



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #56
WILL COUNTY

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

Release Date: July 28, 2016

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2010	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 2	<u>Repeat</u> 1	<u>Total</u> 3	15-1			
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	3	1	4				
FINDINGS LAST AUDIT: 3							

SYNOPSIS

- (15-1) The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.
- (15-2) The Regional Office of Education #56 had inadequate internal control procedures over journal entries.
- (15-3) The Regional Office of Education #56 did not have sufficient internal controls over the financial accounting system.
- (15-4) The Regional Office of Education #56 was noncompliant with grant requirements.

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 #56
WILL COUNTY

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

	FY 2015	FY 2014
TOTAL REVENUES	\$4,938,800	\$4,999,378
Local Sources	\$1,597,950	\$1,508,790
% of Total Revenues	32.36%	30.18%
State Sources	\$2,239,672	\$2,217,920
% of Total Revenues	45.35%	44.36%
Federal Sources	\$1,101,178	\$1,272,668
% of Total Revenues	22.30%	25.46%
TOTAL EXPENDITURES	\$4,925,193	\$5,275,897
Salaries and Benefits	\$3,009,197	\$2,972,914
% of Total Expenditures	61.10%	56.35%
Purchased Services	\$1,243,476	\$1,750,251
% of Total Expenditures	25.25%	33.17%
All Other Expenditures	\$672,520	\$552,732
% of Total Expenditures	13.65%	10.48%
TOTAL NET POSITION	\$5,363,083 ¹	\$5,166,451
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
<p>¹The FY 2015 beginning net position was restated by \$171,886 due to a prior period adjustment for new reporting requirements for pensions and \$11,139 of interest in the distributive fund from prior periods was reclassified as a General Fund account.</p> <p>Percentages may not add due to rounding.</p>		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Shawn T. Walsh Currently: Honorable Shawn T. Walsh

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.

The Will County Regional Office of Education #56 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 of Education #56'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 #56 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of 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.

During review of the Regional Office of Education #56's financial information prepared by the Regional Office, auditors noted the Regional Office's financial information required material adjusting entries to accounts receivable, accounts payable, accrued payroll, and unearned revenue in order to present its financial statements in accordance with GAAP. In addition, the Regional Office did not have adequate controls to record and report the Regional Office's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP. Proposed adjusting entries were approved and accepted by Regional Office management.

According to Regional Office officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. Also, 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 fully implement the requirements on its own. (Finding 2015-001, pages 14a-14b) **This finding was first reported in 2010.**

The auditors recommended that as part of its internal control over the preparation of financial statements, the Regional Office of Education #56 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education #56's activities and operations.

The Regional Office of Education #56 responded that it accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region.

Also, the Regional Office responded it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

INADEQUATE INTERNAL CONTROL PROCEDURES OVER JOURNAL ENTRIES

The Regional Office of Education #56 had inadequate internal control procedures over journal entries.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

Of 19 journal entries examined, three entries (16%) related to reversing prior year accruals were posted incorrectly; two entries (11%) were not supported by adequate documentation and auditors could not determine the validity of the entries; and six entries (32%) examined had no evidence of review by someone independent of the general ledger process.

The Regional Office of Education #56 has not established or documented sufficient internal control procedures over journal entries. (Finding 2015-002, page 14c)

The auditors recommended that all journal entries should be appropriate and be accompanied by supporting documentation and have documented review and approval by someone independent of the general ledger processes.

The Regional Office of Education #56 responded that it will develop procedures to ensure all journal entries are accompanied by supporting documentation and have documented review and approval by someone independent of the general ledger processes.

CONTROLS OVER FINANCIAL ACCOUNTING SYSTEM

The Regional Office of Education #56 did not have sufficient internal controls over the financial accounting system.

The Will County Regional Office of Education #56 is required by the Illinois State Board of Education (ISBE) to maintain its accounting system in accordance with the Regional Office of Education Accounting Manual (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. These funds 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's current accounting system for the Professional Development Alliance (PDA) does not allow the Regional Office to maintain accounting information in accordance with the Manual. The auditors were given various reports from the PDA's accounting system, as well as spreadsheets maintained outside of its accounting system to utilize in determining the individual program and fund trial balance information. In many instances, the information between the system and spreadsheets did not agree. The Regional Office was also unable to provide a report of an individual account's detailed transactions for the fiscal period. The detail had to be reconstructed from segments of information from multiple reports.

In addition, when the initial reports provided to the auditors were aggregated into individual program and fund trial balances, the current year fund balances did not roll forward correctly from the prior year's closing fund balance and one fund was out of balance by \$776.

According to the PDA Bookkeeper, the accounting software is an older and outdated version that often times produces corrupt reports that cannot be relied upon; therefore, the PDA has been tracking and reporting activity manually in spreadsheets. (Finding 2015-003, pages 14d-14e)

Auditors recommended that the Regional Office should acquire fund accounting software sufficient for the PDA to account for its accounting activity in accordance with the Regional Office of Education Accounting Manual.

The Regional Office responded that it will acquire fund accounting software sufficient for the PDA to account for its accounting activity in accordance with the Regional Office of Education Accounting Manual.

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Regional Office of Education #56 was noncompliant with grant requirements.

The Will County Regional Office of Education #56 must comply with grant accounting and reporting requirements established by grant agreements with the Illinois State Board of Education (ISBE) and other grantors in addition to the requirements established by ISBE's fiscal policies and procedures for grantees. Specifically, quarterly expenditure reports are due by the 20th of the month following the end of each quarterly reporting period. Also, among these requirements are accurate, current, and complete disclosure of grant financial activity and an amended program budget if an expenditure line item exceeds the budgeted amount by the greater of \$1,000 or 20%.

Auditors noted:

- A. The Title I – School Improvement and Accountability grant expenditure report for the 6/30/2015 quarterly reporting period, which was due 7/20/2015, was not filed until 7/27/2015.
- B. An expenditure report submitted for the Truants Alternative Optional Education Program (TAOEP) did not agree to the expenditures recorded in the Regional Office's accounting records. Salaries and benefits were understated \$355, purchased services were overstated \$4,693, and supplies and materials were understated \$4,315.
- C. Expenditures for supplies and materials in the Truants Alternative and Optional Education Program exceeded the budgeted amount by more than ISBE's permitted threshold; however, an amended program budget was not submitted to ISBE.

According to Regional Office officials:

- A. There was a lack of oversight of the reporting process for the Title I – School Improvement and Accountability grant.
- B. The TAOEP expenditure report and budgetary comparison were prepared based on budgeted amounts and not prepared using information obtained from the Regional Office's accounting system.
- C. The TAOEP expenditure report and budgetary comparison

were prepared based on budgeted amounts and not prepared using information obtained from the Regional Office's accounting system. (Finding 2015-004, pages 15a-15c)

Auditors recommended that:

A. The Regional Office of Education #56 should implement internal control procedures to ensure quarterly expenditure reports are filed in a timely manner.

B. Grant reports that disclose financial information should be prepared using current and accurate financial data based on reports obtained from the Regional Office's accounting system.

C. Budgets should be amended and submitted to the granting agency whenever expenditures of a line item exceed thresholds established by the grantor.

The Regional Office of Education #56 responded that it will develop procedures to ensure:

A. The Regional Office will implement internal control procedures to ensure quarterly expenditure reports are filed in a timely manner.

B. Grant reports that disclose financial information are prepared using current and accurate financial data based on reports obtained from the Regional Office's accounting system.

C. Budgets are amended and submitted to the granting agency whenever expenditures of a line item exceed thresholds established by the grantor.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #56's financial statements as of June 30, 2015 are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:KJM

AUDITORS ASSIGNED: Kemper CPA Group LLP 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 #56 responded that it accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region. The Regional Office noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP based financial statements.