



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**REGIONAL OFFICE OF EDUCATION #44**  
**McHENRY COUNTY**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2014**

**Release Date: August 4, 2015**

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS					
				Repeated Since	Category 1	Category 2	Category 3	No Repeat Findings	
	<u>New</u>	<u>Repeat</u>	<u>Total</u>						
<b>Category 1:</b>	4	0	4						
<b>Category 2:</b>	0	0	0						
<b>Category 3:</b>	0	0	0						
<b>TOTAL</b>	4	0	4						
<b>FINDINGS LAST AUDIT: 0</b>									

**SYNOPSIS**

- **(14-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #44 did not have adequate internal controls over grant funding.
- **(14-3)** The Regional Office of Education #44 did not have adequate internal controls over Institute funding.
- **(14-4)** The Regional Office of Education #44 did not have adequate internal controls over disbursements.

**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 #44**  
**McHENRY COUNTY**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2014**

	<b>FY 2014</b>	<b>FY 2013</b>
<b>TOTAL REVENUES</b>	\$1,585,263	\$1,134,670
Local Sources	\$824,547	\$441,186
% of Total Revenues	52.01%	38.88%
State Sources	\$684,835	\$680,199
% of Total Revenues	43.20%	59.95%
Federal Sources	\$75,881	\$13,285
% of Total Revenues	4.79%	1.17%
<b>TOTAL EXPENDITURES</b>	\$1,660,690	\$1,117,982
Salaries and Benefits	\$956,772	\$531,964
% of Total Expenditures	57.61%	47.58%
Purchased Services	\$239,005	\$192,331
% of Total Expenditures	14.39%	17.20%
All Other Expenditures	\$464,913	\$393,687
% of Total Expenditures	28.00%	35.21%
<b>TOTAL NET POSITION</b>	\$452,306 <sup>1</sup>	\$462,844
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$642	\$0
<sup>1</sup> The beginning fund balance was restated by \$64,889 due to a prior period adjustment. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Leslie Schermerhorn Currently: Honorable Leslie Schermerhorn

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

**The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #44 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 #44 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of 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 Regional Office of Education #44's financial information prepared by the Regional Office, auditors noted the following:

- The Regional Office's financial information required material adjusting entries to accounts receivable, accounts payable, unearned revenue, and fund balances in order to present its financial statements in accordance with generally accepted accounting principles. Proposed adjusting entries were approved and accepted by Regional Office management.
- The Regional Office did not properly record fixed assets and calculate depreciation expense and accumulated depreciation.
- The Regional Office did not record a cash account in its general ledger.

According to Regional Office officials, it does not have adequate funding to hire and/or train accounting personnel with the knowledge, skills and experience to prepare GAAP based financial statements. (Finding 2014-001, pages 11a-11b)

The auditors recommended that the Regional Office of Education #44 should do the following:

- As part of internal control over the preparation of financial statements, the Regional Office of Education #44 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education #44's activities and operations.
- The Regional Office should implement procedures to maintain a fixed asset listing and calculate depreciation on those assets annually.
- The Regional Office should implement controls to properly and accurately record all cash accounts held in a financial institution.

The Regional Office of Education #44 responded with the following:

- We have hired a new Accounting coordinator who, while not a CPA, has had some education in accounting. She will be able to follow appropriate accounting procedures for the Regional Office. Many of the issues that arose in FY2014 may have already been remedied for FY2015. Also, the Regional Office is subject to yearly internal audits by the McHenry County Auditor.
- After further review, it appears that the ROE office purchased one new computer cart in FY2014 using the wrong fund in error. This should have been processed through McHenry County funds. In the future, the Regional Office will maintain a fixed asset listing and calculate depreciation annually.
- The E-Pay funds as of FY2015 will be recorded as its own line item in the General Fund as monthly statements are issued. This will ensure the cash is recorded and accounted for accurately.

#### **INADEQUATE INTERNAL CONTROLS OVER GRANT FUNDING**

As a recipient of federal, State, and local funds from various granting agencies, the Regional Office must incorporate certain procedures into its operations in order to comply with grant agreements with these entities. OMB Circular A-133 compliance requirements require the Regional Office to separately identify federal funding and non-federal funding in

**The Regional Office of Education #44 did not have adequate internal controls over grant funding.**

its accounting system.

Federal grant funding received for the Title II-Teacher Quality Leadership Grant was not separately identified. The funding was accounted for within the Institute Fund.

According to the Regional Superintendent, she was unaware of the requirement to separately identify federal funding. (Finding 2014-002, page 11c)

The auditors recommended that the Regional Office of Education #44 should comply with the OMB Circular A-133 and separately identify all federally funded grants in its accounting software.

The Regional Office of Education #44 responded that federal Title II funds will be set up with its own segregated line item within the Institute Fund to distinguish it from other non-Federal funds.

### **INADEQUATE INTERNAL CONTROLS OVER INSTITUTE FUNDING**

#### **The Regional Office of Education #44 did not have adequate internal controls over Institute funding.**

According to Article 3 of the Illinois School Code (105 ILCS 5/3-12), fees paid into the Institute Fund are restricted to specific uses, including to defray expenses incidental to teachers' institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers or to defray the expense of any general or special meetings of teachers or school personnel of the region that has been approved by the Regional Superintendent.

Auditors noted the following expenditures paid from the Institute Fund, totaling \$12,731, were not allowed under the statute.

- The Regional Superintendent and Assistant Regional Superintendents attended multiple meetings, seminars and conferences not related to teacher development. Costs related to these meetings, seminars and conferences were as follows:
  - Hotels \$3,255
  - Meals \$996-One meal was reimbursed as part of the hotel bill, and then again with the same receipt as a reimbursement to the traveler.
  - Taxis \$34
- Twelve (12) computers and a computer cart for students totaling \$3,844 along with supplies and payments to a teacher to teach at the alternative school which totaled \$942 and \$1,120, respectively.
- Sponsorship of events benefitting students \$1,700.

- Dues paid to the Illinois Association of School Boards \$840.

According to the Regional Superintendent, she stated that she was not clear on which expenses were allowed by the statute. (Finding 2014-003, pages 11d-11e)

The auditors recommended to the Regional Office of Education #44 that it should review the State statute and consult with the Illinois State Board of Education or legal counsel if there is uncertainty as to whether a particular expenditure is permitted for the Institute Fund under Article 3 of the Illinois School Code.

The Regional Office of Education #44 responded that the Regional Superintendent, Assistant Superintendent and Accounting Coordinator have reviewed the restrictions on the use of Institute funds ILCS Article 3. The audit process has provided the Regional Superintendent and Accounting Coordinator a better understanding of the use of the Institute Fund and how the monies may be spent. In the event the Regional Superintendent is uncertain of whether an expense falls within the scope of the statutorily prescribed uses for the Institute funds, he/she will confer with legal counsel at the Illinois State Board of Education (ISBE).

#### **INTERNAL CONTROL OVER DISBURSEMENTS**

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

**The Regional Office of Education #44 did not have adequate internal controls over disbursements.**

During testing of internal control and detailed review of program financial information, six expenditures were not supported by proper detailed documentation.

- In a sample of forty transactions, it was noted in two instances that expenditures out of the GED fund were not supported by proper detailed documentation. In further audit work of the GED fund, an additional two transactions were identified which were not supported by proper detailed documentation.
- In testing fifty-seven transactions from five credit card statements, two instances were noted where expenditures were not supported by proper detailed documentation.

The Regional Superintendent stated that she was not aware that detailed support should be kept on file for all expenditures. (Finding 2014-004, page 11f)

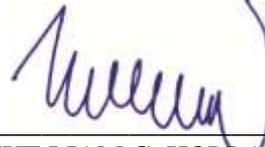
The auditors recommended that, as part of the Regional

Office's internal controls over cash disbursements, all supporting documentation for expenditures should be reviewed before checks are written and kept on file at the Regional Office.

The Regional Office of Education #44 responded that items paid from the GED fund that were found to have a lack of documentation were part of a discontinued process. These items related to old GED testing procedures when the Regional Office handled the applications and registrations. As of January 1, 2014, the applications and registrations are done online directly by the individual. The Regional Office noted that the new Accounting Coordinator understands the importance of proper documentation and will work closely with the Regional Office Administrator to ensure proper documentation for not only GED, but all funds be maintained in the future. The ROE stated that the Regional Superintendent initials all invoices and signs all checks issued. The Regional Superintendent also reviews and signs off on all monthly expenses and bank statements.

#### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2014 are fairly stated in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:JRB

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.