STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE BOARD OF EDUCATION

Financial Audit
For the Year Ended June 30, 2017

Release Date: January 9, 2018

| FINDINGS THIS AUDIT: 1 | | | | AGING SCHEDULE OF REPEATED FINDINGS | | | | | | |
|------------------------|-----|--------|--------------|-------------------------------------|------------|------------|------------|--|--|--|
| | New | Repeat | <u>Total</u> | Repeated Since | Category 1 | Category 2 | Category 3 | | | |
| Category 1: | 1 | 0 | 1 | | | | | | | |
| Category 2: | 0 | 0 | 0 | | | | | | | |
| Category 3: | 0 | 0 | 0 | No Repeat Findings | | | | | | |
| TOTAL | 1 | 0 | 1 | | | | | | | |
| | | | | | | | | | | |
| FINDINGS LAST AUDIT: 0 | | | | | | | | | | |

INTRODUCTION

This report contains only results pertaining to the Financial Statement Audit and agreed-upon procedures for the Illinois State Board of Education (Agency) for the year ended June 30, 2017. Our next engagement will include a financial audit for the year ended June 30, 2018 and a compliance examination for the two years ending June 30, 2018.

SYNOPSIS

• (17-001) The Agency's financial statements were materially misstated due to an overaccrual of liabilities.

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 noncompliance with State laws and regulations.

Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

ILLINOIS STATE BOARD OF EDUCATION FINANCIAL AUDIT

For the Year Ended June 30, 2017

| PROGRAM REVENUES Content Summer Content Conten | Statement of Governmental Revenues, Expenditures | | | | | |
|--|--|---------|-----------|---------|-------------|--|
| General Fund. | and Changes in Fund Balances (In Thousands) | I | FY 2017 | | FY 2016 | |
| Other Funds 2,303,687 2,334,171 Total Program Revenues 2,303,688 2,334,172 EXPENDITURES 6,320,025 6,540,148 Goher Funds 2,575,261 2,802,373 Total Expenditures 8,895,286 9,342,521 GENERAL REVENUES 264 153 OTHER SOURCES (USES) 7,521,029 7,032,927 Lapsed appropriations from State resources 3,564 (40,922 Receipts collected and transmitted to State Treasury (6,517) (4,086 Reappropriations to Fiscal Year 2018 (4,391) (4,391) Transfers-out 27 - Capital lease financing 55 (60,876) Net Other Sources (Uses) of Financial Resources 7,479,284 6,919,652 CHANGE IN FUND BALANCES \$ 887,950 \$ (88,544) CHANGE IN FUND BALANCES \$ 17,785 \$ 21,629 Accounts receivable (includes State and other governments) 364,744 393,753 All other assets \$ 1,270,512 569,481 Total Assets \$ 1,653,041 \$ 984,863 | PROGRAM REVENUES | | | | | |
| Total Program Revenues | General Fund | \$ | 1 | \$ | 1 | |
| Commonstrates | Other Funds | | 2,303,687 | | 2,334,171 | |
| General Fund | Total Program Revenues | | 2,303,688 | | 2,334,172 | |
| Other Funds 2,575,261 2,802,373 Total Expenditures 8,895,286 9,342,521 GENERAL REVENUES 264 153 OTHER SOURCES (USES) 7,521,029 7,032,927 Lapsed appropriations from State resources 7,521,029 7,032,927 Lapsed appropriations (30,564) (40,922 Receipts collected and transmitted to State Treasury (6,517) (4,086 Reappropriations to Fiscal Year 2018 (4,391) (4,391) Transfers-out 27 | EXPENDITURES | | | | | |
| Total Expenditures | General Fund | | 6,320,025 | | 6,540,148 | |
| GENERAL REVENUES 264 153 OTHER SOURCES (USES) Appropriations from State resources 7,521,029 7,032,927 Lapsed appropriations (30,564) (40,922 Receipts collected and transmitted to State Treasury (6,517) (4,086 Reappropriations to Fiscal Year 2018 (4,391) (4,391) (4,391) Transfers-out (355) (3,006 Amount of SAMS Transfers-out 27 | Other Funds | | 2,575,261 | | 2,802,373 | |
| OTHER SOURCES (USES) Appropriations from State resources. 7,521,029 7,032,927 Lapsed appropriations. (30,564) (40,922 Receipts collected and transmitted to State Treasury. (6,517) (4,086 Reappropriations to Fiscal Year 2018. (4,391) (4,391 Transfers-out. (355) (3,000 Amount of SAMS Transfers-out. 27 27 Capital lease financing. 55 (60,876 Net Other Sources (Uses) of Financial Resources. 7,479,284 6,919,652 CHANGE IN FUND BALANCES. \$ 887,950 \$ (88,544) Governmental Funds Balance Sheet FY 2017 FY 2016 ASSETS FY 2017 FY 2016 ASSETS 21,629 Accounts receivable (includes State and other governments). 364,744 393,753 All other assets. 1,270,512 569,481 Total Assets. \$ 1,053,041 \$ 984,863 LIABILITIES Accounts payable and accrued liabilities. \$ 100,199 \$ 66,098 Due to local governments. 2,305,821 2,575,091 All other liabi | Total Expenditures | | 8,895,286 | | 9,342,521 | |
| Appropriations from State resources 7,521,029 7,032,927 Lapsed appropriations (30,564) (40,922 Receipts collected and transmitted to State Treasury (6,517) (4,086 Reappropriations to Fiscal Year 2018 (4,391) (4,391) Transfers-out. (355) (3,000 Amount of SAMS Transfers-out. 27 Capital lease financing 55 (60,876 Net Other Sources (Uses) of Financial Resources 7,479,284 (6,919,652) CHANGE IN FUND BALANCES \$887,950 \$ (88,544) Governmental Funds Balance Sheet (In Thousands) Fy 2017 Fy 2016 ASSETS Cash and cash equivalents. \$ 17,785 \$ 21,629 Accounts receivable (includes State and other governments) 364,744 393,753 All other assets. \$ 1,270,512 569,481 Total Assets. \$ 1,653,041 \$ 984,863 LIABILITIES Accounts payable and accrued liabilities \$ 100,199 \$ 66,098 Due to local governments. \$ 2,305,821 2,575,091 All other liabilities. 26,126 20,161 Total liabilities. 24,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES. \$ 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION | GENERAL REVENUES | | 264 | | 153 | |
| Appropriations from State resources 7,521,029 7,032,927 Lapsed appropriations (30,564) (40,922 Receipts collected and transmitted to State Treasury (6,517) (4,086 Reappropriations to Fiscal Year 2018 (4,391) (4,391) Transfers-out. (355) (3,000 Amount of SAMS Transfers-out. 27 Capital lease financing 55 (60,876 Net Other Sources (Uses) of Financial Resources 7,479,284 (6,919,652) CHANGE IN FUND BALANCES \$887,950 \$ (88,544) Governmental Funds Balance Sheet (In Thousands) Fy 2017 Fy 2016 ASSETS Cash and cash equivalents. \$ 17,785 \$ 21,629 Accounts receivable (includes State and other governments) 364,744 393,753 All other assets. \$ 1,270,512 569,481 Total Assets. \$ 1,653,041 \$ 984,863 LIABILITIES Accounts payable and accrued liabilities \$ 100,199 \$ 66,098 Due to local governments. \$ 2,305,821 2,575,091 All other liabilities. 26,126 20,161 Total liabilities. 24,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES. \$ 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION | OTHER SOURCES (USES) | | | | | |
| Lapsed appropriations | Appropriations from State resources | | 7,521,029 | | 7,032,927 | |
| Reappropriations to Fiscal Year 2018 | | | (30,564) | | (40,922) | |
| Transfers-out (355) (3,000 Amount of SAMS Transfers-out 27 | Receipts collected and transmitted to State Treasury | | (6,517) | | (4,086) | |
| Amount of SAMS Transfers-out | Reappropriations to Fiscal Year 2018 | | (4,391) | | (4,391) | |
| Capital lease financing 55 (60,876) Net Other Sources (Uses) of Financial Resources 7,479,284 6,919,652 CHANGE IN FUND BALANCES \$ 887,950 \$ (88,544) Governmental Funds Balance Sheet (In Thousands) FY 2017 FY 2016 ASSETS Cash and cash equivalents \$ 17,785 \$ 21,629 Accounts receivable (includes State and other governments). 364,744 393,753 All other assets 1,270,512 569,481 Total Assets \$ 1,653,041 \$ 984,863 LIABILITIES Accounts payable and accrued liabilities \$ 100,199 \$ 66,098 Due to local governments 2,305,821 2,575,091 All other liabilities 26,126 20,161 Total liabilities 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) | Transfers-out | | (355) | | (3,000) | |
| Net Other Sources (Uses) of Financial Resources 7,479,284 6,919,652 | Amount of SAMS Transfers-out | | 27 | | - | |
| CHANGE IN FUND BALANCES \$ 887,950 \$ (88,544) Governmental Funds Balance Sheet (In Thousands) FY 2017 FY 2016 ASSETS Total as and cash equivalents \$ 17,785 \$ 21,629 Accounts receivable (includes State and other governments) 364,744 393,753 All other assets 1,270,512 569,481 Total Assets \$ 1,053,041 \$ 984,863 LIABILITIES Accounts payable and accrued liabilities \$ 100,199 \$ 66,098 Due to local governments 2,305,821 2,575,091 All other liabilities 26,126 20,161 Total liabilities 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION \$ (863,059) \$ (1,751,895) | Capital lease financing | | 55 | | (60,876) | |
| Governmental Funds Balance Sheet (In Thousands) FY 2017 FY 2016 ASSETS Total counts receivable (includes State and other governments) | Net Other Sources (Uses) of Financial Resources | | 7,479,284 | | 6,919,652 | |
| In Thousands) FY 2017 FY 2016 ASSETS Cash and cash equivalents | CHANGE IN FUND BALANCES | \$ | 887,950 | \$ | (88,544) | |
| In Thousands) FY 2017 FY 2016 ASSETS Cash and cash equivalents | Governmental Funds Balance Sheet | | | | | |
| Cash and cash equivalents \$ 17,785 \$ 21,629 Accounts receivable (includes State and other governments) 364,744 393,753 All other assets 1,270,512 569,481 Total Assets \$ 1,653,041 \$ 984,863 LIABILITIES Accounts payable and accrued liabilities \$ 100,199 \$ 66,098 Due to local governments 2,305,821 2,575,091 All other liabilities 26,126 20,161 Total liabilities 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION | (In Thousands) | FY 2017 | | FY 2016 | | |
| Accounts receivable (includes State and other governments) | ASSETS | | | | | |
| All other assets | Cash and cash equivalents | \$ | 17,785 | \$ | 21,629 | |
| Total Assets | Accounts receivable (includes State and other governments) | | 364,744 | | 393,753 | |
| LIABILITIES Accounts payable and accrued liabilities | All other assets | | 1,270,512 | | 569,481 | |
| Accounts payable and accrued liabilities \$ 100,199 \$ 66,098 Due to local governments 2,305,821 2,575,091 All other liabilities 26,126 20,161 Total liabilities 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION | Total Assets | \$ | 1,653,041 | \$ | 984,863 | |
| Due to local governments. 2,305,821 2,575,091 All other liabilities. 26,126 20,161 Total liabilities. 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES. 83,954 75,408 TOTAL FUND DEFICIT. \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION | LIABILITIES | | | | | |
| Due to local governments. 2,305,821 2,575,091 All other liabilities. 26,126 20,161 Total liabilities. 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES. 83,954 75,408 TOTAL FUND DEFICIT. \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION | Accounts payable and accrued liabilities | \$ | 100,199 | \$ | 66,098 | |
| All other liabilities 26,126 20,161 Total liabilities 2,432,146 2,661,350 DEFERRED INFLOWS OF RESOURCES 83,954 75,408 TOTAL FUND DEFICIT \$ (863,059) \$ (1,751,895) STATE SUPERINTENDENT OF EDUCATION \$ (863,059) \$ (1,751,895) | * • | • | · | • | 2,575,091 | |
| Total liabilities | | | • | | 20,161 | |
| TOTAL FUND DEFICIT | Total liabilities | | 2,432,146 | | 2,661,350 | |
| STATE SUPERINTENDENT OF EDUCATION | DEFERRED INFLOWS OF RESOURCES | | 83,954 | | 75,408 | |
| | TOTAL FUND DEFICIT | \$ | (863,059) | \$ | (1,751,895) | |
| During Audit Period and Currently: Dr. Tony Smith, Ph.D. | STATE SUPERINTENDENT OF EDUCATION | | | | | |
| | During Audit Period and Currently: Dr. Tony Smith, Ph.D. | | | | | |

FINDING, CONCLUSION, AND RECOMMENDATION

FINANCIAL STATEMENT REPORTING ERROR

\$94.2 million misstatement of liabilities

The Illinois State Board of Education's financial statements were materially misstated due to an overaccrual of liabilities. The \$94.2 million misstatement related to fiscal year 2018 expenditures for grant programs that were incorrectly included in the fiscal year 2017 liability. Agency personnel corrected the misstatement after it was identified during the audit. (Finding 1, pages 52-53)

We recommended the Agency exercise due care when performing internal control procedures to assess the risk of material misstatements of the Agency's financial statements and to identify such misstatements during the financial statement preparation and review process.

Management agreed with the finding and responded they will incorporate questions into the detailed checklists utilized when preparing and reviewing Agency GAAP packages.

Agency agrees with auditors

AUDITOR'S OPINION

The auditors stated the financial statements of the Agency as of and for the year ended June 30, 2017 are fairly stated in all material respects.

This financial audit was conducted by Kerber, Eck & Braeckel LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO Auditor General

FJM:lkw