



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, 2016**

**Release Date: June 13, 2017**

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	Repeated Since 2010
Category 1:	1	1	2	16-1
Category 2:	0	0	0	
Category 3:	0	0	0	
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>2</b>	
FINDINGS LAST AUDIT: 4				

**SYNOPSIS**

- **(16-1)** The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #34 did not have adequate controls over bank reconciliations.

**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, 2016**

	<b>FY 2016</b>	<b>FY 2015</b>
<b>TOTAL REVENUES</b>	\$7,600,711	\$6,876,588
Local Sources	\$2,134,436	\$2,375,606
% of Total Revenues	28.08%	34.55%
State Sources	\$5,324,890	\$4,368,640
% of Total Revenues	70.06%	63.53%
Federal Sources	\$141,385	\$132,342
% of Total Revenues	1.86%	1.92%
<b>TOTAL EXPENDITURES</b>	\$6,897,924	\$6,114,119
Salaries and Benefits	\$2,679,968	\$2,617,146
% of Total Expenditures	38.85%	42.80%
Purchased Services	\$638,307	\$651,117
% of Total Expenditures	9.25%	10.65%
All Other Expenditures	\$3,579,649	\$2,845,856
% of Total Expenditures	51.89%	46.55%
<b>TOTAL NET POSITION</b>	\$2,826,645	\$2,123,858
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$58,609 <sup>1</sup>	\$80,722
<sup>1</sup> Capital asset amounts include debt associated with a capital lease.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
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 Lake County Regional Office of Education #34 (ROE) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The ROE #34'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 ROE did not have sufficient internal controls over the financial reporting process. While the ROE maintains controls over the processing of most accounting transactions, there were 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 ROE did not have adequate controls to ensure financial statement balances were accurate. While the ROE 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. The audit adjustments included those resulting from the implementation of GASB Statements No. 68 and No. 71. Additionally, adjustments were also proposed to record payroll obligations for pay earned by employees as of June 30, 2016 but not paid until subsequent pay periods. These obligations were originally recorded by the ROE as reductions in cash and as expenditures.

Management did not effectively detect all of the material adjustments, including those required under GASB Statements No. 68 and No. 71 and payroll obligations, needed in order to present financial statements in accordance with GAAP. (Finding 2016-001, 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 ROE should implement comprehensive preparation procedures to ensure the financial statements, including disclosures, are complete and accurate. The ROE should ensure all general ledger financial statement accounts agree to supporting records and reconciliations. In addition, the ROE should perform a detailed review of activity subsequent to

fiscal year end to ensure 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 ROE's activities and operations.

The ROE 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. In order to streamline preparation of comprehensive financial statements, the ROE has finalized efforts to consolidate multiple installations of the financial management software. This merged data system has been tested and validated. The new merged system is undergoing continual review and will be the sole financial system in use for the FY 2017 audit. Also included in the corrective activities are continued consulting services and training to ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy). In addition, the ROE has continued to contract with a part-time business consultant who continues to review ROE business procedures and controls. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

#### **INADEQUATE CONTROLS OVER BANK RECONCILIATIONS**

#### **The Regional Office of Education #34 did not have adequate controls over bank reconciliations.**

Adequate internal controls over cash require that all cash in the custody of the Regional Office of Education #34 (ROE) be recorded in the general ledger and that each month's bank statements be reconciled to the related general ledger account balances.

Although bank reconciliations were performed for the period ended June 30, 2016, auditors noted the total of all cash accounts per the general ledger was not properly reconciled to the ROE's bank accounts. Numerous errors were noted in the reconciliations including bank balances missing from the reconciliations, voided checks included on the outstanding check listing, transfers made between bank accounts not being included on all affected reconciliations, and held checks being included in the cash balances.

The ROE had inadequate internal controls in place to ensure bank statements are properly reconciled to the related general ledger cash accounts. (Finding 2016-002, pages 14-15)

The auditors recommended the ROE's management should ensure all cash accounts per the general ledger are properly reconciled to the relating bank accounts. Management should ensure that all reconciling items are reviewed for accuracy with the appropriate follow-up as necessary.

The ROE responded that it agrees with the finding and will establish adequate internal controls over cash to ensure all cash accounts per the general ledger are properly reconciled to the relating bank accounts. Management will also ensure that all reconciling items are reviewed for accuracy with the appropriate follow-up as necessary. This will be done using the newly refined merged financial management system/database and the resulting consolidation of multiple bank accounts. All cash in the custody of the ROE shall be recorded in the general ledger and each month's bank statements will be reconciled to the related general ledger account balances.

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #34's financial statements as of June 30, 2016 are fairly presented in all material respects.

This financial report was conducted by the firm of Winkel, Parker & Foster, CPA PC.

**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

### **DIGEST FOOTNOTE**

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

In its prior response in 2015, the ROE 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 ROE 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 ROE 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.