



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #28**  
**BUREAU/HENRY/STARK COUNTIES**

FINANCIAL AUDIT (In Accordance with the Single Audit Act and OMB Circular A-133) Release Date: September 22, 2016  
 For the Year Ended: June 30, 2015

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	2	1	3	2007	15-1		
Category 2:	0	1	1	2014		15-3	
Category 3:	1	0	1				
TOTAL	3	2	5				
FINDINGS LAST AUDIT: 3							

**SYNOPSIS**

- (15-1) The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.
- (15-2) The Regional Office of Education #28 did not have sufficient internal controls over fund accounting.
- (15-3) The Regional Office of Education #28 did not have adequate controls over payroll.
- (15-4) The Regional Office of Education #28 had inadequate controls over disbursements.
- (15-5) The Regional Office of Education #28 had an untimely 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 #28**  
**BUREAU/HENRY/STARK COUNTIES**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act and OMB Circular A-133)**  
**For The Year Ended June 30, 2015**

	<b>FY 2015</b>	<b>FY 2014</b>
<b>TOTAL REVENUES</b>	\$3,304,667	\$3,133,596
Local Sources	\$238,088	\$481,446
% of Total Revenues	7.20%	15.36%
State Sources	\$1,265,669	\$1,044,104
% of Total Revenues	38.30%	33.32%
Federal Sources	\$1,800,910	\$1,608,046
% of Total Revenues	54.50%	51.32%
<b>TOTAL EXPENDITURES</b>	\$3,249,196	\$3,149,260
Salaries and Benefits	\$1,562,523	\$1,743,957
% of Total Expenditures	48.09%	55.38%
Purchased Services	\$486,382	\$239,929
% of Total Expenditures	14.97%	7.62%
All Other Expenditures	\$1,200,291	\$1,165,374
% of Total Expenditures	36.94%	37.00%
<b>TOTAL NET POSITION</b>	\$1,503,658 <sup>1</sup>	\$1,355,397
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$31,475	\$26,929
<sup>1</sup> The FY15 beginning net position was restated by \$92,790 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 Angela Zarvell
Currently: Honorable Angela Zarvell

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #28 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skill, and experience to prepare and/or thoroughly review GAAP based financial statements to ensure they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #28 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 and correct financial statement misstatements and disclosure omissions in a timely manner.

During review of the Regional Office of Education #28's financial information prepared by the Regional Office, auditors noted the Regional Office did not have adequate controls over the maintenance of records of cash, due from other governments, accounts payable, and due to other governments. While the Regional Office did maintain records to indicate the balances of these accounts, material audit adjustments, including those required under GASB Statements No. 34, No. 68, and No. 71 were proposed in order to ensure financial statement balances were accurate.

According to Regional Office officials, management did not effectively detect all of the material adjustments, including those required under GASB Statements No. 34, No. 68, and No. 71, needed in order to present financial statements in accordance with GAAP. (Finding 15-001, pages 14-15) **This finding was first reported in 2007.**

The auditors recommended that as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #28 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. These procedures should be performed by a properly trained individual

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 #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

### **CONTROLS OVER FUND ACCOUNTING**

#### **The Regional Office of Education #28 did not have sufficient internal controls over fund accounting.**

The Regional Office of Education #28 is required by the Illinois State Board of Education to maintain its accounting system in accordance with the Regional Office of Education Accounting Manual. The Manual requires the Regional Office to maintain an accounting system on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Regional Office of Education #28 did not ensure all holding accounts were cleared out, individual funds were self-balanced, and opening fund balance amounts agreed to the prior period closing fund balance amounts. Auditors specifically noted the following:

- Trial balance reports initially provided to auditors were not balanced in total. Additionally the individual funds were not self-balancing.
- Trial balance reports initially provided to auditors had unallocated balances in holding accounts and opening fund balance amounts did not agree to June 30, 2014 closing fund balance amounts. The Regional Office uses holding accounts for asset, liability, and fund balance accounts. Some transactions are initially posted to the holding accounts and subsequently allocated to financial statement accounts.

According to Regional Office officials, the Office recently purchased an accounting software package which provided the reporting features required for proper fund accounting. The

Regional Office is still in the process of transitioning to the new software and is making adjustments with the assistance of the software vendors as deficiencies are noted. (Finding 15-002, pages 16-17)

The auditors recommended the Regional Office of Education #28 should assign a member of management with suitable skills, knowledge, and experience to review its trial balance reports at regular intervals throughout the year. The Regional Office should ensure all holding accounts are cleared out, individual funds are self-balanced, and opening fund balance amounts agree to the prior period closing fund balance amounts.

The Regional Office of Education #28 responded that it acquired accounting software that will produce trial balances. The Regional Office noted the transition continues in order to meet the specific needs of the ROE and most recently, the system has been programmed to designate revenues and expenditures to the proper cash, liability, revenue, and fund balance accounts.

#### **INADEQUATE CONTROLS OVER PAYROLL**

#### **The Regional Office of Education #28 did not have adequate controls over payroll.**

The Regional Office of Education #28 is responsible for establishing and maintaining an internal control system over payroll expenditures to prevent errors and fraud.

Auditors noted that for 1 of 18 employees tested in the Twenty-First Century Community Learning Centers grant the employee's pay rate did not agree to the contracted amount. The employee's pay rate (\$9.00/hour) was not updated for the most recent pay increase (\$9.18/hour), so the employee was not receiving the full, contracted pay rate. Although the unpaid amount is inconsequential, this represents a break down in internal control.

According to Regional Office officials, the Office did not have proper internal controls in place to ensure the employee's pay rate agreed to the contracted amount. (Finding 15-003, pages 18-19)

The auditors recommended the Regional Office of Education #28 establish internal control procedures to ensure employees' pay rates used to calculate payroll expenditures agree to the contracted amounts. In addition, the Regional Office should calculate and pay the employee for amounts earned but not paid in previous pay periods.

The Regional Office of Education #28 responded that it has implemented a checks and balance system to prevent such occurrences involving payroll service providers.

## **INADEQUATE CONTROLS OVER DISBURSEMENTS**

### **The Regional Office of Education #28 had inadequate controls over disbursements.**

The Regional Office of Education #28 is responsible for establishing and maintaining an internal control system over disbursements to prevent errors and fraud.

Upon review of the internal control system auditors noted the following:

- For 2 of 50 expenditures tested, costs incurred for rent and payroll administration fees were not being allocated consistently among the Regional Office of Education's funds which include other state and federal grant programs. Additionally, review of expenditure detail indicated other similar shared expenses including postage meter rental and copier charges were not allocated consistently.
- For 2 of 50 expenditures tested, contractual services totaling \$60,000 were paid prior to obtaining formal verification from the vendor that the percentage paid was comparable to progress on the contract. Both expenditures related to the same contract which was signed by both the contractor and the Regional Superintendent; however, the contract was lacking the date of the Regional Superintendent's signature.
- Costs charged to Twenty-First Century Community Learning Centers programs for rent, payroll administration fees, postage meter rental, and copier charges totaled \$4,148 for fiscal year 2015. Costs charged to Mathematics and Science Partnerships for rent totaled \$7,500 for fiscal year 2015.
- The total amount for the contractual service agreement was \$100,000 and included service dates beginning April 10, 2015 through October 31, 2015.

The Regional Office of Education #28 did not have proper internal controls in place to ensure disbursements were properly authorized and allocated among the Regional Office's funds. (Finding 2015-004, pages 20-21)

Auditors recommended the Regional Office should establish internal control procedures to ensure disbursements are properly authorized and allocated among the Regional Office's funds.

The Regional Office responded that a cost allocation plan will be developed for indirect costs. All contractual agreements will have proper dates.

## **UNTIMELY EXPENDITURE REPORT**

**The Regional Office of Education #28 had an untimely expenditure report.**

The Regional Office of Education #28 is responsible for submitting timely expenditure reports to granting agencies.

Quarterly expenditure reports are due to the Illinois State Board of Education (ISBE) 20 calendar days following the end of the period. The first quarterly expenditure report for the Twenty-First Century Community Learning Centers project number 15-4421-13 was submitted 8 days late.

Upon review auditors noted 1 of 13 reports required for the Twenty-First Century Community Learning Centers project submitted was late. The amount reported for the untimely expenditure report totaled \$42,647.

According to Regional Office officials, the Regional Office unintentionally submitted the report late. (Finding 2015-005, pages 22-23)

Auditors recommended the Regional Office should ensure expenditure reports are filed timely to granting agencies.

The Regional Office of Education #28 responded that it will submit timely expenditure reports.

## **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #28'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:KJM

AUDITORS ASSIGNED: Winkel, Parker, & Foster, CPA PC 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 #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit.

### **#2: Inadequate Controls Over Payroll – Previous Regional Office Response**

In its prior response in 2014, the Regional Office of Education #28 responded that it has implemented a checks and balance system to prevent such occurrences involving payroll service providers.