



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

INTERMEDIATE SERVICE CENTER #2

West Cook

FINANCIAL AUDIT (In accordance with the Single Audit Act and OMB Circular A-133) Release Date: October 27, 2016

For the Year Ended: June 30, 2014

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since 2012
Category 1:	3	0	3	14-1
Category 2:	0	1	1	
Category 3:	1	0	1	
TOTAL	4	1	5	
FINDINGS LAST AUDIT: 2				

SYNOPSIS

- (14-1) The Intermediate Service Center #2 did not have adequate internal control procedures.
- (14-2) The Intermediate Service Center #2 did not have sufficient internal controls over the financial reporting process.
- (14-3) The Intermediate Service Center #2 had an unrecorded liability because there were not established adequate internal controls.
- (14-4) The Intermediate Service Center #2 did not have adequate controls over Procurement-card transactions.
- (14-5) The Intermediate Service Center #2 was noncompliant with grant requirements.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and/or **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with federal and/or State laws and regulations.

{Revenues and expenditures are summarized on the reverse page.}

INTERMEDIATE SERVICE CENTER #2

FINANCIAL AUDIT
(In Accordance with Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2014

	FY 2014	FY 2013
TOTAL REVENUES	\$5,044,975	\$5,834,954
Local Sources	\$1,459,417	\$951,265
% of Total Revenues	28.93%	16.30%
State Sources	\$1,704,901	\$2,482,069
% of Total Revenues	33.79%	42.54%
Federal Sources	\$1,880,657	\$2,401,620
% of Total Revenues	37.28%	41.16%
TOTAL EXPENDITURES	\$5,056,132	\$6,561,696
Salaries and Benefits	\$3,161,322	\$3,980,787
% of Total Expenditures	62.52%	60.67%
Purchased Services	\$1,436,126	\$1,768,788
% of Total Expenditures	28.40%	26.96%
All Other Expenditures	\$458,684	\$812,121
% of Total Expenditures	9.07%	12.38%
TOTAL NET POSITION	(\$185,113) ¹	(\$187,496)
INVESTMENT IN CAPITAL ASSETS	\$22,941	\$108,774
¹ The FY14 beginning net position was restated by \$13,540 due to a bank account balance which was not recognized in the prior year for the Institute fund. Percentages may not add due to rounding.		

EXECUTIVE DIRECTOR
During Audit Period: Ms. Kay Poyner Brown Currently: Dr. Mark Klaisner

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROL PROCEDURES

The Intermediate Service Center #2 did not have adequate internal control procedures.

Intermediate Service Center #2 should ensure control procedures over its accounting functions are formally documented. Additionally, pay rate approvals should be provided in writing by a member of management independent of the payroll process in order to prevent errors and/or fraud prior to each pay period.

Auditors noted:

- The Intermediate Service Center has control procedures over its various accounting functions in place; however, they are not formally documented.
- Pay rate approvals could not be provided for 4 of the 13 (31%) payroll items tested for current year major programs.

Total expenditures for Service Center #2 for fiscal year 2014 were \$419,261 for Title I – School Improvement and Accountability and \$937,927 for High School Graduation Initiative.

The following were determined to be the cause:

- The Service Center did not document its control procedures in writing.
- The Service Center did not adhere to established internal control procedures to ensure pay rates were approved prior to running payroll. (Finding 2014-001, pgs. 13b-13c)

The auditors recommended:

- The Service Center should ensure control procedures for its accounting functions are documented in writing.
- The Service Center should comply with its established system of internal controls to ensure pay rates are properly approved before payroll is run and posted to the general ledger.

The West 40 Intermediate Service Center responded that it will document, in written form, established internal control procedures.

West 40 also stated that although the Executive Director approved all pay rates, it did not have written documentation

of such approval for 4 of the pay rates tested, 2 of those 4 were for salary rates set by the Illinois State Board of Education. The Service Center has implemented revised pay rate and payroll verification reports which the Executive Director approves before payroll is run and posted to the general ledger. (For previous Service Center response, see Digest Footnote #1 located at the end of the Digest.)

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Intermediate Service Center #2 did not have sufficient internal controls over the financial reporting process.

The Intermediate Service Center #2 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Service Center's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Service Center did not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Service Center maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

During review of financial information prepared by the Service Center, auditors noted the following:

- The Service Center did not have adequate controls over the maintenance of complete records of accounting receivable, accounts payable, or unearned revenue. While the Service Center did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, not all entries were provided to reconcile the Service Center's grant activity, such as posting grant receivables and unearned revenue.
- Several adjustments were required to present financial statements in accordance with generally accepted accounting principles.

According to Service Center officials, they did not have adequate funding to hire and/or train accounting personnel in order to fully comply with these requirements. (Finding 14-002, pgs. 13d-13e)

Auditors recommended that as part of internal control over the preparation of financial statements, the Service Center should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the Service Center's activities and operations.

The Service Center responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Service Center has taken steps to address this issue, including, hiring outside sources to assist in preparation of the supporting schedules of the accounting receivable, accounts payable, and unearned revenues. The Service Center accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare and/or review financial statements would take away from the funds available to provide educational services to students and teachers. The cost of hiring and training additional staff or contracting services outweighs the benefit. If additional resources are made available through the State of Illinois, the Service Center will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.

UNRECORDED LIABILITY

The Intermediate Service Center #2 had an unrecorded liability because there were not established adequate internal controls.

The Intermediate Service Center #2 is required to record liabilities in accordance with generally accepted accounting principles (GAAP).

The Service Center maintains a cash balance in a pooled account with the Lyon's Township Treasurer. The Lyon's Township Treasurer is a separate legal governmental agency, which serves as the Treasurer as prescribed by the Illinois School Code (105 ILCS 5/8). In addition to the Service Center, the Lyon's Township treasurer serves other districts. Cash from all districts is combined by the Lyon's Township treasurer and excess cash is invested as authorized by law.

The Service Center has not established adequate internal controls over identifying and recording its liabilities for financial reporting purposes in accordance with GAAP.

Auditors noted the Service Center maintained a deficit cash balance on hand with the Lyon's Township Treasurer.

The deficit cash balance of \$281,042 is material to the Service Center's financial statements and the liability due to the Treasurer had not been recorded by the Service Center in order to present the financial statements in accordance with GAAP. A proposed adjusting entry was approved and accepted by Service Center management to appropriately record the liability in accordance with GAAP.

The Service Center failed to appropriately record the liability in accordance with GAAP. Additionally, the Service Center is having cash flow issues. These issues are partially due to the delay in the State Comptroller's release of vouchered funds. The Service Center has been utilizing Township Treasurer's funds to the extent available. (Finding 2014-003, pgs. 13f-13g)

Auditors recommended the Service Center should review its current process to assess the completeness and existence of its liabilities at year end and consider procedures necessary to ensure all liabilities are accurately identified and recorded.

The Service Center responded it has taken steps to address this issue and has hired outside sources to assist with properly identifying and recording liabilities.

INADEQUATE CONTROLS OVER PROCUREMENT-CARD TRANSACTIONS

Intermediate Service Center #2 is required to maintain a system of controls over disbursements to prevent errors, omissions, and fraud.

The Intermediate Service Center #2 did not have adequate controls over Procurement-card transactions.

Internal controls over disbursements are not effectively designed and implemented. In 3 of 12 (25%) Procurement-card (P-card) transactions tested, auditors noted the Executive Director approved her own purchases.

Internal controls over the Executive Director's P-card transactions are not effectively designed and implemented. (Finding 2014-004, page 13h)

Auditors recommended the Service Center implement internal control procedures to ensure an appropriate review and approval process is in place. All P-card transactions need to be reviewed by an employee other than the person incurring the expenditure.

The Service Center responded it has instituted a policy of the Executive Director reviewing all P-card transactions, except his/her own, which are subsequently reviewed by the Assistant Director.

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Intermediate Service Center #2 was noncompliant with grant requirements.

According to 34 CRF Part 80, Uniform Administration Requirements for Grants and Cooperative Agreements to State and Local Governments, the Service Center may only charge costs to the grant resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

It is the Service Center's responsibility to obtain proper supporting documentation for its grant expenditures.

The Service Center reported expenditures to the grant outside the grant funding period and not in accordance with 34 CFR Part 80.23. Expenditures were also reported outside the Service Center's appropriate fiscal year.

The Service Center claimed expenditures in the amount of \$23,141, for the funding period 10/01/2013 – 09/30/2014. These expenditures were allowable costs but should have been claimed in the earlier funding period 10/01/2012 – 09/30/2013.

Total expenditures for Service Center for fiscal year 2014 were \$937,927 for High School Graduation Initiative.

The Service Center incorrectly reported its grant expenditures by reporting them outside the proper grant funding period and fiscal year. (Finding 2014-005, pages 13j-13k)

The auditors recommended the Service Center implement procedures to track anticipated grant expenditures in order to properly record and pay them in the correct grant funding period. This includes obtaining billing invoices for services received in a timely manner.

The West 40 Service Center responded that the Township Treasurer provided financial services to it and other districts in the region. The Township Treasurer invoiced for the services provided on a pro-rated basis. The invoices were for services provided during the previous fiscal year and were based on the actual Township Treasurer's operating expenditures for that year. In order to report grant expenditures for services provided during the proper year, the Service Center has asked for the Township Treasurer to invoice in a more timely manner. This will allow West 40 to properly record and pay the invoice in the correct grant funding period.

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2014 are fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:KJM

AUDITORS ASSIGNED: Wipfli LLP were our special assistant auditors.

DIGEST FOOTNOTE

#1: Inadequate Internal Control Procedures - Previous Service Center Response

In its prior response in 2013, the Intermediate Service Center #2 responded that the Title I grant funded by ISBE for FY2013 had a program end date of June 30, 2013. Although funds were obligated prior to the end of the grant period, only the signature of the Executive Director was recorded on payment approvals for invoices received after June 30, 2013. The ISC #2 stated that as stipulated in the grant agreement with ISBE, the program did not allow for the grant manager to be employed past June 30, 2013. For those expenditures throughout the course of the year, the expenditures were approved by the Grant Manager; however, the Grant Manager failed to follow proper procedure and sign off that they were approved. Under the current administration, systems have been reviewed and protocols have been implemented and reinforced. The Service Center #2 stated that it does not foresee these oversights continuing in the future.

The Service Center also noted that it has increased the personnel in the business office from one to two full-time equivalent staff members as of September 1, 2014. Additional staff will allow the Service Center to adequately implement the required procedures and assure that each purchase is preapproved, and that each purchase order has two signatures prior to payment. ISC #2 responded that the required procedures will also include for each original invoice to be stamped "PAID" once payment has been made. Once an invoice is paid, the check number and date will be recorded on the purchase order and will be attached to the cancelled invoice.