



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #56
WILL COUNTY

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)**

For the Year Ended: June 30, 2013

Release Date: April 15, 2014

Summary of Findings:

Total this audit: 3

Total last audit: 1

Repeated from last audit: 1

SYNOPSIS

- The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #56 did not record salary obligations at year end.
- The Regional Office of Education #56 did not report payroll according to IRS regulations.

{Revenues and expenditures are summarized on the reverse page.}

REGIONAL OFFICE OF EDUCATION #56
WILL COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2013

	FY 2013	FY 2012
TOTAL REVENUES	\$9,264,828	\$10,726,603
Local Sources	\$1,844,957	\$2,110,246
% of Total Revenues	19.91%	19.67%
State Sources	\$2,475,113	\$2,882,771
% of Total Revenues	26.72%	26.87%
Federal Sources	\$4,944,758	\$5,733,586
% of Total Revenues	53.37%	53.45%
TOTAL EXPENDITURES	\$9,195,292	\$10,583,941
Salaries and Benefits	\$3,954,886	\$3,013,438
% of Total Expenditures	43.01%	28.47%
Purchased Services	\$1,965,812	\$3,366,169
% of Total Expenditures	21.38%	31.80%
All Other Expenditures	\$3,274,594	\$4,204,334
% of Total Expenditures	35.61%	39.72%
TOTAL NET POSITION	\$5,442,970	\$5,373,434
INVESTMENT IN CAPITAL ASSETS	\$0	\$360
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Jennifer Bertino-Tarrant Currently: Honorable Shawn T. Walsh (Effective February 21, 2013)

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #56 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office'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).

The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of 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.

During review of the Regional Office of Education #56's financial information prepared by the Regional Office, auditors noted that the Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Regional Office did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, no entries were provided to reconcile the Regional Office of Education #56's grant activity, such as posting grant receivables.

According to Regional Office officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 2013-001, pages 13a-13b) **This finding was first reported in 2010.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, the Regional Office of Education #56 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 Regional Office of Education #56's activities and operations.

The Regional Office of Education #56 responded that it 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 Regional Office noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that their employees possess the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1.)

RECORDING OBLIGATIONS

The Regional Office of Education #56 did not record salary obligations at year end.

Generally Accepted Accounting Principles require obligations at year end to be recorded as a liability to the entity. The Regional Office of Education #56 prepared and signed payroll checks for their July 15, 2013, July 31, 2013, and August 15, 2013, pay periods prior to June 30, 2013, but did not disburse the checks to the employees until the appropriate pay dates. The Regional Office of Education #56 posted the payroll expenditures for these pay periods to their general ledger prior to June 30, 2013, as a reduction of cash and as an expenditure.

According to Regional Office officials, they were not aware of the proper reporting of obligated salaries at year end. (Finding 2013-002, page 13c)

The auditors recommended that the Regional Office of Education #56 should report obligated salaries at year end as a liability and prepare the actual payroll checks at the end of the appropriate payroll period.

The Regional Office of Education #56 responded that it will report obligated salaries at year end as a liability and prepare the actual payroll checks at the end of the appropriate payroll period.

PAYROLL REPORTING

The Regional Office of Education #56 did not report payroll according to IRS regulations.

Internal Revenue Code Regulation §31.3121(d)-1 establishes that an individual is an employee if the person for whom the services are performed has the right to control and direct the individual who performs the services, not only as to the result

to be accomplished by the work but also as to the details and means by which that result is accomplished. Revenue Ruling 87-41 further establishes the 20-factor common law test for employment status, which looks at attributes such as instruction, training, hiring/supervision/paying assistants, continuing relationship, set hours of work, doing work on the employer's premises, payment of business and/or travel expenses, furnishing tools and materials, significant investment, realization of profit/loss, working for more than one firm at a time, making services available to the general public, right to discharge, and right to terminate.

In an effort to provide further guidance on this matter, the IRS recently revised the 20-factor common law test for determining the proper classification of workers between independent contractors and employees by condensing the prior 20 factors into 11 main tests and organizing these tests into three main groups: 1) behavioral control; 2) financial control; and 3) the type of relationship of the parties. These three groups and corresponding tests are further detailed in IRS Publication 15-A.

During testing, auditors noted the following:

- An employee of the Regional Office was also paid as an independent contractor for accounting and clerical services related to the McKinney Education for Homeless Children grant.
- The program director of the McKinney Education for Homeless Children grant is being treated as an independent contractor; however, under the current IRS tests, this individual should be classified as an employee for the following reasons:
 1. Behavioral control group: The Regional Office provides instructions to the program director by dictating when and where the grant will be administered, hiring all personnel that work in the grant, and providing the supplies, equipment, and location that the grant will utilize during its administration.
 2. Financial control group: there is no significant investment of resources by the program director other than time spent working on the grant.
 3. Type of relationship group: the program director is providing a service (grant administration) that is a key aspect of the Regional Office's regular business. In

addition, all other program directors that work for the Regional Office are classified as employees rather than independent contractors.

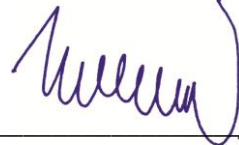
The Regional Office of Education #56 was unaware of the IRS rules and regulations governing the classification of employees and independent contractors.

The auditors recommended that the Regional Office of Education #56 should develop policies and procedures, such as completing IRS form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholdings for all employees, to ensure that all IRS rules and regulations are followed with regard to employee classification and that the appropriate payroll taxes are withheld and remitted to the proper federal and State authorities.

The Regional Office of Education #56 responded that it will contact the Internal Revenue Service (IRS) to determine the correct classification for current contractors. Furthermore, the Regional Office will develop policies and procedures to ensure that all Internal Revenue Service (IRS) rules and regulations are followed with regard to employee classification.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #56's financial statements as of June 30, 2013 are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.

DIGEST FOOTNOTE

**#1: Controls Over Financial Statement Preparation —Previous
Regional Office Response**

In its prior response in 2012, the Regional Office of Education #56 responded that it 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 Regional Office noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that their employees possess the knowledge required to compile the necessary GAAP based financial statements.