



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #34
LAKE COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2015

Release Date: July 28, 2016

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>				
Category 1:	0	3	3	2010	15-1		
Category 2:	1	0	1	2014	15-2		
Category 3:	0	0	0	2014	15-3		
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 3							

SYNOPSIS

- **(15-1)** The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #34 did not have adequate controls over fund accounting.
- **(15-3)** The Regional Office of Education #34 did not have adequate review of journal entries.
- **(15-4)** The Regional Office of Education #34 did not have an accurate expenditure report.

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, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$6,876,588	\$6,093,115
Local Sources	\$2,375,606	\$2,141,984
% of Total Revenues	34.55%	35.15%
State Sources	\$4,368,640	\$3,865,105
% of Total Revenues	63.53%	63.43%
Federal Sources	\$132,342	\$86,026
% of Total Revenues	1.92%	1.41%
TOTAL EXPENDITURES	\$6,114,119	\$6,034,268
Salaries and Benefits	\$2,617,146	\$2,703,668
% of Total Expenditures	42.80%	44.81%
Purchased Services	\$651,117	\$600,570
% of Total Expenditures	10.65%	9.95%
All Other Expenditures	\$2,845,856	\$2,730,030
% of Total Expenditures	46.55%	45.24%
TOTAL NET POSITION	\$2,123,858 ¹	\$2,689,238
INVESTMENT IN CAPITAL ASSETS	\$80,722 ²	\$21,514
¹ The FY 2015 beginning net position was restated by (\$1,489,714) due to a prior period adjustment for new reporting requirements for pensions and \$161,865 related to a due from other governments and revenue attributable to FY 2014. ² Capital asset amounts include debt associated with a capital lease. 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.

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. The audit adjustments included those resulting from the implementation of GASB Statements No. 68 and No. 71.

Management did not effectively detect all of the material adjustments, including those required under GASB Statements No. 68 and No. 71, needed in order to present financial statements in accordance with GAAP. (Finding 2015-001, pages 11-13) **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 the financial statements, including disclosures, are complete and accurate. The Regional Office should ensure 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 continued to contract 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 finalize efforts to consolidate multiple installations of the financial management software during Fiscal Years 2015 and 2016. This merged data system will be tested and validated by the end of Fiscal Year 2016 or early in Fiscal Year 2017. (Note: Previously scheduled for Fiscal Year 2015 completion.) (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

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 its 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 were not balanced in total. Additionally, the individual funds were not self-balancing and did not reconcile 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, 2014 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.

Trial balance reports initially contained material errors; however, 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. (Finding 2015-002, pages 14-15)

The auditors recommended the Regional Office of Education #34 should assign a member of management with suitable skills, knowledge, and experience to review its 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 and 2015 experiences and has been ongoing through Fiscal Year 2016. 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 newly hired Lake County ROE accountant, the Assistant Regional Superintendent/Director of Educational Services, and a part-time business consultant. (For previous Regional Office response, see Digest Footnote #2 located at the end of the Digest.)

INADEQUATE REVIEW OF JOURNAL ENTRIES

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

During Fiscal Year 2015, supporting documents for journal entries did not always include the written review and approval of someone other than the preparer.

The Regional Office of Education #34 implemented a policy and journal entry form in March 2015 to document review and approval of journal entries. However, the policy and form were not in effect for the entire Fiscal Year 2015. (Finding 2015-003, page 16)

The auditors recommended the Regional Office of Education #34 should follow its new policy and ensure a member of management with suitable skills, knowledge, and experience 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 implementation began in Fiscal Year 2015 and has continued throughout Fiscal Year 2016. (For previous Regional Office response, see Digest Footnote #3 located at the end of the digest.)

INACCURATE EXPENDITURE REPORT

The Regional Office of Education #34 did not have an accurate expenditure report.

The Regional Office of Education #34 is responsible for ensuring amounts submitted on grant expenditure reports agree and reconcile with expenditures posted in the general ledger.

During review of expenditure reports, auditors noted the final expenditure report for the McKinney Education for Homeless Children grant program was inaccurate. When compared to the expenditures recorded in the general ledger, all categories were inaccurately reported. The Regional Office reported final budget amounts as opposed to actual amounts. In total, grant expenditures incurred were in excess of the grant award.

The Regional Office of Education #34 did not ensure the expenditure report submitted to the granting agency agreed and reconciled with amounts recorded in the general ledger. (Finding 2015-004, page 17)

The auditors recommended the Regional Office of Education #34 should review expenditure reports and supporting documentation prior to submission to granting agencies to ensure expenditures are properly classified. Supporting expenditure documentation should be included with a copy of the report and be available for subsequent internal and external review and analysis.

The Regional Office responded that it agrees with this finding and has renewed efforts to ensure that all quarterly and final expenditure reports are reviewed and that supporting documentation is included with the report on file. This documentation is available for subsequent internal and external reviews and analyses.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #34's financial statements as of June 30, 2015 are fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM: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 2014, 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).

#2: Controls Over Fund Accounting – Previous Regional Office Response

In its prior response in 2014, 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.

#3: Inadequate Review of Journal Entries – Previous Regional Office Response

In its prior response in 2014, 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.