



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #33
HENDERSON, KNOX, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT (In Accordance with the
 Uniform Guidance)
 For the Year Ended: June 30, 2019

Release Date: July 30, 2020

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2016		19-1	
Category 1:	0	0	0	2018		19-2	
Category 2:	1	2	3	2018			19-3
Category 3:	0	1	1				
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- (19-1) The Regional Office of Education #33 did not have adequate internal control procedures.
- (19-2) The Regional Office of Education #33 did not have adequate controls over capital assets.
- (19-3) The Regional Office of Education #33 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (19-4) The Regional Office of Education #33 improperly classified fund activities.

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 #33
HENDERSON, KNOX, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2019

	FY 2019	FY 2018
TOTAL REVENUES	\$8,093,278	\$8,552,221
Local Sources	\$805,947	\$745,223
% of Total Revenues	9.96%	8.71%
State Sources	\$6,454,190	\$7,208,499
% of Total Revenues	79.75%	84.28%
Federal Sources	\$833,141	\$598,499
% of Total Revenues	10.29%	7.00%
TOTAL EXPENDITURES	\$7,603,689	\$8,117,356
Salaries and Benefits	\$3,484,699	\$2,914,481
% of Total Expenditures	45.83%	35.90%
Purchased Services	\$706,664	\$561,558
% of Total Expenditures	9.29%	6.92%
All Other Expenditures	\$3,412,326	\$4,641,317
% of Total Expenditures	44.88%	57.18%
TOTAL NET POSITION	\$2,016,915 ¹	\$1,503,905
INVESTMENT IN CAPITAL ASSETS	\$207,095	\$64,357
¹ The FY 2019 beginning net position includes a restatement of \$23,421 for error corrections. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Jodi Scott Currently: Honorable Jodi Scott

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #33 did not have adequate internal control procedures.

The Regional Office of Education #33 (ROE) did not have adequate internal control procedures. Auditors noted the following weaknesses in the ROE's internal control system for which there were no mitigating controls:

- No documented evidence of independent review of completed bank reconciliations.
- The first quarter expenditure reports for the following grants were filed between 11 and 89 days late:

Submitted October 31, 2018 (11 days late)

- Truants Alternative/Optional Education
- Title II – Teacher Quality – Leadership Grant

Submitted November 2, 2018 (13 days late)

- Regional Safe Schools
- Early Childhood 2019-3705-00
- ROE/ISC Operations
- Other State Programs
- Title IV – 21st Century Community Learning Centers 2019-4421-13, 2019-4421-15, and 2019-4421-19 (CFDA No. 84.287C)

Submitted January 17, 2019 (89 days late)

- Early Childhood 2019-3705-01 and 2019-3705-PE

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

Item 5 of Section A of the Illinois State Board of Education's State and Federal Grant Administration Policy, Fiscal Requirements, and Procedures requires grantees with an approved State and/or federal grant program to submit quarterly expenditure reports, at minimum, on or before 20 calendar days after the end of the reporting quarter.

Regional Office officials indicated, with the understanding that they were short-staffed, an additional full-time bookkeeper was hired in August 2019, to take over the accounts payable responsibilities. At that time, the current bookkeeper was in the process of training the new bookkeeper and working to keep up with the other daily tasks and reporting. These issues resulted in the conditions noted above. (Finding 19-001, pages 14 – 16) **This finding was first reported in 2016.**

The auditors recommended the ROE should have an individual, independent of the general ledger processes, review the bank reconciliation to ensure timely completion and agreement to the general ledger. This review should be documented. In addition, the ROE should develop internal controls to ensure expenditure reports are submitted by the grantors due date.

ROE Response: *The ROE hires an outside consultant to reconcile bank accounts each month. After the outside consultant completes the reconciliations, the ROE bookkeeper rechecks and submits all documentation to the Regional Superintendent for approval.*

During the past few years, there has only been one ROE bookkeeper/payroll person to prepare and provide information needed for reporting deadlines and auditing. The ROE hired an additional full-time bookkeeper on August 19, 2019 to take over the accounts payable responsibilities. Having two bookkeepers and having processes put in place will help ensure the ROE submit expenditure reports by the due dates.

INADEQUATE CONTROLS OVER CAPITAL ASSETS

The Regional Office of Education #33 did not have adequate controls over capital assets.

The Regional Office of Education #33 (ROE) did not have adequate controls over fixed assets.

During the audit, the auditors noted the following:

- The capital asset listings were maintained in a spreadsheet and did not have complete information as to acquisition source document. A spreadsheet had pertinent asset information, but did not have the tag numbers while the depreciation spreadsheet had the tag numbers, but did not have the other relevant asset information.
- The ROE did not consistently tag all assets with asset tags to ensure complete accounting and monitoring of capital assets.
- Capital outlay reported in the financial statements totaled \$163,542 and wasn't properly reconciled to the additions on the capital asset listing which totaled \$162,214.

The *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; a 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.

Regional Office officials indicated maintenance of the capital asset schedule is decentralized by departments. The schedules are updated by multiple personnel, which makes it difficult to ensure the schedules are complete and updated timely. (Finding 19-002, pages 17 – 18)

The auditors recommended 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.

ROE Response: *The ROE has assigned responsibility to one of the bookkeepers 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 as well and compared to the items on the capital asset list, and any differences investigated. The capital asset list will be completed to include all the details required by the ROE Accounting Manual.*

The following steps are being added to the ROE's asset acquisition purchasing process:

- *PO will have the following language added: "Does this purchase include Capital Assets over \$500? If yes, please complete and attach the Capital Equipment Asset Form."*
- *If an asset is being shipped to a separate location, an email is to be sent to the person receiving the asset and the Bookkeeper must be included on that email.*

The email will notify the person that the order has been placed and that the Bookkeeper is to be contacted upon receipt of that product in order for the asset to be tagged and additional information collected.

- *Upon notification that the asset has been delivered, the Bookkeeper will schedule a time to go tag the asset and complete the Capital Equipment Asset Receipt Form.*
- *Bookkeeper will then record the asset information in the Asset Additions/Disposals Master Spreadsheet.*

DELAY OF AUDIT

The Regional Office of Education #33 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #33 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline.

The ROE 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.

Regional Office officials indicated it had limited staff to work on year-end closing activities with the contracted accounting firm and an additional staff was not hired until August 19, 2019. In addition, the actuarial valuation reports were not completed until September 24, 2019. (Finding 19-003, pages 19 – 20)

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: *During the past few years, there has only been one ROE bookkeeper/payroll person to prepare and provide information needed for reporting deadlines and auditing. The ROE hired an additional full-time bookkeeper on August 19, 2019 to take over the accounts payable responsibilities. Having two bookkeepers and having processes put in place will help ensure the ROE get information submitted to the contracted accounting firm by the required deadline in the future.*

The ROE has retained the accounting firm who prepared the Fiscal Year 2019 financial statements for Fiscal Year 2020.

IMPROPER CLASSIFICATION OF FUND ACTIVITIES

The Regional Office of Education #33 improperly classified fund activities.

The Regional Office of Education #33 (ROE) improperly classified the Criminal Background Investigation Fund (Fund) activities under the General Fund reported as governmental activities instead of a nonmajor proprietary fund that should be reported as business-type activities. Accordingly, no statement of cash flows was reported for this nonmajor proprietary fund. Revenues and expenses for Fiscal Year 2019 totaled \$22,807 and \$15,064, respectively. Total assets, liabilities, and net position as of June 30, 2019 were \$39,774, \$1,243, and \$38,531, respectively.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* (Statement), requires activities to be reported as enterprise funds if the pricing policies of the activity establish fees and charges designed to recover its costs.

The Statement further states that proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds. Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements should present the financial information for each major enterprise fund in a separate column. Nonmajor enterprise funds should be aggregated and

displayed in a single column, and a combined total column should be presented for all enterprise funds.

Required financial statements for proprietary funds are:

- Statement of net position or balance sheet;
- Statement of revenues, expenses, and changes in fund net position or fund equity; and
- Statement of cash flows.

Regional Office officials indicated it had been reporting this Fund under the General Fund and did not realize that the activities of this Fund are enterprise activities that should be reported as business-type activities. (Finding 19-004, pages 21 – 22)

The auditors recommended the ROE should implement procedures to ensure proper analysis of Fund activities are made when new funds are set up or when transactions are recorded in an existing fund for proper classification and reporting in accordance with GASB Statement No. 34.

ROE Response: *The ROE will implement procedures to ensure proper analysis and reporting of fund activities.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #33'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

FJM:BAO