



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #4
BOONE AND WINNEBAGO COUNTIES

FINANCIAL AUDIT (In accordance with the Uniform
 Guidance)

Release Date: December 11, 2019

For the Year Ended: June 30, 2016

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	4	0	4	No Repeat Findings			
Category 2:	0	0	0				
Category 3:	1	0	1				
TOTAL	5	0	5				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- (16-1) The Regional Office of Education #4 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (16-2) The Regional Office of Education #4 did not have sufficient internal controls over fund accounting.
- (16-3) The Regional Office of Education #4 did not have sufficient internal controls over timely expenditure report submission.
- (16-4) The Regional Office of Education #4 did not have adequate internal controls over payroll.
- (16-5) The Regional Office of Education #4 did not have adequate subrecipient monitoring documentation.

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 #4
BOONE AND WINNEBAGO COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$7,168,381	\$6,397,121
Local Sources	\$1,907,949	\$1,904,547
% of Total Revenues	26.62%	29.77%
State Sources	\$4,132,727	\$3,547,192
% of Total Revenues	57.65%	55.45%
Federal Sources	\$1,127,705	\$945,382
% of Total Revenues	15.73%	14.78%
TOTAL EXPENDITURES	\$6,707,029	\$6,273,173
Salaries and Benefits	\$4,948,183	\$4,534,036
% of Total Expenditures	73.78%	72.28%
Purchased Services	\$1,132,944	\$919,082
% of Total Expenditures	16.89%	14.65%
All Other Expenditures	\$625,902	\$820,055
% of Total Expenditures	9.33%	13.07%
TOTAL NET POSITION	\$1,716,651 ¹	\$1,196,974
INVESTMENT IN CAPITAL ASSETS	\$233,444 ²	\$264,429
¹ The FY16 beginning net position was restated by \$58,325 to reverse the effect of deferred outflows of resources, net pension liability, and deferred inflows of resources recognized related to employees of a fiduciary fund. ² Capital assets amounts are not net of debt associated with a leasehold improvement. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Lori Fanello Currently: Honorable Scott Bloomquist

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

DELAY OF AUDIT

The Regional Office of Education #4 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #4 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. Financial records provided were not prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP).

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 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 GAAP.

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

On numerous occasions over the past two and a half years, the Office of the Auditor General and Special Assistant Auditors communicated via conference calls and email the need for complete and balanced financial records in order to complete an audit. During this time frame, multiple versions of incomplete and unbalanced financial records were evaluated by Special Assistant Auditors.

Original fieldwork was set for December 2016, but the vast majority of the fieldwork was unable to be completed due to an incomplete and unbalanced general ledger.

Fieldwork was rescheduled for May 2017, January 2018 and June 2018. Completed and balanced financial records were still not available at these times.

January 2018, February 2018 and March 2018 deadlines were established for the ROE to have all financial records to the Special Assistant Auditors so a determination of auditability could be made. On those dates, interfund balances and the payroll clearing account were still not ready for audit.

As the result of a conference call with the ROE in which a solution to the continued delay in audit progress was discussed in March 2018, the ROE contacted a firm to prepare its financial records. It was agreed the completed financial statements would be provided to the auditors by April 30, 2018. This date was not met by the ROE and the June 2018 fieldwork date had to be rescheduled.

The majority of fieldwork took place in July 2018 and October 2018.

A final copy of the financial report which included updated pension information was submitted to the auditor on December 14, 2018.

Fieldwork was substantially completed in April 2019.

According to Regional Office management, due to internal personnel issues and software program changes, the office experienced difficulty in providing information by the required timeline. (Finding 16-001, pages 14a – 14b)

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. 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 hired a Certified Public Accounting firm to prepare all financial statements for the audit.*

CONTROLS OVER FUND ACCOUNTING

The Regional Office of Education #4 did not have sufficient internal controls over fund accounting.

The Regional Office of Education #4 (ROE) did not ensure individual funds were self-balanced, opening fund balance amounts agreed to the prior period closing fund balance amounts, all balance sheet accounts were reconciled to supporting documentation, and all clearing accounts had a zero balance.

The ROE is required by the Illinois State Board of Education (ISBE) to maintain its accounting system in accordance with the Regional Office of Education Accounting Manual (Manual). The Manual requires the ROE to maintain an

accounting system on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. These funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Auditors specifically noted the following:

- The ROE did not have adequate controls over the maintenance of complete records of cash, accounts receivable, due from other governments, interfund activity, accounts payable, accrued salaries and benefits, unavailable revenue and fund balance.
- Payroll transfers from the individual programs to the payroll clearing account were not monitored. Incorrect amounts and late payroll transfers were made into the payroll clearing account causing a large balance of cash to accumulate. These errors were not identified and corrected timely.
- Initially, the ROE did not make any effort to ensure its general ledger agreed to the audited financial statements for the year ended June 30, 2015, leading to issues with the opening balances for the year ended June 30, 2016.
- A Teachers' Retirement System (TRS) audit for the year of July 1, 2014 – June 30, 2015 disclosed TRS members had excess TRS withholdings of \$8,972. The ROE received the excess contributions from the State of Illinois on November 3, 2015, but has not yet reimbursed the individual members.

Auditors requested and subsequently received balanced trial balances and supporting schedules from the firm hired by the ROE to prepare its financial statements.

According to Regional Office management, due to internal personnel issues and software program changes, the office experienced difficulty in providing information by the required timeline. (Finding 16-002, pages 14c – 14d)

The auditors recommended the ROE should assign a member of management with suitable skills, knowledge and experience to review its trial balance reports and supporting schedules at regular intervals throughout the year. The ROE should ensure individual funds are self-balanced, opening fund balance amounts agree to the prior period closing fund balance amounts, all balance sheet accounts are reconciled to supporting documentation and all clearing accounts have a zero balance.

ROE Response: *The ROE hired a Certified Public Accounting firm to prepare all financial statements for the audit.*

CONTROLS OVER TIMELY EXPENDITURE REPORT SUBMISSION

The Regional Office of Education #4 did not have sufficient internal controls over timely expenditure report submission.

The Regional Office of Education #4's (ROE) internal controls over expenditure report submission were not effective. Numerous expenditure reports for the Illinois State Board of Education (ISBE) grants were not submitted timely. Specifically, the following expenditure reports were not submitted timely:

Program Name	Quarter Ended	Submit Date	Days Late
System of Support Title I – School Improvement and Accountability (16-4331-SS)	06/30/16	07/21/16	1
Title II – Teacher Quality (16-4932-00)	06/30/16	08/01/16	12
Title II – Teacher Quality (16-4935-02)	06/30/16	08/02/16	13
Title II – Teacher Quality (16-4935-02)	08/31/16	09/23/16	3
Truants Alternative/Optional Ed. (16-3695-14)	06/30/16	07/21/16	1
Regional Safe Schools (16-3696-00)	06/30/16	07/21/16	1
Technology for Success (16-3780-00)	12/31/15	01/27/16	7
Technology for Success (16-3780-00)	06/30/16	08/01/16	12
Other State Programs (16-3999-RS)	06/30/16	07/21/16	1
Other State Programs (16-3999-RS)	08/31/16	10/03/16	13

The Illinois Grant Funds Recovery Act (30 ILCS 705/4) requires State grant recipients with awards in excess of \$25,000 to submit quarterly expenditure reports to reflect the progress of the grant program. The ISBE requires all grant recipients, regardless of the amount awarded, to submit quarterly expenditure reports. The *State and Federal Grant Administration Policy, Fiscal Requirements, and Procedures* of the ISBE Division of Funding and Disbursement Services requires expenditure reports to be filed within 20 calendar days of the end of each reporting quarter.

According to Regional Office management, due to internal personnel issues and software program changes, the office experienced difficulty in providing information by the required timeline. (Finding 16-003, pages 14e – 14f)

The auditors recommended the ROE should take appropriate steps to ensure the expenditure reports are filed within the prescribed guidelines set forth by the ISBE.

ROE Response: *Personnel changes transpired, more training was provided to new staff, and the ROE began transitioning to a new finance program to expedite reporting.*

INADEQUATE INTERNAL CONTROLS OVER PAYROLL

The Regional Office of Education #4 did not have adequate internal controls over payroll.

The Regional Office of Education #4 (ROE) did not have adequate internal controls over payroll. During the course of the audit, auditors noted 7 of the 22 (32%) timesheets tested were not signed for approval by management. Also, in the same sample of timesheets tested, 5 of the 22 (23%) were not signed by the employee.

The ROE is responsible for establishing and maintaining an internal control system over the payroll process in order to prevent errors and/or fraud.

Total salaries for the ROE for fiscal year 2016 were \$278,584 for Title I – School Improvement and Accountability.

According to Regional Office management, they utilized a web based program for field service workers to submit timecards electronically. The director, at the time, did not submit complete records to the bookkeeper and only provided spreadsheets which were mass approved. (Finding 16-004, page 14g)

The auditors recommended the ROE comply with its established system of internal controls to ensure timesheets are properly signed by the employee and approved by management before the payroll is run and posted to the general ledger.

ROE Response: *Beginning with the FY20 fiscal year, under new management, all employees will submit timecards signed by the employee and the supervisor/director to the bookkeeper.*

SUBRECIPIENT MONITORING DOCUMENTATION

The Regional Office of Education #4 did not have adequate subrecipient monitoring documentation.

During the audit, the Regional Office of Education #4 (ROE) provided the required certification to the Illinois State Board of Education (ISBE), the funding agency for the Title I School Improvement and Accountability Grant. However, the certifications were not obtained by the ROE from its subrecipients of this program.

For fiscal year 2016, the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for*

Federal Awards (Uniform Guidance), contained in 2 CFR Part 200, became effective for all federal award programs administered by the ROE that were issued on or after December 26, 2014. The Uniform Guidance (2 CFR 200.415(a)) requires the ROE to provide a specific certification to funding agencies on all annual and final fiscal reports or vouchers requesting payment, and conversely, requires the ROE to obtain such certification from its subrecipients.

The Uniform Guidance (2 CFR 200.331(a)) requires certain information be communicated to the recipients of the subaward, including the CFDA Number and Name.

The Uniform Guidance (2 CFR 200.331(b)) requires the ROE to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Also, during the audit, the ROE was not providing all grant information required to the subrecipient. The required communication letter informing the subrecipients of their grant award did not include the CFDA number.

Auditors also noted that although an ROE employee maintained an informal checklist for monitoring subrecipients of its Title I School Improvement and Accountability program, there were no formal documented procedures for monitoring subrecipients, including formal documentation of an assessed level of risk of noncompliance for each subrecipient as required by the Uniform Guidance.

The Regional Office passed through \$309,420 of federal funding to five different subrecipients of the Title I School Improvement and Accountability program.

According to Regional Office management, they were not aware of the Uniform Guidance (2 CFR 200.415(a)) requiring the ROE to provide a specific certification to funding agencies on all annual and final fiscal reports or vouchers requesting payment, and conversely, requiring the ROE to obtain such certification from its subrecipients. Additionally, the ROE was not aware of the Uniform Guidance (2 CFR 200.331(a)) requiring certain information be communicated to the recipients of the subaward, including the CFDA Number and name. The Director of the program verbally communicated the information at a joint meeting and failed to send appropriate documentation to the subrecipients. The ROE was also not aware of Uniform Guidance (2 CFR 200.331(b)) requiring the ROE to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. (Finding 16-005, pages 15b – 15d)

The auditors recommended the ROE create a standard form of communication ensuring that all required elements to be addressed with each individual subrecipient are included. They also recommended the ROE develop policies and procedures to ensure all annual and final fiscal reports or vouchers requesting payment received from subrecipients of federal awards include the certification required by 2 CFR 200.415(a). In addition, the auditors recommended the ROE formalize, in writing, its subrecipient monitoring procedures, which would include a formal risk assessment of each subrecipient, as required and described in 2 CFR 200.331(b).

ROE Response: *If the ROE becomes fiscal agent for programs with subrecipients we will create a standard form of communication to ensure all required elements are addressed. Furthermore, we will obtain, in writing, confirmation of said communication as required. Internal policies and procedures will be developed for reporting and voucher requests. Current staff will receive training and guidance in compliance with items 2 CFR Part 200, 2 CFR 200.415(a), 2 CFR 200.331(a) and 2 CFR 200.331(b) for future grants. The ROE will formalize, in writing, our subrecipient monitoring procedures, which would include a formal risk assessment of each subrecipient, as required and described in 2 CFR 200.331 (b). The auditor's recommendations will be followed.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #4's financial statements as of June 30, 2016 are fairly stated in all material respects.

This financial audit was conducted by the firm of Wipfli, LLP.

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

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