



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #11
CLARK, COLES, CUMBERLAND, DOUGLAS, EDGAR, MOULTRIE AND
SHELBY COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2015

Release Date: April 14, 2016

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2007	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 0	<u>Repeat</u> 1	<u>Total</u> 1	2007	15-1		
Category 2:	2	0	2				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(15-1)** The Regional Office of Education #11 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #11 did not have adequate internal controls over cash.
- **(15-3)** The Regional Office of Education #11 did not have an accurate budget and expenditure report.

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 #11
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FINANCIAL AUDIT
For The Year Ended June 30, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$2,383,292	\$1,857,104
Local Sources	\$620,084	\$271,999
% of Total Revenues	26.02%	14.65%
State Sources	\$1,627,965	\$1,500,199
% of Total Revenues	68.31%	80.78%
Federal Sources	\$135,243	\$84,906
% of Total Revenues	5.67%	4.57%
TOTAL EXPENDITURES	\$2,152,536	\$2,067,083
Salaries and Benefits	\$1,488,842	\$1,488,293
% of Total Expenditures	69.17%	72.00%
Purchased Services	\$312,437	\$299,627
% of Total Expenditures	14.51%	14.50%
All Other Expenditures	\$351,257	\$279,163
% of Total Expenditures	16.32%	13.51%
TOTAL NET POSITION	\$664,273 ¹	\$408,214
INVESTMENT IN CAPITAL ASSETS	\$47,199	\$20,473
¹ The FY 2015 beginning net position was restated by \$25,303 due to a prior period adjustment for new reporting requirements for pensions. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Dr. Bobbi Mattingly Currently: Honorable Dr. Bobbi Mattingly

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #11 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #11 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office of Education #11'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 #11 did not have sufficient internal controls over the financial reporting process in order to present the financial statements in accordance with these standards. The Regional Office of Education #11 maintains its accounting records on cash basis accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office of Education #11 maintains controls over the processing of accounting transactions, and attempts to prepare the basic financial statements, there were not sufficient controls over the preparation of the 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.

Through inquiries and discussion with the Regional Office's accounting personnel and Regional Superintendent, the following was noted:

- The Regional Office's financial information required material adjusting entries related to the conversion of its financial statements from cash to accrual basis of accounting, using documentation provided by the Regional Office, in order to present its financial statements in accordance with generally accepted accounting principles. Proposed adjusting entries were approved and accepted by Regional Office management.
- In fiscal year 2015, the Regional Office was able to prepare the fund financial statements for the governmental funds in the basic financial statements. However, the government-wide financial statements and the remaining fund financial statements, including proprietary funds, fiduciary fund, and notes to financial statements, were not properly prepared.

- The Regional Office did not have adequate controls to record and report the Regional Office's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.

Some additional expertise is needed to address all financial statement and disclosure issues. The complex requirements of GASB Statements No. 68 and 71 were new for fiscal year 2015 and will require additional time and training before the Regional Office of Education #11 can fully implement the requirements on its own. (Finding 2015-001, pages 9a-9b) **This finding was first reported in 2007.**

The auditors recommended that as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #11 should continue to implement comprehensive preparation and/or review 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 Regional Office of Education #11's activities and operations.

The Regional Office of Education #11 responded that it understands the nature of the deficiency. The Regional Office believes that seeking additional accounting expertise in the form of another accounting firm or appropriately trained individual to prepare and/or review financial statements would reduce the funds available to provide the educational services for the schools in the region. Therefore, the Regional Office will continue to prepare the financial statements internally and continue to seek additional knowledge and training for staff members to ensure that all financial statements, including disclosures, are complete and accurate. (For previous Regional Office response, see Digest Footnote #1 shown at the end of the digest.)

INTERNAL CONTROL OVER CASH

The Regional Office of Education #11 did not have adequate internal controls over cash.

The Regional Office of Education #11 is responsible for establishing and maintaining a system of internal controls over cash to prevent errors and fraud.

During review of the Regional Office's cash records, the following was noted:

- Although it appears that a review of the monthly bank reconciliation was being performed, insufficient detail of outstanding deposits and checks was noted in the June 2015 reconciliation.
- The ending cash balance on the fiscal year 2015 bank

reconciliations for the Regional Office state aid distributive fund did not reconcile to the general ledger.

An oversight occurred when completing the June 2015 bank reconciliation. Not all reports were provided to document cleared/outstanding items to match the cover sheet. The monthly State aid electronic funds transfer bank charges were not being recorded in the general ledger for the State aid distributive fund. (Finding 2015-002, page 9c)

The auditors recommended that as part of the internal control over cash, the Regional Office of Education #11 should ensure the supporting documentation for the bank reconciliation includes an outstanding check and deposit listing that agrees to the bank reconciliation and that the ending cash balances on the monthly bank reconciliation agree to the general ledger.

The Regional Office of Education #11 responded that it will implement changes to the internal controls over cash. The Regional Office will implement a checklist that must be completed by the Bookkeeper with each bank statement to ensure that all necessary documentation is included to match the bank reconciliation sheet to the cash balance and accounting software balance. This documentation will include listings and balances after reconciliation of outstanding payroll checks, disbursement checks, EFT's, and receipts. This checklist will be reviewed and signed off on along with the bank reconciliation cover sheet each month by the Regional Superintendent of Schools or the Assistant Regional Superintendent of Schools.

INACCURATE BUDGET AND EXPENDITURE REPORT

The Regional Office of Education #11 did not have an accurate budget and expenditure report.

The Regional Office of Education #11 is required by the Illinois State Board of Education (ISBE) to prepare grant budgets and report grant expenditures in accordance with *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*.

According to these manuals, the breakdown in the grant budgets should be an itemization and description of the requested grant costs provided in enough detail to identify what costs are to be charged to the grants. In addition, regulations state that any amount reported in an expenditure report that is not for a budgeted item or not within the acceptable variance approved by the program, cannot be accepted.

Grant expenditure reports should reflect program costs in the appropriate function and object codes regardless of where the costs were budgeted.

The Regional Office of Education #11 did not properly prepare grant budgets and, therefore, did not report grant expenditures in accordance with ISBE *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* or the *Illinois Program Accounting Manual* for the Illinois McKinney-Vento Homeless Education Grant. The Regional Office amended the original budget for the Homeless Education Grant to include budgeted funds for purchases of capital outlay in the amount of \$5,350.

A review of the supporting documentation showed the Regional Office spent funds for allowable grant related program costs. These program costs were reported as capital outlay (object 500) in Instruction (function 1000) on the Expenditure Report Worksheet submitted to ISBE when object code 400 for supplies and materials should have been utilized since all equipment purchased was under the individual threshold of \$500 for capital outlay. In addition, code 400 for supplies and materials was utilized on the general ledger.

An equipment purchase was planned to be recorded as a capital outlay which would result in purchases over \$500 and inclusion in the capital outlay category; however, after purchase it was identified that each component was actually under \$500 (computer, monitor, etc.). This change was not identified and reported to ISBE as a change in line item from capital outlay to supplies and materials. (Finding 2015-003, pages 9d-9e)

The auditors recommended the Regional Office should budget and report expenditures of the Illinois McKinney-Vento Homeless Education Grant in accordance with the *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*. In addition, the Regional Office should contact ISBE and amend budgets for its programs if necessary.

The Regional Office of Education #11 responded that it will review all equipment purchases going forward and ensure that they are properly categorized as supplies and material or as capital outlay. If the initially budgeted priced per item is less than \$500, a budget amendment will be made to move the funds to supplies and materials.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #11's financial statements as of June 30, 2015 are fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:KJM

AUDITORS ASSIGNED: Doehring, Winders & Co. LLP
were our special assistant auditors.

DIGEST FOOTNOTE

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

In its prior response in 2014, the Regional Office responded that it understands the nature of the deficiency. The Regional Office noted that it believes that seeking additional accounting expertise in the form of another accounting firm or appropriately trained individual to prepare and/or review financial statements would reduce the funds available to provide the educational services for the schools in the region. The Regional Office also noted that it will continue to prepare the financial statements internally and continue to seek additional knowledge and training for staff members to ensure that all financial statements, including disclosures, are complete and accurate. The Regional Office responded that it accepts the degree of risk associated with this condition.