



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #4**  
**BOONE AND WINNEBAGO COUNTIES**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2019**

**Release Date: July 17, 2024**

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2016	Category 1	Category 2	Category 3
<b>Category 1:</b>	<u>New</u> <b>0</b>	<u>Repeat</u> <b>0</b>	<u>Total</u> <b>0</b>				<b>19-4</b>
<b>Category 2:</b>	<b>3</b>	<b>0</b>	<b>3</b>				
<b>Category 3:</b>	<u>0</u>	<u>1</u>	<u>1</u>				
<b>TOTAL</b>	<b>3</b>	<b>1</b>	<b>4</b>				
FINDINGS LAST AUDIT: 7							

**SYNOPSIS**

- (19-1) The Regional Office of Education #4 lacked adequate controls over the review of internal controls over external service providers.
- (19-2) The Regional Office of Education #4 had inadequate internal control over receipts.
- (19-3) The Regional Office of Education #4 had inadequate controls over the bank reconciliation process.
- (19-4) The Regional Office of Education #4 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.

**REGIONAL OFFICE OF EDUCATION #4**  
**BOONE AND WINNEBAGO COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2019**

	<b>FY 2019</b>	<b>FY 2018</b>
<b>TOTAL REVENUES</b>	\$8,220,072	\$8,119,821
Local Sources	\$2,555,241	\$2,049,929
% of Total Revenues	31.09%	25.25%
State Sources	\$4,955,109	\$5,188,153
% of Total Revenues	60.28%	63.89%
Federal Sources	\$709,722	\$881,739
% of Total Revenues	8.63%	10.86%
<b>TOTAL EXPENDITURES</b>	\$7,301,381	\$8,047,371
Salaries and Benefits	\$5,884,867	\$6,206,511
% of Total Expenditures	80.60%	77.12%
Purchased Services	\$648,916	\$801,830
% of Total Expenditures	8.89%	9.96%
All Other Expenditures	\$767,598	\$1,039,030
% of Total Expenditures	10.51%	12.91%
<b>TOTAL NET POSITION</b>	\$4,865,112	(\$131,005)
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$0	\$201,301
<sup>1</sup> The FY 2019 beginning net position was restated by \$4,077,426 due to converting the financial statements to the cash basis of accounting.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Lori Fanello Currently: Honorable Scott Bloomquist

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**LACK OF ADEQUATE CONTROLS OVER REVIEW  
OF INTERNAL CONTROLS OVER EXTERNAL  
SERVICE PROVIDERS**

**The Regional Office of Education #4 lacked adequate controls over the review of internal controls over external service providers.**

The Regional Office of Education #4 (ROE) lacked adequate controls over the review of internal controls over external service providers. The ROE is responsible for the design, implementation, and maintenance of internal controls, including the controls that are outsourced to service providers, related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction. This responsibility is not limited due to the process being outsourced.

Generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure accurate processing and security of information.

During testing, the auditors noted the ROE had not:

- Developed a formal process for identifying service providers and for either obtaining the Service Organization Controls (SOC) reports from the service providers and related subservice organization or performing alternative procedures to determine the impact of such services on its internal control environment on an annual basis.
- Documented its review of each of the SOC reports, or performed alternative procedures, to evaluate any issues relevant to the ROE's internal controls.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) relevant to the ROE's operations.

Regional Office officials indicated they now understand the importance of a more formal process to monitor service providers and their effects on internal accounting control. It was a lack of previous understanding of this importance and the effects of competing priorities that led to the matter not being addressed. (Finding 19-001, pages 12 – 13)

The auditors recommended the ROE identify all third-party service providers and determine and document if a review of controls is required. If required, the ROE should:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems including services provided by subservice

- organizations, at least annually.
- Monitor and document the operation of the CUECs relevant to the ROE's operations.
- Documents its review of the SOC reports or perform alternative procedures to evaluate all significant issues to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the ROE, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

**ROE Response:** *The ROE expects that it has a limited number of third-party service providers that are materially relevant to the organization's internal controls, and that their pervasive use by educational institutions would minimize the risks of unknown inadequate internal controls that would impact the ROE.*

*The ROE will, however, undertake a review of its third-party service providers (and any related contracts), obtain and review SOC reports where available, and document any material implications on our internal controls. Further, the ROE will identify and assess CUECs relevant to its operations as recommended.*

#### **INADEQUATE INTERNAL CONTROL OVER RECEIPTS**

#### **The Regional Office of Education #4 had inadequate internal control over receipts.**

The Regional Office of Education #4 (ROE) had inadequate internal control over receipts. Sound internal controls require documented policies and procedures in relation to receipts collection and processing, and proper segregation of duties when performing the steps within the receipts process. Furthermore, sound internal controls require a policy on timeliness of deposits, either based on dollar threshold or defined timeframe, from the date of receipt. There should be documentation of the date when cash and checks are received.

During auditors' testing of receipts, they noted the following:

- The ROE did not maintain documented policies and procedures for receipts collection and processing.
- The ROE did not maintain proper segregation of custody and recordkeeping duties over receipts collection and processing. For receipts not received electronically, one employee was responsible for opening the mail and receiving checks, recording receipt transactions within the accounting system, and also depositing the checks.
- 10 of 40 receipts tested (25%), totaling \$189,389, had no documentation when the checks were received. As a result, auditors were unable to determine whether

non-electronic cash receipts were deposited in a timely manner.

Regional Office officials indicated that the exceptions noted were due primarily to oversight and inadequate staffing. (Finding 19-002, pages 14 – 15)

The auditors recommended the ROE should document their policies and procedures related to receipts collection and processing, establish proper segregation of duties, and maintain adequate supporting documentation to ensure cash receipts are deposited in a timely manner.

**ROE Response:** *The ROE will improve its documentation of policies and procedures regarding cash receipts and will improve its segregation of duties over those procedures. Further, it will be a priority to make timely deposit of all cash received and to maintain such supporting documentation as may be necessary to this purpose.*

#### **INADEQUATE CONTROLS OVER BANK RECONCILIATION PROCESS**

#### **The Regional Office of Education #4 had inadequate controls over the bank reconciliation process.**

The Regional Office of Education #4 (ROE) had inadequate controls over the bank reconciliation process. Effective internal control policies require complete and accurate accounting records of all transactions of the entity. Sound internal controls require bank reconciliations to be performed accurately and promptly, no later than the end of the following month. Reconciling items should be investigated immediately, and adjustments made to the general ledger. Bank reconciliations should also be reviewed and approved by a person independent of the preparer in a timely manner.

The ROE maintains 17 bank accounts. Auditors tested 8 of 17 (47%) bank accounts and reviewed their monthly reconciliations and noted the following:

- 42 of 96 (44%) monthly bank reconciliations were performed later than the end of the following month, resulting in 39 to 595 days late.
- 31 of 96 (32%) monthly bank reconciliations were missing the date of when the reconciliation was prepared, therefore auditors were unable to determine if the bank reconciliation was prepared timely.

Regional Office officials indicated the exceptions noted above were due to the volume of accounts, and lack of sufficient staff. (Finding 19-003, pages 16 – 17)

The auditors recommended the ROE should prepare monthly bank reconciliations no later than the end of the following month.

**ROE Response:** *The ROE has taken steps to reduce the number of cash bank accounts necessary for the organization, and also intends to place a higher priority on the timely completion of monthly bank reconciliations. It is anticipated that all reconciliations will be prepared timely, and all reconciling items identified by the end of the following month. In most cases, the reconciling items can be resolved in a similar timeframe or shortly thereafter, allowing the final completion of the bank reconciliation.*

#### **DELAY OF AUDIT**

**The Regional Office of Education #4 did not provide completed financial statements in an auditable form by the August 31 deadline.**

The Regional Office of Education #4 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. The June 30, 2018 audit was not released until June 28, 2023. The completed June 30, 2019 financial statements were provided to auditors on October 20, 2023.

The ROE is subject to 105 ILCS 5/2-3.17a which requires the Auditor General's office to cause an audit 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 Government Auditing Standards. The ROE may utilize a cash basis, modified cash basis, or generally accepted accounting principles (GAAP) basis of accounting to prepare the financial statements for audit. The ROE has chosen the cash basis of accounting for financial reporting.

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<sup>th</sup> of the succeeding fiscal year. Financial reports are to be available no later than August 31<sup>st</sup> in order for the annual to be completed by an independent auditor selected by the Auditor General. In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

Regional Office officials indicated that the initial delays that affected earlier years related to internal personal issues and software program changes that caused the office to experience difficulty in providing information by the required timeline. Since those initial causes have been largely resolved, the ROE has experienced delays in the preparation of the financial

statements and schedules which contributed to an inability to get caught up. (Finding 19-004, pages 18 – 19) **This finding was first reported in 2016.**

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). These financial statements need to be presented to the Auditor General’s independent auditors for audit by the August 31<sup>st</sup> deadline.

**ROE Response:** *The ROE has changed to the cash basis of accounting, which its management believes will simplify the preparation and presentation of financial statements. Further, it has continued to engage a Certified Public Accounting firm to prepare all financial statements and schedules necessary for audit. The ROE expects that it can cooperate with an accelerated schedule of past audits so that this matter may be fully resolved without significant further delay. The cooperation of the Illinois Auditor General will be sought in order to explore an accelerated audit schedule.*

#### **AUDITORS’ OPINION**

Our auditors state the Regional Office of Education #4’s financial statements as of June 30, 2019 are fairly stated in all material respects.

This financial audit was conducted by the firm of Adelfia LLC.

**SIGNED ORIGINAL ON FILE**

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JOE BUTCHER  
Division Director

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

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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