



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #47
LEE AND OGLE COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
 Audit Act and OMB Circular A-133)
 For the Year Ended: June 30, 2014**

Release Date: March 26, 2015

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since 2009	Category 1	Category 2	Category 3
Category 1:	0	0	0	14-1			
Category 2:	2	1	3				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- (14-1) The Regional Office of Education #47 did not have sufficient internal controls over the financial reporting process.
- (14-2) The Regional Office of Education #47 did not have adequate internal control procedures over expenditures.
- (14-3) The Regional Office of Education #47 did not have adequate internal controls over grant reporting.

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 #47
LEE AND OGLE COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2014

	FY 2014	FY 2013
TOTAL REVENUES	\$3,868,468	\$4,062,402
Local Sources	\$363,922	\$471,416
% of Total Revenues	9.41%	11.60%
State Sources	\$1,452,404	\$1,501,924
% of Total Revenues	37.54%	36.97%
Federal Sources	\$2,052,142	\$2,089,062
% of Total Revenues	53.05%	51.42%
TOTAL EXPENDITURES	\$3,851,290	\$4,105,566
Salaries and Benefits	\$1,767,514	\$1,776,153
% of Total Expenditures	45.89%	43.26%
Purchased Services	\$463,215	\$654,869
% of Total Expenditures	12.03%	15.95%
All Other Expenditures	\$1,620,561	\$1,674,544
% of Total Expenditures	42.08%	40.79%
TOTAL NET POSITION	\$832,582 ¹	\$796,102
INVESTMENT IN CAPITAL ASSETS	\$29,348	\$64,296
¹ The beginning FY 2014 Net Position was restated by \$19,302 due to a prior period adjustment. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Amy Jo Clemens (Resigned effective August 15, 2013) Honorable Paul McMahon (Effective August 16, 2013) Currently: Honorable Paul McMahon

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #47 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #47 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office 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 #47 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on cash basis accounting during the fiscal year and maintains a list of year-end accrual adjustments for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, there are 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 #47's financial information prepared by the Regional Office of Education #47, it was noted that 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 receivable, accounts payable, and unearned revenue, audit adjustments were proposed in order to ensure financial statement balances were accurate.

According to the Regional Office of Education #47 management, fiscal staff did not effectively detect all of the adjustments needed in order to present financial statements in accordance with GAAP. (Finding 2014-001, pages 14a-14b)
This finding was first reported in 2009.

The auditors recommended that, as part of internal control over the preparation of financial statements, the Regional Office of Education #47 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 #47's activities and operations.

The Regional Office of Education #47 responded that as part of its internal control over the preparation of its financial statements, the Regional Office will continue to provide a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate on a monthly basis. The Regional Superintendent will continue to review all financial statements (including accruals) striving to be as accurate as possible, hoping to eliminate this finding in the future. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES OVER EXPENDITURES

The Regional Office of Education #47 did not have adequate internal control procedures over expenditures.

The Regional Office of Education #47 is required to maintain a system of controls over receipts, disbursements, and reporting to prevent errors and fraud.

Internal controls over disbursements are not effectively designed and implemented. Specifically, auditors in their review of the Regional Office's financial processes and accounting records, noted four instances in which the Regional Superintendent of Schools approved his own expenditure requests for Procurement-Card purchases. (Finding 2014-002, page 14c)

The auditors recommended that the Regional Office of Education #47 should implement internal controls to ensure an appropriate review and approval process is in place to determine that all disbursements, including disbursement requests from the Regional Superintendent of Schools, are accurate and appropriate.

The Regional Office of Education #47 responded that as part of its internal control over reimbursement requests, it has implemented a more comprehensive review procedure to ensure all expenditure requests, including Procurement-Card purchases, for the Regional Superintendent are approved by the Assistant Regional Superintendent.

INTERNAL CONTROLS OVER GRANT REPORTING

The Regional Office of Education #47 did not have adequate internal controls over grant reporting.

The Office of Management and Budget (OMB) Circular A-102 Common Rule and OMB Circular A-110 require non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. The objectives of internal control pertaining to the compliance requirements for federal programs are found in OMB Circular A-133.

The Regional Office of Education #47's internal controls over the reporting of federal compliance requirements are not operating effectively. Eight transactions totaling \$11,637 were inappropriately classified as Payments to Other Governments within the general ledger and on the expenditure reports submitted to the Illinois State Board of Education (ISBE). They should have been classified as Improvement of Instruction Services-Purchases Services based on the approved grant budget and generally accepted accounting principles.

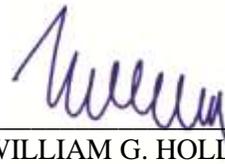
Regional Office of Education #47 officials were unaware how to properly classify and record grant expenditures in the general ledger. (Finding 2014-003, pages 14d-14e)

The auditors recommended that the Regional Office of Education #47 should establish a set of internal controls over federal compliance to ensure that the general ledger and all grant expenditure reports are accurate prior to submission to the granting agency. These internal controls should include procedures to ensure that grant expenditures are being recorded to the appropriate general ledger account based on generally accepted accounting principles and the approved grant budget. The Regional Office of Education #47 has already corrected the general ledger for this misclassification, but should also contact the ISBE to determine if an amended expenditure report should be submitted.

The Regional Office of Education #47 responded that as part of its internal control over reporting of grant expenditure reports, it has implemented a more comprehensive review procedure to maintain that all expenditure reports are accurate. The Regional Office of Education noted that it has contacted ISBE regarding amending this expenditure report. Since the misclassification occurred during the open grant period, and its budget did not need to be amended due to the misclassification, ISBE has advised no amended expenditure report is necessary.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #47's financial statements as of June 30, 2014 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

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

DIGEST FOOTNOTE

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

In its prior response in 2013, the Regional Office of Education #47 responded that as part of its internal control over the preparation of its financial statements, the Regional Office has implemented a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate on a monthly basis. The Regional Superintendent will continue to review all financial statements (including accruals) striving to be as accurate as possible, hoping to eliminate this finding in the future.