



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

INTERMEDIATE SERVICE CENTER #1
NORTH COOK

FINANCIAL AUDIT
For the Year Ended: June 30, 2015

Release Date: September 22, 2016

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	2	3	2014	15-1, 15-2		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	1	2	3				
FINDINGS LAST AUDIT: 2							

SYNOPSIS

- **(15-1)** The Intermediate Service Center #1 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Intermediate Service Center #1 did not have adequate internal control procedures.
- **(15-3)** The Intermediate Service Center #1 did not have adequate internal controls over grant 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.

{Revenues and expenditures are summarized on the reverse page.}

INTERMEDIATE SERVICE CENTER #1
NORTH COOK

FINANCIAL AUDIT
For The Year Ended June 30, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$4,115,030	\$3,817,496
Local Sources	\$1,982,701	\$1,974,724
% of Total Revenues	48.18%	51.73%
State Sources	\$1,793,797	\$1,476,580
% of Total Revenues	43.59%	38.68%
Federal Sources	\$338,532	\$366,192
% of Total Revenues	8.23%	9.59%
TOTAL EXPENDITURES	\$3,913,506	\$3,756,934
Salaries and Benefits	\$2,708,940	\$2,529,901
% of Total Expenditures	69.22%	67.34%
Purchased Services	\$1,125,894	\$1,150,442
% of Total Expenditures	28.77%	30.62%
All Other Expenditures	\$78,672	\$76,591
% of Total Expenditures	2.01%	2.04%
TOTAL NET POSITION	\$2,633,721 ¹	\$2,463,677
INVESTMENT IN CAPITAL ASSETS	\$36,546	\$53,699
<p>¹The FY15 beginning net position was restated by (\$34,156) due to a prior period adjustment for new reporting requirements for pensions. In addition a prior period adjustment of \$2,676 was recorded in the Proprietary Fund related to a correction of an error.</p> <p>Percentages may not add due to rounding.</p>		

EXECUTIVE DIRECTOR
During Audit Period: Dr. Bruce Brown
Currently: Dr. Bruce Brown

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Intermediate Service Center #1 did not have sufficient internal controls over the financial reporting process.

The Intermediate Service Center #1 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Intermediate Service Center #1'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).

The Intermediate Service Center #1 did not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Service Center maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of 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.

During review of the Intermediate Service Center #1's financial information prepared by the Intermediate Service Center #1, the following were noted:

- Several adjustments were necessary to properly record interfund receivables and payables.
- Several adjustments were necessary to properly categorize funds as to fund types (general, special revenue, proprietary).
- Several adjustments were necessary to adjust individual fund cash balances and fund balances to actual.
- An entry was necessary to reclassify payments to a vendor to an expenditure account instead of being netted against the revenue recorded for the related service.

Through inquiries and discussions with the Center's accounting personnel and Executive Director, auditors noted the North Cook Intermediate Service Center #1 also did not have adequate controls to record and report the Center's net accrued

pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.

The Intermediate Service Center #1 did not effectively detect all of the adjustments needed in order to present financial statements in accordance with GAAP. This is due in part to the new Business Manager being in her position for only a portion of the year.

Additionally, the complex requirements of GASB Statements No. 68 and 71 were new for fiscal year 2015 and will require additional time and training before the Center can fully implement the requirements on its own. (Finding 2015-001, pages 11a-11b)

The auditors recommended that as part of internal control over the preparation of financial statements, the Intermediate Service Center #1 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the Intermediate Service Center #1's activities and operations.

The Intermediate Service Center #1 responded that with the retirement of the Service Center's Business Manager during FY2015, a replacement was hired who is an accountant and possesses many years of experience in school finance. ISC #1 noted that the new Business Manager will strive to do her best to prepare the financial statements in accordance with GAAP. (For previous Service Center response, see Digest Footnote #1 located at the end of the digest.)

INADEQUATE INTERNAL CONTROL PROCEDURES

The Intermediate Service Center #1 did not have adequate internal control procedures.

The Intermediate Service Center #1 is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to prevent errors and fraud.

Auditors noted the following weaknesses in the Intermediate Service Center #1's internal control system through February 28, 2015 (2/3 of the year):

- Lack of segregation of duties exists over receipts since the same individual receiving tuition monies also creates the deposit slip, records the receipt in the general ledger, and is responsible for making the deposit at the bank.
- Lack of segregation of duties exists over disbursements since the person entering bills, printing

checks (which contain an electronic signature), and mailing the checks is also responsible for providing a check register to the Board for approval and to the Township for use in its reconciliation of the Service Center's accounts.

- The Executive Assistant does not formally document her review of the Accounts Payable Pre-list and Check Register.
- Journal entries made by the accounting department are not formally reviewed and approved by the Executive Director.

The Intermediate Service Center #1 has not established sufficient internal control procedures. (Finding 2015-002, page 11c)

Auditors recommended the Service Center make appropriate changes to its internal control system.

The Intermediate Service Center #1 responded that it agrees with the finding and made changes to its internal control procedures, effective March 1, 2015, to address the deficiencies identified above. (For previous Service Center response, see Digest Footnote #2 located at the end of the digest.)

INTERNAL CONTROLS OVER GRANT REPORTING

The Intermediate Service Center #1 did not have adequate internal controls over grant reporting.

The Intermediate Service Center #1 is required to maintain a system of controls over grant compliance requirements to ensure grant reporting is accurate. Specifically, transactions should be accurately classified within expenditure reports.

During review of the July 2014 final expenditure report for the Illinois State Board of Education's (ISBE) FY14 Title I School Improvement and Accountability grant filed by North Cook Intermediate Service Center #1 in FY15, auditors noted it included \$43,482 in expenses that had also been claimed on the final FY13 grant report.

Officials from the Service Center noted the expense duplication was due to a clerical error.

The auditors recommended that the Intermediate Service Center #1 should contact ISBE to determine how to remedy the issue.

In addition, auditors recommended the Service Center should establish a set of internal controls over grant compliance to ensure that all grant expenditure reports are accurate prior to submission to the granting agency. These internal controls should be designed such that errors or omissions resulting from adjusting journal entries, clerical and posting errors, or

other factors are detected and corrected prior to submission of the expenditure report. Internal controls include procedures that all expenditure reports be reviewed by an individual separate from the preparer and compared to underlying accounting records for completeness and accuracy.

The Service Center responded that ISBE was contacted immediately upon discovering this error. A corrected expenditure report for the final quarter of FY14 was filed on IWAS and the \$43,482 is reflected on FRIS as a pre-payment for FY15 Title I. The Service Center was instructed by ISBE to not return the funds until they were billed. Therefore, until such time as ISBE invoices the Service Center or reduces a future Title I payment, the North Cook Intermediate Service Center #1 will reflect the \$43,482 as a liability.

Also the Service Center stated internal controls were modified in 2015 to include another individual working with each grant to prepare additional documentation tracking expenses. This documentation is compared with a new spreadsheet prepared by the accounting department and the DCR records and any variances are investigated prior to filing quarterly expenditure reports. This additional involvement of personnel working with the grants and the cross check with the new spreadsheets will ensure accuracy prior to the expenditure reports being submitted to ISBE.

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #1's financial statements as of June 30, 2015 are fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:KJM

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.

#1: Controls over Financial Statement Preparation - Previous Service Center Response

In its prior response in 2014, the Intermediate Service Center #1 responded that the Center's new Business Manager is an accountant and possesses many years of experience in school finance. ISC #1 noted that the new Business Manager will strive to do her best to prepare the financial statements in accordance with GAAP.

#2: Inadequate Internal Control Procedures - Previous Service Center Response

In its prior response in 2014, the Intermediate Service Center #1 responded that it agrees with the finding and will make changes to its internal control procedures to address the deficiencies identified above.