



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, 2018**

Release Date: June 28, 2023

FINDINGS THIS AUDIT: 7				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 0	<u>Repeat</u> 4	<u>Total</u> 4	2016			18-1
Category 2:	1	1	2	2016		18-2	
Category 3:	0	1	1	2017	18-4		
TOTAL	1	6	7	2017	18-5		
FINDINGS LAST AUDIT: 8				2016	18-6		
				2017	18-7		

SYNOPSIS

- (18-1) The Regional Office of Education #4 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (18-2) The Regional Office of Education #4 lacked adequate internal controls over fund accounting.
- (18-3) The Regional Office of Education #4 failed to fully insure and collateralize cash balances.
- (18-4) The Regional Office of Education #4 had inadequate internal controls over pay-rate authorizations.
- (18-5) The Regional Office of Education #4 did not have sufficient internal controls over the financial statement reporting process.
- (18-6) The Regional Office of Education #4 lacked adequate subrecipient monitoring documentation.
- (18-7) 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, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$8,119,821	\$8,033,933
Local Sources	\$2,049,929	\$1,747,990
% of Total Revenues	25.25%	21.76%
State Sources	\$5,188,153	\$4,954,614
% of Total Revenues	63.89%	61.67%
Federal Sources	\$881,739	\$1,331,329
% of Total Revenues	10.86%	16.57%
TOTAL EXPENDITURES	\$8,047,371	\$7,450,200
Salaries and Benefits	\$6,206,511	\$5,756,744
% of Total Expenditures	77.12%	77.27%
Purchased Services	\$801,830	\$949,727
% of Total Expenditures	9.96%	12.75%
All Other Expenditures	\$1,039,030	\$743,729
% of Total Expenditures	12.91%	9.98%
TOTAL NET POSITION	(\$131,005) ¹	\$2,300,384
INVESTMENT IN CAPITAL ASSETS	\$201,301 ²	\$212,870
¹ The FY18 beginning net position was restated by (\$2,503,839) due to a prior period adjustment for new reporting requirements for other postemployment benefits. ² Capital asset 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, 2018 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 Government Auditing Standards. The Regional Office of Education or Educational Service Center may utilize a cash basis, modified cash basis, or generally accepted accounting principles (GAAP) basis of accounting to prepare financial statements for audit.

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.

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 18-001, pages 14a – 14b) **This finding was first reported in 2016.**

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). Additionally, Regional Office management should determine if changing to the cash basis or modified cash basis would be allowable and beneficial to the ROE and users of its financial statements. 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 and non-current employees were reimbursed by May 2021. 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 18-002, page 14c) **This finding was first reported in 2016.**

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.*

FAILURE TO FULLY INSURE AND COLLATERALIZE CASH BALANCES

The Regional Office of Education #4 failed to fully insure and collateralize cash balances.

The Regional Office of Education #4 (ROE) failed to fully insure and collateralize cash balances. As of June 30, 2018, the ROE had sixteen cash and investment accounts with bank balances totaling \$4,805,634 at one financial institution. The Federal Deposit Insurance Corporation (FDIC) covers up to a maximum of \$250,000. The financial institution pledged collateral with a value of \$4,175,994. The ROE did not have depository insurance or collateral for the remaining \$129,640.

The Public Funds Deposit Act (30 ILCS 225/1) gives the ROE the authorization to request financial institutions to pledge collateral for deposits in excess of the federally insured limit. 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.

Regional Office officials indicated that it is unknown why the collateral agreement that is in place was not enough to cover the cash balances as of June 30, 2018. Cash balances are significantly higher than the previous year and the monitoring of the collateral balance was an inadvertent oversight. (Finding 18-003, page 14d)

The auditors recommended the ROE should monitor the bank balances on all accounts and work with the financial institution to either provide adequate collateral or move to an insured cash sweep account to ensure adequate coverage.

ROE Response: *The ROE plans to keep in contact with the financial institution regarding the amount of collateralization and pledged securities. Management has contacted the financial institution and the current balances are fully insured and collateralized.*

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:

- Two of the 13 (15%) employment agreements tested were not retained in Regional Office personnel files.
- In 2 of 25 (8%) timesheets tested, the timesheet was not retained and able to be provided to support the hours paid to the respective employees.
- Payroll processes documented in the ROE's financial reporting system policy manual did not include processes for obtaining and retaining employment agreements and timesheets.

Regional Office management indicated an Administrative Assistant maintained separate files, records, and storage and did not maintain two personnel files with this pertinent information and did not retain two timesheets. No written policy existed outlining the process to obtain employment agreements and timesheets. (Finding 18-004, pages 14e – 14f)

The auditors recommended the ROE complete and maintain employment agreements and timesheets. Auditors also recommended the ROE update the written payroll policy procedures to include obtaining and maintaining the employment agreement documentation and employee timesheets.

ROE Response: *All employee agreements will be kept in one location within employee file in the Human Resources department. Policies will be updated to include procedures to obtain and retain employment agreements. Payroll documents including the signed timesheets will be retained in a central location.*

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 School Code (105 ILCS 5/2-3.17a) allows a Regional Office of Education or Educational Service Center to utilize a cash basis, modified cash basis, or GAAP basis of accounting to prepare the financial statements for audit. The ROE has chosen to utilize the GAAP basis of accounting for financial statement reporting.

The ROE is required to maintain a system of controls over the preparation of financial statements. 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 financial statement presentation among program revenue and expense categories. The initial financial statement provided required reclassification of \$960,083 from local source revenue to State source revenue. The expense clarification also required adjustment. Program expenses of \$261,010 of salaries and benefits and \$1,641 of miscellaneous were reallocated to \$131,084 of purchased services, \$128,961 of supplies and materials, and \$2,606 of capital expenditures.
- 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 this was an oversight. (Finding 18-005, pages 14g – 14h)

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.

Additionally, ROE management should determine if changing from the GAAP basis to the cash basis or modified cash basis of accounting would be allowable or beneficial to the ROE and users of the ROE's statements.

ROE Response: *The ROE will establish procedures to ensure that financial statements be carefully reviewed for proper accounting and reporting in accordance with GAAP.*

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 maintained an informal checklist for monitoring subrecipients of its Title I School Improvement and Accountability program, there were 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 200.332(a)) requires certain information be communicated to the recipients of the subaward, including the CFDA number and name.

The Uniform Guidance (2 CFR 200.332(b)) 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.

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, requiring the ROE to obtain such certification from its subrecipients.

Regional Office management also indicated they were not aware of the Uniform Guidance (2 CFR 200.332(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 additionally indicated they were not aware of the Uniform Guidance (2 CFR 200.332(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 18-006, pages 15b – 15d) **This finding was first reported in 2016.**

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 200.332(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 200.332(a), and 2 CFR 200.332(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 200.332(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 \$34,022 in salary and benefits costs for four employees to the Title I School Improvement and Accountability 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 four 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 of the 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 18-007, 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, 2018 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