



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #40
CALHOUN/GREENE/JERSEY/MACOU PIN COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2017

Release Date: May 30, 2018

FINDINGS THIS AUDIT: 4	AGING SCHEDULE OF REPEATED FINDINGS						
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	4	4	2007	17-1		
Category 2:	0	0	0	2015	17-2		
Category 3:	0	0	0	2016	17-3		
TOTAL	0	4	4	2016	17-4		
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- (17-1) The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.
- (17-2) The Regional Office of Education #40 did not have sufficient internal controls over grant compliance requirements to ensure grant reporting is accurate.
- (17-3) The Regional Office of Education #40 did not have sufficient internal controls over the preparation of journal entries.
- (17-4) The Regional Office of Education #40 did not have sufficient internal controls over expenditures purchased with the Office’s credit cards.

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 #40
CALHOUN/GREENE/JERSEY/MACOU PIN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$1,401,238	\$1,182,706
Local Sources	\$237,815	\$246,767
% of Total Revenues	16.97%	20.86%
State Sources	\$1,111,519	\$901,185
% of Total Revenues	79.32%	76.20%
Federal Sources	\$51,904	\$34,754
% of Total Revenues	3.70%	2.94%
TOTAL EXPENDITURES	\$1,321,966	\$1,081,028
Salaries and Benefits	\$1,092,481	\$889,448
% of Total Expenditures	82.64%	82.28%
Purchased Services	\$202,290	\$167,550
% of Total Expenditures	15.30%	15.50%
All Other Expenditures	\$27,195	\$24,030
% of Total Expenditures	2.06%	2.22%
TOTAL NET POSITION	\$366,844	\$287,572
INVESTMENT IN CAPITAL ASSETS	\$34,093	\$29,096
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Michelle Mueller Currently: Honorable Michelle Mueller

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #40 (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 year-end accrual and other applicable entries for financial statement purposes. The ROE did not have sufficient internal controls over the processing of some accounting transactions. There were not sufficient controls over the preparation/review 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 errors and omissions in a timely manner.

The ROE 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 and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

During review of the ROE's accounting records, the auditors noted the following:

- The ROE did not have adequate controls over the maintenance of complete records of revenue, receivables, payables, unearned revenue, and unavailable revenue.
- The ROE did not have adequate controls to record and report the ROE's net pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.
- Numerous other adjustments were required to present financial statements in accordance with GAAP.

According to ROE management, they did not have adequate funding to hire a certified public accountant or other financial professionals with the appropriate training and expertise as full-time staff.

Additionally, 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 2017-001, pages10-11) **This finding was first reported in 2007.**

The auditors recommended that the ROE should implement comprehensive preparation and/or review procedures as a part of their internal control over the preparation of financial statements to ensure the financial statements, including disclosures, are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *At this time, the ROE did not have available funding to hire an individual to assist with financial statement preparation; however, fiscal personnel of the ROE will strive to do their best to prepare the financial statements in accordance with GAAP.*

Prior Year ROE Response: *At this time, the ROE did not have available funding to hire an individual to assist with financial statement preparation; however, fiscal personnel of the ROE will strive to do their best to prepare the financial statements in accordance with GAAP.*

CONTROLS OVER GRANT COMPLIANCE

The Regional Office of Education #40 did not have sufficient internal controls over grant compliance requirements to ensure grant reporting is accurate.

The Regional Office of Education #44 (ROE) did not have sufficient internal controls over grant compliance requirements. Auditors noted the following related to the controls over grant compliance:

- Seven of the 16 (44%) quarterly expenditure reports required by the Illinois State Board of Education (ISBE) were not submitted timely. Five of the quarterly expenditure reports were submitted six days late, and one quarterly expenditure report was submitted 19 days late. In addition, one grant was not approved until after the due date of the expenditure report and the expenditure report was submitted 43 days after the grant was approved.

- During FY17, ISBE conducted an audit of the Alternative Education and Safe School Programs for School Year 2015 – 2016 and noted audit adjustments. Due to inaccurate reporting of school attendance statistics by the ROE for the two programs, General State Aid for the programs was over-claimed by \$27,873 and \$734, respectively.
- Prior to adjustments for items accrued for the prior and current fiscal years, the expenditures reported on the final expenditure reports for the Regional Safe Schools, Truants Alternative/Optional Education, and ROE/ISC Operations grants agreed to the expenditures recorded in the general ledger. However, after adjustments for the accruals, expenditures on the Regional Safe Schools expenditure report exceeded actual expenditures by \$285. The actual expenditures for the Truants Alternative/Optional Education and ROE/ISC grants exceeded the amounts per the final expenditure reports by \$127 and \$498, respectively.
- The expenditures on the Adult Education and Family Literacy State Basic grant expenditure report for the period ended June 30, 2017 did not agree to the general ledger and were overstated by \$2,757 as expenditures totaling this amount were included on the grant expenditure report for the fiscal year 2016 grant. In addition, the FY16 grant agreement required at least 45 percent of the grant must be spent on direct instruction; however, none of the \$2,757 reported was spent on direct instruction.
- The ROE did not expend all of its Adult Education and Family Literacy Federal Basic grant for fiscal year 2016. While funds totaling \$23,386 were received, expenditures totaled only \$12,318, leaving \$11,068 of unspent funds. The final fiscal year 2016 expenditure report improperly reported that all funds were expended. Though the unspent funds were due to the Illinois Community College Board by October 15, 2016 (FY17), they had not been returned as of June 30, 2017.

As a recipient of federal, State, and local funds from various grantor agencies, the ROE must incorporate certain procedures into its operations in order to comply with the grant agreements with these entities. ISBE requires expenditure reports to be filed within 20 days of the applicable end of each quarter.

In addition, grant agreements require the ROE to report actual expenditures incurred rather than reporting expenditures based

on the amount budgeted in the grant agreement. The ROE is required to spend funding in accordance with budgets submitted to grantors.

According to Regional Office officials, there was a lack of communication with personnel and a misunderstanding of accounting and internal control procedure requirements by program directors and their administrative personnel. (Finding 2017-002, pages 12-14) **This finding was first reported in 2015.**

The auditors recommended that the ROE should implement adequate internal controls to ensure that expenditure reports are filed timely and expenditures included in grant expenditure reports are properly adjusted for accrued items. The ROE should also ensure student attendance statistics submitted to the ISBE are accurate and complete to prevent the ROE from having to reimburse ISBE. The ROE should thoroughly review grant agreements and comply with all grant requirements.

ROE Response: *The ROE will implement adequate internal controls to ensure expenditure reports are filed timely and only properly recorded and approved expenditures are included in grant expenditure reports. The ROE will implement a system to ensure accurate student attendance recording and reporting. All expenditures reported on any final expenditure report will match general ledger expenditures. Management will contact the ICCB to determine how they want to handle the unspent funds. Management will perform a detailed review of all expenditure reports to ensure the expenditures are reported correctly. Management will review all grant agreements and ensure that the ROE complies with all requirements.*

Prior Year ROE Response: *The ROE will implement adequate internal controls to ensure that expenditure reports are filed timely and that only properly recorded and approved expenditures are included in grant expenditure reports. Loan repayments will be properly classified and recorded as per accounting principles. All expenditures reported on any final expenditure reports will match general ledger expenditures.*

CONTROLS OVER PREPARATION OF JOURNAL ENTRIES

The Regional Office of Education #40 did not have sufficient internal controls over the preparation of journal entries.

The ROE did not properly support or review journal entries. The ROE could not provide supporting documentation for 4 out of 25 (16%) of the journal entries selected for testing. An additional 7 out of 25 (28%) of the journal entries tested lacked the necessary documentation for the Regional Superintendent or Assistant Regional Superintendent to determine if the journal entry was appropriate during review.

The ROE is responsible for establishing and maintaining an internal control system over journal entries to prevent errors or fraud. In addition, adequate controls over compliance with laws, regulations, and grant agreements require supervisory review of expenditures charged to grant programs.

According to Regional Office officials, there was a lack of communication between the accounting personnel and a misunderstanding of accounting and internal control procedure requirements by management. (Finding 2017-003, page 15)

The auditors recommended that the ROE should retain all source documents used to support journal entries. In addition, the Regional Superintendent or Assistant Regional Superintendent should formally review and approve all journal entries, along with supporting documentation, prior to the entries being posted to the accounting records.

ROE Response: *The ROE will retain all source documents used to support journal entries and all entries will be reviewed and approved prior to being posted in the accounting records.*

CONTROLS OVER EXPENDITURES

The Regional Office of Education #40 did not have sufficient internal controls over expenditures purchased with the Office's credit cards.

The ROE lacked proper controls over expenditures purchased with the ROE's credit cards. The ROE improperly recorded the purchase of supplies as purchased services for 4 out of 60 (7%) cash disbursements tested. Further, during the testing of credit card transactions, the check out date on the ROE credit card "check out" form was dated after the transaction date on the credit card statement for 4 out of 17 (24%) credit card transactions tested.

The ROE has a policy that authorized staff must fill out a "check out" form for use of the ROE's credit cards. The form must be signed by the requestor and should be approved by the program director, Regional Superintendent, or Assistant Regional Superintendent.

Internal controls should ensure that expenditures incurred by the ROE are adequately documented, accurately recorded in the general ledger, incurred for a business purpose, and represent economical and effective use of ROE resources.

According to Regional Office officials, an internal control system of the credit card check in and check out and the purchase of supplies was in place but not fully implemented. (Finding 2017-004, Pages 16-17)

The auditors recommended that the ROE's management should ensure the ROE designs and implements an adequate system of internal controls over credit card transactions and

cash disbursements to prevent errors and fraud. All disbursements made by the ROE should be accurately recorded in the general ledger and supported by sufficient, accurate, and properly approved documentation.

ROE Response: *The ROE has now implemented an adequate system of internal controls over credit card transactions and cash disbursements to prevent errors and fraud. All disbursements made by the ROE will be supported by sufficient, accurate and properly approved documentation.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2017 are fairly presented in all material respects.

This financial report was conducted by the firm of West & Company, LLC.

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:JRB