



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #40**  
**CALHOUN/GREENE/JERSEY/MACOU PIN COUNTIES**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2016**

**Release Date: May 25, 2017**

FINDINGS THIS AUDIT: 5	AGING SCHEDULE OF REPEATED FINDINGS						
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	2	4	2007	16-1		
Category 2:	1	0	1	2015	16-2		
Category 3:	0	0	0				
<b>TOTAL</b>	<b>3</b>	<b>2</b>	<b>5</b>				
<b>FINDINGS LAST AUDIT: 3</b>							

**SYNOPSIS**

- **(16-1)** The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #40 did not have sufficient internal controls over grant compliance requirements to ensure grant reporting is accurate.
- **(16-3)** The Regional Office of Education #40 did not have sufficient internal controls over the preparation of journal entries.
- **(16-4)** The Regional Office of Education #40 did not have sufficient internal controls over payroll.
- **(16-5)** The Regional Office of Education #40 did not have sufficient internal controls over 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.}



## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #40 (ROE) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). A 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 ROE did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on cash basis accounting during the fiscal year and posts year-end accrual and other applicable entries for financial statement purposes. The ROE did not have sufficient internal controls over the processing of some accounting transactions. There were not sufficient controls over the preparation/review 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.

During review of the ROE's accounting records, the auditors noted the following:

- The ROE did not have adequate controls over the maintenance of complete records of receivables, payables, unearned revenue, and unavailable revenue.
- The ROE did not have adequate controls over the maintenance of complete records of cash. Bank account balances totaling \$1,250 were excluded from the trial balance.
- The ROE did not have adequate controls over the maintenance of complete records of capital assets. Three assets were recorded in capital outlay but not included in the ROE's capital asset listing. In addition, a capital asset was added to the asset listing with a useful life inconsistent with the ROE's capitalization policy. The leasehold improvement was assigned a useful life of three years rather than the ten to fifteen years noted in the capitalization policy. Beginning accumulated depreciation was not rolled forward correctly from June 30, 2015 on the capital asset

spreadsheet so depreciation expense and ending accumulated depreciation were not calculated properly as of June 30, 2016.

- The ROE did not have adequate controls to record and report the ROE's net pension liabilities/assets, deferred outflows of resources, deferred inflows of resources, and pension expenses in accordance with GAAP.
- Numerous other adjustments were required to present financial statements in accordance with generally accepted accounting principles.

According to ROE management, it did not have adequate funding to hire a certified public accountant or other financial professionals with the appropriate training and expertise as full-time staff.

Additionally, the complex requirements of GASB Statements No. 68 and 71 will require additional time and training before the Regional Office can fully implement the requirements on its own. (Finding 2016-001, pages 10-12) **This finding was first reported in 2007.**

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

The ROE responded that at this time, the Regional Office did not have available funding to hire an individual to assist with financial statement preparation; however, fiscal personnel of the Regional Office will strive to do their best to prepare the financial statements in accordance with GAAP. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

#### **CONTROLS OVER GRANT COMPLIANCE**

**The Regional Office of Education #40 did not have sufficient internal controls over grant compliance requirements to ensure grant reporting is accurate.**

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office of Education #40 (ROE) must incorporate certain procedures into its operation in order to comply with the grant agreements with these entities. The ROE is responsible for establishing and maintaining an internal control system over the completion of timely quarterly expenditure reports required for grants administered by the Illinois State Board of Education. The Illinois State Board of

Education requires expenditure reports to be filed within 20 days of the applicable end of each quarter.

In addition, grant agreements require the ROE to report actual expenditures incurred rather than reporting expenditures based on the amount budgeted in the grant agreement. The ROE is required to spend funding in accordance with budgets submitted to grantors.

Auditors noted the following related to the controls over grant compliance:

- Five of the 16 (31%) quarterly expenditure reports required by the Illinois State Board of Education were not submitted timely. The quarterly expenditures reports were submitted nine days late.
- The Truants Alternative/Optional Education grant reported \$1,000 of a loan repayment to Jersey County in payments to other governments. The loan repayment was not included in the approved budget for this grant and should have been reported as a payment on long-term debt in the Jerseyville Office Remodel fund. In addition, a payment of \$3,354 for services provided by another government was reclassified from its proper classification of payments to other governments into a salaries account for this grant.
- The expenditures reported on the final expenditure report for the Adult Education Federal Basic grant did not agree to the expenditures recorded in the general ledger.

This was caused by a lack of communication with accounting personnel and a misunderstanding of accounting and internal control procedure requirements by program directors. (Finding 2016-002, pages 13-14)

Auditors recommended that the ROE should implement adequate internal controls to ensure that expenditure reports are filed timely and that only properly recorded and approved expenditures are included in grant expenditure reports.

The Regional Office responded that the ROE will implement adequate internal controls to ensure that expenditure reports are filed timely and that only properly recorded and approved expenditures are included in grant expenditure reports. Loan repayments will be properly classified and recorded as per accounting principles. All expenditures reported on any final expenditure reports will match general ledger expenditures. (For previous Regional Office response, see Digest Footnote #2 located at the end of the digest.)

## **CONTROLS OVER PREPARATION OF JOURNAL ENTRIES**

**The Regional Office of Education #40 did not have sufficient internal controls over the preparation of journal entries.**

The Regional Office of Education #40 (ROE) is responsible for establishing and maintaining an internal control system over journal entries to prevent errors or fraud. In addition, adequate controls over compliance with laws, regulations, and grant agreements require supervisory review of expenditures charged to grant programs.

During the auditors review of journal entries, it was noted the ROE could not provide supporting documentation for 25 out of 25 (100%) of the journal entries selected for testing. The Regional Superintendent's or Assistant Regional Superintendent's approval of journal entries was based on a printout of the journal entries and verbal explanations as provided by the bookkeeper rather than written supporting documentation of the journal entries. It was also noted by the auditors that the printout for one month of journal entries made by the bookkeeper was not signed off as approved by the Regional Superintendent or Assistant Regional Superintendent.

This was caused by a lack of communication with accounting personnel and a misunderstanding of accounting and internal control procedure requirements by management. (Finding 2016-003, page 15)

Auditors recommended that the ROE should retain all source documents used to support journal entries. In addition, the Regional Superintendent or Assistant Regional Superintendent should formally review and approve all journal entries, along with supporting documentation, prior to the entries being posted to the accounting records.

The Regional Office responded that the ROE will retain all source documents used to support journal entries and all entries will be reviewed and approved prior to being posted in the accounting records.

## **CONTROLS OVER PAYROLL**

**The Regional Office of Education #40 did not have sufficient internal controls over payroll.**

The Regional Office of Education #40 (ROE) is responsible for establishing and maintaining an internal control system over payroll to prevent errors or fraud. The Regional Office has a policy that employment contracts are negotiated annually for each employee.

In addition, the Teachers' Retirement System of the State of Illinois (TRS) allows employers to pay employees' portion of retirement contributions. These employer paid retirement contributions are considered nontaxable benefits to the employee but should be included in creditable earnings for TRS calculations.

During the course of audit fieldwork, auditors noted the following:

- Three out of six (50%) of the employment contracts that were examined by auditors were expired at the time the employees were compensated. In addition, it was noted that one out of the six (17%) employees tested was compensated for three months under a contract prior to its approval by the Regional Superintendent or Assistant Regional Superintendent.
- The annual salary paid to one employee did not agree to the employment contract. The employee portion of TRS, which the ROE agreed to pay on the employee's behalf, was improperly withheld from the employee's first twelve pays. In correcting this error, the ROE recorded the withheld amount paid back to the employee as gross pay rather than benefits. This resulted in improper taxable income reported for the employee. In addition, creditable earnings for TRS calculations were not properly calculated.

Due to questionable State funding, ROE did not extend a yearly contract to all employees and was operating month to month based on the previous contract. Lack of communication between management and accounting personnel resulted in the issues with the TRS employee's pay. (Finding 2016-004 pages 16-17)

Auditors recommended the ROE should implement adequate internal controls over payroll by reviewing and updating employment contracts annually before existing contracts expire. The ROE should also carefully review contracts to determine that employee retirement contribution amounts are being calculated and paid properly from employees' pay.

The Regional Office responded it will review expiring contracts near the end of the fiscal year. The ROE will then prepare and approve employment contracts for the new fiscal year prior to July 1<sup>st</sup>. If the ROE hires an employee mid-year, the employment contract will be prepared and approved before the employee is compensated. Employee retirement contribution amounts will be calculated and paid properly from employees' pay.

## CONTROLS OVER EXPENDITURES

### **The Regional Office of Education #40 did not have sufficient internal controls over expenditures.**

The Regional Office of Education #40 (ROE) is responsible for establishing and maintaining an internal control system over expenditures to ensure that expenditures incurred by the ROE are adequately documented, incurred for a business purpose, and represent economical and effective use of ROE resources.

The ROE also has a policy that authorized staff must fill out a “check out” form for use of the ROE’s credit cards. The form must be signed by the requestor and should be approved by the program director, Regional Superintendent, or Assistant Regional Superintendent.

During the course of audit fieldwork it was noted that a debit card was obtained and used from September 2015 through March 2016. There were no written policies or procedures in place for the usage of the debit card, and twenty (20) of the twenty-five (25) (80%) debit card payments tested were lacking the internal controls implemented over cash disbursements and credit cards.

In addition, a gift card for \$300 was purchased for use by the teen parent services coordinator. While the coordinator submitted receipts to show how the gift card was spent, the receipts were not reconciled to the gift card amount or reviewed and approved by the Regional Superintendent or Assistant Regional Superintendent.

During the testing of seventeen (17) credit card transactions and sixty (60) cash disbursements, auditors noted the following exceptions:

- In fifteen (15) of the seventeen (17) (88%) credit card transactions tested, the credit card “check out” forms were missing.
- In two (2) of the seventeen (17) (12%) credit card transactions tested, receipts to support the credit card charges were missing.
- In one (1) of the seventeen (17) (6%) credit card transactions tested, the payment authorization form was not dated by the approver.
- In one (1) of the sixty (60) (2%) disbursements tested, the payment authorization form could not be located.
- In four (4) of the sixty (60) (7%) disbursements tested, the payment authorization form was not properly prepared.

- In one (1) of the sixty (60) (2%) disbursements tested, the paid board report was not properly signed off as reviewed and approved.

The ROE did not have an adequate system of internal controls over credit card transactions and cash disbursements. (Finding 2016-005, pages 18-19)

Auditors recommended that the ROE should have established and implemented adequate internal controls over debit card transactions or discontinued using the debit card when the ROE found out it was a debit card rather than a credit card. The ROE has already addressed this issue by ceasing the use of the debit card in March 2016.

Additionally, the ROE should keep a copy of the gift cards purchased for use by the teen parent services coordinator. Receipts for purchases on the gift card should be approved and reconciled to the gift card balance. The ROE's management should ensure the ROE designs and implements an adequate system of internal controls over credit card transactions and disbursements to prevent errors and fraud. All disbursements made by the ROE should be supported by sufficient, accurate, and properly approved documentation.

The Regional Office responded that it has discontinued the use of debit and gift cards. The ROE has now implemented an adequate system of internal controls over credit card transactions and cash disbursements to prevent errors and fraud. All disbursements made by the ROE will be supported by sufficient, accurate, and properly approved documentation.

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2016 are fairly presented in all material respects.

This financial report 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 of Education #40 responded that at this time, the Regional Office cannot afford to hire an individual to assist with financial statement preparation; however, fiscal personnel of the Regional Office will strive to do their best to prepare the financial statements in accordance with GAAP.

**#2: Controls Over Grant Compliance - Previous Regional Office Response**

In its prior response in 2015, the Regional Office responded that staff have been trained on how to complete expenditure reports. Expenditure reports must match bookkeeping ledgers. Furthermore, administration will review all expenditure reports for completeness and accuracy.