



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #1
ADAMS, BROWN, CASS, MORGAN, PIKE, AND SCOTT COUNTIES

FINANCIAL AUDIT
 For the Year Ended: June 30, 2016

Release Date: August 1, 2017

| FINDINGS THIS AUDIT: 2 | | | | AGING SCHEDULE OF REPEATED FINDINGS | | | |
|------------------------|-----------------|--------------------|-------------------|-------------------------------------|------------|------------|------------|
| | | | | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | <u>New</u> 0 | <u>Repeat</u> 2 | <u>Total</u> 2 | 2015 | 16-1 | | |
| Category 2: | 0 | 0 | 0 | 2013 | 16-2 | | |
| Category 3: | 0 | 0 | 0 | | | | |
| TOTAL | 0 | 2 | 2 | | | | |
| FINDINGS LAST AUDIT: 2 | | | | | | | |

SYNOPSIS

- **(16-1)** The Regional Office of Education #1 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #1 did not have sufficient internal controls over accounting and closing transactions.

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 #1
ADAMS, BROWN, CASS, MORGAN, PIKE, AND SCOTT COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2016

| | FY 2016 | FY 2015 |
|---|--------------------------|----------------|
| TOTAL REVENUES | \$2,803,754 | \$1,728,141 |
| Local Sources | \$721,088 | \$406,400 |
| % of Total Revenues | 25.72% | 23.52% |
| State Sources | \$1,661,466 | \$1,067,318 |
| % of Total Revenues | 59.26% | 61.76% |
| Federal Sources | \$421,200 | \$254,423 |
| % of Total Revenues | 15.02% | 14.72% |
| | | |
| TOTAL EXPENDITURES | \$1,533,756 | \$1,601,391 |
| Salaries and Benefits | \$788,165 | \$870,568 |
| % of Total Expenditures | 51.39% | 54.36% |
| Purchased Services | \$324,083 | \$189,350 |
| % of Total Expenditures | 21.13% | 11.82% |
| All Other Expenditures | \$421,508 | \$541,473 |
| % of Total Expenditures | 27.48% | 33.81% |
| | | |
| TOTAL NET POSITION | \$2,321,465 ¹ | \$893,283 |
| | | |
| INVESTMENT IN CAPITAL ASSETS | \$25,778 | \$21,094 |
| ¹ The FY 2016 beginning net position was restated by \$158,184 due to a prior period adjustment related to the merger of ROE #46 into ROE #1. Percentages may not add due to rounding | | |

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| REGIONAL SUPERINTENDENT |
| During Audit Period: Honorable Jill Reis Currently: Honorable Jill Reis |

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #1 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #1 (ROE) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (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).

The ROE did not have sufficient internal controls over the financial reporting process. While the ROE maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the 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.

- A. During review of the ROE's accounting records, auditors noted the ROE's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- B. The ROE did not have adequate controls to record and report its net accrued pension liability/asset, deferred outflows and inflows of resources, and pension expense in accordance with GAAP. Proposed adjusting entries were approved and accepted by the ROE's management.
- C. The ROE failed to record \$317,172 in cash and \$315,985 in fund balances from the consolidation with the former ROE #46. Also, a new bank account in the amount of \$1,000 was not recorded in the accounting system at year-end.
- D. The ROE did not reverse a prior year accrual, which resulted in an overstatement of cash and revenue in the amount of \$16,631 in the Institute Fund.

According to the ROE management, current funding levels are not adequate to hire and/or train accounting personnel in order to comply with the complex financial reporting requirements. Management was not aware of the requirement for reporting activity related to the consolidation of the ROE #46. (Finding 2016-001, pages 11a-11b)

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

The ROE responded that it understands the nature of this finding and realizes this circumstance is not unusual in an organization of this size. The ROE will review the current auditors' recommendation and will work to revise the ROE's policies, procedures and/or practices to address the finding noted.

INTERNAL CONTROL OVER ACCOUNTING AND CLOSING TRANSACTIONS

The Regional Office of Education #1 did not have sufficient internal control over accounting and closing transactions.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over the ROE's accounting processes to prevent errors and fraud in reporting.

Auditors noted the following internal control weaknesses over the accounting and closing processes:

- A. The ROE records overhead and administrative costs in the general fund and allocates those costs as needed to the appropriate special revenue or other funds. Auditors noted several instances where administrative costs were appropriately recorded as expenditures in the fund that reimbursed the cost but the reimbursements were recorded as transfers into the General Fund, without a corresponding transfer out from the reimbursing fund, resulting in expenditures being overstated and interfund transfers being out of balance.
- B. Opening fund balances were not correctly allocated in the Education Fund programs and several of the General Fund accounts.

The ROE has not established or documented sufficient internal control procedures. (Finding 2016-002, pages 11c-11d) **This finding was first reported in 2013.**

The auditors recommended the following:

- A. Administrative costs should be recorded in the fund that incurred the expenses. The associated transfer of cash to reimburse the fund that paid the costs should be recorded as an offset to the associated expenditure in the reimbursed fund.

- B. Opening fund balances should be compared to the prior year's ending fund balances to ensure accuracy and completeness after the prior year's financial close.

The ROE responded that it accepts the auditors' recommendations and has revised policies, procedures, and/or practices to address the finding noted. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #1'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

AMEEN DADA
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:JRB

DIGEST FOOTNOTE

#1: Internal Control Over Accounting and Closing Transactions - Previous Regional Office Response

In its prior response in 2015, the Regional Office of Education responded that it accepts this finding.