



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #17
DEWITT, LIVINGSTON, LOGAN, AND MCLEAN COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2018

Release Date: April 4, 2019

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS					
				Repeated Since	Category 1	Category 2	Category 3	No Repeat Findings	
<u>New</u>	<u>Repeat</u>	<u>Total</u>							
Category 1:	2	0	2						
Category 2:	0	0	0						
Category 3:	1	0	1						
TOTAL	3	0	3						
FINDINGS LAST AUDIT: 1									

SYNOPSIS

- **(18-1)** The Regional Office of Education #17 did not have sufficient internal controls over the financial reporting process.
- **(18-2)** The Regional Office of Education #17 did not have adequate internal control procedures.
- **(18-3)** The Regional Office of Education #17 did not provide financial statements in an auditable form and in accordance with GAAP 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 #17
DEWITT, LIVINGSTON, LOGAN, AND MCLEAN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$5,825,199	\$5,934,817
Local Sources	\$1,513,794	\$1,551,377
% of Total Revenues	25.99%	26.14%
State Sources	\$3,660,515	\$3,478,883
% of Total Revenues	62.84%	58.62%
Federal Sources	\$650,890	\$904,557
% of Total Revenues	11.17%	15.24%
TOTAL EXPENDITURES	\$6,449,587	\$6,339,795
Salaries and Benefits	\$5,079,524	\$5,132,580
% of Total Expenditures	78.76%	80.96%
Purchased Services	\$764,590	\$720,770
% of Total Expenditures	11.85%	11.37%
All Other Expenditures	\$605,473	\$486,445
% of Total Expenditures	9.39%	7.67%
TOTAL NET POSITION	(\$579,810) ¹	\$1,588,909
INVESTMENT IN CAPITAL ASSETS	\$419,039 ²	\$417,710
<p>¹ The FY 2018 beginning net position was restated by (\$1,544,331) due to a prior period adjustment for new reporting requirements for other postemployment benefits.</p> <p>² Capital asset amounts include debt associated with a capital lease.</p> <p style="text-align: center;">Percentages may not add due to rounding.</p>		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Mark Jontry Currently: Honorable Mark Jontry

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #17 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #17 (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 the 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).

During review of the ROE's accounting records, auditors noted the ROE's financial information required several adjusting entries to present the financial statements in accordance with GAAP.

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

According to Regional Office management, the complex requirements of the GASB statements will require additional time and training before the ROE #17 can fully implement the requirements on its own (Finding 18-001, pages 10a-10b).

The auditors recommended that as part of its internal control over the preparation of financial statements, including disclosures, the ROE #17 should implement comprehensive preparation and/or review procedures to ensure the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *The ROE will outsource the compilation of the financial statements and disclosures. The Regional Office has also taken steps to properly record financial transactions and follow GAAP. In regards to the standards related to financial reporting for pensions, we will review internal controls and determine what can be done within agency resources to mitigate or eliminate this internal control deficiency.*

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #17 did not have adequate internal control procedures.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

In addition, the *Regional Office of Education (ROE) Accounting Manual* requires each ROE to maintain detailed fixed asset records for both accounting purposes as well as insurance purposes, for fixed assets costing \$500 or more. Generally accepted accounting principles require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

Auditors noted the following weaknesses in the Regional Office's internal control system for which there were no mitigating controls:

- All fourth quarter expenditure reports were not filed by the due date.
- The Regional Office had not included all capital additions on the asset schedule provided by the Regional Office. In addition, the Regional Office had recorded a capital asset purchase as a capital outlay expenditure in the Professional Development fund rather than a capital asset.

According to Regional Office management, the ROE had not established sufficient internal control procedures (Finding 18-002, pages 10c-10d).

The auditors recommended the Regional Office should monitor the reporting deadlines of grantors and file the required expenditure reports timely. The Regional Office should also follow internal control procedures to ensure that all items meeting the Regional Office's capitalization threshold are appropriately capitalized and included on the capital asset listing.

ROE Response: *The Regional Office agrees with the auditors' recommendations. In addition, the Regional Office has already corrected the internal control issues noted and continues to work on improving controls over our financial processes.*

DELAY OF AUDIT

The Regional Office of Education #17 did not provide financial statements in an auditable form and in accordance with GAAP by the August 31 deadline.

The Regional Office 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 GAAP.

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 GAAP.

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

Auditors noted the following deficiencies in the records provided by the ROE:

- The initial trial balance provided by the ROE was not fully adjusted. The ROE provided journal entries made by its contractor the first day of fieldwork, October 29, 2018; however, several additional material journal entries were required to adjust the balances to be recorded in accordance with GAAP.
- A complete draft of the GAAP financial statements with all required disclosures was not provided.
- The required information for the Schedule of Disbursements to School District Treasurers and Other Entities was not provided to us until December 3, 2018, and only after several requests.

- Due to the departure of the previous long-term bookkeeper in May 2018 there was difficulty locating supporting documentation by the ROE's staff, which caused delays in receiving requested documentation.

According to Regional Office Management, the ROE's long-term controller left in May 2018 and the ROE was not able to find a replacement for the position until July 2018. The gap and subsequent transition in this key position caused some delay in the ROE being able to provide its outsourced accounting firm and auditors with complete and accurate information (Finding 18-003, pages 10e-10f).

The auditors recommend 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 Regional Office agrees with the auditors' recommendations.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #17's financial statements as of June 30, 2018 are fairly presented in all material respects.

This financial audit was conducted by the firm of Kemper CPA Group, 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

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