



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, 2018

Release Date: November 21, 2019

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	1	1	2007	18-1		
Category 2:	1	0	1	2015			18-2
Category 3:	<u>1</u>	<u>1</u>	<u>2</u>				
TOTAL	2	2	4				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(18-1)** The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.
- **(18-2)** The Regional Office of Education #40 did not have sufficient internal controls over grant compliance requirements to ensure grant reporting is accurate.
- **(18-3)** The Regional Office of Education #40 did not have sufficient collateralization of bank deposits.
- **(18-4)** The Regional Office of Education #40 did not provide completed financial statements in an auditable form by the August 31 deadline.

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, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$1,533,565	\$1,401,238
Local Sources	\$271,523	\$237,815
% of Total Revenues	17.71%	16.97%
State Sources	\$1,167,750	\$1,111,519
% of Total Revenues	76.15%	79.32%
Federal Sources	\$94,292	\$51,904
% of Total Revenues	6.15%	3.70%
TOTAL EXPENDITURES	\$1,446,620	\$1,321,966
Salaries and Benefits	\$1,178,763	\$1,092,481
% of Total Expenditures	81.48%	82.64%
Purchased Services	\$216,810	\$202,290
% of Total Expenditures	14.99%	15.30%
All Other Expenditures	\$51,047	\$27,195
% of Total Expenditures	3.53%	2.06%
TOTAL NET POSITION	\$135,666 ¹	\$366,844
INVESTMENT IN CAPITAL ASSETS	\$23,692	\$34,093
¹ The FY 2018 beginning net position was restated by (\$318,123) due to a prior period adjustment for new reporting requirements for other postemployment benefits. 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 maintained its accounting records on the cash basis of accounting during the fiscal year and posted year-end accrual and other applicable entries for financial statement purposes. In addition, 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.

For example, auditors, in their review of the ROE's accounting records, noted the following:

- The ROE did not identify Workshops as a major fund in the Proprietary Funds financial statements.

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).

Regional office management indicated there was a lack of communication between personnel and a misunderstanding of accounting requirements. (Finding 18-001, pages 10A – 10B)
This finding was first reported in 2007.

The auditors recommended 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: *The ROE has made the necessary revisions to identify Workshops as a major fund in the Proprietary Funds financial statements. In addition, the ROE has hired an accounting firm to prepare the financial statements.*

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 #40 (ROE) did not have sufficient internal controls over grant compliance requirements. During the course of the audit, auditors noted the following related to the controls over grant compliance:

- 4 of the 16 (25%) quarterly expenditure reports required by the Illinois State Board of Education (ISBE) were not submitted timely. Two of the quarterly expenditure reports were submitted three days late, and an additional two quarterly expenditure reports were submitted four days late.
- The expenditures reported on the final expenditure reports for the Regional Safe Schools, ROE/ISC Operations, and Adult Education – State Basic grants agreed to the expenditures recorded in the general ledger, prior to adjustments for items accrued for the prior and current fiscal year. After adjustments for the accruals, expenditures on the Regional Safe Schools, ROE/ISC Operations, and Adult Education – State Basic expenditure reports exceeded actual expenditures by \$285, \$2,463, and \$2,807, respectively.
- The final expenditure report for the Title I System of Support Fiscal Year 2017 Grant incorrectly reported an additional \$2,500 of salaries expense and \$2,500 less in purchased services when compared to the general ledger.
- The expenditures reported on the final expenditure report for Adult Education – State Basic were not reported properly between direct instruction, direct program support, and student services. Actual expenditures exceeded the amounts reported on the expenditure report for direct instruction and student services by \$2,485 and \$2,403, respectively. In addition, amounts on the expenditure report exceeded actual expenses for direct program support by \$5,143.

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.

The ROE is responsible for establishing and maintaining an internal control system over the completion of timely quarterly expenditure reports required for grants administered by ISBE. 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.

Regional Office management indicated a turnover in program leadership caused lag time in approving expenditure reports. In addition, there was a lack of communication with personnel and a misunderstanding of accounting requirements by program directors and their administrative personnel. (Finding 18-002, pages 10C – 10D) **This finding was first reported in 2015.**

The auditors recommended 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 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. All expenditures reported on any final expenditure report will match general ledger expenditures. Management will perform a detailed review of all expenditure reports to ensure the expenditures are reported correctly.*

Prior Year 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 Illinois Community College Board 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.*

INSUFFICIENT COLLATERALIZATION OF BANK DEPOSITS

The Regional Office of Education #40 did not have sufficient collateralization of bank deposits.

The Regional Office of Education #40 did not have sufficient collateralization of bank deposits. At June 30, 2018, \$49,342 of the Regional Office of Education #40's (ROE) \$605,038 cash deposited with financial institutions was uncollateralized and uninsured.

The Public Funds Deposit Act (30 ILCS 225/1) gives the ROE the authorization to request financial institutions to pledge collateral for deposits in excess of the federally insured limit. In addition, prudent business practices requires all cash and investments held by the financial institutions for the ROE be adequately covered by depository insurance or collateral.

Regional office management indicated the ROE entered into an agreement with the bank two years ago for the bank to monitor and adjust collateral balances as necessary. The bank failed to adjust collateral balances at June 30, 2018. (Finding 18-003, page 10E)

The auditors recommended the ROE should monitor the bank balances throughout the year and work with the financial institutions to provide collateral or enter into agreements with the financial institutions to have the cash balances monitored for adequate collateral periodically and adjusted as necessary.

ROE Response: *The bank has been contacted and has made the necessary changes in internal controls to adequately monitor and adjust collateral balances.*

DELAY OF AUDIT

The Regional Office of Education #40 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #40 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline.

The ROE is subject to 105 ILCS 5/2-3.17a which requires the Auditor General's office to cause an audit to be made, as of June 30th of each year, of the financial statements of all accounts, funds and other moneys in the care, custody or control of the regional superintendent of schools of each educational service region in the State and of each educational service center established in the School Code. The audit is to be conducted in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

In accordance with 105 ILCS 5/2-3.17a, the Auditor General has promulgated administrative rules and regulations to govern this process. Those rules, 74 Ill. Adm. Code 420.320 (c) (2), state that for audit purposes, each regional office of education and educational service center shall make available

to the Auditor General or his designee all books and records deemed necessary to make and complete the required audits. The records shall be in auditable form by August 15 of the succeeding fiscal year. Financial reports are to be available no later than August 31 in order for the annual audit to be completed by an independent auditor selected by the Auditor General. Annual financial statements are to be prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

Regional Office management indicated the ROE hired an accounting firm to assist with the preparation of the financial statements. The accounting firm was working on the June 30, 2017 Adult Education and Literacy Grant program specific audit for the ROE and needed to complete that audit prior to preparing the ROE's June 30, 2018 financial statements. The Adult Education and Literacy Grant program specific audit was not completed until November 20, 2018, which delayed the preparation of the ROE's June 30, 2018 financial statements and audit fieldwork. (Finding 18-004, pages 10F – 10G)

The auditors recommended the ROE should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements should be compiled on an accrual basis of accounting in accordance with GAAP. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

ROE Response: *The ROE has hired an accounting firm to prepare the financial statements. The ROE anticipates being able to meet the August 31st deadline for the year ended June 30, 2019 and subsequent years.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2018 are fairly presented in all material respects.

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

SIGNED ORIGINAL ON FILE

JOE BUTCHER
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