



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, 2021

Release Date: August 17, 2022

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 1	<u>Repeat</u> 1	<u>Total</u> 2	2015	21-1		
Category 2:	0	1	1	2020		21-3	
Category 3:	<u>0</u>	<u>1</u>	<u>1</u>	2018			21-4
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(21-1)** The Regional Office of Education #26 had inadequate internal controls over inventory.
- **(21-2)** The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- **(21-3)** The Regional Office of Education #26 lacked adequate controls over the review of internal controls over external service providers.
- **(21-4)** 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, 2021

	FY 2021	FY 2020
TOTAL REVENUES	\$4,908,385	\$4,507,391
Local Sources	\$1,360,274	\$1,329,230
% of Total Revenues	27.71%	29.49%
State Sources	\$3,097,296	\$2,922,736
% of Total Revenues	63.10%	64.84%
Federal Sources	\$450,815	\$255,425
% of Total Revenues	9.18%	5.67%
TOTAL EXPENDITURES	\$4,717,582	\$4,604,968
Salaries and Benefits	\$2,837,174	\$2,931,899
% of Total Expenditures	60.14%	63.67%
Purchased Services	\$716,793	\$630,969
% of Total Expenditures	15.19%	13.70%
All Other Expenditures	\$1,163,615	\$1,042,100
% of Total Expenditures	24.67%	22.63%
TOTAL NET POSITION	\$(293,365)	\$(484,168)
INVESTMENT IN CAPITAL ASSETS	\$128,577	\$131,998
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
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 21-001, 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.*

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 draft financial statements originally submitted did not implement the Governmental Accounting Standards Board (GASB) Statement No. 84 and were missing the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. There was also no disclosure related to GASB Statement No. 84 implementation. The ROE

subsequently submitted revised financial statements implementing the requirements of GASB Statement No. 84.

State statute 105 ILCS 5/2-3.17a allows a Regional Office of Education or Educational Service Center to utilize a cash basis, modified cash basis, or generally accepted accounting principles (GAAP) basis of accounting to prepare the financial statements for audit. The ROE has chosen to utilize the GAAP basis of accounting for financial statement reporting.

The ROE is required to maintain a system of controls over the preparation of financial statements. 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 GASB.

During auditors' review of subsequent payments, auditors noted two disbursements totaling \$27,552 for supplies and purchased services incurred in fiscal year 2021 were not reported as accounts payable in the proprietary fund and government-wide financial statements prepared by the ROE. These unrecorded liabilities required material adjustments to the financial statements.

During the audit, auditors also noted the inventory and the due to other local governments reported in the proprietary fund and government-wide financial statements prepared by the ROE were overstated by \$19,949 due to a mathematical error. These misstatements required material adjustments to the financial statements.

Regional Office officials indicated this was an oversight. (Finding 21-002, pages 13 – 14)

The auditors recommended the ROE should implement comprehensive preparation and/or review procedures as part of its internal control over the preparation of financial statements to ensure that the financial statements, including disclosures, 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. 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.

Additionally, ROE management should determine if changing from the GAAP basis to the cash or modified cash basis of accounting would be allowable or beneficial to the ROE and users of the ROE statements.

ROE Response: *The ROE will more closely review reports supplied for financial statement preparation to assure accuracy of mathematical computations.*

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; however, officials have not completed a policy to address the issues due to other priorities. (Finding 21-003, 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 implemented a process to review and monitor service providers, and a policy to address the issues. However, the ROE's procedure was inadequate to fulfill this requirement as expected. The ROE will review and rectify this process to address this issue going forward.*

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 31st deadline. The completed financial statements were provided on December 1, 2021.

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 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 Government Auditing Standards (GAGAS). The ROE may utilize a cash basis, modified cash basis, or generally accepted accounting principles (GAAP) basis of accounting to prepare the financial statements for audit. The ROE has chosen the GAAP basis of accounting for financial reporting.

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. In addition, prudent business practices and

transparency require timely preparation and completion of financial statements.

Regional Office officials indicated competing priorities within the accounting firm they contracted with to prepare the financial statements resulted in the delay in providing completed financial statements in an auditable form by the August 31st deadline. (Finding 21-004, 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). Additionally, ROE management should determine if changing to the cash or modified cash basis would be allowable and beneficial to the ROE and users of its financial statements. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31st deadline.

ROE Response: *The ROE will address and implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). As of FY2022, annual financial statements will be compiled on a cash basis of accounting and will include all required disclosures. The ROE will supply reports and work closely with the accounting firm contracted to prepare financial statements, in a timely manner. These financial statements will be presented to the Auditor General's independent auditors for audit 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, 2021 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