



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, 2011
Release Date: December 20, 2012

Summary of Findings:

Total this audit:	3
Total last audit:	0
Repeated from last audit:	0

SYNOPSIS

The Intermediate Service Center #2:

- did not maintain adequate time and effort statements to allocate indirect costs in accordance with OMB Circular A-87.
- used grant balances to cover deficit cash balances in other programs.
- did not have adequate controls over the financial reporting process.

{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, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$5,234,610	\$4,613,799
Local Sources	\$465,075	\$1,037,972
% of Total Revenues	8.88%	22.50%
State Sources	\$2,489,756	\$1,890,993
% of Total Revenues	47.56%	40.99%
Federal Sources	\$2,279,779	\$1,684,834
% of Total Revenues	43.55%	36.52%
TOTAL EXPENDITURES	\$5,553,028	\$4,476,490
Salaries and Benefits	\$3,298,308	\$2,754,876
% of Total Expenditures	59.40%	61.54%
Purchased Services	\$1,708,585	\$1,241,720
% of Total Expenditures	30.77%	27.74%
All Other Expenditures	\$546,135	\$479,894
% of Total Expenditures	9.83%	10.72%
TOTAL NET ASSETS	\$301,175	\$619,593
INVESTMENT IN CAPITAL ASSETS	\$133,920	\$160,261
Percentages may not add due to rounding.		

EXECUTIVE DIRECTOR
During Audit Period: Ms. Kay Poyner Brown Currently: Ms. Kay Poyner Brown

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**INADEQUATE DOCUMENTATION FOR PAYROLL
EXPENDITURES**

The Intermediate Service Center #2 did not maintain adequate time and effort statements to allocate indirect costs in accordance with OMB Circular A-87.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require that expenditures be allocable, reasonable and supported by adequate documentation.

OMB Circular A-87 requires that all employee salaries and wages charged to federal grants maintain time and effort reporting. There are two types of required time and effort records: semi-annual certifications and detailed monthly reports. The type of record that must be kept is based on the job responsibilities of the individual charged to the grant.

Intermediate Service Center #2 did not maintain adequate time and effort statements to allocate indirect costs in accordance with OMB Circular A-87. Salary and benefits for administrative employees were charged to the Title I-School Improvement and Accountability and the ARRA Title I Grants to Local Educational Agencies, Recovery Act programs based on amounts calculated for budget purposes rather than costs based on actual time and effort reports.

Intermediate Service Center #2 allocated a total of \$74,542 of indirect compensation costs to the above programs. While these costs were approved in the grant budgets, without acceptable documentation of the basis for, and rationale behind, the allocations, the amounts over or undercharged to the programs cannot be readily determined. Based on the total amount of allocated costs charged to the programs, any amount deemed to be overcharged most likely would be considered immaterial. (Finding 11-1, pages 11-12)

The auditors recommended that the Intermediate Service Center #2 should develop and implement adequate policies and procedures to ensure compliance with applicable federal OMB requirements. These policies and procedures should include requiring staff involved in multiple programs to submit time sheets by program or a time and effort report by program. Intermediate Service Center #2 should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted time or

allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs.

The Intermediate Service Center #2 responded that after reviewing the finding, they agreed with this finding and began updating and implementing adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB A-87 for Compensation for Personnel Services. Starting fiscal year 2012, Intermediate Service Center #2 noted that they will be modifying the time and effort reporting and subsequent cost allocation procedures to more accurately reflect the time devoted to grant activities across multiple grant programs.

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, the delay in funding received from the State of Illinois has caused programs which the Intermediate Service Center was already in the midst of operating to have severe cash deficits. The ISC officials stated that, to continue operating as the grant agreement stipulates, cash had to be used from other sources in order to fund expenditures that were to be reimbursed by the State. (Finding 11-2, page 13)

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 due to an unprecedented delinquent receipt of State grant funds for FY11 from the State of Illinois, they were forced to use cash designated for specific purposes to cover deficit cash balances in programs other than those for which the cash was granted- i.e. for cash flow. ISC #2 noted that on a quarterly basis the State of Illinois was in arrears in its payments by these amounts: 1st quarter (\$19,083) due to some front loading of budgets; 2nd quarter (\$160,032); 3rd quarter (\$322,082); and 4th quarter (\$347,492). The ISC also noted that all of the outstanding balances due Intermediate Service Center #2 from

the State of Illinois at the end of the FY11 were paid during the 1st quarter of FY 12.

ISC #2 also stated that the small size of their budget cannot accommodate unreliable payments from their grantors. If unreliable payments continue, the Service Center will seek outside financing to cover any shortfalls that may exist. ISC #2 noted that cash funds will be expended only for those specific grant purposes for which they were designated.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

Intermediate Service Center #2 did not have adequate controls over the financial reporting process.

Intermediate Service Center #2 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 #2's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

Intermediate Service Center #2 did not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting. While the Service Center maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the 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. For example, auditors, in their review of the Service Center's accounting records, noted that material adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.

According to Intermediate Service Center #2's officials, although they employed a part-time Certified Public Accountant (CPA) on staff, there was not adequate funding to devote to employing a full-time CPA. (Finding 11-3, pages 14-15)

The auditors recommended that as part of its internal control over the preparation of financial statements, including disclosures, the Intermediate Service Center #2 should implement comprehensive preparation and/or review procedures to ensure that financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally

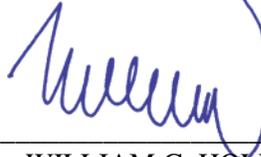
accepted accounting principles, GASB pronouncements, and knowledge of the Intermediate Service Center's activities and operations.

The Intermediate Service Center #2 responded that they had a part time CPA on staff for FY11. They noted that budget constraints would not permit employment of a full time CPA who could provide the increasingly stringent GAAP based controls over financial statement preparation that are considered necessary. ISC #2 noted that the CPA employee left the agency at the beginning of the FY13 year and ongoing financial concerns will prohibit her replacement.

ISC #2 noted that they are confident in the abilities of the accounting/bookkeeping staff to prepare cash basis financial information as needed for reporting purposes throughout the year. In addition, the Lyons Township Treasurer's Office is involved in all financial statement preparation. ISC #2 noted that management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region.

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2011 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.