



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #17
DEWITT, LIVINGSTON, LOGAN AND MCLEAN COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2019

Release Date: August 13, 2020

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2018			19-1
Category 2:	1	1	2	2018		19-2	
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>				
TOTAL	1	2	3				
FINDINGS LAST AUDIT: 3							

SYNOPSIS

- **(19-1)** The Regional Office of Education #17 did not provide financial statements in an auditable form by the August 31 deadline.
- **(19-2)** The Regional Office of Education #17 did not have adequate internal control procedures.
- **(19-3)** The Regional Office of Education #17 did not maintain adequate controls to ensure external service providers' internal controls were reviewed.

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 #17
DEWITT, LIVINGSTON, LOGAN AND MCLEAN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2019

	FY 2019	FY 2018
TOTAL REVENUES	\$5,521,086	\$5,825,199
Local Sources	\$1,138,874	\$1,513,794
% of Total Revenues	20.63%	25.99%
State Sources	\$3,824,848	\$3,660,515
% of Total Revenues	69.28%	62.84%
Federal Sources	\$557,364	\$650,890
% of Total Revenues	10.10%	11.17%
TOTAL EXPENDITURES	\$6,030,297	\$6,449,587
Salaries and Benefits	\$4,422,099	\$5,079,524
% of Total Expenditures	73.33%	78.76%
Purchased Services	\$1,098,599	\$764,590
% of Total Expenditures	18.22%	11.85%
All Other Expenditures	\$509,599	\$605,473
% of Total Expenditures	8.45%	9.39%
TOTAL NET POSITION	\$(1,089,021)	\$(579,810)
INVESTMENT IN CAPITAL ASSETS	\$408,393 ¹	\$419,039
¹ Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Mark Jontry Currently: Honorable Mark Jontry

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

DELAY OF AUDIT

The Regional Office of Education #17 did not provide financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #17 (ROE) did not provide completed financial statements in an auditable form by the August 31st due date. Initial financial statements were provided on October 28, 2019, but subsequent revisions were made, and final statements were provided on November 22, 2019.

The Regional Office 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 30th 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 Governmental 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).

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

ROE management indicated it experienced key fiscal employee turnover during the year and contracted with an accounting firm later after the fiscal year ended to meet the August 31st due date for financial reports to be available to auditors. (Finding 19-001, pages 11 – 12)

The auditors recommended the ROE 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. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

ROE Response: *The ROE recognizes the importance of providing financial statements in a timely manner to prevent delays in the audit process. The ROE indicated that it experienced key fiscal employee turnover during the year and contracted with an accounting firm after the fiscal year ended to meet the August 31st due date for financial reports to be available for the auditors.*

Going forward, the ROE will ensure that any future turnover will not impede the ability to meet prescribed deadlines to its fullest ability. The ROE's plan includes:

- *The Regional Office has implemented procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements will be compiled on an accrual basis of accounting in accordance with GAAP and presented to the Auditor General's independent auditors for audit by the August 31 deadline.*

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #17 did not have adequate internal control procedures.

The Regional Superintendent of Schools did not have adequate internal control procedures in place to for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

In addition, the *Regional Office of Education (ROE) Accounting Manual* requires each ROE to maintain detailed fixed asset records for both accounting purposes as well as insurance purposes, for fixed assets costing \$500 or more. Generally accepted accounting principles (GAAP) require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

The ROE Accounting Manual also states that the fixed asset inventory records should include: the inventory control number (tag number); major asset class; function and activity; reference to the acquisition source document; acquisition date; vendor; short description of the asset; unit charged with custody; location; fund and account from which purchased; method of acquisition; estimated useful life and method of depreciation; estimated salvage value; and date, method, and authorization of disposition.

In addition, sound internal controls require that policies and procedures on fixed assets should cover acquisition and tagging, recording and reporting, depreciation (if applicable), transfers and dispositions, and annual physical inventory, and that they should be formally documented and consistently applied.

Auditors noted the following weaknesses in the Regional Office of Education #17's (ROE) internal control system for which there were no mitigating controls:

- Quarterly expenditure reports (8 of 20) were not filed by the due date.
- The ROE did not include all capital additions on the asset schedule. In addition, the ROE did not consistently tag all assets with asset tags to ensure complete accounting and monitoring of capital assets.
- The ROE did not perform proper cut-off procedures for professional development fees revenues. Auditors noted fees collected in FY19 totaling \$3,295 for events occurring in FY20 but recognized as revenues in FY19. Auditors also noted fees collected in FY20 totaling \$593 for events that occurred in FY19 that were not accrued at year end.

Regional Office management indicated it experienced key fiscal employee turnover during the year and competing priorities resulted in internal control procedures not being adhered to. (Finding 19-002, pages 13 – 15)

The auditors recommended the Regional Office should monitor reporting deadlines and file the required expenditure reports timely. In addition, the ROE should assign responsibility to one individual to ensure that the capital assets are tagged, schedules are regularly maintained, and current year activity is periodically reconciled to the capital asset listing. An inventory count should be taken periodically and compared to the items on the capital asset list, and significant differences investigated. The fixed asset listing should be completed to include all the details required by the ROE Accounting Manual.

The auditors also recommended the ROE should implement cut-off procedures at year-end for revenues and expenses. In addition, year-end cut-off entries for accruals and deferrals should be reviewed to ensure they are complete and charged to the correct fiscal year.

ROE Response: *The Regional Office understands the importance of meeting reporting deadlines. The ROE will monitor reporting deadlines and file the required expenditures reports on or before the date that they are due.*

The ROE's plan includes:

- *Responsibility has been assigned to one individual to ensure that the capital assets are tagged, schedules are regularly maintained, and current year activity is periodically reconciled to the capital asset listing.*

- *An inventory count will be taken periodically and compared to the items on the capital asset list, and significant differences investigated. The fixed asset listing should be completed to include all the details required by the ROE Accounting Manual.*
- *The ROE has implemented cut-off procedures at year-end for revenues and expenses. In addition, year-end cut-off for accruals and deferrals will be reviewed to ensure they are complete and are charged to the correct fiscal year.*

LACK OF ADEQUATE CONTROLS OVER THE REVIEW OF INTERNAL CONTROLS OVER EXTERNAL SERVICE PROVIDERS

The Regional Office of Education #17 did not maintain adequate controls to ensure external service providers' internal controls were reviewed.

The Regional Office of Education #17 did not maintain adequate controls to ensure external service providers' internal controls were reviewed.

The Regional Office of Education #17 (ROE) is responsible for the design, implementation and maintenance of internal controls, including the controls that are outsourced to service providers, related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction.

Generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

As part of the audit process, auditors requested the ROE provide a population of the service providers utilized. The ROE was able to identify service providers that provided various hosting and backup services for the ROE.

During testing, the auditors noted the ROE had not:

- Developed a formal process for identifying service providers and obtaining the Service Organization Controls (SOC) reports from the service providers on an annual basis.
- Documented its reviews of each of the SOC reports.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) relevant to the ROE's operations.
- Obtained and reviewed SOC reports for subservice organizations or performed alternative procedures to determine the impact on its internal control environment.

Regional Office officials indicated they understand the importance of a formal process to monitor service providers; however, the ROE has not completed a policy to address the issues due to other priorities. (Finding 19-003, pages 16 – 17)

The auditors recommended the ROE identify all third-party service providers and determine and document if a review of controls is required. If required, the ROE should:

- Obtain SOC reports (or perform independent reviews) of internal controls associated with outsourced systems at least annually.
- Monitor and document the operation of the CUECs relevant to the ROE's operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the ROE, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

ROE Response: *The ROE understands the need to obtain assurance from external providers and their subservice organizations that their internal controls are adequate relative to SOC's and CUECs. The ROE's plan includes:*

- *Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.*
- *Monitor and document the operation of the CUECs relevant to the ROE's operations.*
- *Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.*
- *Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the ROE, and any compensating controls.*
- *Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #17's financial statements as of June 30, 2019 are fairly presented in all material respects.

This financial audit was conducted by the firm of Adelfia LLC.

SIGNED ORIGINAL ON FILE

JOE BUTCHER
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

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