



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, 2018

Release Date: May 23, 2019

| FINDINGS THIS AUDIT: 3 | | | | AGING SCHEDULE OF REPEATED FINDINGS | | | |
|------------------------|-----------------|--------------------|-------------------|-------------------------------------|------------|------------|------------|
| | | | | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | <u>New</u> 0 | <u>Repeat</u> 0 | <u>Total</u> 0 | 2015 | | 18-1 | |
| Category 2: | 0 | 2 | 2 | 2016 | | 18-2 | |
| Category 3: | <u>1</u> | <u>0</u> | <u>1</u> | | | | |
| TOTAL | 1 | 2 | 3 | | | | |
| FINDINGS LAST AUDIT: 3 | | | | | | | |

SYNOPSIS

- (18-1) The Regional Office of Education #3 did not have sufficient internal controls over the financial reporting process.
- (18-2) The Regional Office of Education #3 did not properly implement internal controls over payroll and grant compliance.
- (18-3) The Regional Office of Education #3 did not provide completed financial statements or financial records in an auditable form by the August 31 deadline.

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, 2018

| | FY 2018 | FY 2017 |
|--|------------------------|----------------|
| TOTAL REVENUES | \$3,886,967 | \$3,752,370 |
| Local Sources | \$655,485 | \$609,538 |
| % of Total Revenues | 16.86% | 16.24% |
| State Sources | \$2,768,542 | \$2,794,568 |
| % of Total Revenues | 71.23% | 74.47% |
| Federal Sources | \$462,940 | \$348,264 |
| % of Total Revenues | 11.91% | 9.28% |
| TOTAL EXPENDITURES | \$3,939,402 | \$3,406,972 |
| Salaries and Benefits | \$2,889,160 | \$2,358,768 |
| % of Total Expenditures | 73.34% | 69.23% |
| Purchased Services | \$495,744 | \$490,560 |
| % of Total Expenditures | 12.58% | 14.40% |
| All Other Expenditures | \$554,498 | \$557,644 |
| % of Total Expenditures | 14.08% | 16.37% |
| TOTAL NET POSITION | \$211,546 ¹ | \$980,897 |
| INVESTMENT IN CAPITAL ASSETS | \$49,858 | \$71,572 |
| ¹ The FY 2018 beginning net position was restated by (\$716,916) due to a prior period adjustment for new reporting requirements for other postemployment benefits. | | |
| 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 preparation of generally accepted accounting principles (GAAP) basis 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 basis financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The following issues were noted in the ROE's draft financial statements submitted to the auditors, which were subsequently corrected:

- The ROE's Statement of Cash Flows – Proprietary Fund included errors in net cash provided (used) during FY18, incorrect beginning and ending cash and cash equivalents, and the reconciliation of operating income to net cash provided by operating activities did not agree to the net cash provided by operating activities.
- The ROE's Financial Statement Notes were not updated for the implementation of GASB No. 75 for the Teacher's Health Insurance Security (THIS) Fund. Required Supplementary Information (RSI) omitted the Schedule of Employer's Proportionate Share of the Other Postemployment Benefit Liability – THIS Fund and the Schedule of Employer Contributions – THIS Fund.

According to ROE's management, the preparation of the cash flow statement for the proprietary fund will take some training before they can adequately complete it. ROE personnel were also unaware of the disclosure and RSI requirements of GASB No. 75 for the THIS Fund. (Finding 2018-001, 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: *ROE 3 will be hiring an outside firm to assist and review in the preparation of these statements for the next audit.*

Prior Year 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.*

INTERNAL CONTROLS OVER PAYROLL AND GRANT COMPLIANCE

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

Based on testing performed and discussion with Regional Office (ROE) personnel, Regional Office employees who are partially paid from a federal or state program prepared time sheets using the budgeted percentage allocation from their quarterly time and effort studies rather than documenting their actual time spent on each program.

Title 2 of the 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 sheets were not maintained to compare actual time spent to budgeted time spent in order to provide amounts charged to programs that were accurate, allowable, and properly allocated. (Finding 2018-002, pages 10c-10d) **This finding was first reported in 2016.**

The auditors recommended that the Regional Office should develop and implement written policies and procedures over payroll to ensure proper controls are in place to document actual time worked on each program. Actual time worked should be compared to the time and allocation studies in order to ensure amounts charged to programs are accurate, allowable, and properly allocated as required by the Uniform Guidance and the *ISBE State and Federal Grant Administration Policy, Fiscal Requirements and Procedures* manual.

ROE Response: *The ROE has implemented policies and procedures for payroll. Actual time and allocation studies have been completed. Time sheets are being appropriately completed.*

Prior Year 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.*

DELAY OF AUDIT

The Regional Office of Education #3 did not provide completed financial statements or financial records in an auditable form by the August 31 deadline.

The Regional Office of Education #3 (ROE) did not provide completed financial statements or financial records in the form of a general ledger trial balance in an auditable form by the August 31, 2018 deadline. An outside accounting firm was hired by the ROE to assist in the Governmental Accounting Standards Board (GASB) No. 68 and GASB No. 75 calculations and disclosures, but not until after fieldwork was completed on September 27, 2018. Financial statements were not submitted to Special Assistant Auditors until October 18, 2018. These financial statements contained omissions of required note disclosures and required supplementary information related to GASB No. 75. Additionally, errors were noted on the Proprietary Fund Statement of Cash Flows and the fund financial statements lacked a breakout of other postemployment benefits (OPEB) expense, as required for FY18.

The Regional Office 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 Governmental Auditing Standards (GAGAS).

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. Annual financial statements are to be prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

According to ROE's management, they did not have adequate time to hire and/or train their accounting personnel in order to meet the August 31 deadline for fiscal year 2018. (Finding 2018-003, pages 10e-10f)

The auditors recommended that 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. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

ROE Response: *The ROE was unaware and not informed of the August 31, 2018 deadline. Thus, it is hard to meet a deadline you are unaware of. This date will be met in the future.*

Auditors' Comment: *Regional Superintendents were reminded of the August 31st deadline for submitting financial statements in accordance with GAAP to the Auditor General's Special Assistant Auditors in September 2017 at a meeting of the Illinois Association of Regional Superintendents of Schools (IARSS).*

Information regarding the deadline and the ROEs' responsibility to comply was discussed again by the Auditor General's staff at a May 2018 meeting of the IARSS at which the Regional Office's superintendent was present. In addition to a detailed verbal discussion of the requirement at this meeting, an electronic version of the presentation was emailed to all Regional Superintendents for reference.

The requirements and due dates for the Regional Offices' annual GAAP basis financial statements are also clearly outlined in 105 ILCS 5/2-3.17a and the Auditor General's administrative rules and regulations governing this process at 74 Ill. Adm. Code 420.320 (c)(2).

AUDITORS' OPINION

Our auditors state the Regional Office of Education #3's financial statements as of June 30, 2018 are fairly presented in all material respects.

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

SIGNED ORIGINAL ON FILE

KELLY MITTELSTAEDT
Audit Manager

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