EASTERN ILLINOIS UNIVERSITY

A Component Unit of the State of Illinois

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**

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EASTERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
Financial Audit
For the Year Ended June 30, 2022

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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, 2022, will be issued under a separate cover. Additionally, the University's financial statements as of and for the year ended June 30, 2022, have been issued under a separate cover.

EASTERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
Financial Audit
For the Year Ended June 30, 2022

UNIVERSITY OFFICIALS

President	Dr. David M. Glassman
Provost and Vice President for Academic Affairs	Dr. Jay D. Gatrell
Vice President for Business Affairs (7/6/22 - Present)	Mr. Matthew J. Bierman
Vice President for Business Affairs (4/1/22 - 7/5/22)	Vacant
Vice President for Business Affairs (7/1/21 - 3/31/22)	Mr. Sean D. Reeder
Vice President for Student Affairs	Ms. Anne Flaherty
Vice President for University Advancement	Mr. Kenneth A. Wetstein
Director of Business Services and Treasurer	Mr. Paul A. McCann
General Counsel (3/1/23 - Present)	Vacant
General Counsel (7/1/21 - 2/28/23)	Ms. Laura McLaughlin
Director of Internal Auditing (4/4/22 - Present)	Mr. Chifundo Biliwita, CIA, CFE
Director of Internal Auditing (8/1/21 - 4/3/22)	Vacant
Director of Internal Auditing (7/1/21 - 7/31/21)	Ms. Leigh C. Moon

BOARD OF TRUSTEES (as of June 30, 2022)

Chairperson	Ms. Joyce Madigan
Vice Chairperson	Vacant
Secretary	Dr. Audrey Edwards
Member Pro-Tem	Ms. Barbara Baurer
Member	Mr. Joseph R. Dively
Member	Mr. C. Christopher Hicks
Member	Vacant
Student Member	Ms. Lucy Ade

University offices are located at:
600 Lincoln Avenue
Charleston, Illinois 61920

EASTERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
Financial Audit
For the Year Ended June 30, 2022

REPORT REQUIRED UNDER *GOVERNMENT AUDITING STANDARDS*

SUMMARY

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

Based on their audit, and the reports of other auditors, the auditors expressed an unmodified opinion 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 and noncompliance.

Item No.	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2022-001	5	2021/2020	Inadequate internal controls over census data	Material Weakness and Noncompliance
2022-002	9	New	Weaknesses in preparation of year-end financial statements	Material Weakness

EXIT CONFERENCE

The University waived an exit conference in correspondence from Paul McCann, Director of Business Services and Treasurer, on March 13, 2023. The response to the recommendation for item 2022-001 was provided by Paul McCann, Director of Business Services and Treasurer, in correspondence dated October 10, 2022. The response to the recommendation for item 2022-002 was provided by Paul McCann, Director of Business Services and Treasurer, in correspondence dated March 10, 2023.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Eastern Illinois 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 Eastern Illinois 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 March 13, 2023. That report includes an emphasis of matter relating to the implementation of Governmental Accounting Standards Board's Statement No. 87, *Leases*. Our report includes a reference to other auditors who audited the financial statements of the Eastern Illinois University Foundation and the Eastern Illinois University Alumni Association, 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.

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 identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2022-001 and 2022-002 that we consider to be material weaknesses.

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 accompanying Schedule of Findings as item 2022-001.

University's Response to the Finding

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 other 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 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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Decatur, Illinois
March 13, 2023

2022-001. **FINDING** (Inadequate internal controls over census data)

The Eastern Illinois 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 25 instances of an active employee becoming inactive and 1 instance of an inactive employee becoming retired were reported to SURS after the close of the fiscal year in which the event occurred. There were also 11 instances previously reported that impacted the June 30, 2020 census data.

- During our testing of instructor eligibility testing, we noted 20 of 480 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 ¾ of a year.

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.

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 any member of the educational, administrative, secretarial, clerical, mechanical, labor, or other staff of an employer whose employment in a position in which services are expected to be rendered on a continuous basis for at least four months or an academic term, whichever is less:

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.

In addition, the 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.

Finally, 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)).

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 employees being paid one pay period after the occurrence of the reporting event. For example, a retirement that occurs on June 30, would still have one pay to be made in July. The timing of that payment would depend on whether the employee was a bi-weekly or monthly employee. Finally, they indicated the instructors were not reported to SURS due to the University utilizing a different reasonable and good faith interpretation of the Code's eligibility requirements.

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. Further, failure to report all eligible employees to SURS may result in employees not receiving the pension and OPEB benefits they are entitled to receive under the Code and the Act. (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.

Finally, we recommend the University ensure all eligible employees are reported to SURS, along with any required employee and employer contributions.

UNIVERSITY RESPONSE

The University accepts the recommendation. The University continues to work on the completion of the initial full reconciliation. The University will work to improve the reporting of all reportable events in accordance with the rules established by the Code and administrative rules.

2022-002. **FINDING** (Weaknesses in preparation of year-end financial statements)

Eastern Illinois University's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) contained inaccurate information.

The University did not have adequate controls over the completeness and accuracy of year-end financial reporting which resulted in errors in the GAAP basis financial statements and supporting schedules provided to us during our audit. The University did not perform a sufficient supervisory review of all amounts recorded in its financial statements and footnotes. Also, as a result of audit differences identified by us as well as additional corrections subsequently identified by the University, the University provided us with four revisions to its draft financial statements, with significant modifications, before providing, on March 2, 2023, its final draft revision.

We noted the following issues while testing the year-end financial reporting process, which were corrected by the University after we brought them to its attention:

- Restricted net position for the bond system was understated by $1,292,714 and unrestricted net position was overstated by the same amount due to an adjustment made to the year ended June 30, 2021 financial statements but not carried forward to the current fiscal year.
- Unearned revenue was overstated by $2,404,432 and operating revenue for federal grants and contracts was understated by the same amount due to an error in allocating deferred revenue from monies received from the Cares II (CRRSA) and Cares III (ARPA) Acts.
- The University's process to identify all applicable leases in its calculations for implementation of GASB Statement No. 87 was not adequate. Therefore, the following financial statement accounts were incorrect, resulting in the total net position being overstated by $5,595.
  - Net capital assets were understated by $808,501.
  - Long-term liabilities were understated by $714,978.
  - Long-term liabilities, current portion were understated by $97,954.
  - Other current assets were understated by $50,887.
  - Deferred inflows of resources were understated by $37,255.
  - Other long-term assets were overstated by $14,796.
  - Operating expense was understated by $4,431.
  - Other operating revenues were overstated by $2,588.
  - Investment income was understated by $1,424.
- The University reported incorrect amounts on the Statement of Cash Flows.
  - Operating loss was overstated by $2,404,432. A subsequent draft had operating loss understated by $7,019.
  - Change in unearned revenue was overstated by $2,404,432.
  - Proceeds from lease revenues in the amount of $926,809 was included, although this was not a cash transaction.
  - Purchases of capital assets were understated by $808,500. A subsequent draft had purchases of capital assets overstated by $926,809.
  - Principal paid on capital debt and leases was understated by $64,864.

- Direct lending student loan receipts was overstated by $51,890.
- Direct lending student loan disbursements was understated by $51,890.
- Payments to suppliers was understated by $4,430.
- Other receipts were overstated by $2,589.
- Interest received on investments was understated by $1,422.
- Interest paid on capital debt and leases was understated by $1,164.

We also identified several errors in the Management Discussion and Analysis section of the financial report as well as the footnotes to the financial statements. The University corrected each of these items accordingly.

Further, we noted the University overstated both accounts receivable and unearned revenue by $363,914 related to a private grant received. This error was first identified by the University, however it did not correct the error in its financial statements. The error was deemed immaterial to the financial statements taken as a whole and, therefore, did not result in a modification to our auditor's opinion on the University's financial statements.

Governmental Accounting Standards Board Statement No. 87, *Leases* (GASB 87) became effective for the University on July 1, 2021. GASB 87 defines a lease as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction." Under the GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

The State Comptroller Act (Act) (15 ILCS 405/19.5) requires State agencies to report, on or before October 31 each year, all financial information as directed by the Comptroller in order to compile and publish an annual comprehensive financial report in accordance with GAAP.

The Government Finance Officer Association's *Internal Control Deficiencies in Audits* advocates that governments establish and document a system of financial reporting that is sufficient to provide reasonable assurance that management is able to prepare financial statements in conformity with generally accepted accounting principles. A good system of internal control requires that management review all significant accounts and balances recorded and disclosed in the financial statements for completeness and accuracy.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states management is responsible for establishing and maintaining a system, or systems, of internal fiscal and administrative controls to provide assurance that, among other things, revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

University officials stated these issues were caused by oversight.

As a result of these errors, the University's financial statements were inaccurate and required corrections. Additionally, weaknesses in the design or operation of internal controls could adversely affect the University's ability to fulfill its responsibility to prepare accurate and timely financial statements and could also negatively impact the Statewide financial statements. (Finding Code No. 2022-002)

RECOMMENDATION

We recommend the University strengthen its internal controls to ensure financial statements are prepared in a complete and accurate manner and are subjected to an appropriate supervisory review. We also recommend the University's procedures address all elements of the University's financial reporting process.

UNIVERSITY RESPONSE

The University concurs with the finding. We will attempt to be more accurate in the future.

The University has two people that are assigned the primary responsibility of the preparation of the financial statements and a third person that reviews the statements produced. The preparers work independently, with one of the preparers producing the Statement of Net Position and the other producing the Statement of Revenues, Expenses and Changes in Net Position. When the statements balance, a detailed analytical review and a supervisory review are completed. We do not take the process of preparation of the financial statements lightly. The process, as described, has worked well for many years.

Because we have switched away from presenting the financial statements on a comparative basis, it takes more work to find errors in the allocation of the net position. We will implement additional procedures in the future to help identify any inconsistencies within the elements of net position between years.

The deferred revenue issue resulted because a prior year accrual entry had not been properly identified and reversed. The specific transaction in question required a special manual calculation and was handled outside of the normal process. With this series of transactions ending, the issue should not occur again. Other year-end accrual entries were identified and handled properly. We believe that our current system has worked well and once the manual process is eliminated it will not be an issue in the future.

With the implementation of GASB 87 for leases, the University was required to review all leases and prepare accounting adjustments to comply with the new standards. University staff, including accountants, purchasing officers and administrators, reviewed the records for potential leases subject to the standard. In this process, we missed two leases. One because payments were combined by the lessee and we didn't catch that there were two leases instead of one, and, the other because it was new and missed. We learned from the process and believe that we can improve as we move forward to identify software for the implementation of GASB 96.

Further, with all of the recent modifications to the accounting standards, including pensions, other postemployment benefits and leases, the financial statements are becoming less and less comparable between years, making analytical review procedures less effective, but we will attempt to improve the process as we move forward.

Errors in the Statement of Cash Flows are primarily as a result of the issues noted above.