



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, 2020

Release Date: January 26, 2022

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>				
Category 1:	0	3	3	2014	20-1		
Category 2:	0	0	0	2016	20-2		
Category 3:	0	1	1	2016	20-3		
TOTAL	0	4	4	2018			20-4
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- **(20-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(20-2)** The Regional Office of Education #44 did not comply with grant requirements.
- **(20-3)** The Regional Office of Education #44 did not have adequate internal control procedures over cash.
- **(20-4)** 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, 2020

	FY 2020	FY 2019
TOTAL REVENUES	\$1,415,894	\$1,300,659
Local Sources	\$557,943	\$481,255
% of Total Revenues	39.41%	37.00%
State Sources	\$857,951	\$816,268
% of Total Revenues	60.59%	62.76%
Federal Sources	\$0	\$3,136
% of Total Revenues	0%	.24%
TOTAL EXPENDITURES	\$1,596,271	\$1,325,304
Salaries and Benefits	\$663,416	\$645,864
% of Total Expenditures	41.56%	48.73%
Purchased Services	\$361,707	\$164,938
% of Total Expenditures	22.66%	12.45%
All Other Expenditures	\$571,148	\$514,502
% of Total Expenditures	35.78%	38.82%
TOTAL NET POSITION	\$319,209 ¹	\$456,614
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
¹ The FY 2020 beginning net position was restated by \$42,972 due to the correction of an error. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Leslie Schermerhorn Currently: Honorable Michael Freeman

**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.

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 generally accepted accounting principles (GAAP) basis of accounting to prepare the financial statements for audit. The ROE chose 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 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).

For the year ended June 30, 2020, the General Education Development Fund and the Transportation Fund met the criteria as major funds; however, these funds were reported in aggregate as nonmajor funds.

In addition, the ROE inaccurately reversed prior year unavailable revenue amounting to \$50,474 as a prior period adjustment of governmental activities, therefore understating the net position – beginning balances and overstating the program revenues – operating grants/contributions of the governmental activities in the statement of activities.

The notes to the financial statements in summary of significant accounting policies, basis of presentation – special revenue funds, budgetary information, deposits and investments, due from/to other governments, and net position/fund balance were not updated with current year information. In addition, the disclosure on restatement of the net position – beginning balance of the business-type activities was not included.

The ROE subsequently revised its financial statements to present the General Education Development Fund and the Transportation Fund as major funds, adjusted the misstatements in the net position – beginning balances and program revenues of the governmental activities in the statement of activities, and updated the notes to the financial statements.

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 during Fiscal Year 2020. The ROE contracted a part-time accountant after June 30, 2020. (Finding 2020-001, pages 10 – 12) **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, 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 McHenry County Regional Office of Education No. 44 agrees with the finding and has an agreement with the McHenry County's Finance Division to take over the financial reporting and accounting responsibilities of the ROE effective December 1, 2021. ROE-related journal entries will now follow the County's Journal Entries Policy. Additionally, statement preparation and audit work will fall under the Finance Division's responsibilities as well.*

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 comply with grant requirements. The Regional Safe Schools and Regional Safe Schools Cooperative grant programs' budgets and final expenditure reports indicated the ROE expended funds for salaries and benefits, 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 not completed based on the approved budget and general ledger details. Further, auditors noted 11 of 15 expenditure reports were submitted late, ranging from 1 to 32 days late.

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 not completed accurately. The ROE contracted a part-time

accountant after June 30, 2020. (Finding 2020-002, pages 13 – 14) **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 McHenry County Regional Office of Education No. 44 agrees with the finding and has an agreement with the Finance Division to address all expenditure reporting and ensuring that reports match the State of IL ROE Accounting Codes. The McHenry County's Finance Division will be responsible for such reports effective December 1, 2021.*

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:

- The individual responsible for reconciling cash accounts can accept over-the-counter cash receipts;
- Missing supporting documentation for receipt transactions for 11 of 40 receipts selected for testing;
- No documented evidence of independent review of completed bank reconciliations; and
- Untimely performance of monthly bank reconciliations for 5 bank accounts, 51 of 60 months, ranging from 1 month to 11 months late.

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 weaknesses noted in the internal controls were also due to the vacancy of the bookkeeper position. The ROE contracted a part-time accountant after June 30, 2020. (Finding 2020-003, pages 15 – 16) **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 supporting documentation for 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 McHenry County Regional Office of Education No. 44 agrees with the finding and will have the cash accounts brought into a centralized account structure*

within the County Treasurer. ROE staff will no longer reconcile bank statements; ROE staff will prepare deposits. Deposits will be managed by staff at the County Treasurer. The County Treasurer (separate staff member within the office) will then reconcile bank statements. Receipt documentation for transactions will follow the County's procedure in the County's ERP system, where we maintain all documentation including scanned documents.

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 March 25, 2021.

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 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).

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

Regional Office management indicated the bookkeeper's position remained vacant during the fiscal year. The ROE contracted a part-time accountant after June 30, 2020. (Finding 2020-004, pages 17 – 18) **This finding was first reported in 2018.**

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 McHenry County Regional Office of Education No. 44 agrees with the finding and has asked the County's Finance Division to assume financial and accounting responsibilities of the ROE. Completed financial statements will be provided by the deadline effective August 31, 2022 in accordance with 105 ILCS 5/2-3.17a and 74 Ill. Admin Code 420.320 (c).*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2020 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