



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 (In Accordance with the
 Uniform Guidance)
 For the Year Ended: June 30, 2020

Release Date: July 28, 2021

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>	2016	20-1		
Category 1:	0	1	1	2018		20-2	
Category 2:	2	1	3	2018			20-5
Category 3:	0	1	1				
TOTAL	2	3	5				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- (20-1) The Regional Office of Education #33 did not have adequate internal control procedures.
- (20-2) The Regional Office of Education #33 did not have adequate controls over capital assets.
- (20-3) The Regional Office of Education #33 did not fully insure and collateralize cash balances.
- (20-4) The Regional Office of Education #33 did not have adequate controls over the review of internal controls over external service providers.
- (20-5) The Regional Office of Education #33 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 #33
HENDERSON, KNOX, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
(In Accordance with the Uniform Guidance)
For The Year Ended June 30, 2020

	FY 2020	FY 2019
TOTAL REVENUES	\$10,682,240	\$8,093,278
Local Sources	\$891,132	\$805,947
% of Total Revenues	8.34%	9.96%
State Sources	\$8,630,233	\$6,454,190
% of Total Revenues	80.79%	79.75%
Federal Sources	\$1,160,875	\$833,141
% of Total Revenues	10.87%	10.29%
TOTAL EXPENDITURES	\$10,459,082	\$7,603,689
Salaries and Benefits	\$4,763,231	\$3,484,699
% of Total Expenditures	45.54%	45.83%
Purchased Services	\$715,765	\$706,664
% of Total Expenditures	6.84%	9.29%
All Other Expenditures	\$4,980,086	\$3,412,326
% of Total Expenditures	47.61%	44.88%
TOTAL NET POSITION	\$2,240,073	\$2,016,915
INVESTMENT IN CAPITAL ASSETS	\$241,498	\$207,095
Percentages may not add due to rounding.		

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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. In addition, we noted that in 4 bank accounts, monthly reconciliations were not performed timely for 9 out of 12 months (75%). Thirty-six of 48 (75%) monthly bank reconciliations were reconciled more than 30 days after month-end (1 to 104 days late).
- The first and third quarter expenditure reports for the following grants were filed 4 to 34 days late:

First Quarter:

Submitted November 8, 2019 (19 days late)

- Early Childhood 2020-3705-01
- Early Childhood 2020-3705-PE
- Title II – Teacher Quality – Leadership Grant (4935)

Submitted November 9, 2019 (20 days late)

- Regional Safe Schools-3696
- Early Childhood 2020-3705-00
- ROE/ISC Operations (3730)
- RSS Coop-3999

Submitted November 23, 2019 (34 days late)

- Title IV – 21st Century Community Learning Centers 2020-4421-13 (CFDA No. 84.287C)
- Title IV – 21st Century Community Learning Centers 2020-4421-15 (CFDA No. 84.287C)

Third Quarter:

Submitted April 24, 2020 (4 days late)

- Regional Safe Schools-3696

- We noted 5 of 40 receipts tested (13%), totaling \$81,411, were not timely deposited, ranging from 8 to 49 days late.

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

Item 5 of Section A of the Illinois State Board of Education's State and Federal Grant Administration Policy, Fiscal Requirements, and Procedures requires grantees with an approved State and/or federal grant program to submit quarterly expenditure reports, at minimum, on or before 20 calendar days after the end of the reporting quarter.

Regional Office officials indicated employee resignation, staff transition, and competing priorities resulted in the conditions noted above. (Finding 20-001, pages 14 – 16) **This finding was first reported in 2016.**

The auditors recommended 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 also develop internal controls to ensure expenditure reports are submitted within the grantor's due date. In addition, the ROE should implement controls and maintain adequate documentation to ensure cash receipts are deposited in a timely manner.

ROE Response: *The ROE hires an outside consultant to reconcile bank accounts each month. After the outside consultant completes the reconciliations, the ROE bookkeeper rechecks and submits all documentation to the Regional Superintendent for approval.*

Beginning May 2020, the ROE switched accounting systems which caused more work for the bookkeeping department. There were balancing problems in the accounting software program causing balancing problems. It took several months with the help of the accounting software support staff, outside consultant, and ROE bookkeeping staff to reconcile accounts.

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.

During the audit, the auditors noted the following:

- The ROE did not consistently tag all assets with asset tags to ensure complete accounting and monitoring of capital assets.
- The capital asset list was not complete and accurately maintained. The capital asset list maintained in a spreadsheet did not reconcile with the asset detail supporting the amounts reported in the financial statements as follows:
 - The capital asset list did not include all assets acquired prior to 2020 and there were no disposals reported. Thus, the capital asset list

- was understated by asset costs totaling \$168,092.
- Ten asset items costing a total of \$7,990 purchased in December 2019 were recorded in the capital asset list as acquired in December 2020 and one asset item costing \$1,300 purchased in February 2020 was recorded in the capital asset list as acquired in February 2019. These assets were properly included in the capital asset additions in the financial statements.
 - Four capital asset items acquired in fiscal year 2020 totaling \$12,301, were not included in the capital asset listing but were properly reported as capital asset additions.
 - One asset costing \$599 acquired in April 2020 was in the capital asset list but not included in the asset details of additions for fiscal year 2020.
 - 3 of 10 (30%) additions tested totaling \$11,551 were not accurately recorded. These items were part of a playground project with total project costs of \$24,938 but were treated as separate items in the asset detail. Installation and freight costs totaling \$10,079 and other costs that are integral to the project were not included in the capitalized cost of the assets, thereby understating the capital assets reported in the financial statements.

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 following: 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.

Capital asset costs should include ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition such as freight and transportation charges, installation, and site preparation costs.

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.

Regional Office officials indicated they have assigned 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. However, employee resignation, staff transition, and competing priorities resulted in the conditions noted above. (Finding 20-002, pages 17 – 19) **This finding was first reported in 2018.**

The auditors recommended the ROE should assign responsibility to staff to ensure that capital assets are tagged, schedules are regularly and accurately maintained, and current year activity is periodically reconciled to the capital asset listing used in financial statement preparation. An inventory count should be taken periodically and compared to the items on the capital asset list, and significant differences investigated. The capital asset list should be completed to include all the details required by the ROE Accounting Manual and amounts capitalized should include all related costs as required by GAAP.

ROE Response: *The ROE has assigned responsibility to one of the bookkeepers to ensure that the capital assets are tagged, schedules are regularly maintained, and current year activity is periodically reconciled to the capital asset listing used in the financial statement preparation. An inventory count will be taken periodically as well and compared to the items on the capital asset list, and any differences investigated. The capital asset list will be completed to include all the details required by the ROE Accounting Manual.*

The following steps are being added to the our asset acquisition purchasing process:

- *Capital asset PO's have been created for each asset. All information is listed to on the new capital asset PO to maintain consistent information about all purchases.*
- *The bookkeeper will possess all capital asset inventory tags.*
- *The bookkeeper is to be contacted upon receipt of capital asset. The bookkeeper will schedule a time to go tag the asset and complete the capital asset master inventory log.*
- *All completed capital asset PO's will be sent to Bookkeeper once capital asset is received.*

- *The bookkeeper will schedule a time to tag, photograph, and complete the Asset Additions/Disposal Master Spreadsheet. The bookkeeper will be the only person to add or make changes to the capital asset log.*
- *The Accounting Office will maintain a copy of all capital assets in a yearly folder and photographs will be saved in a yearly folder on Google.*

UNINSURED AND UNCOLLATERALIZED DEPOSITS

The Regional Office of Education #33 did not fully insure and collateralize cash balances.

The Regional Office of Education #33 (ROE) did not adequately perform formal monitoring procedures of its bank accounts to ensure that cash balances maintained at various financial institutions were fully secured and collateralized. The ROE has four financial institutions with bank balances totaling \$4,227,948. Of this total, the cash balance as of June 30, 2020 held with one financial institution was \$51,187 over the Federal Deposit Insurance Coverage (FDIC) of \$250,000 and no additional collateral pledged by the financial institution was obtained to cover the remaining insured amount.

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 institution's 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.

Regional Office officials indicated competing priorities prevented them from monitoring the adequacy of the level of the collateral. (Finding 20-003, pages 20 – 21)

The auditors recommended the ROE should regularly monitor balances held with financial institutions and secure sufficient pledged collateral. The ROE should 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 has hired a part time accounts receivable bookkeeper to monitor incoming revenues. She will also regularly monitor balances held with financial institutions and make sure secure sufficient collaterals are pledged as recommended. This finding will continue through FY21 as COVID kept our bookkeeping staff to a minimal. There was only one bookkeeper in the office for several months.*

LACK OF ADEQUATE CONTROLS OVER THE REVIEW OF INTERNAL CONTROLS OVER EXTERNAL SERVICE PROVIDERS

The Regional Office of Education #33 did not have 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 #33 (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; however, the ROE failed to develop a formal process for reviewing its external service providers' internal controls to ensure the accurate processing and security of information.

The ROE is responsible for the design, implementation, and maintenance of internal controls, including 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. This responsibility is not limited due to the process of being outsourced.

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 organization 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 and did not realize the current process did not address all the issues noted. (Finding 20-004, pages 22 – 23)

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.
- Document its review of the SOC reports or perform alternative procedures to evaluate all significant issues to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the ROE, and any compensating controls.
- Monitor and document the operation of the CUECs relevant to the ROE's operations.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

ROE Response: *The ROE will incorporate procedures to make sure to obtain the following information for any third-party service providers as recommended by the auditors:*

- *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.*
- *Document its review of the SOC reports or perform alternative procedures to evaluate all significant issues to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the ROE and any compensating controls.*
- *Monitor and document the operations of the CUECs relevant to the ROE's operations.*
- *Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.*

DELAY OF AUDIT

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

The Regional Office of Education #33 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. The financial statements were provided on December 8, 2020.

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).

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 generally accepted accounting principles (GAAP).

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

Regional Office officials indicated a change in accounting system contributed to the delay in providing the accounting firm the needed information to prepare the Fiscal Year 2020 financial statements. (Finding 20-005, pages 24 – 25) **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). 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: *Beginning May 2020, the ROE switched accounting systems which caused more work for the bookkeeping department. There were balancing problems in the accounting software program causing balancing problems. Training and hands-on experience for the bookkeeping staff will ensure that information will be submitted to the contracted accounting firm by the required deadlines in the future.*

The ROE has retained the accounting firm who prepared the Fiscal Year 2020 financial statements for Fiscal Year 2021.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #33's financial statements as of June 30, 2020 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

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