



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #9
CHAMPAIGN AND FORD COUNTIES

FINANCIAL AUDIT (In Accordance with the
 Uniform Guidance)
 For the Year Ended: June 30, 2021

Release Date: July 27, 2022

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since 2020	Category 1	Category 2	Category 3
Category 1:	1	0	1			21-2	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(21-1)** The Regional Office of Education #9 improperly applied an accounting principle.
- **(21-2)** The Regional Office of Education #9 lacked adequate controls over the review of internal controls over external service providers.

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 #9
CHAMPAIGN AND FORD COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2021

	FY 2021	FY 2020
TOTAL REVENUES	\$8,273,451	\$7,563,214
Local Sources	\$2,088,647	\$2,206,901
% of Total Revenues	25.25%	29.18%
State Sources	\$5,190,640	\$4,955,518
% of Total Revenues	62.74%	65.52%
Federal Sources	\$994,164	\$400,795
% of Total Revenues	12.02%	5.30%
TOTAL EXPENDITURES	\$7,731,276	\$7,363,352
Salaries and Benefits	\$6,254,899	\$5,809,449
% of Total Expenditures	80.90%	78.90%
Purchased Services	\$988,449	\$1,121,017
% of Total Expenditures	12.79%	15.22%
All Other Expenditures	\$487,928	\$432,886
% of Total Expenditures	6.31%	5.88%
TOTAL NET POSITION	\$934,484 ¹	\$356,413
INVESTMENT IN CAPITAL ASSETS	\$138,044 ²	\$160,193
¹ The FY 2021 beginning net position was restated by \$35,896 due to the reclassification of a fund under new reporting requirements for fiduciary funds. ² Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Gary Lewis Currently: Honorable Gary Lewis

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**IMPROPER APPLICATION OF ACCOUNTING
PRINCIPLE**

**The Regional Office of Education #9
improperly applied an accounting
principle.**

The Regional Office of Education #9 (ROE) reported an asset for its proportionate share of the net pension asset for the Illinois Municipal Retirement Fund (IMRF) pension plan amounting to \$643,177 and a liability for its proportionate share of the net pension liability for the Teachers' Retirement System (TRS) pension plan amounting to \$241,399. However, the Statement of Net Position did not separately display the net pension liability and reported a net pension asset of \$401,778 in the financial statements. Accordingly, the net position restricted for educational purposes was understated by \$241,399.

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, require governments to record and present net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses. These standards further prescribe the methods and assumptions that are to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of service.

GASB Implementation Guide on GASB Statement No. 68 Question Number 43 states liabilities for net pension liabilities associated with different pension plans may be aggregated for display, and pension assets for net pension assets associated with different pension plans may be aggregated for display. However, aggregated pension assets and aggregated pension liabilities should be separately displayed.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The new requirements change the definition of fiduciary activity and establish new financial reporting requirements for state and local governments that report fiduciary activity. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

The draft financial statements originally submitted did not properly implement GASB Statement No. 84. Beginning balances and transactions in the Payroll Clearing Fund (a custodial fund) included operations that are not fiduciary

activities and should have been reported in the governmental and proprietary fund financial statements.

Following are the balances and transactions that are not fiduciary activities per GASB Statement No. 84 and should have been reported in the proper funds:

<u>Governmental Activities</u>	
Cumulative interest income earned as of June 30, 2020 should have been reported as Fund Balance of the General Fund	\$13,355
Cash not reported in the Governmental Funds and Internal Service Fund	\$58,072
Accounts Payable not reported in the Governmental Funds and Internal Service Fund	\$45,142
<u>Proprietary Activities</u>	
Cumulative fingerprinting services income earned as of June 30, 2020 should have been reported as Net Position in a separate Proprietary Fund	\$22,541
Cash not reported in the Proprietary Fund	\$24,215
Accounts Payable not reported in the Proprietary Fund	\$1,100
Fingerprinting charges for services not reported in the Proprietary Fund	\$3,510
Expenses for purchased services not reported in the Proprietary Fund	\$2,936

In addition, beginning balances of \$2,932 and net transactions of \$4,830 that are fiduciary activities in the Payroll Clearing Fund were also not reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

There was also no disclosure related to GASB Statement No. 84 implementation. The ROE subsequently submitted revised financial statements implementing the requirements of GASB Statement No. 84.

Regional Office management indicated this was an oversight. (Finding 21-001, pages 14 – 16)

The auditors recommended the ROE should establish procedures to ensure that financial statements be carefully reviewed for proper accounting and reporting in accordance with generally accepted accounting principles (GAAP). Additionally, ROE management should consider Public Act 102-0025, which allows a Regional Office to determine if changing from the GAAP basis to the cash or modified cash basis of accounting would be allowable or beneficial to the ROE and users of the ROE statements.

ROE Response: *Management has considered Public Act 102-0025 and has decided to change from GAAP basis to the cash*

basis of accounting beginning with the Fiscal Year 2022 financial statements. Management will continue to work with a hired CPA firm to aid with closing the books at year end and preparing draft financial statements.

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

The Regional Office of Education #9 lacked adequate controls over the review of internal controls over external service providers.

As part of the audit process, the auditors requested the Regional Office of Education #9 (ROE) to provide a population of the service providers utilized. The ROE was able to identify service providers that provided various hosting and backup services for the ROE.

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.

The ROE is responsible for the design, implementation, and maintenance of internal controls 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 the accurate processing and security of information.

Regional Office officials indicated they understand the importance of a formal process to monitor service providers and did not realize the current process did not address all the issues noted. (Finding 21-002, pages 17 – 18)

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 operations of the CUECs relevant to the ROE's operations.
- Document 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: *We have begun to review the SOCs and we are in the process of documenting a formal process of review and will utilize that moving forward.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #9's financial statements as of June 30, 2021 are fairly presented 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

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