



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #26
FULTON, HANCOCK, MCDONOUGH, AND SCHUYLER COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2017

Release Date: May 3, 2018

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>	2007	17-1		
Category 1:	1	3	4	2012	17-2		
Category 2:	0	0	0	2015	17-3		
Category 3:	0	0	0				
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 3							

SYNOPSIS

- (17-1) The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- (17-2) The Regional Office of Education #26 did not have adequate internal control procedures.
- (17-3) The Regional Office of Education #26 had inadequate internal controls over inventory.
- (17-4) The Regional Office of Education #26 had inadequate internal controls over accounting processes such as transfers and fund balances.

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 #26
FULTON, HANCOCK, MCDONOUGH, AND SCHUYLER COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$4,684,622	\$3,995,929
Local Sources	\$1,534,136	\$1,205,271
% of Total Revenues	32.75%	30.16%
State Sources	\$2,883,715	\$2,526,524
% of Total Revenues	61.56%	63.23%
Federal Sources	\$266,771	\$264,134
% of Total Revenues	5.69%	6.61%
TOTAL EXPENDITURES	\$4,077,161	\$4,540,578
Salaries and Benefits	\$2,411,114	\$2,928,896
% of Total Expenditures	59.14%	64.50%
Purchased Services	\$569,005	\$535,089
% of Total Expenditures	13.96%	11.78%
All Other Expenditures	\$1,097,042	\$1,076,593
% of Total Expenditures	26.91%	23.71%
TOTAL NET POSITION	\$787,129	\$179,668
INVESTMENT IN CAPITAL ASSETS	\$137,210	\$122,054
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable John Meixner Currently: Honorable John Meixner

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #26 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintains its accounting records using cash basis accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the ROE maintains 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 financial statement misstatements and disclosure omissions in a timely manner.

The Regional Office 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 financial information prepared by the ROE, auditors noted the following:

- The ROE did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the ROE did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, no entries were provided to reconcile the ROE's grant activity, such as posting grant receivables and unearned revenue.
- Numerous material adjustments were needed to make the financial statements comply with GAAP.
- The ROE did not have adequate controls to record and report the ROE's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP. Proposed adjusting entries by auditors were approved and accepted by the ROE's management.

According to the Regional Office management, current funding levels were not adequate to hire and/or train accounting personnel in order to comply with these requirements. (Finding 2017-001, pages 12a-12c) **This finding was first reported in 2007.**

The auditors recommended that as part of internal control over the preparation of financial statements, the ROE should implement comprehensive preparation procedures to ensure the financial statements are complete and accurate. These 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 accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the limited funds available to provide educational services for the schools in the region.*

The ROE will continue to work with other Regional Offices to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. ROEs are simply not resourced at an adequate nor equitable levels to comply with the mounting GAAP standards.

Prior Year ROE Response: *The ROE accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region.*

The ROE will continue to work with the other Regional Offices to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. The organization will also research the possibility of having another accounting company prepare financial statements independent of the auditors.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #26 did not have adequate internal control procedures.

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

- There is inadequate segregation of duties over cash receipts. Payments received by check are given to the individual who records them in the accounting system.

The individual who records receipts should not have physical custody of the receipts.

- Several items totaling \$8,853 were appropriately included as capital assets in the general ledger; however, these items were not included in the capital asset schedule presented to auditors.

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

According to Regional Office management, the ROE had not established or documented sufficient internal control procedures. (Finding 2017-002, pages 12d-12e) **This finding was first reported in 2012.**

The auditors recommended the individual responsible for recording cash receipts should not be given physical access to the receipts. An individual independent of the recording process should make cash deposits and verify the amounts recorded agree to the deposit records. The auditors also recommended the ROE should establish procedures to ensure its capital asset schedule is maintained in accordance with the ROE's capital asset policy. The capital asset schedule should be reconciled to the general ledger capital asset and capital outlay accounts.

ROE Response: *As noted in the procedures statement presented to the ROE during the audit, it was established that the ROE separates the duties of the cash receipts and system entry as much as possible with the available staff.*

The ROE will review the current auditors' recommendation and will revise the ROE's policies, procedures, and/or practices to address the finding noted as needed.

Prior Year ROE Response: *The ROE will review the current auditors' recommendations and will revise the Regional Office's policies, procedures, and/or practices to address the findings noted as needed.*

INADEQUATE INTERNAL CONTROLS OVER INVENTORY

The Regional Office of Education #26 had inadequate internal controls over inventory.

The Regional Office was not able to provide auditors with documentation to support the provided inventory value. In addition, the inventory value recorded in the ROE's general ledger was not adjusted to the year-end value.

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

According to Regional Office management, the Western Area Purchasing Co-op did not perform a physical inventory count at year end; rather, they performed a physical count after most inventory had been delivered to Co-op members and calculated the year-end inventory value from supporting documents, such as vendor invoices, shipping manifests, and receipts of delivery to Co-op members. These documents did not support the inventory value reported by the Co-op. (Finding 2017-003, pages 12f-12g) **This finding was first reported in 2015.**

The auditors recommended that the Western Area Purchasing Co-op staff perform a physical inventory count on or near the fiscal year end or should maintain adequate documentation to support the calculated year-end value. The accurate inventory value should be recorded in the ROE's general ledger.

ROE Response: *The ROE agrees with this finding after review of the documentation that the Western Area Purchasing Co-op provided. The ROE will discuss with the Western Area Purchasing Co-op the need to create and maintain adequate documentation or inventory system to support the calculated year-end inventory value.*

Prior Year ROE Response: *The ROE will review the current auditors' recommendations and will revise the Regional Office's and Western Area Purchasing Cooperative's policies, procedures, and/or practices to address the findings noted as needed.*

TRANSFERS AND FUND BALANCE

The Regional Office of Education #26 had inadequate internal controls over accounting processes such as transfers and fund balances.

Auditors noted issues related to the initial transfer in, transfer out, and fund balances provided by the ROE.

Auditors noted transfer in accounts totaled \$362,733 and transfer out accounts totaled \$833,640, which resulted in transfer in and transfer out accounts being out of balance by \$470,907. Auditors also noted that twenty-nine (29) of thirty-eight (38) beginning fund account balances did not agree with the ending account balances from June 30, 2016. In addition, the ROE's beginning fund balance in total was \$112,549 less than the total ending fund balance at June 30, 2016.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting processes, including consolidation of accounting records, to ensure accurate financial information.

According to Regional Office officials, the employee(s) responsible for consolidating the accounting records of ROE #22 into accounting records of ROE #26 in FY16 and FY17 did not possess the appropriate knowledge and expertise related to the applicable accounting principles. (Finding 2017-004, page 12h)

The auditors recommended that the ROE should implement comprehensive procedures to ensure that the financial information is complete and accurate. As complex accounting issues arise, the Regional Office should engage the services of an independent accountant with significant governmental accounting experience to assist.

ROE Response: *The ROE consulted with the accounting software vendor about consolidating accounting records and interpreted that transfers in and out with proper description would define transactions needed between old and new accounting systems. The ROE finds this situation unique due to the consolidation of ROEs in the State. Should any similar situation arise again in the future, the ROE will establish an independent accountant to assist with the consolidating of accounting systems to ensure correct account balances.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #26's financial statements, except for the Business-Type Activities and the Western Area Purchasing Co-op, as of June 30, 2017 are fairly presented in all material respects.

This financial report was conducted by the firm of Kemper CPA Group 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