



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #30
ALEXANDER, JACKSON, PERRY, PULASKI, AND UNION COUNTIES

FINANCIAL AUDIT (In accordance with the Uniform Guidance) Release Date: May 27, 2020
 For the Year Ended: June 30, 2017

FINDINGS THIS AUDIT: 5				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	4	4	2015	17-1		
Category 2:	0	0	0	2016	17-2		
Category 3:	<u>1</u>	<u>0</u>	<u>1</u>	2016	17-3		
TOTAL	1	4	5	2016	17-5		
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- (17-1) The Regional Office of Education #30 did not have sufficient internal controls over the financial reporting process.
- (17-2) The Regional Office of Education #30 did not have adequate internal controls over the preparation of grant expenditure reports.
- (17-3) The Regional Office of Education #30's salaries and benefits were not supported by proper time and effort documentation.
- (17-4) The Regional Office of Education #30 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (17-5) The Regional Office of Education #30 lacked written policies for federal grant administration.

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 #30
ALEXANDER, JACKSON, PERRY, PULASKI, AND UNION COUNTIES

FINANCIAL AUDIT
(In accordance with the Uniform Guidance)
For The Year Ended June 30, 2017

	FY 2017	FY 2016
TOTAL REVENUES	\$2,562,029	\$2,324,222
Local Sources	\$374,631	\$385,620
% of Total Revenues	14.62%	16.59%
State Sources	\$1,122,933	\$879,342
% of Total Revenues	43.83%	37.83%
Federal Sources	\$1,064,465	\$1,059,260
% of Total Revenues	41.55%	45.57%
TOTAL EXPENDITURES	\$2,547,026	\$2,230,976
Salaries and Benefits	\$1,475,233	\$1,057,993
% of Total Expenditures	57.92%	47.42%
Purchased Services	\$261,526	\$368,000
% of Total Expenditures	10.27%	16.50%
All Other Expenditures	\$810,267	\$804,983
% of Total Expenditures	31.81%	36.08%
TOTAL NET POSITION	(\$191,072) ¹	\$508,415
INVESTMENT IN CAPITAL ASSETS	\$53,238	\$53,090
¹ The FY 2017 beginning net position was restated by (\$714,490) due to the implementation of GASB No. 68 & No. 71 for pensions. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Cheryl Graff Currently: Honorable Cheryl Graff

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #30 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #30 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintained its accounting records on the cash basis of accounting during the fiscal year and posted or maintained a list of year-end accrual adjustments 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 Regional Office is required to maintain a system of controls over the preparation of financial statements in accordance with GAAP. The ROE's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP based financial statements, including the schedule of expenditures of federal awards, and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

During review of the financial information prepared by the ROE, the following internal control deficiencies were noted:

- While the ROE did maintain records to indicate the balances of accounts receivable/due from other governments and unavailable revenue, not all entries were provided or recorded correctly to reconcile the ROE's grant and general ledger activity.
- Expenses used to meet cost reimbursement requirements for certain State and federal grants, including indirect costs, were not allocated to the proper fund and were instead charged to unrestricted funds. Audit adjustments were also necessary to correct certain other expenses that were misclassified, and one entry was posted twice.
- Audit adjustments were necessary to properly classify State and federal revenue, which had originally been classified as local revenue.
- The ROE did not have adequate controls over the proper recognition of on-behalf revenues and expenses. Information to calculate and record these amounts had not been obtained by the ROE.

- The ROE did not have adequate controls to record and report the ROE's net accrued pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.

Regional Office management indicated they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements and present the financial statements in accordance with GAAP. In addition, the complex requirements of GASB Statements No. 68 and 71 will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2017-001, pages 14a-14c) **This finding was first reported in 2015.**

The auditors recommended that 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 possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report. Part of this fiscal audit was under prior management.*

INTERNAL CONTROLS OVER EXPENDITURE REPORT PREPARATION

The Regional Office of Education #30 did not have adequate internal controls over the preparation of grant expenditure reports.

The Regional Office of Education #30 (ROE) did not maintain separate expenditure accounts or subsidiary ledger accounts for grant expenditures. A separate responsibility code must be created for each grant and each grant year.

In addition, the ROE did not timely submit certain Mathematics and Science Partnerships expenditure reports. The ROE also did not have adequate internal controls over the preparation of grant expenditure reports.

Expenditure reports submitted to granting agencies to request reimbursement did not reconcile to the underlying accounting records for the following State and federal grant programs: ROE/ISC Operations, Mathematics and Science Partnerships, Title I – School Improvement and Accountability, and RAMPDUP and Onward. Additionally, expenses were overstated to the granting agencies for the IDEA – Improvement Grant – Part D program and the Mathematics and Science Partnerships program. The questioned costs for IDEA – Improvement Grant – Part D were \$5,638 and the

questioned costs for Mathematics and Science Partnerships were \$48,759.

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires that a non-federal entity's financial management system, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit 1) the preparation of reports required by general and program-specific terms and conditions, and 2) the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. Furthermore, the non-federal entity must establish and maintain effective internal control over the federal award.

Regional Office management indicated the following:

- Prior to the implementation of a new accounting program in March of 2017, the ROE was unable to adequately separate the grant activity for grants that ran multiple years.
- Untimely submission of certain Mathematics and Science Partnerships expenditures reports was due to an oversight.
- They obtained general ledger reports with preliminary information and did not perform further follow-up to verify all applicable expenses were moved to the appropriate accounts. (Finding 2017-002, pages 14d-14e)

The auditors recommended that the Regional Office management create a system of internal controls to ensure all expenditure reports are submitted accurately and timely, are fully supported by adequate cost documentation records, and reconcile to the underlying accounting records.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report.*

The Regional Office of Education #30's salaries and benefits were not supported by proper time and effort documentation.

SALARIES AND BENEFITS NOT SUPPORTED BY PROPER TIME AND EFFORT DOCUMENTATION

The Regional Office of Education #30 (ROE) assigned salary and benefit costs to the Mathematics and Science Partnership grants based on budgeted amounts. Comparisons of actual costs to budgeted distributions based on time and effort records were performed and adjustments for actual time spent on the grants, if different from budgeted amounts, were made;

however, time and effort documentation was not always complete. For example, time and effort reporting did not always include 100% of the employees' time. Some employees turned in monthly calendars to management, but they only included time spent on grants, not 100% of the employees' hours, and/or they did not include the number of hours worked per day or the program worked.

Employees of the ROE are required to document their time and effort working on federal programs. Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires charges for salaries and benefits to be supported by a system of internal control which provides reasonable assurance that charges are accurate, allowable, and properly allocated. Documentation records should reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities, and should encompass both federally assisted and non-federally assisted activities. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award. Significant changes in the corresponding work activity should be identified and entered into the accounting records in a timely manner. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.

Regional Office management indicated, until the prior year audit, they were unaware of the time and effort log requirements for all personnel. (Finding 2017-003, pages 14f-14g)

The auditors recommended that the ROE should implement a system of internal controls over time and effort reporting. The ROE should use time and effort documentation to distribute salary and benefit costs for employees who work in whole or in part on grant program activity in accordance with the Uniform Guidance.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report.*

The Regional Office of Education #30 did not provide completed financial statements in an auditable form by the August 31 deadline.

DELAY OF AUDIT

The Regional Office of Education #30 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. Financial records provided were not prepared on an accrual basis in accordance with GAAP.

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 the 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.

Fieldwork was originally scheduled for the week of June 25, 2018. During this time, issues were noted which delayed our audit procedures: not all prior year adjusting journal entries were posted correctly; not all accrual entries were posted or posted correctly; there were negative cash balances in various funds; due to/froms between funds were not posted; capital asset records were incomplete; and grant expenditure reports were not reconciled to the underlying general ledger.

The ROE hired an outside accounting firm to assist in correcting the issues noted during our initial fieldwork. A new general ledger was provided to auditors at the end of October 2018 and audit fieldwork was scheduled for the week of December 10, 2018. Fieldwork was not completed this time due to continuing issues with the capital asset records, grant expenditure reports and the underlying general ledger, and other issues noted. Fieldwork was scheduled again for the week of May 13, 2019. Again, fieldwork was not able to be completed as the financial statements still required numerous material journal entries to correct additional errors and omissions noted.

In late September 2019, the ROE hired a different outside accounting firm to assist with the remaining outstanding audit items. Final audit items were received in November 2019.

Regional Office management indicated the issues appeared to

begin in the prior year and were not adequately addressed for the current year audit due to timing. Transition to a new accounting software package during the current year also did not help with the issues. (Finding 2017-004, pages 14h-14i)

The auditors recommended that 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. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report.*

**The Regional Office of Education
#30 lacked written policies for
federal grant administration.**

**LACK OF WRITTEN POLICIES FOR FEDERAL
GRANTS**

The Regional Office of Education #30 (ROE) did not have written procedures concerning cash management, the determination of allowability of costs in accordance with Subpart E – Cost Principles of the Uniform Guidance and the terms and conditions of the federal award, or standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts. In lieu of written procedures, the ROE utilized informal procedures in which each purchase made or cost allocated to the Mathematics and Science Partnerships was reviewed for allowability by an individual with knowledge of the budget, allowable costs and activities, and the cash management requirements. The allowability determinations were based on the amounts included in the budgets for the Mathematics and Science Partnerships approved by, and the grant periods set by, the Illinois State Board of Education.

Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires the ROE to have written procedures to implement the requirements of Part 200.305, *Payment*, related to cash management, and for determining the allowability of costs in accordance with Subpart E – Cost Principles of the Uniform Guidance and the terms and conditions of the federal award. The ROE must also maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts.

Regional Office management indicated they were unable to dedicate the time needed to fully implement the Uniform

Guidance due to competing priorities. (Finding 2017-005, pages 15b-15c)

The auditors recommended that the ROE prepare written procedures to implement the requirements of Part 200.305, *Payment*, related to cash management, for determining the allowability of costs in accordance with Subpart E – Cost Principles of the Uniform Guidance and the terms and conditions of the federal award, and to document standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts.

ROE Response: *I agree with the finding and corrective actions are being implemented, as noted in the Corrective Action Plan for Current Year Audit Findings section of this report.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #30's financial statements as of June 30, 2017 are fairly stated in all material respects.

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

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:JMM