STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
Christopher B. Meister, Auditor General

SUMMARY REPORT DIGEST

INTERMEDIATE SERVICE CENTER #2
WEST COOK

FINANCIAL AUDIT (In Accordance with the Uniform Guidance)
For the Year Ended: June 30, 2022

Release Date: August 26, 2026

FINDINGS THIS AUDIT: 7

	New	Repeat	Total
Category 1:	1	2	3
Category 2:	0	2	2
Category 3:	0	2	2
TOTAL	1	6	7

FINDINGS LAST AUDIT: 6

AGING SCHEDULE OF REPEATED FINDINGS

Repeated Since	Category 1	Category 2	Category 3
2012	22-2		
2015			22-1
2018			22-4
2019		22-5	
2020		22-6	
2021	22-3		

SYNOPSIS

- **(22-1)** The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the August 31 deadline
- **(22-2)** The Intermediate Service Center #2 did not have adequate internal control procedures.
- **(22-3)** The Intermediate Service Center #2 lacked adequate controls over the identification of federal awards.
- **(22-4)** The Intermediate Service Center #2 did not have adequate internal controls over grant compliance.
- **(22-5)** The Intermediate Service Center #2 did not have adequate internal controls over procurement-card transactions.
- **(22-6)** The intermediate Service Center #2 did not have adequate internal controls over payroll processing.
- **(22-7)** The Intermediate Service Center #2 had inadequate controls over financial reporting.

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
WEST COOK

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2022

	FY 2022	FY 2021
TOTAL REVENUES	$41,582,860	$14,714,622
Local Sources	$2,497,440	$1,540,767
% of Total Revenues	6.01%	10.47%
State Sources	$13,499,231	$12,712,353
% of Total Revenues	32.46%	86.39%
Federal Sources	$25,586,189	$461,502
% of Total Revenues	61.53%	3.14%
TOTAL EXPENDITURES	$40,304,858	$13,027,227
Salaries and Benefits	$11,816,020	$10,771,936
% of Total Expenditures	29.32%	82.69%
Purchased Services	$13,501,631	$1,623,189
% of Total Expenditures	33.50%	12.46%
All Other Expenditures	$14,987,207	$632,102
% of Total Expenditures	37.18%	4.85%
TOTAL NET POSITION	$4,772,184	$3,494,182
INVESTMENT IN CAPITAL ASSETS	$0	$0
Percentages may not add due to rounding.		

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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, 2022 deadline. The June 30, 2021, report was not released until July 9, 2025. The FY22 completed financial statements were initially provided to auditors on July 7, 2025. However, several revised versions were subsequently provided based on the auditor's review. The final corrected financial statements were not provided until November 18, 2025.

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. The Regional Office of Education or Education Service Center may utilize a cash basis, modified cash basis or Generally Accepted Accounting Principles (GAAP) basis of accounting to prepare the financial statements for audit. Intermediate Service Center No. 2 has chosen the cash basis of accounting for financial reporting.

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.

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

ISC management indicated they incurred key employee turnover which has put them behind in financial reporting. (Finding 22-001, pages 13-14) **This finding was first reported in 2015.** The auditors recommended the ISC #2 should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm.

Code 420.320 (c) (2). These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

<u>ISC Response</u>*:* As *this writing is occurring in FY26, we expect to see this as an ongoing finding for the audits yet to be completed for FY23-26. We have worked with our contracted accountant over the past ten years, who has experience with ROE/ISC audits and knows the requirements, to have reports available in a timely manner moving forward. We have also hired a Chief School Business Official (CSBO) who started work here in July 2021 to address this issue and other findings in this document. In addition, at a significant cost to West 40, we contracted the accounting firm who completes our financial statements to complete financial statements through FY25 in an expedited timeline. This was done so that there would be no delays on our end in having our audits be current.*

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 weaknesses in the ISC's internal control system for which there were no mitigating controls:

- All transactions are not initially posted directly to the correct funds in the general ledger. Subsequent adjusting entries must be recorded to reclassify them to the proper fund.
- There is a lack of segregation of duties within the cash receipts process. The same employee is primarily responsible for creating invoices for programs and academies, receiving and depositing cash receipts, and following up on outstanding balances. Additionally, there is no formal process for reviewing amounts owed to the ISC.

The ISC is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

ISC management indicated it has not established or documented sufficient internal control procedures. (Finding 22-002, pages 15-16**) This finding was first reported in 2012**.

The auditors recommended the ISC implement internal control procedures to ensure the following:

- Transactions should be posted directly to appropriate accounts upon initial recording to avoid subsequent reclassifications.
- Incompatible accounting functions need to be segregated and a formal process for reviewing amounts owed to the ISC implemented.

ISC Response:
- *Since the original finding regarding reclassifications, we have been training staff to provide accurate account coding to minimize the number of journal entries needed.*
- *A receivables module in our financial software has been implemented which allows departments to better monitor any outstanding invoices. Finally, an Accounts Receivable Clerk was hired in FY26 in an effort to centralize the invoicing process.*

INADEQUATE INTERNAL CONTROLS OVER THE IDENTIFICATION OF FEDERAL AWARDS

The Intermediate Service Center #2 lacked adequate controls over the identification of federal awards.

The Intermediate Service Center #2 (ISC) lacked adequate controls over the identification of federal awards. As part of the audit process, we noted that the ISC erroneously recorded $240,000 of federal grant revenue for the IL-AWARE grant as local revenue in the General Fund Local Sources account. Related expenditures of $157,752 were also recorded in the General Fund rather than in the Education Fund. The revenue and related expenditures should have been shown as a program in the Education Fund. In addition, the ending fund balance of $281,940 should have been restricted.

Also, the administrative fee of $371,240 received by the ISC as part of the Emergency Assistance to Non-Public Schools (EANS) grant was recorded in the General Fund Local Sources account as local revenue. Related administrative expenditures were also recorded in the General Fund rather than in the EANS fund and the administrative fee was omitted from the schedule of expenditures of federal awards.

The Illinois State Board of Education (ISBE) *State and Federal Grant Administration Policy, Fiscal Requirements and Procedures* requires all State and federal grants awarded from ISBE to follow Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). 2 CFR 200.303 Internal Controls of the Uniform Guidance requires that recipients and subrecipients must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

ISC management indicated that separate revenue and expenditure accounts were maintained in the general ledger for the IL-AWARE grant, but it was not identified as a federal award.

In addition, ISC management indicated that the administrative fee for the EANS grant was recorded in the General Fund because it was a fee paid to the ISC and not a reimbursement for payments of grant funds to a third party. (Finding 22-003, pages 17-18)

The auditors recommended the ISC should implement adequate internal controls to ensure that federal grants are properly identified and accounted for in their general ledger and on their financial statements.

ISC Response*:* *A Director of Grants was hired in FY23 and has built a team with experience and expertise in grant requirements and proper coding of grant revenue and expenses.*
Regarding the second condition, the Intergovernmental Agreement ("IGA") presented to West 40 to manage the EANS funds is their standard grant IGA. However, in reality, we did not enter into a grantor-grantee relationship with ISBE. Rather, West 40 was contracted to manage EANS funds on behalf of ISBE. Therefore, we had a vendor-customer relationship with ISBE and the $371,240 referenced in this condition was in fact a fee, not grant revenue, that West 40 was paid to manage these funds on behalf of ISBE. These were federal funds and payments to vendors had to be made by a governmental entity - such as West 40. Non-public schools could not directly pay a vendor using federal funds so West 40 essentially served as a paying agent for EANS funds.

Auditors' Comment: **The** *ISC has indicated that the EANS funds received from ISBE were not a grant, but rather the result of a contractual relationship. The intergovernmental agreement provided to the auditors is between Illinois State Board of Education (Grantor or ISBE) and West Cook 40 Intermediate Service Center (Grantee or West 40 or ISC) and was signed on June 25, 2021. The IGA clearly identifies the Intermediate Service Center #2 as a "grantee" receiving federal funds. The grant agreement indicated the amount of federal funds provided, the assistance listing number, and a representation by the "grantee" that it will adhere to Uniform Guidance requirements. Subsequent amendments to the agreement* *continued to refer to the Intermediate Service Center #2 as the grantee, ISBE as the grantor, and the agreement as a grant agreement.*

CONTROLS OVER GRANT COMPLIANCE

The Intermediate Service Center #2 did not have adequate internal controls over grant compliance.

The Intermediate Service Center #2 did not have adequate internal controls over grant compliance. During the course of the audit, auditors noted 6 of the 54 (11%) expenditure reports required by the Illinois State Board of Education (ISBE) were not submitted timely. Three expenditure reports were submitted 2 days late and three were submitted 1 day late.

As a recipient of federal, State and local funds from various grantor agencies, the ISC must incorporate certain procedures into its operations in order to comply with the grant agreements with these entities.

The ISC is responsible for establishing and maintaining an internal control system over the completion of timely expenditure reports required for grants administered by ISBE. ISBE requires expenditure reports to be filed within 20 days of the applicable end of each quarter.

ISC management indicated that this occurred due to key employee turnover which has put them behind in financial reporting. (Finding 22-004, page 19). **This finding was first reported in 2018**.

The auditors recommended the ISC should implement adequate internal controls to ensure that expenditure reports are filed timely.

ISC Response: *A Director of Grants and Assistant Director of Grants were hired in FY23 to oversee and monitor all grant purchases.*

INADEQUATE CONTROLS OVER PROCUREMENT CARD TRANSACTIONS

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

The Intermediate Service Center #2 (ISC) did not have adequate internal controls over procurement card transactions. Internal controls over disbursements are not effectively designed and implemented. During our testing of a sample of three months of procurement-card (P-card) transactions, supporting receipts were not provided for thirteen cardholders' transactions totaling $25,996 and six cardholders' transactions were missing approvals for the purchases.

The ISC is required to maintain a system of controls over disbursements to prevent errors, omissions, and fraud.

ISC management indicated charge receipts were misplaced and could not be found. (Finding 22-005, page 20).
This finding was first reported in 2019.

The auditors recommended procedures should be implemented to ensure documentation of P-card activity is obtained and retained.

ISC Response: *The ISC will implement procedures to ensure documentation of P-card activity is obtained and retained.*

INADEQUATE CONTROLS OVER PAYROLL PROCESSING

The Intermediate Service Center #2 did not have adequate internal controls over payroll processing.

The Intermediate Service Center #2 (ISC) did not have adequate internal controls over payroll processing. During our testing of a sample of 40 payroll transactions, we noted that 5 (12.5%) employees had no documentation of an approved pay rate on file. As a result, we were unable to determine the accuracy of the payment to those employees.

Finally, preparation of time and effort reports with percentage of time spent on various programs was discontinued in fiscal 2021 for full-time employees. In addition, 2 (50%) of the 4 part-time employees tested did not have time sheets.

The *Grant Accountability and Transparency Act (GATA) 30 ILCS 708/1* establishes that State grant programs are subject to the requirements set forth in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance (2 CFR 200.430) requires charges for salaries and benefits to be supported by a system of internal controls which provide reasonable assurances that the charges are accurate and properly allocated. It also requires records be used to support the distribution of employee salaries and benefits among specific activities if the employee works on multiple programs.

In addition, best practices require the ISC to maintain a system of controls over payroll processing which includes documentation supporting approved pay rates, provides reasonable assurance that the salary and benefit charges are accurate and properly allocated, and requires records to be used to support the distribution of employee salaries and benefits among specific activities if the employee works on multiple programs.

ISC management indicated that the discontinuation of time and effort reports was due to the fact that the reports were not being reviewed and a new time keeping system was going to be purchased. Approved pay rates may not have been documented or copies were not made of the employee files. (Finding 22-006, pages 21-22). **This finding was first reported in 2020**.

The auditors recommended the ISC follow best practices, GATA requirements, and Uniform Guidance requirements to require time sheets or time and effort reports and ensure that accurate documentation supporting pay rates is maintained in personnel files.

<u>ISC Response</u>*:* *Salaries are entered by one employee and now reviewed for accuracy by another staff member. Staff whose salaries are funded by a grant are required to track their time in recently purchased time tracking software.*

INADEQUATE CONTROLS OVER FINANCIAL REPORTING

The Intermediate Service Center #2 had inadequate controls over financial reporting.

The Intermediate Service Center #2 (ISC) had inadequate controls over financial reporting. The following errors were noted in the financial statements during our audit:

- The Philip J. Rock Center and School, for which the ISC became the fiscal agent beginning August 1, 2020, was not reported as a custodial fund in the first draft of the financial statements for fiscal 2022 or in the fiscal 2021 report.
- The revised fiscal 2022 draft report omitted a beginning cash balance in the custodial fund for the Philip J. Rock Center of $429,086 resulting in the reporting of a negative cash balance of $142,589 rather than the correct balance of $286,497 in the revised draft for that fund.
- Misallocation of expenditures between general fund accounts were identified as follows (positive numbers indicate overstatements and negative numbers indicate understatements):

Expenditure	Local Account	GSA/RSSP Tuition Account	ALOP Account
Salaries	$1,785,316	$-519,718	$-1,265,598
Benefits	549,560	-39,620	-509,940
Pension	157,635	-45,419	-112,216
Purchased Serv.	148,330	-84,319	-64,011
Supplies	98,209	-11,842	-86,367

- Beginning net position did not agree to ending net position as reported in the fiscal 2021 financial statements for governmental activities and beginning fund balances in the general fund and the education fund did not agree to ending fund balances in the respective funds in the fiscal 2021 financial statements.
- General ledger fund balance accounts differed from the amounts reported in the financial statements.
- General ledger expenditure amounts did not agree to the amounts reported in the financial statements for ESSER and ESSER-Digital Equity accounts.
- Indirect costs related to ESSER were not recorded in the ESSER account of the Education Fund in the financial statements.

ISC management indicated that:

- They were unaware of the need to include the Philip J. Rock Center and School as a custodial fund in their financial statements.
- They were unaware at the time of preparing the financial statements that the Philip J. Rock Center and School agreement began in fiscal 2021.
- The expenditure misallocations were the result of errors in the Account Grouping classification of general ledger accounts in the General Fund subaccounts for financial statement purposes.
- The differences in beginning net position and fund balance were the result of the financial statement preparer erroneously changing the recording of the Midwest PBIS Network from the prior year's presentation and not updating the reporting of IL-AWARE as part of the Education Fund as it was presented last year.
- The differences between general ledger account balances and financial statement amounts appears to be the result of directly updating financial statement amounts without recording the underlying general ledger entries.
- Financial Reimbursement Information System (FRIS) reports were used to report expenditures in the financial statements for the ESSER and ESSER-Digital Equity accounts.
- The ISC only records direct costs of a grant within the grant accounts of the Education Fund and was not aware of the requirement to include indirect costs in those accounts. (Finding 22-007, pages 23-25).

The auditors recommended ISC enhance their review process over financial statement drafts prepared by outside accountants prior to presenting them for audit. In addition, we recommend that the ISC ensure that all financial statement amounts are derived from general ledger accounts.

ISC Response:

- *West 40 will include The Philip Rock Center as a custodial fund in future financial statements.*
- *West 40 will include fund balances in future financial statements.*
- *This has been corrected in our financial statements.*
- *This is related to a change in how a custodial fund was recorded and has been corrected in our financial statements.*
- *This was primarily due to an effort to move dormant funds. This was not completed using a transfer in/transfer out account. Going forward an effort to consolidate/eliminate dormant funds will be completed using transfer in/transfer out accounts.*
- *A grants team was formed in FY23 to oversee and monitor all grant expenditures and reporting.*
- *A grants team was formed in FY23 to oversee and monitor all grant expenditures and reporting.*

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2022 are fairly presented in all material respects.

This financial audit was conducted by the firm of GW & Associates PC.

SIGNED ORIGINAL ON FILE

TRICIA WAGNER
Division Director

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

SIGNED ORIGINAL ON FILE

CHRISTOPHER B. MEISTER
Auditor General

CBM:JMT