



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #33
HENDERSON, KNOX, MERCER, AND WARREN COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2018

Release Date: April 4, 2019

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>	2007	18-1		
Category 1:	1	2	3	2016	18-2		
Category 2:	1	0	1				
Category 3:	<u>1</u>	<u>0</u>	<u>1</u>				
TOTAL	3	2	5				
FINDINGS LAST AUDIT: 2							

SYNOPSIS

- **(18-1)** The Regional Office of Education #33 did not have sufficient internal controls over the financial reporting process.
- **(18-2)** The Regional Office of Education #33 did not have adequate internal control procedures.
- **(18-3)** The Regional Office of Education #33 did not have adequate controls over capital assets.
- **(18-4)** The Regional Office of Education #33 did not provide completed financial statements in auditable form and in accordance with GAAP by the August 31 deadline.
- **(18-5)** The Regional Office of Education #33 did not obtain sufficient collateral for its deposits.

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 #33
HENDERSON, KNOX, MERCER, AND WARREN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2018

	FY 2018	FY 2017
TOTAL REVENUES	\$8,552,221	\$3,888,755
Local Sources	\$745,223	\$633,051
% of Total Revenues	8.71%	16.28%
State Sources	\$7,208,499	\$2,747,998
% of Total Revenues	84.28%	70.67%
Federal Sources	\$598,499	\$507,706
% of Total Revenues	7.00%	13.06%
TOTAL EXPENDITURES	\$8,117,356	\$3,450,526
Salaries and Benefits	\$2,914,481	\$2,387,537
% of Total Expenditures	35.90%	69.19%
Purchased Services	\$561,558	\$387,242
% of Total Expenditures	6.92%	11.22%
All Other Expenditures	\$4,641,317	\$675,747
% of Total Expenditures	57.18%	19.58%
TOTAL NET POSITION	\$1,503,905 ¹	\$1,507,841
INVESTMENT IN CAPITAL ASSETS	\$64,357	\$40,876
¹ The FY 2018 beginning net position was restated by (\$438,801) due to a prior period adjustment for new reporting requirements for other postemployment benefits.		
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Jodi Scott Currently: Honorable Jodi Scott

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #33 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #33 (ROE) 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 were not sufficient controls over the preparation of the 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. For example, during review of the ROE's accounting records, auditors noted the ROE's financial information required several adjusting entries to present the financial statements in accordance with GAAP.

The ROE is required to maintain a system of controls over the preparation of financial statements in accordance with GAAP. These 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).

In addition, the Regional Office did not have adequate controls to record and report its net accrued pension or other post-employment benefits (OPEB) liability/asset, deferred outflows and inflows of resources, and pension or OPEB expense in accordance with GAAP. Proposed adjusting entries were approved and accepted by the ROE's management.

According to Regional Office officials, it lacked funding to secure the appropriate expertise to properly prepare full financial statements in FY18 or to provide the appropriate training to in house personnel (Finding 2018-001, pages 11a – 11b) **This finding was first reported in 2007.**

The auditors recommended that as part of the ROE's internal control over the preparation of financial statements, including disclosures, the ROE should implement a comprehensive preparation and/or review procedure to ensure the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

ROE Response: *The ROE understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office's management*

attempted to hire a firm to prepare the GAAP financial statements as required, these prepared statements were inadequate for the audit. The ROE has formed an agreement with another accounting firm for future preparation of financial statements.

Prior Year ROE Response: *The ROE understands the nature of this finding and realizes this circumstance is not unusual in an organization of this size. The Regional Office management is confident with the accounting staff and the preparation of financial information. When fiscally possible, additional training or hiring of additional staff will be pursued.*

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #33 did not have adequate internal control procedures.

The Regional Office of Education #33 (ROE) did not have adequate internal control procedures. Auditors noted the following weaknesses in the ROE's internal control system for which there were no mitigating controls:

- No documented evidence of independent review of completed bank reconciliations.
- During testing of transactions, auditors noted two instances where the ROE paid sales tax in the amount of \$19.16.
- The Regional Safe School grant's first quarter expenditure report was filed seventeen days late.
- One instance was noted of the ROE incurring a late fee and interest charges on a credit card statement in the amount of \$400.61.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

According to Regional Office officials, the ROE has not established or documented sufficient internal control procedures (Finding 18-002, pages 11c – 11d). **This finding was first reported in 2016.**

The auditors recommended the following:

- The ROE should have an individual, independent of the general ledger processes, review the bank reconciliation to ensure timely completion and agreement to the general ledger. This review should be documented.
- The ROE should develop internal controls to ensure sales tax is not paid.
- The ROE should also develop internal controls to ensure expenditure reports are submitted by the grantor's due date.

- The ROE should also ensure all credit card statements are paid timely to avoid late fees and interest.

ROE Response: *The ROE agrees with the auditor's recommendations. In addition, the ROE has already corrected many of the internal control issues noted and continues to work on improving controls over our financial processes.*

Prior Year ROE Response: *The ROE agrees with the auditor's recommendations. In addition, the ROE has already corrected many of the internal control issues noted and continues to work on improving controls over our financial processes.*

INADEQUATE CONTROLS OVER CAPITAL ASSETS

The Regional Office of Education #33 did not have adequate controls over capital assets.

The Regional Office of Education #33 (ROE) did not have adequate controls over fixed assets.

The equipment listing provided by the ROE was inaccurate and incomplete. Auditors noted the following in tests of fixed assets:

- The ROE did not maintain accurate individual department capital asset listings or an aggregated capital asset listing for all departments.
- The ROE did not consistently tag all assets with asset tags or take a periodic inventory of assets to ensure the assets are present.
- Current year supplies purchases in the amount of \$441 were recorded by the ROE as capital outlay.
- Capital asset purchases in the amount of \$7,155 were incorrectly recorded to supplies and purchased services and were omitted from the ROE's asset listings.

The *ROE Accounting Manual* requires each ROE to maintain detailed fixed asset records for both accounting purposes as well as insurance purposes, for fixed assets costing \$500 or more. Generally accepted accounting principles (GAAP) require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

The ROE Accounting Manual also states that the fixed asset inventory records should include: the inventory control number (tag number); major asset class; function and activity; reference to the acquisition source document; acquisition date; vendor; a short description of the asset; unit charged with custody; location; fund and account from which purchased; method of acquisition; estimated useful life and method of depreciation; estimated salvage value; and date, method, and authorization of disposition.

In addition, sound internal controls require that policies and procedures on fixed assets should cover acquisition and tagging, recording and reporting, depreciation (if applicable), transfers and dispositions, and annual physical inventory, and that they should be formally documented and consistently applied.

According to Regional Office officials, maintenance of the capital asset schedule is decentralized by departments. The schedules are updated by multiple personnel, which makes it difficult for the ROE to ensure the schedules are complete and updated timely. No periodic inventory of assets is completed (Finding 18-003, pages 11e – 11f).

The auditors recommended that the ROE should adhere to the ROE Accounting Manual fixed asset policy and procedures to effectively and efficiently monitor property acquisitions, transfers and disposals, and provide for accurate reporting of fixed asset balances.

The ROE should assign responsibility to one individual to ensure that the capital assets are tagged, schedules are regularly maintained, and current year activity is periodically reconciled to the capital asset listing. An inventory count should be taken periodically and compared to the items on the capital asset list, and significant differences investigated. The fixed asset listing should be completed to include all details required by the ROE Accounting Manual.

ROE Response: *The ROE has assigned responsibility to one individual to ensure that the capital assets are tagged, maintained, and reviewed. A periodic check will be conducted. The listing will include all the details required by the ROE Accounting Manual.*

DELAY OF AUDIT

The Regional Office of Education #33 did not provide completed financial statements in auditable form and in accordance with GAAP by the August 31 deadline.

The Regional Office of Education #33 (ROE) did not provide completed financial statements in auditable form by the August 31 deadline. Financial records provided were not prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP).

Auditors noted the following deficiencies in the records provided by the ROE:

- The initial trial balance provided by the ROE was not fully adjusted. The ROE provided journal entries made by its contractor late the first day of fieldwork, November 5, 2018; however, several additional material journal entries were required to adjust the balances to be recorded in accordance with GAAP.

- A complete draft of the GAAP financial statements with all required disclosures was not provided.
- The ROE did not receive a timely or accurate OPEB actuary valuation from the firm hired to do the valuation.

ROE #33 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 an accrual basis of accounting in accordance with GAAP.

In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

According to Regional Office officials, the ROE contracted with an accounting firm too late in the year and was unable to provide essential audit items in a timely manner (Finding 18-004, pages 11g – 11h).

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

ROE Response: *The ROE has formed an agreement with an outside accounting firm to prepare annual financial statements.*

UNCOLLATERALIZED DEPOSITS

The Regional Office of Education #33 did not obtain sufficient collateral for its deposits.

The Regional Office of Education #33 (ROE) did not obtain sufficient collateral for its deposits at one of the financial institutions utilized by the ROE. As of June 30, 2018, the ROE had deposits of \$420,717 that were uncollateralized.

The ROE is required to follow the Illinois Public Funds Investment Act (30 ILCS 235/6 (d)) (Act). The Act gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institutions' trust departments in the ROE's name. In addition, prudent business practice requires that all cash and investments held by the financial institutions for the ROE be adequately covered by depository insurance or collateral.

According to Regional Office officials, collateralization of deposits in excess of FDIC insurance and pledged collateral was due to a significant drop in the value of the pledged collateral over the course of the fiscal year without the financial institution taking corrective action (Finding 18-005, page 11i).

The auditors recommended the ROE should monitor pledged collateral and instruct the financial institution to ensure the value of collateral remains adequate for the balance of the ROE's accounts according to the agreement in place.

ROE Response: *The ROE will monitor pledged collateral and instruct the financial institution to ensure the value of collateral remains adequate for the balances of accounts.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #33's financial statements as of June 30, 2018 are fairly presented in all material respects.

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

SIGNED ORIGINAL ON FILE

KELLY MITTELSTAEDT
Audit Manager

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

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