



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #51
SANGAMON COUNTY

FINANCIAL AND SINGLE AUDIT
 For the Year Ended: June 30, 2014

Release Date: September 10, 2015

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since 2007	Category 1	Category 2	Category 3
Category 1:	2	1	3	2007	14-1		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 2							

SYNOPSIS

- The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #51 used restricted funds for interfund loans.
- The Regional Office of Education #51 did not have adequate internal controls over compliance requirements.

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 #51
SANGAMON COUNTY

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	\$4,962,059	\$2,994,908
Local Sources	\$2,426,138	\$1,292,868
% of Total Revenues	48.89%	43.17%
State Sources	\$1,998,194	\$1,460,560
% of Total Revenues	40.27%	48.77%
Federal Sources	\$537,727	\$241,480
% of Total Revenues	10.84%	8.06%
TOTAL EXPENDITURES	\$5,067,003	\$3,087,285
Salaries and Benefits	\$3,437,567	\$2,260,730
% of Total Expenditures	67.84%	73.23%
Purchased Services	\$867,551	\$694,379
% of Total Expenditures	17.12%	22.49%
All Other Expenditures	\$761,885	\$132,176
% of Total Expenditures	15.04%	4.28%
TOTAL NET POSITION	\$1,036,806 ¹	\$1,135,620
INVESTMENT IN CAPITAL ASSETS	\$10,254	\$8,573
¹ The Beginning Net Position was restated by \$6,130 due to a prior period adjustment and reclassification. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Jeff Vose
Currently: Honorable Jeff Vose

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #51 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). A 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 #51 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 posts year-end accrual entries 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.

Auditors, in their review of the Regional Office of Education #51's financial information prepared by the Regional Office, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, unearned revenue, or capital outlay. While the Regional Office did maintain records to indicate the balances of accounts receivable, accounts payable, and capital outlay, not all entries were provided to reconcile the Regional Office of Education #51's grant activity, such as posting grant receivables and unearned revenue.
- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- Investments in the amount of \$300,000 were not segregated in the general ledger but instead included in cash balances.
- Transactions that should have been recorded as interfund transfers were instead recorded as revenue in the fund receiving the funds and as expenditures in the fund disbursing the funds.

- The June 30, 2014 unadjusted bank reconciliation for the Regional Office's main operating account did not reconcile to the general ledger which resulted in a material variance of \$49,100. In addition, there was no evidence of management's review and approval of some of the bank reconciliations.
- The general ledger did not support the June 30, 2014 expenditure report for the Common Core program submitted to ISBE due to account miscodings in the accounting records. A net variance of \$123,327 between the expenditure report and supporting general ledger existed.
- Eleven (11) of 12 journal entries tested lacked evidence of review and approval by an individual independent of the general ledger process.

According to Regional Office of Education #51 management, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 2014-001, pages 14a-14c) **This finding was first reported in 2007.**

The auditors had the following recommendations for the Regional Office:

- As part of internal control over the preparation of financial statements, the Regional Office 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 the applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.
- Develop procedures to ensure that all necessary adjustments have been recorded to ensure the financial statements are presented in accordance with generally accepted accounting principles.
- Segregate investment activity and cash balances and adjust investment accounts monthly to ensure they are being reported at their current market value.
- Account for all interfund transfers as a transfer in for the fund that receives the money and a transfer out for the fund that disburses the money. If an actual transfer of cash is not involved, revenues and expenditures should be recorded in the fund that received the funding and incurred the cost respectively.
- Ensure bank reconciliations are completed in a timely manner, agree to the general ledger and are reviewed by management in a timely manner to confirm the accuracy of the reconciliation and timely correction of reconciliation errors noted.

- Develop procedures to ensure that general ledger reports used to construct expenditure reports are accurate and current prior to submission. The Regional Office should also amend and resubmit the expenditure report to the granting agency.
- Ensure that all journal entries are reviewed and approved by an individual independent of the general ledger process.

The Regional Office of Education #51 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office of Education staff has a reasonable understanding of the financial statements and can determine that the information in the financial statements is accurate; however, they lack the ability to prepare the notes to the financial statements. The recommendation that “such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education’s activities and operations,” has been noted by the Regional Office. The ROE stated that they will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that employees possess the knowledge required to compile the necessary GAAP based financial statements. The ROE stated that it accepts the auditors’ recommendations and has revised policies, procedures and/or practices to address the finding noted. (For previous Regional Office response, see Digest Footnote #1.)

RESTRICTED FUNDS USED FOR INTERFUND LOANS

The Regional Office of Education #51 used restricted funds for interfund loans.

The Sangamon County Regional Office of Education #51 is required to use grant monies for allowable expenditures and purposes as outlined in grant agreements.

Due to delayed grant reimbursements, some funds lacked cash to pay for their expenditures, resulting in interfund loans within the Regional Office of Education #51’s pooled cash account. The Regional Office of Education #51 loaned \$35,795 of restricted funds from the Common Core Statewide Initiatives Fund to other grant funds to cover negative cash balances for delayed reimbursements.

According to Regional Office of Education #51 management, due to delayed grant reimbursements, the Regional Office did not have adequate unrestricted cash balances to offset grant expenditures. (Finding 2014-002, page 14d)

The auditors recommended that the Regional Office monitor payments from pooled cash accounts to ensure that the

particular fund paying expenditures has sufficient funds to cover the payments and should use the Common Core Statewide Initiatives Fund only for purposes allowed by the grant agreement.

The Regional Office of Education #51 responded that it accepts the auditors' recommendations and has revised policies, procedures, and/or practices to address the finding noted.

INADEQUATE INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS

The Regional Office of Education #51 did not have adequate internal controls over compliance requirements.

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office must incorporate certain procedures into its operations in order to comply with the grant agreements with these entities. During testing of the Title I Grants to Local Educational Agencies, the auditors noted the following:

- Information provided to subrecipients of this program did not include the CFDA number or total award to be granted.
- Subrecipients of the grant did not submit required reporting to the Regional Office.
- Three (3) out of 4 (75%) expenditure reports were submitted late to the grantor.
- The general ledger did not support any of the expenditure reports submitted to the grantor.
- In 4 out of 40 (10%) disbursements tested, presenter fees for training of Regional Office personnel were incorrectly coded.
- In 1 out of 40 (2.5%) disbursements tested, indirect costs were assigned as a salaries account number. No actual cost report was utilized to ensure the costs were for actual costs rather than budgeted amounts.

The Regional Office was not in compliance with the requirements of this federal program.

According to Regional Office management, this was the first year the Office administered the grant and they had not established sufficient internal control procedures to ensure compliance with grant requirements. (Finding 2014-003, pages 14e-14g)

The auditors recommended the Regional Office do the following:

- Review all requirements of the grant to ensure that all necessary federal award information has been provided to the subrecipients of the grant upon award of the grant.

- Notify all subrecipients of compliance requirements of the grant to ensure that all necessary reporting is submitted to the Regional Office timely.
- Develop procedures to ensure that required reporting to the grantor is completed in a timely manner.
- Develop procedures to ensure that general ledger reports used to construct expenditure reports are accurate and current prior to submission.
- Develop procedures to ensure all expenditures are coded to the correct accounts for accurate reporting to grantors.
- Develop procedures and implement the use of a Cost Allocation Plan to ensure all indirect costs are properly substantiated utilizing personnel time and effort information.

The Regional Office of Education #51 responded that it accepts the auditors' recommendations and has revised policies, procedures, and/or practices to address the finding noted.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #51's financial statements as of June 30, 2014 are fairly stated 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 #51 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office of Education staff has a reasonable understanding of the financial statements and can determine that the information in the financial statements is accurate, however, they lack the ability to prepare the notes to the financial statements. The recommendation that "such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations," has been noted by the

Regional Office. The ROE stated that they will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that employees possess the knowledge required to compile the necessary GAAP based financial statements.