



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, 2016

Release Date: April 12, 2017

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	2014	16-1		
Category 1:	3	1	4				
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	3	1	4				
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(16-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(16-2)** The Regional Office of Education #44 was not in compliance with grant requirements.
- **(16-3)** The Regional Office of Education #44 did not have proper accounting of grant funds.
- **(16-4)** The Regional Office of Education #44 did not have adequate internal control procedures over receipts and 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, 2016

	FY 2016	FY 2015
TOTAL REVENUES	\$1,830,209	\$1,328,960
Local Sources	\$558,088	\$466,272
% of Total Revenues	30.49%	35.09%
State Sources	\$691,074	\$685,476
% of Total Revenues	37.76%	51.58%
Federal Sources	\$581,047	\$177,212
% of Total Revenues	31.75%	13.33%
TOTAL EXPENDITURES	\$1,830,553	\$1,296,343
Salaries and Benefits	\$600,571	\$541,404
% of Total Expenditures	32.81%	41.76%
Purchased Services	\$207,011	\$282,482
% of Total Expenditures	11.31%	21.79%
All Other Expenditures	\$1,022,971	\$472,457
% of Total Expenditures	55.88%	36.45%
TOTAL NET POSITION	\$484,579	\$484,923
INVESTMENT IN CAPITAL ASSETS	\$113	\$338
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. While the Regional Office maintains controls over the processing of most accounting transactions, there were 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.

During review of the Regional Office of Education #44's accounting records, auditors noted the Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles. Auditors also noted 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 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 2016-001, pages 11a-11b)
This finding was first reported in 2014.

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 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 accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region.

The Regional Office of Education #44 will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP-based financial statements. The Regional Office will also research the possibility of having another accounting company prepare its financial statements independent of the auditors. (For previous Regional Office response, see Digest Footnote #1 shown at the end of the digest.)

NONCOMPLIANCE WITH GRANT REQUIREMENTS

The Regional Office of Education #44 was not in compliance with grant requirements.

The Regional Office must comply with grant accounting and reporting requirements established by grant agreements with the Illinois State Board of Education (ISBE) and other grantors in addition to the requirements established by ISBE's fiscal policies and procedures for grantees. Among these requirements are accurate, current, and complete disclosure of grant financial activity.

For the Regional Safe Schools, Math & Science Partnerships, Regional Safe Schools Cooperative, and ROE/ISC Operations grant programs, budgets, and final expenditure reports indicated the Regional Office expended salaries and benefits, purchased services and supplies and materials. However, all grant funding is passed through to subrecipients and should be reported as "Payments to Other Governments".

For the Math & Science Partnerships and Regional Safe Schools Cooperative grant programs, the 6/30/16 expenditure reports were submitted based on the budgeted grant award rather than actual expenses. Expenditures reported in the Math & Science Partnerships and Regional Safe Schools Cooperative expenditure reports when compared to the general ledger were overstated by \$58,922 and \$9,500, respectively. Therefore, \$68,422 in unexpended grant funding received should have been recorded as a due back to the grantor.

The Regional Office of Education completed its expenditure reports based on the budgeted amounts instead of actual amounts.

The auditors recommended the Regional Office should ensure that grants budgets and expenditure reports are prepared using current and accurate financial data based on reports obtained from the Regional Office's accounting system. The budgets and final expenditure reports for Regional Safe School, Math & Science Partnerships, Regional Safe Schools Cooperative, and ROE/ISC Operations grants should be amended to reflect actual grant expenditures.

The Regional Office of Education #44 responded that for the 2016-2017 school year, the Office had prepared grant budgets and expenditure reports to reflect actual grant expenditures. The overage expense reported in the final FY16 electronic expenditure reports for both the Math & Science Partnership grant and the Regional Safe School Cooperative program have been refunded to ISBE.

IMPROPER ACCOUNTING OF GRANT FUNDS

The Regional Office of Education #44 did not have proper accounting of grant funds.

The Regional Office of Education #44 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 to track grant funding activity separately.

ROE/ISC Operations, Regional Safe Schools Program, Rural Education Achievement Program, Mathematics and Science Partnerships, Regional Safe Schools Cooperative, and General State Aid funding, which were distributed to the Regional Office of Education #44 for its programs, were accounted for solely in the Distributive Fund. According to the Regional Office of Education, personnel were unaware of the requirement to track grant funding activity separately.

Auditors recommended that the Regional Office of Education #44 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 #44 responded that while it had each grant fund in separate and distinct categories in its accounting system, it will comply with the requirements set forth in the *ISBE Regional Office of Education Accounting Manual*.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #44 did not have adequate internal control procedures over receipts and disbursements.

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

During review of the Regional Office of Education #44's financial information, auditors noted the following weaknesses in the internal control system:

- A. There was no documented review of the supporting documentation, for one disbursement, by the Regional Superintendent prior to the check being written.
- B. There was no documented review of the Regional Office of Education #44's general journal entries prior to being posted to the accounting system. Entries were also entered incorrectly and needed reclassification.
- C. One instance where an employee's mileage reimbursement was calculated incorrectly resulting in an overpayment of \$192.
- D. Four instances where \$34 in total sales tax was paid on purchases that were exempt from Illinois sales tax.
- E. The individual responsible for reconciling cash accounts can accept over-the-counter cash receipts.

The Regional Office of Education personnel stated they were unaware of the requirements.

The auditors recommended the following:

- A. All supporting documentation should be reviewed by the Regional Superintendent prior to payment and posting to the accounting system.
- B. All journal entries should be reviewed by the Regional Superintendent or Assistant Regional Superintendent prior to being posted to the accounting system. The review process will also help in assuring the correct accounts are entered.
- C. The Regional Office should develop policies and procedures to ensure employee reimbursements are accurate and calculated correctly.
- D. The Regional Office should develop policies and procedures to ensure sales tax is not paid on exempt purchases.
- E. The Regional Office should develop policies and procedures to ensure the individual responsible for reconciling cash accounts does not accept over-the-counter cash receipts.

The Regional Office of Education #44 responded it has developed policies and procedures for the Regional Superintendent and Assistant Superintendent to ensure supporting documentation is reviewed carefully prior to payment and posting, all journal entries are reviewed prior to being posted, and employee reimbursements are accurate. The Regional Office of Education #44 has developed a strict office policy that all purchases should be exempt of sales tax. Due to the size of the office (3 clerks) the Regional Office of Education #44 does everything possible to limit the amount of cash accepted by the individual who reconciles cash. Additionally, receipts are created for all cash received.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2016 are fairly stated in all material respects.

This financial report was conducted by the firm of Kemper CPA Group LLP.

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 FOOTNOTES

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

In its prior response in 2015, the Regional Office responded it did 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.