



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #38**  
**LOGAN/MASON/MENARD COUNTIES**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2015**

**Release Date: May 12, 2016**

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

**SYNOPSIS**

- **(15-1)** The Regional Office of Education #38 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #38 did not have adequate internal control procedures over receipts and disbursements.
- **(15-3)** The Regional Office of Education #38 had employee contracts that did not agree to employee compensation.
- **(15-4)** The Regional Office of Education #38 had improper accounting procedures of Restricted Funds.
- **(15-5)** The Regional Office of Education #38 did not have sufficient internal controls over the consolidation process.

**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 #38**  
**LOGAN/MASON/MENARD COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2015**

	<b>FY 2015</b>	<b>FY 2014</b>
<b>TOTAL REVENUES</b>	\$727,986	\$762,363
Local Sources	\$122,765	\$150,654
% of Total Revenues	16.86%	19.76%
State Sources	\$566,564	\$571,407
% of Total Revenues	77.83%	74.95%
Federal Sources	\$38,657	\$40,302
% of Total Revenues	5.31%	5.29%
<b>TOTAL EXPENDITURES</b>	\$762,629	\$789,521
Salaries and Benefits	\$482,560	\$520,218
% of Total Expenditures	63.28%	65.89%
Purchased Services	\$46,997	\$45,458
% of Total Expenditures	6.16%	5.76%
All Other Expenditures	\$233,072	\$223,845
% of Total Expenditures	30.56%	28.35%
<b>TOTAL NET POSITION</b>	\$33,182 <sup>1</sup>	\$80,677
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$0	\$13,693
<sup>1</sup> The FY2015 beginning net position was restated by (\$12,852) due to a prior period adjustment for new reporting requirements for pensions. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Jean Anderson *Effective July 1, 2015, ROE #38 was consolidated into ROEs #17, #51, & #53.

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT  
PREPARATION**

**The Regional Office of Education #38 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #38 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office'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 #38 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, 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.

During review of the Regional Office's financial information, prepared by the Regional Office, auditors noted the financial information required material adjusting entries to accounts receivable, accounts payable, accrued payroll and unearned revenue in order to present its financial statements in accordance with GAAP. 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. Proposed adjusting entries were approved and accepted by Regional Office management.

According to the Regional Office of Education #38 officials, current funding levels were not adequate to hire and/or train accounting personnel in order to comply with these requirements. Also, 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 ROE can fully implement the requirements on its own. (Finding 2015-001, pages 11a-11b) **This finding was first reported in 2007.**

The auditors recommended that as part of its internal control over the preparation of financial statements, successor Regional Offices of Education should implement

comprehensive preparation procedures to ensure the financial statements are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.

The Regional Office of Education #38 responded that as part of its internal control over the preparation of financial statements, successor Regional Offices of Education will implement comprehensive preparation procedures to ensure the financial statements are complete and accurate. These procedures will be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations. (For previous Regional Office response, see Digest Footnote #1 shown at the end of the digest.)

#### **INADEQUATE INTERNAL CONTROL PROCEDURES**

##### **The Regional Office of Education #38 did not have adequate internal control procedures over receipts and disbursements.**

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements to prevent errors and fraud.

The auditors noted the following weaknesses in the Regional Office of Education #38's internal control system:

- The individual who performed the physical count of capital assets was not independent of the record keeping process.
- Two bank reconciliations did not reconcile to the underlying accounting records.
- There was no documented review of the Regional Office of Education #38's general journal entries prior to being posted to the accounting system. Also, journal entries tested provided no description of the adjustment and did not have adequate supporting documentation.
- One School Occupation Facility Tax payment was \$1,000 less than the calculated amount to be remitted to the school district.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriations of assets, in which the errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. The Regional Office of Education #38 has not established sufficient internal control procedures. (Finding 2015-002, page 11c)

The auditors recommended that the successor Regional Offices of Education should ensure that proper internal controls are in place over financial processes to ensure appropriate segregation of duties, documented review of the accounting process and records, as well as, ensuring that the accounting records and transactions are accurate and supported by appropriate documentation.

The Regional Office of Education #38 responded that the successor Regional Offices of Education have implemented proper internal controls over financial processes to ensure appropriate segregation of duties, documented review of the accounting processes and records, as well as, ensured that the accounting records and transactions are accurate and supported by appropriate documentation. (For previous Regional Office response, see Digest Footnote #2 shown at the end of the digest.)

### **EMPLOYEE CONTRACTS**

#### **The Regional Office of Education #38 had employee contracts that did not agree to employee compensation.**

The Regional Office of Education #38 is required under the Illinois Wage Payment and Collection Act (820 ILCS 115/10) to notify employees, in writing, of their rate of pay and for it to be acknowledged by both parties.

During testing of payroll transactions, auditors noted four Regional Office of Education #38 employees whose total compensation did not agree to amounts stated in their respective employment contract. The Regional Office of Education #38 employees' total compensation was higher than amounts stated and agreed to in the employees' contracts.

According to Regional Office of Education #38 officials, employment contracts were based mainly on the amounts covered in the budgets of Logan, Mason, and Menard Counties to maximize county support. Although some contracts were amended in the current year to include wages to be paid from the GED and Institute funds, wages paid from other grant sources were not included in the contracts. (Finding 2015-003, page 11d)

The auditors recommended that the successor Regional Offices of Education should develop policies and procedures to ensure employees' contracts agree to the actual amount paid to the employees.

The Regional Office of Education #38 responded that the successor Regional Offices of Education have policies and procedures to ensure employees' contracts agree to the actual amount paid to the employees. (For previous Regional Office response, see Digest Footnote #3 shown at the end of the digest.)

## **IMPROPER ACCOUNTING OF RESTRICTED FUNDS**

### **The Regional Office of Education #38 had improper accounting procedures of Restricted Funds.**

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions, including payroll, to prevent errors and fraud and to ensure compliance with applicable requirements for restricted funds.

Auditors noted the Truants Alternative/Optional Education fund's budget was revised near year-end to move \$3,869 from purchase services to salaries/benefits. However, the Regional Office paid employees additional wages without additional duties being performed or additional hours being worked. In addition, \$1,476 was transferred from the Institute fund to the Indirect Cost fund to pay salaries which were not supported by time and effort documentation necessary to support the allocation of salaries to the restricted Institute funding.

The Regional Office of Education #38 paid additional salaries and benefits from grant funds without additional duties being performed or extra hours worked by the employees to merit the additional salaries and benefits. The Regional Office allocated salaries to restricted funding without appropriate time and effort documentation for the related employee to substantiate the time expended on Institute fund activities.

Per Regional Office personnel, the additional wages were given at year-end because the employees had worked hard and deserved the wage increase. (Finding 2015-004, page 11e)

The auditors recommended that the successor Regional Offices of Education should develop policies and procedures to ensure additional salaries paid to employees are supported by documentation to substantiate additional services performed. In addition, when salaries and benefits are allocated to restricted funds there should be time and effort documentation to support the allocated amounts.

The Regional Office of Education #38 responded that the successor Regional Offices of Education have policies and procedures to ensure additional salaries paid to employees are supported by documentation to substantiate additional services performed. In addition, when salaries and benefits are allocated to restricted funds there will be time and effort documentation to support the allocated amounts.

## **CONSOLIDATION**

### **The Regional Office of Education #38 did not have sufficient internal controls over the consolidation process.**

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to ensure the Regional Office's policies and procedures are followed.

Auditors noted the following issues related to the consolidation of the Regional Office of Education #38:

- Disposal records did not consistently contain evidence of review and approval.
- Items sold or disposed of were not clearly identified so auditors could determine whether the items were capital assets or supplies and materials.
- Disposal documentation did not include any identifiers other than a generic description of the item disposed, which did not allow the auditors to trace the asset to the Regional Office's asset listing.
- The agreement between the parties of the consolidation did not clearly define how the remaining assets and liabilities of the Regional Office of Education #38 were to be divided among the receiving Regional Offices.

The Regional Office of Education #38 lacked sufficient details in the consolidation agreement regarding the division of capital assets. In addition, the Regional Office of Education #38 did not follow prudent policies and procedures when disposing of assets or dividing remaining assets among the successor Regional Offices of Education.

The Regional Office of Education #38 indicated they were unaware of appropriate procedures relating to the consolidation. (Finding 2015-005, pages 11f-11g)

The auditors recommended that the successor Regional Offices of Education should ensure the appropriate internal control policies and procedures are followed and documented and that employees responsible for financial processes are informed and trained to follow the Regional Office's established policies.

The Regional Office of Education #38 responded that the successor Regional Offices of Education will continue to ensure the appropriate internal control policies and procedures are followed and documented and that employees responsible for financial processes are informed and trained to follow the Regional Office's established policies.

## **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #38's financial statements as of June 30, 2015 are fairly presented in all material respects.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

FJM:JRB

AUDITORS ASSIGNED: Kemper CPA Group 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 of Education #38 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. Management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. The Regional Office noted that management will review year-end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial, since training costs would take away from the funds available to provide educational services for the schools in the region.

### **#2: Inadequate Internal Control Procedures – Previous Regional Office Response**

In its prior response in 2014, the Regional Office of Education #38 responded that the Regional Superintendent of Schools is now reviewing payroll and journal entries and documenting the review at the time it is undertaken. In addition, bank reconciliations are now being reviewed in a more timely fashion. The Regional Office noted that although the staff of the main office of the Regional Office of Education is limited in size, the Regional Superintendent and the Executive Secretary will undertake the capital asset physical count. Finally, the ROE was unaware of the sales tax issue, until it came up with another ROE who shared the information. Since that time, the ROE has developed a policy to ensure that sales tax is not included with any exempt purchases.

**#3: Employee Contracts – Previous Regional Office Response**

In its prior response in 2014, the Regional Office of Education #38 responded that employee contracts for the three full-time ROE staff are based, primarily, on county support. However, certain funding is also provided from grant funding. The Regional Office stated that because grant awards are never guaranteed, amounts requested are subject to change, and grant funding is, quite often, late in being paid, it is difficult to estimate additional salary at the time the contract language is prepared. However, the ROE has developed a policy to record more accurately the employees' total salary in the actual contract language this year.