



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #26
FULTON, HANCOCK, MCDONOUGH, AND SCHUYLER COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2016

Release Date: March 29, 2017

FINDINGS THIS AUDIT: 3				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	16-1		
Category 2:	0	0	0	2012	16-2		
Category 3:	0	0	0	2015	16-3		
TOTAL	0	3	3				
FINDINGS LAST AUDIT: 6							

SYNOPSIS

- **(16-1)** The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #26 did not have adequate internal control procedures.
- **(16-3)** The Regional Office of Education #26 had inadequate internal controls over inventory.

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
FULTON, HANCOCK, MCDONOUGH, AND SCHUYLER COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$3,995,929	\$3,458,549
Local Sources	\$1,205,271	\$942,883
% of Total Revenues	30.16%	27.26%
State Sources	\$2,526,524	\$2,168,165
% of Total Revenues	63.23%	62.69%
Federal Sources	\$264,134	\$347,501
% of Total Revenues	6.61%	10.05%
TOTAL EXPENDITURES	\$4,540,578	\$3,674,393
Salaries and Benefits	\$2,928,896	\$2,062,199
% of Total Expenditures	64.50%	56.12%
Purchased Services	\$535,089	\$582,297
% of Total Expenditures	11.78%	15.85%
All Other Expenditures	\$1,076,593	\$1,029,897
% of Total Expenditures	23.71%	28.03%
TOTAL NET POSITION	\$179,668 ¹	\$59,627
INVESTMENT IN CAPITAL ASSETS	\$122,054	\$122,759
¹ The FY 2016 beginning net position was restated by \$664,690 due to a prior period adjustment related to the merger of ROE #22 with ROE #26. 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 using 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.
- 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. (Finding 2016-001, 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:

- 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.
- Several items totaling \$5,764 were appropriately included as capital assets on the capital asset schedule presented to auditors; however, these items were coded as purchased services in the general ledger.

- 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 actual mileage traveled, in which case the excess stipend should be included in W-2 wages. A total of \$31,251 was expended for mileage reimbursements in this program.
- There was \$6,145 of Adult Learning Resource Center grant funding that was unspent and was due back to the grantor at the end of FY2013, but still had not been returned to the grantor at the end of FY2016.

The Regional Office of Education #26 had not established or documented sufficient internal control procedures. (Finding 2016-002, pages 12d-12e) **This finding was first reported in 2012.**

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

- The individual responsible for recording cash receipts should not be given physical access to the receipts. An individual independent of the recording process should make cash deposits and verify that the amounts recorded agree to deposit records.
- 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.
- The Regional Office should verify that the employee monthly mileage stipend does not exceed the actual mileage traveled by a grant employee during the grant period.
- 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.

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. (For previous Regional Office response, see Digest Footnote #2 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 2016-003, page 12f)

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 will revise the Regional Office of Education's and Western Area Purchasing Cooperative's 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.)

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, 2016 are fairly presented in all material respects.

This financial report was conducted by the firm of Kemper CPA Group LLP.

SIGNED ORIGINAL ON FILE

AMEEN DADA
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Audit Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:KJM

DIGEST FOOTNOTES

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

In its prior response in 2015, 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.

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

In its prior response in 2015, 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.

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

In its prior response in 2015, 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.