



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #26
HANCOCK AND MCDONOUGH COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2014

Release Date: August 4, 2015

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>				
Category 1:	0	3	3	2007	14-1		
Category 2:	0	0	0	2012	14-2		
Category 3:	1	0	1	2013	14-3		
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(14-1)** The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #26 did not have adequate internal control procedures.
- **(14-3)** The Regional Office of Education #26 did not have adequate internal controls over expenditures.
- **(14-4)** The Regional Office of Education #26 was in noncompliance with reporting grant requirements.

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 #26
HANCOCK AND MCDONOUGH COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2014

	FY 2014	FY 2013
TOTAL REVENUES	\$3,503,572	\$3,802,296
Local Sources	\$1,127,450	\$939,754
% of Total Revenues	32.18%	24.72%
State Sources	\$2,010,570	\$2,098,196
% of Total Revenues	57.39%	55.18%
Federal Sources	\$365,552	\$764,346
% of Total Revenues	10.43%	20.10%
TOTAL EXPENDITURES	\$3,582,989	\$4,038,696
Salaries and Benefits	\$2,079,372	\$2,111,673
% of Total Expenditures	58.03%	52.29%
Purchased Services	\$438,827	\$810,301
% of Total Expenditures	12.25%	20.06%
All Other Expenditures	\$1,064,790	\$1,116,722
% of Total Expenditures	29.72%	27.65%
TOTAL NET POSITION	\$730,053	\$809,470
INVESTMENT IN CAPITAL ASSETS	\$122,704	\$76,848
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable John Meixner
Currently: Honorable John Meixner

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #26 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP-based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on cash basis accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of GAAP-based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

During review of the Regional Office of Education #26's financial information prepared by the Regional Office of Education #26, the following were noted:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Regional Office did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, no entries were provided to reconcile the Regional Office of Education #26's grant activity, such as posting grant receivables and unearned revenue.
- \$6,239 of local revenue was misclassified as State revenue in the General Fund Hancock McDonough Alternative Schools account.
- Activity in the General Fund Apex account was recorded in error in the Hancock McDonough Alternative Schools account.
- Numerous material adjustments were needed to make the financial statements comply with generally accepted accounting principles.

According to the Regional Office of Education #26's management, current funding levels were not adequate to hire and/or train accounting personnel in order to comply with these requirements. In addition, staff changes contributed to bookkeeping difficulties in the current year. (Finding 2014-001, pages 11a-11b) **This finding was first reported in 2007.**

The auditors recommended that, as part of internal control over the preparation of financial statements, the Regional Office of Education #26 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education #26's activities and operations.

The Regional Office of Education #26 responded that it accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region. The Regional Office also noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. The organization will also research the possibility of having another accounting company prepare its financial statements independent of the auditors. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #26 did not have adequate internal control procedures.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

Auditors noted the following weaknesses in the Regional Office of Education #26's internal control system for which there were no mitigating controls:

- A. There is inadequate segregation of duties over cash receipts. Payments received by check are given to the individual who records them in the accounting system. The individual who records receipts should not have physical custody of the receipts.
- B. Cash balances were overstated by \$9,192 due to incorrect transferring of cash from one fund to another. Cash transferred in was recorded as revenue in the receiving fund and not transferred out from the transferring fund.

- C. Seventeen of 24 (71%) journal entries examined were not supported by adequate documentation, and of these, auditors could not determine the validity of 5 entries. Fourteen of 24 (58%) journal entries examined had no evidence of review by someone independent of the general ledger process.
- D. Administration costs and the associated reimbursing transfer of cash were recorded as revenues and expenditures in both the special revenue fund that incurred the cost and in a general fund account from which expenses were paid, resulting in double-booking of revenues and expenditures.
- E. Capital asset additions totaling \$29,342 were miscoded and not initially included on the Regional Office's asset listing.
- F. Two out of 13 (15%) deliveries of inventory by employees of the Western Area Purchasing Co-op to Co-op members lacked adequate documentation.
- G. The October 2013 to June 2014 bank reconciliations did not agree to the general ledger cash balances. In addition, none of the bank reconciliations were performed and reviewed in a timely manner.
- H. Education for Homeless Children and Youth grant funding of \$6,145 that remained unspent in the Adult Learning Resource Center Fund and was due back to the grantor at the end of FY2013 had not been returned to the grantor at the end of FY2014.
- I. Credit card receipt activity for several funds was tracked separately outside the accounting system and was not recorded in the Regional Office's general ledger. The bank reconciliation did not agree to the general ledger cash balance in the Fingerprinting Fund because cash receipt activity in the bank account used to process credit card payments was not recorded in the Regional Office's general ledger.
- J. The Western Area Purchasing Co-op did not perform a physical inventory count at year end; rather, they perform a physical count after most inventory has been delivered to Co-op members and calculate the year-end inventory value from supporting documents, such as vendor invoices, shipping manifests, and receipts of delivery to Co-op members. These documents did not support the inventory value reported by the Co-op.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures. (Finding

2014-002, pages 11d-11g) **This finding was first reported in 2012.**

The auditors recommended that the Regional Office of Education #26 should do the following:

- A. The individual responsible for the cash recording process should not be given physical access to cash receipts. An individual independent of the recording process should make cash deposits and verify that the amounts recorded agree to deposit records.
- B. Interfund cash transfers should be recorded in both the fund from which cash is transferred and the fund into which it is transferred.
- C. All journal entries should be accompanied by supporting documentation and have documented review and approval by someone independent of the general ledger processes.
- D. Administrative costs should be recorded in the fund that incurred the expenses. The associated transfer of cash to reimburse the fund that paid the costs should be recorded as an offset to the associated expenditure account in the reimbursed fund, or this activity should be recorded in an internal service fund.
- E. The Regional Office should establish procedures to ensure their capital asset listing is maintained in accordance with the Regional Office's capital asset policy.
- F. To provide documentation of the Regional Office's internal controls over inventory, the Western Area Purchasing Co-op employees should obtain the Co-op member's signature on the packing slip or shipping manifest when inventory is delivered to Co-op members.
- G. Bank balances should be timely reconciled to the general ledger and any discrepancies identified and corrected.
- H. Absent an extension or permission from the grantor to carry unspent funding forward to the next grant period, any unspent grant funds at the end of the grant period should be returned to the grantor in a timely manner.
- I. All receipts of the Regional Office should follow the established internal control procedures governing processing, support, and review of receipts. Receipts of restricted funding for special revenue funds should

be recorded in the appropriate fund. All cash balances should be recorded in the general ledger, and all bank account balances should be reconciled to the general ledger.

- J. The Western Area Purchasing Co-op staff should perform a physical inventory count on or near the fiscal year end or should maintain adequate documentation to support the calculated year-end value.

The Regional Office of Education #26 responded that it will review the current auditors' recommendation and will revise the Regional Office's policies, procedures and/or practices to address the findings noted as needed. (For previous Regional Office response, see Digest Footnote #2.)

INADEQUATE INTERNAL CONTROLS OVER EXPENDITURES

The Regional Office of Education #26 did not have adequate internal controls over expenditures.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions, including disbursements, to prevent errors and fraud.

During testing, auditors noted the following:

- A. In 1 out of 14 (7%) credit card statements examined, original receipts were not attached and reconciled to the statements. In addition, purchases on three of the credit card statements included sales tax totaling \$6.24.
- B. A duplicate Distributive Fund payment of \$68,788 was made to the Western Area Career System in error.
- C. Prepaid FY15 expenditures totaling \$10,577 were erroneously expensed in FY14 in the General Fund Apex, Regional Programs, and Hancock/McDonough Alternative Schools accounts.
- D. FY13 expenditures totaling \$3,641 were not accrued in the Teaching American History grant program in the prior year, and because the grant ended last year, these costs had to be paid from the General Fund in the current year.
- E. A mileage reimbursement was miscalculated so that an employee was over reimbursed \$15.84 in the Child and Family Connections program.
- F. There was no indication that original vendor invoices were reviewed and approved when payment requests from the Western Area Purchasing Co-op are

submitted for payment.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures over expenditures. (Finding 2014-003, pages 11h-11i)

The auditors recommended that the Regional Office of Education #26 should do the following:

- A. All original credit card receipts should be reviewed, approved, and reconciled to credit card statements prior to the credit card statement being paid. Staff members who are authorized to make credit card purchases should provide the Regional Office's tax-exempt certificate or number to vendors to avoid paying sales tax on purchases.
- B. Supporting documentation for all transactions should be maintained in such a way that it can be timely located in the event of any questions or disputes from vendors, grantors, clients, or auditors about their occurrence, amount, classification, timing, or obligations. In addition, before replacing a lost or missing check, the Regional Office should determine whether that check has already been cashed.
- C. The Regional Office should observe proper cutoff and record expenses in the fiscal year in which they were or will be incurred.
- D. Expenditure reports should be reconciled to the general ledger to ensure that all expenditures incurred within the grant period are reported for reimbursement. Prior to year end, program directors should review program activity for costs incurred during the grant period, but not yet invoiced, so that funds can be appropriately obligated for reimbursement.
- E. The Regional Office should design and implement internal control procedures to ensure that payments are reviewed for accuracy.
- F. Original vendor invoices should accompany all payment requests, and review and approval of the invoices for payment should be documented. The Regional Office should retain a copy of all invoices approved for payment in its accounting records.

The Regional Office of Education #26 responded that it will review the current auditors' recommendations and will revise the Regional Office of Education's policies, procedures and/or practices to address the findings noted as needed.

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Regional Office of Education #26 was in noncompliance with reporting grant requirements.

The Regional Office of Education #26 must comply with grant accounting and reporting requirements established by grant agreements with the Illinois State Board of Education (ISBE) and other grantors in addition to the requirements established by ISBE's fiscal policies and procedures for grantees. Among these requirements are accurate, current, and complete disclosure of grant financial activity and an amended program budget if an expenditure line item exceeds the budgeted amount by the greater of \$1,000 or 20%.

During testing, auditors noted the following:

- A. Expenditure reports submitted for the Family Violence, Truants Alternative Optional Education Program (TAOEP) 3695-13 and 3695-14, Child and Family Connections, and Early Childhood 3705-01 and 3705-00 grant programs did not agree to the expenditures recorded in the Regional Office's accounting records.
- B. Expenditures for purchased services in the Truants Alternative and Optional Education Program exceeded the budgeted amount by more than ISBE's permitted threshold; however, an amended budget was not submitted to ISBE.
- C. Activity for the Title II-Teacher Quality Leadership program was recorded in the General Fund rather than tracked separately in a restricted fund.

The Regional Office of Education #26's grant expenditure reports and budgetary comparisons were not prepared using information obtained from the Regional Office's accounting system. The Education Fund accounts established for the Title II grant were not used for tracking this grant's activity. (Finding 2014-004, pages 11j-11k)

The auditors recommended that the Regional Office of Education #26 should do the following:

- A. Grant reports that disclose financial information should be prepared using current and accurate financial data based on reports obtained from the Regional Office's accounting system.
- B. Budgets should be amended and resubmitted to the granting agency whenever expenditures by line item exceed thresholds established by the grantor.
- C. All grant activity should be recorded using a separate set of accounts that allows management and program directors to monitor compliance with grant restrictions

that funding be used only for specific purposes.

The Regional Office of Education #26 responded that it will review the current auditors' recommendations and will revise the Regional Office's policies, procedures and/or practices to address the findings noted as needed.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #26's financial statements as of June 30, 2014 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.

DIGEST FOOTNOTE

#1: CONTROLS OVER FINANCIAL STATEMENT PREPARATION – Previous Regional Office Response

In its prior response in 2013, the Regional Office of Education #26 responded that it accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region. The Regional Office also noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. The organization will also research the possibility of having another accounting company prepare its financial statements independent of the auditors.

#2: INADEQUATE INTERNAL CONTROL PROCEDURES – Previous Regional Office Response

In its prior response in 2013, the Regional Office of Education #26 responded that it accepts the current auditors' recommendations and has revised Hancock/McDonough Regional Office of Education policies, procedures and/or practices to address the findings noted.