



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #13**  
**CLINTON, JEFFERSON, MARION AND WASHINGTON COUNTIES**

FINANCIAL AUDIT  
 For the Year Ended: June 30, 2017

Release Date: June 30, 2020

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<u>New</u> 0	<u>Repeat</u> 0	<u>Total</u> 0	2014		17-1	
<b>Category 2:</b>	0	4	4	2016		17-2	
<b>Category 3:</b>	0	1	1	2016		17-3	
<b>TOTAL</b>	0	5	5	2016		17-4	
				2016			17-5
FINDINGS LAST AUDIT: 6							

**SYNOPSIS**

- (17-1) The Regional Office of Education #13 did not have sufficient internal controls over the financial reporting process.
- (17-2) The Regional Office of Education #13 did not have adequate internal controls over cash.
- (17-3) The Regional Office of Education #13 did not have adequate internal controls over property and equipment.
- (17-4) The Regional Office of Education #13 did not have sufficient internal controls over payroll and grant compliance.
- (17-5) 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.

**REGIONAL OFFICE OF EDUCATION #13**  
**CLINTON, JEFFERSON, MARION AND WASHINGTON COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2017**

	<b>FY 2017</b>	<b>FY 2016</b>
<b>TOTAL REVENUES</b>	\$6,731,541	\$5,996,898
Local Sources	\$1,180,618	\$826,628
% of Total Revenues	17.54%	13.78%
State Sources	\$5,367,555	\$4,461,378
% of Total Revenues	79.74%	74.39%
Federal Sources	\$183,368	\$708,892
% of Total Revenues	2.72%	11.82%
<b>TOTAL EXPENDITURES</b>	\$6,693,690	\$6,198,708
Salaries and Benefits	\$5,642,569	\$5,095,764
% of Total Expenditures	84.30%	82.21%
Purchased Services	\$777,370	\$812,811
% of Total Expenditures	11.61%	13.11%
All Other Expenditures	\$273,751	\$290,133
% of Total Expenditures	4.09%	4.68%
<b>TOTAL NET POSITION</b>	\$597,929	\$560,078
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$568,950 <sup>1</sup>	\$600,435
<sup>1</sup> Capital asset amounts include debt associated with a building loan.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
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. 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 and correct, 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).

During the auditor's review of the ROE's financial information prepared by the ROE, it was noted the ROE did not have adequate controls to ensure financial statement balances were accurate. While the ROE did maintain records to indicate the balances of financial statement accounts, material audit adjustments were proposed in order to ensure those balances were accurate.

The ROE management indicated while working with an outside CPA firm, it appears various balance adjustments were inadvertently missed between the actual year-end and the drafting of financial statements. (Finding 17-001, pages 10 – 11) **This finding was first reported in 2014.**

The auditors recommended that as part of internal control over the preparation of financial statements, including disclosures, the ROE should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, 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 agrees with the recommendation. The ROE has hired an outside accounting firm to assist in the preparation of the financial statement. Since the accounts of the previous two combined regional offices have been*

*combined, the preparation should not require the previous adjustments. The ROE staff will also continue to receive training in GAAP accounting procedures.*

## **CONTROLS OVER CASH**

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

The Regional Office of Education #13 (ROE) did not have adequate controls over the preparation and review of bank reconciliations.

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 and evidence of review should be documented.

During the auditor's review of the ROE's monthly bank reconciliations for its three (3) bank accounts, auditors noted bank reconciliations were not prepared or reviewed in a timely manner. Specifically, auditors noted the following:

- Two (6%) monthly reconciliations were prepared 31 and 39 days after month end.
- Two (6%) monthly reconciliations were reviewed 21 and 56 days after preparation.
- For three (8%) monthly reconciliations, auditors were unable to determine if the reconciliations were timely reviewed as the ROE did not document the date the reconciliations were performed.
- For nine (25%) monthly reconciliations, evidence of review were not found.

The ROE management indicated job duties had been reassigned in fiscal year 2017 and the Regional Superintendent did not appropriately sign off and date the completed bank statements. (Finding 17-002, pages 12 – 13)

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:** *The ROE agrees with the recommendation. The Regional Superintendent has assigned a different staff member to complete the monthly reconciliations in a timely manner and it will be checked monthly by the Regional Superintendent or Assistant Regional Superintendent.*

## 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 its 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. Further, good internal controls require capital assets that are obsolete, damaged or no longer used in operations be removed from the ROE's capital asset listing.

During the auditor's physical observation and review of the ROE's capital assets, the following was noted:

- Eight of 25 (32%) equipment items tested were not included in the ROE's capital asset listing. Four of these equipment items were found in the Mount Vernon office and the other four equipment items were found in the Carlyle office. In addition, one of the eight equipment items did not have an asset tag.
- A number of equipment items which were considered no longer in use by the ROE were not yet disposed of and still included in the ROE's capital asset listing.
- A physical inventory of capital assets was not taken at year-end.

The ROE management indicated as the ROE consolidated and offices were closed, equipment was moved to different locations. Changes in staff assignments led to an incomplete analysis of equipment that was still in use and items which were no longer needed. (Finding 17-003, pages 14 – 15)

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:** *The ROE agrees with the recommendation. The ROE capital assets and inventories are being reviewed by staff and an accurate list should be completed by May 30, 2020.*

## **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 provide adequate time and effort documentation used to distribute the salary and benefit costs.

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.

During the auditor's review of the ROE's payroll expenditures of 25 employees, the following was noted:

- Four employees (16%), who worked on multiple programs, completed time and effort documentation

but did not indicate the actual time worked on each program. Three of the four employees worked partially on the Homeless Children and Youth and National School Lunch/Breakfast federal programs.

- Eight employees (32%), who worked on multiple programs, did not have time and effort documentation on file. Four of the eight employees worked partially on the Homeless Children and Youth and National School Lunch/Breakfast federal programs.

Upon further review and discussion, these employees completed inadequate time sheets, thus salary and benefits costs reported were based on estimated time rather than actual time. 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 are accurate, allowable, and properly allocated.

The ROE management indicated it is understood that the type of time and effort sheets used by staff that work under multiple grants was not sufficient for fiscal year 2017. Limited amounts of funds from these grants were used to pay portions of salaries and many times these do not meet the actual time invested in providing the services described in the grants. (Finding 17-004, pages 16 – 17)

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 ROE agrees with the recommendation. New electronic time and effort forms were created in 2018. Staff currently complete the forms, which are then reviewed quarterly by the Regional Superintendent.*

#### **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 completed financial statements in an auditable form within the required timeframe. An outside accounting firm was hired by the ROE to assist in the preparation of financial statements and related disclosures.

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 30<sup>th</sup> 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.

The ROE management indicated financial statements were not able to be prepared in a timely manner because the fiscal year 2016 audit had not been completed prior to the August deadline. All materials were presented for the fiscal year 2017 audit when requested. (Finding 17-005, pages 18 – 19)

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 ROE agrees with the recommendation. An outside accounting firm has been hired to prepare the ROE's financial statements according to the required timeframe.*

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #13's financial statements as of June 30, 2017 are fairly presented in all material respects.

This financial audit was conducted by the firm of E. C. Ortiz & Co., 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

FJM:BAO