



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #51**  
**MENARD AND SANGAMON COUNTIES**

**FINANCIAL AUDIT (In Accordance with the Uniform Release Date: March 26, 2019  
 Guidance)**  
**For the Year Ended: June 30, 2016**

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<u>New</u> 2	<u>Repeat</u> 3	<u>Total</u> 5	
<b>Category 2:</b>	0	0	0	
<b>Category 3:</b>	<u>1</u>	<u>0</u>	<u>1</u>	
<b>TOTAL</b>	3	3	6	
<b>FINDINGS LAST AUDIT: 4</b>				

**SYNOPSIS**

- **(16-1)** The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #51 did not provide financial statements in an auditable form and in accordance with GAAP until February 2018.
- **(16-3)** The Regional Office of Education #51 used restricted funds for an unauthorized purpose.
- **(16-4)** The Regional Office of Education #51's financial records were out of balance.
- **(16-5)** The Regional Office of Education #51 did not prepare accurate bank reconciliations on a monthly basis.
- **(16-6)** The Regional Office of Education #51 did not have adequate internal controls over compliance requirements.

**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 #51**  
**MENARD AND SANGAMON COUNTIES**

**FINANCIAL AUDIT**  
**(In Accordance with the Uniform Guidance)**  
**For The Year Ended June 30, 2016**

	<b>FY 2016</b>	<b>FY 2015</b>
<b>TOTAL REVENUES</b>	\$6,333,942	\$5,281,257
Local Sources	\$1,242,382	\$2,789,372
% of Total Revenues	19.61%	52.82%
State Sources	\$3,977,860	\$1,739,093
% of Total Revenues	62.80%	32.93%
Federal Sources	\$1,113,700	\$752,792
% of Total Revenues	17.58%	14.25%
<b>TOTAL EXPENDITURES</b>	\$6,937,095	\$5,989,841
Salaries and Benefits	\$5,536,772	\$4,786,335
% of Total Expenditures	79.81%	79.91%
Purchased Services	\$1,022,601	\$710,877
% of Total Expenditures	14.74%	11.87%
All Other Expenditures	\$377,722	\$492,629
% of Total Expenditures	5.44%	8.22%
<b>TOTAL NET POSITION</b>	\$(129,063) <sup>1</sup>	\$517,071
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$13,772	\$19,780
<sup>1</sup> The FY2016 beginning net position was restated by \$(42,981) due to the consolidation of the Menard County into the ROE 51 and a prior period adjustment.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Jeff Vose
Currently: Honorable Jeff Vose

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

**CONTROLS OVER FINANCIAL STATEMENT  
PREPARATION**

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

The Regional Office of Education #51 (ROE) did not have sufficient internal controls over the financial reporting process. While the ROE maintained controls over the processing of most accounting transactions, there were not sufficient controls over the preparation 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 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).

In addition, the ROE did not have adequate controls to record and report its net accrued pension liabilities, deferred outflows and inflows of resources, and pension expense in accordance with GAAP. Proposed adjusting entries were approved and accepted by the Regional Office's management. However, the adjusted pension balances were materially misstated, leading to the disclaimer of opinion on the governmental activities.

During review of the ROE's financial information prepared by the ROE, the following was noted:

- The ROE did not have adequate controls over the maintenance of complete records of cash, accounts receivable, due from other governments, interfund activity, capital assets, accounts payable, accrued salaries and benefits, unavailable revenue, and fund balance. While the ROE did adjust its books for most of these accounts and provided records to indicate the balances of other accounts, the adjustments made and information provided contained numerous inaccuracies and omissions.
- The ROE was aware that its general ledger was out of balance beginning in prior fiscal years, but did not timely or adequately address the issue. This matter was further complicated by the ROE continuing to post transactions with debits not equal to credits.
- The ROE did not make any effort to ensure its general ledger agreed to the audited financial statements for the year ended June 30, 2015, leading to numerous issues

with the opening balances for the year ended June 30, 2016.

- The ROE's financial information required numerous, material adjusting entries in preparation of the financial statements.
- There were several balances noted on the ROE's books for which no known underlying transactions had taken place. In eliminating these balances from the ROE's books, additional revenue of \$48,400 was recognized in the General Fund. The auditors' opinion on the General Fund is qualified with respect to this matter.

According to Regional Office management, adequate funding levels were not allocated to hire and/or train accounting personnel in order to comply with these requirements and adequately address these issues. (Finding 16-001, pages 15a – 15c) **This finding was first reported in 2007.**

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

Additionally the auditors recommended that the ROE should develop procedures to ensure that all necessary adjustments have been recorded in its accounting system so that the financial statements are presented in accordance with GAAP. The ROE should develop procedures to ensure that audit journal entries are correctly posted to the accounts resulting in balances that agree with the audited financial statements.

**ROE Response:** *The ROE understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. During FY16, the Regional Office of Education staff had a reasonable understanding of the financial statements and could determine that the information in the financial statements was accurate. However, they lacked the ability to prepare the notes to the financial statements. Beginning in FY17, the Regional Office of Education #51 will utilize staff and other accounting professionals who have proper training and who possess a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office's activities and operations. The Regional Office of Education #51 accepts the auditors' recommendations and has revised policies, procedures and/or practices to address the finding noted. The corrective actions taken will be implemented for the FY17 financial statements and moving forward.*

**Prior Year ROE Response:** *The Regional Office understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The ROE staff has a reasonable understanding of the financial statements and can determine that the information in the financial statements is accurate, however, they lack the ability to prepare the notes to the financial statements. The recommendation that “such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of the applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office’s activities and operations” has been noted by the Regional Office. The ROE will continue to work with other ROEs to determine the most effective method of ensuring that employees possess the knowledge required to compile the necessary GAAP based financial statements. The ROE accepts the auditors’ recommendations and has revised policies, procedures and/or practices to address the finding noted.*

#### **DELAY OF AUDIT**

**The Regional Office of Education #51 did not provide financial statements in an auditable form and in accordance with GAAP until February 2018.**

The Regional Office of Education #51 did not provide financial statements in an auditable form in accordance with GAAP until February 2018. Fieldwork was originally scheduled for the week of November 28, 2016. Auditors were unable to begin fieldwork due to major issues associated with the ROE’s general ledger not balancing and the beginning fund balances not agreeing with the ending balances from the prior year financial statements.

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 30<sup>th</sup> 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.

The original general ledger provided by the Regional Office on November 22, 2016 was out of balance by \$33,989. It was noted the ROE had 59 active funds set up in its general ledger, of which 40 were out of balance.

The Regional Office hired an outside accounting firm in May 2017 to assist in fixing the issues with the general ledger. A general ledger was then provided to the auditors at the end of September 2017 and audit fieldwork was scheduled for late October 2017. Fieldwork was not completed at that time due to new issues with the general ledger balances and the auditors left the field.

The Regional Office provided an updated general ledger in December 2017, but auditors noted significant differences between the sum of the cash balances as reported on the general ledger and the bank reconciliation and also noted that interfund loans did not offset each other.

The Regional Office continued to work with the outside accounting firm through February 2018 and the ROE provided an updated ledger at that time. However, significant differences between the sum of the cash balances as reported on the general ledger and the bank reconciliation still existed. It was also noted that interfund loan balances still did not offset each other since some interfund loan balances were simultaneously considered receivables and payables from transactions with outside parties. These issues were subsequently corrected during audit fieldwork; however, the financial statements still required numerous, material journal entries to correct additional errors and omissions noted.

As a result of these issues, fieldwork for the audit was delayed from November 2016 until May 2018 and extended through October 2018.

According to Regional Office management, the issues with the accounting system appeared to begin when the ROE moved to a new accounting software package in a prior year, and these issues were never adequately addressed and were exacerbated by continuing to post out of balance transactions. (Finding 16-002, pages 15d – 15e)

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 Regional Office of Education #51 will implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements will be prepared on an accrual basis of accounting in accordance with GAAP. They will be presented to the independent auditors with as little delay as possible. This will be accomplished by hiring an outside accounting firm to prepare the FY17 financials with assistance from the ROE fiscal staff.*

### **RESTRICTED FUNDS FOR UNAUTHORIZED PURPOSE**

**The Regional Office of Education #51 used restricted funds for an unauthorized purpose.**

The Regional Office of Education #51 (ROE) improperly used accumulated certificate license fees and renewal and duplicate fees by making interfund loans totaling \$122,181 from the Institute Fund (restricted fund) to cover cash deficits in other funds.

The Illinois School Code (105 ILCS 5/3-12) states that all certificate license fees and a portion of renewal and duplicate fees shall be used by the Regional Superintendent to defray expenses associated with the work of the regional professional development review committees; to defray expenses connected with improving technology necessary for the efficient processing of licenses; to defray all costs associated with the administration of teaching licenses; and to defray expenses incidental to teachers' institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers or for the purpose of defraying the expense of any general or special meeting of teachers or school personnel of the region, which has been approved by the Regional Superintendent.

According to Regional Office management, the condition noted above was a result of a lack of monitoring of cash balances to ensure enough cash was available in unrestricted funds to cover cash deficits in the Regional Office's restricted funds. (Finding 16-003, page 15f)

The auditors recommended that the Regional Office should ensure that funds generated from license, renewal, and duplicate fees are only used for the limited purposes described in the Illinois School Code (105 ILCS 5/3-12).

**ROE Response:** *The Regional Office of Education will monitor the cash balances in order to prevent any future interfund loans from restricted funds. During FY16 budget impasse, the State of Illinois failed to fund programs operating through Regional Office of Educations statewide.*

## FINANCIAL RECORDS

**The Regional Office of Education #51's financial records were out of balance.**

The Regional Office of Education #51 (ROE) initially presented the auditors with a general ledger trial balance that was out of balance by \$33,989. Further, the ROE maintained 59 active funds in its general ledger system, of which 40 were out of balance.

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

According to Regional Office management, the issues with the accounting system appeared to begin when the ROE moved to a new accounting software package in a prior year, and these issues were never adequately addressed and were exacerbated by continuing to post out of balance transactions. (Finding 16-004, page 15g)

The auditors recommended that the ROE should establish procedures to monitor the general ledger to timely detect issues, and any issues detected should be corrected as soon as possible. The ROE should also develop procedures to ensure financial records are accurate.

**ROE Response:** *The Regional Office of Education #51 accepts the auditors' recommendations and will implement policies and procedures to ensure that proper monitoring of the general ledger will be timely in order to detect issues. The corrective actions will be handled in a timely manner to ensure the general ledger is correct. The system will be corrected and monitored going forth.*

## RECONCILIATION OF BANK STATEMENTS

**The Regional Office of Education #51 did not prepare accurate bank reconciliations on a monthly basis.**

The Regional Office of Education #51 (ROE) did not prepare accurate bank reconciliations on a monthly basis. During the auditors' testing of the Regional Office's June 30, 2016 bank reconciliations, the following was noted:

- One of the Regional Office's bank accounts with a balance of \$17,460 at June 30, 2016, was not included on the bank reconciliation.
- The June 30, 2016 bank reconciliation contained reconciling items totaling \$15,097 which were determined to be disbursements actually made that were not recorded in the accounting system when the transaction occurred in fiscal year 2015. This reconciliation also included a reconciling item for \$17,979, that was determined to be a disbursement that was voided in fiscal year 2014 but not voided in the accounting system.

According to Regional Office management, the bank reconciliation errors occurred due to inadequate supervisory review. (Finding 16-005, pages 15h – 15i)

The auditors recommended that the ROE only include actual outstanding checks and deposits on its bank reconciliation and immediately correct any errors or omissions noted. The ROE's bank reconciliation should encompass all of the ROE's bank accounts. The bank reconciliations should be reviewed for accuracy by a member of management who has adequate knowledge to oversee the process.

**ROE Response:** *The Regional Office of Education #51 will implement a system for bank reconciliations to ensure they are verified and matched to the accounting system by upper management with adequate knowledge moving forward.*

### **INADEQUATE INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS**

**The Regional Office of Education #51 did not have adequate internal controls over compliance requirements.**

The Regional Office of Education #51 (ROE) did not have adequate internal controls over compliance requirements. The following instances of noncompliance were noted during testing:

- The budget for the Regional Office's Title I Grants to Local Educational Agencies program allowed the ROE to earn an administrative fee based on either 5% or 2.5% of actual expenditures of certain budgeted costs. Based on testing, the ROE charged \$54,135 of administrative fees during fiscal year 2016 which was \$20,948 higher than what was allowable based on actual budgeted expenditures.
- The Regional Office did not have a policy in place to require employees who have only a portion of their payroll costs allocated to the Title I Grants to Local Educational Agencies program complete time and effort documentation to support the distribution. The auditors noted 2 such employees with total salary, benefit, and pension costs charged to the program in the amount of \$4,049. In addition, the auditors noted another employee with \$334 of unallowable pension costs charged to the program due to the employee not being eligible to participate in the pension at the time of the contributions. The Uniform Guidance (2 CFR 200.430) requires nonfederal entities to maintain support for the distribution of payroll costs among multiple activities.
- The Regional Office did not perform risk assessments of subrecipients, and did not obtain the audit reports of subrecipients and issue management decisions on relevant findings therein as required by the Uniform Guidance (2 CFR 200.331).

- The Regional Office did not obtain certifications from subrecipients required by the Uniform Guidance (2 CFR 200.415(a)).
- The support for one of 10 (10%) expenditure reports filed with the Illinois State Board of Education could not be located by the ROE for compliance testing. The Uniform Guidance (2 CFR 200.333) generally requires all records to be retained for three years after the completion of the grant.

As a recipient of U.S. Department of Education grant funds passed through by the Illinois State Board of Education, the ROE must incorporate certain procedures into its operations to ensure compliance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as well as requirements contained in the grant agreements.

The questioned costs were \$25,331.

According to Regional Office management, they were unaware of the specific documentation requirements for personnel costs and subrecipient monitoring, and were unaware of the excessive administrative fees. Further, the supporting documentation for the expense report which could not be located was inadvertently misplaced in preparation of the fiscal year 2016 audit. (Finding 16-006, pages 15j – 15l) **This finding was first reported in 2014.**

The auditors recommended that the ROE implement procedures to properly calculate administrative fees based on actual expenditures made to date. The calculation should then be reviewed and approved by ROE management. The ROE should also implement procedures to ensure all costs associated with personnel time and effort are properly documented in accordance with the Uniform Guidance. Further, the ROE should perform risk assessments on and obtain certifications from subrecipients as required by the Uniform Guidance. The ROE should follow the record retention policies in the Uniform Guidance.

**ROE Response:** *The Regional Office of Education #51 accepts the auditors' recommendations and will implement policies, procedures, and/or practices to address proper calculation of administrative fees, and perform risk assessments and monitoring of subrecipients. The Regional Office of Education will follow the record retention policies in the Uniform Guidance. The Regional Office will ensure that personnel time and effort are properly documented in accordance with the Uniform Guidance.*

**Prior Year ROE Response:** *The Regional Office accepts the auditors' recommendations and will revise policies,*

*procedures, and/or practices to address the finding noted.*

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #51's financial statements as of June 30, 2016 are fairly stated in all material respects except for a disclaimer of opinion on Governmental Activities in the Statement of Net Position and Statement of Activities and a qualified opinion on the General Fund in the Governmental Fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

This financial report was conducted by the firm of Doehring, Winders & Co. 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