



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #4
BOONE AND WINNEBAGO COUNTIES

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

Release Date: March 31, 2016

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

SYNOPSIS

- (15-1) The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.
- (15-2) The Regional Office of Education #4 did not properly implement internal controls over payroll.
- (15-3) The Regional Office of Education #4 did not have sufficient internal controls over monitoring capital assets.
- (15-4) The Regional Office of Education #4 did not comply 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 #4
BOONE AND WINNEBAGO COUNTIES

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	\$6,397,121	\$5,116,524
Local Sources	\$1,904,547	\$1,780,546
% of Total Revenues	29.77%	34.80%
State Sources	\$3,547,192	\$2,762,371
% of Total Revenues	55.45%	53.99%
Federal Sources	\$945,382	\$573,607
% of Total Revenues	14.78%	11.21%
TOTAL EXPENDITURES	\$6,273,173	\$5,643,593
Salaries and Benefits	\$4,534,036	\$4,251,619
% of Total Expenditures	72.28%	75.34%
Purchased Services	\$919,082	\$1,056,179
% of Total Expenditures	14.65%	18.71%
All Other Expenditures	\$820,055	\$335,795
% of Total Expenditures	13.07%	5.95%
TOTAL NET POSITION	\$1,196,974 ¹	\$3,139,579
INVESTMENT IN CAPITAL ASSETS	\$264,429 ²	\$281,025 ²
¹ The FY 2015 beginning net position was restated by (\$2,066,553) due to a prior period adjustment for new reporting requirements for pensions. ² Capital asset amounts are not net of debt associated with a leasehold improvement. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Lori Fanello Currently: Honorable Lori Fanello

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #4 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'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 #4 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there were 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. For example, in their review of the Regional Office's accounting records, auditors noted the following:

- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, unearned revenue, and prepaid expenses. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, unearned revenue, and prepaid expenses and made entries to record them, not all accounts payable, accounts receivable, unearned revenue, and prepaid expenses were correctly recorded.
- The cash and activity of the Richard Fairgrievs Scholarship Fund were recorded and tracked independently of the Regional Office's accounting system.
- In addition, the Regional Office 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 Regional Office's management.

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

The auditors recommended that as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #4 should implement a comprehensive preparation and/or review procedure to ensure the financial statements, including disclosures, are complete and accurate. Such 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 Regional Office of Education's activities and operations.

The Regional Office of Education #4 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. However, the Regional Office has also expended time and resources to remedy conditions underlying this finding. The Regional Office stated that it has implemented staffing changes to provide more checks and balances to its accounting processes and contracted with an outside Software Specialist to bring its accounting system into compliance with ISBE accounting standards and to train its staff. The Regional Office noted that it will continue to work with a Software Specialist to ascertain that its accounting program is up to date and its staff possesses the knowledge required to compile the necessary GAAP-based financial statements. (For previous Regional Office response, see Digest Footnote #1 shown on the last page.)

IMPLEMENTATION OF INTERNAL CONTROLS OVER PAYROLL

The Regional Office of Education #4 did not properly implement internal controls over payroll.

The Regional Superintendent of Schools is responsible for establishing and maintaining a system of internal controls over payroll disbursements to prevent errors and fraud. Specifically, the Regional Office's internal controls require all employment agreements to be signed by both the employee and management.

Auditors found 5 out of 20 (25%) employment agreements examined were not signed by a member of management.

According to the Regional Office of Education #4, a member of management was not aware of the Regional Office's internal control procedures related to their employment agreements. (Finding 2015-002, page 14d)

The auditors recommended that the Regional Office should ensure that all members of management are aware of and properly implement the Regional Office's internal control procedures related to their payroll process.

The Regional Office of Education #4 responded that it will ensure that all management is aware that two signatures are required on each employment agreement. They also stated that signature lines will be added to the FY17 fiscal year agreements.

MONITORING CAPITAL ASSETS

The Regional Office of Education #4 did not have sufficient internal controls over monitoring capital assets.

The Regional Office of Education #4 is required by 23 Ill. Adm. Code Part 100.100 to maintain an updated schedule of capital assets and depreciation.

Auditors found the Regional Office's capital asset schedule did not include all current-year additions. Assets totaling \$9,401 were excluded from the asset schedule provided by the Regional Office.

Auditors noted that maintenance of the capital asset schedule is decentralized, and it is updated by multiple personnel, which makes it difficult for the Regional Office to ensure the schedule is complete and updated timely. (Finding 2015-003, page 14e)

The auditors recommended that the Regional Office should assign responsibility to one individual to ensure that the capital asset schedule is regularly maintained and periodically reconciled to the accounting records.

The Regional Office of Education #4 responded that it will work with each program director to ensure that their capital asset schedule is current and up to date. The Regional Office noted that one individual will reconcile those records to the accounting records.

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Regional Office of Education #4 did not comply with grant requirements.

The Regional Office must comply with grant accounting and reporting requirements established by the 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. Among these requirements are accurate, current, and complete disclosure of grant financial activity.

Auditors found that for the Regional Safe Schools grant program, payroll accruals were reported on the grant expenditure report as being expended rather than obligated; these payroll costs ultimately were paid from unrestricted, non-grant funds, causing grant payroll costs to be overstated on the grant expenditure report. The expenditure report submitted to the grantor did not accurately reflect actual expenditures, resulting in a failure to comply with the grant requirement for accurate, current, and complete disclosure of financial results.

Upon questioning, auditors found that Regional Office personnel were not aware of how to appropriately report grant obligations. The final grant expenditure report was not prepared using financial data from the Regional Office's accounting system. (Finding 2015-004, page 14f)

The auditors recommended that the Regional Office should ensure that grant expenditure reports are prepared using current and accurate financial data based on reports obtained from the Regional Office's accounting system. Accrued expenditures should be reported as obligated rather than expended. The Regional Safe School final expenditure report should be amended to reflect actual grant expenditures.

The Regional Office of Education #4 responded that it will ensure that grant expenditure reports are prepared using current and accurate financial data based on reports obtained from the Regional Office's accounting system. The Regional Office noted accrued expenditures will be reported as obligated rather than expended.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #4'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 #4 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 of Education #4 noted that it has also expended time and resources to remedy conditions underlying this finding. The Regional Office stated that it has implemented staffing changes to provide more checks and balances to its accounting processes and contracted with an outside Software Specialist to bring its accounting system into compliance with ISBE accounting standards and to train its staff. The Regional Office noted that it will continue to work with a Software Specialist to ascertain that its accounting program is up to date and its staff possesses the knowledge required to compile the necessary GAAP-based financial statements.