



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, 2019**

**Release Date: December 16, 2020**

FINDINGS THIS AUDIT: 5				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	<u>New</u>	<u>Repeat</u>	<u>Total</u>				
<b>Category 1:</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>2014</b>	<b>19-1</b>		
<b>Category 2:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2016</b>	<b>19-2</b>		
<b>Category 3:</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>2016</b>	<b>19-3</b>		
<b>TOTAL</b>	<b>0</b>	<b>5</b>	<b>5</b>	<b>2016</b>	<b>19-4</b>		
				<b>2018</b>			<b>19-5</b>
FINDINGS LAST AUDIT: 5							

**SYNOPSIS**

- **(19-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(19-2)** The Regional Office of Education #44 did not comply with grant requirements.
- **(19-3)** The Regional Office of Education #44 did not properly account for grant funds.
- **(19-4)** The Regional Office of Education #44 did not have adequate internal control procedures over cash.
- **(19-5)** The Regional Office of Education #44 did not provide completed financial statements in an auditable form by the August 31 deadline.

**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 #44**  
**MCHENRY COUNTY**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2019**

	<b>FY 2019</b>	<b>FY 2018</b>
<b>TOTAL REVENUES</b>	\$1,300,659	\$1,382,090
Local Sources	\$481,255	\$547,354
% of Total Revenues	37.00%	39.60%
State Sources	\$816,268	\$830,336
% of Total Revenues	62.76%	60.08%
Federal Sources	\$3,136	\$4,400
% of Total Revenues	.24%	.32%
<b>TOTAL EXPENDITURES</b>	\$1,325,304	\$1,233,987
Salaries and Benefits	\$645,864	\$652,483
% of Total Expenditures	48.73%	52.88%
Purchased Services	\$164,938	\$138,789
% of Total Expenditures	12.45%	11.25%
All Other Expenditures	\$514,502	\$442,715
% of Total Expenditures	38.82%	35.88%
<b>TOTAL NET POSITION</b>	\$456,614	\$481,259
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$0	\$0
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 (ROE) did not have sufficient internal controls over the financial reporting process. The ROE maintained its accounting records on the cash basis of accounting. While the ROE maintained controls over the processing of most accounting transactions, there were not sufficient controls over the preparation of 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 omissions in a timely manner.

The Regional Office is required to maintain a system of controls over the preparation of financial statements in accordance with GAAP. 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).

The auditors noted the following in the review of the Regional Office's accounting records:

- The ROE's trial balance from its accounting system did not agree to the amounts reported in the financial statements. Funds reported in the financial statements were not set up in the accounting system to account for the transactions by fund and as such fund balances did not roll forward correctly from the prior year and were out of balance as there were no correct allocations to funds/programs.
- The ROE provided the financial statement preparer adjustments and details supporting the financial statements, but there was no clear reconciliation between the accounting system balances and the adjusted balances reported.
- Auditors noted transactions for Fiscal Year 2019 that had incorrect posting dates in the accounting system; some posting dates were after June 30, 2019. In addition, duplicate entries were noted that were not adjusted as of June 30, 2019.
- The ROE improperly classified the Fingerprinting Fund (Fund) activities under the General Fund which is reported as governmental activities instead of a non-major proprietary fund that should be reported as business-type activities. Accordingly, no statement of cash flows was reported for this non-major proprietary

fund. Revenues for Fiscal Year 2019 totaled \$9,999. There were no associated expenses and liabilities recorded during the year. Total assets as of June 30, 2019 were \$9,999. Total net position as of June 30, 2019 was \$9,999.

Auditors also noted misclassifications totaling \$151,956 and unreported transactions totaling \$243,726 in the originally submitted financial statements. The ROE subsequently adjusted the financial statements to correct these errors.

Regional Office management indicated the ROE did not have adequate funding to hire and/or train accounting personnel with the knowledge, skills and experience to prepare GAAP based financial statements. Also, the ROE reported the transactions under the General Fund and did not realize the adjustment was not made to report the activities of the Fingerprint Fund as business-type activities at year-end. (Finding 19-001, pages 11 – 14) **This finding was first reported in 2014.**

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(s) possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the ROE's activities and operations.

Additionally, the auditors recommended the ROE should implement procedures to ensure proper analysis of fund activities are made when new funds are set up or when transactions are recorded in an existing fund for proper classification and reporting in accordance with GASB Statement No. 34.

**ROE Response:** *The ROE agrees with this finding and has secured the services of an accounting consultant that has significant experience with Regional Offices of Education to prepare a compilation of their financial statements and notes in accordance with generally accepted accounting principles for fiscal year 2020. The consultant was hired in July 2020 and will prepare the FY20 financial statements and will be responsible for the monitoring and reconciliation of the general ledger and bank statements on a monthly basis, ensure all fund activities are recorded properly and provide training to all staff on fraud detection and prevention.*

#### **NONCOMPLIANCE WITH GRANT REQUIREMENTS**

**The Regional Office of Education #44 did not comply with grant requirements.**

The Regional Office of Education #44 (ROE) did not properly report actual grant expenditures. The Regional Safe Schools, Title II – Teacher Quality – Leadership, and Regional Safe

Schools Cooperative grant programs' budgets and final expenditure reports indicated the ROE expended purchased services and supplies and materials. However, all of the funding was forwarded to other entities as payments to other governments to administer the programs; therefore, the expenditure reports were completed based on budget versus actual general ledger detail.

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 to the grantor.

Regional Office management indicated that due to vacancy of the bookkeeper position, expenditure reports were completed based on budget versus actual general ledger detail. (Finding 2019-002, pages 15-16) **This finding was first reported in 2016.**

The auditors recommended the ROE should ensure grant budgets and expenditure reports are prepared using current and accurate financial data based on reports obtained from the ROE's accounting system.

**ROE Response:** *The ROE agrees with this finding and will make necessary changes to their chart of accounts to ensure the grant budget and expenditure reports are prepared using their current and accurate financial data using the reports generated from their accounting system. The ROE has worked with their accounting consultant to complete an analysis of their financial activities to ensure all grant programs and budget are reported properly and that they are following fiscal policies. The ROE was able to make the necessary corrections for one of the grants for FY20 and full implementation for FY21.*

#### **IMPROPER ACCOUNTING OF GRANT FUNDS**

**The Regional Office of Education #44 did not properly account for grant funds.**

The Regional Office of Education # 44 (ROE) did not properly record and track grant funds received. ROE/ISC Operations, Regional Safe Schools Program, and Regional Safe Schools Cooperative funding was recorded in the ROE's distributive fund as general revenue when received and as a general expenditure when the funding was sent to the subrecipient. These grants are written and reported in the ROE's name and federal identification number, but are not segregated based on the grant funding source and expenditure classification in the ROE's accounting system.

The ROE 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* (manual). The manual requires the ROE to track grant funding activity separately by funding source in a set of self-balancing accounts.

Regional Office management indicated the ROE replaced its accounting package and intended to incorporate established ISBE fiscal policies and require each grant to be coded separately. However, due to the vacancy of the bookkeeper position, the Federal and State revenues and expenditures were not tracked separately in the accounting system. (Finding 2019-003, page 17) **This finding was first reported in 2016.**

Auditors recommended that the Regional Office should identify and record grant funds in accordance with requirements set forth in the *ISBE Regional Office of Education Accounting Manual*.

**ROE Response:** *The ROE agrees with this finding and has updated their chart of accounts to maintain the accuracy and proper recording of grant revenues and expenditures in accordance with the requirements set forth in the “ISBE Regional Office of Education Accounting Manual”. This correction will be reflected on the FY20 financial statements.*

#### **INADEQUATE INTERNAL CONTROL PROCEDURES**

#### **The Regional Office of Education #44 did not have adequate internal control procedures over cash.**

The Regional Office of Education #44 (ROE) did not have adequate internal control procedures over cash. Auditors noted the following weaknesses in the ROE’s internal control system for which there were no mitigating controls:

- Individual responsible for reconciling cash accounts can accept over-the-counter cash receipts;
- Missing deposit slips for fingerprinting receipt transactions;
- No documented evidence of independent review of completed bank reconciliations;
- Untimely and inaccurate performance of monthly bank reconciliations; and
- Missing monthly bank reconciliations.

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

Regional Office management indicated the ROE developed detailed procedures for the ROE’s receipts process that strengthens the internal controls and segregation of duties related to this process. These procedures have been formalized in the ROE’s financial policies and procedures, but due to limited staff, these procedures were not implemented. In addition, the inadequate control procedures related to bank reconciliations were also due to the vacancy of the bookkeeper

position. (Finding 2019-004, pages 18-19) **This finding was first reported in 2016.**

The auditors recommended that the ROE should ensure the individual responsible for reconciling cash accounts does not accept over-the-counter cash receipts. In addition, the ROE should ensure deposit slips for fingerprinting receipt transactions are maintained; monthly bank reconciliations are performed for all bank accounts accurately and timely; and document evidence of independent review.

**ROE Response:** *The ROE agrees with this finding and has secured an independent accounting consultant to complete monthly internal reviews and reconciliations of all bank accounts and general ledgers to ensure any errors are identified and corrected in a timely manner, including maintenance of supporting deposit slips for fingerprinting receipt transactions. The ROE will update the policies and procedures for accepting and reconciling cash to strengthen the internal controls and segregation of duties. The ROE will also provide annual training to its staff to help detect and prevent fraud.*

#### **DELAY OF AUDIT**

**The Regional Office of Education #44 did not provide completed financial statements in an auditable form by the August 31 deadline.**

The Regional Office of Education #44 (ROE) did not provide completed financial statements in an auditable form by the August 31 deadline. The completed financial statements were provided on May 21, 2020.

The Regional Office 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 30<sup>th</sup> 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).

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

Regional Office management indicated the Regional Superintendent's late hiring of the CPA firm caused for a delay in the FY19 financial statements being completed. Lack of sufficient staffing made audit preparation difficult. The ROE's bookkeeper's position remained vacant during the year. (Finding 19-005, pages 20 – 21)

The auditors recommended that 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. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

**ROE Response:** *The ROE agrees with this finding and will implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements will be compiled on an accrual basis of accounting in accordance with GAAP. These financial statements will be available to the Auditor General by August 31 deadline. We expect to have the FY21 financial statements available to the Auditor General by the deadline of August 31.*

#### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2019 are fairly stated in all material respects.

This financial audit was conducted by the firm of Adelfia LLC.

**SIGNED ORIGINAL ON FILE**

JOE BUTCHER  
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