



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #47  
 LEE, OGLE, AND WHITESIDE COUNTIES**

**FINANCIAL AUDIT (In Accordance with the Uniform Guidance)**      **Release Date: December 12, 2018**  
**For the Year Ended: June 30, 2016**

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2009	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 2	<u>Repeat</u> 1	<u>Total</u> 3	16-1			
Category 2:	0	0	0				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>2</b>	<b>1</b>	<b>3</b>				
FINDINGS LAST AUDIT: 2							

**SYNOPSIS**

- (16-1) The Regional Office of Education #47 did not have sufficient internal controls over the financial reporting process.
- (16-2) The Regional Office of Education #47 did not have effective internal controls over the preparation and review of grant expenditure reports.
- (16-3) The Regional Office of Education #47 failed to fully insure and collateralize cash balances.

**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 #47**  
**LEE, OGLE, AND WHITESIDE COUNTIES**

**FINANCIAL AUDIT**  
**(In Accordance with the Uniform Guidance)**  
**For The Year Ended June 30, 2016**

	<b>FY 2016</b>	<b>FY 2015</b>
<b>TOTAL REVENUES</b>	\$4,982,459	\$3,817,673
Local Sources	\$548,467	\$325,069
% of Total Revenues	11.01%	8.51%
State Sources	\$2,003,742	\$1,576,152
% of Total Revenues	40.22%	41.29%
Federal Sources	\$2,430,250	\$1,916,452
% of Total Revenues	48.78%	50.20%
<b>TOTAL EXPENDITURES</b>	\$4,799,654	\$3,789,726
Salaries and Benefits	\$2,717,382	\$1,943,429
% of Total Expenditures	56.62%	51.28%
Purchased Services	\$769,434	\$406,344
% of Total Expenditures	16.03%	10.72%
All Other Expenditures	\$1,312,838	\$1,439,953
% of Total Expenditures	27.35%	38.00%
<b>TOTAL NET POSITION</b>	(\$66,708) <sup>1</sup>	(\$512,402)
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$133,361 <sup>2</sup>	\$51,846 <sup>2</sup>
<sup>1</sup> The FY 2016 beginning net position was restated by \$262,889 due to a prior period adjustment related to the merger of ROE #55 Whiteside County into ROE #47 and the correction of an error. <sup>2</sup> Capital asset amounts include debt associated with a capital lease.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Robert Sondgeroth Currently: Honorable Robert Sondgeroth

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #47 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #47 (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 or maintained a list of year-end accrual adjustments 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 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 Regional Office's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP based financial statements, including the schedule of expenditures of federal awards, and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

During review of the financial information prepared by the Regional Office, auditors noted the following:

- The ROE did not have adequate controls over the maintenance of complete records of accounts receivable/due from other governments, accounts payable/due to other governments, prepaid expenses, unearned revenue, and unavailable revenue and therefore did not maintain accurate records of these balances.
- The ROE did not record or track prior year audit entries and the associated reversing entries necessary to reflect accurate fund balances in the GAAP based financial statements.
- The ROE provided documentation of the allocation of cash and fund balance to the individual funds as presented in the financial statements. However, this documentation contained material errors and adjusting audit entries were necessary to correct the allocation of cash and fund balance. Additionally, the ROE did not provide entries to create interfund receivables and payables or interfund transfers to eliminate negative cash balances within certain funds.

- The ROE did not have adequate controls over the consolidation of Whiteside County Regional Office of Education #55 (Whiteside) into the Lee and Ogle Counties Regional Office of Education #47. Beginning balances of cash, fund balance, capital assets, and due from other governments were not adjusted. Cash from Whiteside was moved to ROE #47's operating bank account and was recorded as current year revenue instead of an adjustment to fund balance.
- The ROE did not have adequate controls over the recognition of cash. Any cash held in accounts outside of the ROE's external accounting service organization, including cash from the Whiteside consolidation, was not recorded in the general ledger and activity was not tracked until deposited into the service organization's bank account.
- The ROE did not have adequate controls over the proper classification of revenue. An audit adjustment was necessary to properly classify local revenue, which had originally been classified as federal revenue.
- Errors were noted in certain manual journal entries, including an entry recorded in the wrong accounting period, an entry recorded twice in error, and entries recorded to the wrong accounts and/or funds.
- Capital asset additions under the ROE's capitalization threshold were recorded in capital outlay accounts instead of supplies and materials.
- The ROE did not have adequate controls over the proper recognition of on-behalf revenues and expenses. Information to calculate and record these amounts had not been obtained by the ROE.
- The prior year "Whiteside ROE" agency fund was not eliminated when the Whiteside County ROE consolidated into ROE #47, thereby becoming part of the reporting entity instead of an outside agency fund.
- The Distributive Fund activity was not properly maintained in the ROE's accounting records. For the first half of the fiscal year, Distributive Fund activity was recorded in a local governmental fund instead of an agency fund. This practice resulted in a portion of the funds payable to one outside entity not being paid to them until the following fiscal year.
- The School Facility Occupation Tax agency fund activity was not recorded in the ROE's accounting records.

- Through inquiries and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted that the ROE did not have adequate controls to record and report the ROE's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.

Audit adjustments were recorded as necessary to recognize and/or correct all of the above listed items.

According to Regional Office management, the consolidation of Lee, Ogle, and Whiteside County ROEs into a single entity caused confusion. The fiscal staff did not effectively detect all of the adjustments needed in order to present financial statements in accordance with GAAP and to properly account for the consolidation. In addition, the complex requirements of GASB Statements No. 68 and 71 will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 16-001, pages 14a – 14d)

**This finding was first reported in 2009.**

The auditors recommended that as part of 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 the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

**ROE Response:** *After the FY2016 audit is complete, ROE #47 will be having an accounting firm get our financial statements ready for our audit as recommended.*

**Prior Year ROE Response:** *As part of its internal control over the preparation of its financial statements, the ROE will continue to provide a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate on a monthly basis. The Regional Superintendent will continue to review all financial statements (including accruals) striving to be as accurate as possible, hoping to eliminate this finding in the future.*

#### **INTERNAL CONTROLS OVER EXPENDITURE REPORT PREPARATION**

**The Regional Office of Education #47 did not have effective internal controls over the preparation and review of grant expenditure reports.**

The Regional Office of Education #47 (ROE) did not have effective internal controls over the preparation and review of grant expenditure reports. Expenditure reports submitted to granting agencies to request reimbursement contained errors that were not noted during the review and approval process for the following federal and State grant programs: IDEA –

Improvement Grant – Part D, Mathematics and Science Partnerships, and ROE/ISC Operations.

Title 2 of the U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires that a non-federal entity's financial management system, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. Furthermore, the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with guidance in "Standards for Internal Controls in the Federal Government" issued by the Comptroller General of the United States or the "Internal Controls Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

During review of the grant expenditure reports prepared by the ROE, auditors noted the following:

- Indirect costs were reported as a monthly amount on each IDEA – Improvement Grant – Part D expenditure report instead of a cumulative total, resulting in the ROE under-claiming indirect costs in total as of June 30, 2016.
- The ROE initially recorded certain salaries and benefits to the Mathematics and Science Partnerships accounts and claimed these expenditures for reimbursement. They later determined these expenditures were misclassified as Mathematics and Science Partnerships expenditures and transferred them to a different fund after the Mathematics and Science Partnerships grant had ended and the final expenditure report had been submitted, resulting in the ROE over-claiming salaries and benefits on this grant. The ROE overstated salaries and benefits for the Mathematics and Science Partnerships by \$2,367 and \$1,201, respectively.
- The ROE claimed certain salaries and other expenditures twice on the ROE/ISC Operations grant due to recording a manual journal entry twice. The ROE determined it had incurred expenses in other funds which would be allowable expenditures under

the ROE/ISC grant; however, the function codes were different than those that had been reported on the expenditure report. The expenditure report should have been amended to reflect these changes once it was determined to be incorrect. Salaries and benefits misclassified between functions 2210, Improvement of Instruction Services, and 2300, General Administration, totaled \$1,656 in salaries and \$841 for benefits. Total salaries and benefits claimed on the ROE/ISC Operations 16-3730-00 grant June 30, 2016 expenditure report were \$65,560 and \$18,004, respectively.

According to Regional Office management, these errors were caused by a lack of sufficient supervisory review of expenditure reports. (Finding 16-002, pages 14e – 14g)

The auditors recommended that the Regional Office management should create a system of internal controls to ensure all expenditure reports are submitted accurately and amended when necessary.

**ROE Response:** *The ROE no longer has these grants and has corrected as recommended.*

#### **FAILURE TO FULLY INSURE AND COLLATERALIZE CASH BALANCES**

#### **The Regional Office of Education #47 failed to fully insure and collateralize cash balances.**

As of June 30, 2016, cash account balances with one financial institution exceeded the Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral coverage by \$72,972. The FDIC covers deposit balances up to a maximum of \$250,000 at each financial institution. Pledged securities were not sufficient for the balances exceeding the FDIC coverage.

The Public Funds Deposit Act (30 ILCS 225/1) gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institutions' trust departments in the Regional Office of Education #47's (ROE) name. In addition, prudent business practice requires that all cash and investments held by financial institutions for the ROE be adequately covered by depository insurance or collateral.

According to Regional Office management, the ROE was in the process of switching banks due to its consolidation with Whiteside County Regional Office of Education #55 during FY2016. (Finding 16-003, page 14h)

The auditors recommended that ROE management should monitor bank balances on all accounts and work with the financial institution to provide collateral or enter into an agreement with the financial institution to have cash balances monitored for adequate collateral and periodically adjusted as necessary.

**ROE Response:** *The ROE will implement procedures to make sure its cash deposits are fully collateralized at all times throughout the year.*

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #47's financial statements as of June 30, 2016 are fairly presented in all material respects.

This financial report was conducted by the firm of Kemper CPA Group LLP.

**SIGNED ORIGINAL ON FILE**

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KELLY MITTELSTAEDT  
Audit Manager

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

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FRANK J. MAUTINO  
Auditor General

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