

**State Universities Retirement System
of Illinois
(a component unit of the State of Illinois)**

State Compliance Examination

For the Two Years Ended June 30, 2023
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)
State Compliance Examination**

For the Two Years Ended June 30, 2023

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**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)
State Compliance Examination**

For the Two Years Ended June 30, 2023

Executive Director	Ms. Suzanne Mayer
Chief Financial Officer	Ms. Tara Myers
Chief Investment Officer	Mr. Doug Wesley
General Counsel	Ms. Bianca Green
Chief Internal Auditor	Ms. Jacqueline Hohn

Board Officers

Chairperson	Mr. John Atkinson
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Board Members

Board of Trustees	Mr. Andriy Bodnaruk Mr. Richard Figueroa Ms. Jamie-Clare Flaherty Mr. J. Fred Giertz Mr. Scott Hendrie Mr. John Lyons Mr. Steven Rock Mr. Colin Van Meter Mr. Mitchell Vogel Mr. Antonio Vasquez (9/29/22 – Present)
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Office Location

1901 Fox Drive
Champaign, Illinois 61820



MANAGEMENT ASSERTION LETTER

May 8, 2024

RSM US LLP
1450 American Lane, Suite 1400
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Universities Retirement System (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following specified requirements during the two-year period ended June 30, 2023. Based on this evaluation, we assert that during the years ended June 30, 2023 and June 30, 2022, the System has materially complied with the specified requirements below.

- A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. Other than what has been previously disclosed and reported in the Schedule of Findings, the System has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. Contributions collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such contributions is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

State Universities Retirement System

SIGNED ORIGINAL ON FILE

Suzanne M. Mayer, Executive Director

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Tara R. Myers, Chief Financial Officer

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Bianca T. Green, General Counsel

**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)
State Compliance Examination**

For the Two Years Ended June 30, 2023

State Compliance Report

Summary

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*.

Accountant's Report

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations or disclaimers but does contain a modified opinion on compliance and identifies a material weakness over internal control over compliance.

Summary of Findings

Number of	Current Report	Prior Report
Findings	4	2
Repeated findings	1	-
Prior recommendations implemented or not repeated	1	1

Schedule of Findings

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
Current Findings				
2023-001	8	2021/2021	Inadequate Controls over Service Providers	Material Weakness and Material Noncompliance
2023-002	10	New	Failure to Record Expenditures to the Correct Fiscal Year	Significant Deficiency and Noncompliance
2023-003	11	New	Lack of Disaster Recovery Testing	Significant Deficiency and Noncompliance
2023-004	12	New	Information Technology Control Security Weaknesses	Significant Deficiency and Noncompliance
Prior Finding Not Repeated				
A	14	2021/2021	Lack of Cybersecurity Programs and Policies	

**State Universities Retirement System of Illinois
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For the Two Years Ended June 30, 2023

Exit Conference

The System waived an exit conference in a correspondence from Jacqueline Hohn (Chief Internal Auditor), on April 29, 2024. The responses to the recommendations were provided by Jacqueline Hohn in a correspondence dated May 2, 2024.

**Independent Accountant's Report
on State Compliance and on Internal Control Over Compliance**

RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

Board of Trustees
State Universities Retirement System of Illinois

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State Universities Retirement System of Illinois (System) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the two years ended June 30, 2023. Management of the System is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.
- D. Contributions collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such contributions is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the System complied, in all material respects, with the specified requirements during the two years ended June 30, 2023. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the System's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirement applicable to the System during the two years ended June 30, 2023.

Specified Requirement C

As described in the accompanying Schedule of Findings as item 2023-001, the System had not complied, in all material respects, with applicable laws and regulations in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirements described in the preceding paragraph, the System complied with the specified requirements during the two years ended June 30, 2023, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the Audit Guide and are described in the accompanying Schedule of Findings as items 2023-002 through 2023-004.

The System's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide. Accordingly, this report is not suitable for any other purpose.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the System's internal control over the specified requirements as a basis for designing examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's compliance with the specified requirements and to test and report on the System's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 a material weakness 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, noncompliance with the specified requirements 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 noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as item: 2023-001 to be a material weakness.

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 deficiencies described in the accompanying Schedule of Findings as items 2023-002 through 2023-004 to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The System's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
May 8, 2024

**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)**

**Schedule of Findings – Current Findings
For the Two Years Ended June 30, 2023**

Finding 2023-001 Inadequate Controls over Service Providers

The State Universities Retirement System (System) had not implemented adequate controls over its service providers.

The System utilized various service providers to provide accounting, investment and information technology services.

We requested the System provide a population of their service providers utilized in order to determine if the System had reviewed the internal controls of its service providers. Although the System provided a population of service providers, they did not provide documentation demonstrating the population was complete and accurate.

Due to these conditions, we were unable to conclude the System's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205). Even given the population limitations, we tested a sample of five service providers, noting the System had not:

- Implemented a process for the review of their service providers' internal controls.
- Ensured service provider agreements included documented roles and responsibilities and requirements to ensure the security, integrity, availability, confidentiality, and privacy controls over the System's applications and data.
- Conducted an analysis of deviations noted in the service providers' System and Organization Control (SOC) Report to determine the impact to their internal control environment.
- Conducted an analysis to determine if the subservice providers' service impacted the System's internal control environment.
- Conducted a review of the Complementary User Entity Controls and the System's related controls.

Due to these conditions, we were unable to determine if the internal controls of the service providers were adequate, and we were required to perform alternative procedures. No exceptions were noted during the performance of the alternative procedures.

The *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), Maintenance and System and Service Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and maintain accountability over the State's resources.

The System indicated the weaknesses were the result of competing priorities.

Without having reviewed SOC reports or another form of independent internal control review, the System does not have assurance the service providers' internal controls are adequate and operating effectively. (Finding Code No. 2023-001, 2021-002)

**State Universities Retirement System of Illinois
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**Schedule of Findings – Current Findings (Continued)
For the Two Years Ended June 30, 2023**

Finding 2023-001 Inadequate Controls over Service Providers (Continued)

Recommendation

We recommend the System strengthen its controls in identifying and documenting all service providers which are utilized and document the process into a formalized policy. Further we recommend the System:

- Implement a process for the review of the service providers' internal controls.
- Document roles and responsibilities and requirements to ensure the security, integrity, availability, confidentiality, and privacy controls over the System's applications and data within the service providers' agreements.
- Conduct an analysis of deviations noted in the service providers' System and Organization Control (SOC) Report and determine the impact to their internal control environment.
- Conduct an analysis to determine if the subservice providers' service impact the System's internal control environment.
- Conduct a review of the Complementary User Entity Controls and the System's related controls.

System Response

The System accepts the finding. The System has already begun to address the items noted above. The System has developed a listing of vendors that require SOC reports and a template for departments to use to assist in their review of the SOC reports. This template documents the review of the SOC report, analysis of deviations noted in the SOC report, analysis of subservice providers, and analysis of the Complementary User Entity Controls implemented by the System. The System will work on formalizing the current process into a policy.

Moving forward, the System will use a template to assist in determining if a vendor requires a SOC report. If it is determined that a vendor requires a SOC report the System will determine whether it needs to demand service provider's agreements document the roles and responsibilities and requirements to ensure the security, integrity, availability, confidentiality, and privacy controls over the System's applications and data. Regarding new contracts moving forward, it should be noted that absent a specific law that requires these vendors to complete an independent review of their internal security controls as a condition precedent of doing business with the System, we may not be able to obtain these recommended contract terms.

**State Universities Retirement System of Illinois
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**Schedule of Findings – Current Findings (Continued)
For the Two Years Ended June 30, 2023**

Finding 2023-002 Failure to Record Expenditures to the Correct Fiscal Year

The State Universities Retirement System (System) did not properly record some of its non-payroll expenditures to the correct fiscal year(s).

During the current compliance examination, we determined based on our compliance testing sample of non-payroll expenditures related to contractual services, printing, commodities, equipment, electronic data processing, telecommunications, and operation of automotive equipment, 7 out of 30 (23%) expenditures were not recorded to the correct fiscal year(s). The total dollar amount of these 7 expenditures was \$322,464 and the expenditures were recorded in the year in which they were paid. \$107,273 was not properly allocated to the correct fiscal year(s) based on the applicable service period(s).

According to Generally Accepted Accounting Principles (GAAP), accrual accounting requires expenditures to be charged to the fiscal year and period in which goods are received or services are performed, regardless of when budget or cash is available.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls to provide assurance 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.

System management stated that due to the immateriality of these annual subscription/contractual types of services and the cost to track them, only material or multi- year contract items were recorded as prepaid expenses and amortized over the contract period.

Failure to allocate expenditures to the proper accounting period may impact the financial statements.
(Finding Code No. 2023-002)

Recommendation:

We recommend the System consistently apply accrual accounting in accordance with GAAP, when recording its expenditures, based upon the fiscal year and period in which goods are received or services are performed.

System Response:

The System accepts the finding. Over the years, the System has evaluated these annual subscription/contractual types of services and determine that since the variance in the expense between the years is immaterial, the benefit of doing the substantial required work to allocate these out to the proper period was not worth the cost of the time to do so. This treatment has been consistently applied over the years. Most, if not all of these subscriptions are reoccurring so in any given year the cost is the same as if the prepaid had been booked and the cost amortized. If the subscription/contractual service is a new or terminated service, the amounts would vary in that year, however, any impact has been considered immaterial to the overall financial statements. Therefore, the System determined there was no material impact on the financial statements from treating the cost in this manner. Pre-paid expenses have been recorded for multi-year or material subscriptions/contracts. To address the finding the System will develop a policy to formalize what the System's materiality threshold is for recording a pre-paid expense for annual subscription/contractual types of services.

**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)**

**Schedule of Findings – Current Findings (Continued)
For the Two Years Ended June 30, 2023**

Finding 2023-003 Lack of Disaster Recovery Testing

The State Universities Retirement System (System) did not conduct disaster recovery testing.

The System utilizes a myriad of applications in order to provide services to the System's retirees. During testing, we noted the System had not conducted disaster recovery testing of its environments and applications during the examination period.

The *Contingency Planning Guide for Information Technology Systems* published by the National Institute of Standards and Technology (NIST) requires entities to have an updated and regularly tested disaster contingency plan to ensure the timely recovery of applications and data.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and to maintain accountability over the State's resources.

System management indicated that the disaster recovery test was deferred due to the fact that the System was in the midst of an equipment upgrade and that a business decision was made, upon consultation with the System's vendor, to wait until that equipment upgrade was complete before proceeding with performing the test.

The lack of disaster recovery testing could result in the delay of recovering the System's data in the event of a disaster, which could be detrimental to recipients of benefits and affect the System's ability to fulfill its mission. (Finding Code No. 2023-003)

Recommendation

We recommend the System conduct disaster recovery testing of its environments and applications annually. In addition, we recommend the System update its disaster recovery plan based on the outcomes of the disaster recovery testing.

System Response

The System accepts the finding. A third-party vendor is used to provide the infrastructure used for testing and recovery. The vendor recommended a change of equipment used to transfer information. The last disaster recover test was completed in June of 2022 and the change in equipment occurred during the time the annual disaster recovery testing was due. As the contract with the third-party vendor only allows one recovery test during a calendar year, the System opted to complete the disaster recovery testing after the equipment had been replaced. The disaster recovery testing was completed by the System in December of 2023, six months after the 12 month period noted in the Fiscal Control and Internal Auditing Act supplement to SAMS Procedure 2 11. Information Technology checklist. As such, the System believes that this finding has been resolved prior to the finding having been issued.

**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)**

**Schedule of Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2023**

Finding 2023-004 Information Technology Control Security Weaknesses

The State Universities Retirement System (System) had weaknesses over the controls within the information technology (IT) environment.

The System relies on its computing environment for maintaining several critical, sensitive, and/or confidential systems for financial reporting and meeting its mission.

During testing of System's information technology security controls, we noted:

Change Management

The System did not have a sufficient change management policy documenting the internal controls over changes for the membership application and data. Furthermore, the System's policy does not require a formal, documented post-implementation review of changes. Although the System did not have a sufficient internal control policy, we tested a sample of changes to the membership application to ensure they were approved and segregation of duties existed, noting no exceptions.

Access Provisioning

During testing of terminated users' access, we noted 3 of 3 (100%) sampled terminated users' access was not terminated immediately, in accordance with internal policy. The terminated users' access was terminated the next business day. The System's Computer Account Guidelines states a terminated user's access is to be removed immediately.

Policy Review

During testing of the System's review of policies, we noted the Employee Security Handbook and the Access Policy had not been reviewed within the last two years. The System's IT Governance Policy requires internal policies are to be reviewed at least every two years.

The *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 and Configuration Management sections states entities should maintain proper internal controls over access and security of their environment, applications and data. In addition, the Configuration Management section states entities should maintain proper internal controls over changes to the environment, applications and data.

Also, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation and to maintain accountability over the State's resources.

System management indicated lack of resources and competing priorities resulted in the identified weaknesses.

Inadequate controls over changes to the System's information technology environment, applications and data could lead to unauthorized access, unauthorized changes to security risks to its environments, applications and related data. (Finding Code No. 2023-004)

**State Universities Retirement System of Illinois
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**Schedule of Findings – State Compliance (Continued)
For the Two Years Ended June 30, 2023**

Finding 2023-004 Information Technology Control Security Weaknesses (Continued)

Recommendation

We recommend the System:

- Develop a change management policy documenting the internal controls over changes to its applications and data and require a documented post-implementation review process.
- Process system access changes in accordance with the established policy.
- Include the Employee Security Handbook and Access Policy in the set cadence of policy reviews.

System Response

The System accepts the finding.

Change Management

The System did not have a sufficient change management policy documenting the internal controls over changes for the membership application and data. Furthermore, the System's policy does not require a formal, documented post-implementation review of changes. Although the System did not have a sufficient internal control policy, we tested a sample of changes to the membership application to ensure they were approved and segregation of duties existed, noting no exceptions.

The System has processes and procedures in place for system, application, and data changes. The policy will be revised to address the concerns.

Access Provisioning

During testing of terminated users' access, we noted 3 of 3 (100%) sampled terminated users' access was not terminated immediately, in accordance with internal policy. The terminated users' access was terminated the next business day. The System's Computer Account Guidelines states a terminated user's access is to be removed immediately.

The System will update policy language to reflect access removal being performed in a timely manner instead of immediately.

Policy Review

During testing of the System's review of policies, we noted the Employee Security Handbook and the Access Policy had not been reviewed within the last two years. The System's IT Governance Policy requires internal policies are to be reviewed at least every two years.

The System reviewed the Employee Security handbook and updated it in March 2023. Access control is covered under multiple policies. Going forward, an Access Control Policy will be developed and reviewed according to our review schedule.

**State Universities Retirement System of Illinois
(a component unit of the State of Illinois)**

**Schedule of Findings – Prior Finding Not Repeated
For the Two Years Ended June 30, 2023**

A. Finding: Lack of Cybersecurity Programs and Policies

In the prior examination, the State Universities Retirement System (System) had not implemented formal internal controls related to cybersecurity programs, practices and control of confidential information.

In the current examination, the System had implemented internal controls related to cybersecurity programs, practices and control of confidential information. (Finding Code No. 2021-001)