



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, 2014**

**Release Date: February 11, 2015**

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<u>New</u> 0	<u>Repeat</u> 1	<u>Total</u> 1	
<b>Category 2:</b>	1	2	3	
<b>Category 3:</b>	0	1	1	
<b>TOTAL</b>	1	4	5	
<b>FINDINGS LAST AUDIT: 6</b>				

**SYNOPSIS**

- **(14-1)** The Regional Office of Education #25 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #25 did not have adequate internal controls over payroll and grant compliance.
- **(14-3)** The Regional Office of Education #25 did not have adequate internal controls over cash disbursements.
- **(14-4)** The Regional Office of Education #25 did not have internal controls over restricted cash.
- **(14-5)** The Regional Office of Education #25 had excess working cash in internal service fund.

**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 #25**  
**HAMILTON AND JEFFERSON COUNTIES**

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

	<b>FY 2014</b>	<b>FY 2013</b>
<b>TOTAL REVENUES</b>	\$1,925,059	\$2,302,031
Local Sources	\$528,635	\$773,511
% of Total Revenues	27.46%	33.60%
State Sources	\$1,333,963	\$1,428,061
% of Total Revenues	69.29%	62.03%
Federal Sources	\$62,461	\$100,459
% of Total Revenues	3.24%	4.36%
<b>TOTAL EXPENDITURES</b>	\$2,118,024	\$2,596,137
Salaries and Benefits	\$1,606,556	\$1,763,483
% of Total Expenditures	75.85%	67.93%
Purchased Services	\$393,968	\$604,693
% of Total Expenditures	18.60%	23.29%
All Other Expenditures	\$117,500	\$227,961
% of Total Expenditures	5.55%	8.78%
<b>TOTAL NET POSITION</b>	\$206,196	\$399,161
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$688,451 <sup>1</sup>	\$710,151 <sup>1</sup>
<sup>1</sup> 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.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Ron Daniels Currently: Honorable Ron Daniels

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

**The Regional Office of Education #25 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #25 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 #25 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting and posts year-end accrual entries for financial statement purposes. The Regional Office did not have sufficient internal controls over the processing of some accounting transactions. There were not sufficient controls over the preparation/review 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 errors and omissions in a timely manner. Auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of capital assets or deferred inflows of resources.
- Numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.

According to Regional Office management, the limited resources of the office have led to the bookkeeper being employed on a part-time basis. The office is continuing to learn the required procedures to properly maintain internal controls and GAAP based financial reporting. (Finding 2014-001, pages 10-11) **This finding was first reported in 2007.**

The auditors recommended that, as a part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #25 should implement comprehensive preparation and/or review procedures 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 #25 responded that it understands the nature of this finding with a part-time bookkeeper. The Regional Office will continue to receive training for GAAP accounting procedures and has employed an individual accountant to help prepare and review the Regional Office's financial statements. (For previous Regional Office response, see Digest Footnote #1.)

## **INTERNAL CONTROLS OVER PAYROLL AND GRANT COMPLIANCE**

**The Regional Office of Education #25 did not have adequate internal controls over payroll and grant compliance.**

The *Regional Office of Education (ROE) Accounting Manual's* (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.

In addition, the *ROE Accounting Manual* (Section XIV) states all payroll costs should be supported by time and effort attendance records (prepared at least monthly and signed by the employee) that account for the total activity for which each employee is compensated. Only actual payroll costs supported by time sheets should be charged to each Source of Funds.

The Teachers' Retirement System of the State of Illinois (TRS) Employer Guide states that every TRS employer is required to file an Annual Report of Earnings with TRS each fiscal year. This report provides the information necessary to establish and record earned service credit, salary rates, creditable earnings, and contributions for members.

During the course of the audit, auditors noted that certain employees' assigned functions included tasks for various programs, but their salaries and benefits were not allocated based on actual time and effort spent on those programs.

During review of payroll, auditors tested thirty-four (34) employees, covering twenty-four (24) payroll periods, and noted the following exceptions:

- In three (3) of the thirty-four (34) (9%) employees tested, employment contracts for the pay periods tested were not available. Also, nine (9) of the thirty-four (34) (26%) employees had changed contracts in September 2013. The employment contracts for these 9 employees, covering the period from July 1,

2013, to August 31, 2013, were removed from the files and disposed of when new contracts were signed.

- In five (5) of the six (6) (83%) employees tested that were paid from multiple funds, including grants, adequate time and effort sheets were not maintained so that salary could be allocated based on actual costs. The sixth employee who kept time and effort sheets did not appear to have her pay allocated properly between the funds that she worked on.
- Six (6) certified employees were omitted from the TRS Annual Report of Earnings.

According to the Regional Superintendent, new contracts had been signed in September and the original contracts covering the July and August payrolls were destroyed. The Regional Office believed documenting that an employee worked on various programs each day was sufficient support to allocate time and effort across funds, rather than documenting the number of hours worked. According to the bookkeeper, the TRS report was prepared using a list of certified employees as printed from the Regional Office's payroll system. Four (4) of the omitted employees were inadvertently not marked as certified in the payroll system and, as such, were not included in the list used to prepare the TRS report. The other two omitted employees were missed when preparing the TRS report. (Finding 2014-002, pages 12-14) **This finding was first reported in 2011.**

The auditors recommended that the Regional Office of Education #25 should implement proper controls over payroll. All payroll documentation related to the period under audit should be retained in employees' files. Time and effort sheets should be completed and maintained to allocate actual costs to each fund, including grants, accordingly. The Regional Superintendent should approve payroll only after proper fund allocation has been determined. Employee information in the payroll software should be reviewed for accuracy.

The Regional Office of Education #25 responded that the Regional Superintendent always approves any salary paid to employees. At the beginning of fiscal year 2014, grant and State funding levels were not known. When the financial funding was known, a decrease in salaries was made by the Regional Superintendent and contracts were reduced from the previous year. With limited resources, several employees are paid from multiple grant and funding sources. The Regional Office stated that although the work load for each assignment may vary year to year, the employee still completes the assigned tasks required by the program. The ROE noted that it will continue to work with auditors to determine the best

method to monitor time commitments. (For previous Regional Office response, see Digest Footnote #2.)

## **INTERNAL CONTROLS OVER CASH DISBURSEMENTS**

### **The Regional Office of Education #25 did not have adequate 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.

Regional Office of Education #25 policies and procedures indicate that all cash disbursements, other than those for payment on regular monthly bills, travel reimbursements, or claims for payment, would be initiated through the preparation of a purchase order. The purchase order would be matched to the invoice and then subsequently entered into the general ledger for payment.

During detail testing of cash disbursements, auditors noted that sixteen (16) of fifty-seven (57) (28%) purchase orders were dated later than the date of the invoice. Upon discussion with the Regional Superintendent, auditors found that purchase orders are not prepared until the invoice is received. The Regional Superintendent gives verbal approval for purchases, but there is no documentation of approval prior to purchases being made.

The Regional Office of Education #25 did not follow established procedures for internal control over cash disbursements. (Finding 2014-003, pages 15-16) **This finding was first reported in 2011.**

The auditors recommended that the Regional Office of Education #25's management should ensure the Regional Office follows its established internal control procedures over cash disbursements to prevent errors and fraud. All disbursements made by the Regional Office should be supported by sufficient documentation.

The Regional Office of Education #25 responded that there are no disbursements made without the Regional Superintendent's approval. The Regional Office stated that purchases have always been pre-approved, either verbally or in writing. The ROE stated that it will adjust its policy and procedures to ensure purchases include a written prior approval. (For previous Regional Office response, see Digest Footnote #3.)

## **INTERNAL CONTROLS OVER RESTRICTED CASH**

**The Regional Office of Education #25 did not have internal controls over restricted cash.**

Illinois statute (105 ILCS 5/3-12) restricts the use of Institute Fund monies to defray expenses associated with the work of the regional professional development committees; to defray expenses connected with improving the technology necessary for the efficient processing of certificates; to defray all costs associated with the administration of teaching certificates; 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 meeting of teachers or school personnel of the region, which has been approved by the Regional Superintendent.

The Regional Office pools most of its cash in one bank account. With such an account, funds with deficit cash balances are considered to have borrowed cash from other funds to cover their expenditures. At June 30, 2014, the Regional Office reported deficit cash balances in several of its funds. Cash from the Institute Fund was reduced by \$9,453 to cover these deficit balances. Loans to other funds are an unauthorized use of Institute Fund monies.

Several of the Regional Office's programs operate on a reimbursement basis, creating a period during which the program has paid expenditures for which it has not received funding. The unrestricted funds available were not sufficient to cover the deficit cash balances. (Finding 2014-004, page 17)

The auditors recommended that the Regional Office of Education #25 should initiate procedures to monitor cash and ensure that Institute Fund cash is expended only for purposes as noted in Illinois statute 105 ILCS 5/3-12. In addition, the Regional Office should make transfers from funds with unrestricted cash and/or seek lines of credit to pay expenditures for reimbursable programs that have insufficient cash.

The Regional Office of Education #25 responded that it understands the nature of the finding. The ROE stated that with limited financial resources, the Regional Superintendent will work with the bookkeeper to closely monitor available funds in each account and ensure that unrestricted funds are used to cover programs that have insufficient cash when payments are delayed by the State.

## **EXCESS WORKING CASH IN INTERNAL SERVICE FUND**

Internal Service Funds are used to account for the Regional Office of Education #25's administrative services, which are provided to many of the Regional Office's funds. Revenue is

**The Regional Office of Education #25 had excess working cash in an Internal Service Fund.**

generated through charges to other funds using inter-fund billings. Regulations set forth by *OMB Circular A-87 (Revised 5/10/04)* require charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve. In addition, the full recovery of costs is allowable. A working capital reserve of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be maintained for exceptional cases; however, it requires approval of the cognizant Federal agency.

Over the last two years, average annual expenses within the Employees Benefits Fund, an Internal Service Fund, were \$191,215. Employee Benefits Fund cash at June 30, 2014, totaled \$50,741, representing approximately 97 days of average expenses.

The Regional Office of Education #25's prior years' indirect cost rates were too high, as the calculation included funding for future expenditures. (Finding 2014-005, pages 18-19)  
**This finding was first reported in 2009.**

The auditors recommended that the Regional Office of Education #25 should examine and adjust the indirect cost rate as needed and provide credits to the individual programs overcharged in prior years.

The Regional Office of Education #25 responded that it understands the finding that an Internal Service Fund should not maintain a working capital reserve exceeding 60 days. This condition was created prior to the Regional Superintendent assuming his current duties and for the past two years payment to this fund has been stopped from all programs. The Regional Office stated that without any payment into this fund for the past two years, the balance still exceeded the reasonable level of working capital reserve, so working with the external accountant and the auditors, the Regional Superintendent will follow other procedures to reduce this fund's balance. (For previous Regional Office response, see Digest Footnote #4.)

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #25'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: West & Company, LLC were our special assistant auditors.

## **DIGEST FOOTNOTES**

### **#1: Controls Over Financial Statement Preparation —Previous Regional Office Response**

In its prior response in 2013, the Regional Office of Education #25 responded that it understands the nature of this finding with the reduced financial support from the state and a small staff. The Regional Office stated that it will continue to provide necessary training of GAAP accounting procedures. With available funding, the Regional Superintendent will attempt to hire an individual or firm to prepare and review the ROE's financial statements.

### **#2: Internal Controls Over Payroll and Grant Compliance—Previous Regional Office Responses**

In its prior response in 2013, the Regional Office of Education #25 responded that the Regional Superintendent always approves any salary or job changes. Extra duties or responsibilities assigned and paid will be more clearly documented in the employee's personnel file. The Regional Office will work with auditors to understand the exact style and type of time and effort sheet that should be kept for employees paid out of multiple accounts.

In its prior response in 2013, the Regional Office of Education #25 responded that time and effort sheets are kept for all employees. The Regional Office stated that salary allotted from each grant is based on funds available and cannot always be determined by the hours worked on a particular grant since needs fluctuate each school year. The ROE noted that the bookkeeper will file final expenditure reports in a timely manner.

### **#3: Internal Controls Over Cash Disbursements —Previous Regional Office Response**

In its prior response in 2013, the Regional Office of Education #25 responded that the Regional Superintendent will implement tighter control over cash disbursements by assigning a second staff member to review disbursement statements and fund allocations. Purchase orders will be prepared for all disbursements that require them.

### **#4: Excess Working Cash in Internal Service Fund —Previous Regional Office Response**

In its prior response in 2013, the Regional Office of Education #25 responded that the Regional Superintendent understands the finding that indirect cash charged to the Workers' Compensation Fund was not reduced enough and has since stopped paying any funds into this account until it has been reduced properly.