



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

William G. Holland, 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)
 For the Year Ended: June 30, 2013

Release Date: March 5, 2015

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	New	Repeat	Total	2012			
Category 1:	0	2	2		1		
Category 2:	0	0	0	2011	2		
Category 3:	0	0	0				
TOTAL	0	2	2				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(13-1)** The Intermediate Service Center #2 did not have adequate internal control procedures.
- **(13-2)** The Intermediate Service Center #2 used grant balances to cover deficit cash balances in other programs.

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
WEST COOK

FINANCIAL AUDIT
(In Accordance with Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2013

	FY 2013	FY 2012
TOTAL REVENUES	\$5,834,954	\$6,932,722
Local Sources	\$951,265	\$1,178,040
% of Total Revenues	16.30%	16.99%
State Sources	\$2,482,069	\$2,154,378
% of Total Revenues	42.54%	31.08%
Federal Sources	\$2,401,620	\$3,600,304
% of Total Revenues	41.16%	51.93%
TOTAL EXPENDITURES	\$6,561,696	\$6,694,651
Salaries and Benefits	\$3,980,787	\$4,216,868
% of Total Expenditures	60.67%	62.99%
Purchased Services	\$1,768,788	\$1,874,542
% of Total Expenditures	26.96%	28.00%
All Other Expenditures	\$812,121	\$603,241
% of Total Expenditures	12.38%	9.01%
TOTAL NET POSITION	(\$187,496) ¹	\$539,246
INVESTMENT IN CAPITAL ASSETS	\$108,774	\$123,815
Note: ¹ Finding 2013-002 discusses deficit cash balances at ISC #2. 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.

The Intermediate Service Center #2 is required to maintain a system of controls over receipts, disbursements, and reporting to prevent errors and fraud. The Intermediate Service Center #2 has not established sufficient controls over its accounting functions. Auditors, in their review of the Service Center's accounting records, noted the following:

- The Service Center did not adhere to its policy of requiring the Grant Manager's approval of purchases. In 12 of 100 (12%) instances, purchase orders were approved by the Executive Director but not by the Grant Manager.
- The Service Center did not cancel invoices once paid. In 85 of 100 (85%) instances, invoices were not canceled once paid.

The Service Center did not adhere to established internal control procedures in place to ensure that expenditures were properly authorized, approved and canceled once paid. (Finding 2013-001, pages 11-12)

The auditors recommended that the Intermediate Service Center #2 should comply with its established system of internal controls to ensure expenditures are properly approved before payments are made and posted to the general ledger. The Grant Manager and Executive Director should both approve all purchase orders. When the invoice is ready for payment, there should be an approval signature by the Executive Director indicating the supporting documentation was reviewed and the invoice is properly authorized and ready for payment. In order to maintain better controls over cash disbursements, invoices should be canceled by stamping "paid" on the face of the original invoices.

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.

USE OF DESIGNATED GRANT BALANCES

The Intermediate Service Center #2 used grant balances to cover deficit cash balances in other programs.

Intermediate Service Center #2 runs several grant funded programs. Programs funded by State and federal grants must be tracked and maintained separately. Intermediate Service Center #2 pooled program and local revenue into the same bank account. Cash that was granted to the Service Center, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

According to ISC #2 officials, because the Intermediate Service Center is primarily funded on a reimbursement basis, money must be spent before it is received from the State. This caused programs which the ISC #2 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 2013-002, page 13) **This finding was first reported in 2011.**

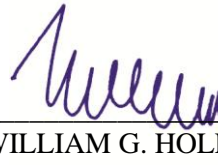
The auditors recommended that the Intermediate Service Center #2 should not use cash designated for specific grant purposes to cover deficit cash balances in programs other than those for which the cash was granted.

The Intermediate Service Center #2 responded that it 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 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. The Service Center also stated that in FY 2012, programs with a start date of July 1 required expenditures to be incurred without available State funds. It was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where

funds were late in arriving. ISC #2 noted that on a quarterly basis the State of Illinois was in arrears in its payments by these percentages: at the end of the First Quarter of 2013 the Service Center received only 8% of its FY 2013 budgeted State dollars, at the end of the Second Quarter only 12% was received, at the end of the Third Quarter 36% was received, at the end of the FY 2013 ISC #2 received 35% of the total budgeted State dollars. The remaining 9% of the FY 2013 funds were received during the First Quarter of FY 2014. (For previous Intermediate Service Center response, see Digest Footnote #1.)

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Bass, Solomon, and Dowell, LLP were our special assistant auditors for this audit.

DIGEST FOOTNOTE

#1: Use of Designated Grant Balances - Previous Intermediate Service Center Response

In its prior response in 2012, the Intermediate Service Center #2 responded that the source of cash used to address cash flow issues was available local funds, to the extent they were available, not grant funds. The ISC #2 stated that FY 2012 saw a continuation of delinquent receipts of State grant funds as experienced in FY 2011. As in FY 2011, programs with a start date of July 1 required expenditures to be incurred without available state funds. ISC #2 noted that it was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where funds were late in arriving. ISC #2 also stated that on a quarterly basis the State of Illinois was in arrears in its payments by these percentages: At the end of the 1st quarter of 2012 the Service Center received only 5.5% of its FY 2012 budgeted state dollars; at the end of the 2nd quarter only 25% was received; by the end of the 3rd quarter 55% was received; at the end of FY 2012 the Service Center received 84% of the total budgeted state dollars. The remaining 16% of the FY 2012 funds were received during the 1st quarter of FY 2013.