



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, 2020**

**Release Date: August 24, 2021**

FINDINGS THIS AUDIT: 4	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2015	20-1		
Category 2:	1	1	2	2012		20-2	
Category 3:	0	1	1	2018			20-4
<b>TOTAL</b>	<b>1</b>	<b>3</b>	<b>4</b>				
FINDINGS LAST AUDIT: 3							

**SYNOPSIS**

- **(20-1)** The Regional Office of Education #26 had inadequate internal controls over inventory.
- **(20-2)** The Regional Office of Education #26 had inadequate internal control procedures.
- **(20-3)** The Regional Office of Education #26 lacked adequate controls over the review of internal controls over external service providers.
- **(20-4)** The Regional Office of Education #26 did not provide completed financial statements in an auditable form 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.

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

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2020**

	<b>FY 2020</b>	<b>FY 2019</b>
<b>TOTAL REVENUES</b>	\$4,507,391	\$4,413,344
Local Sources	\$1,329,230	\$1,138,571
% of Total Revenues	29.49%	25.80%
State Sources	\$2,922,736	\$2,994,097
% of Total Revenues	64.84%	67.84%
Federal Sources	\$255,425	\$280,676
% of Total Revenues	5.67%	6.36%
<b>TOTAL EXPENDITURES</b>	\$4,604,968	\$4,760,508
Salaries and Benefits	\$2,931,899	\$3,046,362
% of Total Expenditures	63.67%	63.99%
Purchased Services	\$630,969	\$723,523
% of Total Expenditures	13.70%	15.20%
All Other Expenditures	\$1,042,100	\$990,623
% of Total Expenditures	22.63%	20.81%
<b>TOTAL NET POSITION</b>	\$(484,168)	\$(386,591)
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$131,998	\$141,476
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable John Meixner Currently: Honorable John Meixner

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **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.

Regional Office officials indicated the Western Area Purchasing Co-op did not perform a physical inventory count at year end; rather, it performed a physical count after most inventory had been delivered to Co-op members and calculated 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 20-001, page 12) **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:** *ROE 26 and the Western Area Purchasing Co-op staff 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.*

### **INADEQUATE INTERNAL CONTROL PROCEDURES**

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

The Regional Office of Education #26 (ROE) did not establish adequate internal controls concerning bank reconciliations or maintaining accurate fixed asset records. Bank reconciliations were not performed timely and property and equipment records were not always complete.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud. Sound internal controls require bank reconciliations to be performed

accurately and promptly. Reconciling items should be investigated immediately and adjustments made to the general ledger accordingly. Bank reconciliations should also be reviewed and approved by a person independent of the preparer in a timely manner.

The ROE Accounting 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 ROE Accounting 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.

Auditors noted the following weaknesses in the ROE's internal control system for which there were no mitigating controls:

- The ROE maintained 6 bank accounts. During the audit, it was noted that in each bank account, monthly reconciliations were not performed timely for 2 to 4 months. Eleven of 51 monthly bank reconciliations (22%) were performed more than a month late.
- 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 always 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.

Regional Office officials indicated scheduling conflicts and the change in the accounting system in April 2020 resulted in untimely bank reconciliations. They also indicated competing priorities resulted in not having adequate controls over the maintenance of capital assets. (Finding 20-002, pages 13 – 14) **This finding was first reported in 2012.**

The auditors recommended the ROE should prepare monthly bank reconciliations on a timely basis. This would ensure that

the cash balance per ledger is accurate and cash transactions are fully accounted for. Additionally, the ROE should establish and document internal control procedures to ensure its capital assets schedule is maintained in accordance with GAAP and the ROE Accounting Manual. The capital assets schedule should be reconciled to the general ledger capital assets and capital outlay accounts.

**ROE Response:** *The Regional Office will prepare monthly bank reconciliations on a timely basis. The Regional Office will 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 will be reconciled to the general ledger capital asset and capital outlay accounts.*

### **LACK OF ADEQUATE CONTROLS OVER THE REVIEW OF INTERNAL CONTROLS OVER EXTERNAL SERVICE PROVIDERS**

**The Regional Office of Education #26 lacked adequate controls over the review of internal controls over external service providers.**

As part of the audit process, auditors requested the Regional Office of Education #26 (ROE) to provide a population of the service providers utilized. The ROE was able to identify service providers that provided various hosting and backup services for the ROE.

The ROE is responsible for the design, implementation, and maintenance of internal controls, including the controls that are outsourced to service providers, related to information systems and operations to ensure resources and data are adequately protected from unauthorized or accidental disclosure, modifications, or destruction.

Generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

During testing, the auditors noted the ROE had not:

- Developed a formal process for identifying service providers and for either obtaining the Service Organization Controls (SOC) reports from the service providers and related subservice organizations or performing alternative procedures to determine the impact of such services on its internal control environment prior to signing an agreement with the service provider.
- Documented its review of each of the SOC reports, or performed alternative procedures, to evaluate any issues relevant to the ROE's internal controls.
- Monitored and documented the operation of the Complementary User Entity Controls (CUECs) relevant to the ROE's operations.

Regional Office officials indicated they understand the importance of a formal process to monitor service providers and they have not completed a policy to address the issues due to other priorities. (Finding 20-003, pages 15 – 16)

The auditors recommended the ROE identify all third-party service providers and determine and document if a review of controls is required. If required the ROE should:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems including services provided by subservice organizations, prior to signing agreements with the providers and annually thereafter.
- Monitor and document the operation of the CUECs relevant to the ROE's operations.
- Document its review of the SOC reports or perform alternative procedures to evaluate all significant issues to ascertain if a corrective action plan exists, when it will be implemented, any impacts to the ROE, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

**ROE Response:** *The Regional Office officials will implement a formal process to monitor service providers, and a policy to address the issues.*

#### **DELAY OF AUDIT**

**The Regional Office of Education #26 did not provide completed financial statements in an auditable form by the August 31 deadline.**

The Regional Office of Education #26 (ROE) did not provide completed financial statements in an auditable form by the August 31<sup>st</sup> deadline. The completed financial statements were provided on November 16, 2020.

The ROE 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 30<sup>th</sup> 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 Government 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.

Regional Office officials indicated the change in accounting system in April 2020 resulted in delaying the year end closing activities and providing the supporting reports after August 31<sup>st</sup> to the accounting firm they contracted with in order to prepare the financial statements and notes. (Finding 20-004, pages 17 – 18) **This finding was first reported in 2018.**

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<sup>st</sup> 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 effects of the inadequacy of accounting records related to inventory in the Business-Type Activities and the Western Area Purchasing Co-op, as of June 30, 2020 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