



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #25
HAMILTON AND JEFFERSON COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2011

Release Date: December 20, 2012

Summary of Findings:

Total this audit:	14
Total last audit:	7
Repeated from last audit:	5

SYNOPSIS

The Regional Office of Education #25:

- prepaid salaries and contracts before work was performed;
- was lacking documentation associated with certain related party transactions;
- lacked documentation to support payments made to employees in addition to their regular salaries;
- did not have adequate internal controls over employee benefits;
- had questionable expenditures for ROE operations and various programs;
- did not have adequate documentation to substantiate revenues and expenditures;
- did not have adequate internal controls over cash disbursements; and
- did not have adequate controls over compliance with laws and regulations.

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

REGIONAL OFFICE OF EDUCATION #25
HAMILTON AND JEFFERSON COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$3,908,655	\$3,721,152
Local Sources	\$872,941	\$708,547
% of Total Revenues	22.33%	19.04%
State Sources	\$2,604,288	\$2,676,435
% of Total Revenues	66.63%	71.92%
Federal Sources	\$431,426	\$336,170
% of Total Revenues	11.04%	9.03%
TOTAL EXPENDITURES	\$4,043,895	\$3,607,431
Salaries and Benefits	\$2,644,457	\$2,419,608
% of Total Expenditures	65.39%	67.07%
Purchased Services	\$1,031,894	\$954,114
% of Total Expenditures	25.52%	26.45%
All Other Expenditures	\$367,544	\$233,709
% of Total Expenditures	9.09%	6.48%
TOTAL NET ASSETS	\$694,604	\$829,844
INVESTMENT IN CAPITAL ASSETS	\$778,929 ¹	\$813,522 ¹
¹ Capital asset amounts are not net of related debt which is associated with assets of the Hamilton-Jefferson Educational Services Cooperative. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Bryan Cross Currently: Honorable Ron Daniels

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

PREPAYMENT OF SALARIES AND CONTRACTS

**The Regional Office of Education
#25 prepaid salaries and contracts
before work was performed.**

Sound business practice requires that employees not be compensated until the work is performed. In addition, prepayment of salaries and contractual agreements is not provided for by Regional Office of Education #25 policies.

The Regional Office of Education #25 prepaid employees' salaries and contractual agreements as follows:

- A prepayment of \$4,264 was made to a former employee on June 30, 2011 for a contract for her to be available for the FY11 audit to be performed at a later date in FY12. The former employee was not retained by the current Regional Superintendent who took office July 1, 2011.
- Our review of ROE documentation noted two issues relating to the FY11 salary payments to two former employees. The first was that there was conflicting documentation as to whether these two employees were 200 day or 245 day employees in FY11. Prior to FY11, the positions were 245 day employees. However, the FY11 salary documentation and pay schedules showed them as 200 day employees. In contrast, their FY11 annual salary amounts remained unchanged from FY10, even though the number of days worked was reduced from 245 to 200 days. Furthermore, they took vacation days in FY11 even though, according to ROE policy, only 245 day employees earn vacation days (not 200 day employees).

Second, there was inadequate documentation as to whether amounts paid to these former employees in FY11 were appropriate. Their pay schedule shows their annual salaries were for the period September 1, 2010 through August 30, 2011. They were receiving semi-monthly pay checks at 1/24 of their annual salary. However, beginning in April 2011, their semi-monthly pay checks were increased so that they would receive their total annual salary by June 30, as opposed to August 30, 2011 (i.e., they were prepaid salaries payable in July and August 2011). These two employees were not retained by the current Regional Superintendent who took office July 1, 2011.

Based on ROE documentation, auditors could not determine whether, in fact, the two employees worked

the 200 days during the 10 month time period. Furthermore, one individual was paid \$4,950 and the other was paid \$4,592 in additional compensation for 11 and 14 days worked respectively in June 2011 for closing FY2011 grants, preparing files for audit and transition. These additional payments were made from the vendor module of the accounting software as opposed to the payroll module. This resulted in no payroll taxes being withheld and underreporting of wages to the taxing authorities.

Regarding the \$4,264 prepayment, the former Regional Superintendent noted that he felt it was important to have someone who worked at the ROE during the audit period be available to assist in the current audit (e.g., locating time and effort sheets, and other documentation, and providing clarification as needed).

The former Regional Superintendent noted that the reduction of work days for the two employees, from 245 to 200, was done at his discretion. He noted that because of the need to close all grants by June 30, 2011, the employees' 200 days were used by early June. The former Regional Superintendent then approved for the payment of any additional days worked in June. He also noted that salaries were not reduced when their work days were reduced from 245 to 200 days in order to provide them with end of career retirement incentives and for the extra work they had performed for the previous three years. (Finding 11-02, pages 14-16)

The auditors recommended that the Regional Office of Education #25 should ensure and clearly document that work is performed before payroll and contractual payments are approved.

The former Regional Superintendent responded that prepaid contracts have been commonly utilized by the ROE over the years, such as with Mt. Vernon Conference speakers and mentoring programs. He noted that understanding the complexity of the audit process, it was critical to have someone who worked for the ROE during the audit period and that had a working knowledge and understanding of the programs and financial procedures in place at the time to be available to locate records and documentation, and to provide clarification as needed.

The former Regional Superintendent also responded that the extra work days worked beyond the 200 days were paid on a contractual basis. He stated that it was necessary to run the normal June 2011 payrolls out early in the month in order to provide adequate time for the grants and programs to be closed out by June 30th. Since June payrolls had to be run early, any additional salaries due had to be paid as a contractual fee and not run through payroll as they normally

would. He also stated that all documentation regarding days worked and time and effort documentation were maintained by ROE staff and kept on file in the ROE office.

Auditors commented that the additional compensation paid to the two employees was salary. All salary should be paid through payroll so that appropriate payroll taxes are withheld and reported to the taxing authorities. The timing of regular payroll runs or the closing of grant records at year end does not change how an expenditure is processed and recorded. All other payroll transactions, other than the exceptions noted in finding 11-05, were processed through the payroll module.

The current Regional Superintendent responded that the ROE #25 administration now documents that work is performed before payroll and contractual payments are approved and then paid. The Regional Superintendent signs off on all documents pertaining to payroll.

RELATED PARTY TRANSACTIONS

The Regional Office of Education #25 was lacking documentation associated with certain related party transactions.

The *Regional Office of Education (ROE) Accounting Manual* (Section XIV) 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, rate of pay, and terms of contract/agreement.

The *ROE Accounting Manual* (Section XIV) also states that clear documentation of work responsibilities and time and effort detail should be maintained for each personnel transaction. Maintaining such documentation is particularly important when personnel transactions are with related parties.

In the review of ROE documentation, auditors noted several related party transactions:

- An employee was added to the Regional Office's payroll in November of 2010. Payroll ledgers indicate that she was paid \$16,968 over the period of November 2010 through June 2011. The Regional Office of Education #25 could not locate a personnel file or contract for this employee that would document her rate of pay, job responsibilities, or any other contractual responsibilities she was required to fulfill. Time and effort sheets could also not be located to substantiate this rate of pay. According to the current Regional Superintendent, this employee was a relative of a former ROE employee.

- An employee was added to the Regional Office's payroll in November of 2010 as a maintenance/repairman. Payroll ledgers indicate that he was paid \$18,540 over the period of November 2010 and June 2011. By comparison the Regional Office of Education #25's full-time maintenance/repairman earned a salary of \$21,882 for the entire fiscal year. While the Regional Office of Education #25 had a personnel file on this employee, they could not locate documentation that would document his rate of pay, job responsibilities, or any other contractual responsibilities he was required to fulfill. Time and effort sheets could also not be located to substantiate this rate of pay. According to the current Regional Superintendent, this employee was a relative of a former ROE employee.
- The former Regional Superintendent's wife was paid \$1,200 beyond her regular pay for work performed during spring break in March 2011 as well as an extra \$4,400 in June 2011. While the Regional Office of Education #25 did locate time and efforts sheets for this extra work, they could not locate documentation establishing the rate of pay beyond her normal daily rate.

The former Regional Superintendent noted that personnel information packets were filled out and kept on file, as were time and effort sheets. While time and effort sheets were located for some ROE employees, the Regional Office could only locate time and effort sheets for one of these employees. (Finding 11-03, pages 17-18)

The auditors recommended that the Regional Office of Education #25 should maintain appropriate documentation of work responsibilities, rate of pay and/or record of time and effort to support compensation to related parties.

The former Regional Superintendent responded that the former Regional Superintendent's wife worked only part of the FY11 school year, beginning approximately September 30. He noted that she was paid at a daily rate of \$188.93 which is consistent with other ROE employees who held a similar position and had similar qualifications. Based upon the 6 extra days available to be worked during spring break and Easter break and the 23 days available to be worked between the time the school year ended and June 30, 2011 there was little difference in her rate of pay. He noted that all documentation regarding days worked and time and effort documentation for all employees were maintained by ROE staff and kept on file in the ROE office.

The current Regional Superintendent responded that all documentation for audit purposes left at the 1714 Broadway Main Office buildings was provided to the West and Company audit firm. He noted that time and effort sheets were not found with other financial documents. Upon requests from auditors and further searching, time and effort sheets were found in a ROE #25 storage room located in the Mt. Vernon Township High School warehouse, where older documents are stored. Time and effort sheets were not found for all employees. He also noted that the current ROE #25 administration maintains documentation of employee agreements, work requirements, responsibilities, rate of pay, contractual, and daily or hourly rates of pay.

ADDITIONAL PAYMENTS TO EMPLOYEES

The Regional Office of Education #25 lacked documentation to support payments made to employees in addition to their regular salaries.

The *Regional Office of Education (ROE) Accounting Manual* (Section XIV) states clear documentation of work responsibilities and time and effort detail should be maintained for each personnel transaction. In addition, all employees' rates of pay and compensation adjustments should be documented and maintained in employee personnel files.

Auditors noted several instances where ROE employees received payments in addition to their regular salary paid by the Regional Office. In many of these instances, the Regional Office could not provide documentation to show the necessity of this additional compensation, rates of pay and work performed:

- The former Assistant Regional Superintendent received additional payments totaling \$4,000 in April and May of 2011 for work performed in connection with the Southern Thirty program. The Southern Thirty program is an alternative school option provided by a year-to-year agreement with the Department of Children and Family Services (DCFS) for students of Mt. Vernon High School and Rome Grade School that are temporarily displaced from their homes. There was no documentation to indicate why compensation in addition to her regular salary as Assistant Regional Superintendent was appropriate, or how this work was not part of her normal, full-time job responsibilities.
- Another former employee was contracted by the ROE for 20 hours at \$50 per hour for bookkeeping and other services performed in relation to the Supplemental Education Services program. This employee received \$1,200 for these services, which was \$200 more than the contract. The Regional Office could not provide documentation to substantiate the additional amount paid.

- Two employees were paid a total of \$6,160 for summer work to be performed at the Southern Thirty location. The Regional Office of Education #25 could not locate complete documentation to support extra services or to determine if/when work was performed.
- A former employee received an additional \$1,575 per pay in June 2011 totaling \$3,150. The Regional Office of Education #25 could not locate documentation to support these additional payments.

The former Regional Superintendent noted that timesheets were prepared and submitted for these employees, which showed the extra hours they worked. The former Regional Superintendent also stated that this work was outside of their normal job responsibilities; thus, additional pay was warranted. (Finding 11-04, pages 19-20)

The auditors recommended that if there are instances where it is necessary to provide additional compensation to employees, the ROE should establish a policy that requires appropriate documentation to support additional compensation to employees that substantiates their work responsibilities, rate of pay and/or record of time and effort.

The former Regional Superintendent responded that the former Assistant Regional Superintendent of Schools worked an additional 70-80 hours at Southern Thirty including many weekend days and evenings. He noted that this was for completing tasks that were outside her normal scope of work. According to the former Regional Superintendent, this additional work was sought by the Assistant Regional Superintendent to increase her creditable earnings in preparation for a retirement she did not anticipate. He stated that there is precedent across the state for ROEs to provide additional compensation to Assistant Regional Superintendents for work outside their normal scope of work. He responded that a personnel file was created for her as a local employee and her time and effort sheet was kept on file in the ROE office. He also noted that all documentation regarding days worked and time and effort documentation for all employees were maintained by ROE staff and kept on file in the ROE office.

The current Regional Superintendent responded that all documentation for audit purposes left at the 1714 Broadway Main Office buildings was provided to the West and Company audit firm. He stated that time and effort sheets were not available for these additional areas of compensation. He also noted that the current ROE #25 administration has been establishing a policy that requires appropriate documentation to support additional pay to employees that substantiates their work requirements and rate of pay.

INTERNAL CONTROLS OVER EMPLOYEE BENEFITS

The Regional Office of Education #25 did not have adequate internal controls over employee benefits.

According to the *ROE Accounting Manual* (Section XIV), Regional Office employees should be appropriately classified as either Teachers' Retirement System (TRS) (certified teachers) or Illinois Municipal Retirement Fund (IMRF) (noncertified employees working 600-1000 hours) employees. Wages for employees should be accurately reported to TRS or IMRF and payroll withholdings should be accurately calculated and withheld on each paycheck.

According to the Regional Office of Education #25's Personnel Policy, each full-time employee will be granted one sick day for each month he/she is employed. If an employee does not use the entire amount of sick days, unused amounts shall accumulate to 340 days. A minimum of 10 sick days per year will be granted for full-time employees. Additionally, each full-time employee will be granted two days per year for personal business leave. Any unused personal leave days will be carried over to the following year as accumulated sick leave.

Additionally, the ROE should properly classify employees according to Internal Revenue Service Publication 15 *Circular E, Employers Tax Guide*, and ensure that all appropriate payroll taxes and forms are accurately submitted to their respective agencies.

During testing, auditors noted the following:

- Upon inquiry of the current Regional Superintendent and review of payroll documentation, it was determined that five ROE employees were incorrectly classified as being covered by the Teachers' Retirement System (TRS) when they were not in a TRS covered position. This resulted in an overpayment to TRS of about \$22,700 and an underpayment to IMRF of about \$32,000. Additionally, since social security taxes should have been withheld and matched under IMRF for these employees, the ROE's liability was approximately \$21,000.
- During payroll testing auditors noted variances between the wage amounts recorded in the general ledger and those reported to TRS of approximately \$142,000. This resulted in an underpayment of the TRS and Teachers Health Insurance Security (THIS) liability of approximately \$16,000.
- Two former employees each received payments of \$1,360 for 10 unused vacation days each. However,

one employee only had 6 unused vacation days available and the other had 5.5 unused vacation days available. In addition, these payments were made from the vendor module of the accounting software as opposed to the payroll module and no payroll taxes were withheld.

- Supplemental Education Services (SES) program tutors for the Salem and Benton districts were paid \$2,220 and \$1,435 respectively, through the vendor module as opposed to the payroll module.
- The Regional Office approved prepayment of health insurance premiums totaling approximately \$13,300 causing an overpayment of health insurance as well as an overstatement of ROE expenditures.
- A former ROE employee exceeded the number of personal/sick leave days that were allotted to them. The employee had negative 4.5 days accumulated sick leave that carried over from the prior year. Ten sick days and two personal days were earned in the current year. The employee took a total of 18.5 sick/personal days, exceeding the accumulated leave by 11 days.
- A former ROE employee, who was classified as a half-time employee, was not entitled to paid sick/personal leave, however, the Regional Office accrued ten sick days and two personal days for this employee in the current year. The employee took a total of 20 sick/personal half-days in the current year, exceeding the amount accumulated by 21 half days.

According to Regional Office officials, the Regional Office did not review employee classifications to ensure they were accurately entered into the payroll system, approved vendor payments for payroll related items, rather than requiring that all such payments be initiated through the payroll module of the accounting software, and did not follow personnel policy guidelines for vacation leave. Additionally, the Regional Office did not properly monitor the use of employee sick/personal leave. The former Regional Superintendent noted that the reclassifications of personnel out of TRS covered positions were made by the current Regional Office administration and he had no knowledge of who was reclassified and for what reason. (Finding 11-05, pages 21-24)

The auditors recommended that the Regional Office of Education #25 should ensure that all employee classifications are reviewed and approved so they are accurately entered into the payroll system. The Regional Office should not approve vendor payments for payroll related items, but rather should ensure that all such payments are initiated through the payroll

module of the accounting software. In addition, the ROE should adhere to its defined personnel policy regarding vacation, sick and personal days. Additionally, the Regional Office should ensure that employee sick/personal leave is maintained in accordance with their Personnel Policy and that employees are not paid for days in excess of their accumulated leave.

The former Regional Superintendent responded that the re-classification of employees was done after June 30th. He noted that the contributions to TRS and THIS were accurate based on how the employees were classified before June 30th. He stated that the Health Insurance premiums were paid for all employees through August 31st as this was part of their compensation package. He noted that some of the premiums were contributed by the employees themselves for their dependents. He also responded that payments were made from the vendor module because the normal June 15 and June 30 payrolls had to be run early in the month of June to provide ample time to close out grants and programs by June 30th.

Auditors commented that the payments to employees for unused vacation time and payments to tutors in the Supplemental Education Services (SES) program were salary payments. All salary should be paid through payroll so that appropriate payroll taxes are withheld and reported to the taxing authority. The timing of regular payroll runs or the closing of grant records at year end does not change how an expenditure is processed and recorded. All other payroll transactions, other than the exceptions noted in Finding 11-02, were processed through the payroll module.

The current Regional Superintendent noted that the ROE administration was contacted in November 2011 by a representative from the Teachers' Retirement System when an individual employed by the former Regional Superintendent became a certified teacher in May 2011. He noted that TRS had been paid on the employee for the previous two years, when the employee was not a certified teacher. He stated that conversations with the TRS representative led to further discovery of individuals employed by the former ROE administration in positions that were not classified as TRS positions, and thus TRS contributions should not have been made for these employees. He responded that employment contracts for staff of the ROE not reemployed by the current Regional Superintendent ended on June 30, 2011. Teachers and teacher aides are contractually paid on a fiscal year from September 1 to August 31 and were entitled to all compensation, including insurance through August 31. He stated that other office and administrative staff would not be entitled to compensation and insurance past June 30, 2011, the last day of employment. He noted that the current ROE #25 administration is using guidelines from TRS to properly classify employees as either TRS employees or IMRF

employees. He also noted that the ROE is also adhering to the use of defined personnel policy regarding the use of vacation, sick and personal days.

QUESTIONABLE EXPENDITURES

The Regional Office of Education #25 had questionable expenditures for ROE operations and various programs.

Regional Office of Education #25 funds should be only used for the reasonable and necessary expenditures in the operations of the ROE and for the various programs it supports. Additionally, OMB Circular A-133 requires recipients of federal awards be knowledgeable of program compliance requirements to ensure only allowable expenditures are approved.

During review of the Regional Office of Education #25's documentation, auditors noted several expenditures for which a business purpose could not be established. In one instance, approval of payment for grant expenditures was not in compliance with program requirements:

- The former Regional Superintendent approved payment for a computer purchased for \$1,702.84 for the Math and Science grant. The grant did not provide for capital expenditures. The ROE improperly allocated the cost to grant supplies.
- The Regional Office could not provide appropriate documentation to support the business purpose of payment of certain expenditures at the Southern Thirty program location. The Southern Thirty program is a program through ISBE. The program receives its funding directly from Mt. Vernon High School and Rome Grade School and operates from a two room facility that consists of a classroom suitable for approximately twelve (12) students and a computer room/library. The building is privately owned and is leased by DCFS to provide services for children under their care. The ROE utilizes the two rooms at no cost on a year-to-year basis to administer educational services for the displaced students.
 1. The ROE's Southern Thirty expenditures for the 2010-2011 fiscal year approximated \$210,000, approximately \$75,000 of which was expended in June 2011. By comparison, the 2009-2010 fiscal year Southern Thirty expenditures totaled approximately \$66,000.
 2. Approximately \$36,000 was expended for capital improvements and related purchases at the Southern Thirty location. Expenditures included, but were not limited to: windows, HVAC, new flooring, and gym equipment, all for a gymnasium

located in a separate building, which, according to the program teacher and current Regional Superintendent, is not utilized by the ROE for program services under this agreement. As noted above, the Southern Thirty facilities, including the rehabilitated gymnasium, are privately owned buildings.

3. The Southern Thirty location provides for one teacher, one aide and a Department of Children and Family Services (DCFS) mediator. In addition to the full-time teacher and full-time aide, the ROE allocated salaries for nine other employees to the Southern Thirty program at various times from January through June 2011. Fiscal year 2010-2011 salaries and benefits expenditures for the Southern Thirty program totaled \$126,281. By comparison, the 2009-2010 fiscal year salaries and benefits expenditures totaled \$57,862. The reason for the more than 118% increase in salaries and benefits is not supported by appropriate documentation.
 4. The Regional Office of Education #25 purchased computers, monitors and an iPad lab which included a charging station and several iPads totaling approximately \$22,000 for the Southern Thirty program. According to the program teacher, the IT administrator and the current Regional Superintendent, these items were not utilized by the program and it could not be determined whether these were reasonable and necessary expenditures.
- The Regional Office of Education #25 was a service provider for the District #80 (Mt. Vernon) Supplemental Educational Services (SES) program in fiscal year 2010-2011. In our review of the SES expenditures, instances of questionable expenditures were identified:
 1. The Regional Office of Education #25, as a service provider, used SES funds to purchase ten computers for use in the SES program. The computers remained the property of ROE #25 employees working with the SES program once the program ended.
 2. According to time and effort sheets, the ROE paid tutors at the District #80 SES program, on average, \$50.00 per hour. There were two instances of tutors receiving \$60.00 per hour and one instance where a tutor received \$30.00 per hour. By comparison, the other district SES

programs paid tutors \$30.00-\$35.00 per hour and a separate program paid tutors a rate of \$15.00 per hour; therefore, it could not be determined whether the higher tutor rates were reasonable and necessary.

- During fiscal year 2010-2011, the Regional Office Administration approved payment of salary to an employee who was not performing work for the ROE. According to the employee, she was engaging in the student teaching portion of her teaching credential requirement between February and April 2011 but continued to receive her normal ROE salary. The ROE could not provide a contract or a policy that provides for this type of payment. The salary and benefits paid while not working at the ROE totaled approximately \$10,000.

The former Regional Superintendent noted renovation of the Southern Thirty facility had been discussed since 2008. A major influx of funding in FY11 allowed the ROE to proceed with the renovations. He noted that there was a push to finish the project before the new Regional Superintendent took office on July 1, so the transition would be easier. Regarding the Regional Office's salaries allocated to the Southern Thirty program, the former Regional Superintendent responded that the program received services from many of the people at the main office for bookkeeping, technology, reception, clerical, administration, etc., all of whom had a connection to the program. Regarding the computer equipment purchased, the former Regional Superintendent stated they were purchased for the Southern Thirty program but were not received and set up until the end of the school term. Regarding the employee who was paid while not performing work for the ROE, the former Regional Superintendent noted that she was paid pursuant to his discretion. He stated that he understood that the employee prepared lesson plans for her classes at the ROE's alternative school while she was student teaching at another school in the ROE 25 region. (Finding 11-07, pages 28-32)

The auditors recommended that the Regional Office of Education #25 should ensure approved expenditures are supported by appropriate documentation and are in accordance with the ROE's purchasing policies and procedures. In addition, the ROE should have a policy in place regarding raises and/or other revisions to salary amounts. Finally, the Regional Office should be knowledgeable of grant provisions and should only approve payment of expenditures that are allowed by the grant.

The former Regional Superintendent responded that ROE 25 was a subgrantee in the Math and Science grant. He noted that as the subgrantee, all purchases made with grant funds had the approval of the grant administrator – Southern Illinois

University. The former Regional Superintendent responded that ROE 25 is responsible for the educational component at Southern Thirty and the ROE has always believed in putting money that is generated by a program back into projects that will directly benefit the students being served. He noted that this includes helping to maintain and renovate the facilities that the students use for their academic and physical education classes. He noted that this philosophy can only benefit the students and the community. He stated that these renovations had been discussed for several years but had to be put on hold in 2009 as they suffered a \$40,000 delay in funding due to a reporting error by Mt. Vernon High School. This matter was adjusted in a final report that was filed in June 2010 and caused a major influx of money for FY 11. He noted that a decision was then made to proceed with the renovations.

The former Regional Superintendent noted that the ten computers in question were part of the employees' compensation package and is stated as such in their signed employment agreements. He also responded that they were distributed approximately one month before the actual program started so that tutors could become familiar with the Study Island curriculum used. He noted that they remained with the employee, not District 80. Copies of the employment agreements were provided.

The former Regional Superintendent noted that the employment agreements show that different employees had different responsibilities. He stated that they all received \$50 per hour except the two administrators who received \$60 per hour and the substitute who received \$30 per hour. He stated that it is common practice for schools to pay administrators at a higher rate and substitutes at a lower rate. The former Regional Superintendent responded that each district is allowed a specific pay rate by ISBE. District 80's rate that is set by ISBE is substantially higher than the other districts and allows for staff to be paid at a higher rate. He also noted that the teacher's class size in District 80 was almost double the size of the other districts and the teachers had a much more difficult student population to teach. He responded that all SES pay was approved by the ISBE and fits into their guidelines.

The former Regional Superintendent stated that the ROE has paid or help pay people over the years who were assigned to a school district in the region, such as providing a teacher for the crisis classroom at Mt. Vernon High School. He noted that this teacher in question did provide some services to the Alternative School during the time she was completing her student teaching at a school in the region. He also noted that the ROE was not aware of any policy or rule that would not allow this type of arrangement.

Auditors commented that the Math and Science grant budget allowed for expenditures under "Supplies". The budget did not

contain allowances for expenditures under “Capital Outlay”. The Regional Office recorded the computer purchase in the “Supplies” line item in its general ledger when it should have been recorded as a “Capital Outlay”. The grantor would not have known that the purchase was for a capital asset because it was not listed as such on the invoice the grantor received from the Regional Office. While the Illinois State Board of Education (ISBE) uses a federal software program that calculates a maximum per pupil expenditure amount for the year for their providers, an ISBE official noted that ISBE does not specifically approve the tutor’s rate of pay.

The current Regional Superintendent responded that the ROE #25 administration has implemented procedures requiring that approved expenditures are supported by appropriate documentation. He stated that the ROE is in the process of creating a policy in regards to raises and/or other revisions to salary amounts. He noted that ROE #25 is following the guidelines for all allowable grant expenditures. He also noted that expenditures will cover costs appropriate to the operation of ROE programs.

LACK OF DOCUMENTATION

The *Regional Office of Education (ROE) Accounting Manual* (Forward) establishes that the Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system that provides reasonable assurance about the reliability of its GAAP financial statements, operational compliance with legal and contractual provisions, safeguarding of assets, and effectiveness and efficiency of ROE operations.

The Regional Office of Education #25 did not have adequate documentation to substantiate revenues and expenditures.

During testing, auditors noted the following instances where the Regional Office was unable to provide sufficient documentation to substantiate recorded revenue and/or expenditures:

- The ROE made payments of approximately \$58,000 to the Southtown Youth Center during FY11. The Regional Office received invoices for at-risk youth programs held throughout the year. Payments were to be based on the number of youth served. The initial agreement between the Regional Office and Southtown was for a total of \$28,000 (2,800 participant days @ \$10/day). The agreement noted that roster and attendance records would be kept by Southtown Youth Center. Additional invoices, totaling approximately \$30,000, were submitted and paid by the Regional Office in FY11. The participant rate paid on these invoices was \$12.50 per participant. The invoices paid by the Regional Office were not reconciled to the documentation to show that the number of participants billed actually received the

services. The Regional Office was able to locate student roster and attendance records for the period July 2010 through March 2011. However, the invoices paid were not reconciled to these records. Furthermore, many of the invoices paid were for services provided in April through June 2011, for which no attendance records could be located.

- Time and effort sheets could not be located by the current Regional Superintendent to substantiate the \$3,535 in salaries allocated to the Math and Science grant. This is not in compliance with grant requirements.
- Computer update charges of \$2,315 were charged to the Math and Science grant but documentation could not be located to support the cost to the grant. Upon inquiry of the current Regional Superintendent, he could not tell if the costs were directly related to the grant and he indicated that the costs appear to be associated with regular updates and equipment that would not be needed by the grant. This expenditure was not budgeted for in the grant.

The former Regional Superintendent responded that the ROE had a long standing working agreement with Southtown Youth Programs. He noted that an initial contract usually was agreed to with the understanding that it may be increased as the program grows if funds were available. The contract was based on a formula provided by the Teen REACH program which provided many of the same type of activities. The former Regional Superintendent stated that time and effort documentation was kept for all employees and was present in the office at the end of the day on June 30, 2011. The former Regional Superintendent also responded that the ROE was a subgrantee in the Math and Science grant and purchases made with grant funds had the approval of the grant administrator. (Finding 11-08, pages 33-34)

The auditor's recommended that the Regional Office of Education #25's management should ensure the Regional Office implements controls to prevent authorization of payment without proper supporting documentation.

The former Regional Superintendent responded that attendance records for the final quarter (April – June) would not be available until the quarter actually ended (after June 30). He noted that they would have been collected by or delivered to the new/current Regional Superintendent after June 30, 2011. He stated that time and effort sheets and documentation were maintained by ROE staff and kept on file in the ROE office.

The current Regional Superintendent responded that the current ROE #25 administration has implemented internal control on processing payments with supporting documentation and requires signatures of approval.

INTERNAL CONTROLS OVER CASH DISBURSEMENTS

The *Regional Office of Education (ROE) Accounting Manual* (Foreword) establishes that the Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system that provides reasonable assurance about the reliability of its GAAP financial statements, operational compliance with legal and contractual provisions, safeguarding of assets, and effectiveness and efficiency of ROE operations.

The Regional Office of Education #25 did not have adequate internal controls over cash disbursements.

During testing, auditors noted the following exceptions when testing the Regional Office's internal control system over cash disbursements:

- Appropriate documentation could not be located or was not maintained with the voucher and check payment for 9 out of 67 (13%) transactions tested. The total of the unsupported expenditures was \$7,905. In addition, during our review of credit card expenditures, appropriate documentation could not be located or was not maintained with the credit card statement for 6 out of 43 (14%) transactions tested. The total of the unsupported transactions was \$870. Furthermore, auditors reviewed two gas credit card statements in which appropriate documentation could not be located or was not maintained with the statement for all transactions listed on the statements. The total of the unsupported transactions of the gas credit card statements was \$2,430.
- The employee being personally reimbursed authorized the reimbursement in 1 out of 67 (1%) transactions tested. The amount of the self-authorized reimbursement was \$651.
- During our review of grant compliance testing, auditors noted one instance in which a payment was made on a purchase order prior to receipt of the invoice. The actual invoice was less than the purchase order; however, the original check was not voided and reissued. The Regional Office overpaid for the supplies purchased by \$22. (Finding 11-09, pages 35-36)

The auditors recommended that the Regional Office of Education #25's management should ensure the Regional

Office follows the established system of internal controls over cash disbursements to prevent errors and fraud. Regional Office management should ensure the Regional Superintendent or Assistant Regional Superintendent approves all check disbursement documentation, including invoices and documentation showing the recording of payment. This verifies the check was written from the proper account for the correct amount. Additionally, the Regional Office administration should ensure no employee is allowed to authorize payment in which that employee is being reimbursed.

The former Regional Superintendent responded that time and effort sheets, records, and documentation were maintained by ROE staff and kept on file in the ROE office.

The current Regional Superintendent responded that all documentation for audit purposes left at the 1714 Broadway Main Office buildings was provided to the West and Company audit firm. He noted that the current ROE #25 administration requires that the Regional Superintendent or Assistant Regional Superintendent approves all check disbursement documentation, invoices and documentation of payments. He also noted that no employee is allowed to authorize payment in which that employee is being reimbursed.

CONTROLS OVER COMPLIANCE WITH LAWS AND REGULATIONS

The Illinois School Code in section 105 ILCS 5/18-20 allows a Regional Superintendent to borrow an amount up to 50 percent of the State payments that are due and payable, as certified by the State Superintendent. Funds borrowed under this section are to be repaid immediately upon receipt of payments.

The Regional Office of Education #25 did not have adequate controls over compliance with laws and regulations.

In a section added June 26, 2009, the Illinois School Code 105 ILCS 5/17-19 also allows a Regional Superintendent to take out a line of credit in anticipation of revenues. However, the Regional Superintendent is only allowed to take out 85 percent of current year anticipated grant revenue or 50 percent of next fiscal year anticipated grant revenue, as certified by the State Superintendent. The Regional Superintendent shall authorize this line of credit by executive order or resolution. The executive order or resolution shall set forth facts demonstrating the need for the line of credit, the amount to be borrowed, the maximum interest rate allowed, and the date by which the funds will be repaid. Funds borrowed under this section are to be repaid within 60 days after the revenues have been received.

The Regional Office of Education #25 established a line of credit in FY 10. This initial line of credit was established under 105 ILCS 5/18-20 and did not require an executive

order and, therefore, one was not executed. Additional draws were taken against the line of credit under 105 ILCS 5/17-19, which requires an executive order or resolution, for which one was not executed.

- The Regional Office could not produce certification documentation required by sections 5/18-20 and 5/17-19 of the School Code regarding the anticipated revenue that was being borrowed upon and did not authorize the line of credit by executive order or resolution. At July 1, 2010, the Regional Office had outstanding borrowings of \$200,000 on the line of credit. From September 10, 2010 through December 9, 2010 the Regional Office borrowed an additional \$200,000 against the line of credit. Because the Regional Office did not identify the anticipated revenue that was being borrowed upon, we could not determine if the Regional Office was in compliance with the requirement to make repayment immediately upon receipt of those funds.
- From May 24, 2011 through June 30, 2011, the Regional Office borrowed \$490,000 against the line of credit. For these draws on the line of credit, an executive order was established which identified the amount being borrowed against and the need for the borrowing. The Regional Office did not comply with repayment requirements as required by section 5/17-19 of the School Code. Funds totaling \$311,295 were not repaid within 60 days after the grant revenues had been received. Funds were repaid on various dates ranging from 63 to 88 days after the grant revenues were received.
- The Regional Office's use of grant funds did not comply with the purpose delineated in the executive order. The executive order prepared by the former Regional Superintendent states, "This line of credit is necessary so that this ROE can continue to operate programs they have been funded to provide for students in the region." On June 28, 2011, the Regional Office borrowed \$290,000 on the line of credit. On June 30, 2011, the Regional Superintendent subsequently made a \$297,912 payment on the outstanding building loan, which was not due and payable at that time. At June 30, 2011, the cash deficits in the funds secured by the line of credit totaled \$103,265. As such, the line of credit was not used as prescribed in the executive order. If the line of credit was used as delineated in the executive order, it should have been used first to cover the cash balance shortages in these grant funds.

For borrowings before May 24, 2011, the ROE could provide no documentation to support compliance with statutory provisions requiring that the grant payments to be borrowed against be certified by the State Superintendent or requiring the Regional Superintendent to authorize the line of credit by executive order or resolution. The former Regional Superintendent noted that as of June 30, 2011 financial records show the State owed ROE #25 in excess of \$490,000 in FY 11 grant dollars and that these were for programs for which the ROE had just finished providing and expending all of the grant dollars. The line of credit was established so that the ROE could cover these expenses and operate programs even though funding from the State was months behind. The former Regional Superintendent noted that the building loan had been refinanced several times and that the latest one had a balloon payment due in October 2011. It was the former Regional Superintendent's intention to save enough money in State Aid funding to repay the building loan in its entirety. (Finding 11-12 , pages 42-44)

The auditors recommended that the Regional Office of Education #25 should comply with the requirements of 105 ILCS 5/17-19, as applicable, when borrowing against anticipated revenues.

The former Regional Superintendent responded that as noted in the report, the ROE borrowed \$490,000 between May 24, 2011 and June 30, 2011. He noted that of this amount \$311,295 was not repaid within 60 days after the grant revenues had been received. He stated that they were incorrectly repaid on various dates ranging from 63 to 88 days after the grant revenues were received. He noted that these incorrect late payments were made well after he left office and well after he had any authority to make sure the line of credit was repaid correctly. He stated that this was the responsibility of the new/current Regional Superintendent. The former Regional Superintendent responded that it should be noted that the General State Aid has always been paid by the state on a timely basis. He stated that it was never part of the anticipated revenue that the line of credit was established for. He noted that the building loan payment of \$480,147.56 was due in October 2011. He stated that the loan had been refinanced several times and with the ROE so reliant on state funding the bank was reluctant to continue. He noted that since this was a liability of the school districts and tax payers of the region it was his intent to re-pay the loan as much as possible out of General State Aid before he left office. The former Regional Superintendent noted that the financial records indicate that on June 30, 2011, the state owed ROE #25 \$497,817. He noted that these were programs that closed out on June 30, 2011 and many expenses were incurred during June. He also noted that the line of credit was necessary to zero out these programs and file completion reports with ISBE. He stated that he believes

this is the very intent of the law allowing ROE's to establish a line of credit.

Auditors commented that as stated in the finding, the line of credit was not used to "zero out" the programs from which the line of credit was established. The finding notes that the unadjusted cash deficits in the funds secured by the line of credit totaled (\$103,265).

The current Regional Superintendent responded that the ROE #25 administration will comply with the requirements of 105 ILCS 5/17-19, as applicable, when borrowing against anticipated revenues.

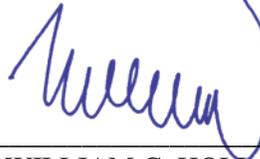
OTHER FINDINGS

The report contained six additional findings. These findings included:

- controls over financial statement preparation (Finding 11-01, pages 12-13);
- internal controls over payroll (Finding 11-06, pages 25-27);
- internal control over capital assets (Finding 11-10, pages 37-39);
- controls over federal awards (Finding 11-11, pages 40-41);
- excess working cash in internal service fund (Finding 11-13, pages 45-46); and
- recording of transactions in the Regional Cooperative Fund (Finding 11-14, pages 47-48).

AUDITORS' OPINION

Our auditors state the Regional Office of Education #25's financial statements as of June 30, 2011 are fairly presented in all material respects. The auditors' report contains an emphasis of matter paragraph due to related party transactions.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: West & Company, LLC were our special assistant auditors.