



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #45
MONROE AND RANDOLPH COUNTIES

FINANCIAL AUDIT (In Accordance with the
 Uniform Guidance)
 For the Year Ended: June 30, 2018

Release Date: May 30, 2019

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

SYNOPSIS

- **(18-1)** The Regional Office of Education #45 did not have sufficient internal controls over the financial reporting process.
- **(18-2)** The Regional Office of Education #45 did not provide completed financial statements in the appropriate format by the August 31 deadline.

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 #45
MONROE AND RANDOLPH COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$2,858,584	\$2,196,609
Local Sources	\$556,284	\$475,036
% of Total Revenues	19.46%	21.63%
State Sources	\$1,208,143	\$1,030,865
% of Total Revenues	42.26%	46.93%
Federal Sources	\$1,094,157	\$690,708
% of Total Revenues	38.28%	31.44%
TOTAL EXPENDITURES		
Salaries and Benefits	\$1,405,259	\$1,691,716
% of Total Expenditures	51.37%	73.21%
Purchased Services	\$428,869	\$236,108
% of Total Expenditures	15.68%	10.22%
All Other Expenditures	\$901,305	\$383,063
% of Total Expenditures	32.95%	16.58%
TOTAL NET POSITION		
	\$(373,143) ¹	\$25,122
INVESTMENT IN CAPITAL ASSETS		
	\$30,956	\$30,615
¹ The FY 2018 beginning net position was restated by (\$521,416) due to a prior period adjustment for new reporting requirements for other postemployment benefits. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Kelton Davis Currently: Honorable Kelton Davis

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #45 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #45 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintained its accounting records on the cash basis of accounting during the fiscal year and posted year-end accrual entries for financial statement purposes. While the ROE maintained controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of the generally accepted accounting principles (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.

The ROE is required to maintain a system of controls over the preparation of financial statements in accordance with GAAP. The ROE'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).

During review of the ROE's accounting records, auditors noted the following:

- The ROE did not have adequate controls over the maintenance of complete records of receivables, payables, and unavailable revenue. While the ROE did maintain records to indicate the balances of these items, not all entries were provided to properly report the ROE's balances and activity.
- Numerous other adjustments were required to present financial statements in accordance with GAAP.

According to Regional Office management, ROE personnel overlooked recording the entries for the receivables, payables, and unavailable revenue when adjusting the trial balances to the modified accrual basis of accounting at year-end. (Finding 18-001, pages 12-13)

The auditors recommended that as part of its internal control over the preparation of financial statements, the ROE should implement comprehensive preparation procedures to ensure the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of applicable

GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *The comptroller for the ROE shall increase the frequency of internal controls for receivables, payables, and unavailable revenue when the grant period is not congruent with the fiscal year's end. Specifically, additional reviews will be made in June for federal grants ending after July 1st.*

In addition, we have hired a CPA firm to prepare our financial statements which will include a review of receivables, payables, and unavailable revenue.

DELAY OF AUDIT

The Regional Office of Education #45 did not provide completed financial statements in the appropriate format by the August 31 deadline.

The Regional Office of Education #45 (ROE) did not provide completed financial statements in the appropriate format by the August 31 deadline.

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.

According to Regional Office management, they were not aware of the August 31 deadline. In addition, the ROE's

accounting department experienced turnover a few months prior to year-end, resulting in additional time needed for training new personnel while trying to close the books and prepare for the audit. (Finding 18-002, pages 14-17)

The auditors recommend that 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 rules promulgated by the Auditor General in section 420.320 as authorized in 105 ILCS 5/2-3.17a has resulted in multiple interpretations and leaves the ROE with more questions than answers in order to assure the explicit adherence to regulations and best practices. Presently the ROE employs multiple accounting firms in preparation and response to the audit conducted through the Auditor General's office. Specific questions with varying interpretation address the following subsection of Part 420 Subsection (c):*

c) Specific standards for audits of regional offices of education and education service centers conducted pursuant to Section 2-3.17a of the School Code [105 ILCS 5/2-3.17a]. By statute, this Section does not apply to an educational service center serving a school district in a city having a population exceeding 500,000.

*1) "Books and records" as used in this subsection (c) means all **financial statements**, fiscal documents, vouchers for distributions, records of cash receipts, records of obligation and expenditure of funds, records of accounts and funds, journals, ledgers and subsidiary records of the ledgers, computer programs and data files integral to records of funds and accounts in the care, custody or control of the regional superintendent of schools or education service center, and required for the purpose of enabling the Auditor General to perform the audits required by Section 2-3.17a of the School Code. The regional office of education and educational service center shall maintain records in accordance with this subsection (c), as applicable. **Financial records** shall be maintained on either a cash or accrual basis of accounting. However, supporting information must be maintained to*

- allow **preparation** of an accrual statement as required by subsection (c)(2).
- 2) For audit purposes, each regional office of education and educational service center subject to audit by the Auditor General shall make available to the Auditor General or its designee all books and records during regular business hours on such days in each fiscal year as the Auditor General or its designee shall deem necessary to make and complete the required audits. **The records shall be completed in auditable form by August 15 of the succeeding fiscal year.** **Financial reports** are to be available no later than **August 31** in order that the annual audit may be done 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.
- 3) Each regional office of education and educational service center subject to audit by the Auditor General shall make available the books and records necessary to make the required audit by providing to the Auditor General or its designee full, complete and unrestricted access to those books and records and to those persons who may have prepared, reviewed, reported on or otherwise have knowledge of them.

In subsection (c)(1) the definition of “books and records” includes the term “financial statements”. Later in the subsection the term “Financial Records” is separately addressed as being either cash or accrual. Worth noting is the final sentence reflects that these records will be used for the “preparation” of an “accrual statement”.

In subsection (c)(2) the Regional Office of Education supplied all requested materials prior to the onsite audit in a timely manner evidenced by the requests and submissions recorded within the Auditor General’s website. Additionally, the administrative code introduces another term “Financial reports” and the deadline for these reports by August 31st. Finally, the term “Annual financial statements” concludes the subsection and that these statements shall be on an accrual basis.

As the rule specify “financial statements”, “Financial Records”, “accrual statement”, “Financial Reports”, and

“Annual financial statements” we interpret these as separate documents with unique requirements and time frames in which they are to be available and when they are to be generated. Furthermore, we are seeking legal opinion as the strict definition of these terms as no Certified Public Accountant or firm has been able to provide specific definitions that delineate the similarities and differences among these terms.

The Regional Office of Education shall expedite the preparation of all “financial statements”, “Financial Records”, “accrual statement”, “Financial Reports”, and “Annual financial statements” in order to enable the Auditor General to perform the audits required by Section 2-3.17a of the School Code. We have hired a CPA firm to prepare our financial statements prior to August 31st.

Auditors’ Comment: *The requirement that the regional offices of education be audited was added to the statutes by P.A. 84-920, effective January 1, 1986. At that time, the responsibility for causing the audits to be made was given to the State Board of Education. The State Board of Education adopted rules implementing this requirement which were codified in the Illinois Administrative Code at Title 23, Section 110.115.*

*In 2002, the General Assembly transferred the responsibility for causing the audits of the regional offices to be made from the State Board of Education to the Auditor General’s Office (P.A. 92-544, effective June 12, 2002). The Auditor General’s Office adopted rules implementing this requirement which were codified in the Illinois Administrative Code at Title 74, Section 420.320. The rules adopted by the Auditor General’s Office **mirror** the language that had previously been contained in the State Board of Education’s rules. All of the terms that ROE 45 now expresses confusion over were previously in the State Board of Education’s rules and were adopted in the Auditor General’s rules when the responsibility for ROE audits was transferred to us in 2002.*

Since the administrative rules have remained consistent for over thirty years, we would expect the ROE would be well aware of its responsibilities regarding the type of information to be submitted to the external auditors as well as the deadline for those submissions. At any rate, ROE 45 has never expressed any confusion over these terms to the Auditor General’s Office during the 17 years during which we have been conducting the audit. We would encourage ROE 45 to clarify with our Office any questions it may have regarding its responsibilities so that future audits will not be delayed.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #45's financial statements as of June 30, 2018 are fairly presented in all material respects.

This financial audit was conducted by the firm of West & Company, LLC.

SIGNED ORIGINAL ON FILE

KELLY MITTELSTAEDT
Audit Manager

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:JRB