



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #40**  
**CALHOUN, GREENE, JERSEY AND MACOUPIN COUNTIES**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2021**

**Release Date: March 30, 2022**

FINDINGS THIS AUDIT: 7				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2020	21-3		
<b>Category 1:</b>	2	1	3				
<b>Category 2:</b>	2	0	2				
<b>Category 3:</b>	2	0	2				
<b>TOTAL</b>	<b>6</b>	<b>1</b>	<b>7</b>				
FINDINGS LAST AUDIT: 2							

**SYNOPSIS**

- (21-1) The Regional Office of Education #40 did not provide completed financial statements in an auditable form by the August 31 deadline.
- (21-2) The Regional Office of Education #40 had inadequate controls over bank reconciliations.
- (21-3) The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.
- (21-4) The Regional Office of Education #40 lacked adequate controls over the review of internal controls over external service providers.
- (21-5) The Regional Office of Education #40 lacked controls over review of journal entries.
- (21-6) The Regional Office of Education #40 lacked controls over census data for the Teachers' Retirement System of the State of Illinois.
- (21-7) The Regional Office of Education #40 did not comply with grant reporting requirements.

**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 #40**  
**CALHOUN, GREENE, JERSEY AND MACOUPIN COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2021**

	<b>FY 2021</b>	<b>FY 2020</b>
<b>TOTAL REVENUES</b>	\$1,776,137	\$1,655,104
Local Sources	\$291,883	\$273,471
% of Total Revenues	16.43%	16.52%
State Sources	\$1,411,282	\$1,332,537
% of Total Revenues	79.46%	80.51%
Federal Sources	\$72,972	\$49,096
% of Total Revenues	4.11%	2.97%
<b>TOTAL EXPENDITURES</b>	\$1,783,225	\$1,759,642
Salaries and Benefits	\$1,553,442	\$1,496,340
% of Total Expenditures	87.11%	85.04%
Purchased Services	\$177,237	\$230,795
% of Total Expenditures	9.94%	13.12%
All Other Expenditures	\$52,546	\$32,507
% of Total Expenditures	2.95%	1.85%
<b>TOTAL NET POSITION</b>	(\$64,778)	(\$57,690)
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$35,450 <sup>1</sup>	\$19,819
<sup>1</sup> Capital asset amounts include debt associated with a capital lease.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Michelle Mueller Currently: Honorable Michelle Mueller

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**DELAY OF AUDIT**

**The Regional Office of Education #40 did not provide completed financial statements in an auditable form by the August 31 deadline.**

The Regional Office of Education #40 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. The preliminary draft was provided to the auditors on September 29, 2021.

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.

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). Additionally, effective June 25, 2021, Public Act 102-0025 allowed a Regional Office of Education or Educational Service Center to utilize a cash basis, modified cash basis, or GAAP basis of accounting to prepare the financial statements for audit.

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

Regional Office management indicated the ROE purchased a new accounting system during fiscal year 2021 and the full implementation of the necessary features within software took longer than anticipated. Therefore, the ROE was unable to provide the necessary information to the ROE's hired accounting firm timely in order for them to prepare the draft financial statements by the August 31st deadline. (Finding 2021-001, pages 11A – 11B)

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. Additionally, ROE management should consider Public Act 102-0025 to determine if changing to the cash or modified cash basis would be allowable or beneficial to the ROE and users of the ROE's statements. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

**ROE Response:** *The new accounting system has been fully implemented which will allow the ROE to be able to provide their hired accounting firm with necessary information for them to prepare the draft financial statements by the August 31st deadline.*

### **CONTROLS OVER CASH**

#### **The Regional Office of Education #40 had inadequate controls over bank reconciliations.**

The Regional Office of Education #40 (ROE) had inadequate controls over bank reconciliations. The ROE switched accounting software, effective July 2020. Since the implementation of the new accounting software, the ROE's staff did not prepare monthly bank reconciliations until the June 30, 2021 bank reconciliation.

Sound internal control requires bank reconciliations to be performed monthly to ensure all transactions have been recorded. The bank reconciliation process should include identifying and correcting all discrepancies between the bank records and the books in a timely manner. Sound internal control over cash also requires bank reconciliations to be completed and reviewed by the appropriate level of management on a monthly basis.

Regional Office management indicated the bank reconciliation feature within the ROE's new accounting software took longer than anticipated to implement. After many hours of technical support, the bank reconciliation feature was successfully implemented in fiscal year 2022. (Finding 2021-002, page 11C)

The auditors recommended that as part of its internal controls over cash, the ROE should reconcile all bank statements every month and correct any discrepancies in a timely manner. In addition, the ROE's management should review bank reconciliations and document their review each month after the reconciliation has been completed.

**ROE Response:** *The bank reconciliation feature within the ROE's new accounting software took longer than anticipated to implement. The ROE has since been able to successfully implement the bank reconciliation feature during fiscal year 2022. The ROE will reconcile all bank statements every month and correct any discrepancies in a timely manner.*

## **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) did not have sufficient internal controls over the financial reporting process. The ROE maintained its accounting records on the cash basis of accounting during the fiscal year and posted year-end accrual and other applicable entries for financial statement purposes. While the ROE maintained 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 errors and omissions in a timely manner.

Effective June 25, 2021, Public Act 102-0025 allowed a Regional Office of Education or Educational Service Center to utilize a cash basis, modified cash basis, or GAAP basis of accounting to prepare the financial statements for audit. The ROE has chosen to utilize the GAAP basis of accounting for financial statement reporting. The ROE is required to maintain a system of controls over the preparation of financial statements. 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).

During review of the ROE's accounting records, auditors noted the ROE did not have adequate controls over maintenance of complete records of revenues and expenditures. While the ROE did maintain records to indicate the balances of these items, material adjustments were required to present balances in accordance with GAAP.

Regional Office management indicated the ROE does not have adequately trained personnel to handle the processing of all transactions in accordance with GAAP requirements due to the lack of adequate resources. (Finding 2021-003, pages 11D – 11E)

The auditors recommended that as part of internal control over the preparation of financial statements, the ROE should implement comprehensive preparation procedures to ensure 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. Additionally, ROE management should consider Public Act 102-0025 to determine if changing to the cash or modified cash basis

would be allowable or beneficial to the ROE and users of the ROE financial statements.

**ROE Response:** *The ROE has hired an accounting firm to aid with closing the books and preparing the financial statements. ROE personnel will work with the hired accounting firm to ensure that all revenues and expenditures are shown appropriately in the financial statements.*

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

**The Regional Office of Education #40 lacked adequate controls over the review of internal controls over external service providers.**

The Regional Office of Education #40 (ROE) lacked adequate controls over the review of internal controls over external service providers. As part of the audit process, auditors held discussions with ROE personnel regarding the ROE's change in accounting software. The ROE switched to an accounting software which utilizes a service provider to provide hosting and backup services for the ROE.

The ROE is responsible for the design, implementation, and maintenance of internal controls, including the 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.

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) report from the service provider 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 the SOC report, 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 management indicated it transitioned software and did not have the current SOC report prior to the site visit of the auditing firm. (2021-004, pages 11F – 11G)

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 report, or perform alternative procedures, to evaluate all significant issues to ascertain if a corrective action plan exists, 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:*

- *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 report, or perform alternative procedures, to evaluate all significant issues to ascertain if a corrective action plan exists, 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.*

## **CONTROLS OVER REVIEW OF JOURNAL ENTRIES**

**The Regional Office of Education #40 lacked controls over review of journal entries.**

The Regional Office of Education #40 (ROE) lacked controls over review of journal entries. During auditors' review of journal entries, auditors noted 6 out of the 6 (100%) journal entries tested lacked the necessary documentation to indicate the entry had been reviewed and approved by the Regional Superintendent or Assistant Regional Superintendent.

The 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.

Regional Office management indicated the implementation of the new accounting software caused the number of journal entries needed to be made by the bookkeeper to be significantly less than in prior fiscal years. The bookkeeper inadvertently did not provide the journal entries made during fiscal year 2021 to the Regional Superintendent or Assistant Regional Superintendent for their review. (Finding 2021-005, page 11H)

The auditors recommended 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.

**ROE Response:** *The Regional Superintendent or Assistant Regional Superintendent will formally review and approve all journal entries, along with supporting documentation, prior to the entries being posted to the accounting records.*

#### **CONTROLS OVER CENSUS DATA FOR TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS**

##### **The Regional Office of Education #40 lacked controls over census data for the Teachers' Retirement System of the State of Illinois.**

The Regional Office of Education #40 (ROE) lacked controls over census data for the Teachers' Retirement System of the State of Illinois. During the audit of the ROE, auditors noted the actuarially determined pension report for the Teachers' Retirement System of the State of Illinois (TRS) included the ROE's census data which did not reconcile to the ROE's payroll records. The ROE reported incorrect salaries for 8 out of the 12 (67%) TRS employees that were selected for testing.

Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud. Management of cost-sharing and agent employer pension plans are also responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, including completeness and accuracy of census data.

Regional Office management indicated the ROE implemented a new accounting system during fiscal year 2021. The reports used to report TRS census data to the State were incorrectly prepared resulting in the ROE reporting incorrect census data. (Finding 2021-006, page 11I)

The auditors recommended the ROE should implement the necessary controls to ensure that census data reported to TRS agrees to the ROE's payroll documentation.

**ROE Response:** *The ROE has implemented the necessary controls to ensure that census data reported to TRS agrees to the ROE's payroll documentation.*

## **GRANT REPORTING NONCOMPLIANCE**

### **The Regional Office of Education #40 did not comply with grant reporting requirements.**

The Regional Office of Education #40 (ROE) did not comply with grant reporting requirements. During the course of the audit, auditors noted that the expenditures reported on the final expenditure reports for the Truants Alternative/Optional Education, Regional Safe Schools, and Regional Safe School Cooperative Education grants did not agree to the expenditures recorded in the general ledger. Expenditures on the Truants Alternative/Optional Education, Regional Safe Schools, and Regional Safe School Cooperative Education grants' expenditure reports exceeded actual expenditures recorded in the general ledger by \$2,079, \$3,000, and \$1,600, respectively.

As a recipient of federal, State, and local funds from various grantor agencies, the ROE must incorporate certain procedures into its operations in order to comply with the grant agreements with these entities.

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.

Regional Office management indicated the ROE implemented a new accounting system in fiscal year 2021. The balances from the old accounting system were transferred inaccurately into the new accounting system. This issue caused reports used to prepare the expenditure reports to be inaccurate. Once the issue was identified, the ROE made adjusting journal entries to correct the amounts reported in the general ledger. However, the related expenditure reports were not amended. (Finding 2021-007, page 11J – 11K)

The auditors recommended the ROE should implement adequate internal controls to ensure that expenditures reported on the expenditure reports agree to the actual expenditures recorded in the general ledger. The ROE should thoroughly review grant agreements and comply with all grant requirements.

**ROE Response:** *The ROE has implemented adequate internal controls to ensure that expenditures reported on the expenditure reports agree to the actual expenditures recorded*

*in the general ledger. The ROE will thoroughly review grant agreements and comply with all grant requirements.*

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2021 are fairly presented in all material respects.

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

**SIGNED ORIGINAL ON FILE**

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JOE BUTCHER  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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