

University of Illinois
(A Component Unit of the State of Illinois)

Report Required under *Government Auditing Standards*
For the Year Ended June 30, 2023
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

**University of Illinois
(A Component Unit of the State of Illinois)**

**Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2023**

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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, 2023, have been issued under separate covers. Additionally, the University's financial statements as of and for the year ended June 30, 2023, have been issued under a separate cover.

**University of Illinois
(A Component Unit of the State of Illinois)**

**Report Required Under Government Auditing Standards
For the Year Ended June 30, 2023**

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**University of Illinois
(A Component Unit of the State of Illinois)**

**Report Required Under *Government Auditing Standards*
For the Year Ended June 30, 2023**

Summary

The audit of the financial statements of the University of Illinois (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.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2023-001	5	2022/2009	Inadequate Controls over Revenue and Expense Accruals for Grant Subawards	Material Weakness
2023-002	6	2022/2022	Weaknesses in Controls over Electronic Health Record System	Material Weakness
2023-003	7	NEW	Inadequate Controls over Classification of Restricted Assets	Significant Deficiency
Prior Findings Not Repeated				
A	8		Inadequate Internal Controls over Census Data	
B	8		Inadequate Controls over Fiduciary Fund Accruals	

Exit Conference

The University waived an exit conference in a correspondence from Brent Rasmus, Controller and Assistant Vice President for Business and Finance, on December 21, 2023. The responses to the recommendations were provided by Jennifer Erickson, Senior Associate Director for Business and Finance, in a correspondence dated December 21, 2023.

**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
University of Illinois

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 (*Government Auditing Standards*), the financial statements of the business-type activities, fiduciary activities, and the aggregate discretely presented component units of the University of Illinois (University), a component unit of the State of Illinois, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 19, 2024. That report includes an emphasis of matter relating to restatements of opening net position for the implementation of Governmental Accounting Standards Board's Statement No. 96, *Subscription-Based Information Technology Arrangements*.

The financial statements of the University of Illinois Foundation; University of Illinois Alumni Association; Wolcott, Wood, and Taylor, Inc.; Prairieland Energy, Inc.; Illinois Ventures, LLC; the University of Illinois Research Park, LLC; Illinois Global Gateway, LLC; and Shield T3, LLC component units of the University, 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 these component units.

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 opinion 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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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 2023-001 and 2023-002 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 2023-003 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
January 19, 2024

**University of Illinois
(A Component Unit of the State of Illinois)**

**Report Required Under Government Auditing Standards
Schedule of Findings
For the Year Ended June 30, 2023**

Finding 2023-001 Inadequate Controls over Revenue and Expense Accruals for Grant Subawards

The University of Illinois (University) did not maintain appropriate control over accounting for grant subawards.

During our test work over revenues and expenditures, it was noted that payments to subrecipients of grant funds, and the related reimbursements from the federal government, were not recorded in a consistent manner when applicable eligibility requirements were met. Upon discovery of this inconsistency, the University re-analyzed related accounts and determined that accounts receivable and accounts payable were both overstated by approximately \$40,000,000, and federal grant revenue and research expenses were overstated by \$3,000,000. There was no impact to opening or closing net position. Management elected to record the adjustment for the estimated amount of the error.

GASB Codification N50, *Nonexchange Transactions*, states that providers should recognize liabilities (or a decrease in assets) and expenses from government-mandated or voluntary nonexchange transactions, and recipients should recognize receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) required the University to establish and maintain a system, or systems, of internal fiscal and administrative controls. The University's system of internal controls should include procedures to ensure eligibility requirements are evaluated and met prior to recording related expenses and revenues, as well as to ensure assets are appropriately classified as restricted or unrestricted.

University officials indicated their historical interpretation of the applicable accounting guidance required expenses to be recognized based on service dates.

Failure to properly review eligibility requirements related to subrecipient awards could result in a material misstatement of the University's financial statements. (Finding Code No. 2023-001, 2022-003, 2021-005, 2020-002, 2019-001, 2018-001, 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-01, 11-01, 10-03, 09-03)

Recommendation

We recommend the University continue to review its process for ensuring transactions are recognized in the correct fiscal year.

University Response

Accepted. The University has already implemented the necessary corrective action by updating its accounting policy related to the timing of expense recognition for grant subawards effective for fiscal year 2023.

**University of Illinois
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**Report Required Under Government Auditing Standards
Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-002 Weaknesses in Controls over Electronic Health Record System

The University of Illinois (University) had not implemented adequate internal controls over their Electronic Health Record System (EHR).

The University maintains an EHR that contains patient medical records and data. Additionally, it supports billing and transaction workflows which feed into the financial statements.

During our testing of the EHR, we noted:

- 28 of 40 (70%) EHR users' access were not timely terminated upon separation from the University. It was determined the University's departments were not timely notifying Human Resources, which in turn did not timely notify the Information Technology security team. As a result, users' access to EHR was not timely disabled. Access was disabled 8 to 181 days after the user had separated from the University.
- A comprehensive review of EHR user access was not performed during the fiscal year.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by National Institute of Standards and Technology (NIST), Access Control Section, promotes controls for ensuring access to system resources are appropriate.

The University's Account Access Controls-Terminations and Disable Policy, Account Access Controls section, states separated employee's computer system access is to be revoked within 7 days after termination.

University Management indicated that the complexity and decentralized nature of EHR access did not allow the University to implement a comprehensive review of access and delayed the notifications of employee separation.

Failure to terminate separated employees' access could result in unauthorized access to the EHR and data. (Finding Code No. 2023-002, 2022-004)

Recommendation

We recommend the University terminate separated users' access within 7 business days of the last day of employment and conduct annual reviews of user access.

University Response

Accepted. Hospital Information Services has implemented an automated process to be proactive in removing access to the EPIC system, however this process relies on timely human resources processes. The University will continue to work towards improving notification processes for timelier removal of access to systems. Additionally, the UI Hospital developed an access review process during the fall of 2023 and began an access review of the EPIC system in November that is expected to be completed by early 2024.

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Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Finding 2023-003 Inadequate Controls over Classification of Restricted Assets

The University of Illinois (University) did not maintain appropriate control over classifying assets as restricted.

During our review of restricted classifications, we discovered amounts relating to unrestricted endowment funds that were being classified as restricted, which resulted in the overstatement of restricted assets and related net position of \$14,331,380. Management elected to record the adjustment for this error.

GASB Codification 2200, *Annual Comprehensive Financial Report*, states that assets should only be classified as restricted when restrictions on asset use change the nature or normal understanding of the availability of the asset. It also states that restricted assets should be reflected as restricted net position.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) required the University to establish and maintain a system, or systems, of internal fiscal and administrative controls. The University's system of internal controls should include procedures to ensure assets are appropriately classified as restricted or unrestricted.

University officials indicated the unrestricted endowment funds being classified as restricted net position was due to an oversight in the financial reporting process.

Failure to properly review the classification of restricted assets could result in a material misstatement of the University's financial statements. (Finding Code No. 2023-003)

Recommendation

We recommend the University review year end closing entries related to restricted classifications so that all entries are properly identified and recorded for presentation in the University's financial statements.

University Response

Accepted. The necessary corrective action to address the recommendation in this finding has been implemented.

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**Report Required Under *Government Auditing Standards*
Schedule of Findings (Continued)
For the Year Ended June 30, 2023**

Prior Findings Not Repeated

A. Inadequate Internal Controls over Census Data

The University of Illinois (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.

During the current audit, the University implemented controls over reporting of census data, including a reconciliation of data with the plans. Current year census data testing did not identify financially significant issues. The exceptions identified this year will be reported within the State Compliance Examination. (Finding Code No. 2022-001, 2021-001, 2020-001)

B. Inadequate Controls over Fiduciary Fund Accruals

The University of Illinois (the University) did not have controls in place to ensure that addition and deduction accruals were appropriately identified and recorded in the fiduciary fund statements.

During the current audit, our testing over fiduciary fund accruals did not identify any errors. (Finding Code No. 2022-002, 2021-004)