



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #32
IROQUOIS AND KANKAKEE COUNTIES

**FINANCIAL AUDIT (In Accordance with the Uniform
 Guidance)**
For the Year Ended: June 30, 2016

Release Date: August 22, 2017

| FINDINGS THIS AUDIT: 3 | AGING SCHEDULE OF REPEATED FINDINGS | | | | | | |
|-------------------------------|-------------------------------------|----------|----------|---------------------|------------|------------|------------|
| | New | Repeat | Total | Repeated Since 2010 | Category 1 | Category 2 | Category 3 |
| Category 1: | 1 | 1 | 2 | 2010 | 16-1 | | |
| Category 2: | 1 | 0 | 1 | | | | |
| Category 3: | 0 | 0 | 0 | | | | |
| TOTAL | 2 | 1 | 3 | | | | |
| FINDINGS LAST AUDIT: 2 | | | | | | | |

SYNOPSIS

- (16-1) The Regional Office of Education #32 did not have sufficient internal controls over the financial reporting process.
- (16-2) The Regional Office of Education #32 did not use time and effort documentation to distribute employees' salary and benefit costs for employees paid from multiple funding sources.
- (16-3) The Regional Office of Education #32 did not obtain required certifications nor did it document required risk assessments on subrecipients of federal awards.

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 #32
IROQUOIS/KANKAKEE COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2016

| | FY 2016 | FY 2015 |
|--|----------------|----------------|
| TOTAL REVENUES | \$4,378,311 | \$3,781,557 |
| Local Sources | \$784,948 | \$852,943 |
| % of Total Revenues | 17.93% | 22.56% |
| State Sources | \$1,941,108 | \$1,763,627 |
| % of Total Revenues | 44.33% | 46.64% |
| Federal Sources | \$1,652,255 | \$1,164,987 |
| % of Total Revenues | 37.74% | 30.81% |
| TOTAL EXPENDITURES | \$3,734,146 | \$3,254,334 |
| Salaries and Benefits | \$2,358,798 | \$2,232,817 |
| % of Total Expenditures | 63.17% | 68.61% |
| Purchased Services | \$824,479 | \$569,223 |
| % of Total Expenditures | 22.08% | 17.49% |
| All Other Expenditures | \$550,869 | \$452,294 |
| % of Total Expenditures | 14.75% | 13.90% |
| TOTAL NET POSITION | \$3,010,885 | \$2,366,720 |
| INVESTMENT IN CAPITAL ASSETS | \$0 | \$0 |
| Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|--|
| During Audit Period: Honorable Gregg Murphy Currently: Honorable Gregg Murphy |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #32 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #32 (ROE) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (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 and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The ROE did not have sufficient internal controls over the financial reporting process. The ROE maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the ROE maintains controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of the GAAP based financial statements and the Schedule of Expenditures of Federal Awards 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.

During review of the financial information prepared by the ROE, it was noted that the ROE did not have adequate controls over the maintenance of complete records of accounts receivable or unavailable revenue. While the ROE did maintain records to indicate the balances of some accounts receivable and unavailable revenue, not all entries were provided to properly report the ROE's activity, such as posting grant receivables and unavailable county revenue. Audit adjustments were proposed in order to provide reasonable assurance the financial statement balances were in accordance with GAAP.

Through inquiries and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted 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.

According to the ROE management, fiscal staff did not effectively detect all of the adjustments needed in order to present financial statements in accordance with GAAP.

Additionally, the complex requirements of GASB Statements No. 68 and 71 were new for fiscal year 2015 and new

additions for fiscal year 2016 will require additional time and training before the ROE can fully implement the requirements on its own. (Finding 2016-001, pages 14-16) **This finding was first reported in 2010.**

The auditors recommended that as part of internal control over the preparation of financial statements, the ROE should implement comprehensive preparation procedures to ensure that 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.

The ROE responded that in an attempt to correct this finding, the Regional Office will send its fiscal staff to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP). (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

SALARIES AND BENEFITS NOT SUPPORTED BY PROPER DOCUMENTATION

The Regional Office of Education #32 did not use time and effort documentation to distribute employees' salary and benefit costs for employees paid from multiple funding sources.

For fiscal year 2016, the *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), contained in 2 CFR Part 200, became effective for all federal award programs administered by the Iroquois and Kankakee Counties Regional Office of Education #32 (ROE). The Uniform Guidance (2 CFR 200.430) requires charges for salaries and benefits to be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated. It also requires records to support the distribution of salaries and benefits among specific activities if the employee works on other programs or activities in addition to a federal award program. It further states that budget estimates alone do not qualify as support for salary and benefit charges to a federal award.

The ROE did not use time and effort documentation to distribute salary and benefit costs for employees paid from multiple funding sources. Instead, the supervisory staff estimated time requirements of subordinate staff and monitored and directed their activities. The supervisory staff then reassessed the time requirements on multiple occasions throughout the year. At the time of reassessment, supervisory staff analyzed work to allocate time. Supervisory staff did not have written documentation of the assessment of time and effort.

Questioned costs were \$79,424. Salary and benefits charged to the Title I School Improvement and Accountability program during fiscal year 2016 totaled \$202,672.

The ROE was unaware that the procedures to have supervisory staff direct the time and effort of subordinate staff did not meet the requirements of the Uniform Guidance for individuals working on other programs or activities in addition to a federal award program. (Finding 2016-002, pages 17-18)

The auditors recommended the ROE use time and effort documentation to distribute salary and benefit costs for employees who work on all federal grants, including the Title I School Improvement and Accountability program, as well as other activities in accordance with 2 CFR 200.430.

The ROE responded that it utilized a practice of having supervisory staff direct time and effort of subordinate staff. The supervisory staff then periodically made modifications to the payroll allocations as to tasks and effort required. Employees were not asked to document their time and effort. Moving forward, employees will be asked to use a standard time and effort document to document their time.

SUBRECIPIENT MONITORING DOCUMENTATION

The Regional Office of Education #32 did not obtain required certifications nor did it document required risk assessments on subrecipients of federal awards.

For fiscal year 2016, the *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), contained in 2 CFR Part 200, became effective for all federal award programs administered by the Iroquois and Kankakee Counties Regional Office of Education #32 (ROE). The Uniform Guidance (2 CFR 200.415 (a)) requires the ROE to provide a specific certification to funding agencies on all annual and final fiscal reports or vouchers requesting payment and, conversely, requires the ROE to obtain such certification from its subrecipients. The Uniform Guidance (2 CFR 200.331 (b)) also requires the ROE to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

Auditors noted the ROE was providing the certification to the Illinois State Board of Education, the funding agency for Title I School Improvement and Accountability, when required. However, auditors noted that the certification was not obtained from the subrecipients of this program. Auditors also noted that although the ROE assesses risk of noncompliance as high for subrecipients of its Title I School Improvement and Accountability program and has procedures to monitor such subrecipients based on that assessment, there is no formal documentation of the assessed level of risk of noncompliance for each subrecipient as required by the Uniform Guidance. The ROE passed through \$195,206 of federal funding to four different subrecipients of the Title I School Improvement and Accountability program.

The ROE was unaware the certification signed on the on-line grant management system (IWAS) for the approval of the subrecipients' budgets did not meet the requirements of the certification. The ROE did not find a tool to adequately assess the risk of each of the subrecipients. As a result of not having a tool, the ROE treated each subrecipient as a "high risk subrecipient." (Finding 2016-003, pages 19-20)

Auditors recommended that the ROE develop policies and procedures to ensure all annual and final fiscal reports or vouchers requesting payment received from subrecipients of federal awards include the certification required by 2 CFR 200.415 (a)). Auditors also recommended that the ROE formalize, in writing, its subrecipient risk assessment procedures as required by 2 CFR 200.331 (b)).

The ROE responded they did not obtain a certification from subrecipients beyond certifications that were required when subrecipients submitted budgets for approval in the IWAS system. Additionally, the ROE did not find a tool to adequately assess the risk of each of the subrecipients. As a result of not having a tool, the ROE treated each subrecipient as a high risk subrecipient. As a high risk subrecipient, the procedures in place required back-up documentation for every reimbursed expenditure, showing that the expenditure was appropriate and allowable under the terms and conditions of the federal award. Procedures included the requirement of documentation in the State-wide Evaluation System, the State-wide Service Tracking System, and the subrecipient's financial management system. These procedures of review mitigate the risk inherent with the lack of a signed certification. To address this finding, written procedures will be modified and procedures will be implemented to ensure subrecipients sign the certification required by 2 CFR 200.415 (a) and subrecipient risk is assessed as described in 2 CFR 200.331 (b).

AUDITORS' OPINION

Our auditors state the Regional Office of Education #32's financial statements as of June 30, 2016 are fairly presented in all material respects.

This financial audit was conducted by the firm of West & Company, LLC.

SIGNED ORIGINAL ON FILE

AMEEN DADA
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

DIGEST FOOTNOTE

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

In its prior response in 2015, the Regional Office responded that in an attempt to correct this finding, the Regional Office will send its fiscal staff to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP).

