



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, 2020

Release Date: August 14, 2024

FINDINGS THIS AUDIT: 6				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2015			20-1
Category 1:	0	1	1	2012	20-2		
Category 2:	1	2	3	2017		20-3	
Category 3:	0	2	2	2018			20-4
TOTAL	1	5	6	2019		20-5	
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- **(20-1)** The Intermediate Service Center #2 did not provide completed financial statements in an auditable form by the August 31 deadline.
- **(20-2)** The Intermediate Service Center #2 did not have adequate internal control procedures.
- **(20-3)** The Intermediate Service Center #2 lacked adequate controls over the review of internal controls over external service providers.
- **(20-4)** The Intermediate Service Center #2 did not have adequate internal controls over grant compliance.
- **(20-5)** The Intermediate Service Center #2 did not have adequate internal controls over procurement-card transactions.
- **(20-6)** The Intermediate Service Center #2 did not have adequate internal controls over payroll processing.

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, 2020

	FY 2020	FY 2019
TOTAL REVENUES	\$14,284,923	\$12,859,626
Local Sources	\$1,631,382	\$3,072,552
% of Total Revenues	11.42%	23.89%
State Sources	12,600,888	\$9,647,646
% of Total Revenues	88.21%	75.02%
Federal Sources	\$52,653	\$139,428
% of Total Revenues	0.37%	1.08%
TOTAL EXPENDITURES	\$14,675,450	\$12,263,240
Salaries and Benefits	\$9,798,569	\$9,083,960
% of Total Expenditures	66.77%	74.07%
Purchased Services	\$1,484,993	\$1,686,587
% of Total Expenditures	10.12%	13.75%
All Other Expenditures	\$3,391,888	\$1,492,693
% of Total Expenditures	23.11%	12.17%
TOTAL NET POSITION	\$1,806,787	\$2,197,314
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
Percentages may not add due to rounding.		

EXECUTIVE DIRECTOR
During Audit Period: Honorable Dr. Mark Klaisner Currently: Honorable 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, 2020 deadline. The June 30, 2019 report was not released until August 16, 2023. The FY20 completed financial statements were provided to auditors on January 18, 2024.

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. The Regional Office of Education or Educational 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. The ISC has chosen the cash basis of accounting for financial reporting.

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 20-001, pages 10 – 11) **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). 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 FY24, we expect to see this as an ongoing finding for audits yet to be completed for FY21-24. We have worked with our contracted accountant over the past seven 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.

The Intermediate Service Center #2 (ISC) did not have adequate internal control procedures. Auditors noted the following weaknesses in the ISC's 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 balances. Additionally, there was no formal process for reviewing amounts owed to the ISC.
- 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.

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 12-002, pages 12 – 13) **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 amounts owed to the ISC implemented.
- Room rental rates should be communicated in writing to the registrar to avoid misunderstanding and to provide an audit trail.

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.*
- *In FY24, our Director of Facilities has developed guidelines on room rental rates. These have been entered in the new facility rental software that has been purchased.*

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 20-003, pages 14 – 15) **This finding was first reported in 2017.**

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.*

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 11 of the 70 (16%) expenditure reports required by the Illinois State Board of Education (ISBE) were not submitted timely. One expenditure report was submitted seven days late, two were submitted four days late, five were submitted three days late and three were submitted one day 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 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 19-004, page 16)

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

ROE Response: *A Director of Grants and Assistant Director of Grants were hired in FY22 to oversee and monitor all grant purchases.*

INADEQUATE CONTROLS OVER PROCUREMENT-CARD TRANSACTIONS

The Intermediate Service Center #2 did not have adequate internal controls over procurement-card transactions.

The Intermediate Service Center #2 (ISC) did not have adequate internal controls over procurement-card (P-card) transactions. Internal controls over disbursements were not effectively designed and implemented. During the auditors testing of P-card transactions, the auditors noted the following:

- Personal expenses were charged by two employees on the ISC's P-card. These expenses were paid back in full by the employees with personal checks. The ISC maintained a copy of the personal check and the related charge receipts with the credit card statements. Personal expenses charged within the transactions tested totaled \$597.
- While testing a sample of 3 months of P-card transactions, supporting receipts were not provided for 8 cardholders' transactions totaling \$587.

The ISC is required to maintain a system of controls over disbursements to prevent errors, omissions, and fraud. Additionally, expenses incurred should be for a business purpose and represent economical and effective use of the ISC's resources.

ISC management indicated personal expenses were mistakenly charged by staff members using P-cards instead of their personal credit cards. In addition, charge receipts were misplaced and could not be found. (Finding 20-005, pages 17 – 18)

The auditors recommended the ISC adhere to its policy prohibiting the use of P-cards for personal use. In addition, procedures should be implemented to ensure documentation of P-card activity is obtained and retained.

ROE Response: *The ISC will adhere to its policy prohibiting the use of P-cards for personal use. In addition, procedures will be implemented to ensure documentation of P-card activity is obtained and retained.*

INADEQUATE CONTROLS OVER PAYROLL PROCESSING

The Intermediate Service Center #2 did not have adequate internal controls over payroll processing.

The Intermediate Service Center #2 (ISC) did not have adequate internal controls over payroll processing. During auditors' testing of a sample of 40 payroll transactions, auditors noted that one employee did not have time sheets or time and effort reports available for the period tested. In addition, that employee had no documentation of an approved pay rate on file. As a result, auditors were unable to determine the accuracy of the payment to that employee.

In addition, while time and effort reports with percentage of time spent on various programs were noted for full time employees in the auditor's sample, the ISC was unable to provide support for how the percentages were determined. As a result, it was unclear as to whether the time was allocated based on budgets or some other method and whether allocations were trued up to actual time spent.

Best practices require the ISC to maintain a system of controls over payroll processing which includes documentation supporting approved pay rates, provides reasonable assurance that the salary and benefit charges are accurate and properly allocated, and requires records to be used to support the distribution of employee salaries and benefits among specific activities if the employee works on multiple programs.

ISC management indicated that the lack of time sheets and time and effort reports may be due to documents not being returned to the files or misplaced since the pay period. Approved pay rates may not have been documented or copies were not made for the employee files. Also, prior to fiscal 2021, allocations of time were made to programs under a process no longer followed by the ISC. (Finding 20-006, pages 19 – 20)

The auditors recommended the ISC employ best practices to require time sheets or time and effort reports and ensure that documentation supporting pay rates is maintained in personnel files. In addition, auditors recommend that percentage time allocations to programs be supported by documentation and that any necessary true ups to actual time spent be performed.

ROE Response: *Time sheets for hourly employees will be required. Any staff member being paid from a grant will record their time on their calendars and/or any time management software purchased.*

AUDITORS' OPINION

Our auditors state the Intermediate Service Center #2's financial statements as of June 30, 2020 are fairly presented in all material respects.

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