will document and track a corrective plan separate from this response. This plan will detail actions, responsible roles, and target dates for completion. The University plans to complete these actions by June 30, 2023.

**State of Illinois
Illinois State University**

**Schedule of Findings (Continued)
For the Year Ended June 30, 2022**

Current Findings – Government Auditing Standards

Finding 2022-003 Improper Calculation of Net Investment in Capital Assets

The Illinois State University (University) did not properly report net investment in capital assets.

The University improperly excluded accounts payable related to capital projects from its calculation of net investment in capital assets. As a result, net investment in capital assets was overstated by \$2,264,709, restricted-expendable net position was understated by \$496,698, and unrestricted net position was understated by \$1,768,011.

Per Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, paragraph 9 states, “the net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.”

In addition, 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. Effective internal controls should ensure that the net investment in capital assets within the net position section is properly calculated and presented within the financial statements.

University officials indicated the error was due to oversight.

Failure to report the proper components of net position can mislead the readers of the financial statements. (Finding Code No. 2022-003)

Recommendation

We recommend the University have the Assistant Comptroller review the calculation to confirm that all required inputs are included in the calculation of net investment in capital assets.

University Response

The error identified in this finding was discovered prior to release of the fiscal year 2022 financial statements and the net position accounts were adjusted to accurately reflect the change in net investment in capital assets for inclusion of related accounts payable. For future reporting, the University will work on improving the method of review to ensure these amounts are included in the calculation of net investment in capital assets prior to final submission.