



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #20
EDWARDS, GALLATIN, HAMILTON, HARDIN, POPE, SALINE, WABASH,
WAYNE, AND WHITE COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2016

Release Date: August 1, 2017

FINDINGS THIS AUDIT: 4	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	2	4	2011	16-1		
Category 2:	0	0	0	2014	16-2		
Category 3:	0	0	0				
TOTAL	2	2	4				
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- **(16-1)** The Regional Office of Education #20 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #20 did not have sufficient internal controls over monthly bank reconciliations.
- **(16-3)** The Regional Office of Education #20 did not adequately monitor cash balances.
- **(16-4)** The Regional Office of Education #20 did not have adequate controls over Institute Fund 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 #20
EDWARDS, GALLATIN, HAMILTON, HARDIN, POPE, SALINE, WABASH, WAYNE, AND
WHITE COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$2,647,809	\$2,384,657
Local Sources	\$1,049,160	\$316,473
% of Total Revenues	39.62%	13.27%
State Sources	\$1,140,707	\$1,681,343
% of Total Revenues	43.08%	70.51%
Federal Sources	\$457,942	\$386,841
% of Total Revenues	17.30%	16.22%
TOTAL EXPENDITURES	\$2,541,632	\$2,358,440
Salaries and Benefits	\$1,871,679	\$1,726,264
% of Total Expenditures	73.64%	73.20%
Purchased Services	\$544,589	\$498,201
% of Total Expenditures	21.43%	21.12%
All Other Expenditures	\$125,364	\$133,975
% of Total Expenditures	4.93%	5.68%
TOTAL NET POSITION	\$58,200 ¹	\$25,831
INVESTMENT IN CAPITAL ASSETS	\$24,735	\$36,015
¹ The FY16 beginning net position was restated by (\$73,808) due to a prior period adjustment to report a net other post-employment benefit obligation Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Lawrence Fillingim Currently: Honorable Lawrence Fillingim

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #20 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #20 (ROE) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office'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).

The ROE did not have sufficient internal controls over the financial reporting process. While the ROE maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of 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.

During review of the ROE's financial information prepared by the ROE, auditors noted the ROE's financial information required material adjusting entries to accounts receivable, accounts payable, accrued payroll, and unearned revenue in order to present its financial statements in accordance with generally accepted accounting principles. In addition, the ROE did not have adequate controls to record and report net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources and pension expenses in accordance with GAAP. Proposed adjusting entries were approved and accepted by ROE management.

According to ROE officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 2016-001, pages 11a-11b) **This finding was first reported in 2011.**

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 applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

The ROE responded that it accepts the auditor's recommendation. The ROE will work with other Regional Offices of Education for professional development and

necessary training to ensure that the proper employees possess the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

PREPARATION OF MONTHLY BANK RECONCILIATIONS

The Regional Office of Education #20 did not have sufficient internal controls over monthly bank reconciliations.

As a basic cash management procedure, the ROE should be preparing bank reconciliations for each of its cash accounts on a monthly basis. This procedure should be incorporated as part of the monthly closing procedures.

During the fiscal year, the ROE prepared bank reconciliations for each of its accounts on a monthly basis, but the reconciled balance was not being compared to the general ledger balance. On the bank reconciliation for the month ended June 30, 2016, auditors noted a difference of \$24,785 between the reconciled balance per the bank reconciliation and the actual cash balances per the ROE's general ledger. The ROE determined the difference was due to mistakes made with journal entries and adjustments were made to the balances reported in these financial statements to correct the difference.

The ROE did not have sufficient internal controls over its monthly financial closing process. (Finding 2016-002, page 11c) **This finding was first reported in 2014.**

The auditors recommended that the ROE should amend its internal control processes over the monthly bank reconciliations to ensure the reconciled balance per the bank reconciliation agrees to the cash balances per the general ledger.

The ROE responded that it accepts the auditor's recommendation. The ROE is now reconciling the monthly bank statement with the cash balances per the general ledger. This ensures accuracy of all entries made into the computer system, is done on a monthly basis, and reviewed by an individual that did not take part in the monthly bank reconciliation process. (For previous Regional Office response, see Digest Footnote #2 located at the end of the digest.)

INADEQUATE MONITORING OF CASH BALANCES

The Regional Office of Education #20 did not adequately monitor cash balances.

The ROE should monitor the cash balance of each fund on a periodic basis to determine the balances are reasonable in relation to the activity of the fund.

Near the beginning of each fiscal year, the ROE requests short-term funding from the school districts within the region to reduce the ROE's need to obtain financing from a bank while they are waiting for reimbursements and other funding

from the State of Illinois. Near the conclusion of each fiscal year, the ROE remits the funding back to the respective school districts. During fiscal year 2015, the ROE remitted \$32,900 to two school districts that did not provide funding to it at the beginning of the fiscal year. As of June 30, 2016, \$25,900 was still receivable from one school district and resulted in a negative cash balance on the ROE's general ledger.

The ROE receives funding from the Illinois State Board of Education which is deposited in the Ohio and Wabash Valley Special Education District (District) agency fund. After the deposit is made, the funding is intended to be disbursed to the District shortly thereafter. However, the ROE received \$10,000 in June 2015 that had still not been disbursed as of June 30, 2016, resulting in a \$10,000 cash balance in this fund.

The ROE did not adequately monitor cash balances, and these errors occurred during a period of transitioning to new accounting staff. (Finding 2016-003, page 11d)

The auditors recommended that the ROE should monitor cash balances to ensure they coincide with the intended activity of the fund they are recorded in and should monitor all disbursements to ensure they are only made to satisfy an actual liability or other obligation.

The ROE responded that it accepts the auditor's recommendation. The ROE is now monitoring cash balances on a semi-monthly to monthly basis to ensure the intended balances of the fund. Monies due from the one school district for fiscal year 2015 were recovered in January 2017.

CONTROLS OVER INSTITUTE FUND EXPENDITURES

The Regional Office of Education #20 did not have adequate controls over Institute Fund expenditures.

The Illinois School Code 105 ILCS 5/3-12 states that all certificate license fees and a portion of renewal and duplicate fees shall be used by the Regional Superintendent to defray expenses associated with the work of the regional professional development review committees; to defray expenses connected with improving technology necessary for the efficient processing of licenses; to defray all costs associated with the administration of teaching licenses; and to defray expenses incidental to teachers' institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers or for the purpose of defraying the expense of any general or special meeting of teachers or personnel of the region, which has been approved by the Regional Superintendent.

The ROE made interfund loans totaling \$37,912 from the Institute Fund to other funds. Loaning of Institute Fund cash to cover cash deficits in other funds is not a statutorily approved use of Institute funds.

The ROE did not record interfund lending activity internally and also did not monitor the cash balance in each of its funds to determine if restricted cash was used for unallowable purposes. (Finding 2016-004, page 11e)

The auditors recommended that the ROE should ensure that funds generated from license, renewal, and duplicate fees are expended in accordance with the Illinois School Code 105 ILCS 5-3/12.

The ROE responded that it accepts the auditor's recommendation. Due to this oversight, the ROE is monitoring funds on a monthly/semi-monthly basis to ensure fees are expended in accordance with Illinois School Code. A line of credit has been approved and is on file in order to prevent interfund loans from restricted funds.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #20's financial statements as of June 30, 2016 are fairly presented in all material respects.

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

SIGNED ORIGINAL ON FILE

AMEEN DADA
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:JRB

DIGEST FOOTNOTES

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

In its prior response in 2015, the Regional Office of Education #20 responded that it will work with other Regional Offices of Education for professional development and necessary training to ensure that the proper employees possess the knowledge required to compile the necessary GAAP based financial statements.

#2 Preparation of Monthly Bank Reconciliations – Previous Regional Office Response

In its prior response in 2015, the Regional Office of Education #20 responded that all bank accounts are reconciled monthly to the general ledger. The reconciled statements are then reviewed by a third party that did not participate in the reconciliation.