



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 11, 2018

For the Year Ended: June 30, 2015

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	1	3	2012		15-1	
Category 2:	0	2	2	2014	15-3		
Category 3:	0	0	0	2014		15-5	
TOTAL	2	3	5				
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- (15-1) The Intermediate Service Center #2 did not have adequate internal control procedures.
- (15-2) The Intermediate Service Center #2 did not have adequate controls over the use of designated grant balances.
- (15-3) The Intermediate Service Center #2 did not have adequate controls over procurement card transactions.
- (15-4) The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the deadline.
- (15-5) The Intermediate Service Center #2 did not comply with federal 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, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$8,227,675	\$5,044,975
Local Sources	\$1,449,489	\$1,459,417
% of Total Revenues	17.62%	28.93%
State Sources	\$4,869,338	\$1,704,901
% of Total Revenues	59.18%	33.79%
Federal Sources	\$1,908,848	\$1,880,657
% of Total Revenues	23.20%	37.28%
TOTAL EXPENDITURES	\$8,168,427	\$5,056,132
Salaries and Benefits	\$6,406,281	\$3,161,322
% of Total Expenditures	78.43%	62.52%
Purchased Services	\$1,338,838	\$1,436,126
% of Total Expenditures	16.39%	28.40%
All Other Expenditures	\$423,308	\$458,684
% of Total Expenditures	5.18%	9.07%
TOTAL NET POSITION	(\$5,434,047) ¹	(\$185,113)
INVESTMENT IN CAPITAL ASSETS	\$17,344	\$22,941
¹ The beginning FY 2015 net position was restated by (\$5,308,182) due to a prior period adjustment for new reporting requirements for pensions.		
Percentages may not add due to rounding.		

EXECUTIVE DIRECTOR
During Audit Period: Dr. Mark Klaisner Currently: Dr. Mark Klaisner

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE INTERNAL CONTROL PROCEDURES

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

The Intermediate Service Center #2 (ISC) did not have adequate internal control procedures. The ISC had internal control procedures in place over its various accounting functions; however, they were not formally documented. Further, pay rate approvals could not be provided for 1 of the 22 (5%) payroll items tested for current year major programs.

The ISC 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 prior to each pay period in order to prevent errors and/or fraud.

According to ISC management the ISC did not document its control procedures in writing. Additionally, the ISC did not adhere to established internal control procedures to ensure pay rates were approved prior to running payroll. (Finding 15-001, pages 14 – 15) **This finding was first reported in 2012.**

The auditors recommended that the ISC should ensure control procedures for its accounting functions are documented in writing. Additionally, the ISC 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.

ISC Response: *The ISC will document, in written form, established internal control procedures. Although the Executive Director approved all pay rates, the ISC did not have written documentation of such approval for 1 of the pay rates tested. All pay rates are now approved by the Executive Director/Designee (Assistant Executive Director) prior to processing through payroll. Each payroll is reviewed and approved by the Executive director and/or the Assistant Executive Director prior to being processed and posted to the general ledger.*

Prior Year ISC Response: *The ISC will document, in written form, established internal control procedures. Although the Executive Director approved all pay rates, the ISC 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 ISC has implemented revised pay rate and payroll verification reports which the Executive Director approves before payroll is run and posted to the general ledger.*

USE OF DESIGNATED GRANT BALANCES

The Intermediate Service Center #2 did not have adequate controls over the use of designated grant balances.

The Intermediate Service Center #2 (ISC) improperly used grant funds to cover expenses from other programs. The ISC pools program and local revenue into the same bank account. Grant funds received by the ISC, and designated for specific grant purposes, were used to cover deficit cash balances in programs other than those for which the monies were granted.

The ISC runs several grant-funded programs. Programs funded by State and federal grants must be tracked and maintained separately.

According to ISC officials, because the ISC is primarily funded on a reimbursement basis, money must be spent before it is received from the State. This caused programs which the ISC was already in the midst of operating, to have severe cash deficits. The Service Center officials stated that to continue operating as the grant agreement stipulates, cash had to be used from other sources in order to temporarily fund expenditures that were to be reimbursed by the State. (Finding 15-002, page 16)

The auditors recommended that the ISC should not use cash designated for specific grant purposes to cover deficit cash balances in programs other than those for which the cash was granted.

ISC Response: *The ISC is primarily funded on a reimbursement basis for most of its programs. This along with the delay in funding from the State of Illinois has caused the Center to experience low cash flow issues. The source of funds used to address cash flow issues was available local funds, to the extent they were available, not grant funds.*

INADEQUATE CONTROLS OVER PROCUREMENT CARD TRANSACTIONS

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

Internal controls over disbursements were not effectively designed and implemented. During testing of procurement card (P-Card) transactions, the auditors noted the following:

- In 9 of 9 (100%) of transactions tested, the Executive Director approved his own purchases.
- Personal expenses of one board member and two employees were charged by the Executive Director on the Intermediate Service Center #2's (ISC) P-Card. These expenses were paid back in full by the employees and board member with personal checks written to the credit card company. The ISC maintained copies of the personal checks and the related charge receipts with the credit card statements.

Personal expenses charged within the transactions tested totaled \$941.

The ISC is required to maintain a system of controls over disbursements to prevent errors, omissions, and fraud. Additionally, expenses incurred should be for a business purpose and represent economical and effective use of the ISC's resources.

According to ISC officials internal controls over the Executive Director's P-Card transactions were not effectively designed and/or implemented. (Finding 15-003, pages 17 – 18)

The auditors recommended that the ISC implement internal control procedures to ensure an appropriate review and approval process is in place. All P-Card transactions should be reviewed by an employee other than the person incurring the expenditure and the ISC should adhere to its policy prohibiting the use of ISC P-Cards for personal use.

ISC Response: *The ISC 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. P-Cards will only be used for staff travel/expenses; spouse travel/expenses, will not be allowed to be charged to any ISC P-Card, and this will be included in the policy.*

DELAY OF AUDIT

The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the deadline.

The Intermediate Service Center #2 (ISC) did not provide completed financial statements in an auditable form by the August 31, 2015 deadline. The completed financial statements were received on August 16, 2017.

The ISC is subject to 105 ILCS 5/2-3.17a, which requires the Auditor General's office to cause an audit to be made, as of June 30th of each year, of the financial statements of all accounts, funds and other moneys in the care, custody or control of the executive director of each educational service region in the State and of each educational service center established in the School Code. The audit is to be conducted in accordance with Generally Accepted Governmental Auditing Standards.

In accordance with 105 ILCS 5/2-3.17a, the Auditor General has promulgated administrative rules and regulations to govern this process. Those rules, 74 Ill. Adm. Code 420.320 (c) (2), state that for audit purposes, each regional office of education and educational service center shall make available to the Auditor General or his designee all books and records deemed necessary to make and complete the required audits. The records shall be in auditable form by August 15 of the succeeding fiscal year. Financial reports are to be available no later than August 31 in order for the annual audit to be

completed by an independent auditor selected by the Auditor General. Annual financial statements are to be prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

According to ISC officials, they incurred key employee turnover. (Finding 15-004, pages 19 – 20)

The auditors recommended that the ISC should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements should be compiled on an accrual basis of accounting in accordance with GAAP. These financial statements need to be presented to the Auditor General's Independent auditors for audit by the August 31 deadline.

ISC Response: *The ISC has contracted with a CPA firm to prepare complete and accurate, timely financial statements for the ISC to prepare for the 2016 audit. It is the intention of the ISC Executive Director to hire the CPA firm to prepare the statements for 2017 and 2018 when the 2016 preparation is complete.*

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Intermediate Service Center #2 did not comply with federal grant requirements.

The Intermediate Service Center #2 (ISC) incorrectly reported expenditures to a grant outside the grant funding period and not in accordance with 2 CFR Part 200.309. Expenditures were also reported outside the ISC's appropriate fiscal year.

According to 2 CFR Part 200.309, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, the ISC 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 ISC's responsibility to obtain proper supporting documentation for its grant expenditures. The ISC claimed expenditures in the amount of \$4,097 for the funding period 10/01/2014 – 09/30/2015. These expenditures were allowable costs but should have been claimed in the earlier funding period 10/01/2013 – 09/30/2014. In addition to the \$4,097 charged to the grant, \$12,292 claimed expenditures for the 06/30/2015 fiscal year were allowable costs, but should have been claimed in the prior fiscal year ended 06/30/2014.

According to ISC officials, grant expenditures were incorrectly reported outside the proper grant funding period and fiscal year due to late receipt of an invoice. (Finding 17-005, pages 22 – 23)

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

ISC Response: *The Township Treasurer provides financial services to the ISC and other districts in the region. The Township Treasurer invoiced for the services they 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 ISC has asked for the Township Treasurer to invoice the ISC in a more timely manner. This will allow the ISC 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, 2015 are fairly presented in all material respects.

This financial report was conducted by the firm of Wipfli, LLP.

SIGNED ORIGINAL ON FILE

KELLY MITTELSTAEDT
Audit Manager

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JMM