



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 Uniform Release Date: **September 30, 2020**
 Guidance)
 For the Year Ended: **June 30, 2016**

FINDINGS THIS AUDIT: 6				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	2	2	2012		16-1	
Category 2:	1	2	3	2015	16-2		
Category 3:	0	1	1	2014	16-3		
TOTAL	1	5	6	2015			16-4
				2014		16-6	
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- **(16-1)** The Intermediate Service Center #2 did not have adequate internal control procedures.
- **(16-2)** The Intermediate Service Center #2 did not have adequate controls over the use of designated grant balances.
- **(16-3)** The Intermediate Service Center #2 did not have adequate controls over Procurement card transactions.
- **(16-4)** The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the August 31 deadline.
- **(16-5)** The Intermediate Service Center #2's salaries and benefits were not supported by proper time and effort documentation.
- **(16-6)** 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.

INTERMEDIATE SERVICE CENTER #2

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$10,640,526	\$8,227,675
Local Sources	\$1,394,247	\$1,449,489
% of Total Revenues	13.10%	17.62%
State Sources	\$8,083,107	\$4,869,338
% of Total Revenues	75.97%	59.18%
Federal Sources	\$1,163,172	\$1,908,848
% of Total Revenues	10.93%	23.20%
TOTAL EXPENDITURES	\$10,033,318	\$8,168,427
Salaries and Benefits	\$7,918,852	\$6,406,281
% of Total Expenditures	78.93%	78.43%
Purchased Services	\$1,584,748	\$1,338,838
% of Total Expenditures	15.79%	16.39%
All Other Expenditures	\$529,718	\$423,308
% of Total Expenditures	5.28%	5.18%
TOTAL NET POSITION	(\$4,826,839)	(\$5,434,047)
INVESTMENT IN CAPITAL ASSETS	\$28,212	\$17,344
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. Auditors noted the following:

- The ISC had control procedures over its various accounting functions in place; however, they were not formally documented.
- Pay rate approvals could not be provided for 2 of the 5 (40%) payroll contracts tested for current year major programs.
- The ISC did not record many of the grant expenditure transactions directly to the grant funds in the general ledger upon initial posting. The ISC would subsequently make adjusting entries to move the expenses to the proper grant fund.

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

ISC officials indicated the ISC did not document its control procedures in writing. They also did not adhere to established internal control procedures to ensure pay rates were approved prior to running payroll. Additionally, the ISC posted unnecessary adjusting journal entries to the general ledger making audit procedures more difficult as entries must be traced back through the general ledger to locate the initial transactions and supporting documentation. Excessive and unnecessary entries to the system increase the opportunity for fraud, can compromise the integrity and validity of financial results, increase the risk of error, and impact process efficiency. (Finding 16-001, pages 14-15) **This finding was first reported in 2012.**

The auditors recommended the ISC should ensure control procedures for its accounting functions are documented in writing. It also 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. Additionally, the ISC should post transactions directly to the grants at the initial recording of the transaction based on the grant manager's knowledge of allowable grant costs, allowable grant activities, and approved grant budgets. Grant managers should properly determine at the time of purchase the proper grant funding source for each expenditure.

ISC Response: *West 40 Intermediate Service Center has documented, in written form, internal control procedures. Although the Executive Director approved all the pay rates, West 40 did not have written documentation of such approval for 2 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.*

Over the past two years, we have trained more staff on proper and timely coding of transactions and tracking of budget balances. We believe that with this continued training, we will decrease the need for similar journal entries in the future. The number of journal entries in FY20 is 25.88% lower than it was in FY17. Our goal is to continue to decrease the amount of entries this current fiscal year.

USE OF DESIGNATED GRANT BALANCES

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

Cash that was granted to the Intermediate Service Center #2 (ISC), and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted. The ISC pools program and local revenue into the same bank account.

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

ISC officials indicated that 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 ISC officials indicated 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 16-002, page 16)

The auditors recommended 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 persistent delay in funding from the State of Illinois has caused the ISC to experience low cash flow issues. The source of funds used to address cash flow issues was primarily local funds, to the extent they were available.*

INADEQUATE CONTROLS OVER PROCUREMENT CARD TRANSACTIONS

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

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

- In 6 of 6 (100%) of transactions tested, the Executive Director approved his own purchases.
- Personal expenses were charged by the Executive Director and an employee on the ISC's P-card. These expenses were paid back in full by the Executive Director and the employee 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 \$456.
- Equipment totaling \$1,251 was purchased for an individual student to assist with completing assignments at home but no policies or procedures are in place to follow when this is considered.

Intermediate Service Center #2 (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.

ISC officials indicated internal controls over the Executive Director's P-card transactions are not effectively designed and/or implemented. The Executive Director deemed the equipment purchased for an individual student necessary. (Finding 2016-003, pages 17 – 18) **This finding was first reported in 2014.**

Auditors recommended 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 expenditures and the ISC should adhere to its policy prohibiting the use of ISC P-cards for personal use. Additionally, the ISC should develop policies and procedures outlining criteria to determine the necessity of equipment needed for student 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. While there has been no formal technology policy related to*

technology distribution/collection to/from students in place in the past, we will develop such polices during FY21.

DELAY OF AUDIT

The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Intermediate Service Center #2 (ISC) did not provide completed financial statements in an auditable form by the August 31, 2016 deadline.

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 Government Auditing Standards (GAGAS).

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.

ISC officials indicated they incurred key employee turnover. (Finding 16-004, pages 19 – 20)

The auditors recommended 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: *West 40 contracted with a CPA firm to prepare complete, accurate, and timely financial statements for the ISC to prepare for the 2016 audit. The West 40 Executive Director has hired the CPA firm to prepare the*

statements for 2017-2019 and will secure the same firm to prepare the documents for 2020 once the fiscal year ends.

SALARIES AND BENEFITS NOT SUPPORTED BY PROPER TIME AND EFFORT DOCUMENTATION

The Intermediate Service Center #2's salaries and benefits were not supported by proper time and effort documentation.

Employees who worked on the Title I – School Improvement & Accountability grant turned in time and effort reports, but these time records did not always include 100% of the employees' time. These reports only included time spent on federal grants, not 100% of the time paid from multiple funding sources.

Employees of the Intermediate Service Center #2 (ISC) are required to document their time and effort working on federal programs. Title 2 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 the 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.

ISC officials indicated they were unaware of the time and effort log requirements for administrative personnel, including tracking 100% of their time. (Finding 16-005, pages 21 – 22)

The auditors recommended the ISC should implement a system of internal controls over time and effort reporting. 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 Uniform Guidance.

ISC Response: *All staff who work in whole or in part on grant-program-activity complete time and effort logs which now reflect all work, not just work that is grant related.*

NONCOMPLIANCE WITH GRANT REQUIREMENTS

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

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

The ISC claimed expenditures in the amount of \$18,918 for the funding period 07/01/2015 – 08/31/2016. These expenditures were allowable costs but should have been claimed in the earlier funding period 07/01/2014 – 08/31/2015. In addition to the \$18,918 charged to the grant, \$18,918 claimed expenditures for the 6/30/2016 fiscal year were allowable costs, but should have been claimed in the prior fiscal year ended 6/30/2015.

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.

ISC officials indicated grant expenditures were incorrectly reported outside the proper grant funding period and fiscal year due to late receipt of invoice. (Finding 16-006, pages 24 – 25) **This finding was first reported in 2014.**

The auditors recommended 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 West 40 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 West 40 in a more-timely manner which is now occurring. This allows West 40 to properly record and pay similar invoices in the correct grant funding period.*

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2016 are fairly presented in all material respects.

This financial audit was conducted by the firm of Wipfli LLP.

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

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