

# REPORT DIGEST

REGIONAL OFFICE OF  
EDUCATION # 21

FRANKLIN/WILLIAMSON  
COUNTIES

FINANCIAL AUDIT  
(In accordance with the Single  
Audit Act and OMB Circular  
A-133)

For the Year Ended:  
June 30, 2004

## Summary of Findings:

Total this audit	8
Total last audit	10
Repeated from last audit	5

Release Date:

October 27, 2005



State of Illinois  
Office of the Auditor General  
**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## SYNOPSIS

- The Regional Office made 62 non-routine/bonus payments to selected employees during the year totaling \$72,784. Of this amount, \$47,113 was made during June 2004. Additionally, 43 of these payments were not supported by an approved Payroll Change notice form.
- The Regional Superintendent submitted travel vouchers for mileage and meal expenses for himself and other employees that were reimbursed by the ROE that have been alleged to be materially false in indictments released on August 19, 2004.
- An original receipt did not support 46 of 101 charges (\$6,234) listed on credit card statements for the period of July 2003 through November 2003.
- Travel reimbursements were made to travelers for expenses that did not have an evident business purpose.
- Regional Office of Education #21 did not maintain an adequate cost allocation plan.
- The Regional Office of Education #21 did not comply with certain statutory administrative requirements.
- In a review of 70 expenditures and related vendor invoices, the Superintendent or Program Coordinator did not properly approve 31 invoices for payment.
- The Regional Office did not bill school districts in a timely manner for testing supplies and materials and lost potential unrestricted revenues of \$35,594.

{Expenditures and Revenues are summarized on the reverse page.}

**REGIONAL OFFICE OF EDUCATION # 21**  
**FRANKLIN AND WILLIAMSON COUNTIES**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act and OMB Circular A-133)**  
**For The Year Ended June 30, 2004**

	<b>FY 2004</b>	<b>FY 2003</b>
<b>TOTAL REVENUES</b>	\$3,871,502	\$4,216,992
Local Sources	\$683,625	\$463,740
% of Total Revenues	17.66%	11.00%
State Sources	\$1,320,133	\$1,558,441
% of Total Revenues	34.10%	36.96%
Federal Sources	\$1,867,744	\$2,194,811
% of Total Revenues	48.24%	52.05%
<b>TOTAL EXPENDITURES</b>	\$4,394,271	\$4,281,040
Salaries and Benefits	\$2,461,015	\$2,318,298
% of Total Expenditures	56.01%	54.15%
Purchased Services	\$655,400	\$922,270
% of Total Expenditures	14.91%	21.54%
All Other Expenditures	\$1,277,856	\$1,040,472
% of Total Expenditures	29.08%	24.30%
<b>TOTAL NET ASSETS<sup>1</sup></b>	\$1,178,731	\$1,701,500
<b>INVESTMENT IN CAPITAL ASSETS<sup>1</sup></b>	\$634,745	\$981,684

1 In fiscal year 2004, Regional Offices of Education implemented Government Accounting Standards Board (GASB) Statement No. 34 which established a new financial reporting model for state and local governments. Government-wide financial statements are prepared using full accrual accounting that reports Total Net Assets. The fiscal year 2003 ending general fixed assets have been restated to reflect the changes required as part of the implementation of GASB Statement #34. Percentages may not add due to rounding.

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Barry Kohl
Currently: Honorable Barry Kohl

**FINDINGS, CONCLUSIONS AND  
RECOMMENDATIONS**

**LACK OF PAY RATE AUTHORIZATIONS AND  
EMPLOYEE EVALUATIONS**

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**The Regional Office made 62 non-routine/bonus payments to selected employees during the year totaling \$72,783.50. Of this amount, \$47,112.50 was paid in June 2004. Of these payments, 43 (69%) were not supported by an approved Payroll Change notice.**

The Regional Office of Education #21 made 62 non-routine/bonus payments to selected employees during the year which totaled \$72,783.50. Of this amount, \$47,112.50 was made during June 2004, which is the last month of a considerable number of the ROE's grant funded programs. Additionally, 43 of the 62 (69%) payments were not supported by an approved Payroll Change Notice form. ROE policy requires this notice to be signed by the Superintendent and on file with the bookkeeper before the effective date of the payroll change in order to document the approval of the rate change or additional compensation.

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**Twenty-two of 25 employee files reviewed did not have documentation supporting the approved pay rate. Annual pay raises were also not supported by any documentation to justify the increase, such as an employee evaluation.**

In addition, 22 of 25 (88%) employee files reviewed for support of the employee's normal pay rate or salary did not have documentation supporting their approved pay rate on file. Annual pay raises were also not supported by any documentation to justify the increase, such as an employee evaluation. The ROE's fiscal policies and procedures manual states, "All personnel shall be evaluated annually by the Program Director and/or Regional Superintendent based on a process approved by the Regional Superintendent." (Finding 04-01, pages 15 -17) **This finding is repeated from our 2003 audit.**

The auditors recommended that the Regional Office of Education #21 maintain documentation for employees that establishes a pay rate commensurate with the responsibilities assigned. In addition, formal job evaluations should be performed at least on an annual basis and be documented in the employee's personnel file. The ROE responded that evaluations were performed for this current fiscal year. The ROE also provided an example of how the funds used for the extra compensation were received and distributed. The auditors commented they would follow-up in the audit for the fiscal year ended June 30, 2005 to determine

whether evaluations were performed and pay rate authorizations were appropriately documented. (For previous Regional Office response, see Digest Footnote #1.)

## UNALLOWABLE EXPENDITURES

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**The Regional Superintendent submitted travel vouchers for mileage and meal expenses for himself and other employees that were reimbursed by the ROE that have been alleged to be materially false in indictments released on August 19, 2004.**

The Regional Superintendent submitted travel vouchers for mileage and meal expenses for himself and other employees that were reimbursed by the ROE that have been alleged to be materially false in indictments released on August 19, 2004. The Regional Superintendent and three ROE employees have been indicted for allegations ranging from theft and forgery to official misconduct, conspiracy, and/or perjury.

During the period September 28, 2003 through January 31, 2004, the indictments allege, in part, the following:

- A travel voucher submitted for the period of September 28, 2003 through October 25, 2003 included mileage of 1,000 miles to Livingston, Alabama on October 24, 2003 that was not incurred on business of the ROE.
- A travel voucher submitted for the period of October 26, 2003 through November 14, 2003 included mileage of 800 miles to Philadelphia, Mississippi on October 31, 2003 that was not incurred on business of the ROE.
- A travel voucher submitted for lodging expense on October 11-12, 2003 for \$284.99 was not incurred on business of the ROE.

The Regional Superintendent reimbursed the ROE \$2,625.70 for some personal expenditures incurred during the audit period. However, it is unclear which specific charges were being reimbursed or whether any of these reimbursements related to matters that were the subject of the indictments. (Finding 04-02, pages 18 – 20) **This finding is repeated from our 2003 audit.**

The auditors recommended that the Regional Office establish and follow a policy that prohibits personal expenditures from being paid with ROE funds. Internal controls should be established to ensure that personal expenses are not paid by the Regional Office. The auditors also recommended that the Regional Superintendent reimburse the ROE for all personal expenses paid by the ROE that have not already been reimbursed. The ROE responded that the procedure has been changed for fiscal year ending June 30, 2005 as of January 1, 2005. (For previous Regional Office response, see Digest Footnote #2.)

### **LACK OF SUPPORTING DOCUMENTATION**

Of the 101 charges listed on credit card statements for the period of July 2003 through November 2003, 46 (46%) were not supported by the original receipt. The total of the unsupported expenditures was \$6,234. Beginning in December 2003, the Regional Superintendent began only submitting receipts for reimbursement as opposed to the entire credit card statement.

Credit card statements submitted for reimbursement for the period of July 2003 through November 2003 contained various items, including meals, some of which appeared to be personal in nature (activity on late evenings and weekends, entertainment, etc.), however, because there was no explanation or other documentation attached to the credit card statement to indicate the business purpose of the expenditure or if the meal expenditures were "incurred due to a lunch or dinner meeting", we were unable to determine if the expenditures were business related. The Regional Superintendent did submit reimbursements to the ROE for personal charges totaling \$2,625.70; however, it was unclear which specific charges were being reimbursed.

Additionally, 30 of 65 (46%) of cell phone expenditures, totaling \$6,317, were not properly supported. Only the summary page (page 1) of the cell phone bill was submitted as supporting documentation.

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**An original receipt did not support 46 charges (\$6,234) listed on credit card statements for the period of July 2003 through November 2003. All expenditures were paid by the ROE and personal expenditures totaling \$2,626 were later reimbursed by the Regional Superintendent during this period; however, it was unclear which specific charges were being reimbursed. Additionally, 30 of 65 cell phone expenditures totaling \$6,317 were not properly supported.**

Details regarding the number of lines, names of users, number of minutes, etc. were omitted. Monthly cell phone invoices submitted ranged from \$28.50 to \$1,125.30. Additionally, some individuals submitting cell phone invoices for reimbursement also submitted reimbursement for long distance hotel phone calls when traveling out of state. (Finding 04-03, pages 21 - 22) **This finding is repeated from our 2003 audit.**

The auditors recommended that the Regional Office adhere to its policy, which requires that each meal reimbursement submitted be accompanied by a receipt. In addition, all requests for reimbursement should include receipts and documentation showing the purpose of the expenditure. The auditors also recommended the ROE require that the detail of all cell phone invoices be provided to determine that only business related calls are being reimbursed.

The Regional Office of Education #21 responded that the credit card procedure changed in December 2003 and that the cell phone charges were work related. The auditors commented that they will follow-up in their audit of the fiscal year 2005 to determine whether detailed billings are being received and adequately reviewed by the Regional Office. (For previous Regional Office response, see Digest Footnote #3.)

## **QUESTIONABLE TRAVEL REIMBURSEMENTS**

Travel reimbursements were made to travelers for expenses that did not have an evident business purpose. Several issues were noted regarding travel reimbursements paid by the ROE.

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**Travel reimbursements were made to travelers for expenses that did not have an evident business purpose.**

- Of 56 travel and expense vouchers examined, 24 (43%) did not have an evident business purpose.
- Of 101 credit card charges, 50 charges (50%) did not have an evident business purpose.
- One travel voucher had the same hotel room stay submitted twice, at an additional cost to the ROE of \$121.70.

- Six travel vouchers indicated that the traveler had traveled from Benton for business; however, the meal expense incurred was actually in Benton and no business purpose was included.
- Per diem rates paid by the Regional Office were not consistent, ranging from \$28 per day to \$32 per day. The Regional Office's policies and procedures manual states the rate for fiscal year 2004 is \$28 per day.
- For several travel vouchers, it appears that travel reimbursements were paid for travel that had not yet been completed. For example, for a voucher covering travel from July 24, 2003 through August 8, 2003, the reimbursement check was dated August 4, 2003, yet the last date of travel on the travel voucher was August 8, 2003. (Finding 04-04, pages 23 – 24) **This finding is repeated from our 2003 audit.**

The auditors recommended that the Regional Office of Education #21 strengthen internal controls over the processing of travel expenses to ensure that travel expenses reimbursed are accurate and in compliance with the ROE's travel policies and procedures. Undocumented travel reimbursements received by the Regional Office employees should not be paid to the traveler until proper documentation is received.

The Regional Office responded that from this time forward, travel expenses and credit card charges will note the business purpose and destination. Likewise, vouchers for meal expenses will have the business purpose noted. The Regional Office responded that the travel voucher for the same hotel room submitted twice was an error and the ROE will be reimbursed for the \$121.70. Per diem will be charged at \$32 per day if allowed by the grant and \$28 per day if the grant makes no provision for per diem. (For previous Regional Office response, see Digest Footnote #4.)

## IMPROPER ALLOCATION OF COSTS

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**The Regional Office of Education #21 did not maintain an adequate cost allocation plan.**

The Regional Office of Education #21 has not implemented a cost allocation plan or an approved indirect cost rate to allocate indirect costs in accordance with OMB Circular A-87. The ROE invoices the various grants and programs it administers for central service activities, including support salaries and related benefits, accounting and secretarial services, and space rent based on the grants' budgeted costs (rather than as part of a Cost Allocation Plan). Such salaries and benefits are allowable expenditures under OMB Circular A-87, however, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages is required to be documented in accordance with the provisions of OMB Circular A-87 or be included in the ROE's cost allocation plan. (Finding 04-05, pages 25 - 26) **This finding is repeated from our 2003 audit.**

The auditors recommended that the Regional Office of Education #21 develop a cost allocation plan or establish an approved indirect cost rate in accordance with OMB Circular A-87 which addresses allowable costs to all applicable programs. The Regional Office responded that a cost allocation plan is in place. The auditors commented that the ROE has not implemented a methodology to allocate administrative salaries to its various programs to ensure each program is only charged its fair share. The ROE maintains a cost allocation plan in form only that was modeled from another ROE. The plan is not followed. (For previous Regional Office response, see Digest Footnote #5.)

## NONCOMPLIANCE WITH STATE MANDATES

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**The Regional Office of Education #21 did not comply with certain statutory administrative requirements.**

The Regional Office of Education #21 did not comply with certain statutory administrative requirements. For example, the Illinois School Code (105 ILCS 5/3-6) requires the Regional Superintendent to report, in writing, to the county board on or before January 1 of each year, stating: (1) the balance on hand at the time of the last report, and all receipts since that date, with the sources from which they were derived;



(2) the amount distributed to each of the school treasurers in his or her county; and (3) any balance on hand.

The School Code (105 ILCS 5/3-12) also requires that on or before January 1 of each year, the Regional Superintendent shall publish in a newspaper of general circulation published in the region or shall post in each school building under his/her jurisdiction, certain information regarding the Office's Institute Fund. ROE officials stated they were unaware of these requirements. (Finding 04-07, pages 28 - 29)

The auditors recommended that the Regional Office ensure it complies with all applicable Illinois Compiled Statutes. The Regional Office responded that per the Office of the Auditor General audit manager, this finding is common among ROEs. The auditors commented that while similar findings appear in other fiscal year 2004 Regional Office of Education audits, other Regional Office responses to the finding generally noted the corrective action they were taking to address the finding.

#### **LACK OF AND/OR INCONSISTENCIES IN PAYMENT AUTHORIZATIONS**

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**In a review of 70 expenditures and related vendor invoices, auditors noted that 31 invoices (44%) were not properly approved for payment by the Superintendent or Program Coordinator. In 16 of the 70 (23%), it appeared that someone other than the Regional Superintendent initialed the "Authorization for Payment" forms in the space designated for the Superintendent's approval.**

In a review of 70 expenditures and related vendor invoices, auditors noted that 31 invoices (44%) were not properly approved for payment by the Superintendent or Program Coordinator. Additionally, in 16 of the 70 (23%) expenditures examined, it appeared that someone other than the Regional Superintendent initialed the "Authorization for Payment" forms in the space designated for the Superintendent's approval. (Finding 04-08, page 30)

The auditors recommended that the Regional Superintendent ensure that all vendor invoices and employee reimbursements are properly authorized before payment. The Regional Office responded that the Regional Superintendent is now initialing all authorizations.

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**The ROE did not bill school districts in a timely manner for testing supplies and materials and lost potential unrestricted revenues of \$35,594.**

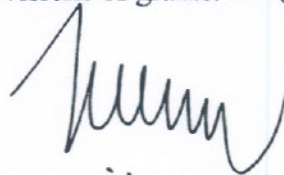
## **LOSS OF POTENTIAL REVENUE**

The ROE did not bill school districts in a timely manner for testing supplies and materials and lost potential unrestricted revenues of \$35,594. The billings for the 01-02 and 02-03 school years were not mailed to the school districts until September 2003, well after the completion of the school year. The school districts' current budgets did not account for these costs. Due to the difficulty of the school districts to pay these fees, the ROE elected to forgive these receivables. The Regional Office noted that the 03-04 school year testing supplies and materials were billed to and paid by the school districts in a timely matter. (Finding 04-06, page 27)

The auditors recommended the Regional Office strengthen internal controls over the billing of testing supplies and materials so that the ROE does not lose out on a potential revenue source. The Regional Office responded that since the Regional Office failed to send out the bills, the Regional Office forgave the school districts' debt. The Regional Office noted that they are now properly billing school districts.

## **AUDITORS' OPINION**

Our auditors state the Regional Office of Education # 21's financial statements as of June 30, 2004 are fairly stated in all material respects. The auditors' report contains an emphasis of matter paragraph due to contingent liabilities created by possible violation of restrictive provisions of grants.



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WILLIAM G. HOLLAND, Auditor General

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## SPECIAL ASSISTANT AUDITORS

Our special assistant auditors were Sikich Gardner & Co., LLP.

### DIGEST FOOTNOTES

#### #1: LACK OF PAY RATE AUTHORIZATIONS AND EMPLOYEE EVALUATIONS – Previous Regional Office Response

In its prior response in 2003, the Regional Office responded that documentation for employee pay increases would be documented and maintained. The Regional Superintendent and/or Program Directors would conduct an annual performance evaluation for employees of the Regional Office.

#### #2: UNALLOWABLE EXPENDITURES– Previous Regional Office Response

In its prior response in 2003, the Regional Office stated that all personal expenses paid by the Regional Office had been reimbursed and that internal controls had been established to ensure that personal expenses are not paid by the Regional Office. The auditors commented that the Regional Office did not provide documentation showing that all personal expenses had been reimbursed.

#### #3: LACK OF SUPPORTING DOCUMENTATION – Previous Regional Office Response

In its prior response in 2003, the Regional Office stated they had an established policy which requires any meal reimbursement to be accompanied by a receipt and documentation showing the purpose of the expenditure, such as a sign-in sheet for a meeting or a registration form for a conference, etc. The ROE said they were not able to take corrective action for the year ending 6/30/04 due to the audit finding for the year ending 6/30/03 not being presented until 10/14/04.

Auditors commented that contrary to the Regional Superintendent's assertion, the finding was repeated from the 2002 audit (finding # 02-08). The fiscal year 2002 audit finding was reported to the Regional Superintendent in January 2003, and therefore, the Regional Office had **almost two years** to take corrective action regarding adequately documenting its meal reimbursements.

#### #4: QUESTIONABLE TRAVEL REIMBURSEMENTS – Previous Regional Office Response

In its prior response in 2003, the Regional Office responded by providing an explanation of each of the bullet points in the

finding.

Auditors commented that the Regional Office did not provide any additional documentation to demonstrate that the questioned expenditures were business-related.

**#5: IMPROPER ALLOCATION OF COSTS – Previous Regional Office Response**

In its prior response in 2003, the Regional Office stated they were seeking assistance with developing a cost allocation plan that more sufficiently meets requirements.

**Complete Regional Office responses to prior findings are available upon request from the Auditor General's Office.**