



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, 2020

Release Date: March 26, 2025

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 0	<u>Repeat</u> 0	<u>Total</u> 0	2019		20-1	
Category 2:	1	2	3	2019		20-2	
Category 3:	0	1	1	2016			20-4
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- (20-1) The Regional Office of Education #4 had inadequate controls over receipts.
- (20-2) The Regional Office of Education #4 had inadequate controls over the bank reconciliation process.
- (20-3) The Regional Office of Education #4 failed to fully insure and collateralize cash balances.
- (20-4) 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, 2020

	FY 2020	FY 2019
TOTAL REVENUES	\$8,719,669	\$8,220,072
Local Sources	\$2,351,145	\$2,555,241
% of Total Revenues	26.96%	31.09%
State Sources	\$6,067,877	\$4,955,109
% of Total Revenues	69.59%	60.28%
Federal Sources	\$300,647	\$709,722
% of Total Revenues	3.45%	8.63%
TOTAL EXPENDITURES	\$7,532,089	\$7,301,381
Salaries and Benefits	\$6,527,183	\$5,884,867
% of Total Expenditures	86.66%	80.60%
Purchased Services	\$572,505	\$648,916
% of Total Expenditures	7.60%	8.89%
All Other Expenditures	\$432,401	\$767,598
% of Total Expenditures	5.74%	10.51%
TOTAL NET POSITION	\$6,052,692	\$4,865,112
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Scott Bloomquist Currently: Honorable Scott Bloomquist

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROL OVER RECEIPTS

The Regional Office of Education #4 had inadequate controls over receipts.

The Regional Office of Education #4 (ROE) had inadequate controls over receipts. During testing of receipts, auditors noted the following:

- The ROE's 14 of 40 receipts tested (35%), totaling \$173,682, had no documentation when the checks were received. As a result, we were unable to determine whether non-electronic cash receipts were deposited in a timely manner.
- 1 of 40 receipts tested (3%) totaling \$1,000, did not have any supporting documentation.

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. Supporting documentation should be maintained for receipt transactions.

According to ROE officials, the exceptions noted relate primarily to miscellaneous receipts (principally those received non-electronically) and not necessarily all cash receipts. The exceptions noted were due primarily to oversight. (Finding 2020-001, pages 11-12) **This finding was first reported in 2019.**

The auditors recommended the ROE as part of internal control should maintain adequate documentation to ensure cash receipts are deposited in a timely manner and receipts are properly supported.

ROE Response: *When this matter was called to management's attention in May 2024 (as part of the audit of fiscal year 2019), management promptly implemented improved procedures regarding miscellaneous cash receipts including improved documentation and standards for prompt deposit to the bank. We believe our improved procedures have addressed the concerns of this finding.*

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.

The ROE maintains 17 bank accounts. Auditors tested 5 of 17 (29%) bank accounts and reviewed their monthly reconciliations and noted the following:

- 47 of 60 (78%) 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.

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.

According to ROE officials the exceptions noted were due to the volume of accounts, and lack of sufficient staff. (Finding 2020-002, pages 13-14)

The auditors recommended that 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 has also placed a higher priority on the timely completion of monthly bank reconciliations. When this matter was particularly called to management's attention in May 2024 (as part of the audit of fiscal year 2019), management took prompt steps to assure that all bank reconciliations since that time were begun timely, and all reconciling items identified by the end of the following month. In most cases, the reconciling items are now resolved in a similar timeframe or shortly thereafter, allowing timely final completion of the bank reconciliations.*

FAILURE TO FULLY INSURE AND COLLATERALIZE CASH BALANCES

The Regional Office of Education #4 failed to fully insure and collateralize cash balances.

The Regional Office of Education #4 (ROE) failed to fully insure and collateralize cash balances. As of June 30, 2020, the ROE had fifteen cash and investment accounts with bank balances totaling \$6,823,423 at one financial institution. The Federal Deposit Insurance Corporation (FDIC) covers up to a maximum of \$250,000. The financial institution pledged

collateral with a value of \$6,409,419. The ROE did not have depository insurance or collateral for the remaining \$164,004.

The ROE is required to follow the Illinois Public Funds Investment Act (30 ILCS 235/6 (d)) (Act). The Act gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institution's trust departments in the ROE's name. In addition, prudent business practice requires that all cash and investments held by the financial institutions for the ROE be adequately covered by depository insurance or collateral.

According to ROE officials, the exception noted was due to oversight and the practical limitations of managing the daily fluctuations in cash and in the market value of pledged securities. (Finding 2020-003, pages 15-16)

Auditors recommended that the ROE should regularly monitor balances held with financial institutions and secure sufficient pledged collateral. The Regional Office should ensure the value of collateral remains adequate for the balance of the Regional Office's accounts according to the agreement in place.

ROE Response: *Pledged collateral is monitored and managed at least monthly by the ROE and its bank. In June 2020, a rapid decline in market value (tied to the effects of the COVID- 19 pandemic) affected the adequacy of market value for collateral, resulting in the shortfall of market value as of June 30, 2020. It should be noted, however, that the face value of the pledged securities was significantly higher at all times than the market value. Should circumstances have dictated, holding only a small portion of the collateral securities to maturity would have eliminated the risk of financial loss. Further, in the normal course of its responsibilities, the ROE's bank identified the need to pledge additional collateral to address a market value shortfall. It did so promptly in July 2020.*

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 No. 4 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. The June 30, 2019, audit was not released until July 17, 2024. The completed June 30, 2020, financial statements were provided to auditors on July 30, 2024.

The ROE 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 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 15th of the succeeding fiscal year. Financial reports are to be available no later than August 31st in order for the annual audit 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 personnel 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 4 has experienced delays in the preparation of the financial statements and schedules which contributed to an inability to get caught up. (Finding 2020-004, pages 17-18)

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). These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31st deadline.

ROE Response: *The ROE has changed to the cash basis of accounting (as was previously recommended) and has continued to engage a Certified Public Accounting firm to prepare all financial statements and schedules necessary for audit. The Regional Office of Education No. 4 expects that it can cooperate with an accelerated schedule of past due 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, 2020 are fairly stated in all material respects.

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

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

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:JMM