



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #20
EDWARDS, HARDIN, GALLATIN, POPE, SALINE, WABASH, WAYNE AND
WHITE COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2013

Release Date: July 31, 2014

Summary of Findings:

Total this audit:	3
Total last audit:	3
Repeated from last audit:	2

SYNOPSIS

- The Regional Office of Education #20 did not have adequate internal control over the payroll process.
- The Regional Office of Education #20 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #20 used McKinney-Vento Education for Homeless Children and Youth funds to purchase gift cards at the end of the grant period.

{Revenues and expenditures are summarized on the reverse page.}

REGIONAL OFFICE OF EDUCATION #20
EDWARDS, HARDIN, GALLATIN, POPE, SALINE, WABASH, WAYNE AND
WHITE COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2013

	FY 2013	FY 2012
TOTAL REVENUES	\$3,812,431	\$2,445,665
Local Sources	\$347,485	\$376,281
% of Total Revenues	9.11%	15.39%
State Sources	\$2,988,218	\$1,609,332
% of Total Revenues	78.38%	65.80%
Federal Sources	\$476,728	\$460,052
% of Total Revenues	12.50%	18.81%
TOTAL EXPENDITURES	\$3,891,356	\$2,511,335
Salaries and Benefits	\$1,816,228	\$1,864,980
% of Total Expenditures	46.67%	74.26%
Purchased Services	\$463,783	\$516,818
% of Total Expenditures	11.92%	20.58%
All Other Expenditures	\$1,611,345	\$129,537
% of Total Expenditures	41.41%	5.16%
TOTAL NET POSITION	\$41,585	\$120,510
INVESTMENT IN CAPITAL ASSETS	\$34,000	\$35,988
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Lawrence Fillingim Currently: Honorable Lawrence Fillingim

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROL OVER FINANCIAL PROCESSES

The Regional Office of Education #20 did not have adequate internal control over the payroll process.

The Regional Office of Education #20 did not have adequate internal control over financial processes. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over the payroll process to prevent errors or fraud.

Auditors noted the following weaknesses in the Regional Office's internal controls:

- There was no salary contract approved by the Regional Superintendent for 3 out of 16 (19%) individuals tested.
- The salary as stated on the contract did not match the amount the employee was paid for 1 out of 16 (6%) individuals tested.

The Regional Office of Education #20 did not have adequate controls in place over the payroll process. Unauthorized payroll and changes in payroll rates could result in employees receiving incorrect payment for their services.

According to the Regional Office of Education #20 officials, the Regional Office did not have proper internal control procedures over the payroll processes. (Finding 2013-001, page 11a) **This finding was first reported in 2011.**

Auditors recommended that the Regional Office of Education #20 should establish and implement controls over the payroll process to ensure every employee has a contract in their personnel file that is signed by the Regional Superintendent.

The Regional Office of Education #20 responded that as of July 1, 2013, a salary and benefits statement for each employee had been approved, signed, and dated by the Regional Superintendent. The Regional Office noted that this will reflect salaries and benefits for each employee. Any changes to the employee's salary or compensation throughout the year will be reflected on a similar document. (For previous Regional Office response, see Digest Footnote #1.)

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #20 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #20 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 #20 did not have sufficient internal controls over the financial reporting process. The Regional Office of Education #20 maintains its accounting records on cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of 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 financial information prepared by the Regional Office of Education #20, auditors noted the following:

- Numerous adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.
- Receipts were not recorded as received, or periodically throughout the year; instead they were recorded subsequent to year end in a lump sum.
- The fixed asset listing incorrectly calculated beginning accumulated depreciation, current year depreciation expense, ending accumulated depreciation, and omitted asset acquisitions.
- There was not sufficient documentary evidence maintained to adequately support adjusting journal entries.
- Bank reconciliations were not prepared on a monthly basis. They were prepared after year end in preparation for the annual audit.
- School Facility Tax revenue was netted with expenses.

The Regional Office of Education #20's bookkeeping staff did not reconcile bank accounts, enter receipts, receivables, payables, and fixed asset schedules until they prepare for the annual audit at year end which did not allow time for analysis and review before submission to auditors. Further, the

bookkeeping staff did not keep support for journal entries. (Finding 2013-002, pages 11b-11c) **This finding was first reported in 2011.**

The auditors recommended that, as part of internal control over the preparation of financial statements, the Regional Office of Education #20 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education #20's activities and operations. The procedures should include timely completion of monthly bank reconciliations, timely recording of revenue, proper accounting for revenue and expenses, and proper recording of all accounts receivable and payable. The Regional Office should also review the fixed asset listing to ensure beginning accumulated depreciation as well as current year depreciation has been correctly calculated. Finally, the Regional Office should maintain documentation for all journal entries that are made throughout the year.

The Regional Office of Education #20 responded that as of July 1, 2013, it is reconciling bank accounts, recording receipts, receivables, payables and fixed asset schedules on a timely basis, instead of recording them in preparation for the annual yearend audit. The Regional Office stated that a binder containing all journal entries with backup is being kept. The School Facility Tax revenue is no longer being netted with expenses. (For previous Regional Office response, see Digest Footnote #2.)

CONTROLS OVER GRANT DISBURSEMENTS

The Regional Office of Education #20 used McKinney-Vento Education for Homeless Children and Youth funds to purchase gift cards at the end of the grant period.

As a recipient of federal, State, and local funds from various granting agencies, the Regional Office must incorporate certain procedures into their operations in order to comply with the grant agreements with these entities. In addition, the Regional Office should comply with Circular A-87 when making purchases with federal funds.

During testing, auditors noted federal grant funding received for the McKinney-Vento Education for Homeless Children and Youth was used by the Regional Office of Education to purchase department store gift cards in the amount of \$4,277. The gift cards were purchased right before the end of the grant period and were specifically purchased so the Regional Office could spend the funding during the current grant period and not return the funds to the grantor. In addition, without proper documentation obtained for gift card purchases, unallowable costs could be incurred. The bookkeeper stated that the funds could not be spent prior to the end of the grant period therefore, the Regional Office purchased gift cards.

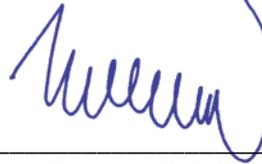
The Regional Office of Education #20 did not have a system of internal controls in place to ensure that purchases are made with federal grant funds within the period of availability. (Finding 2013-003, page 11d)

The auditors recommended that the Regional Superintendent should ensure that all federal grant funds are spent prior to the end of the grant period or the funds should be returned.

The Regional Office of Education #20 responded that as of July 1, 2013, gift cards were no longer being purchased by the Regional Office with McKinney-Vento Education for Homeless Children and Youth funds.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #20's financial statements as of June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1: Inadequate Internal Control Over Financial Processes - Previous Regional Office Response

In its prior response in 2012, the Regional Office of Education #20 responded that as of July 1, 2012, a salary and benefits statement for each employee had been approved, signed, and dated by the Regional Superintendent. The Regional Office noted that this will reflect salaries and benefits for each employee, and any changes to an employee's salary or compensation throughout the year will be reflected in a similar document. The Regional Office stated that duplicate payment of this expense was an oversight. The Regional Office of Education will continue to follow its policy of only paying vendors once an appropriate vendor invoice has been received.

#2: Controls Over Financial Statement Preparation - Previous Regional Office Response

In its prior response in 2012, the Regional Office of Education #20 responded that as of July 1, 2012, it is recording receipts when received, instead of recording them in preparation for the annual year end audit. The Regional Office noted that it hired new fiscal staff as of August 1, 2012. The ROE stated that it has also implemented new accounting software with proper training for its employees. The Regional Office stated that this should address the issues of inadequate internal controls as well as help with the preparation of the financial statements on a timely basis.