



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS JOINING FORCES FOUNDATION

Financial Audit

Release Date: May 3, 2018

For the Year Ended June 30, 2016

Compliance Examination

For the Two Years Ended June 30, 2016

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	N/A	3	No Repeat Findings			
Category 2:	0	N/A	0				
Category 3:	0	N/A	0				
TOTAL	3	N/A	3				
FINDINGS LAST AUDIT: N/A							

INTRODUCTION

We performed a financial audit of the Foundation for the year ended June 30, 2016, and a compliance examination of the Foundation for the two years ended June 30, 2016. This is our first audit and examination of the Foundation since its legal establishment. The Foundation received no appropriations from the General Assembly and its funds were not held within the State Treasury. The auditors expressed an **adverse opinion** on the Foundation’s financial statements. The Codification of Statements on Auditing Standards (AU-C § 705.09) states auditors “should express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.”

SYNOPSIS

- **(16-01)** The Foundation did not retain sufficient documentation to facilitate financial reporting, lacked adequate control over its bank account and related records, and its personnel frequently overrode controls established in the Foundation’s bylaws.
- **(16-02)** Personnel of the Foundation did not adhere to the Foundation’s bylaws and/or internal policies, which constituted the Foundation’s internal control structure. In addition, discrepancies existed between the Foundation’s bylaws and internal policies.
- **(16-03)** The Foundation failed to retain documentation and records to substantiate compliance with grant agreements.

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 **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures have been excluded due to the adverse opinion on the financial statements.}

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE FINANCIAL REPORTING AND CONTROLS

The Illinois Joining Forces Foundation (Foundation) did not retain sufficient documentation to facilitate financial reporting, lacked adequate control over its bank account and related records, and its personnel frequently overrode controls established in the Foundation's bylaws. During testing, some of the more significant issues we noted included the following:

Accounts payable understated

Member of management incurred liabilities without informing the Board of Directors or the independent fiscal agent

- During accounts payable testing, we identified two payments made by the Foundation subsequent to Fiscal Year 2016, totaling \$10,120, which were improperly excluded from the Foundation's accounts payable balance as reported on the June 30, 2016, financial statements. In addition, subsequent to Fiscal Year 2016, the Foundation's Board of Directors discovered a member of management had obligated the Foundation to vendors for liabilities exceeding \$250,000, unbeknownst to the Foundation's Board of Directors or the independent fiscal agent. These liabilities consisted of services rendered by vendors, including website maintenance, strategic communications, and consulting services. A lack of supporting documentation limited our ability to conclude on when those services were rendered and if accounts payable were understated by additional amounts as of June 30, 2016. The accounts payable records maintained by the Foundation's fiscal agent did not include amounts owed to these vendors, and payments to these vendors were not being issued. **As a result, we were unable to conclude whether accounts payable reported on the Foundation's June 30, 2016, financial statements were complete and accurately presented.**

Inaccurate equipment and depreciation balances

- We noted the Foundation's equipment at cost, accumulated depreciation, and depreciation expense balances reported on its June 30, 2016, financial statements were inaccurate. We identified two other likely equipment disbursements to the same vendor for identical amounts or amounts greater than the fixed asset value identified on the financial statements and related footnotes. These disbursements were selected for disbursement testing; however, **due to the lack of supporting documentation, and the absence of a property listing, we were unable to quantify the adjusting entry needed to correct the June 30, 2016, financial statements and related footnotes.**

Expense reimbursements lacked supporting documentation

- The Foundation was unable to provide supporting documentation, such as original receipts or invoices, for 15 of 62 (24%) disbursements selected for testing, totaling \$9,437. Four of these transactions, totaling \$2,407, were expense reimbursements for Foundation employees and contractors. The only documentation available to substantiate these transactions was the expense reimbursement request form itself. No original receipts were attached to the reimbursement forms to support the reimbursement of the employee or contractor. The remaining 11 disbursements tested, totaling \$7,030, were carried out through the use of a debit card. Receipts or invoices could not be provided to support these expenses. (Finding 1, pages 12-17)

Debit card purchases missing receipts

We recommended the Foundation:

- ensure original bank statements are retained;
- ensure bank reconciliations are performed;
- ensure the persons preparing the reconciliations, as well as performing reviews, document their involvement in the process;
- ensure records maintained are accurate and complete, including original receipts and vendor invoices for each transaction;
- improve communications between employees, the Board of Directors, and the fiscal agent to facilitate accurate and complete reporting of accounts payable activity and contracting activity;
- develop a property listing to facilitate proper reporting of fixed asset activity and to ensure accountability for all capital assets owned by the Foundation;
- perform a review of the Foundation’s services and subsequent events activity related to Fiscal Year 2016 to prepare an accurate Statement of Financial Position as of July 1, 2016, to enable accurate financial reporting in future periods; and,
- perform intensive and ongoing monitoring of financial activity to ensure controls, such as those incorporated in the Foundation’s bylaws, are not being overridden by employees or others in positions of authority.

Foundation personnel agree

Foundation personnel agreed with the finding and noted they have taken corrective action through the adoption of our recommendation in their updated policies and procedures.

INADEQUATE INTERNAL CONTROL STRUCTURE

Personnel of the Foundation did not adhere to the Foundation’s bylaws and/or internal policies, which constituted the Foundation’s internal control structure. In addition, discrepancies existed between the Foundation’s bylaws and internal policies. During testing, some of the more significant issues we noted included the following:

Grant agreement executed by the Executive Director, not the Board's chair or treasurer

- One of four (25%) grant agreements selected for testing, totaling \$150,000, was executed by the Foundation's Executive Director. The Foundation's bylaws require the Board's chair or treasurer to execute all grants of the Foundation.

Foundation could not provide three agreements

- The Foundation did not maintain adequate control over contracts entered into with vendors.
 - The Foundation was unable to provide three contractual agreements requested, pertaining to 9 of 62 (15%) disbursements tested. These 9 disbursements totaled \$67,872.

Two contracts were executed by the Executive Director, not the Board's chair or treasurer

- Two contractual agreements tested, totaling \$35,203, pertaining to 3 of 62 (5%) disbursements tested, were improperly signed and executed by the Foundation's Executive Director.

Two contractual agreements not signed by either party

- Two contractual agreements tested, totaling \$31,785, pertaining to 3 of 62 (5%) disbursements tested, were not signed by either the Foundation or the vendor. The Foundation's bylaws require the Board's chair or treasurer to execute all contracts of the Foundation.

No documented approval for debit card by the Foundation's Board

- The Foundation's Executive Director obtained a debit card, linked to the Foundation's account, for which the consent of the Foundation's Board could not be located, and executed 172 transactions during Fiscal Year 2016, totaling \$17,858 and individually ranging from \$1 to \$1,808, with the unauthorized card. A receipt was located and reviewed by us for only one of those debit card transactions, totaling \$1,633. However, due to a lack of receipts or other documentation, we could not determine if the other 171 debit card transactions, totaling \$16,225, were proper and related to Foundation functions and business. Further, we could not determine if purchases made via the debit card constituted fringe benefits which should have been reported to the Internal Revenue Service (IRS) as compensation. (Finding 2, pages 18-20)

Receipts missing for 171 debit card transactions

We recommended the Foundation's personnel and Board meet and agree on specific internal control objectives, policies, and practices; thereafter, Board members and management should perform ongoing reviews of financial records and activities to ensure those objectives, policies, and practices are being adhered to closely and/or updated as changes arise. In addition, the Foundation's personnel and Board should

communicate openly, clearly, and frequently as to the financial and operational status of the Foundation.

Foundation personnel agree

Foundation personnel agreed with the finding and noted they have taken corrective action through the adoption of our recommendation in their updated policies and procedures.

LACK OF DOCUMENTATION TO SUBSTANTIATE COMPLIANCE WITH GRANT AGREEMENTS

The Foundation failed to retain documentation and records to substantiate compliance with grant agreements. We noted the following conditions:

Could not locate signed grant agreements

- The Foundation was unable to provide a signed grant agreement for one of four (25%) grants selected for testing. For the other three (75%) grants selected for testing, the Foundation was only able to provide limited documentation, such as the completed grant application. Foundation personnel indicated the required expense reports and status reports were provided to the grantor organizations via informal presentations; however, the Foundation did not retain documentation of those presentations.

Insufficient documentation of reports provided to grantors

- The Foundation did not properly classify and account for its temporarily restricted assets in its financial statements. The Foundation reported temporarily restricted assets totaling \$75,000, relating to a \$150,000 grant received in June 2016. The grant agreement specified all funds were to be used for innovative solutions for Illinois veteran outreach and communication. At the time the grant monies were received, the Foundation had a bank account balance of \$1,780. Foundation expenses from that date through the end of the fiscal year totaled \$61,241. **However, we could not determine if the \$61,241 expended during that timeframe was used solely for the purposes specified in the grant agreement or if the grant monies received were applied to expenses already incurred on a retroactive basis.** We were unable to determine the extent, if any, of the misclassification or if the terms of the grant agreement were violated due to a lack of documentation.

Temporarily restricted assets not properly classified

Auditors could not determine if grant moneys received were used solely for the purposes of the grant

Heavy reliance on grant funds to sustain operations and mission from two funding organizations

The Foundation is heavily reliant upon grant funds received to continue their operations and mission. During Fiscal Year 2016, the Foundation received a total of \$300,000 in grant monies from two identified funding organizations. This dependence on a small number of funding organizations makes it imperative the Foundation retain all necessary records and documentation to ensure compliance with grant agreements and to prevent situations where the Foundation

may be required to return grant funds to providing organizations due to noncompliance. (Finding 3, pages 21-22)

We recommended the Foundation ensure full records are maintained for each grant received, including the completed application, signed grant agreement, expense records, and any progress reports or other information required to be submitted to the grantor. Further, we recommended the Foundation's management and Board of Directors perform ongoing reviews to ensure all terms and conditions within its grant agreements are complied with by the Foundation.

Foundation personnel agree

Foundation personnel agreed with the finding and noted they have taken corrective action through the adoption of our recommendation in their updated policies and procedures.

We will review the Foundation's progress towards the implementation of our recommendations in our next financial audit and compliance examination.

AUDITOR'S OPINION

The auditors stated the financial statements of the Foundation as of and for the year ended June 30, 2016, are not fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Foundation for the two years ended June 30, 2016, as required by the Illinois State Auditing Act. Because of the effect of the noncompliance described in Finding 2016-001, 2016-002, and 2016-003, the accountants stated the Foundation did not comply with the requirements described in the report.

This financial audit and compliance examination was conducted by the Office of the Auditor General's staff.

SIGNED ORIGINAL ON FILE

JANE CLARK
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

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