



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #3
BOND, CHRISTIAN, EFFINGHAM, FAYETTE, AND MONTGOMERY
COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2017

Release Date: May 22, 2018

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	Repeated Since
Category 1:	0	1	1	2015
Category 2:	1	1	2	2016
Category 3:	0	0	0	
TOTAL	1	2	3	
FINDINGS LAST AUDIT: 2				

SYNOPSIS

- (17-1) The Regional Office of Education #3 did not have sufficient internal controls over the financial reporting process.
- (17-2) The Regional Office of Education #3 did not properly implement internal controls over payroll and grant compliance.
- (17-3) The Regional Office of Education #3 did not properly report obligations on expenditure reports.

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.

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

REGIONAL OFFICE OF EDUCATION #3
BOND, CHRISTIAN, EFFINGHAM, FAYETTE, AND MONTGOMERY COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$3,752,370	\$3,519,252
Local Sources	\$609,538	\$759,316
% of Total Revenues	16.24%	21.58%
State Sources	\$2,794,568	\$2,078,537
% of Total Revenues	74.47%	59.06%
Federal Sources	\$348,264	\$681,399
% of Total Revenues	9.28%	19.36%
TOTAL EXPENDITURES	\$3,406,972	\$3,463,242
Salaries and Benefits	\$2,358,768	\$2,362,034
% of Total Expenditures	69.23%	68.20%
Purchased Services	\$490,560	\$522,865
% of Total Expenditures	14.40%	15.10%
All Other Expenditures	\$557,644	\$578,343
% of Total Expenditures	16.37%	16.70%
TOTAL NET POSITION	\$980,897	\$635,499
INVESTMENT IN CAPITAL ASSETS	\$71,572	\$74,060
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Julie Wollerman Currently: Honorable Julie Wollerman

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #3 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #3 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintained its accounting records on the cash basis of accounting during the fiscal year and posted year-end accrual and other applicable entries for financial statement purposes. While the ROE maintained controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of generally accepted accounting principles (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.

The ROE is required to maintain a system of controls over the preparation of financial statements in accordance with GAAP. The ROE's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The ROE's financial information required significant adjusting entries to present the financial statements in accordance with GAAP. This included entries to record transfers and an entry to beginning fund balance.

In addition, the ROE did not have adequate controls to record and report the ROE's net accrued pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense in accordance with GAAP. Proposed adjusting entries by auditors were approved and accepted by the ROE's management.

According to ROE's management, they did not have adequate funding to hire and/or train their accounting personnel in order to maintain a system of internal control over the preparation of financial statements in accordance with GAAP. Also, the complex requirements of GASB statements No. 68 and No. 71 require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2017-001, pages 10a-10b) **This finding was first reported in 2015.**

The auditors recommended that as part of internal control over the preparation of financial statements, the ROE should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *The ROE will continue to evaluate the time, training, and money required to implement the comprehensive preparation procedures required to meet the standard set by audit for the financial statements. Our accounting staff continues to build upon their skillset with the goal of reaching this standard.*

Prior Year ROE Response: *The ROE will continue to evaluate the time/training required to implement these standards and the funding available to do so.*

INTERNAL CONTROLS OVER PAYROLL AND GRANT COMPLIANCE

The Regional Office of Education #3 did not properly implement internal controls over payroll and grant compliance.

The ROE was unable to produce time and effort documentation used to distribute the salary and benefit costs for all employees who are partially paid from a federal program. Rather than using actual time and effort documentation, employees completed inadequate time sheets that were based on a previous time and effort study used to annually budget their salaries and benefits to the different programs. Furthermore, the amounts charged to federal awards based on these budget estimates were not reviewed in order to make necessary adjustments ensuring that the final amounts charged to the federal awards are accurate, allowable, and properly allocated.

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires charges for salaries and benefits to be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. It also requires that records be used to support the distribution of employees' salary and benefits among specific activities if the employee only works part of the time on a federal award program. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award.

The Illinois State Board of Education (ISBE) *State and Federal Grant Administration Policy, Fiscal Requirements and Procedures* manual, requires that auditable “time and effort” documentation should be written, after the fact (not estimated or budgeted) documentation of how the time was spent. Time and effort reports should be prepared by any staff with salary charged (1) directly to a federal award, (2) directly to multiple federal awards, or (3) directly to any combination of a federal award or other federal, state or local funds. Additionally, all time and effort sheets and other supporting documentation must be retained at the local level and be available for review or audit any time within three years after termination of the project or until the local entity is notified in writing from ISBE that the records are no longer needed for review or audit.

According to ROE’s management, proper time and effort documentation was not maintained in order to provide amounts charged to programs that were accurate, allowable, and properly allocated. (Finding 2017-002, pages 10c-10d)

The auditors recommended that the Regional Office should develop and implement written policies and procedures over payroll to ensure that proper controls are in place over the use and maintenance of adequate time and effort documentation as required by the Uniform Guidance and the *ISBE State and Federal Grant Administration Policy, Fiscal Requirements and Procedures* manual.

ROE Response: *Time and effort sheets were implemented by all required employees upon notice of last year’s audit finding. It is unfortunate that the time of the previous audit did not allow us to meet the implementation timeline of this audit.*

OBLIGATIONS NOT PROPERLY REPORTED ON EXPENDITURE REPORTS

The Regional Office of Education #3 did not properly report obligations on expenditure reports.

The ROE reported expenditures to the Early Childhood – Block Grant outside of the grant funding period and not in accordance with the *ISBE State and Federal Grant Administration Policy, Fiscal Requirements and Procedures* manual. Expenditures were also reported outside the ROE’s appropriate fiscal year. Auditors noted the FY17 beginning fund balance for the Early Childhood – Block Grant was overstated by \$3,093 – the amount of an FY16 disallowed capital outlay purchase of three desks. A review of the FY17 general ledger showed that the disallowed purchase had been reclassified to FY17 and included on the FY17 4th Quarter Expenditure Detail Report submitted to ISBE for reimbursement from the Early Childhood – Block Grant.

The *ISBE State and Federal Grant Administration Policy, Fiscal Requirements and Procedures* manual requires expenditures to be reported on a cumulative (i.e., year-to-date) basis from the project begin date through a specific period of time. Additionally, the obligation for acquisition of real or personal property is made on the date on which a written commitment to acquire the property has been made. All activities for a project must be completed and all obligations encumbered within the project begin and end date.

According to ROE's management, a misinterpretation of allowable grant expenditures resulted in an incorrect journal entry. (Finding 2017-003, page 10e)

The auditors recommended that the Regional Office should ensure obligations are reported within the appropriate project begin and end date.

ROE Response: *A correction of the one incorrect entry has been made. Staff now has a thorough understanding of allowable expenditures and the correct reporting of such.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #3's financial statements as of June 30, 2017 are fairly presented in all material respects.

This financial report was conducted by the firm of Doehring, Winders & Co., LLP.

SIGNED ORIGINAL ON FILE

AMEEN DADA
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

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