

# LEGISLATIVE AUDIT COMMISSION



Review of  
Franklin/Williamson Counties  
Regional Office of Education #21  
Year Ended June 30, 2002

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

**REVIEW: 4178  
FRANKLIN/WILLIAMSON COUNTIES  
REGIONAL OFFICE OF EDUCATION #21  
YEAR ENDED JUNE 30, 2002**

**FINDINGS/RECOMMENDATIONS - 17**

**NOT ACCEPTED - 3  
ACCEPTED - 11  
IMPLEMENTED - 3**

**REPEATED RECOMMENDATION - 6**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 8**

This review summarizes the audit of the Franklin/Williamson Counties Office of Education #21 for the year ended June 30, 2002, filed with the Legislative Audit Commission on March 11, 2003. The auditors performed a financial audit in accordance with Government Auditing Standards, including OMB Circular A-133, and State law. The auditors stated that the Regional Office of Education #21's financial statements as of June 30, 2002 are fairly represented except for the effect of the omission of the General Fixed Asset Account Group. The Group should be included in order to conform with generally accepted accounting principles.

The regional superintendent, who is elected from among the counties served by the Regional Office, is responsible for all aspects of supervision, reports and financial accounting of school districts which are considered by State law to be in the Service Region. In addition, the regional superintendent is charged with responsibility for township fund lands; registration of the names of applicants for scholarships to State controlled universities; examinations and related duties; visitation of public schools; direction of teachers and school officers; to serve as the official advisor and assistant of school officers and teachers; to conduct teacher institutes as well as to aid and encourage the formation of other teachers meetings and assist in their management; evaluate the schools in the region; examine school treasurer's books, accounts and vouchers; examine evidence of indebtedness; file and keep the returns of elections required to be returned to the regional superintendent's office; and file and keep the reports and statements returned by school treasurers and trustees.

The regional superintendent is also charged with the responsibilities of conducting a special census, when required; providing notice of money distributed to treasurers, board presidents, clerks, and secretaries of the school districts on or before each September 30; maintenance of a map and numbering of the region's districts; providing township treasurers with a list of district treasurers; to inspect and approve building plans which comply with State law; to perform and report on annual building inspection; investigate

**REVIEW: 4178**

bus drivers for valid driver permits; to maintain a list of unfilled teaching positions and carry out other related duties required or permitted by law.

The regional superintendent is responsible for inspection and approval or rejection of school treasurer's bonds and to show that treasurers of school districts under his or her control are properly bonded. The regional superintendent is responsible for apportionment and payment of funds received from the State for the districts in the region. The regional superintendent is required to provide opinions and advice related to controversies under school law. Currently, the Regional Office employs 70 people.

The Regional Superintendent for Region #21 during the audit period was the Honorable Barry Kohl. Mr. Kohl was first elected to the position in 1990. His salary, which is paid by the State is \$86,127.

**Revenues and Expenditures**

Revenues to Regional Office #21 are as follows:

|                       | <b>FY 2002</b> | <b>FY 2001</b> |
|-----------------------|----------------|----------------|
| <b>Total Revenues</b> | \$5,141,628    | \$4,203,245    |
| Local Sources         | \$516,163      | \$349,500      |
| % of Total Revenues   | 10.04%         | 8.32%          |
| State Sources         | *\$1,731,877   | \$1,475,152    |
| % of Total Revenues   | 33.68%         | 35.10%         |
| Federal Sources       | \$2,893,588    | \$2,738,593    |
| % of Total Revenues   | 56.28%         | 56.59%         |

Expenditures by Regional Office #3 are as follows:

|                           | <b>FY 2002</b> | <b>FY 2001</b> |
|---------------------------|----------------|----------------|
| <b>Total Expenditures</b> | *\$4,991,086   | \$4,147,316    |
| Salaries and Benefits     | *\$2,452,979   | \$1,859,931    |
| % of Total Expenditures   | 49.15%         | 44.85%         |
| Purchased Services        | \$1,293,615    | \$835,768      |
| % of Total Expenditures   | 25.92%         | 20.15%         |
| All Other Expenditures    | \$1,244,492    | \$1,451,617    |
| % of Total Expenditures   | 24.93%         | 35.00%         |

\* Fiscal Year 2002 amounts include on-behalf payments (\$173,503). On-behalf payments were not included in Fiscal Year 2001.

Cost of property and equipment could not be verified because the Regional Office does not maintain general fixed asset records, as required by generally accepted accounting principles. This omission resulted in a qualified opinion on the Office's financial statement.

### Accountants' Findings and Recommendations

Condensed below are the 17 findings and recommendations presented in the audit report. There were six repeated recommendations. The responses to the recommendations were provided by Barry Kohl, Regional Superintendent, in the original audit report.

#### Not Accepted

- 7. Ensure that employees reimburse the Office for personal expenses related to travel, lodging and food. Establish and follow a policy that forbids personal expenditures by the Office.**

**Findings:** Purchases for airline tickets for non-employees have been made on the Office's credit card. The Superintendent's spouse, who is an employee of the Office, purchased four airline tickets, totaling \$809, using the Office's credit card in July 2001. Two of the tickets were for non-employees, one ticket was for her, and one ticket was for another employee who was on the janitorial staff. The superintendent's spouse made food purchases of \$418 using the card.

In August 2001, the Office's Director Chairman and Technology Coordinator purchased four airline tickets, totaling \$1,180, using the Office's credit card for themselves and their spouses. The spouses are not employed by the Office, although one spouse is a member of the Regional School Board of Trustees. This trip was cancelled and the Office received credit from the airline for the unused tickets. However the credit was used for both business and personal purposes. The personal use portion should be reimbursed to the Office. At the exit conference, the Office said it would be reimbursed for the personal use portion.

**Response:** Not accepted. The Regional Superintendent has established regulations that follow the Governor's Travel Control Board which states that if receipts are not available, a typed statement signed by the traveler certifying the amount paid will be accepted. Therefore the employee's food expenses are an allowable expense.

Flights for non-employees were reserved on the Superintendent's personal credit card in order to ensure same flight times. The parties fully intended to repay their expenses; however, the conference and flights were cancelled due to the 9/11/01 tragedy. The airline's policy for cancelled flights is to issue a flight coupon. The credit card charges referenced in this finding were made to the Superintendent's personal credit card, casually referred to as the "office card". The Office does not have a credit card.

**Auditors' comment:** The Office did not provide the auditors with a typed statement signed by the traveler certifying the meal expenses paid. Without the actual receipts for food expenditures, it is not possible to determine whether the meal costs paid were solely

**Not Accepted - continued**

for the employee traveling on Office business. One of the food expenses paid was a restaurant charge for \$90.

The credit card in question is a corporate card and the billing statement is sent directly to the Office. There are a total of three credit cards issued under the corporate account. All cardholders are Office employees. The Office paid for the flights of non-employees, therefore, any repayment of expenses needed to be paid to the Office.

**12. Set fees for contract labor with related parties at the amount that would be set with an independent third party. Maintain detailed documentation of the services to be provided and the time and effort expended to accomplish the services. Documentation should accompany the expenditure authorization form and be reconciled to the amount disbursed. Advise related employees to repay \$28,850 in questioned costs.**

**Findings:** The Office contracted with the Superintendent's son, the Superintendent's step-son, and the ECHO Director's son, all college and high school students, to provide daily cleaning after a remodeling crew completed for the day. In addition, they were to assist with installation of new blinds. The contract did not indicate a specific rate of pay, number of days, or number of hours to be worked. Auditors were told that no time and attendance records were maintained for these contracts. However, at the exit conference in February, Office officials produced time records for the three contractual staff, but they were not signed by a supervisor. The following amounts were paid:

- Superintendent's son—July 2-October 30, 2001 - \$4,000
- Superintendent's step-son—July 2-October 30, 2001 - \$4,000
- ECHO Director's son—July 2-September 30, 2001 - \$3,000.

The Office also hired the Superintendent's son and the ECHO Director's two sons to perform various messenger and janitorial jobs for the ECHO program. Amounts paid for these additional services are as follows:

- Superintendent's son - \$1,600
- ECHO Director's son - \$3,700
- ECHO Director's son - \$2,550.

The Superintendent's spouse was given a \$10,000 contract to perform services described only as "Education Labor Relations Board Study Group." Payment was made to the spouse in August 2001 in addition to her full-time annual salary of \$31,558. There is no documentation attached to the contract to indicate the employee had the experience or expertise necessary to interpret the Office's labor laws. The contract did not specify the details or time period of the study. The Office did not maintain documentation of the time and effort expended by the contractor for this study. The Office contracted for this study in the spouse's maiden name; however, she signed the contract in her married name. The Superintendent signed the contract on behalf of the Office.

## REVIEW: 4178

In response to the auditors' inquiry concerning the work product produced by the contractor, the Assistant Superintendent said the superintendent's spouse delivered an oral report to him. Based on the oral report, the Office made various personnel moves to better align personalities of certain employees and that procedures were implemented to foster better communication between personnel and the Office. At the exit conference, the Office produced a work product for this contract.

In FY02, Mrs. Kohl's full-time annual salary increased to \$34,250, and she received a salary of \$12,175 for 120 days' work as the Office Violence Prevention Coordinator. The FY02 contracts were not signed by the Superintendent, and only the Violence Prevention Coordinator contract was signed by the spouse.

The statute states that a person appointed or elected to any office cannot have a financial interest in any contract or the performance of any work in the making or letting of a contract on which such officer may be called upon to act or vote. Violation is a Class 4 felony and may result in loss of office and the contract being declared void.

Whether an officer has a prohibited indirect interest in a contract he enters into with a spouse, child or other person is a factual determination that must be made on a case-by-case basis by an appropriate investigatory agency.

**Response:** The Office did maintain detailed documentation of the services in the form of timesheets, which were provided.

The determination of qualifications of personnel and assignments of contracts are at the discretion of the Regional Superintendent and not the auditing agency. Documentation regarding Mrs. Kohl's expertise were never requested though they were supplied at the exit conference. Mrs. Kohl worked for the Appellate Court for one year and for the Attorney General for 11 years where she was the office's labor liaison for the southern region. Her transcripts reveal she needs hours to be a paralegal, but proves she is qualified to perform these services. According to the Illinois Administrative Code, services that may be subcontracted are those which the Office staff cannot provide. As determined by Mr. Kohl, these services could be performed by staff; therefore, no subcontract was entered.

The statute prohibits a regional superintendent from employing a spouse, child, stepchild or relative as an assistant regional superintendent. Mrs. Kohl was an employee of the Office for five years prior to her marriage to the regional superintendent. She is not employed as an assistant regional superintendent. To terminate her employment would be discrimination.

**Auditors' Comment:** Time records were requested during audit fieldwork and auditors were told that none were maintained. Timesheets for the children's contracts were provided at the exit conference. Timesheets for the spouse's contract were never provided. The statute cited by the Regional Superintendent is inapplicable and is not the

## REVIEW: 4178

### Not Accepted - concluded

basis for the finding. The finding does not question the legality of the Regional Superintendent employing his spouse. The finding is about the legality of a contract with his spouse, as well as documentation supporting the rate paid, effort expended and services provided.

#### **15. Establish a separate bank account for the Franklin County Regional Delivery System funds and General and Special Revenue funds and then account for interest income and expenditures separately within the respective funds.**

**Findings:** The Office deposits and disburses cash for the Franklin County Regional Delivery System in the same bank account as utilized for its General and Special Revenue funds. Agency funds are assets held by the Office in a trustee capacity as an agent for other governments. Cash in these funds should be maintained separate from other funds of the Office.

**Response:** Management does not concur with the finding. Management was not aware of this requirement and neither was Gary Ey, Chief Financial Officer for ISBE. Upon receipt of a written statement showing that this is a requirement, management will establish a separate bank account for the Franklin County Regional Delivery System funds.

### Accepted or Implemented

#### **1. Reconcile bank account timely, and review reconciling items at the end of each month with appropriate follow-up.**

**Findings:** Accounting procedures for the bank account should include the review and follow-up of outstanding items. The auditors noted the following items:

- Seven checks totaling \$1,266.99 were outstanding longer than 180 days;
- An \$11,184.63 check written on 5/31/02 had not been deposited as of 9/25/02; and
- The bank statement for the After School Learning Centers, for the period ended June 28, 2002 had not been reconciled to the general ledger as of October 24, 2002.

**Response:** Bank accounts should be reconciled timely and reconciling items should be reviewed at the end of each month as is the Office's practice. The item referenced was a one-time instance as a result of the bookkeeper being hospitalized. No other employee was qualified to reconcile bank accounts. The Office has begun cross-training employees so that this issue will not occur in the future.

**2. Base expenditures on invoice amount. Post refunds and reimbursement of expenditures against the expenditure account rather than the revenue account. (Repeated-2001)**

**Findings:** Payments for goods and services should be based upon invoices indicating receipt of those goods and services. The Office received refunds from vendors due to overpayment or duplicate payment of invoices. The refunds were posted to the revenue account rather than against the expenditure account.

**Response:** Refunds and reimbursement of expenditures should be posted against the expenditure account rather than the revenue account. Management is currently revising our receipting system to make it clearer to the bookkeeper whether deposits are refunds or revenues.

**3. Increase amount of collateral pledged by the financial institution to cover all deposits. Work with the financial institution to monitor the amount of collateral held to ensure that sufficient collateral is being maintained.**

**Findings:** Deposits in excess of the federally insured limit must be covered by collateral held by the financial institutions' trust department in ROE #21's name. During the year the amount on deposit at a financial institution exceeded pledged collateral by \$411,000.

**Response:** Being under-collateralized was due to a one-time double State-aid payment. Prior to the audit, management had already taken corrective action regarding this matter. Management is working collectively with a new financial institution to monitor the amount of collateral pledged. Under the new financial institution, ROE #21 is collateralized for over \$3 million.

**4. Ensure that expenditure reports reflect actual expenditures incurred and supported by the general ledger. Reconcile expenditures claimed and revenues reported to the general ledger. (Repeated-2000)**

**Findings:** Various expenditure reports were not completed accurately based upon the general ledger; therefore, as much as \$8,100 may be due back to granting agencies from six different funds. Additionally, line items for contractual services, supplies and equipment were not reported based upon general ledger classifications from another fund. \$18,018 in outstanding obligations was not reported on the expenditure report of another fund.

**Response:** Expenditure reports will reflect the actual expenditures incurred and will be supported by the general ledger. Expenditures claimed and revenues reported will be reconciled to the general ledger.

Accepted or Implemented - continued

- 5. Continue to develop procedures to prepare a complete accounting of fixed assets, including reconciliation between the general ledger and the current year additions to the equipment list. Implement procedures that will allow for timely modifications to the fixed asset listing for purchases and dispositions, and exercise control over the assets by regular physical inventory observations. (Repeated-1999)**

**Findings:** Inadequate records are maintained to account for all general fixed assets, and all fixed assets are not inventoried yearly. No policy is set for which items should be charged to fixed assets and which to expense accounts. These findings resulted in a qualified opinion from the auditors on the Office's financial statements. At the exit conference on February 5, 2003, the Office provided an asset listing. However, due to the timing and nature of the information, the auditors were unable to audit the information.

**Response:** The Office will continue to develop procedures to prepare a complete accounting of fixed assets. This will include reconciliation between the general ledger and the current year additions to the equipment list. Procedures will be implemented that will allow for timely modifications to the fixed asset listing for purchases and dispositions. Control over the assets will be exercised by regular physical inventory observations. The Office is in the process of training staff on new inventory software.

- 6. Maintain contracts with employees that establish set annual salaries commensurate with the responsibilities assigned. Base employee compensation on contract rather than on availability of funding.**

**Findings:** Employee contracts and other salary documentation do not support the actual salary paid to the employee. The Office increases the employee's salary as additional funding becomes available. In many instances there was no supporting documentation for the increase in salary. There is no indication that the superintendent has approved an employee's initial contract.

The ECHO program director's signed contract indicates an annual salary of \$52,520. An additional contract, not signed by the Superintendent, for summer school services indicates a salary of \$3,600. Payroll records reflect that \$80,721 was disbursed to her in gross pay.

The Staff Development and School Improvement coordinator's contract was for \$42,891. Payroll records reflect that \$73,289 was disbursed to this employee in gross pay, including \$12,806 during the month of June 2002.

**Response:** The Office will set annual salaries commensurate with the responsibilities assigned.

**REVIEW: 4178**

- 8. Establish policies and procedures that require reconciliation of each original credit card receipt to the original statement and then attach all supporting receipts to that statement prior to payment. Attach any other supporting documentation such as invoices, internet print-outs of purchases, seminar documentation supporting travel needs, and airline ticket receipts.**

**Findings:** Receipts of credit card purchases are not consistently attached and reconciled to the credit card statements prior to payment. When supported by receipts, there is no indication that the meal related to a program. The amount of meal expenditures noted on eight credit card statements was \$3,859.55. Receipts for \$291.98 of meal expenditures were present; however, there was no indication that the receipts were reconciled to the credit card statement.

**Response:** The Office will establish policies and procedures that require reconciliation of each original credit card receipt to the original statement and then attach all supporting receipts to that statement prior to payment. In addition to credit card receipts, any other supporting documentation for the expenditures on the account will be attached to the original statements.

Each receipt for a meal expenditure submitted for reconciliation to the credit card statements or reimbursement will include documentation to show the purpose of the expenditures and to which program it applies.

- 9. Develop a Policy and Procedures Manual with an organizational chart that addresses all programs and contains fiscal and administrative policies and procedures.**

**Findings:** The Office does not maintain a Policies and Procedures Manual or organizational chart as required by the ROE Accounting Manual.

At the exit conference, the Office presented a policy and procedures manual for the ECHO program which was to be adapted for all programs. The manual contained only payroll procedures and did not contain any fiscal or administrative policies and procedures for either the ECHO program or the Office as a whole.

**Response:** Management will revise its current Policies and Procedures manual to include the Office's fiscal and administrative procedures and recommendations.

- 10. Implement procedures and policies to insure that balances are not carried on credit card accounts, and that all invoices and credit card payments are paid timely.**

**REVIEW: 4178**

**Accepted or Implemented - concluded**

**Findings:** The Office incurs finance charges from carrying balances on its credit card accounts, as well as late payment fees for lack of timely payment. During testing, balance carry-forwards, finance charges and late fees were noted on a Wal-Mart card, two Visa cards, and one vendor.

**Response:** Management has implemented new policies and procedures to insure that balances are not carried on charge accounts and all accounts are paid timely. The accounts referenced in the finding are no longer active charge accounts.

**11. Ensure that expenditures are paid based upon the supporting documentation and it reconciles to the amount approved for disbursement.**

**Findings:** Several expenditures did not have any supporting documentation or the documentation presented did not support the expenditure amount. In one case the documentation indicates an amount of \$1,033.79 and the actual disbursement amount is \$1,308.92. Another expenditure for contractual services of \$100 contained no supporting documentation.

**Response:** Management has established and follows procedures to ensure that expenditures are paid based upon supporting documentation.

**13. Reconcile the State Board of Education's FRIS report to the general ledger quarterly.**

**Findings:** Sufficient internal controls should be in place to accurately record, process, summarize and report financial data. In at least two instances, money received from ISBE for particular funds was recorded as revenue for other funds.

**Response:** Management has implemented procedures to reconcile ISBE's FRIS report to the general ledger on a quarterly basis.

**14. Utilize the ISBE accounting manual in reporting revenue. (Repeated-2000)**

**Findings:** The Office does not segregate its source of revenue by Local, State and Federal. Revenues are all reported as local. The Office is required by ISBE to maintain their accounting systems utilizing the ISBE accounting manual. The manual requires the Office to track funding according to Federal, State or Local source.

**Response:** Management will utilize the ISBE accounting manual in reporting its revenue.

**REVIEW: 4178**

**16. Support with documentation all costs paid to or transferred. Ensure that payments are for actual costs incurred, not budgeted grant costs. (Repeated-2000)**

**Findings:** Disbursements to the Office account are not supported by a cost allocation plan. In some instance, the amounts received are for reimbursement of costs not actually incurred by the Office. Grant programs reimbursing the Office for common costs should be based on actual expenses incurred not budgeted costs. The following expenditures were not supported by proper documentation of actual cost or appropriate schedule of allocated costs based on actual usage:

- Tech Prep State - \$6,500, \$3,704 and \$4,450;
- Tech Prep Federal - \$1,225 and \$750;
- Vocational Education - \$5,000;
- Gifted Education - \$1,000, \$254 and \$200;
- ROE/ISC Operations - \$5,500: and
- After School Learning Centers - \$11,000 and \$21,000.

**Response:** All costs paid to or transferred to the Office will be supported by documentation for the amount being charged. Payments to the Office will be for actual costs incurred, not budgeted grant costs.

**17. Continue to work with ISBE to review the necessary records and determine if an amount was actually paid to the Office. (Repeated-2001)**

**Findings:** The ISBE expenditure report for the Education to Careers shows a prepayment of \$5,147. However, after reviewing the auditor's confirmation for the last few years, this amount appears to have never been received by the Office. The Office has had to use local funds for program expenditures pending the receipt of these carryover funds.

**Response:** The Office will continue to work with ISBE to review the necessary records and determine if this amount was actually paid to the Office.