



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, 2018

Release Date: October 24, 2019

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	3	4	2007	18-1		
Category 2:	0	0	0	2012	18-2		
Category 3:	<u>1</u>	<u>0</u>	<u>1</u>	2015	18-3		
TOTAL	2	3	5				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(18-1)** The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- **(18-2)** The Regional Office of Education #26 had inadequate internal control procedures.
- **(18-3)** The Regional Office of Education #26 had inadequate internal controls over inventory.
- **(18-4)** The Regional Office of Education #26 had inadequate internal controls over cut-off procedures.
- **(18-5)** The Regional Office of Education #26 did not provide financial statements in an auditable form and in accordance with GAAP by the August 31 deadline.

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, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$4,249,647	\$4,684,622
Local Sources	\$1,185,208	\$1,534,136
% of Total Revenues	27.89%	32.75%
State Sources	\$2,814,863	\$2,883,715
% of Total Revenues	66.24%	61.56%
Federal Sources	\$249,576	\$266,771
% of Total Revenues	5.87%	5.69%
TOTAL EXPENDITURES	\$4,354,550	\$4,077,161
Salaries and Benefits	\$2,634,433	\$2,411,114
% of Total Expenditures	60.50%	59.14%
Purchased Services	\$685,008	\$569,005
% of Total Expenditures	15.73%	13.96%
All Other Expenditures	\$1,035,109	\$1,097,042
% of Total Expenditures	23.77%	26.91%
TOTAL NET POSITION	\$(39,427) ¹	\$787,129
INVESTMENT IN CAPITAL ASSETS	\$58,012	\$137,210
¹ The FY 2018 beginning net position was restated by (\$721,653) due to a prior period adjustment for new reporting requirements for other postemployment benefits. 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 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintained its accounting records using cash basis accounting during the fiscal year and posted year-end accrual entries for financial statement purposes. While the ROE maintained controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of generally accepted accounting principles (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.

The ROE is required to maintain a system of controls over the preparation of financial statements in accordance with 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).

During review of the financial information prepared by the ROE, 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 payable, accounts receivable, and unearned revenue and made entries to record them, not all accounts payable, accounts receivable, and unearned revenue were correctly recorded.
- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with GAAP.
- The financial statements initially submitted to the auditors did not include all the required adjustments and disclosures related to Other Post-Employment Benefits (OPEB). The ROE was able to subsequently record and report the amounts and required disclosures in the revised financial statements provided to the auditors.

ROE Officials indicated current funding levels are not adequate to hire and/or train accounting personnel in order to comply with these requirements. While an outside contractor was engaged to assist in the preparation of financial statements, management did not effectively detect all of the material adjustments needed in order to present financial statements and provide adequate disclosures in accordance with GAAP. (Finding 18-001, pages 12 – 14) **This finding was first reported in 2007.**

The auditors recommended as part of internal control over the preparation of financial statements, the ROE should implement comprehensive preparation procedures to ensure the financial statements are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations. The ROE should also perform an oversight of the external service provided and evaluate the adequacy and results of the services performed.

ROE Response: *The ROE accepts the auditor's recommendations. ROE #26 will continue to work with our accounting firm and will implement trainings with the accounting firm to establish procedures for the applicable GAAP and GASB.*

Prior Year ROE Response: *The ROE 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 limited funds available to provide educational services for the schools in the region.*

The ROE will continue to work with other Regional Offices to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. ROEs are simply not resourced at an adequate nor equitable levels to comply with the mounting GAAP standards.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #26 had inadequate internal control procedures.

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

- The ROE did not have adequate controls over the maintenance of complete records of capital assets. The ROE had a capital assets schedule; however, it did not include all the important information including the location, serial numbers, and tag numbers. The auditors noted the process of tagging assets was not consistent and not all items were being tagged.

Auditors also noted there were no procedures in place or formal forms being utilized for equipment transfers and disposals. There was no monitoring of computers issued to employees that could be in various locations and personally assigned laptops that could have confidential information.

- Capital assets with an acquisition cost of \$5,231, which were disposed of during the current fiscal year, were not recorded in the accounting system.

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

The ROE Accounting Manual (Manual) states that detailed fixed asset records should be kept both for accounting purposes as well as insurance purposes. In addition, generally accepted accounting principles (GAAP) requires that an inventory of all capital assets be maintained. Fixed asset records are a necessary part of the ROE accounting system, and they should be as carefully maintained as any other records.

The Manual also states that all fixed assets should be tagged in some fashion with an inventory control number that is assigned to that asset in the fixed asset inventory records.

The State and Federal Grant Administration Policy and Fiscal Requirements and Procedures issued by the Illinois State Board of Education dictates procedures for managing equipment acquired with State and/or federal funds. These include procedures to ensure, among others that (1) adequate records are maintained for all equipment, and (2) dispositions are recorded in the fixed assets inventory records.

ROE officials indicated they do not have enough resources to perform a full physical inventory of assets. In addition, the ROE has not established or documented sufficient internal control procedures over capital assets. (Finding 18-002, pages 15 – 16) **This finding was first reported in 2012.**

The auditors recommended the ROE should establish and document internal control procedures to ensure its capital asset schedule is maintained in accordance with GAAP and the ROE Accounting Manual. The capital asset schedule should be reconciled to the general ledger capital asset and capital outlay accounts. The auditors also recommended the ROE should evaluate data maintained on computers and ensure those containing confidential information are adequately protected with methods such as encryption.

ROE Response: *The ROE will establish and document internal control procedures to ensure its capital asset*

schedule is maintained in accordance with GAAP and ROE Accounting Manual. The capital asset schedule will be reconciled to the general ledger capital asset and capital outlay accounts.

The ROE in partnership with our IT support personnel will evaluate data maintained on computers and ensure those containing confidential information are adequately protected with methods such as encryption.

Prior Year ROE Response: *As noted in the procedures statement presented to the ROE during the audit, it was established that the ROE separates the duties of cash receipts and system entry as much as possible with the available staff.*

The ROE will review the current auditors' recommendation and will revise the ROE's policies, procedures, and/or practices to address the finding noted as needed.

INADEQUATE INTERNAL CONTROLS OVER INVENTORY

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

The Regional Office of Education #26 (ROE) was not able to provide auditors with documentation to support the provided inventory value of the Western Area Purchasing Co-op. In addition, the inventory value recorded in the ROE's general ledger was not adjusted to the year-end value.

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.

ROE officials indicated 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 18-003, page 17) **This finding was first reported in 2015.**

The auditors recommended 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 accurate inventory value should be recorded in the ROE's general ledger.

ROE Response: *The ROE and the Western Area Purchasing Co-op accept the risk involved with this finding as there is inadequate staff and resources to perform physical inventory on current timeline. The physical inventory mandate coupled*

with the required timeline would disrupt operation immensely. An inventory system is cost prohibitive.

Prior Year ROE Response: *The ROE agrees with this finding after review of the documentation that the Western Area Purchasing Co-op provided. The ROE will discuss with the Western Area Purchasing Co-op the need to create and maintain adequate documentation or inventory system to support the calculated year-end inventory value.*

INADEQUATE CONTROLS OVER CUT-OFF PROCEDURES

The Regional Office of Education #26 had inadequate internal controls over cut-off procedures.

During the review of disbursements, auditors noted 3 of 25 vouchers tested (12%), totaling \$183,596 for services incurred or inventory received, were not recorded on the books and records in the proper fiscal year. One of the vouchers, amounting to \$15,606, was for reimbursement of FY17 fingerprinting salary. The remaining two disbursements, amounting to \$167,990, were for inventory purchased and received in FY17. The salary reimbursement and the purchased inventory were recorded as expense and liabilities in FY18.

Auditors also noted 4 of 32 receipts tested (12.5%), totaling \$39,170 for services rendered and inventory delivered, were not recorded in the proper fiscal year. One of the receipts was a salary reimbursement for FY17 that was recorded in FY18. It should have been recorded as receivable in FY17 since the service was rendered in FY17. The remaining three receipts were for inventory delivered to the districts prior to June 30, 2018, and should have been recorded as receivables and sales in FY18.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments (Statement), requires the accrual basis of accounting for entity wide financial statements and business-type activities. The accrual basis of accounting requires the recognition of revenues, expenses, assets, liabilities, deferred inflows of resources, and deferred outflows of resources in the accounting period they are earned or incurred.

Regional Office of Education (ROE) officials indicated they had not established or documented sufficient year-end cut-off procedures for revenues and expenses. (Finding 18-004, pages 18 – 19)

The auditors recommended the ROE should implement cut-off procedures at year-end for revenues and expenses. All billable goods and services should be billed before year-end and all the districts should be informed to turn in expenses for the current

year. The ROE should establish procedures to ensure detailed invoices are promptly obtained and reviewed. In addition, year-end cut-off entries for accruals should be reviewed to ensure they are complete and are charged to the proper account and correct fiscal year.

ROE Response: *The ROE will implement cut-off procedures at year-end for revenues and expenses. All billable goods and services will be billed before year-end. The ROE will establish procedures to ensure detailed invoices are promptly obtained and reviewed. In addition, year-end cut-off entries for accruals will be reviewed to ensure they are complete and are charged to the proper account and correct fiscal year.*

DELAY OF AUDIT

The Regional Office of Education #26 did not provide financial statements in an auditable form and in accordance with GAAP by the August 31 deadline.

The financial statements provided to the auditors by the Regional Office of Education #26 (ROE) on September 13, 2018, did not contain Other Post-Employment Benefits (OPEB) related adjustments and disclosures and all of the information needed to support the ROE's OPEB balances and related disclosures. Subsequently, on January 18, 2019, revised financial statements were provided which did reflect the OPEB balances and required disclosures.

The Regional Office is subject to 105 ILCS 5/2-3.17a which requires the Auditor General's office to cause an audit to be made, as of June 30th of each year, of the financial statements of all accounts, funds, and other moneys in the care, custody or control of the regional superintendent of schools of each educational service region in the State and of each educational service center established in the School Code. The audit is to be conducted in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

In accordance with 105 ILCS 5/2-3.17a, the Auditor General has promulgated administrative rules and regulations to govern this process. Those rules, 74 Ill. Adm. Code 420.320 (c) (2), state that for audit purposes, each regional office of education and educational service center shall make available to the Auditor General or his designee all books and records deemed necessary to make and complete the required audits. The records shall be in auditable form by August 15 of the succeeding fiscal year. Financial reports are to be available no later than August 31 in order for the annual audit to be completed by an independent auditor selected by the Auditor General. Annual financial statements are to be prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

ROE officials indicated because of the initial implementation of the OPEB standards, more time was required to compile the

information and prepare the adjustments for the OPEB balances and related disclosures. (Finding 18-005, pages 20 – 21)

The auditors recommended the ROE should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements should be compiled on an accrual basis of accounting in accordance with GAAP and should include all the required disclosures. These financial statements need to be presented to the Auditor General’s independent auditors for audit by the August 31 deadline.

ROE Response: *The ROE will implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements will be compiled on an accrual basis of accounting in accordance with GAAP and will include all the required disclosures. These financial statements will be presented to the Auditor General’s independent auditors for audit in a timely manner to the best of our ability.*

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, 2018 are fairly presented in all material respects.

This financial audit was conducted by the firm of Adelfia, LLC.

SIGNED ORIGINAL ON FILE

JOE BUTCHER
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JRB