



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #56
WILL COUNTY

**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	Category 1	Category 2	Category 3
Category 1:	0	2	2	2010	14-1		
Category 2:	0	0	0	2013	14-2		
Category 3:	1	0	1				
TOTAL	1	2	3				
FINDINGS LAST AUDIT: 3							

SYNOPSIS

- **(14-1)** The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #56 did not report payroll according to IRS regulations.
- **(14-3)** The Regional Office of Education #56 did not comply with statutory requirements for the Institute Fund.

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 #56
WILL 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	\$4,999,378	\$9,264,828
Local Sources	\$1,508,790	\$1,844,957
% of Total Revenues	30.18%	19.91%
State Sources	\$2,217,920	\$2,475,113
% of Total Revenues	44.36%	26.72%
Federal Sources	\$1,272,668	\$4,944,758
% of Total Revenues	25.46%	53.37%
TOTAL EXPENDITURES	\$5,275,897	\$9,195,292
Salaries and Benefits	\$2,972,914	\$3,954,886
% of Total Expenditures	56.35%	43.01%
Purchased Services	\$1,750,251	\$1,965,812
% of Total Expenditures	33.17%	21.38%
All Other Expenditures	\$552,732	\$3,274,594
% of Total Expenditures	10.48%	35.61%
TOTAL NET POSITION	\$5,166,451	\$5,442,970
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Shawn T. Walsh
Currently: Honorable Shawn T. Walsh

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #56 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). 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).

The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of 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.

During review of the Regional Office of Education #56's financial information prepared by the Regional Office, auditors noted 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, no entries were provided to reconcile the Regional Office of Education #56's grant activity, such as posting grant receivables.

According to Regional Office officials, 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 13a-13b) **This finding was first reported in 2010.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, the Regional Office of Education #56 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 Regional Office of Education #56's activities and operations.

The Regional Office of Education #56 responded that it accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region. The Regional Office noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1.)

PAYROLL REPORTING

The Regional Office of Education #56 did not report payroll according to IRS regulations.

Internal Revenue Code Regulation §31.3121(d)-1 establishes that an individual is an employee if the person for whom the services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished. Revenue Ruling 87-41 further establishes the 20-factor common law test for employment status, which looks at attributes such as instruction, training, integration, services rendered personally, hiring/supervision/paying assistants, continuing relationship, set hours of work, full time required, doing work on the employer's premises, order or sequence test, oral or written reports, payment by the hour/week/month, payment of business and/or travel expenses, furnishing tools and materials, significant investment, realization of profit/loss, working for more than one firm at a time, making services available to the general public, right to discharge, and right to terminate.

In an effort to provide further guidance on this matter, the Internal Revenue Service (IRS) recently revised the 20-factor common law test for determining the proper classification of workers between independent contractors and employees by condensing the prior 20 factors into eleven main tests and organizing those tests into three main groups: 1) behavioral control; 2) financial control; and 3) the type of relationship of the parties. These three groups and corresponding tests are further detailed in IRS Publication 15-A.

During testing, auditors noted the following:

- An employee of the Regional Office was also paid as an independent contractor for accounting and clerical services related to the McKinney Education for Homeless Children grant.
- The program director of the McKinney Education for Homeless Children grant is being treated as an independent contractor; however, under the current IRS tests, this individual should be classified as an employee for the following reasons:
 1. Behavioral control group: the Regional Office provides instructions to the program director by dictating when and where the grant will be administered, hiring all personnel that work on the grant, and providing the supplies, equipment, and location that the grant will utilize during its administration.
 2. Financial control group: there is no significant investment of resources by the program director other than time spent working on the grant.
 3. Type of relationship group: the program director is providing a service (grant administration) that is a key aspect of the Regional Office's regular business. All other program directors that work for the Regional Office are classified as employees rather than independent contractors. In addition, the enacted contract with the program director included a covenant not to compete clause, restricting employees from seeking employment with other organizations during their duration of employment with the Regional Office.

The Regional Office of Education #56 believed, based on IRS rules and regulations governing the classification of employees and independent contractors, the individuals tested were considered to be independent contractors. (Finding 2014-002, pages 13c-13d)

The auditors recommended that the Regional Office of Education #56 should develop policies and procedures, such as completing IRS form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholdings for all employees, to ensure that all IRS rules and regulations are followed with regard to employee classification and that the appropriate payroll taxes are withheld and remitted to the proper federal and State authorities.

The Regional Office of Education #56 responded that it has implemented the auditor's recommendation. As of November 1, 2014, the employees identified above have been classified as Regional Office grant employees and all related payroll taxes have been withheld and remitted to the federal and state authorities.

The Regional Office of Education #56 did not comply with statutory requirements for the Institute Fund.

CONTROLS OVER INSTITUTE FUND EXPENDITURES

The Illinois School Code 105 ILCS 5/3-12 states that all certificate registration fees and a portion of renewal and duplicate fees shall be used by the Regional Superintendent to defray expenses connected with improving technology necessary for the efficient processing of certificates, to defray all costs associated with the administration of teaching certificates, and to defray expenses incidental to teachers' institutes, workshops or meetings of a professional nature that are designed to promote the professional growth of teachers or for the purpose of defraying the expense of any general or special meeting of teachers or school personnel of the region, which has been approved by the Regional Superintendent.

The Regional Office of Education #56 expended \$2,622 of funds generated from certification, renewal, and duplicate fees for two student field trips.

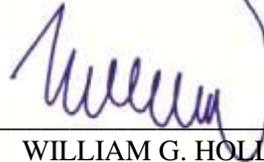
According to the Regional Office of Education #56, it was unaware that these purchases were not made in accordance with the Illinois School Code 105 ILCS 5/3-12. (Finding 2014-003, page 13e)

The auditors recommended that the Regional Office of Education #56 should ensure that funds generated from certification, renewal, and duplicate fees are expended in accordance with the Illinois School Code 105 ILCS 5/3-12. Additionally, the Institute Fund should be reimbursed from other Regional Office sources of funds for the unallowable expenditures.

The Regional Office of Education #56 responded that it will ensure that funds generated from certification, renewal, and duplicate fees are expended in accordance with the Illinois School Code 105 ILCS 5/3-12. The Institute Fund will be reimbursed from other Regional Office of Education #56 funds.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #56's financial statements as of June 30, 2014 are fairly stated in all material respects.



WILLIAM G. HOLLAND
- Auditor General

WGH:KJM

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 #56 responded that it accepts the degree of risk associated with this condition because the additional expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region. The Regional Office noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that their employees possess the knowledge required to compile the necessary GAAP based financial statements.