



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

INTERMEDIATE SERVICE CENTER #2
WEST COOK

FINANCIAL AUDIT
For the Year Ended: June 30, 2018

Release Date: July 27, 2022

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2015			18-1
Category 1:	0	2	2	2012	18-2		
Category 2:	0	1	1	2017		18-3	
Category 3:	1	1	2	2017	18-4		
TOTAL	1	4	5				
FINDINGS LAST AUDIT: 6							

SYNOPSIS

- (18-1) The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (18-2) The Intermediate Service Center #2 did not have adequate internal control procedures.
- (18-3) The Intermediate Service Center #2 lacked adequate controls over the review of internal controls over external service providers.
- (18-4) The Intermediate Service Center #2 lacked controls over Illinois Municipal Retirement Fund (IMRF) census data.
- (18-5) The Intermediate Service Center #2 did not have adequate internal controls over grant compliance.

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
For The Year Ended June 30, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$14,326,678	\$10,695,968
Local Sources	\$1,906,055	\$1,565,105
% of Total Revenues	13.30%	14.63%
State Sources	\$12,133,565	\$8,391,484
% of Total Revenues	84.69%	78.45%
Federal Sources	\$287,058	\$739,379
% of Total Revenues	2.00%	6.91%
TOTAL EXPENDITURES	\$14,538,708	\$10,081,217
Salaries and Benefits	\$12,169,046	\$7,797,700
% of Total Expenditures	83.70%	77.35%
Purchased Services	\$1,916,413	\$1,467,607
% of Total Expenditures	13.18%	14.56%
All Other Expenditures	\$453,249	\$815,910
% of Total Expenditures	3.12%	8.09%
TOTAL NET POSITION	(\$6,671,681) ¹	(\$4,212,088)
INVESTMENT IN CAPITAL ASSETS	\$23,076	\$31,159
<p>¹The FY 2018 beginning net position was restated by (\$2,247,563) due to a prior period adjustment for new reporting requirements for other postemployment benefits.</p> <p style="text-align: center;">Percentages may not add due to rounding.</p>		

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, 2018 deadline.

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 (GAGAS). 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.

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 18-001, pages 11 – 12) **This finding was first reported in 2015.**

The auditors recommended the ISC should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Additionally, ISC management should determine if changing to the cash basis or modified cash basis would be allowable and beneficial to the ISC and the users of its financial statements. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

ROE Response: *As this writing is occurring in FY22, we expect to see this as an ongoing finding for audits yet to be completed for FY19-21. We have worked with our contracted accountant over the past six 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.*

INADEQUATE INTERNAL CONTROL PROCEDURES

The Intermediate Service Center #2 did not have adequate internal control procedures.

Auditors noted the following weaknesses in the Intermediate Service Center #2's (ISC) internal control system for which there were no mitigating controls:

- All transactions were not initially posted directly to the correct funds in the general ledger. Subsequent adjusting entries had to be recorded to reclassify them to the proper fund.
- There was a lack of segregation of duties within the cash receipts process. The same employee was primarily responsible for creating invoices for programs and academies, receiving and depositing cash receipts, and following up on outstanding receivables. Additionally, there was no formal process for reviewing outstanding receivables.
- There was no consistent documentation of room rental rates. Room rates vary by type of event and user and are communicated to the registrar for invoicing either verbally or by email.
- There was a lack of controls over equipment inventory. The ISC had a detailed listing of capital assets costing over \$1,500 and acquired after 2015; however, no details of assets acquired prior to that time were available nor were annual physical inventories taken.

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 18-002, pages 13 – 14) **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 outstanding receivables implemented.
- Room rental rates should be communicated in writing to the registrar to avoid misunderstanding and to provide an audit trail.
- Capital asset inventories need to be taken on an annual basis and detailed records maintained.

ROE 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.*
- *Accounting functions will be segregated and a formal process for reviewing outstanding receivables implemented.*
- *Consistent documentation of room rentals will be developed.*
- *Capital asset inventories will be taken on an annual basis and detailed records maintained.*

LACK OF ADEQUATE CONTROLS OVER THE REVIEW OF INTERNAL CONTROLS OVER EXTERNAL SERVICE PROVIDERS

The Intermediate Service Center #2 lacked adequate controls over the review of internal controls over external service providers.

As part of the audit process, auditors requested the Intermediate Service Center #2 (ISC) provide a population of the service providers utilized. The ISC was able to identify service providers that provided various hosting and backup services.

The ISC lacked adequate controls over the review of internal controls over external service providers. During testing, the auditors noted the ISC had not:

- Developed a formal process for identifying service providers and for either obtaining the Service Organization Controls (SOC) reports from the service providers and related subservice organization or performing alternative procedures to determine the impact of such services on its internal control environment prior to signing an agreement with the service provider.
- Documented its review of each of the SOC reports, or performed alternative procedures, to evaluate any issues relevant to the ISC's internal controls.
- Monitored and documented the operations of the Complementary User Entity Controls (CUECs) relevant to the ISC's operations.

The ISC is responsible for the design, implementation, and maintenance of internal controls, including the controls that are outsourced to service providers, related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction. This process is not limited due to the process being outsourced.

Generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

ISC management indicated staff lacked knowledge that a good internal control system included having controls in place to ensure the accuracy of what external service providers are providing and to ensure that the controls of external service providers are sufficient to perform the service(s) for the organization. (Finding 18-003, pages 15 – 16)

The auditors recommended the ISC identify all third-party service providers and determine and document if a review of controls is required. If required, the ISC should:

- Obtain SOC reports including services provided by subservice organizations, prior to signing agreements with providers and annually thereafter or perform independent reviews of internal controls associated with outsourced systems.
- Document its review of the SOC reports or perform alternative procedures to evaluate all significant issues to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the ISC, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

ROE Response: *We have made contact with another Regional Office of Education to receive training and documentation regarding controls over the review of internal controls over external service providers.*

LACK OF CONTROLS OVER ILLINOIS MUNICIPAL RETIREMENT FUND (IMRF) CENSUS DATA

The Intermediate Service Center #2 lacked controls over Illinois Municipal Retirement Fund (IMRF) census data.

During testing of the IMRF net pension liability, auditors noted the actuarially determined pension report had census data that could not be confirmed as reasonably accurate. Specifically, auditors noted:

- A decrease in the number of retirees and beneficiaries receiving benefits (annuitant) from the December 31, 2015 actuarial valuation to the December 31, 2016 actuarial valuation from 28 to 12.

- 4 of 12 annuitants listed on the census data provided to the actuary were never employees of Intermediate Service Center #2 (ISC).

Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. Management of cost-sharing and agent employer plans are also responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, including completeness and accuracy of census data. Although an outside actuary is involved in the calculation of the net pension liability, the actuary relies on census data, the accuracy of which is the responsibility of the ISC.

ISC management indicated that in 2013, IMRF approved the ISC to be an IMRF agent whereas District 106 was previously the administrative agent that encompassed the ISC. At this time, a number of individuals who were never ISC employees were erroneously transferred to the ISC's new account. However, management indicated that the error was corrected. It is likely this resulted in additional individuals being erroneously included in the ISC's census data. (Finding 18-004, pages 17 – 18)

The auditors recommended the ISC work with IMRF to determine the cause of the discrepancies and establish appropriate review procedures over the actuarial valuations and supporting census data.

ROE Response: *Since this error was detected in 2017, we have been requesting that IMRF make the corrections. We will continue to work with IMRF to ensure that their records are correct and that their previous error does not skew our current actuarial valuations.*

CONTROLS OVER GRANT COMPLIANCE

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

The Intermediate Service Center #2 (ISC) did not have adequate internal controls over grant compliance. During the course of the audit, auditors noted 20 of the 24 (83%) quarterly expenditure reports required by the Illinois State Board of Education (ISBE) were not submitted timely. Twelve of the quarterly expenditure reports were submitted four days late, six quarterly expenditure reports were submitted six days late and two of the quarterly expenditure reports were submitted 62 days late.

As a recipient of federal, State and local funds from various grantor agencies, the ISC must incorporate certain procedures into its operations 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 quarterly 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 18-005, page 19)

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

ROE Response: *The ISC will implement internal controls to ensure that grant expenditure reports are filed timely.*

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements are fairly presented in all material respects, except for the possible effects of being unable to obtain sufficient appropriate audit evidence about the Center's proportionate share of Illinois Municipal Retirement Fund net pension liability, deferred outflows and deferred inflows of resources related to pensions and the pension expense as of June 30, 2018.

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

SIGNED ORIGINAL ON FILE

JOE BUTCHER
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

FJM:JMM