



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

INTERMEDIATE SERVICE CENTER #4
SOUTH COOK

FINANCIAL AUDIT (In accordance with the Uniform Guidance) **Release Date: August 15, 2018**
For the Year Ended: June 30, 2017

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	1	4	2008	17-1		
Category 2:	0	1	1	2016		17-2	
Category 3:	0	0	0				
TOTAL	3	2	5				
FINDINGS LAST AUDIT: 2							

SYNOPSIS

- (17-1) The South Cook Intermediate Service Center #4 did not have sufficient internal controls over the financial reporting process.
- (17-2) The South Cook Intermediate Service Center #4 did not have sufficient internal controls over timely expenditure report submission.
- (17-3) The South Cook Intermediate Service Center #4 did not have sufficient internal controls over manual journal entries and reconciliation of deposit totals to the general ledger.
- (17-4) The South Cook Intermediate Service Center #4 did not have sufficient internal controls over accurate preparation of grant expenditure reporting and budgeting.
- (17-5) The South Cook Intermediate Service Center #4 did not have proper time and effort documentation to support salaries and benefits.

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 #4
SOUTH COOK

FINANCIAL AUDIT
(In Accordance with Uniform Guidance)
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$6,244,520	\$5,793,497
Local Sources	\$1,879,718	\$1,973,475
% of Total Revenues	30.10%	34.06%
State Sources	\$3,469,116	\$2,920,247
% of Total Revenues	55.55%	50.41%
Federal Sources	\$895,686	\$899,775
% of Total Revenues	14.34%	15.53%
TOTAL EXPENDITURES	\$5,970,964	\$6,198,663
Salaries and Benefits	\$4,601,413	\$4,637,821
% of Total Expenditures	77.06%	74.82%
Purchased Services	\$1,014,741	\$1,211,736
% of Total Expenditures	16.99%	19.55%
All Other Expenditures	\$354,810	\$349,106
% of Total Expenditures	5.94%	5.63%
TOTAL NET POSITION	\$5,978,774	\$5,705,218
INVESTMENT IN CAPITAL ASSETS	\$2,735,482	\$2,879,634
Percentages may not add due to rounding.		

EXECUTIVE DIRECTOR

During Audit Period: Dr. Vanessa Kinder
Currently: Dr. Vanessa Kinder

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The South Cook Intermediate Service Center #4 did not have sufficient internal controls over the financial reporting process.

The South Cook Intermediate Service Center #4 (ISC) did not have sufficient internal controls over the financial reporting process. The ISC maintained its accounting records on the cash basis of accounting during the fiscal year. While the ISC maintained controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of generally accepted accounting principles (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.

The ISC is required to maintain a system of controls over the preparation of financial statements in accordance with GAAP. The ISC'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).

During review of the financial information prepared by the ISC, the following were noted:

- The ISC did not have adequate controls over the maintenance of complete records of accounts receivable/due from other governments, accounts payable/due to other governments, unearned revenue, and unavailable revenue and therefore did not maintain accurate records of these balances.
- The ISC did not provide entries to allocate cash and fund balances to the individual funds as presented in the financial statements. The ISC also did not provide entries to create interfund receivables and payables to eliminate negative cash balances within certain funds.
- The ISC's chart of accounts does not track fund activity at the detailed level necessary for presentation in the financial statements and supplemental information of this report. For example, the Workshops proprietary fund and the General Operations fund within the general fund are combined in the same group of accounts within the general ledger.
- The ISC did not record or track prior year audit entries and the associated reversing entries necessary to reflect accurate fund balances in the GAAP based financial

statements.

- Contract labor purchased service expenses were recorded in error as salary expense.
- Payroll checks for 10-month employees who choose to be paid over 12 months were pre-written and held at June 30, 2017 instead of being recorded as accrued salaries and written in the month in which they were available for disbursement to employees.
- The ISC did not provide entries to eliminate interfund charges and reimbursements.
- Fixed asset additions under the ISC's capitalization threshold were noted and one fixed asset purchase over the threshold was not tracked as a fixed asset by the ISC.

Audit adjustments were recorded as necessary to recognize and/or correct all of the above listed items.

Through inquiries and discussions with the ISC's accounting personnel and Executive Director, auditors noted that the ISC also did not have adequate controls to record and report the ISC's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.

According to ISC officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 17-001, pages 14a – 14c) **This finding was first reported in 2008.**

The auditors recommended that as part of internal control over the preparation of financial statements, the ISC should implement comprehensive preparation procedures to ensure 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 ISC's activities and operations.

ISC Response: *Due to budget constraints, South Cook ISC does not have a CPA on staff. Preparation of financial statements is completed through the Bloom Township Treasurer's Office. South Cook ISC will hire an accounting firm with experience in complying with financial statement preparation for the FY19 school year.*

Prior Year ISC Response: *Preparation of financial statements is overseen by the Bloom Township Treasurer’s Office. In order to prepare financial statements, a CPA would need to be employed. At this time, funding for South Cook ISC is tenuous and incurring an additional salary for a CPA would not be cost effective and would take away from vital services provided to the 66 public school districts in South Cook County. We are confident in the abilities of the accounting/bookkeeping staff and the Bloom Township Treasurer’s Office. We will pursue additional training opportunities for our staff and if funds become available, we will work to employ a CPA for preparation of financial statements.*

CONTROLS OVER TIMELY EXPENDITURE REPORT SUBMISSION

The South Cook Intermediate Service Center #4 did not have sufficient internal controls over timely expenditure report submission.

The South Cook Intermediate Service Center #4’s (ISC) internal controls over expenditure report submission were not effective. Several expenditure reports for Illinois State Board of Education grants were not submitted timely:

Program Name	Quarter	Days Late
System of Support Title I Title II - Teacher Quality Leadership Grant	4th	2
Regional Safe Schools	4th	2
ROE/ISC Operations (17-3730-00)	4th	2
ROE/ISC Operations (17-3730-01)	4th	2
New Teacher Induction and Mentoring	4th	5

The Illinois Grant Funds Recovery Act (30 ILCS 705/4) requires State grant recipients with awards in excess of \$25,000 to submit quarterly expenditure reports to reflect the progress of the grant program. The Illinois State Board of Education (ISBE) requires all grant recipients, regardless of the amount awarded, to submit quarterly expenditure reports. The *State and Federal Grant Administration Policy, Fiscal Requirements, and Procedures* of the ISBE Division of Funding and Disbursement Services requires expenditure reports to be filed within 20 calendar days of the end of each reporting quarter.

According to ISC management, these expenditure reports were not submitted timely due to accidental oversight by ISC personnel. (Finding 17-002, pages 14d – 14e)

The auditors recommended the ISC should take appropriate steps to ensure all expenditure reports are filed within the prescribed guidelines set forth by the ISBE.

ISC Response: *The June 2017 expenditure reports were submitted past the deadline. Oftentimes, closing a grant within the prescribed time limit is not feasible; in particular when dealing with outside vendors, as they do not always have a pressing need to submit final invoices and bills which are needed to finalize the grant expenditures. In addition, grant activities run up until the last day of the grant end date and does not always allow enough time for processing of payments/expenditures. As the grant ends on June 30, South Cook ISC will stop all grant activities at an earlier date to assure that all processing and billing can be completed before the expenditure reports are due. South Cook will work with outside vendors on getting their expenditures submitted in a timely fashion.*

INTERNAL CONTROL DEFICIENCIES

The South Cook Intermediate Service Center #4 did not have sufficient internal controls over manual journal entries and reconciliation of deposit totals to the general ledger.

During the audit, auditors noted the following weaknesses in the design of the South Cook Intermediate Service Center #4's (ISC) system of internal controls over financial reporting:

- No supporting documentation was maintained for manual journal entries. Additionally, there was no formal review and approval over the manual journal entry process by an individual independent of the general ledger process.
- No documentation was maintained of the reconciliation of deposit totals by account to the general ledger by the bookkeeper after the Bloom Township Trustees of Schools had deposited and recorded the cash receipts.

The ISC is responsible for establishing and maintaining a system of internal controls over the accounting function sufficient to prevent errors and fraud.

According to ISC management, the ISC had not established sufficient internal control procedures. (Finding 17-003, page 14f)

The auditors recommended that supporting documentation should be maintained for all manual journal entries. A formal review and approval process over manual journal entries by an individual independent of the general ledger process should be implemented. Additionally, documentation should be maintained of the reconciliation of deposit totals by account to the general ledger after the Bloom Township Trustees of Schools has deposited and recorded the cash receipts.

ISC Response: *Procedures through the Bloom Township Treasurer's Office are strictly adhered to. The bookkeeper does confirm that deposits sent through the Treasurer's Office are deposited into the ISC accounts each month. However, documentation has not been maintained. South Cook ISC will work with Bloom Township and request copies of reconciliation*

statements to confirm/verify that ISC accounts were properly reconciled. The Bookkeeper will maintain documentation of reconciliation of deposit totals. To strengthen the internal control, all journal entries will be approved by the Executive Director after the Bookkeeper has completed them. Monthly journal entry reports will be submitted by the Bookkeeper to the Executive Director.

CONTROLS OVER ACCURATE PREPARATION OF GRANT EXPENDITURE REPORTING AND BUDGETING

The South Cook Intermediate Service Center #4 did not have sufficient internal controls over accurate preparation of grant expenditure reporting and budgeting.

The South Cook Intermediate Service Center #4 (ISC) did not have adequate internal controls over the preparation of grant expenditure reports and budgets. The following was noted:

- Purchased service costs for 3 contract laborers, totaling \$77,088, were recorded and reported as salary expense in the ISC's expenditure reports. These contract laborers were not employees of the ISC and were not paid through payroll, although they were budgeted as such.
- Purchased service costs totaling \$1,143 for an additional 3 contract laborers were budgeted in a salary account (2210-100), although they were correctly recorded and reported as purchased service costs. The budget was not revised as of June 30, 2017 to reflect the correct expense classification.
- A payment of \$3,825 to a Title I presenter was inadvertently recorded to a Principal Mentoring grant expense account and was not included on the Title I expenditure report, resulting in incomplete expenses on the June 30, 2017 expenditure report.

Title 2 of the U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires that a non-federal entity's financial management system, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. Furthermore, the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with guidance in "Standards for Internal Controls in the Federal Government" issued by the Comptroller General of the United States or the "Internal Controls Integrated Framework" issued by the Committee of

Sponsoring Organizations of the Treadway Commission (COSO). Uniform Guidance requires accurate, current, and complete disclosure of the financial results of each federal award or program by the direct grant recipient in accordance with the reporting requirements as set forth in section 200.327 Financial Reporting. A pass-through entity may impose on a subrecipient additional requirements in order to meet its own responsibility to the federal awarding agency, including identification of any required financial and performance reports.

According to ISC management, the ISC does not always know if a position will be filled with a contract laborer or an employee when preparing the budget. Instead of filing an amended budget when the classification of these individuals was known, the ISC reclassified the expenses associated with these contract laborers to match the budget. The ISC was unaware the budget should have been amended instead of adjusting the classification of the expenses. Other items noted were a result of accidental employee oversight. (Finding 17-004, pages 15a – 15b)

The auditors recommended that ISC management create a system of internal controls to ensure all expenditure reports are submitted accurately and budget amendments are requested when necessary.

ISC Response: *At the onset of any grant, ISC #4 staff estimates the number of staff that will be necessary to run the grant. Oftentimes, staff do not have time to participate in a grant and we may need to employ additional staff members or consultants. We did not fill all of the positions that were budgeted for at the same time, and we didn't finalize all staffing needs until well into the school year. It was an oversight that we did not go back and amend the grant for a few of the staff. South Cook ISC will ensure that as staffing positions are filled, grants will be amended as necessary and staff will be paid either through the payroll process if they are employees or through the payable process if they are consultants.*

SALARIES AND BENEFITS NOT SUPPORTED BY PROPER TIME AND EFFORT DOCUMENTATION

The South Cook Intermediate Service Center #4 did not have proper time and effort documentation to support salaries and benefits.

The South Cook Intermediate Service Center #4 (ISC) assigned a total of \$125,580 in salary and benefit costs for 9 employees to the Title I grant based on budgeted amounts. Personnel activity reports or other comparisons of actual payroll costs, based on time and effort records, to budgeted distributions were not performed and adjustments for actual time spent on the grants, if different from budgeted amounts, were not made. These 9 employees did not submit time sheets, time studies, or other adequate time and effort documentation to support the amount of salaries and benefits charged to Title I expense accounts. A

signed certification was later obtained by the ISC during the audit for 1 employee, for salary and benefits totaling \$21,704, asserting he worked 100% of his time on Title I.

Employees of the ISC are required to document their time and effort working on federal programs. Title 2 of the U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires charges for salaries and benefits to be supported by a system of internal control which provides reasonable assurance that charges are accurate, allowable, and properly allocated. Documentation records should reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities, and should encompass both federally assisted and non-federally assisted activities. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award. Significant changes in the corresponding work activity should be identified and entered into the accounting records in a timely manner. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.

According to ISC officials, in previous years, all consultants completed time and effort logs in order to be paid. However, they did not realize salaried staff members had to complete them also. (Finding 17-005, pages 15c – 15d)

The auditors recommended that the ISC should implement a system of internal controls over time and effort reporting for all employees paid with restricted grant funds. The ISC should use time and effort documentation to distribute salary and benefit costs for employees who work in whole or in part on grant program activity in accordance with the Uniform Guidance.

ISC Response: *ISC #4 staff paid through grants spend above and beyond the allocated percentage of time written into the grant; however, ISC #4 did not have that documented in writing. Beginning with FY2018, ISC #4 has created a time and effort tracking system for all employees paid via grants.*

AUDITORS' OPINION

Our auditors state the South Cook Intermediate Service Center #4's financial statements as of June 30, 2017 are fairly presented in all material respects.

This financial report was conducted by the firm of Kemper CPA Group 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:JRB