

SOUTHERN ILLINOIS UNIVERSITY

A Component Unit of the State of Illinois

**REPORTS REQUIRED UNDER
GOVERNMENT AUDITING STANDARDS**

For the Year Ended June 30, 2021

Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT
For the Year Ended June 30, 2021

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Southern Illinois University's <i>Federal Single Audit</i> and <i>State Compliance Examination</i> for the year ended June 30, 2021 will be 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.	

SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT
For the Year Ended June 30, 2021

UNIVERSITY OFFICIALS

President	Dr. Daniel Mahony
Fiscal Officer	Duane Stucky
General Counsel	Lucas Crater
Executive Director, Internal Audit	Kimberly Labonte
SIUC Chancellor	Austin Lane
SIUE Chancellor	Randall Pembrook

BOARD OFFICERS

Board Chair	J. Phil Gilbert
Board Vice Chair	Ed Hightower
Board Secretary	Roger Tedrick (until 2/10/22)
Board Secretary	Subhash Sharma (eff. 2/10/22)
Secretary to the Board	Misty Whittington

GOVERNING BOARD MEMBERS

Trustee	Edgar Curtis
Trustee (3/15/21 to 8/13/21)	Tonya Genovese
Trustee	J. Phil Gilbert
Trustee	Ed Hightower
Trustee	Subhash Sharma
Trustee (7/1/20 to 11/16/20)	Amy Sholar
Trustee	John Simmons
Trustee	Roger Tedrick
Student Trustee (7/1/21 to present)	Shaylee Clinton
Student Trustee (7/1/21 to present)	Madelyn Walters
Student Trustee (7/1/20 to 6/30/21)	Steve Gear
Student Trustee (7/1/20 to 6/30/21)	Jacob Graham

EX OFFICIO MEMBER

Superintendent of Public Instruction
(Eliminated legislatively on August 13, 2021)

State Superintendent	Dr. Carmen I. Ayala
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SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT
For the Year Ended June 30, 2021

BOARD OFFICES

The Agency's primary administrative offices are located at:

Southern Illinois University Carbondale
1263 Lincoln Dr.
Carbondale, Illinois 62901

Southern Illinois University Edwardsville
1 Hairpin Dr.
Edwardsville, Illinois 62025

SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
FINANCIAL AUDIT
For the Year Ended June 30, 2021

REPORT REQUIRED UNDER GOVERNMENT AUDITING STANDARDS

SUMMARY

The audit of the financial statements of Southern Illinois University (University) was performed by Plante & Moran, PLLC 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 University's basic financial statements, issued under separate cover.

SUMMARY OF FINDINGS

The auditors identified one matter involving the University's internal control over financial reporting that they consider to be a material weakness. 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 Finding				
2021-001	6	2021/2020	Inadequate Internal Controls over Census Data	Material Weakness and Noncompliance
Prior Finding Not Repeated				
A	9	2020/2020	Overstatement of Net Capital Assets	Significant Deficiency

EXIT CONFERENCE

The University waived an exit conference in a correspondence from Kim Labonte, Executive Director, Internal Audit, on May 2, 2022. The responses to the recommendation were provided by Kim Labonte, Executive Director, Internal Audit, on May 2, 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**

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Southern Illinois University

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with 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 and fiduciary activities of Southern Illinois University and its aggregate discretely presented component units (the “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 13, 2022.

Our report includes a reference to other auditors who audited the financial statements of the Southern Illinois University Foundation (at Carbondale), the Alumni Association of Southern Illinois University Edwardsville, the Southern Illinois University Edwardsville Foundation, University Park Southern Illinois University at Edwardsville, Inc., Southern Illinois Research Park, Inc. Carbondale, SIU Physicians & Surgeons, Inc., and the SIUE East St. Louis Charter School, 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. In addition, the financial statements of the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale), were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control or compliance and other matters associated with the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale) or that are reported on separately by those auditors who audited the financial statements of the Association of Alumni, Former Students and Friends of Southern Illinois University, Inc. (at Carbondale).

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Southern Illinois University

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

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the University's internal control to determine the 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 second 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 a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2021-001 that we consider to be a material weakness.

University's Response to the Finding

The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Honorable Frank J. Mautino
Auditor General
State of Illinois

and

Board of Trustees
Southern Illinois University

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.



Plante & Moran, PLLC

Portage, Michigan
May 13, 2022

SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
(CONTINUED)
For the Year Ended June 30, 2021

2021-001. FINDING: Inadequate Internal Controls over Census Data (Continued)

Southern 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 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

SOUTHERN ILLINOIS UNIVERSITY
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SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
(CONTINUED)
For the Year Ended June 30, 2021

2021-001. FINDING: Inadequate Internal Controls over Census Data (Continued)

beginning net position by \$43,878,331 as of July 1, 2020.

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 and noted the following:

- 1) Based on our analysis of transactions reported by the University to SURS during the census data accumulation period throughout Fiscal Year 2019, we noted 1 of 106 (1%) employees with a termination had the date of the termination untimely reported to SURS by the University.
- 2) We identified thirteen employees who had been improperly excluded from participating in SURS, which resulted in these people not having any employee contributions collected by the University and reported to SURS during the census data accumulation period through Fiscal Year 2019. SURS determined the total potential impact to each employee's total service credit was it could be off between 0.0 and 21.75 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,

SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
(CONTINUED)
For the Year Ended June 30, 2021

2021-001. FINDING: Inadequate Internal Controls over Census Data (Continued)

- 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.

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 the weaknesses existed, and incomplete and untimely reporting occurred because they had not yet implemented procedures to perform an initial and incremental reconciliation of their records to SURS and CMS census data records and related corrections as of June 30, 2021.

Failure to ensure complete and accurate census data was reported to SURS could result in a

SOUTHERN ILLINOIS UNIVERSITY
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SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDINGS
(CONTINUED)
For the Year Ended June 30, 2021

2021-001. FINDING: Inadequate Internal Controls over Census Data (Continued)

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)

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

We Agree. SIU Carbondale and SIU Edwardsville have processes and procedures in place for processing certifications, changes, and terminations in the SURS and CMS systems as contracts are received from departments. However, the University had not performed a complete annual reconciliation of the census data with SURS and CMS. As such, the campuses are developing automated processes to address the recommendation. These processes will pull the information to reconcile data needed per the audit. It is planned that the reports will run quarterly (January, April, July, October) and we will also have the capability to run the report for the entire fiscal year in review.

For the June 30, 2021 reconciliation, the process was not fully automated, and was being reconciled by hand. The process is expected to be fully automated by July 2022 at SIUE. SIUC continues to work with AIS with respect to the automation process, and as such a completion date for full automation of the reports is not yet know.

SOUTHERN ILLINOIS UNIVERSITY
A Component Unit of the State of Illinois
**SCHEDULE OF FINDINGS NOT REPEATED – GOVERNMENT AUDITING
STANDARDS FINDINGS**
For the Year Ended June 30, 2021

A: FINDING: Insufficient Controls over Financial Reporting of Capital Asset Additions

During the prior engagement period, Southern Illinois University (Carbondale) recorded and failed to detect an incorrect value for an in-kind contribution of a capital asset, which resulted in an overstatement of capital assets and the related depreciation expense at June 30, 2020 (Finding Code No. 2020-002).

Status: Not repeated.

During the current engagement period, our testing indicated the University established a new control for an independent person to trace all capitalized asset additions recorded during the month.