



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #13**  
**CLINTON/JEFFERSON/MARION/WASHINGTON COUNTIES**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2018**

**Release Date: December 15, 2021**

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2016		18-1	
Category 2:	1	3	4	2016		18-2	
Category 3:	<u>1</u>	<u>1</u>	<u>2</u>	2016		18-3	
<b>TOTAL</b>	<b>2</b>	<b>4</b>	<b>6</b>	<b>2016</b>			18-4
FINDINGS LAST AUDIT: 5							

**SYNOPSIS**

- (18-1) The Regional Office of Education #13 did not have adequate controls over the bank reconciliation process.
- (18-2) The Regional Office of Education #13 did not have adequate internal controls over property and equipment.
- (18-3) The Regional Office of Education #13 did not have sufficient internal controls over payroll and grant compliance.
- (18-4) The Regional Office of Education #13 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (18-5) The Regional Office of Education #13 did not have adequate controls over compliance with laws and regulations.
- (18-6) The Regional Office of Education #13 did not have adequate internal controls over cash receipts.

**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 #13**  
**CLINTON/JEFFERSON/MARION/WASHINGTON COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2018**

	<b>FY 2018</b>	<b>FY 2017</b>
<b>TOTAL REVENUES</b>	\$6,956,384	\$6,731,541
Local Sources	\$886,465	\$1,180,618
% of Total Revenues	12.74%	17.54%
State Sources	\$5,901,412	\$5,367,555
% of Total Revenues	\$84.83%	79.74%
Federal Sources	168,507	\$183,368
% of Total Revenues	2.42%	2.72%
<b>TOTAL EXPENDITURES</b>	\$7,062,600	\$6,693,690
Salaries and Benefits	\$6,005,204	\$5,642,569
% of Total Expenditures	85.03%	84.30%
Purchased Services	\$791,184	\$777,370
% of Total Expenditures	11.20%	11.61%
All Other Expenditures	\$266,212	\$273,751
% of Total Expenditures	3.77%	4.09%
<b>TOTAL NET POSITION</b>	\$(1,860,487) <sup>1</sup>	\$597,929
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$537,733 <sup>2</sup>	\$568,950
<sup>1</sup> The FY 2018 beginning net position was restated by (\$2,352,200) due to a prior period adjustment for new reporting requirements for other postemployment benefits and the correction of an error. <sup>2</sup> Capital asset amounts include debt associated with a building loan.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Ron Daniels Currently: Honorable Matt Renaud

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### CONTROLS OVER BANK RECONCILIATIONS

**The Regional Office of Education #13 did not have adequate controls over the bank reconciliation process.**

The Regional Office of Education #13 (ROE) did not have adequate controls over the preparation and review of bank reconciliations.

The ROE is responsible for establishing and maintaining a system of internal controls over cash to prevent errors and fraud. This includes timely preparation and review of bank reconciliations. Bank reconciliations should be performed within a month of the closing date on the bank statement and evidence of review should be documented.

During the auditor's review of the ROE's monthly bank reconciliations for its two (2) bank accounts, auditors noted bank reconciliations were not prepared or reviewed in a timely manner. Specifically, auditors noted the following:

- One (4%) monthly reconciliation was prepared 40 days after month end.
- For 10 (42%) monthly reconciliations, auditors were unable to determine if the reconciliations were timely reviewed as the ROE did not document the date the review was done.
- For six (25%) monthly reconciliations, the previous ending cash balances differed but were still approved and initialed.
- For 12 (50%) monthly reconciliations, the bank reconciliation balance and balance sheet balance differed but were still approved and initialed.

The ROE management indicated in the transition phase of the combination of ROE #25 and ROE #13, duties to perform the bank reconciliation were not clearly assigned. This item is repeated because of the lateness of the FY17 audit and replacement of the employee. (Finding 18-001, pages 10 – 11)

The auditors recommended that as part of internal control over cash, the ROE should prepare and review the monthly bank reconciliations within a month of the closing date on the bank statement. The review should ensure the reconciliation is completed accurately, and is indicated in writing, including the individual performing the review and the date.

**ROE Response:** *As of July of 2018, Bank Statements are currently and will continue to be properly prepared by a newly employed staff member and then reviewed and dated by the Regional Superintendent.*

## CONTROLS OVER PROPERTY AND EQUIPMENT

### **The Regional Office of Education #13 did not have adequate internal controls over property and equipment.**

The Regional Office of Education #13 (ROE) did not have adequate controls over its capital assets.

The ROE Accounting Manual requires each ROE to maintain detailed capital asset records for both accounting purposes as well as insurance purposes, for capital assets costing \$500 or more. Generally accepted accounting principles (GAAP) require records of all capital assets and depreciation schedules for assets meeting the capitalization threshold for reporting to be maintained so that this information can be reported within the financial statements. The ROE capitalizes assets with an individual cost of more than \$500 and an estimated useful life in excess of one year.

In addition, sound internal controls require that policies and procedures on capital assets should cover acquisition and tagging, recording and reporting, depreciation (if applicable), transfers and dispositions, and annual physical inventory, and they should be formally documented and consistently applied. Further, good internal controls require capital assets that are obsolete, damaged or no longer used in operations be removed from the ROE's capital asset listing.

During the auditor's physical observation and review of the ROE's capital assets, the following was noted:

- 8 of 25 (32%) of the items tested remained on the capital asset listing when the asset was no longer in use. Three 3 of the 8 items were disposed of in the Carlyle location, 4 items were no longer in use and were either being used as parts or ceased functionality, and 1 item was not in the location as designated on the fixed asset listing.
- A physical inventory of capital assets was not taken at year-end.

The ROE management indicated during the transition of combining the documents and records of the two offices, staff did not possess the expertise to properly combine the assets of the regional offices. New files of the Regional Office's asset list had not removed the items no longer in use. (Finding 18-002, pages 12 – 13)

The auditors recommended the Regional Office should adhere to the ROE Accounting Manual capital asset policy and procedures to effectively and efficiently monitor property acquisitions, transfers and disposals and provide for the accurate reporting of capital asset balances.

In addition, the capital asset listing should be completed to include all details required by the ROE Accounting Manual

and should be checked for accuracy and existence through an annual physical inventory by an individual independent of the accounting process. A reconciliation should be performed between the capital asset listing and the recorded capital outlay expenditures for the year. All reconciling items should be cleared in a timely manner.

**ROE Response:** *A new employee has taken over the responsibility to correct the assets of the Regional Office and the list is currently updated.*

## **CONTROLS OVER PAYROLL AND GRANT COMPLIANCE**

**The Regional Office of Education #13 did not have sufficient internal controls over payroll and grant compliance.**

The Regional Office of Education #13 (ROE) was unable to provide adequate time and effort documentation used to distribute the salary and benefit costs when ROE staff worked on multiple grant programs.

Title 2 U.S. Code of Federal Regulations Part 200.430 (i), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires charges for salaries and benefits to be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated. It also requires that records are used to support the distribution of employees' salary and benefits among specific activities if the employee only works part of the time on a federal award program. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award.

The Illinois State Board of Education (ISBE) *State and Federal Grant Administration Policy, Fiscal Requirements and Procedures*, requires that auditable time and effort reports should be written, after the fact documentation of how the time was spent. Budget estimates can be used for charging purposes, but a confirmation process or reconciliation must take place at some point after the charges are incurred to record the true effort and not merely use an estimate. Time and effort reports should be prepared by any staff with salary charged (1) directly to a federal award, (2) directly to multiple federal awards, or (3) directly to any combination of a federal award or other federal, State or local funds. Additionally, all time and effort sheets and other supporting documentation must be retained at the local level and be available for review or audit any time within three years after termination of the project or until the local entity is notified in writing from ISBE that the records are no longer needed for review or audit.

During the auditor's review of the ROE's payroll expenditures of 25 employees, the following was noted:

- Five employees (20%) who worked on multiple programs completed time and effort documentation but did not indicate the actual time worked on each program.
- Two employees (8%), who worked on multiple programs, did not have time and effort documentation on file.

Upon further review and discussion, these employees completed inadequate time sheets; thus salary and benefits costs reported were based on estimated time rather than actual time. Furthermore, there was no review of the amounts charged to federal awards based on budget estimates in order to make necessary adjustments ensuring that the final amounts charged to the federal awards are accurate, allowable, and properly allocated.

The ROE management indicated the Regional Office agrees with this finding. New time and effort sheets were not created to match the reassignment and division of responsibilities of staff during the transition. (Finding 18-003, pages 14 – 15)

The auditors recommended the ROE should develop and implement written policies and procedures over payroll to ensure that proper controls are in place over the use and maintenance of adequate time and effort documentation as required by the Uniform Guidance and the ISBE *State and Federal Grant Administration Policy, Fiscal Requirements and Procedures*.

**ROE Response:** *New electronic forms have been created and are used to specifically calculate time and effort on each grant for staff with divided responsibilities.*

#### **DELAY OF AUDIT**

**The Regional Office of Education #13 did not provide completed financial statements in an auditable form by the August 31 deadline.**

The Regional Office of Education #13 (ROE) did not provide completed financial statements in an auditable form within the required timeframe. An outside accounting firm was hired by the ROE to assist in the preparation of financial statements and related disclosures.

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 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 (GAGAS).

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 of the succeeding fiscal year. Financial reports are to be available no later than August 31 in order for the annual audit to be completed by an independent auditor selected by the Auditor General. Annual financial statements are to be prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

Additionally, effective June 25, 2021, Public Act 102-0025 allows a Regional Office of Education or Educational Service Center to utilize a cash basis, modified cash basis, or GAAP basis of accounting to prepare the financial statements for audit.

In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

The ROE management indicated the financial statements for the FY18 audit could not be made available by August 31, 2018 since the FY17 audit had not been completed to provide account balance for the FY 18 year (Finding 18-004, pages 16 – 17)

The auditors recommended the Regional Office should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements should be compiled on an accrual basis of accounting in accordance with GAAP. Additionally, ROE management should consider Public Act 102-0025 to determine if changing to the cash or modified cash basis would be allowable or beneficial to the ROE and users of the ROE financial statements. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

**ROE Response:** *When audits are back to the appropriate timeline, then statements could be prepared in the required timeframe. Documents were provided to complete the 2018 audit when requested by the auditor in the fall of 2020.*

## **CONTROLS OVER COMPLIANCE WITH LAWS AND REGULATIONS**

### **The Regional Office of Education #13 did not have adequate controls over compliance with laws and regulations.**

The Regional Office of Education #13 (ROE) did not have adequate controls over compliance with laws and regulations.

The Illinois School Code (105 ILCS 5/17-19) allows a Regional Superintendent to take out a line of credit in anticipation of revenues. However, the Regional Superintendent is only allowed to take out 85 percent of current year anticipated grant revenue or 50 percent of the next fiscal year's anticipated grant revenue, as certified by the State Superintendent. The Regional Superintendent shall authorize this line of credit by executive order or resolution. The executive order or resolution shall set forth facts demonstrating the need for the line of credit, the amount to be borrowed, the maximum interest rate allowed, and the date by which the funds will be repaid. Funds borrowed under this section are to be repaid within 60 days after the revenues have been received.

As of July 1, 2017, the ROE had outstanding borrowings of \$300,000 on a line of credit. An additional \$100,000 was drawn on the line of credit in FY18.

The Regional Office established a line of credit with a resolution in FY17, but it did not contain all the requirements. The Regional Office could not produce documentation of certification by the State Superintendent regarding the anticipated revenue that was being borrowed upon.

The resolution to establish a line of credit authorized the Regional Superintendent to borrow monies at an interest rate not to exceed 2.4% per annum. The Regional Office's loan agreement was for 3.50% per annum.

The ROE management indicated that because the State of Illinois was behind in making payments to the Regional Office, it was necessary to establish a line of credit to borrow funds to continue to operate the office. Since funds were not paid in a timely manner, it was difficult to determine if repaying the line of credit in a timely manner would cause the need to turn around and borrow more funds and thus pay more bank fees, the regional superintendent did not use the funds to make repayments in a timely manner. Uncertainty with State funding impacted the interest rate that funds could be borrowed, since many banking institutions would not carry a line of credit for the Regional Office. (Finding 18-005, pages 18 – 19)

The auditors recommended the ROE should comply with the requirements of 105 ILCS 5/17-19, as able, when borrowing

against anticipated revenues. The Regional Office should comply with the resolution authorizing the line of credit.

**ROE Response:** *The regional superintendent now understands the specific criteria of the statutory requirements for operating a line of credit and will follow the proper procedures.*

## **CONTROLS OVER CASH RECEIPTS**

### **The Regional Office of Education #13 did not have adequate internal controls over cash receipts.**

The Regional Office of Education #13 (ROE) did not have adequate internal controls over cash receipts.

The ROE is responsible for establishing and maintaining an accurate system of internal controls over cash to prevent errors and fraud. This includes timely preparation and review of cash receipts and deposits. Deposit authorization forms and cash deposits should be performed timely, and evidence of review should be documented.

The ROE did not always prepare receipts in a timely manner. There is no documentation of when checks are received, and auditors were not able to determine if cash was deposited in a timely manner. During the auditor's review of 40 cash receipts, auditors noted ten (25%) deposit authorization forms were prepared more than seven days after the dates on the cash receipts.

The ROE management indicated the ROE receives mail in two locations. There are some times that mail from one office is not taken to the bookkeeping office for at least a week. It depends on the schedule of the assistant and regional superintendent of schools. Also, many checks are written several days or weeks prior to the office receiving the check in the mail. (Finding 18-006, page 20)

The auditors recommended the ROE should document when all cash receipts are received, prepare and review the deposit authorization form timely, and compare it to the deposit slip and deposit cash receipts in a timely manner. The review should be indicated in writing, including the individual performing the review and the date.

**ROE Response:** *The date in which a check is written (dated) is out of the control of the Regional Office of Education #13. Moving forward, payments received will be stamped the day they arrive at the bookkeeping office.*

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #13's financial statements as of June 30, 2018 are fairly presented in all material respects.

This financial audit was conducted by the firm of Campbell, 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.

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FRANK J. MAUTINO  
Auditor General

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