



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #40
CALHOUN, GREENE, JERSEY AND MACOUPIN COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2022

Release Date: January 31, 2024

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>	2021	22-2	22-3	22-1, 22-4
Category 1:	1	1	2				
Category 2:	0	1	1				
Category 3:	0	2	2				
TOTAL	1	4	5				
FINDINGS LAST AUDIT: 7							

SYNOPSIS

- (22-1) The Regional Office of Education #40 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (22-2) The Regional Office of Education #40 had inadequate controls over bank reconciliations.
- (22-3) The Regional Office of Education #40 lacked adequate controls over the review of internal controls over external service providers.
- (22-4) The Regional Office of Education #40 did not comply with grant reporting requirements.
- (22-5) The Regional Office of Education #40 had inadequate controls over payroll.

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.

REGIONAL OFFICE OF EDUCATION #40
CALHOUN, GREENE, JERSEY AND MACOUPIN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2022

	FY 2022	FY 2021
TOTAL REVENUES	\$1,346,339	\$1,776,137
Local Sources	\$368,175	\$291,883
% of Total Revenues	27.35%	16.43%
State Sources	\$760,350	\$1,411,282
% of Total Revenues	56.48%	79.46%
Federal Sources	\$217,814	\$72,972
% of Total Revenues	16.18%	4.11%
TOTAL EXPENDITURES	\$1,552,428	\$1,783,225
Salaries and Benefits	\$985,272	\$1,553,442
% of Total Expenditures	63.47%	87.11%
Purchased Services	\$500,691	\$177,237
% of Total Expenditures	32.25%	9.94%
All Other Expenditures	\$66,465	\$52,546
% of Total Expenditures	4.28%	2.95%
TOTAL NET POSITION	\$151,944	(\$64,778)
INVESTMENT IN CAPITAL ASSETS	\$0	\$35,450
¹ The FY 2022 beginning net position was restated by \$422,811 due to a change in accounting principle from generally accepted accounting principles (GAAP) basis to cash basis of accounting.		
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Michelle Mueller
Currently: Honorable Michelle Mueller

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

DELAY OF AUDIT

The Regional Office of Education #40 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #40 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. The preliminary draft was provided to the auditors on October 18, 2022.

The ROE 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 regional superintendent of schools 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 ROE has chosen to change to the cash basis of accounting for financial statement 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.

Regional Office management indicated this was a result of unexpected staff turnover. (Finding 2022-001, pages 11A – 11B)

The auditors recommended the ROE should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements should be compiled on an accrual basis of accounting in accordance with GAAP, on the cash basis of accounting, or on the modified cash basis of accounting. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

ROE Response: *ROE 40 shall make available to the Auditor General or his designee all books and records deemed necessary to make and complete the required audits no later than August 31st.*

CONTROLS OVER CASH

The Regional Office of Education #40 had inadequate controls over bank reconciliations.

The Regional Office of Education #40 (ROE) had inadequate controls over bank reconciliations. Monthly reconciliations for May and June 2022 were not prepared timely and had to be prepared by the ROE's hired CPA firm when they were closing the books at year end. In addition, the initially prepared and approved bank reconciliations for the months of July 2021 through April 2022 were completed but had significant unexplained variances when comparing the book balance per the reconciliation to the book balance per the general ledger.

Sound internal control requires bank reconciliations to be performed monthly to ensure all transactions have been recorded. The bank reconciliation process should include identifying and correcting all discrepancies between the bank records and the books in a timely manner. Sound internal control over cash also requires bank reconciliations to be completed and reviewed by the appropriate level of management on a monthly basis.

Regional Office management indicated this was a result of unexpected staff turnover. (Finding 2022-002, page 11C)

The auditors recommended that as part of its internal controls over cash, the ROE should reconcile all bank statements every month and correct any discrepancies in a timely manner. In addition, the ROE's management should review bank reconciliations and document their review each month after the reconciliation has been completed.

ROE Response: *ROE 40 will reconcile all bank statements every month and correct any discrepancies in a timely manner and management will review bank reconciliations and document their review each month after the reconciliation has been completed.*

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

The Regional Office of Education #40 lacked adequate controls over the review of internal controls over external service providers.

The Regional Office of Education #40 (ROE) lacked adequate controls over the review of internal controls over external service providers.

The ROE 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.

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.

During testing, the auditors noted the ROE had not:

- Developed a formal process for identifying service providers and for either obtaining the Service Organization Controls (SOC) report from the service provider 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 the SOC report, or performed alternative procedures, to evaluate any issues relevant to the ROE's internal controls.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) relevant to the ROE's operations.

Regional Office management indicated it was unaware of third party service provider's review of internal controls associated with its outsourced systems. (2022-003, pages 11D – 11E)

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

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

ROE Response: *ROE 40 shall obtain SOC reports or perform independent review of internal controls associated with*

outsourced systems, including services provided by subservice organizations, prior to signing agreements with the providers and annually thereafter. ROE 40 shall document its review of the SOC report, or perform alternative procedures, to evaluate all significant issues to ascertain if a corrective action plan exists, when it will be implemented, any impacts to the Regional Office of Education No. 40, and any compensating controls. ROE 40 shall monitor and document the operation of the CUECs relevant to the ROE 40's operations and review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

GRANT REPORTING NONCOMPLIANCE

The Regional Office of Education #40 did not comply with grant reporting requirements.

The Regional Office of Education #40 (ROE) did not comply with grant reporting requirements. During the course of the audit, auditors noted that 13 of the 25 (52%) quarterly expenditure reports required by the Illinois State Board of Education (ISBE) were not submitted timely. Eight of the quarterly expenditure reports were submitted 2 days late and 5 expenditure reports were submitted 97 days late.

In addition, auditors noted that the expenditures reported on the final expenditure reports for the Digital Equity and Social Emotional Learning grants did not agree to the expenditures recorded in the general ledger. Expenditures reported on the Digital Equity grant's expenditure report included \$4,076 of capital outlay expenditures misclassified as supplies and materials. Actual expenditures recorded in the general ledger for the Social Emotional Learning grant exceeded expenditures reported on the grant's expenditure report by \$17,873.

As a recipient of federal, State, and local funds from various grantor agencies, the ROE must incorporate certain procedures into its operations in order to comply with the grant agreements with these entities.

The ROE 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.

Regional Office management indicated this was a result of unexpected staff turnover. (Finding 2022-004, page 11F – 11G)

The auditors recommended the ROE should implement adequate internal controls to ensure that expenditure reports are submitted timely and to ensure that expenditures reported on the expenditure reports agree to the actual expenditures recorded in the general ledger.

ROE Response: *The ROE shall implement adequate internal controls to ensure that expenditure reports are submitted timely and to ensure that expenditures reported on the expenditure reports agree to the actual expenditures recorded in the general ledger.*

The Regional Office of Education #40 had inadequate controls over payroll.

CONTROLS OVER PAYROLL

The Regional Office of Education #40 (ROE) had inadequate controls over payroll. During the course of audit fieldwork, auditors noted the following:

- The ROE did not use time and effort documentation to distribute salary and benefit costs for employees paid from multiple funding sources. The ROE budgeted amounts at the beginning of the year to allocate payroll expense to each fund; however, the ROE never reconciled the amounts expensed in the general ledger to the employees' submitted timesheets. Therefore, the ROE was unable to determine the reasonableness of the allocation of salaries and benefits amongst federal and State programs.
- While closing the books, the ROE's hired CPA firm noted that the bookkeeper incorrectly set up payroll deductions related to a new insurance plan provided by the ROE. Due to the error, the ROE under-withheld \$23,349 from employees' payroll checks. The insurance plan started July 1, 2021 and the issue was not caught and remedied until after the end of Fiscal Year 2022. While the ROE's hired CPA firm did catch the issue, the issue was pervasive and was not remedied timely.
- Two out of twenty-four (8%) payroll disbursements tested did not have a completed direct deposit authorization form available. In addition, it was noted that for four out of twenty-four (16%) payroll disbursements tested, the recalculated gross pay amount per the employee's contract did not agree to the gross pay amount reported on the employee's paycheck.

The ROE is responsible for establishing and maintaining an internal control system over payroll to prevent errors or fraud. In addition, the *Grant Accountability and Transparency Act (GATA)* 30 ILCS 708/1 establishes that State grant programs are subject to the requirements set forth in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance (2 CFR 200.430) requires charges for salaries and benefits to be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, and

properly allocated. It also requires records to be used to support the distribution of employee salaries and benefits among specific activities if the employee works on multiple programs. It further states that budget estimates alone do not qualify as support for salary and benefit expenditures charged to federal and State grants.

Regional Office management indicated the time and effort system that was in place was not adequate enough and incorrectly setup for payroll deductions related to a new insurance plan and did not distribute salary and benefit costs for employees pay from multiple funding sources. In addition, the missing direct deposit authorizations and employee gross pay recalculation issues were due to simple oversights by ROE staff. (Finding 2022-005, pages 11H – 11I)

The auditors recommended the ROE use time and effort documentation to distribute salary and benefit costs for all employees. Also, auditors recommended the ROE implement the necessary controls over payroll to ensure that payroll deductions are being calculated properly. Also, we recommend that the ROE maintain direct deposit authorizations for every employee and ensure that the employee's gross pay agrees to amounts reported in the employee's contract.

ROE Response: *After year end, the ROE began using time and effort documentation to distribute salary and benefit costs for all employees and implemented the necessary controls over payroll to ensure that payroll deductions are being calculated properly.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2022 are fairly presented in all material respects.

This financial audit was conducted by the firm of West & Company, LLC.

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:JRB

