



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, 2018

Release Date: April 18, 2019

FINDINGS THIS AUDIT: 5				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	4	4	2014	18-1		
Category 2:	0	0	0	2016	18-2		
Category 3:	<u>1</u>	<u>0</u>	<u>1</u>	2016	18-3		
TOTAL	1	4	5	2016	18-4		
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(18-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(18-2)** The Regional Office of Education #44 did not comply with grant requirements.
- **(18-3)** The Regional Office of Education #44 did not properly account for grant funds.
- **(18-4)** The Regional Office of Education #44 did not have adequate internal control procedures over cash receipts.
- **(18-5)** The Regional Office of Education #44 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 #44
McHENRY COUNTY

FINANCIAL AUDIT
For The Year Ended June 30, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$1,382,090	\$1,340,830
Local Sources	\$547,354	\$553,502
% of Total Revenues	39.60%	41.28%
State Sources	\$830,336	\$625,965
% of Total Revenues	60.08%	46.68%
Federal Sources	\$4,400	\$161,363
% of Total Revenues	.32%	12.03%
TOTAL EXPENDITURES	\$1,233,987	\$1,492,253
Salaries and Benefits	\$652,483	\$579,184
% of Total Expenditures	52.88%	38.81%
Purchased Services	\$138,789	\$194,342
% of Total Expenditures	11.25%	13.02%
All Other Expenditures	\$442,715	\$718,727
% of Total Expenditures	35.88%	48.16%
TOTAL NET POSITION	\$481,259	\$333,156
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
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, the initial trial balance provided to the auditors had four funds where the fund balance did not roll forward correctly from the prior year; further, the funds were out of balance as the aggregate fund balance in the QuickBooks file was not correctly allocated to funds/programs. Additionally, 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 2018-001, 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 is in the process of replacing the Chalkable accounting package with a customized QuickBooks system. The new QuickBooks system is incorporating established ISBE fiscal policies. Each grant is coded separately and maintains a separate running fund balance.*

The transition is being facilitated by the Assistant County Administrator – Finance and an accounting temporary employee. The transition is approximately 75% complete. Upon completion, trained ROE personnel may readily maintain complete records of accounts receivable, accounts payable, or unearned revenue. As the Regional Superintendent participated in the design and is knowledgeable of the new QuickBooks system, the Regional Superintendent will perform weekly oversight of the balances of accounts payable, accounts receivable, and unearned revenue to insure the accounts have been accurately recorded.

In June of 2018, the ROE allocated funds from the monies remaining in the ROE's county budget, to hire an independent accounting firm to prepare the year-end financial statements. For FY19, that CPA firm will monitor and create quarterly financial statements to insure financial information is entered correctly.

The ROE is seeking funding from McHenry County to hire the CPA firm for FY19 as the county budget allocation has reduced the ROE's office funds, and the State of Illinois cannot fund the hiring of a CPA firm to prepare financial statements.

The ROE is also seeking funding from McHenry County Government to enable the ROE to hire personnel of sufficient financial experience/attention to detail to replace the eliminated bookkeeper position.

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 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.

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Regional Office of Education #44 did not comply with grant requirements.

The Regional Office of Education #44 (ROE) did not properly report grant actual expenditures. The Regional Safe Schools, Title II – Teacher Quality – Leadership and Regional Safe Schools Cooperative 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 2018-002, page 11c)
This finding was first reported in 2016.

The auditors recommended the ROE should ensure 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: *In FY19, the individual sub grantees will provide the actual expenditures to the Regional Superintendent. The Regional Superintendent will review expenditures for appropriateness and accuracy. The Regional Superintendent will input the actual expenditures into the ISBE quarterly reporting system. Expenditure reports from the sub grantees accounting system will be submitted to the Regional Superintendent as back-up for these figures. All billing records are kept on-site at sub grantee location and these agencies undergo their own annual audits.*

The 1st and 2nd quarter electronic expenditure reports for FY19 will be reviewed and corrected to reflect actual financial data.

Quarterly Electronic Expenditure Reports will be submitted on a timely basis.

Prior Year 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 properly account for grant funds.

The Regional Office of Education # 44 (ROE) did not properly record and track grant funds received. ROE/ISC Operations, Regional Safe Schools Program, 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 ROE is required by the Illinois State Board of Education (ISBE) to maintain its accounting system consistent with the *ISBE Regional Office of Education Accounting Manual* (manual). The manual requires the ROE to track grant funding activity separately by funding source in a set of self-balancing accounts.

According to Regional Office officials, the ROE did not modify its previous method of accounting for these grants after being made aware of the requirement in FY16 and FY17. (Finding 2018-003, page 11d) **This finding was first reported in 2016.**

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 is in the process of replacing the Chalkable accounting package with a customized QuickBooks system. The transition is being facilitated by the Assistant County Administrator – Finance and a temporary accounting employee. The transition is approximately 75% complete. Upon completion, trained ROE personnel may readily maintain complete records of accounts receivable, accounts payable, or unearned revenue. As the Regional Superintendent participated in the design and is knowledgeable of the new QuickBooks system, the Regional Superintendent will perform weekly oversight of the balances of accounts payable, accounts receivable, and unearned revenue to insure the accounts have been accurately recorded.*

The new QuickBooks system is incorporating established ISBE fiscal policies. The QuickBooks system is coded separately for each grant.

Prior Year 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 2018-004, page 11e) **This finding was first reported in 2016.**

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 has developed detailed procedures for the ROE's receipts process that will strengthen the internal controls and segregation of duties related to this process. These procedures have been formalized in the ROE's financial policies and procedures and were implemented immediately.*

Prior Year 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.*

DELAY OF AUDIT

The Regional Office of Education #44 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #44 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. Financial records provided were not prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP).

The Regional Office 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 GAAP.

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

Auditors noted the Regional Office required its audit to be scheduled late to allow time to contract with an accounting firm to assist with the preparation of GAAP financial statements and notes. Further delays were noted due to a lack of timely communication of the ROE with the Auditor General's Special Assistant Auditors. In addition, the Regional Office unexpectedly lost its bookkeeper, which caused the audit to be delayed further.

According to Regional Office management, the Regional Superintendent's late hiring of the CPA firm caused a delay in

the FY18 financial statements being completed. Lack of sufficient staffing made audit preparation difficult. The ROE's bookkeeper was no longer on staff at time of audit. (Finding 18-005, pages 11f-11g).

The auditors recommended that 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 will continue contracting year round with CPA firm performing monthly financial statements. The Regional Superintendent's knowledge of the new QuickBooks account system will insure the accuracy of accounts and quarterly electronic expenditure reports. The new accounting system will be completed by April 1, 2019. Office staff reorganization will increase responsiveness to independent auditors by the Regional Superintendent. The ROE will submit financial statement information for the FY19 audit to the Auditor General's independent auditors by August 31, 2019.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2018 are fairly stated in all material respects.

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

SIGNED ORIGINAL ON FILE

KELLY MITTELSTAEDT
Audit Manager

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