



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #24
GRUNDY AND KENDALL COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2017

Release Date: June 28, 2018

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2010	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 2	<u>Repeat</u> 1	<u>Total</u> 3	17-1			
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(17-1)** The Regional Office of Education #24 did not have sufficient internal controls over the financial reporting process.
- **(17-2)** The Regional Office of Education #24 had inadequate internal controls over cash and bank reconciliations.
- **(17-3)** The Regional Office of Education #24 had inadequate census data for Illinois Municipal Retirement Fund employees.

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 #24
GRUNDY AND KENDALL COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$2,598,108	\$2,740,996
Local Sources	\$317,793	\$592,759
% of Total Revenues	12.23%	21.63%
State Sources	\$2,102,478	\$1,962,311
% of Total Revenues	80.92%	71.59%
Federal Sources	\$177,837	\$185,926
% of Total Revenues	6.84%	6.78%
TOTAL EXPENDITURES	\$2,478,209	\$2,303,910
Salaries and Benefits	\$1,602,096	\$1,507,392
% of Total Expenditures	64.65%	65.43%
Purchased Services	\$344,807	\$326,952
% of Total Expenditures	13.91%	14.19%
All Other Expenditures	\$531,306	\$469,566
% of Total Expenditures	21.44%	20.38%
TOTAL NET POSITION	\$1,623,600 ¹	\$1,872,034
INVESTMENT IN CAPITAL ASSETS	\$252,188 ²	\$292,916
¹ The FY 2017 beginning net position was restated by (\$368,333) due to the ROE not implementing GASB 68 for the Illinois Municipal Retirement Fund in the current year. ² Capital asset amounts include debt associated with a long-term operating lease. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Christopher Mehochko Currently: Honorable Christopher Mehochko

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #24 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #24 (ROE) did not have sufficient internal controls over the financial reporting process. The Regional Office 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 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 review of the ROE's financial information, auditors noted the ROE's financial information required material adjusting entries to cash, accounts receivable, accounts payable, operating lease obligation, and capital assets in order to present its financial statements in accordance with GAAP. Through inquiries and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted that the ROE did not have adequate controls to record and report the ROE's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP. Proposed adjusting entries were approved and accepted by Regional Office management.

According to Regional Office officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. Additionally, the complex requirements of GASB Statements No. 68 and No. 71 were implemented in fiscal year 2015 and will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2017-001, pages 10-11) **This finding was first reported in 2010.**

The auditors recommended that as part of internal control over the preparation of financial statements, the ROE 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 the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *The Regional Office will continue to address this finding using the limited resources that we have.*

Prior Year ROE Response: *The Regional Office had taken the following steps to address this finding:*

- 1. Implemented a new software system – now in its fourth year of use.*
- 2. Provided professional development opportunities to personnel.*

The Regional Office will continue to address this finding using the limited resources it has.

INADEQUATE INTERNAL CONTROLS OVER CASH AND BANK RECONCILIATIONS

The Regional Office of Education #24 had inadequate internal controls over cash and bank reconciliations.

The Regional Office had inadequate internal controls over cash and bank reconciliations. The following deficiencies related to its internal control were noted:

- The ROE did not have accurate general ledger cash balances for multiple bank accounts as of June 30, 2017. Additionally, monthly bank reconciliations performed for these accounts did not agree to the related general ledger cash balances.
- The Regional Superintendent's signature stamp was being stored in an unlocked drawer.
- Payroll checks to be paid in July were written on June 30, 2017, and held instead of being accrued. This was recorded in the ROE general ledger as a reduction of cash and increase in an expenditure.
- During the year, the amount on deposit at a financial institution exceeded both the Federal Deposit Insurance Corporation limit and the amount pledged as collateral by \$119,121.

The ROE is responsible for establishing and maintaining an internal control system over general ledger cash balances, bank reconciliations, and expenditures.

Additionally, the Public Funds Deposit Act (30 ILCS 225/1) gives the authorization for deposits in excess of the federally

insured limit to be covered by pledged collateral held by the financial institutions' trust departments in the ROE's name.

According to Regional Office officials:

- A transfer was recorded improperly during the year ended June 30, 2016, which caused the general ledger cash balance to be inaccurate for the full year ended June 30, 2017. Adjusting journal entries from the June 30, 2016 audit were not recorded properly so this error was not corrected. Additionally, adequate internal controls were not in place to ensure bank statements are properly reconciled to the related general ledger cash accounts.
- The administrative assistant was hired late in the year and was unaware that it was necessary to keep the signature stamp in a locked enclosure.
- The Regional Office was unaware that it was not good business practice to write and hold checks.
- The Regional Office believed it was adequately collateralized at the financial institution; however, a coding error at the bank caused the ROE to be under collateralized. (Finding 2017-002, pages 12-13)

The auditors recommended that the ROE should implement proper controls for the safeguarding of assets and maintain an adequate system of internal controls over accounting transactions and bank reconciliations to prevent error or fraud.

- The ROE should ensure all cash account balances per the general ledger are accurate and properly reconciled to the related bank accounts. Bank reconciliations should be prepared monthly and all differences between the bank balance and the general ledger balance should be investigated and resolved.
- If a signature stamp is considered necessary, it should be stored in a secure enclosure.
- The ROE should only write checks when payments are intended to be disbursed.
- The ROE should periodically monitor the amount of collateral held on deposits to ensure an adequate amount is maintained. The ROE should also seek an agreement with the bank to provide sufficient collateral in the ROE's name for all bank deposits.

ROE Response: *The ROE will continue to address this finding using an outside CPA firm to assist.*

**INADEQUATE CENSUS DATA FOR ILLINOIS
MUNICIPAL RETIREMENT FUND (IMRF)
EMPLOYEES**

The Regional Office of Education #24 had inadequate census data for Illinois Municipal Retirement Fund employees.

Census data contained in the actuarially determined pension report for the ROE Illinois Municipal Retirement Fund (IMRF) could not be confirmed as reasonably accurate.

Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. Management of cost-sharing plans is also responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, including completeness and accuracy of census data.

According to Regional Office officials, a local special education cooperative (cooperative) and the ROE previously paid IMRF contributions using the same IMRF employer number. This arrangement was agreed upon several years ago by previous governing bodies. Upon the cooperative obtaining its own employer number in June of 2016, IMRF, with cooperation from the ROE, transferred the active employees of the cooperative to the new employer number. However, it cannot be determined at this time if the inactive and retired employees of the cooperative have been properly transferred to the new IMRF employer. (Finding 2017-003, page 14)

The auditors recommended that the Regional Office should work with IMRF to determine all employees associated with the ROE's IMRF account are actually employees of the Regional Office.

ROE Response: *The ROE has and continues to work with IMRF regarding this finding.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #24's financial statements are fairly presented in all material respects except for the effect of not recognizing or disclosing Illinois Municipal Retirement Fund pension activity in the governmental activities as of June 30, 2017.

This financial audit was conducted by the firm of West & Company, LLC.

SIGNED ORIGINAL ON FILE

KELLY MITTELSTAEDT
Audit Manager

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