



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #32**  
**IROUOIS AND KANKAKEE COUNTIES**

FINANCIAL AUDIT (In Accordance with the Single  
 Audit Act and OMB Circular A-133)  
 For the Year Ended: June 30, 2015

Release Date: July 28, 2016

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since 2010	Category 1	Category 2	Category 3
Category 1:	0	1	1	15-1			
Category 2:	1	0	1				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>2</b>				
FINDINGS LAST AUDIT: 1							

**SYNOPSIS**

- **(15-1)** The Regional Office of Education #32 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #32 did not have sufficient internal controls over Federal Grant Reporting.

**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 #32**  
**IROQUOIS/KANKAKEE COUNTIES**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act and OMB Circular A-133)**  
**For The Year Ended June 30, 2015**

	<b>FY 2015</b>	<b>FY 2014</b>
<b>TOTAL REVENUES</b>	\$3,781,557	\$3,733,214
Local Sources	\$852,943	\$943,214
% of Total Revenues	22.56%	25.27%
State Sources	\$1,763,627	\$1,853,362
% of Total Revenues	46.64%	49.65%
Federal Sources	\$1,164,987	\$936,638
% of Total Revenues	30.81%	25.09%
<b>TOTAL EXPENDITURES</b>	\$3,254,334	\$3,546,283
Salaries and Benefits	\$2,232,817	\$2,544,515
% of Total Expenditures	68.61%	71.75%
Purchased Services	\$569,223	\$484,827
% of Total Expenditures	17.49%	13.67%
All Other Expenditures	\$452,294	\$516,941
% of Total Expenditures	13.90%	14.58%
<b>TOTAL NET POSITION</b>	\$2,366,720	\$3,920,053
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$0	\$0
<sup>1</sup> The FY 2015 beginning net position was restated by (\$2,080,556) due to a prior period adjustment for new reporting requirements for pensions.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Gregg Murphy
Currently: Honorable Gregg Murphy

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #32 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #32 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, skills, and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #32 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 financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of the GAAP based financial statements and the Schedule of Expenditures of Federal Awards 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 Regional Office of Education #32's financial information prepared by the Regional Office of Education #32, it was noted that the Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Regional Office did maintain records to indicate the balances of some accounts payable, accounts receivable, and unearned revenue, not all entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables and unearned revenue. Audit adjustments were proposed in order to ensure the financial statement balances were in accordance with GAAP.

Through inquires and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted the Regional Office of Education #32 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, fiscal staff did not effectively detect all of the adjustments needed in order to present financial statements in accordance with GAAP.

Additionally, the complex requirements of GASB Statements No. 68 and 71 were new for fiscal year 2015 and will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2015-001, pages 14a-14b) **This finding was first reported in 2010.**

The auditors recommended that as part of internal control over the preparation of financial statements, the Regional Office 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 applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education #32's activities and operations.

The Regional Office of Education #32 responded that in an attempt to correct this finding, the Regional Office will send its fiscal staff to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP). (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

#### **INTERNAL CONTROLS OVER FEDERAL GRANT REPORTING**

#### **The Regional Office of Education #32 did not have sufficient internal controls over Federal Grant Reporting.**

The Office of Management and Budget (OMB) Circular A-102 Common Rule and OMB Circular A-110 require non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. The objectives of internal control pertaining to the compliance requirements for federal programs are found in OMB Circular A-133. Specifically, transactions should be accurately classified within expenditure reports and these expenditure reports should be submitted to the granting agency in a timely manner. The Illinois State Board of Education (ISBE) requires expenditure reports within 20 days of the applicable quarter end or project end date. If the completion report contains outstanding obligations, a final expenditure report must be submitted within 90 days of the project end date.

Salary expenses were misclassified as purchased service costs in both the financial records of the Regional Office and the ISBE expenditure reports. In addition, the March 31, 2015 expenditure report was submitted 2 days late per ISBE reporting requirements.

Two (2) instances were noted, out of a sample of forty (40) payroll transactions, in which salary expenses were charged to a purchased services account number. The misclassified salary expenses totaled \$2,115.

The March 31, 2015 expenditure report was submitted on April 22, 2015, but was due on April 20, 2015.

The expense misclassification was due to a clerical error. The late expenditure reporting was caused by scheduling issues with a part-time employee. The employee worked on April 15, 2015 to complete the expenditure reports, but ran out of time and did not return to the Regional Office until April 22, 2015. (Finding 2015-002, pages 14c-14d)

The auditors recommended that the Regional Office of Education #32 establish a set of internal controls over federal compliance to ensure that all grant expenditure reports are accurate prior to submission to the granting agency. These internal controls should be designed such that errors or omissions resulting from adjusting journal entries, clerical and posting errors, or other factors are detected and corrected prior to submission of the expenditure report. In addition, if the individual who normally prepares the expenditure reports will not be available to prepare and submit the reports by the reporting deadline, alternate arrangements should be made with other qualified preparers.

The Regional Office responded that it has established procedures to ensure timely and accurate submission of grant expenditure reports. Currently, a listing of all grants and their related reporting requirements has been compiled and is used to organize and ensure timely submission of expenditure reports. Additionally, two staff members have been trained should the employee, who has primary responsibility to complete the reports, be unavailable to complete the reports. This procedure will allow for timely submission of reports and mitigate risk of errors when creating journal entries. Additionally, Finance Staff members took part in Internal Professional Development to improve knowledge of account structure and appropriate classification of expenses. This has increased staff ability to detect coding errors using financial reports.

## **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #32's financial statements as of June 30, 2015 are fairly presented in all material respects.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

FJM:JRB

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.

## **DIGEST FOOTNOTE**

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

In its prior response in 2014, the Regional Office responded that in an attempt to correct this finding, the Regional Office will send its fiscal staff to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP).