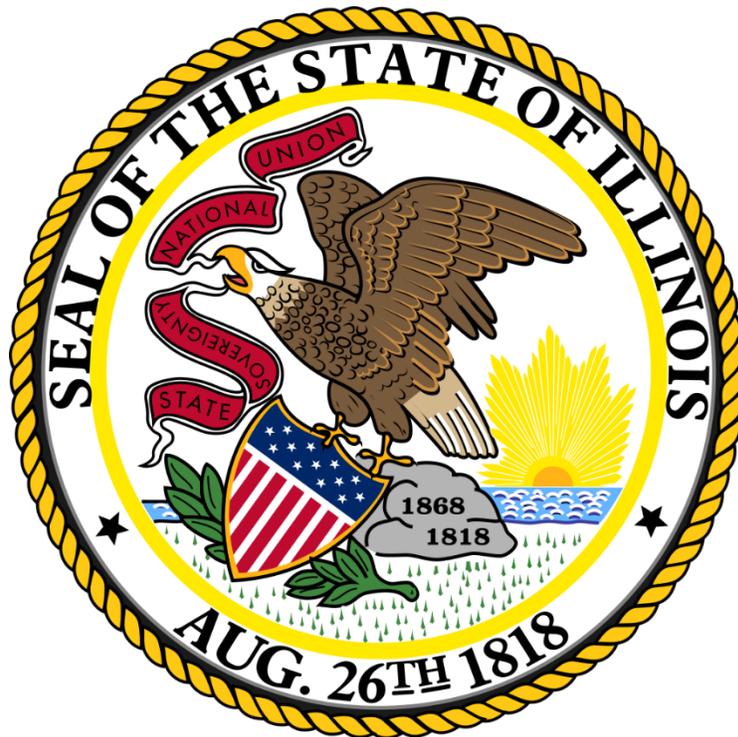


LEGISLATIVE AUDIT COMMISSION



Review of
McHenry County
Regional Office of Education #44
Year Ended June 30, 2019

622 Stratton Office Building
Springfield, Illinois 62706
217/782-7097

REVIEW: ROE #44 McHenry County – Review #4513 – Hearing Sept 1, 2021

**REVIEW
MCHENRY COUNTY
REGIONAL OFFICE OF EDUCATION #44
TWO YEARS ENDED JUNE 30, 2019**

**FINDINGS/RECOMMENDATIONS – 5
ACCEPTED AND IMPLEMENTED – 5**

REPEATED RECOMMENDATIONS – All

This review summarizes the financial audit of McHenry County ROE #44 for the year ended June 30, 2019, filed with LAC on December 16, 2020. The auditors conducted a compliance examination in accordance with state law and Government Auditing Standards. The auditor (Adelphia) stated that ROE #44's financial statements as of June 30, 2019 were fairly presented.

The Regional Superintendent of Schools is the chief administrative officer of the region and elected to a four-year term. The Regional Superintendent is responsible for the supervision and control of the school districts.

The Regional Superintendent for Region #44 during the 12-month audit period was the Honorable Leslie Schermerhorn. The Assistant Regional Superintendent was Dr. Michael Freeman. Rachelle Blich served as consultant.

The ROE #44 office is located at:

McHenry Co. Government Center
2200 North Seminary Avenue (Route 47)
Woodstock, IL 60098

Background

The McHenry County ROE #44 was formed under the following provisions:

- State of Illinois;
- Illinois State Board of Education (School Code 105 ILCS 5/3 and 5/3A).

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Revenues and Expenditures

	FY 2018	FY 2019
TOTAL REVENUES	\$ 1,382,090	\$ 1,300,659
Local Sources	\$547,354	\$ 481,255
% of Total Revenues	39.60%	37.00%
State Sources	\$ 830,336	\$ 816,268
% of Total Revenues	60.08%	62.76%
Federal Sources	\$ 4,400	\$ 3,136
% of Total Revenues	0.32%	0.24%
TOTAL EXPENDITURES	\$ 1,233,987	\$ 1,325,304
Salaries and Benefits	\$ 652,483	\$ 645,864
% of Total Expenditures	52.88%	48.73%
Purchased Services	\$ 138,789	\$ 164,938
% of Total Expenditures	11.25%	12.45%
All Other Expenditures	\$ 442,715	\$ 514,502
% of Total Expenditures	35.88%	38.82%
TOTAL NET POSITION	\$ 481,259	\$ 456,614
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
Percentages may not add due to rounding.		

For the year ended June 30, 2019, Listed below are the fund names, sources and balances, at June 30, 2019, for the ROE #44 budget:

- General Fund (state, local): \$73,148;
- Education Fund (state, federal) \$78,226;
- Institute Fund (local) \$306,324;
- Non-major Funds (local, state); \$68,781.

(Source: Exhibit C on page 31 of the audit report)

For the year ended June 30, 2019, General Revenues were made up of the following:

- State Sources: \$146,210 – 16%;
- Local Sources: \$103,540 – 11%;
- On-Behalf Payments (State): \$287,088 – 32%;
- On-Behalf Payments (Local): \$358,776 – 40%; and
- Investment Earnings: \$8,940 – 1%.

(Source: Exhibit B on page 30 of the audit report)

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Salary and Benefit Info

The pay package, was calculated on data provided by ISBE from the General Fund, includes the following:

- Regional Superintendent Salary: \$117,600;
- Assistant Regional Superintendent Salary: \$105,840;
- Regional Superintendent Benefits (includes state paid insurance): \$28,839;
- Assistant Regional Superintendent Benefits (includes state paid insurance): \$34,809;

Total (for Top 2 positions) \$287,088

McHenry County provides ROE with staff and pay certain expenditures on behalf of the ROE. The expenditures paid on the ROE's behalf for the year ended June 30, 2019 were as follows (p. 55 of the audit):

- Staff salaries, benefits and expenses: \$317,312;
- Value of building space: \$ 41,464;

Total on-Behalf – Local: \$358,776

Accountants' Findings and Recommendations

Condensed below are the 5 findings and recommendations included in the audit report. Of these, all 5 are repeated from the previous audit. The following recommendations are classified on the basis of information provided by the McHenry County, ROE No. 44, via electronic mail received April 8, 2021.

Recommendations

1. **As part of internal control over the preparation of financial statements, ROE #44 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 generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education No. 44's activities and operations.**

ROE #44 should also implement procedures to ensure proper analysis of Fund activities are made when new funds are set-up or when transactions are recorded in an existing fund for proper classification and reporting in accordance with GASB Statement No. 34. (Repeated since 2014)

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FINDING: (Controls over Financial Statement Preparation)

ROE #44 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The ROE'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).

GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* (Statement), requires governments to present government-wide and fund financial statements as well as a summary reconciliation of the (a) total governmental fund balances to the net position of governmental activities in the Statement of Net Position, and (b) total change in governmental fund balances to the change in the net position of governmental activities in the Statement of Activities. In addition, the Statement requires information about the government's major and non-major funds in the aggregate to be provided in the fund financial statements.

GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis – for State and Local Governments* (Statement), requires activities to be reported as enterprise funds if the pricing policies of the activity establish fees and charges designed to recover its costs.

Required financial statements for proprietary funds are:

- a. Statement of net position or balance sheet;
- b. Statement of revenues, expenses, and changes in fund net position or fund equity; and
- c. Statement of cash flows.

CONDITION:

ROE #44 does not have sufficient internal controls over the financial reporting process. ROE maintains its accounting records on the cash basis of accounting. While the ROE maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the 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.

The auditors noted the following in the review of ROE's accounting records:

- The ROE's trial balance from its accounting system did not agree to the amounts reported in the financial statements. Funds reported in the financial statements are not set-up in the accounting system to account for the transactions by fund and as

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such fund balances do not roll forward correctly from the prior year and were out of balance as there were no correct allocations to funds/programs.

- The ROE provided the financial statement preparer adjustments and details supporting the financial statements but there was no clear reconciliation between the accounting system balances and the adjusted balances reported.
- Transactions for FY19 that had incorrect posting dates in the accounting system; some posting dates were after June 30, 2019. Duplicate entries were noted that were not adjusted as of June 30, 2019.
- ROE #44 improperly classified the Fingerprinting Fund (Fund) activities under the General Fund reported as governmental activities instead of a non-major proprietary fund that should be reported as business-type activities. Accordingly, no statement of cash flows was reported for this non-major proprietary fund. Revenues for FY19 totaled \$9,999. There were no associated expenses and liabilities recorded during the year. Total assets as of June 30, 2019 were \$9,999. Total net position as of June 30, 2019 was \$9,999.

The auditors also noted misclassifications totaling \$151,956 and unreported transactions totaling \$243,726 in the originally submitted financial statements. The ROE subsequently adjusted the financial statements to correct these errors.

EFFECT:

ROE #44 management or its employees, in the normal course of performing their assigned functions, may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner. Also, improper classification of Fund activities understated the financial position and changes in financial position and cash flows of the business-type activities and overstated the financial position and changes in financial position of the governmental activities as of and for the year ended June 30, 2019. Improper classification results in inaccurate application of generally accepted accounting principles for the fund activities and may result in a material adjustment in the financial statements.

CAUSE:

ROE #44's management indicated the Regional Office did not have adequate funding to hire and/or train accounting personnel with the knowledge, skills, and experience to prepare GAAP based financial statements. Also, the ROE reported the transactions under the General Fund and did not realize the adjustment was not made to report the activities of this Fund as business-type activities at year-end.

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RESPONSE:

ROE #44 agrees with this finding and has secured the services of an accounting consultant that has significant experience with ROE to prepare a compilation of their financial statements and notes in accordance with generally accepted accounting principles for FY20.

UPDATED RESPONSE: Implemented.

ROE #44 has secured the services of an accounting consultant that has significant experience with ROE to prepare a compilation of the financial statements and notes in accordance with generally accepted accounting principles for FY20. The consultant was hired in July 2020 and prepared the FY20 financial statements and is responsible for the monitoring and reconciliation of the general ledger and bank statements on a monthly basis, ensured all fund activities are recorded properly and provided training to all staff on fraud detection and prevention.

- 2. ROE #44 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. (Repeated since 2016)**

FINDING: *(Noncompliance with Grant Requirements)*

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.

CONDITION:

The Regional Safe Schools, Title II - Teacher Quality - Leadership and Regional Safe Schools Cooperative grant programs' budgets, and final expenditure reports indicated the Regional Office expended 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 completed based on budget versus actual general ledger detail.

EFFECT:

The budgets and expenditure reports submitted to the grantor did not accurately reflect actual expenditures, resulting in a failure to comply with the grant requirements for accurate, current, and complete disclosure of financial activity.

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CAUSE:

ROE #44 management indicated that due to vacancy of the bookkeeper position, expenditure reports were completed based on budget versus actual general ledger detail.

RESPONSE: Implemented.

ROE #44's agrees with this finding and will make necessary changes to their chart of accounts to ensure the grant budget and expenditure reports are prepared using their current and accurate financial data using the reports generated from their accounting system.

UPDATED RESPONSE: Implemented.

ROE #44 made necessary changes to their chart of accounts to ensure the grant budget and expenditure reports are prepared using their current and accurate financial data using the reports generated from their accounting system. ROE #44 has worked with the accounting consultant to complete an analysis of the financial activities to ensure all grant programs and budget are reported properly and that they are following fiscal policies. The ROE was able to make the necessary corrections for one of the grants for FY20 and full implementation for FY21.

- 3. ROE #44 should identify and record grant funds in accordance with requirements set forth in the *ISBE Regional Office of Education Accounting Manual*. (Repeated since 2016)**

FINDING: (*Improper Accounting of Grant Funds*)

ROE #44 is required by the Illinois State Board of Education (ISBE) to maintain its accounting system consistent with the *ISBE Regional Office of Education Accounting Manual*. That manual requires the ROE to track grant funding activity separately by funding source in a set of self-balancing accounts.

CONDITION:

ROE/ISC Operations, Regional Safe Schools Program, and Regional Safe Schools Cooperative funding were recorded in the Regional Office's distributive fund as general revenue when received and as a general expenditure when the funding was sent to the subrecipient. These grants are written and reported in the Regional Office's name and federal identification number, but are not segregated based on the grant funding source and expenditure classification in the ROE's accounting system.

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EFFECT:

Federal and state revenues and expenditures were not tracked separately in the Regional Office general ledger in accordance with the *ISBE Regional Office of Education Accounting Manual*.

CAUSE:

ROE #44 management indicated the Regional Office replaced its accounting package and intended to incorporate established ISBE fiscal policies and require each grant to be coded separately. However, due to the vacancy of the bookkeeper position, the Federal and state revenues and expenditures were not tracked separately in the accounting system.

RESPONSE:

ROE #44's agrees with this finding and has updated their chart of accounts to maintain the accuracy and proper recording of grant revenues and expenditures in accordance with the requirements set forth in the *ISBE Regional Office of Education Accounting Manual*.

UPDATED RESPONSE: Implemented.

ROE #44 updated their chart of accounts to maintain the accuracy and proper recording of grant revenues and expenditures in accordance with the requirements set forth in the *ISBE Regional Office of Education Accounting Manual*. This correction was reflected on the FY20 financial statements.

- 4. ROE #44 should ensure the individual responsible for reconciling cash accounts does not accept over-the-counter cash receipts. In addition, the ROE should ensure deposit slips for fingerprinting receipt transactions are maintained; monthly bank reconciliations are performed for all bank accounts accurately and timely; and document evidence of independent review. (Repeated since 2016)**

FINDING: (*Inadequate Internal Control Procedures*)

The ROE is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud.

CONDITION:

Auditors noted the following weaknesses in the Regional Office's internal control system for which there were no mitigating controls:

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- Individual responsible for reconciling cash accounts can accept over-the-counter cash receipts;
- Missing deposit slips for fingerprinting receipt transactions;
- No documented evidence of independent review of completed bank reconciliations;
- Untimely and inaccurate performance of monthly bank reconciliations; and
- Missing monthly bank reconciliations.

EFFECT:

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriations of assets, in which the errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties.

CAUSE:

ROE #44's management indicated the developed detailed procedures for the ROE's receipts process that strengthens the internal controls and segregation of duties related to this process. These procedures have been formalized in the ROE's financial policies and procedures, but due to limited staff, these procedures were not implemented. In addition, the inadequate control procedures related to bank reconciliations were also due to the vacancy of the bookkeeper position.

RESPONSE:

ROE #44 agrees with this finding and has secured an independent accounting consultant to complete monthly internal reviews and reconciliations of all bank accounts and general ledgers to ensure any errors are identified and corrected in a timely manner, including maintenance of supporting deposit slips for fingerprinting receipt transactions.

UPDATED RESPONSE: Implemented.

ROE #44 has secured an independent accounting consultant to complete monthly internal reviews and reconciliations of all bank accounts and general ledgers to ensure any errors are identified and corrected in a timely manner, including maintenance of supporting deposit slips for fingerprinting receipt transactions. The ROE updated the policies and procedures for accepting and reconciling cash to strengthen the internal controls and segregation of duties. The ROE provided annual training to its staff to help detect and prevent fraud.

- 5. ROE #44 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**

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General's independent auditors for audit by the August 31 deadline. (Repeated since 2018)

FINDING: (*Delay of Audit*)

ROE #44 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 Governmental 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.

CONDITION:

ROE #44 did not provide completed financial statements in an auditable form by the August 31 deadline. The completed financial statements were provided on May 21, 2020.

EFFECT:

When financial statements and records are not provided in a timely manner, delays in the audit occur and the usefulness of the financial statements and related findings resulting from the audit is impacted. Additionally, untimely financial statements could result in repercussions from granting agencies including a loss of funding.

CAUSE:

ROE #44's management indicated the Regional Superintendent's late hiring of the CPA firm caused for a delay in the FY19 financial statement being completed. Lack of sufficient staffing made audit preparation difficult. The Regional Office's bookkeeper's position remained vacant during the year.

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RESPONSE:

The Regional Office of Education No. 44 agrees with this finding and will implement procedures to ensure compliance ROE #44 expects to have the FY21 financial statements available to the Auditor General by the deadline of August 31.

UPDATED RESPONSE: No change.

ROE #44 will implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74ILL. Adm. Code 420.320 (c) (2). Annual financial statements will be compiled on an accrual basis of accounting in accordance with GAAP. These financial statements are expected to be available to the Auditor General by the deadline of August 31.