



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #26
HANCOCK AND MCDONOUGH COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2015

Release Date: July 14, 2016

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	3	4	2007	15-1		
Category 2:	1	1	2	2012	15-2		
Category 3:	0	0	0	2013	15-3		
TOTAL	2	4	6	2014		15-4	
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(15-1)** The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #26 did not have adequate internal control procedures.
- **(15-3)** The Regional Office of Education #26 did not have adequate internal controls over expenditures.
- **(15-4)** The Regional Office of Education #26 was in noncompliance with reporting grant requirements.
- **(15-5)** The Regional Office of Education #26 had inadequate internal controls over inventory.
- **(15-6)** The Regional Office of Education #26 was not in compliance with payroll reporting.

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, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$3,458,549	\$3,503,572
Local Sources	\$942,883	\$1,127,450
% of Total Revenues	27.26%	32.18%
State Sources	\$2,168,165	\$2,010,570
% of Total Revenues	62.69%	57.39%
Federal Sources	\$347,501	\$365,552
% of Total Revenues	10.05%	10.43%
TOTAL EXPENDITURES	\$3,674,393	\$3,582,989
Salaries and Benefits	\$2,062,199	\$2,079,372
% of Total Expenditures	56.12%	58.03%
Purchased Services	\$582,297	\$438,827
% of Total Expenditures	15.85%	12.25%
All Other Expenditures	\$1,029,897	\$1,064,790
% of Total Expenditures	28.03%	29.72%
TOTAL NET POSITION	\$59,627 ¹	\$730,053
INVESTMENT IN CAPITAL ASSETS	\$122,759	\$122,704
¹ The FY 2015 beginning net position was restated by (\$454,582) 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 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 were 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, the auditors noted the following:

- 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's grant activity, such as posting grant receivables and unearned revenue.
- Disbursements were miscoded by the Regional Office to the wrong grants in the Distributive Fund, and the Regional Office's own grant activity was not recorded in the Distributive Fund.
- Numerous material adjustments were needed to make the financial statements comply with generally accepted accounting principles.
- In addition, the Regional Office did not have adequate controls to record and report the Regional Office's net accrued pension liabilities/assets, deferred outflows of

resources, deferred inflows of resources, and pension expenses in accordance with GAAP. Proposed adjusting entries by auditors were approved and accepted by the Regional Office's management.

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, the complex requirements of GASB Statements No. 68 and No. 71 were new for Fiscal Year 2015 and will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2015-001, pages 12a-12c) **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 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 of Education #26 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 financial statements independent of the auditors. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

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. Two of 20 (10%) journal entries examined were not supported by adequate documentation and auditors could not assess their validity. Three of 20 (15%) journal entries examined had no evidence of review by someone independent of the general ledger process.
- C. Revenue of \$4,936 properly recorded in the Western Area Purchasing Coop fund was originally recorded in the Fingerprinting fund and was then recorded as an expense rather than an offset to revenue in the Fingerprinting fund when it was moved to the correct fund, causing revenues and expenditures to be overstated by this amount.
- D. Supplies and materials below the Regional Office's capitalization threshold totaling \$1,436 were miscoded as capital outlay. Capital asset additions of \$3,703 were miscoded as purchased services. Capital asset additions totaling \$15,960 were appropriately coded as capital outlay but were not included on the Regional Office's capital asset schedule. Three items totaling \$1,566 were appropriately expensed and excluded from the capital asset schedule in the prior year but were incorrectly added to the capital asset schedule in the current year. Three items totaling \$1,397 from prior year's capital asset schedule were missing from the current-year schedule.
- E. Nine months of bank reconciliations were not performed and reviewed in a timely manner. Because the June 2015 reconciliation was not performed until October 2, 2015, a reconciling item of \$245,910 was omitted from the cash balances reported to the auditors. In addition, receipts and disbursements relating to FY2015 activity that occurred after year end were recorded in cash in FY2015 rather than accounts receivable and payable, causing a cash overstatement of \$204,232. Four FY2016 General State Aid payments totaling \$29,806 were incorrectly recorded in FY2015, causing cash and revenue to be overstated by this amount.
- F. 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 FY2015.

- G. There was no documented approval of the pay increase for an employee who changed from part-time to full-time status during the year.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures. (Finding 2015-002, pages 12d-12f) **This finding was first reported in 2012.**

The auditors recommended the following for the Regional Office of Education #26:

- 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. All journal entries should be accompanied by supporting documentation and have documented review and approval by someone independent of the general ledger processes.
- C. Revenues should be recorded in the fund that earned the revenue. Otherwise, if revenue is initially recorded in another fund, the associated transfer of cash to the fund that earned the revenue should be recorded as an offset to the associated revenue in the reimbursing fund.
- D. The Regional Office should establish procedures to ensure its capital asset schedule is maintained in accordance with the Regional Office's capital asset policy. The capital asset schedule should be reconciled to the general ledger capital asset and capital outlay accounts.
- E. Bank balances should be timely reconciled to the general ledger, and if any discrepancies are identified, they should be corrected.
- F. 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.
- G. Approval by a member of management should be documented for any changes in an employee's employment status or pay rate.

The Regional Office of Education #26 responded that it will review the current auditors' recommendations and has revised the new Fulton/Hancock/McDonough/Schuyler Regional

Office of Education policies, procedures and/or practices to address the findings noted as needed. (For previous Regional Office response, see Digest Footnote #2 located at the end of the digest.) **This finding was first reported in 2012.**

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. A duplicate payment of \$1,126 was made in the Bus Driver Training fund as the result of a vendor submitting a duplicate invoice.
- B. Fiscal year 2016 software licenses totaling \$86,800 and a FY16 workshop registration of \$1,200 were expensed in the current year rather than recorded as prepaid expenses in the Education Fund Apex and Truants Alternative Optional Education Program Training accounts.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures over expenditures. (Finding 2015-003, page 12g) **This finding was first reported in 2013.**

The auditors recommended the following for the Regional Office of Education #26:

- A. Vendor invoices should be reconciled to purchase orders to ensure that duplicate invoices are not paid.
- B. The Regional Office should observe proper cutoff and record expenses in the fiscal year in which they were or will be incurred.

The Regional Office of Education #26 responded that it will review the current auditors' recommendation and has revised the new Fulton/Hancock/McDonough/Schuyler Regional Office of Education policies, procedures and/or practices to address the findings noted as needed. (For previous Regional Office response, see Digest Footnote #3 located at the end of the digest.)

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, an amended program budget if an expenditure line item exceeds the budgeted amount by the greater of \$1,000 or 20%, and reporting actual rather than estimated or budgeted costs.

During testing, auditors noted the following:

- A. Expenditure reports submitted for the McKinney Education for Homeless Children 14-4920-00, ROE/ISC Operations, Truants Alternative Optional Education Program (TAOEP) 15-3695-PD, and Early Childhood 3705-01 and 3705-00 grant programs did not agree to the expenditures recorded in the Regional Office's accounting records. A total of \$1,981 (ROE/ISC Operations) and \$7,847 (Early Childhood 3705-00) of unexpended grant funding is due back to ISBE from these programs.
- B. Expenditures for purchased services in the McKinney Education for Homeless Children 14-4920-00 grant program exceeded the budgeted amounts by more than ISBE's permitted threshold; however, an amended budget was not submitted to ISBE. In addition, a \$2,000 stipend payment was miscoded as supplies rather than purchased services in the Title I – Foundational Services grant program; had it been correctly coded, an amended budget would have been required.
- C. Activity for the Title II-Teacher Quality – Leadership program was recorded in the General Fund rather than tracked separately in a restricted fund.
- D. At October 5, 2015, the Early Childhood 3705-00 and 3705-01, McKinney Education for Homeless Children, and Title II – Teacher Quality grant programs were frozen because the fourth quarter and the final grant expenditure reports had not been filed with ISBE by the deadline. In addition, the Family Violence Coordinating Council grant's fourth quarter and final expenditure reports had not been filed with the grantor by their deadlines of July 15 and July 30, 2015, respectively. FY2016 payments of \$78,000 in the Early Childhood 3705-00 program and \$80,130 in the Early Childhood 3705-01 program had been frozen and not paid to the Regional Office as of October 5, 2015. At that time, the Regional Office had reported the Early Childhood 3705-00 and 3705-01 grants as under expended and a total of \$15,590 due back to ISBE, but that amount had not yet been returned to ISBE. This amount includes the \$7,847

noted in point A above.

- E. Support for two reimbursement requests totaling \$1,620 could not be located for the Title I – Foundational Services grant program.
- F. Mileage reimbursements in the Child and Family Connections grant program were paid as a flat-rate monthly stipend rather than per-mile actual costs. The Regional Office did not verify whether the monthly stipend exceeded the maximum rate permitted by the State. A total of \$30,351 was expended for mileage reimbursements in this program.

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. Regional Office personnel were unaware of or were unable to timely perform all activities necessary to comply with grant requirements. (Finding 2015-004, pages 12h-12k)

The auditors recommended the following for the Regional Office of Education #26:

- 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. The Regional Office should establish policies and procedures to ensure expenditures of grants that span the Regional Office's fiscal year end are reported in the proper period.
- 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 require funding to be used only for specific purposes.
- D. The Regional Office should establish policies and procedures to ensure that all reports required by grantors are timely filed.
- E. Records supporting all grant activity, including requests for reimbursement, should be retained and maintained in such a way that they can be located when needed to substantiate grant receipts and expenditures.

- F. If employees are reimbursed for mileage at a flat monthly rate rather than the State-approved per-mile rates [the rate promulgated pursuant to 5 USC 5707(b)(2)], the mileage reimbursement paid should be compared to the State-approved, per-mile rates and any excess reimbursement should be reclassified as wages.

The Regional Office of Education #26 responded that it will review the current auditors' recommendations and has revised the new Fulton/Hancock/McDonough/Schuyler Regional Office of Education policies, procedures and/or practices to address the findings noted as needed. (For previous Regional Office response, see Digest Footnote #4 located at the end of the digest.)

INADEQUATE INTERNAL CONTROLS OVER INVENTORY

The Regional Office of Education #26 had inadequate internal controls over inventory.

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

The Regional Office was not able to provide auditors with documentation to support the provided inventory value. In addition, the inventory value recorded in the Regional Office's general ledger was not adjusted to the year-end value.

The Western Area Purchasing Co-op does 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. (Finding 2015-005, page 121)

The auditors recommended that the Western Area Purchasing Co-op staff 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 accurate inventory value should be recorded in the Regional Office's general ledger.

The Regional Office of Education#26 responded that it will review the current auditors' recommendations and has revised the new Fulton/Hancock/McDonough/Schuyler Regional Office of Education policies, procedures and/or practices to address the findings notes as needed.

PAYROLL REPORTING

The Regional Office of Education #26 was not in compliance with payroll reporting requirements.

Internal Revenue Code Reg. § 31.3121(d)-1 establishes that an individual is an employee if the person for whom the services are performed has the right to control and direct the individual who performs the services. Revenue Ruling 87-41 further establishes a 20-factor common-law test for employment status. The Internal Revenue Service (IRS) recently revised this 20-factor common-law test for determining the proper classification of workers between independent contractors and employees by condensing the prior 20 factors and organizing those tests into three main groups: (1) behavioral control, (2) financial control, and (3) the type of relationship of the parties.

During testing, auditors noted that three individuals were paid as independent contractors in the Title I – Foundational Services program. Their stipends, totaling \$11,700, were coded as purchased services, on which payroll taxes were not withheld or paid. These same three individuals were also paid as employees of the Regional Office for providing similar services in other programs. The Regional Office should not treat individuals as both employees and as independent contractors for providing similar services.

The Regional Office was not aware of the applicability of the IRS employment rules and regulations to stipends paid from grant awards. (Finding 2015-006, pages 12m-12n)

The auditors recommended that the Regional Office of Education #26 develop policies and procedures to ensure that all IRS rules and regulations are followed with regard to employee classification and compensation and that the appropriate payroll taxes are withheld and remitted to the proper federal and State authorities.

The Regional Office of Education #26 responded it will review the current auditors' recommendations and has revised the new Fulton/Hancock/McDonough/Schuyler Regional Office of Education 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, except for the Business-Type Activities and the Western Area Purchasing Co-op, 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: 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 2014, 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 2014, 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.

#3 INADEQUATE INTERNAL CONTROLS OVER EXPENDITURES – Previous Regional Office Response

In its prior response in 2014, 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.

#4 NONCOMPLIANCE WITH GRANT REQUIREMENTS – Previous Regional Office Response

In its prior response in 2014, 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.