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, 2012**
**Release Date: April 15, 2014**

**Summary of Findings:**

| | |
|---|---|
| **Total this audit:** | **4** |
| **Total last audit:** | **3** |
| **Repeated from last audit:** | **2** |

## SYNOPSIS

The Intermediate Service Center #2:

- did not have adequate internal control procedures;
- had expenditure and revenue reports that did not agree to the general ledger;
- used grant balances to cover deficit cash balances in other programs; and
- did not have sufficient internal 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 the Single Audit Act and OMB Circular A-133)
## For The Year Ended June 30, 2012

| | FY 2012 | FY 2011 |
|---|---|---|
| **TOTAL REVENUES** | $6,932,722 | $5,234,610 |
| Local Sources | $1,178,040 | $465,075 |
| % of Total Revenues | 16.99% | 8.88% |
| State Sources | $2,154,378 | $2,489,756 |
| % of Total Revenues | 31.08% | 47.56% |
| Federal Sources | $3,600,304 | $2,279,779 |
| % of Total Revenues | 51.93% | 43.55% |
| | | |
| **TOTAL EXPENDITURES** | $6,694,651 | $5,553,028 |
| Salaries and Benefits | $4,216,868 | $3,298,308 |
| % of Total Expenditures | 62.99% | 59.40% |
| Purchased Services | $1,874,542 | $1,708,585 |
| % of Total Expenditures | 28.00% | 30.77% |
| All Other Expenditures | $603,241 | $546,135 |
| % of Total Expenditures | 9.01% | 9.83% |
| | | |
| **TOTAL NET ASSETS** | $539,246 | $301,175 |
| | | |
| **INVESTMENT IN CAPITAL ASSETS** | $123,815 | $133,920 |
| Percentages may not add due to rounding. | | |

| **EXECUTIVE DIRECTOR** |
|---|
| During Audit Period: Ms. Kay Poyner Brown<br>Currently: Ms. Kay Poyner Brown |

## 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 is required to maintain a system of controls over receipts, disbursements, and reporting to prevent errors and fraud.

The Intermediate Service Center #2 has not established sufficient controls over its accounting functions. Auditors, in their review of the Service Center's accounting records, noted the following:

- The Service Center did not adhere to its policy of requiring both the Grant Manager's and the Executive Director's approval of purchases. In 11 of 80 (14%) instances, purchase orders were not approved by **either** the Grant Manager or the Executive Director. In 37 of 80 (46%) instances, purchase orders were approved by the Grant Manager but not by the Executive Director; in 2 of 80 (3%) instances, purchase orders were approved the by the Executive Director but not the Grant Manager.
- The Service Center did not cancel invoices once paid. In 42 of 80 (53%) instances, invoices were not canceled once paid.

The Service Center did not adhere to established internal control procedures in place to ensure that expenditures were properly authorized, approved and canceled once paid. (Finding 12-1, pages 11-12)

The auditors recommended that the Intermediate Service Center #2 should comply with its established system of internal controls to ensure expenditures are properly approved before payments are made and posted to the general ledger. The Grant Manager and Executive Director should both approve all purchase orders. When the invoice is ready for payment, there should be an approval signature by the Executive Director indicating the supporting documentation was reviewed and the invoice is properly authorized and ready for payment. In order to maintain better controls over cash disbursements, invoices should be canceled by stamping "paid" on the face of the invoices.

The Intermediate Service Center #2 responded that it acknowledges that internal controls need to be strengthened in this area. Since the on-site portion of the June 30, 2012, audit was completed, new procedures have been implemented that assure that each purchase is preapproved, and that each purchase order has two signatures prior to payment. Invoices will also be canceled by stamping or writing "paid" on the face of the invoice. The Service Center noted that its process utilized a purchase order related to each invoice, which includes required signatures, appropriate coding, and other information. Once an invoice is paid, the check number and date are recorded on the purchase order, providing documentation that the invoice has been paid. The purchase order, invoice, and any other documentation is then filed with that month's check ledger.

**EXPENDITURE AND REVENUE REPORTS DO NOT AGREE TO GENERAL LEDGER**

**The Intermediate Service Center #2 had expenditure and revenue reports that did not agree to the general ledger.**

Expenditure and revenue reports for education program funding passed-through from the Illinois State Board of Education (ISBE) should agree with the revenue and expenditures reported on the Intermediate Service Center #2's general ledger.

A comparison of expenditure and revenue reports to Intermediate Service Center #2's general ledger revealed instances where the totals on the June 30, 2012, expenditure reports submitted to the Illinois State Board of Education did not agree with the Service Center's general ledger. In addition, the revenue reports showing funds dispersed by ISBE to the Service Center as of June 30, 2012, did not agree with the Service Center's general ledger. The following instances were noted:

- The expenditure report submitted to ISBE for the Technology for Success program (2012-3780-00) reported total expenditures of $135,701, while the general ledger reported total expenditures of $0.

- The revenue detail report showing funds disbursed by ISBE to the Service Center for the Technology for Success program (2012-3780-00) reported total funds disbursed through June 30, 2012, of $145,460, while the general ledger reported total funds received of $0.

- The expenditure report submitted to ISBE for the Education Technology State Grants, Recovery Act (2012-4861-00) reported total expenditures of $26,664, while the general ledger reported total expenditures of $0.

- The revenue detail report showing funds disbursed by ISBE to the Service Center for the Education Technology State Grants, Recovery Act (2012-4861-00) reported total funds disbursed through June 30, 2012, of $26,664, while the general ledger reported total funds received of $0.

The Intermediate Service Center #2's personnel responsible for recording the activity for these programs in the general ledger misunderstood the accounting treatment of these pass-through funds. (Finding 12-2, pages 13-14)

The auditors recommended that the Intermediate Service Center #2's personnel responsible for preparing the expenditure reports and recording funds received from ISBE should ensure all expenditure and revenue reports are supported by the appropriate adjusted general ledger accounts maintained in the Service Center's accounting software. The Service Center should implement policies and procedures to ensure timely and complete monthly reconciliations and closing procedures are occurring. This would reduce the chance of significant errors in the financial statements.

The Intermediate Service Center #2 responded that it became the Fiscal Agent for the Learning Technology Center (LTC) in 2011. This change caused LTC funds and the above mentioned grants to be handled by a new Township Treasurer (TTO). With the transition from one TTO to another, the LTC funds were transferred into a separate general ledger account, not an Intermediate Service Center #2 account. The Service Center noted that the separate general ledger transactions were managed by Service Center staff, with expenditure approval by the Executive Director and the Service Center Governing Board. The resignation of the Service Center's part time CPA at the end of the June 30, 2012, fiscal year left the agency without an experienced person on staff to reconcile accounts prior to the June 30, 2012, audit process. The Service Center stated that beginning with the June 30, 2013 audit, the Service Center hired a consulting CPA to reconcile ledgers, provide adjusting trial balances, and oversee the audit preparation process. The Service Center agrees with the above finding for the June 30, 2012, audit and anticipates that the services of the consulting CPA to support the audit preparation process, as well as improvements to internal accounting procedures, will eliminate such errors in the future.

**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 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 12-3, page 15)

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 the source of cash used to address cash flow issues was available local funds, to the extent they were available, not grant funds. The ISC #2 stated that FY 2012 saw a continuation of delinquent receipts of State grant funds as experienced in FY 2011. As in FY 2011, programs with a start date of July 1 required expenditures to be incurred without available state funds. ISC #2 noted that it was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where funds were late in arriving. ISC #2 also stated that on a quarterly basis the State of Illinois was in arrears in its payments by these percentages: At the end of the 1st quarter of 2012 the Service Center received only 5.5% of its FY 2012 budgeted state dollars; at the end of the 2nd quarter only 25% was received; by the end of the 3rd quarter 55% was received; at the end of FY 2012 the Service Center received 84% of the total budgeted state dollars. The remaining 16% of the FY 2012 funds were received during the 1st quarter of FY 2013.

**CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Intermediate Service Center #2 did not have sufficient internal 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 12-4, page 16)

The auditors recommended that as part of 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. These 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 it had secured the services of a consulting CPA to assist with audit preparation processes, beginning with June 30, 2013, audit.

**AUDITORS' OPINION**

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2012 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.