



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #30
ALEXANDER, JACKSON, PERRY, PULASKI, AND UNION COUNTIES

FINANCIAL AUDIT (In accordance with the Uniform Release Date: April 5, 2018
 Guidance)
 For the Year Ended: June 30, 2016

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	4	1	5	2015	16-1		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	4	1	5				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- (16-1) The Regional Office of Education #30 did not have sufficient internal controls over the financial reporting process.
- (16-2) The Regional Office of Education #30 under-reported salaries paid from federal and special trust funds resulting in an underpayment in employer contributions for those funds.
- (16-3) The Regional Office of Education #30 did not have adequate internal controls over the preparation of grant expenditure reports.
- (16-4) The Regional Office of Education #30's salaries and benefits were not supported by proper time and effort documentation.
- (16-5) The Regional Office of Education #30 had a lack of written policies for federal grant administration.

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 #30
ALEXANDER, JACKSON, PERRY, PULASKI, AND UNION COUNTIES

FINANCIAL AUDIT
(In accordance with the Uniform Guidance)
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$2,324,222	\$1,535,256
Local Sources	\$385,620	\$351,688
% of Total Revenues	16.59%	22.91%
State Sources	\$879,342	\$890,599
% of Total Revenues	37.83%	58.01%
Federal Sources	\$1,059,260	\$292,969
% of Total Revenues	45.57%	19.08%
TOTAL EXPENDITURES	\$2,230,976	\$1,443,091
Salaries and Benefits	\$1,057,993	\$881,519
% of Total Expenditures	47.42%	61.09%
Purchased Services	\$368,000	\$342,553
% of Total Expenditures	16.50%	23.74%
All Other Expenditures	\$804,983	\$219,019
% of Total Expenditures	36.08%	15.18%
TOTAL NET POSITION	\$508,415 ¹	(\$307,014)
INVESTMENT IN CAPITAL ASSETS	\$53,090	\$52,302
<p>¹The FY 2016 beginning net position was restated by \$749,216 due to the ROE not reporting the assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with pension benefits for the combined ROE in the current year. Additionally, the FY 2016 beginning net position was restated by (\$27,033) in order to reclassify certain funds as to fund type and correct a prior period error related to accounts receivable.</p> <p style="text-align: center;">Percentages may not add due to rounding.</p>		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Donna Boros Currently: Honorable Cheryl Graff

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #30 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #30 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintains its accounting records on the cash basis of accounting during the fiscal year and posts or maintains a list of year-end accrual adjustments for financial statement purposes. While the ROE maintained controls over the processing of most accounting transactions, there are 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, including the schedule of expenditures of federal awards, and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

During review of the financial information prepared by the ROE, the following internal control deficiencies were noted:

- While the ROE did maintain records to indicate the balances of accounts receivable/due from other governments, accounts payable/due to other governments, and fund balance, not all entries were provided to reconcile the ROE's grant and general activity, such as posting receivables and payables and posting all prior period audit entries.
- The ROE did not provide entries to eliminate negative cash balances within certain funds.
- Expenses used to meet cost reimbursement requirements for State and federal grants, including indirect costs, were not allocated to the proper fund and were instead charged to unrestricted funds. Audit adjustments were also necessary to correct insurance reimbursements that were not netted against the associated expenses, certain other expenses that were misclassified, and one entry was posted backwards.

- Audit adjustments were necessary to properly classify State and federal revenue, which had originally been classified as local revenue.
- The ROE did not have adequate controls over the proper recognition of on-behalf revenues and expenses. Information to calculate and record on-behalf revenues and expenses amounts had not been obtained by the ROE.
- Reclassifications of beginning fund balances were necessary to properly classify funds within the financial statements.
- Prior period adjustments of the beginning fund balance were necessary to correct an accounting error.

Through inquiries and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted that 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.

According to Regional Office management, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements or to hire a third party to present the financial statements in accordance with GAAP. In addition, the complex requirements of GASB Statements No. 68 and 71 will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2016-001, pages 14a-14c)

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 possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report. This fiscal audit was under prior management.*

UNDERPAYMENT OF EMPLOYER FEDERAL FUNDS TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS

The Regional Office of Education #30 under-reported salaries paid from federal and special trust funds resulting in an underpayment in employer contributions for those funds.

The Regional Office under-reported salaries paid from federal and special trust funds for the year ended June 30, 2016, resulting in an underpayment of \$14,009 in employer contributions for those funds.

Illinois statutes 40 ILCS 5/16-158 require an employer contribution on any portion of a Teachers' Retirement System (TRS) member's salary that is creditable earnings and paid from special trust or federal funds administered by the employer. Additionally, the *Teachers' Retirement System Employer Guide* states the employer contribution for federally-funded salary must be paid in addition to (not in lieu of) the member TRS retirement contribution. For the year ended June 30, 2016, the required employer pension contribution was 36.06% of salaries paid from federal and special trust funds, including stipends and substitute pay.

According to Regional Office management, the fiscal staff was unaware that certain salaries were paid with federal funds. In addition, due to employee oversight, not all salaries claimed as federal expenditures with granting agencies were allocated to the proper funds and accounts in the ROE's general ledger. An incorrect amount was then submitted as salaries paid from federal and special trust funds, resulting in an incorrect calculation of the contribution due. (Finding 2016-002, page 14d)

The auditors recommended that the ROE reconcile all grant expenditure reports or other expense tracking systems to the amounts recorded in the general ledger. They also recommend a system of internal controls be put in place to ensure management and fiscal staff are aware of all sources of federal funds, including contacting the granting agency, if necessary, to determine if a grant is paid with federal funds. Also, an individual independent of the TRS report preparation should be reviewing the reporting for accuracy.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report. This fiscal audit was under prior management.*

INTERNAL CONTROLS OVER EXPENDITURE REPORT PREPARATION

The Regional Office of Education #30 did not have adequate internal controls over the preparation of grant expenditure reports.

The ROE did not have adequate internal controls over the preparation of grant expenditure reports. Expenditure reports submitted to granting agencies to request reimbursement did not reconcile to the underlying accounting records for the following State and federal grant programs: Regional Safe Schools, Truants Alternative/Optional Education, IDEA – Improvement Grant – Part D, Mathematics and Science Partnerships, McKinney Education for Homeless Children, Title I – School Improvement and Accountability, and RAMPDUP and Onward. Expenses were overstated to the granting agencies for the RAMPDUP and Onward program and the Title I – School Improvement and Accountability Program. The questioned costs for RAMPDUP and Onward were \$4,442, and the questioned costs for Title I – School Improvement and Accountability were \$1,432.

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires that a non-federal entity's financial management system, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit 1) the preparation of reports required by general and program-specific terms and conditions, and 2) the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. Furthermore, the non-federal entity must establish and maintain effective internal control over the federal award.

According to Regional Office management, they obtained general ledger reports with preliminary information and did not perform further follow-up to verify all applicable expenses were moved to the appropriate accounts. Further, ROE management indicated they were not aware that salary and benefit amounts should not be claimed based on budgeted amounts alone. (Finding 2016-003, pages 14e-14f)

The auditors recommended that the Regional Office management create a system of internal controls to ensure all expenditure reports are submitted accurately, are fully supported by adequate cost documentation records, and reconcile to the underlying accounting records.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report. This fiscal audit was under prior management.*

SALARIES AND BENEFITS NOT SUPPORTED BY PROPER TIME AND EFFORT DOCUMENTATION

The Regional Office of Education #30's salaries and benefits were not supported by proper time and effort documentation.

The Regional Office assigned salary and benefit costs to the Mathematics and Science Partnership grants based on budgeted amounts. Comparisons of actual costs to budgeted distributions based on time and effort records were not performed and adjustments for actual time spent on the grants, if different from budgeted amounts, were not made. Employees who worked on the Mathematics and Science Partnerships grants turned in time and effort reports to the granting agencies, but these time records did not always include 100% of the employees' time. Some employees also turned in monthly calendars to management, but they only included time spent on grants, not 100% of the employee's hours. The questioned costs are unknown since the difference between budgeted and actual costs is undeterminable.

Employees of the ROE are required to document their time and effort working on federal programs. Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires charges for salaries and benefits to be supported by a system of internal control which provides reasonable assurance that charges are accurate, allowable, and properly allocated. Documentation records should reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities, and should encompass both federally assisted and non-federally assisted activities. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award. Significant changes in the corresponding work activity should be identified and the necessary adjustments entered into the accounting records in a timely manner. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.

The ROE also did not maintain time and effort documentation for part-time lunchroom supervisors working on the National School Lunch and School Breakfast Programs (Child Nutrition programs) and did not break out the portion of their salaries and benefits dedicated to food service.

According to Regional Office officials, they were unaware of the time and effort log requirements for administrative personnel, including the requirement to adjust budget to actual. (Finding 2016-004, pages 14g-14h)

The auditors recommended that the ROE should implement a system of internal controls over time and effort reporting. The ROE should use time and effort documentation to distribute salary and benefit costs for employees who work in whole or in part on grant program activity in accordance with the Uniform Guidance.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report. This fiscal audit was under prior management.*

LACK OF WRITTEN POLICIES FOR FEDERAL GRANTS

The Regional Office of Education #30 had a lack of written policies for federal grant administration.

The Regional Office did not have written procedures concerning cash management, the determination of allowability of costs in accordance with Cost Principles of the Uniform Guidance and the terms and conditions of the federal award, or standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts. In lieu of written procedures, the ROE utilized informal procedures in which each purchase made or cost allocated to the Mathematics and Science Partnerships was reviewed for allowability by an individual with knowledge of the budget, allowable costs and activities, and the cash management requirements. The allowability determinations were based on the amounts included in the budgets for the Mathematics and Science Partnerships approved by, and the grant periods set by, the Illinois State Board of Education.

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the ROE to have written procedures to implement the requirements of Part 200.305, *Payment*, related to cash management, and for determining the allowability of costs in accordance with Subpart E – Cost Principles of the Uniform Guidance and the terms and conditions of the federal award. The ROE must also maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts.

According to Regional Office management, they were unable to dedicate the time needed to fully implement the Uniform Guidance due to competing priorities. (Finding 2016-005, pages 15b-15c)

The auditors recommended that the ROE prepare written procedures to implement the requirements of Part 200.305, *Payment*, related to cash management, for determining the allowability of costs in accordance with Subpart E – Cost Principles of the Uniform Guidance and the terms and conditions of the federal award, and to document standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report. This fiscal audit was under prior management.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #30's financial statements as of June 30, 2016 are fairly stated in all material respects, except for not recognizing assets, liabilities, deferred outflows of resources, and/or deferred inflows of resources for pension benefits in the Statement of Net Position and Statement of Activities.

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:KJM