



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #44**  
**McHENRY COUNTY**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2017**

**Release Date: March 27, 2018**

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<u>New</u> 0	<u>Repeat</u> 4	<u>Total</u> 4	2014	17-1		
<b>Category 2:</b>	0	0	0	2016	17-2		
<b>Category 3:</b>	0	0	0	2016	17-3		
<b>TOTAL</b>	0	4	4	2016	17-4		
<b>FINDINGS LAST AUDIT: 4</b>							

**SYNOPSIS**

- **(17-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(17-2)** The Regional Office of Education #44 was not in compliance with grant requirements.
- **(17-3)** The Regional Office of Education #44 did not have proper accounting of grant funds.
- **(17-4)** The Regional Office of Education #44 did not have adequate internal control procedures over cash receipts.

**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 #44**  
**McHENRY COUNTY**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2017**

	<b>FY 2017</b>	<b>FY 2016</b>
<b>TOTAL REVENUES</b>	\$1,340,830	\$1,830,209
Local Sources	\$553,502	\$558,088
% of Total Revenues	41.28%	30.49%
State Sources	\$625,965	\$691,074
% of Total Revenues	46.68%	37.76%
Federal Sources	\$161,363	\$581,047
% of Total Revenues	12.03%	31.75%
<b>TOTAL EXPENDITURES</b>	\$1,492,253	\$1,830,553
Salaries and Benefits	\$579,184	\$600,571
% of Total Expenditures	38.81%	32.81%
Purchased Services	\$194,342	\$207,011
% of Total Expenditures	13.02%	11.31%
All Other Expenditures	\$718,727	\$1,022,971
% of Total Expenditures	48.16%	55.88%
<b>TOTAL NET POSITION</b>	\$333,156	\$484,579
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$0	\$113
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Leslie Schermerhorn Currently: Honorable Leslie Schermerhorn

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT  
PREPARATION**

**The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #44 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintains its accounting records on the cash basis of accounting. While the ROE maintains controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of the 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 omissions in a timely manner.

The Regional Office 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, auditors noted the ROE's financial information required numerous adjusting entries to present the financial statements in accordance with GAAP. In addition, while the ROE did maintain records to indicate the balances of accounts payable, accounts receivable, and unearned revenue and made entries to record them, not all accounts payable, accounts receivable, and unearned revenue were correctly recorded.

According to Regional Office officials, they did not have adequate funding to hire and/or train accounting personnel with the knowledge, skills, and experience to prepare GAAP-based financial statements. (Finding 2017-001, pages 11a-11b)  
**This finding was first reported in 2014.**

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

**ROE Response:** *The ROE accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region.*

*The ROE will continue to work with the other Regional Offices to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. The organization will also research the possibility of having another accounting company prepare our financial statements independent of the auditors.*

*The ROE is seeking funding from the McHenry County Government to hire an independent accounting firm to prepare GAAP based financial statements.*

**Prior Year ROE Response:** *The ROE accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region.*

*The ROE will continue to work with the other Regional Offices to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. The organization will also research the possibility of having another accounting company prepare its financial statements independent of the auditors.*

## **NONCOMPLIANCE WITH GRANT REQUIREMENTS**

### **The Regional Office of Education #44 was not in compliance with grant requirements.**

The Regional Office of Education #44 did not properly report grant actual expenditures. The Regional Safe Schools, Math & Science Partnerships, Regional Safe Schools Cooperative, and ROE/ISC Operations grant programs' budgets and final expenditure reports indicated the ROE expended salaries and benefits, purchased services, and supplies and materials. However, all of the funding was forwarded to other entities as payments to other governments to administer the programs; therefore the expenditure reports were completed based on budget versus actual general ledger detail.

The Regional Office must comply with grant accounting and reporting requirements established by grant agreements with the Illinois State Board of Education (ISBE) and other grantors in addition to the requirements established by ISBE's fiscal policies and procedures for grantees. Among these requirements are accurate, current, and complete disclosure of grant financial activity to the grantor.

According to Regional Office officials, they completed expenditure reports based on the budgeted amounts to accelerate State payments. (Finding 2017-002, page 11c)

The auditors recommended the ROE should ensure that grant budgets and expenditure reports are prepared using current and accurate financial data based on reports obtained from the ROE's accounting system.

**ROE Response:** *As the fiscal agents for the Regional Safe School, Math & Science Partnerships, Regional Safe Schools Cooperative and ROE/ISC grant program payments were delayed or non-existent for the 2017 programs, expenditures that could be reimbursed were uncertain. There was a concern that State funds may not come to fruition or only partial fruition. Requesting the full budgeted amount was in response to those circumstances knowing that if funding was reinstated, the amounts owed to the grantor, would be reimbursed to the grantor by the McHenry County Regional Office (grantee) in a timely fashion. The Regional Office acknowledges that this strategy is not in line with general accounting practices and will not be repeated.*

*To ensure the grant expenditures reflect accurate, current, and complete disclosure of grant financial activity to the grantor, fiscal agents for the Regional Safe School, Math & Science Partnerships, Regional Safe School Cooperatives and ROE/ISC Operations grant payments, the other government agencies/sub-recipients to electronic expenditure reports will be prepared by the other government agencies/sub-recipients and forwarded to the Regional Superintendent for timely, quarterly submission.*

## **IMPROPER ACCOUNTING OF GRANT FUNDS**

### **The Regional Office of Education #44 did not have proper accounting of grant funds.**

The Regional Office of Education # 44 did not properly record and track grant funds received. ROE/ISC Operations, Regional Safe Schools Program, Mathematics and Science Partnerships, and Regional Safe Schools Cooperative funding was recorded in the ROE's distributive fund as general revenue when received and as a general expenditure when the funding was sent to the subrecipient. These grants are written and reported in the ROE's name and federal identification number, but are not segregated based on the grant funding source and expenditure classification in the ROE's accounting system.

The Regional Office is required by the ISBE to maintain its accounting system consistent with the *ISBE Regional Office of Education Accounting Manual (manual)*. That manual requires the ROE to track grant funding activity separately by funding source in a set of self-balancing accounts.

The Regional Office did not modify its previous method of accounting for these grants after being made aware of the requirement in FY16. (Finding 2017-003, page 11d)

Auditors recommended that the Regional Office should identify and record grant funds in accordance with requirements set forth in the *ISBE Regional Office of Education Accounting Manual*.

**ROE Response:** *The ROE has established individual accounts to distinguish grant monies for FY2018.*

## **INADEQUATE INTERNAL CONTROL PROCEDURES**

**The Regional Office of Education #44 did not have adequate internal control procedures over cash receipts.**

The Regional Office of Education #44 lacked sufficient internal controls regarding cash receipts. Auditors noted the individual responsible for reconciling cash accounts can accept over-the-counter cash receipts.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements to prevent errors and fraud.

According to Regional Office officials, due to budgetary restraints, the ROE has a limited accounting staff. (Finding 2017-004, page 11e)

The auditors recommended that the ROE should develop policies and procedures to ensure the individual responsible for reconciling cash accounts does not accept over-the-counter cash receipts.

**ROE Response:** *The ROE will develop policies and procedures to ensure the individual responsible for reconciling cash accounts does not accept over-the-counter cash receipts. However, due to staffing limitations, there may be instances where the individual charged with reconciling the cash accounts also receives cash over-the-counter.*

## **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2017 are fairly stated in all material respects.

This financial report was conducted by the firm of Kemper CPA Group LLP.

**SIGNED ORIGINAL ON FILE**

AMEEN DADA  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

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FRANK J. MAUTINO  
Auditor General

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