



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, 2014**

**Release Date: May 7, 2015**

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	3	1	4	2011	14-2	14-1	
Category 2:	1	1	2				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>4</b>	<b>2</b>	<b>6</b>				
FINDINGS LAST AUDIT: 3							

**SYNOPSIS**

- (14-1) The Regional Office of Education #20 did not have adequate internal control over the payroll process.
- (14-2) The Regional Office of Education #20 did not have sufficient internal controls over the financial reporting process.
- (14-3) The Regional Office of Education #20 was in noncompliance with the McKinney-Vento Education for Homeless Children and Youth federal grant.
- (14-4) The Regional Office of Education #20 used designated grant funds to cover deficit cash balances in other funds.
- (14-5) The Regional Office of Education #20 did not prepare monthly bank reconciliations.
- (14-6) The Regional Office of Education #20 did not have adequate internal controls over Institute Fund expenditures.

**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 #20**  
**EDWARDS, HARDIN, GALLATIN, POPE, SALINE, WABASH, WAYNE AND**  
**WHITE COUNTIES**

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

	<b>FY 2014</b>	<b>FY 2013</b>
<b>TOTAL REVENUES</b>	\$2,310,921	\$3,812,431
Local Sources	\$324,713	\$347,485
% of Total Revenues	14.05%	9.11%
State Sources	\$1,557,371	\$2,988,218
% of Total Revenues	67.39%	78.38%
Federal Sources	\$428,837	\$476,728
% of Total Revenues	18.56%	12.50%
<b>TOTAL EXPENDITURES</b>	\$2,345,465	\$3,891,356
Salaries and Benefits	\$1,751,579	\$1,816,228
% of Total Expenditures	74.68%	46.67%
Purchased Services	\$473,214	\$463,783
% of Total Expenditures	20.18%	11.92%
All Other Expenditures	\$120,672	\$1,611,345
% of Total Expenditures	5.14%	41.41%
<b>TOTAL NET POSITION</b>	\$7,041	\$41,585
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$31,587	\$34,000
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
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 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:

- The salary, as stated on the contract, did not match the amount the employee was paid in 2 out of 40 (5%) individuals tested.
- The Regional Superintendent did not review the payroll register after payroll was processed and before checks were signed and dispersed.

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 Regional Office of Education #20 officials, Regional Office employees were not aware that the contracts did not match the salary for employees and did not realize it was necessary for the Regional Superintendent to review the payroll register after the payroll was processed and before checks were signed. (Finding 2014-001, 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 matches the employee's current rate of pay. In addition, the Regional Superintendent should review the payroll register after the payroll is processed to ensure employees are receiving accurate payments as specified in their approved contract.

The Regional Office of Education #20 responded that all contracts are now reviewed by the Regional Superintendent and updated as needed to ensure accuracy of contracts and salaries. The Regional Office noted that previously, the Regional Superintendent signed all checks. Currently, the majority of employees are paid by electronic deposit, which is a change in procedures. The Regional Superintendent is now approving each payroll register before the salaries are disbursed. (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). Regional Office 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. 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:

- The Regional Office's financial information required material adjusting entries to accounts receivable and unearned revenue in order to present its financial statements in accordance with generally accepted accounting principles. Proposed adjusting entries were approved and accepted by Regional Office management.
- There was not sufficient documentary evidence maintained to adequately support adjusting journal entries.

According to Regional Office officials, the bookkeeping staff did not reconcile bank accounts until they prepared 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 2014-002, 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. Finally, the Regional Office should maintain supporting documentation for all journal entries that are made throughout the year.

The Regional Office of Education #20 responded that it is completing actions, with regards to the preparation of the financial statements, on a timely manner, and not waiting until the end of the year in preparation for the annual audit. The Regional Office stated that monthly and quarterly duties are performed timely and approved by the Regional Superintendent. Extra training is not deemed possible due to the added cost of the training, but it is taking into account all of the suggestions of its auditors and implementing any and all suggestions that they may provide. The Regional Office noted that once the cost of additional training is plausible, the proper employees will receive the necessary training. The Regional Office of Education is adding additional information to support the adjusting journal entries. (For previous Regional Office response, see Digest Footnote #2.)

## **CONTROLS OVER GRANT COMPLIANCE**

### **The Regional Office of Education #20 was in noncompliance with the McKinney-Vento Education for Homeless Children and Youth federal grant.**

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 grant agreements with these entities.

During testing, auditors noted salaries and benefit expenses were allocated to the McKinney-Vento Education for Homeless Children and Youth program using the budgeted amount without proper documentation of the time and effort by the employee for this program.

The Regional Office of Education #20 did not have a system of internal controls in place to ensure that salary and benefit expenses allocated to federal programs were properly supported. (Finding 2014-003, page 11d)

The auditors recommended that the Regional Office of Education #20 should conduct a time study for the employees to determine how much time is spent on the federal programs, such as McKinney-Vento Education for Homeless Children and Youth program, in order to determine the amount of salary and benefit expenses that should be allocated to programs.

The Regional Office of Education #20 responded that it was unaware that time and effort sheets were needed. Time and effort sheets are currently being completed.

## USE OF DESIGNATED GRANT BALANCES

**The Regional Office of Education #20 used designated grant funds to cover deficit cash balances in other funds.**

The Regional Office of Education #20 has several grant funded programs. Programs funded by State and federal grants must be tracked and maintained separately. The Regional Office of Education #20 pools program and local revenue into the same bank account. Cash that was granted to the Regional Office, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

The Regional Office of Education #20 did not reconcile the pooled bank account monthly. (Finding 2014-004, page 11e)

The auditors recommended that the Regional Office of Education #20 should not use cash designated for specific grant purposes to cover deficit cash balances in programs other than those for which the cash was granted.

The Regional Office of Education #20 responded that as of July 1, 2014, it will continue to have one main bank account for all funds. All bank accounts are being reconciled on a monthly basis to ensure that funds are being used appropriately. The Regional Office stated that inter-fund loans will not be made. Therefore, cash will be accurately stated and this will be another measure to make sure that funds are being spent appropriately. The bank reconciliations, bank statements, and financial reports are reviewed and approved by the Regional Superintendent monthly.

## PREPARATION OF MONTHLY BANK RECONCILIATIONS

**The Regional Office of Education #20 did not prepare monthly bank reconciliations.**

As a basic cash management procedure, the Regional Office of Education #20 should be preparing bank reconciliations for each of its cash accounts on a monthly basis. This procedure should be incorporated as part of the monthly closing procedures. During the current fiscal year, the Regional Office of Education #20 did not reconcile any of its cash accounts until after the fiscal year end in preparation for the annual audit.

The Regional Office of Education #20 did not have monthly closing procedures that included preparing monthly bank reconciliations. (Finding 2014-005, page 11f)

The auditors recommended that the Regional Office of Education #20 should develop and implement monthly closing procedures that include preparing a monthly bank reconciliation for all bank accounts at the end of each month.

The Regional Office of Education #20 responded that all bank reconciliations are currently being completed on a monthly basis.

## **INADEQUATE INTERNAL CONTROLS OVER INSTITUTE FUND EXPENDITURES**

**The Regional Office of Education #20 did not have adequate internal controls over Institute Fund expenditures.**

According to Article 3 of the Illinois School Code (105 ILCS 5/3-12), all certificate fees and a portion of renewal and duplicate fees are restricted to specific uses, including to defray expenses connected with improving technology necessary for the efficient processing of certificates, to defray all costs associated with the administration of teaching certificates and to defray expenses incidental to teachers' institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers or to defray the expense of any general or special meetings of teachers or school personnel of the region that has been approved by the Regional Superintendent.

The Regional Office of Education #20 allowed \$24,277 of funds generated from certification, renewal and duplicate fees to be loaned to other funds. The Regional Office was not in compliance with Article 3 of the Illinois School Code (105 ILCS 5/3-12).

The Regional Superintendent did not realize funds from the Institute Fund had been loaned to other funds. (Finding 2014-006, page 11g)

The auditors recommended that the Regional Office of Education #20 should review the State statute and consult with the Illinois State Board of Education or legal counsel if there is uncertainty as to whether a particular expenditure is permitted for the Institute Fund under Article 3 of the Illinois School Code.

The Regional Office of Education #20 responded that to ensure the proper money is in the Institute Fund and loans to other funds are no longer being made, the Regional Office of Education will open a separate bank account for the Institute Fund.

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #20'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: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 2013, 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 an employee's salary or compensation throughout the year will be reflected in a similar document.

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

In its prior response in 2013, 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.