STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #25
HAMILTON AND JEFFERSON COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2015

Release Date: March 17, 2016

FINDINGS THIS AUDIT: 5				**FINDINGS**			
	New	Repeat	Total	**Repeated Since**	**Category 1**	**Category 2**	**Category 3**
Category 1:	**0**	**1**	**1**	**2007**	**15-1**		
Category 2:	**0**	**2**	**2**	**2011**		**15-2**	
Category 3:	**2**	**0**	**2**	**2014**		**15-3**	
TOTAL	**2**	**3**	**5**				
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- (**15-1**) The Regional Office of Education #25 did not have sufficient internal controls over the financial reporting process.
- (**15-2**) The Regional Office of Education #25 did not have adequate internal controls over payroll and grant compliance.
- (**15-3**) The Regional Office of Education #25 did not have adequate internal controls over cash.
- (15-4) The Regional Office of Education #25 did not have controls over compliance with laws and regulations.
- (15-5) The Regional Office of Education #25 did not have internal controls over grant compliance.

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, 2015

	FY 2015	FY 2014
TOTAL REVENUES	$1,856,306	$1,925,059
Local Sources	$409,752	$528,635
% of Total Revenues	22.07%	27.46%
State Sources	$1,363,151	$1,333,963
% of Total Revenues	73.43%	69.29%
Federal Sources	$83,403	$62,461
% of Total Revenues	4.49%	3.24%
TOTAL EXPENDITURES	$1,778,692	$2,118,024
Salaries and Benefits	$1,486,436	$1,606,556
% of Total Expenditures	83.57%	75.85%
Purchased Services	$223,460	$393,968
% of Total Expenditures	12.56%	18.60%
All Other Expenditures	$68,796	$117,500
% of Total Expenditures	3.87%	5.55%
TOTAL NET POSITION	($109,831[2])	$206,196
INVESTMENT IN CAPITAL ASSETS	$625,014[1]	$688,451

[1] Capital asset amounts are not net of related debt which is associated with assets of the Hamilton-Jefferson Educational Services Cooperative.
[2] The FY 2015 beginning net position was restated by ($393,641) due to a prior period adjustment for new reporting requirements for pensions.
Percentages may not add due to rounding.

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Ron Daniels *
*Effective July 1, 2015, ROE #25 was consolidated into ROEs #13 and #20.

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 noted the Regional Office did not have adequate controls to record and report the Regional Office's net pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP. Numerous other 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. In addition, the complex requirements of GASB Statements No. 68 and 71 were new for fiscal year 2015 and will require time and training before the Regional Office can fully implement the requirements on its own. (Finding 2015-001, pages 10-11) **This finding was first reported in 2007.**

The auditors recommended that since the Regional Office of Education No. 25 has been dissolved and its counties are being merged into other Regional Offices, Regional Offices of

Education No. 13 and No. 20 should implement comprehensive preparation and/or review procedures as a part of their internal control over the preparation of 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 and realizes that this circumstance is not unusual for an organization of this size. The Regional Office accepts the degree of risk associated with this condition because the added cost of employing a full-time accountant to prepare and review financial statements would take away from the funds available to provide educational services to the schools in the region. With the consolidation of offices, Regional Offices of Education No. 13 and No. 20 will continue to receive training for GAAP accounting procedures. (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) states that 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.

During the course of the audit, auditors noted that certain employees' assigned functions included tasks for various programs. For employees who were assigned functions spanning multiple funds, the Regional Office allocated salaries across the various grants at the beginning of the fiscal year based on expected time and effort to be spent on each of the programs. Because employees did not track time spent on individual grants, there was no documentation to verify if actual time and effort spent on programs correlated with the expected amount.

During the review of payroll, auditors tested twenty-five (25) employees, covering twenty-four (24) payroll periods. Auditors noted of the eight (8) employees assigned functions spanning multiple funds, three (3) employees' records (38%) were deficient in providing adequate documentation to verify that the salary allocations to individual funds correlated with actual time spent on activities in such funds.

According to Regional Office staff, they felt the allocation of salaries across funds was a proper representation of employees' time spent on each fund. They did not believe it would be cost effective for each employee to keep track of time spent on activities on a daily basis. (Finding 2015-002, pages 12-13) **This finding was first reported in 2011.**

The auditors recommended that since the Regional Office of Education #25 has been dissolved and its counties are being merged into other Regional Offices, Regional Offices of Education No. 13 and No. 20 should implement proper controls over payroll. 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.

The Regional Office of Education #25 responded that the Regional Superintendent always approves all salaries paid to employees. With limited resources, several employees are paid from multiple grant and funding sources. Although the work load for each assignment may vary year to year, the employee still completed the assigned tasks required by the program. With the consolidation of offices, Regional Offices of Education No. 13 and No. 20 will continue to determine the best method to monitor time and effort. (For previous Regional Office response, see Digest Footnote #2.)

INTERNAL CONTROLS OVER CASH

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

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.

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 review committees; to defray expenses connected with improving the technology necessary for the efficient processing of licenses; to defray all costs associated with the administration of teaching licenses; 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.

During the course of the audit, auditors noted various issues related to controls over cash:

- A total of eighteen (18) checks were incorrectly numbered in the general ledger. Due to this sequencing issue, six checks cleared the bank with different payees and amounts than what was reported in the general ledger. The rest of the checks associated with the incorrect check numbers recorded in the general ledger were voided.
- An entry was not recorded in the general ledger to record the closing transfer from the Eastern Illinois University (EIU) cash account to the pooled cash account. The final bank reconciliation for the EIU bank account and the related general ledger account indicated an available cash balance of $950 despite the account having been closed. This amount was recorded as transferred into the operating account but not as transferred out of the closed account.
- Checks totaling $18,648 were written after year-end but were backdated to June 30, 2015 to be reported as expenses of the 2015 fiscal year. These amounts should have been recorded as accounts payable if not paid until after the end of the fiscal year.
- 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. The Regional Office reported deficit cash balances in several of its funds at June 30, 2015. Prior to proposed audit adjustments, cash from the Institute Fund was reduced by $13,719 to cover these deficit balances even though unrestricted amounts were available. In addition, the Institute Fund reported $15,000 of transfers out to the General Fund. Neither loans to other funds nor transfers are authorized uses of Institute Fund monies. Audit adjustments proposed by the auditors and approved by Regional Office of Education No. 25 personnel have been posted to correct these errors.
- Auditors noted nineteen (19) checks that were not adequately voided in order to prevent them being presented for payment. One of the nineteen (19) checks had already been signed by the Regional Superintendent and the Assistant Regional Superintendent and could have been presented for payment.

According to the Regional Office:

- The incorrectly numbered checks were due to printing issues, and the accounting software does not allow the check numbers to be edited once printed.

- The entry to complete the transfer of cash from the EIU cash account was inadvertently omitted.
- Due to the impending dissolution on July 1, 2015, the Regional Office wanted to have all bills paid by June 30, 2015 to avoid reporting payables at year-end. The bookkeeper also noted that funds were not available to pay the outstanding balances until the last days of the fiscal year. Due to her part-time schedule, the obligations were not able to be processed and paid until July.
- The use of restricted funds was an error when adjustments were prepared to clear deficit cash balances. The Regional Office did not realize the transfers out of the Institute Fund are an unauthorized use of such monies.
- Regional Office staff felt the notations used on the voided checks were sufficient to present them from being presented for payment. (Finding 2015-003, pages 14-16)

The auditors recommended that since the Regional Office of Education #25 has been dissolved and its counties are being merged into other Regional Offices, Regional Offices of Education No. 13 and No. 20 management should design and implement an adequate system of internal controls over cash to prevent errors. Accounting personnel should ensure that closed accounts are properly reflected in the general ledger and transfers agree between funds. All disbursements related to the fiscal year made after year-end should be recorded as payables at year-end. The Regional Offices 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. Checks should be sufficiently voided to prevent processing.

The Regional Office of Education #25 responded that it understands the nature of the finding. Several minor procedural errors were made by staff. With limited resources, the Institute Fund was inadvertently used to clear deficit cash balances. (For previous Regional Office response, see Digest Footnote #3.)

CONTROLS OVER COMPLIANCE WITH LAWS AND REGULATIONS

The Regional Office of Education #25 did not have controls over Compliance with Laws and Regulations.

The Illinois School Code 105 ILCS 5/17-19 allows a Regional Superintendent to take out a line of credit in anticipation of revenues. However, the Regional Superintendent is only allowed to borrow up to 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 withdrew funds from its line of credit on July 15, 2014 and again on September 9, 2014 following the provisions of 105 ILCS 5/17-19. The line of credit was not repaid within 60 days of receiving the expected revenues. Only a $12 principal payment was paid on the line of credit during the fiscal year. The balance on the line of credit at June 30, 2015 was $199,988. The line of credit was renewed on June 30, 2015 with an expiration date of September 30, 2015. As the Regional Office of Education No. 25 is being eliminated as of June 30, 2015, the Regional Superintendent stated the Regional Office of Education No. 13 will be reporting this debt after June 30, 2015.

According to the Regional Office, it did not have the available funds to cover both operating costs and repay the line of credit when revenues were received. (Finding 2015-004, page 17)

The auditors recommended that since the Regional Office of Education No. 25 has been dissolved and its counties are being merged into other Regional Offices, Regional Offices of Education No. 13 and No. 20 should comply with the requirements of 105 ILCS 5/17-19.

The Regional Office of Education #25 responded that it understands the nature of the finding. With limited resources, revenues were needed to cover current operating expenses of the Regional Office rather than paying off the line of credit. As delayed state and grant funding became available, funds were applied to the line of credit.

INTERNAL CONTROL OVER GRANT COMPLIANCE

The Regional Office of Education #25 did not have internal control over grant compliance.

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office must incorporate certain procedures into their operations in order to comply with the grant agreements with these entities. The Regional Office is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to complete accurate and timely quarterly expenditure reports required for grants administered by the Illinois State Board of Education and passed through other entities to the Regional Office.

During the course of the audit, auditors noted the following related to internal control over grant compliance:

- The Regional Office’s general ledger for the McKinney Education for Homeless Children program did not agree to the final expenditure report. Supplies totaling $1,771 were incorrectly classified as purchased services and $2,487 of other expenditures reported on the expenditure report were not recorded in the general ledger.

- The final expenditure report for the System of Support program was not consistent with the Regional Office's general ledger. The expenditure report showed purchased services and supplies of $5,849 and $296, respectively, greater than the general ledger. After posting adjusting journal entries, the general ledger reflects $489 less, overall, in expenditures for this program than the expenditure report.

According to the Regional Office:

- The program coordinator had prepared a correct version of the expenditure report. However, the program coordinator and the bookkeeper had a miscommunication about necessary changes to reconcile the general ledger and the expenditure report.
- The part-time bookkeeper did not have adequate time to review the expenditure report and reconcile it to the general ledger. (Finding 2015-005, pages 18-19)

The auditors recommended that since the Regional Office of Education #25 has been dissolved and its counties are being merged into other Regional Offices, Regional Offices of Education No. 13 and No. 20 should ensure that expenditure reports agree to the general ledger and are an accurate report of the grants' activities.

The Regional Office of Education #25 responded that it understands the nature of the finding. With all of the accounting required for the closing and consolidation of the Regional Office of Education No. 25 and the late in the year adjustments made to the grants, minor procedural errors were made by staff.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #25's financial statements as of June 30, 2015 are fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM: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 2014, 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.

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

In its prior response in 2014, 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.

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

In its prior response in 2014, the Regional Office of Education #25 responded 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.