



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #13
CLINTON/JEFFERSON/MARION/WASHINGTON COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2016

Release Date: October 24, 2019

FINDINGS THIS AUDIT: 6				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2014			
Category 1:	1	1	2	16-1			
Category 2:	3	0	3				
Category 3:	1	0	1				
TOTAL	5	1	6				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- (16-1) The Regional Office of Education #13 did not have sufficient internal controls over the financial reporting process.
- (16-2) The Regional Office of Education #13 did not have adequate internal controls over cash.
- (16-3) The Regional Office of Education #13 did not have adequate internal controls over property and equipment.
- (16-4) The Regional Office of Education #13 did not have sufficient internal controls over grant compliance.
- (16-5) The Regional Office of Education #13 did not have sufficient internal controls over payroll and grant compliance.
- (16-6) The Regional Office of Education #13 did not provide completed financial statements 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 #13
CLINTON/JEFFERSON/MARION/WASHINGTON COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$5,996,898	\$4,383,782
Local Sources	\$826,628	\$424,347
% of Total Revenues	13.78%	9.68%
State Sources	\$4,461,378	\$3,368,468
% of Total Revenues	74.39%	76.84%
Federal Sources	\$708,892	\$590,967
% of Total Revenues	11.82%	13.48%
TOTAL EXPENDITURES	\$6,198,708	\$4,267,260
Salaries and Benefits	\$5,095,764	\$3,547,999
% of Total Expenditures	82.21%	83.14%
Purchased Services	\$812,811	\$594,255
% of Total Expenditures	13.11%	13.93%
All Other Expenditures	\$290,133	\$125,006
% of Total Expenditures	4.68%	2.93%
TOTAL NET POSITION	\$560,078 ¹	\$871,719
INVESTMENT IN CAPITAL ASSETS	\$600,435 ²	\$20,633
¹ The FY 2016 beginning net position was restated by (\$109,831) due to a prior period adjustment related to the merger of Jefferson County from ROE #25 into ROE #13. ² Capital asset amounts include debt associated with a building loan. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Ron Daniels Currently: Honorable Ron Daniels

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #13 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #13 (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. The ROE did not have sufficient internal controls over the processing of some accounting transactions. There were not sufficient internal 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).

Through inquiries and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted that the Regional Office did not have adequate controls to record and report the ROE's net pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expense in accordance with GAAP.

In addition, numerous significant adjustments were required to present financial statements in accordance with GAAP. This included transferring beginning assets, liabilities and fund balances acquired from the merger with the Regional Office of Education #25 as of July 1, 2015. There was also activity being recorded on a separate ledger during FY16 that was related to Jefferson County which was previously associated with the Regional Office of Education #25. This activity was not originally provided to the auditors.

ROE officials indicated that with limited resources the ROE did not have the personnel with the appropriate knowledge and training to prepare the full financial statements of the combined regional offices. There were many differences in the programs of the two Regional Offices and the proper combination of the financial records was confusing. (Finding 16-001, pages 10a – 10b) **This finding was first reported in 2014.**

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 understands the nature of this finding and realizes that funding limits have created this challenge. The Regional Office has made the commitment to provide training to personnel and hire outside accounting firms to work with staff to properly prepare the financial statements of the office.*

Prior Year ROE Response: *The ROE understands the nature of this finding and realizes that this circumstance is not unusual for an organization of this size. The Regional Office accepts the degree of risk associated with this condition because the added cost of employing a full-time accountant to prepare and review financial statements would take away from the funds available to provide educational services to the schools in our region. The Regional Office will continue to receive training for GAAP accounting procedures.*

INTERNAL CONTROL OVER CASH

The Regional Office of Education #13 did not have adequate internal controls over cash.

During the review of the Regional Office of Education #13's (ROE) cash records, auditors noted bank reconciliations were not prepared or reviewed in a timely manner as described below.

Month Ending	Date Prepared	Date Reviewed
July 31, 2015	November 24, 2015	No approval indicated
August 31, 2015	December 10, 2015	December 18, 2015
September 30, 2015	December 15, 2015	December 18, 2015
October 31, 2015	December 18, 2015	December 30, 2015
November 30, 2015	January 7, 2016	Not indicated
December 31, 2015	January 11, 2016	Not indicated
January 31, 2016	April 7, 2016	Not indicated
February 29, 2016	April 11, 2016	April 14, 2016
March 31, 2016	May 18, 2016	May 20, 2016
April 30, 2016	June 14, 2016	June 16, 2016
May 31, 2016	August 15, 2016	August 15, 2016
June 30, 2016	August 15, 2016	August 15, 2016

The ROE is responsible for establishing and maintaining a system of internal controls over cash to prevent errors and fraud. This includes the timely preparation and review of bank reconciliations. Bank reconciliations should be performed within a month of the closing date on the bank statement.

ROE officials indicated that during the transition phase of the combination of the Regional Office of Education #25 and the Regional Office of Education #13, duties to perform the bank reconciliations had not been clearly assigned. (Finding 16-002, pages 10c – 10d)

The auditors recommended that as part of internal control over cash, the ROE should prepare and review the monthly bank reconciliations within a month of the closing date on the bank statement. The review should be indicated in writing, including the individual performing the review and the date.

ROE Response: *Bank reconciliations are currently, and will continue to be, properly prepared by a staff member and reviewed by the Regional Superintendent.*

INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT

The Regional Office of Education #13 did not have adequate internal controls over property and equipment.

The Regional Office of Education #13 (ROE) did not have adequate controls over capital assets.

The ROE Accounting Manual requires each ROE to maintain detailed capital asset records for both accounting purposes as well as insurance purposes, for capital assets costing \$500 or more. Generally accepted accounting principles (GAAP) require records of all capital assets and depreciation schedules for assets meeting the capitalization threshold for reporting to be maintained so that this information can be reported within the financial statements. The ROE capitalizes assets with an individual cost of more than \$500 and an estimated useful life in excess of one year.

In addition, sound internal controls require that policies and procedures on capital assets should cover acquisition and tagging, recording and reporting, depreciation (if applicable), transfers and dispositions and annual physical inventory, and they should be formally documented and consistently applied.

The equipment listing provided by the Regional Office was inaccurate and incomplete. Auditors noted the following during testing of capital assets:

- The first capital asset listing provided to the auditors excluded all of the capital assets acquired through the merger with the Regional Office of Education #25 as of July 1, 2015 (a net understatement to beginning capital assets of \$625,014).
- The second capital asset listing provided to the auditors included equipment received in the merger with the Regional Office of Education #25 that was sold during FY16 with a cost of \$21,812 and ending accumulated depreciation of \$11,633. The listing also

excluded nine capital assets from prior years totaling \$15,566, two new capital assets from the current year with costs totaling \$1,615 and included two extra capital assets totaling \$2,000, a total understatement in cost of \$15,181. Beginning accumulated depreciation was also overstated by \$152,924.

- The third capital asset listing provided to the auditors included corrections of formula errors noted by the Regional Office. However, the sale of equipment during FY16 was still not reflected, and additional understatements to capital asset cost totaling \$4,724 and overstatements to beginning accumulated depreciation of \$151,137 were still noted. It was then determined that an outside accountant should be hired to assist the Regional Office in preparing an accurate and complete listing of fixed assets for the current year.
- A physical inventory of capital assets was not taken at year-end.

Regional Office officials indicated that during the transition of combining the documents and records of the two offices, staff did not possess the expertise to properly combine the assets of the Regional Offices. (Finding 16-003, pages 10e – 10f)

The auditors recommended the Regional Office should adhere to the ROE Accounting Manual capital asset policy and procedures to effectively and efficiently monitor property acquisitions, transfers and disposals and provide for the accurate reporting of capital asset balances.

In addition, the capital asset listing should be completed to include all details required by the ROE Accounting Manual and should be checked for accuracy and existence through an annual physical inventory by an individual independent of the accounting process. A reconciliation should be performed between the capital asset listing and the recorded capital outlay expenditures for the year. All reconciling items should be cleared in a timely manner.

ROE Response: *An accounting firm was secured by the Regional Office to correct the errors made by employees of the Regional Office and a new, corrected asset listing was created. The firm will continue to support staff in keeping an accurate report of assets and asset balances.*

INTERNAL CONTROL OVER GRANT COMPLIANCE

The Regional Office of Education #13 did not have sufficient internal controls over grant compliance.

The Regional Office of Education #13 (ROE) did not have sufficient internal controls over grant compliance.

As a recipient of federal, State and local funds from various grantor agencies, the ROE must incorporate certain procedures into their operations in order to comply with the grant agreements with these entities. The Regional Office is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to complete accurate and timely quarterly expenditure reports required for grants administered by the Illinois State Board of Education (ISBE) and passed through other entities to the ROE. Grant expenditure reports should be reconciled to the corresponding general ledger amounts before submission.

The ROE did not reconcile grant expenditure reports to the final general ledger which resulted in the following errors:

- The Regional Office had to return \$8,144 during FY16 for Regional Safe School funds received in advance during FY15 for the 2015 project year. Although these funds were obligated properly at June 30, 2015 for accrued payroll, these expenses were never submitted for reimbursement on the final grant expenditure report.
- The Regional Office is not consistently reporting grant expenditures for the Early Childhood Block Grant. The grant period covers 14 months (July 1 – August 31). Per review of grant expenditure reports and the general ledger, the ROE is reporting expenditures in improper grant periods.
- The Regional Office's general ledger for Title I – School Improvement System of Support did not agree to the final expenditure reporting. The general ledger included \$54 greater in purchased services and \$747 less in supplies than the expenditure report.

ROE officials indicated that an employee error caused an improper final expenditure report to be submitted. Shifting of duties during the transition led to improper assignments of grant funds. (Finding 16-004, pages 10g – 10h)

The auditors recommended the ROE should ensure grant expenditure reports agree to the corresponding general ledger amounts, an appropriate review of the grant expenditure report is performed before the report is submitted to the grantor for payment, and expenditures are reported in the proper grant period.

ROE Response: *The Regional Office has reassigned and provided training for staff responsible for grant expenditures. The Regional Superintendent will also closely monitor these reports.*

INTERNAL CONTROLS OVER PAYROLL AND GRANT COMPLIANCE

The Regional Office of Education #13 did not have sufficient internal controls over payroll and grant compliance.

The Regional Office of Education #13 (ROE) was unable to produce time and effort documentation used to distribute the salary and benefit costs for any employee who worked on multiple programs, including partial work on a federal program. This included three employees who worked on the Homeless Children/Youth and National School Lunch federal programs. These employees completed inadequate time sheets that were based on estimated time rather than using actual time and effort documentation. Furthermore, there was no review of the amounts charged to federal awards based on budget estimates in order to make necessary adjustments ensuring that the final amounts charged to the federal awards were 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 are 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*, 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.

ROE officials indicated that new time and effort sheets were not created to match the reassignment and division of responsibilities of staff during the transition. (Finding 16-005, pages 10i – 10j)

The auditors recommended the ROE 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*.

ROE Response: *The Regional Office agrees with this finding. New forms have been created and are used to specifically calculate time and effort on each grant for staff with divided responsibilities.*

DELAY OF AUDIT

The Regional Office of Education #13 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #13 (ROE) did not provide financial records in an auditable form by the August 31 deadline.

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 generally accepted accounting principles (GAAP).

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

Auditors noted that the original general ledger provided by the ROE on August 8, 2016 required adjustments to reconcile the FY16 beginning fund balances to the FY15 ending fund balances. On July 1, 2015, the ROE merged Jefferson County from the Regional Office of Education #25. Beginning assets, liabilities and fund balances related to Jefferson County were not included. This resulted in a \$103,464 net deficit fund balance being recorded on the ROE's general ledger. Additionally, the ROE created a separate fund on its FY16 general ledger to record activity relating to Jefferson County.

The Regional Office then provided a separate general ledger from ROE #25's accounting system on May 16, 2017 with activity from July 2015 through February 2016, even though the ROE #25 ceased to exist as of July 1, 2015. The auditors were not informed of the separate accounting records until this date. Multiple material adjusting entries were required to move this activity to the ROE's FY16 general ledger and eliminate any duplicate activity created.

Due to issues with the general ledger, grant expenditure reports did not easily reconcile to each respective fund causing delays in grant testing.

Auditors also noted the original schedule of capital assets provided by the ROE on November 16, 2016 had excluded all capital assets acquired during the merger.

The second schedule of capital assets provided on November 9, 2017, included formula errors, sold equipment, extra capital assets, missing capital assets and beginning accumulated depreciation was significantly overstated.

The third schedule of capital assets provided on November 22, 2017, corrected the formula errors, but was still missing capital assets and significantly overstated beginning accumulated depreciation.

In April of 2018, the Regional Office hired an outside accounting firm to provide the auditors with a complete and accurate schedule of capital assets and ensure all adjusting entries were made correctly in the general ledger.

ROE officials indicated that before the consolidation, the Regional Office ran many different types of programs and accounts that were difficult to combine. In an attempt to keep finances clarified, the two accounts were kept separate the first six months. (Finding 16-006, pages 10k – 10l)

The auditors recommended the Regional Office 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 Regional Office understands the mistakes made in preparing the financial statements. The Regional Office has made the commitment to provide training to personnel and hire outside accounting firms to work with staff to properly prepare the financial statements of the office and present these statements by the required deadline.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #13's financial statements as of June 30, 2016 are fairly presented in all material respects.

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

SIGNED ORIGINAL ON FILE

JEANNE MICHAUD
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

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