



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #34
LAKE COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2014

Release Date: May 21, 2015

| FINDINGS THIS AUDIT: 3 | AGING SCHEDULE OF REPEATED FINDINGS | | | | | | |
|-------------------------------|-------------------------------------|---------------|--------------|----------------|-------------|------------|------------|
| | <u>New</u> | <u>Repeat</u> | <u>Total</u> | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | 2 | 1 | 3 | 2010 | 14-1 | | |
| Category 2: | 0 | 0 | 0 | | | | |
| Category 3: | 0 | 0 | 0 | | | | |
| TOTAL | 2 | 1 | 3 | | | | |
| FINDINGS LAST AUDIT: 1 | | | | | | | |

SYNOPSIS

- **(14-1)** The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #34 did not have adequate controls over fund accounting.
- **(14-3)** The Regional Office of Education #34 did not have adequate review of journal entries.

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 #34
LAKE COUNTY

FINANCIAL AUDIT
For The Year Ended June 30, 2014

| | FY 2014 | FY 2013 |
|--|----------------|----------------|
| TOTAL REVENUES | \$6,093,115 | \$6,361,489 |
| Local Sources | \$2,141,984 | \$1,867,997 |
| % of Total Revenues | 35.15% | 29.36% |
| State Sources | \$3,865,105 | \$3,469,459 |
| % of Total Revenues | 63.43% | 54.54% |
| Federal Sources | \$86,026 | \$1,024,033 |
| % of Total Revenues | 1.41% | 16.10% |
| | | |
| TOTAL EXPENDITURES | \$6,034,268 | \$6,409,033 |
| Salaries and Benefits | \$2,703,668 | \$2,734,253 |
| % of Total Expenditures | 44.81% | 42.66% |
| Purchased Services | \$600,570 | \$957,215 |
| % of Total Expenditures | 9.95% | 14.94% |
| All Other Expenditures | \$2,730,030 | \$2,717,565 |
| % of Total Expenditures | 45.24% | 42.40% |
| | | |
| TOTAL NET POSITION | \$2,689,238 | \$2,630,391 |
| | | |
| INVESTMENT IN CAPITAL ASSETS | \$21,514 | \$17,851 |
| Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|---|
| During Audit Period: Honorable Roycealee Wood |
| Currently: Honorable Roycealee Wood |

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #34 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 Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process. While the Regional Office maintains controls over the processing of most accounting transactions, there are not 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 and correct financial statement misstatements and disclosure omissions in a timely manner.

During review of the Regional Office of Education #34's financial information prepared by the Regional Office, auditors noted that the Regional Office did not have adequate controls to ensure financial statement balances were accurate. While the Regional Office did maintain records to indicate the balances of financial statement accounts, numerous material audit adjustments were proposed in order to ensure balances of supporting records and reconciliations agreed to the general ledger financial statement accounts and to add or remove items not properly identified by the Regional Office of Education #34. (Finding 2014-001, pages 11-12) **This finding was first reported in 2010.**

The auditors recommended that, as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #34 should implement comprehensive preparation procedures to ensure that the financial statements, including disclosures, are complete and accurate. The Regional Office should ensure that all general ledger financial statement accounts agree to supporting records and reconciliations. In addition, the Regional Office should perform a detailed review of activity subsequent to fiscal year end to ensure that all accruals are properly recorded. These procedures should be performed by a properly trained individual possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education #34's activities and operations.

The Regional Office of Education #34 responded that it agrees with the finding and will continue to implement comprehensive preparation and review procedures to ensure that financial statements including disclosures are complete and accurate. The Regional Office stated that included in the corrective activities are continued consulting services and training to Lake ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy). In addition, the Regional Office stated that it has contracted with a part-time business consultant who continues to review Lake ROE business procedures and controls. The ROE noted that finally, in an effort to streamline preparation of comprehensive financial statements, it will continue efforts to consolidate multiple installations of the financial management software during Fiscal Year 2015. This merged data system will be tested and validated by the end of Fiscal Year 2015. (Note: Originally scheduled for Fiscal Year 2014 completion). (For previous Regional Office response, see Digest Footnote #1.)

CONTROLS OVER FUND ACCOUNTING

The Regional Office of Education #34 did not have adequate controls over fund accounting.

The Regional Office of Education #34 is required by the Illinois State Board of Education to maintain their accounting system in accordance with the Regional Office of Education Accounting Manual (Manual). The Manual requires the Regional Office of Education #34 to maintain an accounting system on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. These funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Regional Office of Education #34 did not ensure all holding accounts were cleared out, individual funds were self-balanced, opening fund balance amounts agreed to the prior period closing fund balance amounts and all balance sheet accounts were reconciled to supporting documentation. Auditors specifically noted the following:

- Trial balance reports initially provided to auditors for the Educational Services Division (ESD) and Attendance and Truancy Division (ATD) were not balanced in total. Additionally, the individual funds were not self-balancing and reconciled to supporting documentation.
- Trial balance reports initially provided to auditors had unallocated balances in holding accounts and opening fund balance amounts did not agree to June 30, 2013 closing fund balance amounts. The Regional Office used holding accounts for cash and fund balance accounts. Some transactions were initially posted to

the holding accounts and subsequently allocated to financial statement accounts.

Auditors requested and subsequently received trial balances that were balanced.

The Regional Office of Education #34 is standardizing its chart of accounts across multiple locations and working to merge general ledgers for the Regional Office of Education Administrative, Educational Services Division, and Attendance and Truancy Divisions. These changes have not been fully completed and contributed to the deficiencies. In addition, holding accounts were not cleared out and the Regional Office did not have the trial balance reports set up properly in order to include all the necessary accounts and balances. (Finding 2014-002, pages 13-14)

The auditors recommended that the Regional Office of Education #34 should assign a member of management with suitable skills, knowledge and experience to review their trial balance reports at regular intervals throughout the year. The Regional Office of Education should ensure all holding accounts are cleared out, individual funds are self-balanced, opening fund balance amounts agree to the prior period closing fund balance amounts and all balance sheet accounts are reconciled to supporting documentation.

The Regional Office of Education #34 responded that it agrees with the finding and will assign members of management with suitable skills, knowledge and experience to review trial balance reports at regular intervals throughout the year. This activity commenced with the lessons learned from the Fiscal Year 2014 experience and will be ongoing through Fiscal Year 2015. The Regional Office stated that activities will include ensuring all holding accounts are cleared out, individual funds are self-balanced, opening fund balance amounts agree to the prior period closing fund balance amounts, and all balance sheet accounts are reconciled to supporting documentation. The ROE noted that management designees include the Lake ROE accountant, the Assistant Regional Superintendent/Director of Educational Services, and a part-time business consultant.

INADEQUATE REVIEW OF JOURNAL ENTRIES

The Regional Office of Education #34 is responsible for establishing and maintaining an internal control system over journal entries to prevent or detect and correct financial statement misstatements in a timely manner.

The Regional Office of Education #34 did not have adequate review of journal entries.

Upon detailed review of journal entries, auditors noted that many were improperly recorded. In addition, supporting documents for the journal entries did not always include the written review and approval of someone other than the

preparer. Prior to proposed audit adjustments, the financial statement amounts contained material misstatements due to improperly recorded journal entries. Improperly recorded journal entries included:

- Posting of previous audit adjustments to fiscal year 2014 as opposed to the previous years
- Incomplete or duplicate reversals of prior year balance sheet accruals and previous audit adjustments
- Improper posting of entries to “net fund change” accounts
- Improper posting of entries to “fund balance” accounts
- Unbalanced entries to “transfer” and “interfund loan” accounts

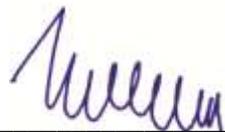
Due to a lack of controls over journal entries, errors were not prevented or detected and corrected in a timely manner. (Finding 2014-003, pages 15-16)

The auditors recommended that the Regional Office of Education #34 should assign a member of management with suitable skills, knowledge and experience to review for propriety and provide written approval of all journal entries along with supporting documentation prior to the entries being posted to the accounting records.

The Regional Office of Education #34 responded that it agrees with this finding and has assigned a member of management with suitable skills, knowledge and experience to review for propriety and provide written approval of all journal entries along with supporting documentation prior to the entries being posted to the accounting records. The Regional Office stated that in addition, journal entry transactions have been consolidated under the ROE accountant position to ensure proper recording and a complete review of Fiscal Year 2015 is being conducted to ensure recording errors identified in Fiscal Year 2014 do not continue into Fiscal Year 2015.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #34's financial statements as of June 30, 2014 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Winkel, Parker & Foster, CPA PC were our special assistant auditors.

DIGEST FOOTNOTE

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

In its prior response in 2013, the Regional Office of Education #34 responded that it agrees with the finding and will continue to implement comprehensive preparation and review procedures to insure that financial statements including disclosures are complete and accurate. The Regional Office stated that included in the corrective activities are continued consulting services and training to Lake ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy). In addition, the Lake ROE has conducted additional training regarding successful use of the Lake ROE's financial management software and has contracted with a part-time business consultant who continues to review Lake ROE business procedures and controls. Finally, in an effort to streamline preparation of comprehensive financial statements, the Lake ROE will consolidate multiple installations of the financial management software during April 2014. This merged data system will be tested and validated by the end of Fiscal Year 2014.