



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #38
LOGAN/MASON/MENARD COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2014

Release Date: February 26, 2015

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since 2007	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 4	<u>Repeat</u> 1	<u>Total</u> 5				
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	4	1	5				
FINDINGS LAST AUDIT: 2							

SYNOPSIS

- **(14-1)** The Regional Office of Education #38 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #38 did not have adequate internal control procedures.
- **(14-3)** The Regional Office of Education #38 had improper accounting of grant funds.
- **(14-4)** The Regional Office of Education #38 had employee contracts that did not agree to employee compensation.
- **(14-5)** The Regional Office of Education #38 did not have adequate controls over Institute fund expenditures.

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 #38
LOGAN/MASON/MENARD COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2014

	FY 2014	FY 2013
TOTAL REVENUES	\$762,363	\$547,294
Local Sources	\$150,654	\$143,582
% of Total Revenues	19.76%	26.23%
State Sources	\$571,407	\$393,331
% of Total Revenues	74.95%	71.87%
Federal Sources	\$40,302	\$10,381
% of Total Revenues	5.29%	1.90%
TOTAL EXPENDITURES	\$789,521	\$575,486
Salaries and Benefits	\$520,218	\$501,470
% of Total Expenditures	65.89%	87.14%
Purchased Services	\$45,458	\$57,629
% of Total Expenditures	5.76%	10.01%
All Other Expenditures	\$223,845	\$16,387
% of Total Expenditures	28.35%	2.85%
TOTAL NET POSITION	\$80,677 ¹	\$113,860
INVESTMENT IN CAPITAL ASSETS	\$13,693	\$15,311
¹ The beginning net position was restated by (\$6,025) due to a prior period adjustment. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Jean Anderson Currently: Honorable Jean Anderson

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #38 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #38 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office'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 Regional Office of Education #38 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting. 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 financial statement misstatements and disclosure omissions in a timely manner.

In their review of the Regional Office's accounting records, auditors noted the following:

- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and unearned revenue and made entries to record them, not all accounts payable, accounts receivable, and unearned revenue were correctly recorded.

According to the Regional Office of Education #38 officials, current funding levels were not adequate to hire and/or train accounting personnel in order to comply with these requirements. (Finding 2014-001, pages 11a-11b) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, the Regional

Office of Education #38 should implement comprehensive preparation procedures to ensure the financial statements are complete and accurate. These 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 #38 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. Management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. The Regional Office noted that management will review year-end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial, since training costs would take away from the funds available to provide educational services for the schools in the region. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #38 did not have adequate internal control procedures.

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

The auditors noted the following weaknesses in the Regional Office of Education #38's internal control system:

- The individual who performs the capital asset physical count is not independent of the record keeping process.
- Two bank reconciliations did not reconcile to the underlying accounting records.
- There was no documented review of the Regional Office of Education #38's general journal entries prior to being posted to the accounting system. Also, journal entries tested provided no description of the adjustment and were not adequately supported.
- There was no documented review of the Regional Office of Education #38's payroll reports for salaried employees prior to the payroll being processed.
- In 6 of 40 (15%) disbursements tested, auditors noted sales tax was paid on purchases that were exempt from Illinois sales tax.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriations of

assets, in which the errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. The Regional Office of Education #38 has not established sufficient internal control procedures. (Finding 2014-002, pages 11c-11d)

The auditors recommended that the Regional Office of Education #38 should do the following:

- An individual independent of the record keeping process should perform the capital asset physical count.
- Although bank reconciliations were being reviewed, the Regional Office should develop policies that allow for the timely detection of bank reconciliations that do not reconcile to the underlying accounting records and ensure reconciling items have cleared.
- All journal entries should be reviewed prior to being posted to the accounting system by an individual independent of the general ledger. This review should be documented on the journal entry's supporting documentation.
- An individual independent of the payroll process should review the Regional Office of Education #38's payroll reports for salaried employees prior to the payroll being processed to ensure the amounts to be paid agree with the contractual amounts outlined in the employee's contract. In addition, these reviews should be documented.
- The Regional Office of Education #38 should develop policies to ensure sales tax is not paid on exempt purchases.

The Regional Office of Education #38 responded that the Regional Superintendent of Schools is now reviewing payroll and journal entries and documenting the review at the time it is undertaken. In addition, bank reconciliations are now being reviewed in a more timely fashion. The Regional Office noted that although the staff of the main office of the Regional Office of Education is limited in size, the Regional Superintendent and the Executive Secretary will undertake the capital asset physical count. Finally, the ROE was unaware of the sales tax issue, until it came up with another ROE who shared the information. Since that time, the ROE has developed a policy to ensure that sales tax is not included with any exempt purchases.

IMPROPER ACCOUNTING OF GRANT FUNDS

The Regional Office of Education #38 had improper accounting of grant funds.

The Regional Office of Education #38 is required by the Illinois State Board of Education (ISBE) to maintain its accounting system consistent with the ISBE Regional Office

of Education Accounting Manual. That manual requires the Regional Office of Education #38 to track grant funding activity separately.

The Regional Office of Education #38 commingled all Title II-Teacher Quality and Title I-System of Support activity with other funds in its general ledger system. Also, two Education Fund grants, which belong to the Regional Office of Education #38, were accounted for solely in the Distributive Fund.

The Regional Office of Education #38 stated they were unaware that these grants should be tracked separately in their accounting system. (Finding 2014-003, page 11e)

The auditors recommended that the Regional Office of Education #38 should identify and record grant funds in accordance with requirements set forth in the ISBE Regional Office of Education Accounting Manual.

The Regional Office of Education #38 responded that it has taken steps to identify and record all grant funding in accordance with the ISBE ROE Accounting Manual requirements.

EMPLOYEE CONTRACTS

The Regional Office of Education #38 had employee contracts that did not agree to employee compensation.

The Regional Office of Education #38 is required under the Illinois Wage Payment and Collection Act (820 ILCS 115/10) to notify employees, in writing, of the rate of pay to be acknowledged by both parties.

During testing of payroll transactions, auditors noted four Regional Office of Education #38 employees whose total compensation did not agree to amounts stated in their respective employment contract. The Regional Office of Education #38 employees' total compensation was \$25,417 higher than amounts stated and agreed to in the employees' contracts.

According to Regional Office of Education #38 officials, employment contracts were based only on the amounts covered in the budgets of Logan, Mason, and Menard Counties to maximize county support. (Finding 2014-004, page 11f)

The auditors recommended that the Regional Office of Education #38 should develop policies and procedures to ensure employees' contracts agree to the actual amount paid to the employees.

The Regional Office of Education #38 responded that employee contracts for the three full-time ROE staff are based,

primarily, on county support. However, certain funding is also provided from grant funding. The Regional Office stated that because grant awards are never guaranteed, amounts requested are subject to change, and grant funding is, quite often, late in being paid, it is difficult to estimate additional salary at the time the contract language is prepared. However, the ROE has developed a policy to record more accurately the employees' total salary in the actual contract language this year.

CONTROLS OVER INSTITUTE EXPENDITURES

The Regional Office of Education #38 did not have adequate controls over Institute fund expenditures.

The Illinois School Code 105 ILCS 5/3-12 states that all certificate registration fees and a portion of renewal and duplicate fees shall be used by the Regional Superintendent to defray expenses connected with improving technology necessary for the efficient processing of certificates, to defray all costs associated with the administration of teaching certificates, and to defray expenses incidental to teachers' institutes, workshops or meeting of a professional nature that are designed to promote the professional growth of teachers or for the purpose of defraying the expense of any general or special meeting of teachers or school personnel of the region, which has been approved by the Regional Superintendent.

The Regional Office of Education #38 loaned restricted funds to the Title I-System of Support program to cover grant expenditures. Loaning of Institute funds to pay for other programs is not a statutorily approved use of Institute funds.

The Regional Office of Education #38 was unaware that the loans violated the Illinois School Code 105 ILCS 5/3-12. (Finding 2014-005, page 11g)

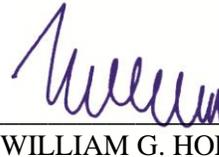
The auditors recommended that the Regional Office of Education #38 should ensure that funds generated from certification, renewal, and duplicate fees are expended in accordance with the Illinois School Code 105 ILCS 5/3-12.

The Regional Office of Education #38 responded that the Title I-System of Support grant is specifically for providing professional development in the five foundational services to teachers in our region. No funds are received up front for this grant – it is totally on a reimbursement basis, whenever the grant administrator (ROE #51, Sangamon County) gets the reimbursement sent. The Regional Superintendent noted that since she has been unsure since the inception of the grant as to whether the ROE's expenses for the consultant/trainer and ancillary expenses directly related to the training would be reimbursed, or, if so, how much, the ROE utilized Institute Funds to meet timely payment, and then reimbursed the fund when it received the money. The Regional Superintendent stated that although she knew the allowable uses for the

Institute Fund, she had really not thought that this process could be perceived as an inter-fund loan. The ROE is now attempting to pay foundational services bills from the general fund instead, when money is available, and reimburse that.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #38's financial statements as of June 30, 2014 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: Kemper CPA Group LLP 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 #38 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. Management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. The Regional Office noted that management will review year-end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Even though the three counties constituting this office are slated to consolidate with three different regions, as of June 30, 2015, management will still consider additional training when it seems cost beneficial, although training costs would take away from the funds available to provide educational services for the schools in the region.