



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
 Uniform Guidance)
 For the Year Ended: June 30, 2017**

Release Date: May 11, 2021

FINDINGS THIS AUDIT: 8				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2016			17-1
Category 1:	3	1	4	2016		17-2	
Category 2:	0	2	2	2016		17-3	
Category 3:	1	1	2	2016	17-7		
TOTAL	4	4	8				
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- (17-1) The Regional Office of Education #4 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (17-2) The Regional Office of Education #4 lacked adequate internal controls over fund accounting.
- (17-3) The Regional Office of Education #4 did not have sufficient internal controls over timely expenditure report submission.
- (17-4) The Regional Office of Education #4 had inadequate internal controls over pay-rate authorizations.
- (17-5) The Regional Office of Education #4 was not in compliance with grant requirements.
- (17-6) The Regional Office of Education #4 did not have sufficient internal controls over the financial statement reporting process.
- (17-7) The Regional Office of Education #4 lacked adequate subrecipient monitoring documentation.
- (17-8) The Regional Office of Education #4 did not have adequate supporting documentation of salaries and benefits.

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 #4
BOONE AND WINNEBAGO COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$8,033,933	\$7,168,381
Local Sources	\$1,747,990	\$1,907,949
% of Total Revenues	21.76%	26.62%
State Sources	\$4,954,614	\$4,132,727
% of Total Revenues	61.67%	57.65%
Federal Sources	\$1,331,329	\$1,127,705
% of Total Revenues	16.57%	15.73%
TOTAL EXPENDITURES	\$7,450,200	\$6,707,029
Salaries and Benefits	\$5,756,744	\$4,948,183
% of Total Expenditures	77.27%	73.78%
Purchased Services	\$949,727	\$1,132,944
% of Total Expenditures	12.75%	16.89%
All Other Expenditures	\$743,729	\$625,902
% of Total Expenditures	9.98%	9.33%
TOTAL NET POSITION	\$2,300,384	\$1,716,651
INVESTMENT IN CAPITAL ASSETS	\$212,870 ¹	\$233,444
¹ Capital assets amounts include debt associated with a leasehold improvement. Percentages may not add due to rounding.		

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

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

DELAY OF AUDIT

The Regional Office of Education #4 did not provide completed financial statements in an auditable form by the August 31 deadline.

The Regional Office of Education #4 (ROE) did not provide completed financial statements in an auditable form by the August 31, 2017 deadline. The ROE initially provided adjusted working trial balances and substantial audit supporting schedules on February 6, 2020. Revised working trial balances were provided on March 2, 2020, and final financial statements on March 9, 2020. The final remaining outstanding audit support schedule was not provided until November 16, 2020.

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 Government Auditing Standards.

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 management indicated internal personnel issues and software program changes caused the office to experience difficulty in providing information by the required timeline. (Finding 17-001, pages 14a – 14b)

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: *The ROE hired a Certified Public Accounting firm to prepare all financial statements for the audit.*

CONTROLS OVER FUND ACCOUNTING

The Regional Office of Education #4 lacked adequate internal controls over fund accounting.

The Regional Office of Education #4 (ROE) lacked adequate controls and monitoring over the maintenance of complete and accurate records of employee benefits. A Teachers' Retirement System (TRS) audit for the year of July 1, 2014 – June 30, 2015 disclosed TRS members had net excess TRS withholdings of \$8,972. The ROE determined gross TRS withholdings due to individual members as of June 30, 2016 was \$13,190. The ROE received the excess contributions from the State of Illinois on November 3, 2015. Current employees were reimbursed December 2020 and non-current employees have not yet been reimbursed. Additionally, costs incurred from employee underpayments were absorbed by the Regional Office.

The ROE 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 ROE 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. In addition, the Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system to prevent errors and irregularities.

Regional Office management indicated due to internal personnel issues and software program changes, the office experienced difficulty in performing their required duties. (Finding 17-002, page 14c)

The auditors recommended the ROE should assign a member of management with suitable skills, knowledge and experience to review the accuracy of payroll calculations each pay period. Additionally, supporting payroll schedules and trial balance reports need to be monitored for completeness and accuracy at regular intervals throughout the year.

ROE Response: *The ROE hired a Certified Public Accounting firm to prepare all financial statements for the audit.*

CONTROLS OVER TIMELY EXPENDITURE REPORT SUBMISSION

The Regional Office of Education #4 did not have sufficient internal controls over timely expenditure report submission.

The Regional Office of Education #4’s (ROE) internal controls over expenditure report submission were not effective. Six expenditure reports for Illinois State Board of Education (ISBE) grants were not submitted timely. Specifically, the following expenditure reports were not submitted timely:

Program Name	Quarter Ended	Submit Date	Days Late
System of Support Title I – School Improvement and Accountability (17-4331-SS)	09/30/16	10/24/16	4
System of Support Title I – School Improvement and Accountability (17-4331-SS)	12/31/16	02/03/17	14
Title II – Teacher Quality-Leadership (17-4935-02)	06/30/17	07/24/17	4
Truants Alternative/Optional Education (16-3695-14)	06/30/17	07/27/17	7
Other State Programs (17-3999-RS)	09/30/16	12/21/16	62
Other State Programs (17-3999-RS)	06/30/17	07/21/17	1

The Illinois Grant Funds Recovery Act (30 ILCS 705/4) requires State grant recipients with awards in excess of \$25,000 to submit quarterly expenditure reports to reflect the progress of the grant program. The ISBE requires all grant recipients, regardless of the amount awarded, to submit quarterly expenditure reports. The *State and Federal Grant Administration Policy, Fiscal Requirements, and Procedures* of the ISBE Division of Funding and Disbursement Services requires expenditure reports to be filed within 20 calendar days of the end of each reporting quarter.

Regional Office management indicated due to internal personnel issues and software program changes, the office experienced difficulty in providing information by the required timeline. (Finding 17-003, pages 14d – 14e)

The auditors recommended the ROE should take appropriate steps to ensure the expenditure reports are filed within the prescribed guidelines set forth by the ISBE.

ROE Response: *Personnel changes transpired, more training was provided to new staff, and the ROE began transitioning to a new finance program to expedite reporting.*

INADEQUATE INTERNAL CONTROLS OVER PAY-RATE AUTHORIZATIONS

The Regional Office of Education #4 had inadequate internal controls over pay-rate authorizations.

The Regional Office of Education #4 (ROE) had inadequate internal controls over pay-rate authorizations. The ROE Accounting Manual general policies concerning payroll procedures state that a master record should be maintained on each employee or contractor for federal and State reporting purposes. The master payroll record should contain at least the following: employee name, social security number, address, date of hire, and rate and terms of contract/agreement. Any employee compensation adjustments should be documented and maintained in employee personnel files. In addition, sound business practices dictate the Regional Office is responsible for establishing and maintaining an internal control system over the payroll process in order to prevent errors and/or fraud. This internal control system should also be completely documented within the ROE's financial reporting system policy manual.

During the course of the audit, auditors noted the following control issues:

- 7 of the 37 (19%) employment agreements tested were not retained in Regional Office personnel files.
- In 5 of the 37 (14%) employment agreements tested, employees were paid more than the compensation agreed to within the employment agreement. No payroll change order to document the approved increase or additional compensation was included in the Regional Office personnel files.
- In 1 of 8 (13%) timesheets tested, the pay rate within the payroll system did not agree to the compensation stated in the employment agreement. No payroll change order to document the approved increase or additional compensation was included in the Regional Office personnel files.
- Payroll processes documented in the ROE's financial reporting system policy manual did not include processes for obtaining and retaining employment agreements.

Regional Office management indicated an Administrative Assistant maintained separate files, records, and storage and only turned in a spreadsheet for payment to payroll. When consultant rates changed the grant manager was not consistent in follow up with amended contracts or agreements and no written policy existed outlining the process to obtain employment agreements. (Finding 17-004, pages 14f – 14g)

The auditors recommended the ROE complete and maintain employment agreements. Documentation should also be maintained for any payment received outside of any employee's annual agreed upon salary. Auditors also

recommended the ROE update the written payroll policy procedures to include obtaining and maintaining the employment agreement documentation and payroll change orders.

ROE Response: *All employee agreements will be kept in one location within employee file in the HR department. Policies will be updated to include procedures to obtain and retain employment agreements. Any changes to rates must be accompanied by a signed agreement from employee and management and maintained in the HR department. HR will verify and enter rate changes in the software and either the Director of Finance or Office Manager will verify any rate changes prior to payment being issued.*

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Regional Office of Education #4 was not in compliance with grant requirements.

The Regional Office of Education #4 (ROE) was not in compliance with grant requirements. The Technology for Success grant program payments to other governments were reported on the expenditure report as being expended rather than obligated; these payments to other governments have not been paid and caused the payments to other governments to be overstated on the grant expenditure report.

The ROE 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 the ISBE's fiscal policies and procedures for grantees. Among these requirements are accurate, current, and complete disclosure of grant financial activity.

Regional Office management indicated change in staffing and lack in training on how to report expenditures in ISBE Web Application Security resulted in the finding. (Finding 17-005, page 14h)

The auditors recommended the ROE 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. Unpaid payments to other governments should be reported as obligations rather than expended. The ROE should contact the ISBE to determine what should be done with the unexpended funds.

ROE Response: *Additional training was provided and added to procedure manual for FY18.*

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

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

The Regional Office of Education #4 (ROE) did not have sufficient internal controls over the financial statement reporting process. The ROE maintained its accounting records on the cash basis of accounting during the fiscal year and posted year-end accrual entries 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 the 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 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).

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

- The ROE did not have adequate controls over the maintenance of complete records of prepaid expenses. Prepaid expenses of \$51,954 were not recognized and recorded within the initial trial balance received from the ROE.
- The ROE did not have adequate controls over the recognition of capital assets. The ROE did maintain a list of capital assets; however, the ROE did not initially provide all entries to accurately recognize these items within the financial statements.

Regional Office management indicated change in staffing and lack in training on how to report prepaid expenses on financial statements resulted in the finding. (Finding 17-006, pages 14i – 14j)

The auditors recommended 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: *Training was provided to ensure prepaid expenses on financial statements are recorded accurately.*

SUBRECIPIENT MONITORING DOCUMENTATION

The Regional Office of Education #4 lacked adequate subrecipient monitoring documentation.

During the audit, the Regional Office of Education #4 (ROE) was providing the required certification to the Illinois State Board of Education (ISBE), the funding agency for the Title I School Improvement and Accountability Grant. However, the certifications were not obtained by the ROE from its subrecipients of this program.

Also, during the audit, the ROE was not providing all grant information required to the subrecipient. The required communication letter informing the subrecipients of their grant awards did not include the Catalog of Federal Domestic Assistance (CFDA) number.

Auditors also noted that although a ROE employee maintains an informal checklist for monitoring subrecipients of its Title I School Improvement and Accountability program, there are no formal documented procedures for monitoring subrecipients, including formal documentation of an assessed level of risk of noncompliance for each subrecipient as required by the Uniform Guidance.

For fiscal year 2016, the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), contained in 2 CFR Part 200, became effective for all federal award programs administered by the ROE that were issued on or after December 26, 2014. The Uniform Guidance (2 CFR 200.415(a)) requires the ROE to provide a specific certification to funding agencies on all annual and final fiscal reports or vouchers requesting payment, and conversely, requires the ROE to obtain such certification from its subrecipients.

Additionally, the Uniform Guidance (2 CFR 200.331(a)) requires certain information be communicated to the recipients of the subaward, including the CFDA Number and Name.

The Uniform Guidance (2 CFR 200.331(b)) also requires the ROE to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring (cites were changed to 2 CFR 200.332(a) and 2 CFR 200.332(b), respectively, in November 2020).

Regional Office management indicated they were not aware of the Uniform Guidance (2 CFR 200.415(a)) requiring the ROE to provide a specific certification to funding agencies on all annual and final fiscal reports or vouchers requesting

payments, and conversely, requires the ROE to obtain such certification from its subrecipients.

Regional Office management also indicated they were not aware of the Uniform Guidance (2 CFR 200.331(a)) requiring certain information be communicated to the recipients of the subaward, including the CFDA Number and Name. The Director of the program verbally communicated the information at a joint meeting and failed to send appropriate documentation to the subrecipients.

Regional Office management also indicated they were not aware of the Uniform Guidance (2 CFR 200.331(b)) requiring the ROE to evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring. (Finding 17-007, pages 15b – 15d)

The auditors recommended the ROE create a standard form of communication ensuring that all required elements to be addressed with each individual subrecipient are included. Auditors also recommended the ROE develop policies and procedures to ensure all annual and final fiscal reports or vouchers requesting payment received from subrecipients of federal awards include the certification required by 2 CFR 200.415(a). In addition, auditors also recommended the ROE formalize, in writing, its subrecipient monitoring procedures, which would include a formal risk assessment of each subrecipient, as required and described in 2 CFR 200.331(b).

ROE Response: *If the ROE becomes fiscal agent for programs with subrecipients we will create a standard form of communication to ensure all required elements are addressed. Furthermore, we will obtain, in writing, confirmation of said communication as required. Internal policies and procedures will be developed for reporting and voucher requests. Current staff will receive training and guidance in compliance with items 2 CFR Part 200, 2 CFR 200.415(a), 2 CFR 200.331(a), and 2 CFR 200.331(b) for future grants. The ROE will formalize, in writing, our subrecipient monitoring procedures, which would include a formal risk assessment of each subrecipient, as required and described in 2 CFR 200.331(b). The auditor's recommendations will be followed.*

SALARIES AND BENEFITS NOT SUPPORTED BY PROPER DOCUMENTATION

The Regional Office of Education #4 did not have adequate supporting documentation of salaries and benefits.

The Regional Office of Education #4 (ROE) assigned a total of \$45,248 in salary and benefits costs for five employees to the Title I grant based on a one-month time study. Personnel activity reports or other comparisons of actual payroll costs, based on time and effort records to the initial time study, were not performed and adjustments for actual time spent on the

grants, if differences were present, were not made. These five employees did submit bi-weekly timesheets based on the one-month salary schedule but actual time tracking did not occur to support the amount of salaries and benefits charged to Title I expense accounts.

Employees of the ROE are required to document their time and effort working on federal programs. Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires charges for salaries and benefits be supported by a system of internal controls which provides reasonable assurance that charges are accurate, allowable, and properly allocated. Documentation records should reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities, and should encompass both federally assisted and non-federally assisted activities. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award. Significant changes in the corresponding work activity should be identified and entered into the accounting records in a timely manner. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.

Regional Office management indicated the only time study done was to get an average time spent on the grant for the first month and then an allocation was given for the year, but the grant manager did not require employees to record their actual time spent on the grants on a daily basis so that it could be used to compare on a quarterly basis to make any necessary adjustments. (Finding 17-008, pages 15e – 15f)

The auditors recommended the ROE should implement a system of internal controls over time and effort reporting for all employees paid with restricted grant funds. The ROE should track actual time charged to restricted grant revenue and perform periodic comparisons to time studies to determine if adjustments are necessary.

ROE Response: *The ROE will implement a system of internal controls over time and effort to ensure accurate allocations are charged to restricted grant funds.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #4's financial statements as of June 30, 2017 are fairly presented in all material respects.

This financial audit was conducted by the firm of Wipfli LLP.

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:JMM