



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #28
BUREAU/HENRY/STARK COUNTIES

FINANCIAL AUDIT (In Accordance with the Single Audit Act and OMB Circular A-133) **Release Date: December 30, 2015**
For the Year Ended: June 30, 2014

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2007	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 1	<u>Repeat</u> 1	<u>Total</u> 2	2007	14-1		
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(14-1)** The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #28 did not have adequate segregation of assets, liabilities, and fund balances in its accounting software.
- **(14-3)** The Regional Office of Education #28 did not have adequate controls over payroll.

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 #28
BUREAU/HENRY/STARK COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2014

	FY 2014	FY 2013
TOTAL REVENUES	\$3,133,596	\$2,953,991
Local Sources	\$481,446	\$233,693
% of Total Revenues	15.36%	7.91%
State Sources	\$1,044,104	\$1,191,540
% of Total Revenues	33.32%	40.34%
Federal Sources	\$1,608,046	\$1,528,758
% of Total Revenues	51.32%	51.75%
TOTAL EXPENDITURES	\$3,149,260	\$2,863,062
Salaries and Benefits	\$1,743,957	\$1,399,409
% of Total Expenditures	55.38%	48.88%
Purchased Services	\$239,929	\$283,298
% of Total Expenditures	7.62%	9.89%
All Other Expenditures	\$1,165,374	\$1,180,355
% of Total Expenditures	37.00%	41.23%
TOTAL NET POSITION	\$1,355,397	\$1,371,061
INVESTMENT IN CAPITAL ASSETS	\$26,929	\$38,117
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Angela Zarvell Currently: Honorable Angela Zarvell

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #28 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skill, and experience to prepare and/or thoroughly review GAAP based financial statements to ensure they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect and correct financial statement misstatements and disclosure omissions in a timely manner.

During review of the Regional Office of Education #28's financial information prepared by the Regional Office of Education #28, auditors noted the Office did not have adequate controls over the maintenance of records of cash, due from other governments, accounts payable and due to other governments. While the Regional Office did maintain records to indicate the balances of these accounts, material audit adjustments were proposed in order to ensure financial statement balances were materially accurate.

According to Regional Office officials, management did not detect all of the material adjustments needed in order to present financial statements in accordance with GAAP. (Finding 14-001, pages 14-15) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #28 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including note disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and

knowledge of the Regional Office of Education's activities and operations.

The Regional Office of Education #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE SEGREGATION OF ASSETS, LIABILITIES AND FUND BALANCES

The Regional Office of Education #28 did not have adequate segregation of assets, liabilities, and fund balances in its accounting software.

Regional Office of Education #28 is required by the Illinois State Board of Education to maintain its accounting system in accordance with the Regional Office of Education Accounting Manual. The Manual requires the Regional Office to maintain an accounting system on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Regional Office of Education #28 purchased an accounting software package which provided the reporting features required for proper fund accounting. The accounting software package was set up to allow for the revenues and expenses of the Regional Office of Education #28's programs to be accounted for separately, but combines all assets, liabilities, and fund balances.

The current set up of the accounting software package, doesn't allow management to easily obtain entity-wide financial information necessary to make informed management decisions. In addition, financial statements in accordance with generally accepted accounting principles and the Regional Office of Education Accounting Manual cannot be readily prepared from the current accounting system.

According to Regional Office officials, the Office purchased an accounting software package which provided the reporting features required for proper fund accounting; however, the segregation of assets, liabilities, and fund balances has not yet been performed in the accounting software package. (Finding 14-002, pages 16-17)

The auditors recommended that the Regional Office of Education #28 fully implement the accounting software package that provides the necessary reporting features required for proper fund accounting. The accounting software package should be set up to have the capabilities necessary for the Regional Office to be in compliance with the Regional Office of Education Accounting Manual and provide the reporting detail necessary to prepare financial statements in accordance with generally accepted accounting principles.

The Regional Office of Education #28 responded that it acquired accounting software that will produce trial balances. However, the transition was lengthy and difficult. The software contractor had not completed segregation of assets, liabilities and fund balances for the individual accounts at the time of the audit. The Regional Office noted this has since been rectified.

INADEQUATE CONTROLS OVER PAYROLL

The Regional Office of Education #28 did not have adequate controls over payroll.

The Regional Office of Education #28 is responsible for establishing and maintaining an internal control system over payroll expenditures to prevent errors and fraud.

Auditor's noted that for 1 of 12 employees tested in the Twenty-First Century Community Learning Centers grant the employee's pay rate did not agree to the contracted amount. The employee's pay rate (\$9.00/hour) was not updated for the most recent pay increase (\$9.18/hour), so the employee was not receiving the full, contracted pay rate. Although the unpaid amount is inconsequential, this represents a break down in internal control.

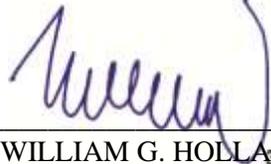
According to Regional Office officials, the Office did not have proper internal controls in place to ensure the employee's pay rate agreed to the contracted amount. (Finding 14-003, pages 18-19)

The auditors recommended that the Regional Office of Education #28 establish internal control procedures to ensure employees' pay rates used to calculate payroll expenditures agree to the contracted amounts. In addition, the Regional Office should calculate and pay the employee for amounts earned but not paid in previous pay periods.

The Regional Office of Education #28 responded that it has implemented a checks and balance system to prevent such occurrences involving payroll service providers.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #28's financial statements as of June 30, 2014 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Winkel, Parker, & Foster, CPA PC were our special assistant auditors.

DIGEST FOOTNOTE

#1: Controls Over Financial Statement Preparation - Previous Regional Office Response

In its prior response in 2013, the Regional Office of Education #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit.