



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #17**  
**DEWITT, LIVINGSTON, AND MCLEAN COUNTIES**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2014**

**Release Date: February 26, 2015**

| FINDINGS THIS AUDIT: 3        | AGING SCHEDULE OF REPEATED FINDINGS |               |              |                |            |            |            |
|-------------------------------|-------------------------------------|---------------|--------------|----------------|------------|------------|------------|
|                               | <u>New</u>                          | <u>Repeat</u> | <u>Total</u> | Repeated Since | Category 1 | Category 2 | Category 3 |
| <b>Category 1:</b>            | <b>1</b>                            | <b>1</b>      | <b>2</b>     | 2007           | <b>1</b>   |            |            |
| <b>Category 2:</b>            | <b>0</b>                            | <b>0</b>      | <b>0</b>     |                |            |            |            |
| <b>Category 3:</b>            | <b>1</b>                            | <b>0</b>      | <b>1</b>     |                |            |            |            |
| <b>TOTAL</b>                  | <b>2</b>                            | <b>1</b>      | <b>3</b>     |                |            |            |            |
| <b>FINDINGS LAST AUDIT: 3</b> |                                     |               |              |                |            |            |            |

**SYNOPSIS**

- **(14-1)** The Regional Office of Education #17 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #17 did not have adequate internal control procedures.
- **(14-3)** The Regional Office of Education #17 was not in compliance with the School Facility Occupation Tax statute.

**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 #17**  
**DEWITT, LIVINGSTON, AND MCLEAN COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2014**

|  | <b>FY 2014</b>           | <b>FY 2013</b> |
|--|--------------------------|----------------|
| <b>TOTAL REVENUES</b>  | \$4,279,040              | \$5,240,331    |
| Local Sources  | \$1,398,386              | \$2,509,157    |
| % of Total Revenues  | 32.68%                   | 47.88%         |
| State Sources  | \$2,548,549              | \$2,419,237    |
| % of Total Revenues  | 59.56%                   | 46.17%         |
| Federal Sources  | \$332,105                | \$311,937      |
| % of Total Revenues  | 7.76%                    | 5.95%          |
| <b>TOTAL EXPENDITURES</b>  | \$4,383,281              | \$5,124,511    |
| Salaries and Benefits  | \$3,392,086              | \$2,947,016    |
| % of Total Expenditures  | 77.39%                   | 57.51%         |
| Purchased Services   | \$611,260                | \$1,548,818    |
| % of Total Expenditures  | 13.95%                   | 30.22%         |
| All Other Expenditures   | \$379,935                | \$628,677      |
| % of Total Expenditures  | 8.67%                    | 12.27%         |
| <b>TOTAL NET POSITION</b>  | \$2,983,448 <sup>1</sup> | \$3,197,339    |
| <b>INVESTMENT IN CAPITAL ASSETS</b>  | \$475,732                | \$487,819      |
| Percentages may not add due to rounding.   |                          |                |
| <sup>1</sup> Beginning net position was restated by (\$109,650) due to the reclassification of a fund to an Agency fund. |                          |                |

| <b>REGIONAL SUPERINTENDENT</b>             |
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| During Audit Period: Honorable Mark Jontry |
| Currently: Honorable Mark Jontry           |

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

**The Regional Office of Education #17 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #17 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 #17 did not have sufficient internal controls over the financial reporting process. While the Regional Office 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.

During review of the Regional Office's accounting records, auditors noted the Regional Office's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

According to Regional Office of Education #17 officials, current funding levels were not adequate to hire and/or train accounting personnel in order to comply with these requirements. (Finding 2014-001, pages 11a-11b) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #17 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 #17 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size.

The Regional Office will continue to seek qualified accounting expertise in developing procedures that will satisfy the pronouncements in financial statement preparation. The Regional Office noted that it will continue to provide training for staff in utilizing the full range of financial technology that exists. (For previous Regional Office response, see Digest Footnote #1.)

### **INADEQUATE INTERNAL CONTROL PROCEDURES**

#### **The Regional Office of Education #17 did not have adequate internal control procedures.**

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts, disbursements, and reporting to prevent errors and fraud.

During testing of internal controls, auditors noted the following internal control weaknesses:

- Computer passwords were not changed on a regular basis.
- There was no documented review of bank reconciliations by an individual independent of the reconciliation process.
- Sales tax was paid on several purchases, including a purchase of a capital asset, although the Regional Office was exempt from sales tax.
- An invoice was overpaid by \$117.06.
- One employee had no time study or contemporaneous time record signed by the employee and approved by the supervisor to support salary paid.
- Although the employee handbook stipulates that textbooks, fees, and supplies for continuing education programs were not reimbursable, one employee was reimbursed for \$604.80 of general fees in addition to tuition.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriation of assets that could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. The Regional Office has not established and/or complied with established internal control procedures. (Finding 2014-002, pages 11c-11d)

The auditors recommended that the Regional Office of Education #17 should do the following:

- The Regional Office should require all employees to change their computer passwords periodically.
- An individual independent of the reconciliation process should timely review the bank reconciliations and document his or her review by signing and dating them.

- The Regional Office's tax-exempt certificate or number should be provided to vendors when purchases are made.
- Payment vouchers should be reconciled to the supporting vendor invoice by both the preparer and reviewer for all disbursements.
- Time studies should be conducted periodically for salaried employees, or salaried employees should keep a contemporaneous record of how their time was spent, and the supervisor should approve such time records.
- The Regional Office should adhere to its stated policies or revise its policies.

The Regional Office of Education #17 responded that it has established a schedule for resetting computer passwords twice annually. The Regional Office stated that the Regional Superintendent signs off on bank reconciliations upon completion of the month-end close. The Business Manager has established a month-end completion date by the 15<sup>th</sup> of the current month for the prior month's reconciliation. The ROE also noted that it has made the tax exempt letter more accessible to staff by making it available on the staff portal of the website. Also, time study/record keeping has been reformatted to address the salaried employee work schedule. The Regional Office released an updated version of the Employee Handbook in January 2014, which allowed for the reimbursement of any general fees associated with enrollment of an employee at an accredited college or university.

#### **NONCOMPLIANCE WITH SCHOOL FACILITY OCCUPATION TAX STATUTE**

**The Regional Office of Education #17 was not in compliance with the School Facility Occupation Tax statute.**

By statute (105 ILCS 5/3-14.31), the Regional Superintendent of Schools is responsible for distributing proceeds of the Livingston County School Facility Occupation Tax (CSFOT) to each school district in the county. By statute (55 ILCS 5/5-1006.7), the School Facility Occupation Tax is to be used exclusively for school facility purposes, as defined in 55 ILCS 5/5-1006.7.

The Regional Office of Education #17 entered into intergovernmental agreements with 19 school districts in Livingston County between September 2013 and June 2014 whereby the school districts give the Regional Office permission to keep 0.5% of the proceeds from the CSFOT as an administrative fee to cover costs incurred distributing the tax proceeds. However, the statute authorizing the School Facility Occupation Tax does not contain a provision that permits use of the tax proceeds to cover the Regional Office's administrative costs or any other costs associated with the normal responsibilities of the Regional Office. In FY2014, the Regional Office retained \$2,968 from the tax proceeds.

The Regional Office of Education #17's retention of CSFOT proceeds is not specifically authorized by State laws that address the distribution and use of the CSFOT. The Regional Office maintains that its retention of an administrative fee from the CSFOT proceeds was permitted under the statute based on guidance received from the McLean County State's Attorney. (Finding 2014-003, page 11e)

The auditors recommended that the Regional Office of Education #17 should distribute the entire proceeds of the CSFOT to the Livingston County school districts. Should the Regional Office continue to maintain that retaining a portion of the proceeds as an administrative fee is permissible under State law, it should seek an opinion from the Office of the Attorney General on this matter.

The Regional Office of Education #17 responded that it will limit the retention to interest earned, as permitted by intergovernmental agreements.

#### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #17's financial statements as of June 30, 2014 are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH: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 2013, the Regional Office of Education #17 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office will continue to seek qualified accounting expertise in developing procedures that will satisfy the pronouncements in financial statement preparation. The Regional Office also stated that it will continue to provide training for staff in utilizing the full range of financial technology that exists.