



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, 2013**

Release Date: February 5, 2015

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2011	2,3,4		
Category 1:	0	3	3				
Category 2:	0	1	1	2011		1	
Category 3:	0	0	0				
TOTAL	0	4	4				
FINDINGS LAST AUDIT: 6							

SYNOPSIS

- **(13-1)** The Regional Office of Education #19 did not have sufficient internal controls over the financial reporting process.
- **(13-2)** The Regional Office of Education #19 did not have adequate internal control procedures.
- **(13-3)** The Regional Office of Education #19 had expenditure reports that did not agree to general ledger.
- **(13-4)** The Regional Office of Education #19 did not have adequate documentation of payroll expenditures.

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 #19
DUPAGE COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2013

	FY 2013	FY 2012
TOTAL REVENUES	\$8,575,538	\$9,187,501
Local Sources	\$3,334,788	\$3,229,633
% of Total Revenues	38.89%	35.15%
State Sources	\$4,202,133	\$4,633,858
% of Total Revenues	49.00%	50.44%
Federal Sources	\$1,038,617	\$1,324,010
% of Total Revenues	12.11%	14.41%
TOTAL EXPENDITURES	\$8,817,606	\$8,955,920
Salaries and Benefits	\$3,013,480	\$3,091,420
% of Total Expenditures	34.18%	34.52%
Purchased Services	\$1,767,431	\$1,945,646
% of Total Expenditures	20.04%	21.72%
All Other Expenditures	\$4,036,695	\$3,918,854
% of Total Expenditures	45.78%	43.76%
TOTAL NET POSITION	\$3,707,765	\$3,949,833
INVESTMENT IN CAPITAL ASSETS	\$294,763 ¹	\$319,819 ¹
¹ Capital asset amounts include debt associated with a capital lease. 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, skill and experience 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 its 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 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. (Finding 2013-001, pages 16-17) **This finding was first reported in 2011.**

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 include all disclosures required by the Governmental Accounting Standards Board. The Regional Office stated that its 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.

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 with the final review completed by the Business Manager. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES

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

The Regional Office of Education #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. For example, 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.
- The Regional Office did not adhere to its policy of requiring the Regional Superintendent's approval of purchases. In 14 of 65 (22%) instances, purchase orders were not completed or signed by the Regional Superintendent.
- In 2 of 65 (3%) expenditures examined, the Regional Office failed to provide adequate supporting documentation.
- In 4 of 65 (6%) expenditures examined, the Regional Office charged the expenditures to an incorrect account.

According to Regional Office of Education #19 officials, Regional Office employees were not aware, at that time, what duties should be segregated to have a more effective process. (Finding 2013-002, pages 18-19) **This finding was first reported in 2011.**

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 disbursement process. Additionally, the Regional Office should implement a system of internal controls that ensures expenditures are properly approved, supported and posted to the correct account before disbursements are made and posted to the accounting software.

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. 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. Beginning later in the Fall of 2014, the support staff of the financial systems for the general ledger program will provide to the appropriate financial personnel the training 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 November 2014. Once the system is implemented and fully operational, an updated policy will be written the Spring of 2015. (For previous Regional Office response, see Digest Footnote #2.)

EXPENDITURE REPORTS DO NOT AGREE TO GENERAL LEDGER

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

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

A comparison of reimbursement requests submitted to the Will County Regional Office of Education #56 revealed instances where the amounts requested for reimbursement did not agree to the general ledger amounts. Additionally, a comparison of expenditure reports to the Regional Office of Education #19's general ledger revealed instances where the totals on the final 2013 expenditure reports submitted to the Illinois State Board of Education did not agree with the Regional Office's general ledger. Auditors noted the following instances:

- In 2 of 6 (33%) monthly reimbursement requests examined that were submitted to the Will County Regional Office of Education #56 for Title I-Grants to Local Educational Agencies, the requests did not agree to general ledger detail in total and/or by category. The July 2012 reimbursement request reported expenditures related to salaries of \$8,907 and employee benefits of \$2,886 while the general ledger reported salaries and employee benefits expenditures of \$7,735 and \$1,855, respectively, a total difference of \$2,203. The March 2013 reimbursement request reported expenditures related to employee benefits of \$1,147 while the general ledger reported employee benefits expenditures of \$813, a difference of \$334. Total unsupported costs were \$2,537.

- The expenditure report submitted to ISBE for the Early Childhood Block Grant program (2013-3705-01) reported total expenditures related to employee benefits of \$24,173 while the general ledger reported total employee benefits expenditures of \$22,555, a total difference of \$1,618.
- The expenditure report submitted to ISBE for the ROE/ISC Operations program (2013-3730-00) reported total expenditures related to purchased services of \$3,039 while the general ledger reported total purchased services expenditures of \$2,776, a difference of \$263.

According to Regional Office of Education #19 officials, the personnel responsible for expenditure reports and reimbursement requests prepared the reports based on numbers that were not adjusted for year-end entries and previous audit entries. (Finding 2013-003, pages 20-22) **This finding was first reported in 2011.**

The auditors recommended that the Regional Office of Education #19 personnel responsible for preparing the expenditure reports and reimbursement requests should ensure all expenditure reports and reimbursement requests 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. The ROE noted that it is currently working to make the year-end entries and the previous audit adjustments to the financial and general ledger systems in a more timely manner. (For previous Regional Office response, see Digest Footnote #3.)

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 16 payroll transactions for 12 separate employees, auditors noted that 5 of 16 (31%) 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.

Failure to document authorized pay rates and to prepare personnel activity reports did not provide a sufficient basis for the allocation of actual payroll charges incurred by the program, which may result in a program being over or under charged for salary and benefits. Also, noncompliance with the Allowable Costs/Cost Principles of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* may result in the federal funds being expended for unallowable purposes.

The Regional Office of Education #19 did not have established policies and procedures regarding salaries and benefits that incorporates 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 2013-004, pages 23-26) **This finding was first reported in 2011.**

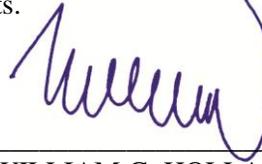
The auditors recommended that the Regional Office of Education #19 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* for compensation for personnel 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.

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; in addition, the Illinois State Board of Education was also contacted for their Cost Allocation process, with implementation July 2015. (For previous Regional Office response, see Digest Footnote #4.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #19's financial statements as of June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Sikich LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1: Controls Over Financial Statement Preparation - Previous Regional Office Response

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.

#2: Inadequate Internal Control Procedures-Previous Regional Office Response

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.

**#3: Expenditure Reports Do Not Agree to General Ledger-
Previous Regional Office Response**

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.

**#4: Inadequate Documentation of Payroll Expenditures-
Previous Regional Office Response**

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.