



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #19
DUPAGE COUNTY

**FINANCIAL AUDIT (In accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2012
Release Date: June 19, 2014**

Summary of Findings:
Total this audit: 6
Total last audit: 6
Repeated from last audit: 5

SYNOPSIS

The Regional Office of Education #19:

- did not have sufficient internal controls over the financial reporting process;
- did not have adequate internal control procedures;
- had expenditure reports that did not agree to general ledger;
- did not have adequate documentation of payroll expenditures;
- paid unallowable costs and had improper maintenance of records; and
- had improper application of matching principle.

{Revenues and expenditures are summarized on the reverse page.}

REGIONAL OFFICE OF EDUCATION #19
DUPAGE COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2012

	FY 2012	FY 2011
TOTAL REVENUES	\$9,187,501	\$10,440,272
Local Sources	\$3,229,633	\$2,038,159
% of Total Revenues	35.15%	19.52%
State Sources	\$4,633,858	\$6,970,330
% of Total Revenues	50.44%	66.76%
Federal Sources	\$1,324,010	\$1,431,783
% of Total Revenues	14.41%	13.71%
TOTAL EXPENDITURES	\$8,955,920	\$9,878,422
Salaries and Benefits	\$3,091,420	\$2,674,812
% of Total Expenditures	34.52%	27.08%
Purchased Services	\$1,945,646	\$2,560,886
% of Total Expenditures	21.72%	25.92%
All Other Expenditures	\$3,918,854	\$4,642,724
% of Total Expenditures	43.76%	47.00%
TOTAL NET ASSETS	\$3,949,833 ²	\$3,693,720
INVESTMENT IN CAPITAL ASSETS	\$319,819 ¹	\$354,635
¹ Capital asset amounts include debt associated with a capital lease. ² Includes a \$24,532 restatement to the FY2012 beginning net asset balance due to adjustments to capital asset balances. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Darlene Ruscitti Currently: Honorable Darlene Ruscitti

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

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

The Regional Office of Education #19 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting during the fiscal year and posts year end accrual entries for audit purposes. The Regional Office did not have sufficient controls over the preparation of the 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. For example, review of the Regional Office's accounting records noted the following:

- The Regional Office did not maintain adequate internal controls over the processing of all financial transactions and adjustments were required to present financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have a reporting mechanism to identify the specific expenditures that should be applied to each grant year when program grants have overlapping grant terms and are accounted for in the same trial balance.

While the Regional Office did hire an independent audit firm to prepare its financial statements, material adjustments were necessary due to the Regional Office's reporting mechanism not tracking expenditures accurately by fiscal year. (Finding 12-01, pages 15-16)

The auditors recommended that as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by an individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office's activities and operations.

The Regional Office of Education #19 responded that it will continue its relationship with a private Certified Public Accounting Company to prepare (GAAP based) financial statements that will include all disclosures required by the Governmental Accounting Standards Board. The Project Managers will play a key role because they will be responsible along with the Finance Office in the review of their respective financial documents. The ROE stated that these reviews will be completed at the end of each quarter. In addition, the Regional Office's accounting personnel will receive training in detecting disclosure omissions and misstatements in a timely manner.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #19 did not have adequate internal control procedures.

The Regional Office of Education No. 19 is required to maintain a system of controls over receipts, disbursements, and reporting to prevent errors and fraud. The Regional Office has not established sufficient controls over its accounting functions. Auditors, in their review of the Regional Office's accounting records, noted the following:

- There is a lack of segregation of duties in the cash disbursements and accounting process. The fiscal staff has full, unrestricted access to the accounting software and also can affix the Regional Superintendent's electronic signature to checks.
- There is a lack of segregation of duties in the cash receipts and accounting process. The accountant opens mail, has full, unrestricted access to the accounting software, and is responsible for monitoring accounts receivable.
- The Regional Office did not adhere to its policy of requiring the Regional Superintendent's approval of purchases. In 18 of 75 (24%) instances, purchase orders were not completed or signed by the Regional Superintendent. Further, in 1 of 75 (1%) instances, an expenditure was paid prior to receiving appropriate approvals.

- In 4 of 75 (5%) expenditures examined, the Regional Office failed to provide adequate supporting documentation.
- In 1 of 75 (1%) expenditures examined, the Regional Office charged an expenditure to an incorrect account.
- The Regional Office failed to properly accrue expenses in 2 of 75 (3%) expenditures examined.

According to Regional Office officials, employees were not aware, at that time, what duties should be segregated to have a more effective process. (Finding 12-02, pages 17-18)

The auditors recommended that the Regional Office of Education #19 should adequately segregate duties so that one individual is not involved in all aspects of the cash receipts and disbursement processes. Additionally, the Regional Office should implement a system of internal controls that ensures expenditures are properly approved, supported, accrued and posted to the correct account before disbursements are made and posted to the accounting software correctly.

The Regional Office of Education #19 responded that it has completed a thorough review to accomplish the maximum segregation of duties possible with the two full time and two part time members in the Finance Office. The Regional Office stated that segregation of duties concerning cash receipts and accounting process occurred immediately after the FY11 audit became available to the Regional Office. Policy 4:50 concerning Purchase Orders, Process Steps, and Payment Procedures was written in June 2013 with implementation beginning July 2013. The ROE noted that beginning later in the Spring of 2014, training will be provided in the on-line purchase order process so that purchase order approvals and processing can be done electronically. In order to streamline the procedure, the FileMaker process for Purchase Orders will no longer be used effective July 2014. Once the system is implemented, an updated policy will be written.

EXPENDITURE REPORTS DID NOT AGREE TO GENERAL LEDGER

Expenditure reports and reimbursement requests for education programs submitted to the Illinois State Board of Education (ISBE) and the Will County Regional Office of Education #56 should agree with the expenditures reported on the Regional Office of Education #19's general ledger.

The Regional Office of Education #19 had expenditure reports that did not agree to general ledger.

A comparison of expenditure reports to the Regional Office of Education #19's general ledger revealed instances where the totals on the final 2012 expenditure reports submitted to the

Illinois State Board of Education did not agree with the Regional Office's general ledger. Additionally, a comparison of reimbursement requests submitted to the Will County Regional Office of Education #56 also revealed instances where the amounts requested for reimbursement did not agree to the general ledger amounts. Instances noted by auditors included the following:

- The expenditure report submitted to ISBE for the Career and Technical Education Improvement program (2012-3220-00) reported total expenditures related to supplies and materials of \$31,542 while the general ledger reported total supplies and materials expenditures of \$20,985, a difference of \$10,557. Further, \$9,900 of costs charged as support services under purchased services had no documentation other than the program budget to support these costs.
- The expenditure report submitted to ISBE for the Truants Alternative Optional Education program (2011-3695-00) reported total expenditures related to employee benefits of \$17,871 and purchased services of \$14,160 while the general ledger reported total employee benefits expenditures of \$16,151 and purchased services expenditures of \$5,704 in fiscal years 2011 and 2012 (duration of grant period), a total difference of \$10,176.
- The expenditure report submitted to ISBE for the Technology for Success program (2012-3780-00) reported total expenditures related to employee benefits of \$8,177 and purchased services of \$44,257 while the general ledger reported total employee benefits expenditures of \$8,052 and purchased services expenditures of \$44,146, a total difference of \$236. However, \$4,545 of costs charged as support services under purchased services had no documentation other than the program budget to support the costs.
- In 1 of 6 (17%) monthly reimbursement requests examined that were submitted to the Will County Regional Office of Education #56 for the Title I - Grants to Local Educational Agencies, the request did not agree to general ledger detail in total and/or by category. The July 2011 reimbursement request reported expenditures related to salaries of \$3,563 and employee benefits of \$643 while the general ledger reported salaries and employee benefits expenditures of \$1,960 and \$354, respectively, a total difference of \$1,892. Total unsupported costs were \$1,892.

- The Regional Office's final 2012 reimbursement request to Will County Regional Office of Education #56 for the Title I - Grants to Local Educational Agencies requested an additional \$51,358 of costs that could not be supported by general ledger detail for the final monthly reimbursement request (June 2012) or for the entire grant period. An adjusting entry was necessary to reduce accounts receivable and deferred revenue for the unsupported costs of \$51,358.

According to Regional Office officials, the Regional Office personnel responsible for expenditure reports prepared the reports based on numbers that were not adjusted for year-end entries and previous audit entries. (Finding 12-03, pages 19-22)

The auditors recommended that the Regional Office of Education #19 personnel responsible for preparing the expenditure reports should ensure all expenditure reports are supported by the appropriate documentation and by the adjusted general ledger maintained in the Regional Office's accounting software.

The Regional Office of Education #19 responded that it will require quarterly reviews to be completed by each of the Project Managers to review and correct items charged to the grant in error. The Regional Office stated that any necessary journal entries will be written promptly and adequately explained and identified to the proper year on the general ledger report. A reconciliation will be prepared thoroughly documenting the differences between the expenditure report and the general ledger report, including all accruals for the previous year and upcoming year. General ledger accounts specifying the correct grant year have been implemented after the delivery of the fiscal year 2011 audit.

INADEQUATE DOCUMENTATION OF PAYROLL EXPENDITURES

The Regional Office of Education #19 did not have adequate documentation of payroll expenditures.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require the expenditures must be allocable, reasonable, and supported by adequate documentation.

During review of 15 payroll transactions for 15 separate employees, auditors noted the following:

- 1 of 15 (7%) payroll transactions was not supported by a personnel activity report signed by the applicable employee.
- 2 of 15 (13%) payroll transactions were not supported by an authorized pay rate.
- 6 of 15 (40%) payroll transactions were not adequately supported by personnel activity reports or equivalent documentation. Further, the Regional Office did not have a system in place to allocate the salaries of individuals that assist in the administration of multiple programs.

The Regional Office did not have established policies and procedures regarding salaries and benefits that incorporate the requirements of Allowable Costs/Cost Principles of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* for compensation for personnel services. (Finding 12-04, pages 23-26)

The Regional Office of Education #19 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* for compensation for personnel services. These policies and procedures should include requiring staff involved in multiple programs to submit and sign personnel activity reports by program or a time and effort report by program. The Regional Office should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs. Further, all authorized pay rates should be documented in writing to provide sufficient documentation of payroll charges to each program.

The Regional Office of Education #19 responded that the Payroll Cost Allocation Policy 4:51 was written June 2013 and implemented after a series of meetings for training purposes with all employee groups and service providers (consultants) in October 2013 with implementation for the time sheets effective November 2013. The ROE noted that the meetings were to insure compliance with all of the requirements of the OMB Circular A-87. Furthermore, time logs then also were required to be provided on a monthly basis to indicate the work done by each person whether employee or service provider. The Regional Office stated that in order to obtain consistency for the time logs, the DuPage County Chief Auditor was consulted in developing a work log specifically for the Regional Office, with implementation July 2014.

PAYMENT OF UNALLOWABLE COSTS AND IMPROPER MAINTENANCE OF RECORDS

The Regional Office of Education #19 paid unallowable costs and had improper maintenance of records.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require the expenditures must be allocable, reasonable, and supported by adequate documentation. Further, the specific requirements for activities allowed or unallowed are unique to each federal program and are found in the laws, regulations, and provisions of contract or grant agreements pertaining to the program.

While OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* considers charges to federal awards for salaries and wages allowable, the Regional Office did not expend grant funds in accordance with Public Law No. 111-226 and applicable grant terms. The Regional Office lacked documentation to support it expended \$229,140 of \$338,115 of total Education Jobs funds to pay the salaries of teachers and other employees who provide school-level educational and related services. Additionally, the Regional Office did not separately identify and account for these Recovery Act funds in its accounting software.

According to Regional Office officials, fiscal staff did not completely understand the grant terms and interpreted the grant requirements incorrectly. (Finding 12-05, pages 27-29)

The auditors recommended the Regional Office of Education #19 should implement procedures to ensure that specific grant terms and applicable OMB circulars and federal regulations are evaluated and understood before incurring grant expenditures.

The Regional Office of Education #19 responded that the corrections and adjustments have been made to the grant; however, ISBE still will need to be contacted specifically asking that per counsel of the auditors, the grant expenditure report be opened in order for the grant expenditure report be in agreement with that of the Regional Office general ledger detail.

IMPROPER APPLICATION OF MATCHING PRINCIPLE

According to generally accepted accounting principles, revenues should be recognized when they are realized and

The Regional Office of Education #19 had improper application of matching principle.

realizable and are earned, no matter when cash is received. When applying the matching principle, expenses are incurred and offset against recognized revenues which were generated from those expenditures, regardless of when cash is paid out.

The Regional Office did not always properly apply the matching principle. As noted in finding 12-01, the Regional Office did not have a reporting mechanism to identify the specific expenditures that should be applied to each grant year when program grants have overlapping grant terms and are accounted for in the same trial balance. This makes the matching principle difficult to apply and calculation of any overstatement or understatement of revenue very difficult to determine.

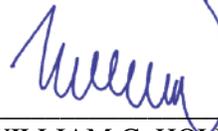
According to the Regional Office, fiscal staff lacks the training and understanding of generally accepted accounting principles regarding the application of the matching principle. (Finding 12-06, pages 30-31)

The auditors recommended that the Regional Office of Education #19 should implement procedures to track grant expenditures by each grant and fiscal year when grant terms overlap to ensure the matching principle is applied properly and the appropriate amount of grant revenue is recognized. The Regional Office should also ensure its fiscal staff is knowledgeable of generally accepted accounting principles.

The Regional Office of Education #19 responded that effective July 2013, grant expenditures and revenue have been identified to the proper year making it possible to apply the GAAP Matching Principle. The Regional Office stated that accounting personnel have been trained in the applicable GAAP Standards.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #19's financial statements as of June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Sikich LLP were our special assistant auditors.