



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #1
ADAMS AND PIKE COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2015

Release Date: July 14, 2016

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2013			
Category 1:	1	1	2		15-2		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 3							

SYNOPSIS

- **(15-1)** The Regional Office of Education #1 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #1 did not have sufficient internal controls over accounting and closing transactions.

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 #1
ADAMS AND PIKE COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$1,728,141	\$1,702,788
Local Sources	\$406,400	\$323,574
% of Total Revenues	23.52%	19.00%
State Sources	\$1,067,318	\$1,120,696
% of Total Revenues	61.76%	65.82%
Federal Sources	\$254,423	\$258,518
% of Total Revenues	14.72%	15.18%
TOTAL EXPENDITURES	\$1,601,391	\$1,646,063
Salaries and Benefits	\$870,568	\$953,746
% of Total Expenditures	54.36%	57.94%
Purchased Services	\$189,350	\$175,933
% of Total Expenditures	11.82%	10.69%
All Other Expenditures	\$541,473	\$516,384
% of Total Expenditures	33.81%	31.37%
TOTAL NET POSITION	\$893,283 ¹	\$627,620
INVESTMENT IN CAPITAL ASSETS	\$21,094	\$23,474
¹ The FY 2015 beginning net position was restated by \$138,913 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 Deborah Niederhauser Currently: Honorable Jill Reis

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #1 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #1 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 #1 did not have sufficient internal controls over the financial reporting process. While the Regional Office maintains controls over the processing of most accounting transactions, there are 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. For example, during review of the Regional Office's accounting records, auditors noted the Regional Office's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

In addition, the Regional Office did not have adequate controls to record and report its net accrued pension liability/asset, deferred outflows and inflows of resources, and pension expense in accordance with GAAP. Proposed adjusting entries were approved and accepted by the Regional Office's management.

According to the ROE management, current funding levels are not adequate to hire and/or train accounting personnel in order to comply with these requirements. In addition, the complex requirements of GASB Statements No. 68 and No. 71 were new for fiscal year 2015 and will require additional time and training before the ROE can attempt to implement the requirements on its own. (Finding 2015-001, pages 11a-11b)

The auditors recommended that as part of its internal control over the preparation of financial statements, the Regional Office 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 #1 responded that it understands the nature of this finding and realizes this circumstance is not unusual in an organization of this size. The Regional Office will continue to seek qualified accounting expertise in developing procedures that will satisfy the pronouncements in financial statement preparation.

INTERNAL CONTROL OVER ACCOUNTING AND CLOSING TRANSACTIONS

The Regional Office of Education #1 did not have sufficient internal control over accounting and closing transactions.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over the Regional Office's accounting processes to prevent errors and fraud in reporting.

Auditors noted the following internal control weaknesses over the accounting and closing processes:

- A. The Regional Office records overhead and administrative costs in the general fund and allocates those costs as needed to the appropriate special revenue or other funds. Auditors noted several instances where administrative costs were appropriately recorded as expenditures in the fund that reimbursed the cost but the reimbursements were recorded as transfers into the General Fund, without a corresponding transfer out from the reimbursing fund, resulting in expenditures being overstated and interfund transfers being out of balance. In addition, an \$87,390 Pike County School Facility Occupation Tax payment was incorrectly coded as revenue in the General Fund, causing revenue to be overstated and interfund transfers to be out of balance.
- B. An Illinois Fund bank account was not appropriately recorded in the Regional Office's general ledger; \$7,830 was recorded as a receivable, and the remaining balance of \$9,466 was not recorded in the general ledger.
- C. The bank reconciliations were not reviewed and approved by an individual independent of the accounting function.
- D. Opening fund balances were not correctly allocated in the Education Fund programs and several of the General Fund accounts.

The Regional Office of Education #1 did not have sufficient internal controls over its accounting and closing processes to detect errors in its reporting. (Finding 2015-002, pages 11c-11d) **This finding was first reported in 2013.**

The auditors recommended the following:

- A. Administrative costs should be recorded in the fund that incurred the expenses. The associated transfer of cash to reimburse the fund that paid the costs should be recorded as an offset to the associated expenditure in the reimbursed fund.
- B. All assets of the Regional Office should be included in the Regional Office's general ledger to ensure complete and accurate financial reporting.
- C. Bank reconciliations should be reviewed by an individual independent of the accounting function.
- D. Opening fund balances should be compared to the prior year's ending fund balances to ensure accuracy and completeness after the prior year's financial close.

The Regional Office of Education #1 responded that it accepts this finding. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #1'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:JRB

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.

DIGEST FOOTNOTE

#1: Internal Control Over Accounting and Closing Transactions - Previous Regional Office Response

In its prior response in 2014, the Regional Office of Education responded that it accepts this finding.