



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, 2021

Release Date: December 7, 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	21-1		
Category 2:	0	0	0	2016	21-2		
Category 3:	0	1	1	2016	21-3		
TOTAL	0	4	4	2018			21-4
FINDINGS LAST AUDIT: 4							

SYNOPSIS

- **(21-1)** The Regional Office of Education #44 did not have sufficient internal controls over the financial reporting process.
- **(21-2)** The Regional Office of Education #44 did not comply with grant requirements.
- **(21-3)** The Regional Office of Education #44 did not have adequate internal control procedures over cash.
- **(21-4)** 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, 2021

	FY 2021	FY 2020
TOTAL REVENUES	\$1,275,109	\$1,415,894
Local Sources	\$403,646	\$557,943
% of Total Revenues	31.66%	39.41%
State Sources	\$870,690	\$857,951
% of Total Revenues	68.28%	60.59%
Federal Sources	\$773	\$0
% of Total Revenues	.06%	0%
TOTAL EXPENDITURES	\$1,391,288	\$1,596,271
Salaries and Benefits	\$578,837	\$663,416
% of Total Expenditures	41.60%	41.56%
Purchased Services	\$241,852	\$361,707
% of Total Expenditures	17.38%	22.66%
All Other Expenditures	\$570,599	\$571,148
% of Total Expenditures	41.01%	35.78%
TOTAL NET POSITION	\$203,030	\$319,209
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Leslie Schermerhorn Currently: Honorable Diana Hartmann

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.

State statute (105 ILCS 5/2-3.17a) allows 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, 2021, the General Education Development Fund, Transportation Fund, and Fingerprinting Fund met the criteria as major funds; however, the General Education Development Fund and Transportation Fund were reported in aggregate as nonmajor governmental funds under the Governmental Activities, and the Fingerprinting Fund was reported as a nonmajor enterprise fund under the Business-Type Activities. The ROE subsequently revised its financial statements and updated the notes to the financial statements.

The notes to the financial statements in the summary of significant accounting policies did not include the implementation of GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 90, *Majority Equity Interests*, and applicable sections of GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The ROE subsequently revised its financial statements and updated the notes to the financial statements.

The draft financial statements originally submitted did not implement GASB Statement No. 84 and were missing the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. There was also no disclosure related to GASB Statement No. 84 implementation. The ROE subsequently revised its financial statements implementing the requirements of GASB Statement No. 84.

The draft financial statements originally submitted did not include Due from Other Governments of \$34,490 and Due to Other Governments of \$34,490 in the Education Fund in the

Balance Sheet – Governmental Funds and in the Governmental Activities in the Statement of Net Position; and Due from Other Governments of \$54,973 and Due to Other Governments of \$54,973 in the Custodial Funds in the Statement of Fiduciary Net Position. The ROE subsequently revised its financial statements to include these amounts.

The draft financial statements originally submitted did not accurately report the original budget in the Supplemental Information, Education Fund Accounts, and Budgetary Comparison Schedule for the Regional Safe Schools Program. The ROE subsequently revised its financial statements to accurately report the original budget.

Regional Office management indicated the weaknesses noted in the internal controls were due to not having a bookkeeper on a full-time basis. (Finding 2021-001, pages 10 – 12) **This finding was first reported in 2014.**

The auditors recommended 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 Regional Office of Education No. 44 agrees with the finding and has an agreement with 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. The ROE will contract a firm to complete financial reporting and accounting responsibilities for Fiscal Year 2023.*

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 ROE submitted 8 of 21 expenditure reports untimely, ranging from 1 to 112 days late.

Item 5 of Section A of the Illinois State Board of Education’s State and Federal Grant Administration Policy, Fiscal Requirements, and Procedures requires grantees with an approved State and/or federal grant program to submit quarterly expenditure reports, at minimum, on or before 20 calendar days after the end of the reporting quarter.

Regional Office management indicated the weaknesses noted in the internal controls were due to not having a bookkeeper on a full-time basis. (Finding 2021-002, page 13) **This finding was first reported in 2016.**

The auditors recommended the ROE should develop internal controls to ensure expenditure reports are submitted by the grantors due date.

ROE Response: *The Regional Office of Education No. 44 agrees with the finding and has an agreement with the McHenry County's Finance Division to address all expenditure reporting effective December 1, 2021. The ROE will contract a firm to complete financial reporting and accounting responsibilities for Fiscal Year 2023.*

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 5 of 40 (13%) receipts selected for testing;
- Receipts were not deposited timely in 6 of 40 (15%) samples, ranging from 3 to 57 days late;
- No documented evidence of independent review of completed bank reconciliations; and
- Untimely performance of 57 of 60 (95%) monthly bank reconciliations for all bank accounts, ranging from 8 to 254 days late. In addition, for 3 months, a bank reconciliation was not performed.

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 weaknesses noted in the internal controls were due to not having a bookkeeper on a full-time basis. (Finding 2021-003, pages 14 – 15) **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 and deposited timely; perform monthly bank reconciliations 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 financial ERP system, where we maintain all documentation including scanned documents. The ROE will contract a firm to complete financial reporting and accounting responsibilities for Fiscal Year 2023.*

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 16, 2022.

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. The ROE may 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 has chosen the GAAP basis of accounting for financial reporting.

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.

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

Regional Office management indicated the delay was due to not having a bookkeeper on a full-time basis. (Finding 2021-004, pages 16 – 17) **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). Additionally, ROE management should determine if changing to the cash or modified cash basis would be allowable and beneficial to the ROE and users of its financial statements. 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). The Regional Office of Education will contract a firm to complete financial reporting and accounting responsibilities for Fiscal Year 2023.*

AUDITORS' OPINION

Our auditors state the Regional Office of Education #44's financial statements as of June 30, 2021 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