



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #44
McHENRY COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2015

Release Date: April 28, 2016

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	<u>New</u> 1	<u>Repeat</u> 3	<u>Total</u> 4	2014	15-1		
Category 2:	0	0	0	2014	15-2		
Category 3:	0	0	0	2014	15-3		
TOTAL	1	3	4				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(15-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(15-2)** The Regional Office of Education #44 did not have adequate internal controls over grant funding.
- **(15-3)** The Regional Office of Education #44 did not have adequate internal controls over Institute Funding.
- **(15-4)** The Regional Office of Education #44 did not have adequate internal controls over the High School Equivalency Testing Program.

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, 2015

	FY 2015	FY 2014
TOTAL REVENUES	\$1,328,960	\$1,585,263
Local Sources	\$466,272	\$824,547
% of Total Revenues	35.09%	52.01%
State Sources	\$685,476	\$684,835
% of Total Revenues	51.58%	43.20%
Federal Sources	\$177,212	\$75,881
% of Total Revenues	13.33%	4.79%
TOTAL EXPENDITURES	\$1,296,343	\$1,660,690
Salaries and Benefits	\$541,404	\$956,772
% of Total Expenditures	41.76%	57.61%
Purchased Services	\$282,482	\$239,005
% of Total Expenditures	21.79%	14.39%
All Other Expenditures	\$472,457	\$464,913
% of Total Expenditures	36.45%	28.00%
TOTAL NET POSITION	\$484,923	\$452,306
INVESTMENT IN CAPITAL ASSETS	\$338	\$642
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
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 were 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 Regional Office's financial information required material adjusting entries to accounts receivable, accounts payable, unearned revenue, revenue, expenses, 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.

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 2015-001, pages 11a-11b)

The auditors recommended that 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 of Education #44 responded that it will have discussions with the McHenry County Auditor's Office in January 2016 to determine which avenues are available to have the financial statements appropriately prepared prior to the audit.

Nevertheless, the Regional Office does not have adequate funding to hire and/or train accounting personnel within the Regional Office with the knowledge, skills, and experience to prepare GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1 shown at the end of the digest.)

INADEQUATE INTERNAL CONTROLS OVER GRANT FUNDING

The Regional Office of Education #44 did not have adequate 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 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 2015-002, 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 due to a miscommunication, federal funds, specifically Title II funds, were set up with its own segregated line item within the Institute Fund as stated it would be per FY14 management response. The funds although listed as a separate line were not listed as a completely separate fund as OMB A-133 compliance requires. During fiscal year 2016, the Regional Office will separately identify all federal funding in its own fund to ensure full compliance. (For previous Regional Office response, see Digest Footnote #2 shown at the end of the digest.)

INADEQUATE INTERNAL CONTROLS OVER INSTITUTE FUNDING

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

The Illinois School Code (105 ILCS 5/3-12) states that all license 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 licenses, to defray all costs associated with the administration of teaching licenses, and 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 for the purpose of defraying the expense of any general or special meetings of teachers or school personnel of the region, which has been approved by the Regional Superintendent.

The Regional Office expended \$1,724 of funds generated from license registration, renewal, and duplicate fees for the Regional Superintendent and Assistant Regional Superintendents to attend meetings, seminars, and conferences not related to teacher professional development. In addition, the Regional Office expended \$114 for flyers not related to teacher professional development.

Prior to the FY2014 audit, the Regional Superintendent stated she was not clear on which expenses were allowed by the statute. (Finding 2015-003, pages 11d-11e)

Auditors recommended that the Regional Office should ensure that funds generated from license registration, renewal, and duplicate fees are expended in accordance with the Illinois School Code (105 ILCS 5/3-12). Additionally, the Institute Fund should be reimbursed from other Regional Office unrestricted sources of funds for the unallowable expenditures.

The Regional Office of Education #44 responded that there were a few expenditures that were processed early in FY2015 before the Regional Superintendent reviewed the statute and was made aware of which expenses were allowed to be paid from the Institute Fund. The Regional Superintendent will review all expenditures that are to be paid out of the Institute Fund to ensure it is in compliance with Article 3 of the Illinois School Code (105 ILCS 5/3-12). The Regional Office has reimbursed the Institute Fund from unrestricted sources for the unallowable expenditures. (For previous Regional Office response, see Digest Footnote #3 shown at the end of the digest.)

INADEQUATE INTERNAL CONTROLS OVER HIGH SCHOOL EQUIVALENCY TESTING PROGRAM

The Regional Office of Education #44 did not have adequate internal controls over the High School Equivalency Testing Program.

The Illinois School Code (105 ILCS 5/3-15.12) states that fees paid by individuals applying to take the High School Equivalency test are to be used for expenses incurred in administering and scoring the examination and other educational programs that are developed and designed by the regional superintendent of schools to assist those who successfully complete high school equivalency testing in furthering their academic development or their ability to secure and retain gainful employment, including programs for the competitive award based on test scores of college or adult education scholarship grants or similar educational incentives. Any excess monies shall be paid into the Institute Fund.

The Regional Office expended \$5,124 of funds generated from the High School Equivalency Testing Program (GED) for salaries and travel reimbursements in the Truancy program, which were not allowed under the statute.

The Regional Superintendent stated she was not clear on which expenses were allowed by the statute. (Finding 2015-004, pages 11f-11g)

The auditors recommended that the Regional Office of Education 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 High School Equivalency Testing Program under Article 3 of the Illinois School Code. The Regional Office should only use the monies for those purposes as outlined by the statute. The Regional Office should also transfer funds from local sources to repay those expenses that were not allowed by the statute.

The Regional Office of Education #44 responded that there were some truancy expenditures that were processed in FY2015 before the Regional Superintendent reviewed the State statute and was made aware of which expenses were allowed to be paid from the High School Equivalency Program Fund. The Regional Office has since reimbursed the High School Testing Program for those expenditures from other sources. The Regional Superintendent will review all expenditures that are to be paid out of the Truancy Fund to ensure it is in compliance with Article 3 of the Illinois School Code (105 ILCS 5/3-15.12).

AUDITORS' OPINION

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2015 are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JRB

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

DIGEST FOOTNOTES

#1: Controls Over Financial Statement Preparation – Previous Regional Office Response

In its prior response in 2014, the Regional Office responded:

- 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.

#2: Inadequate Internal Controls over Grant Funding – Previous Regional Office Response

In its prior response in 2014, 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.

**#3: Inadequate Internal Controls over Institute Funding –
Previous Regional Office Response**

In its prior response in 2014, 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).