



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #4
BOONE AND WINNEBAGO COUNTIES

**FINANCIAL AUDIT (In accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2011
Release Date: May 31, 2012**

Summary of Findings:
Total this audit: 3
Total last audit: 3
Repeated from last audit: 3

SYNOPSIS

- The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #4 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.
- The Regional Office of Education #4 maintains its cash in common bank accounts and does not segregate individual fund and grant program cash and fund balances in its accounting system.

{Revenues and expenditures are summarized on the reverse page.}

REGIONAL OFFICE OF EDUCATION #4
BOONE AND WINNEBAGO COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$6,834,993	\$8,886,001
Local Sources	\$1,655,076	\$2,099,185
% of Total Revenues	24.21%	23.62%
State Sources	\$3,407,366	\$3,746,456
% of Total Revenues	49.85%	42.16%
Federal Sources	\$1,772,551	\$3,040,360
% of Total Revenues	25.93%	34.22%
TOTAL EXPENDITURES	\$7,204,163	\$8,542,826
Salaries and Benefits	\$4,159,887	\$4,051,613
% of Total Expenditures	57.74%	47.43%
Purchased Services	\$1,803,012	\$1,728,697
% of Total Expenditures	25.03%	20.24%
All Other Expenditures	\$1,241,264	\$2,762,516
% of Total Expenditures	17.23%	32.34%
TOTAL NET ASSETS	\$4,744,710 ¹	\$4,932,783
INVESTMENT IN CAPITAL ASSETS	\$29,323	\$83,733
¹ Includes \$181,097 restatement to the FY 11 beginning net asset balance due to a prior period adjustment to cash and the reclassification of two funds to agency funds. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Richard Fairgrievs Currently: Honorable Lori Fanello

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #4 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 and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting. While the Regional Office 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. For example, in their review of the Regional Office's accounting records, auditors noted the following:

- The Regional Office's financial information required numerous adjusting entries to present financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenues. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenues, no entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables and deferred revenues.

According to Regional Office officials, they did not have adequate funding to hire and/or train accounting personnel in order to comply with these requirements. (Finding 11-01, pages 12a-12b)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #4 should

implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review 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.

The Regional Office of Education #4 responded that it accepts the degree of risk associated with this condition. 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 of Education #4 noted that it will review, approve, and accept responsibility for the audit adjustments, financial statements and related notes provided by the auditors. The Regional Office of Education #4 also 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 prepare the necessary GAAP-based financial statements.

DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLE

The Regional Office of Education #4 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.

The Regional Office of Education #4 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45. The Illinois Administrative Code (74 Ill. Adm. Code 420.320 (c) (1) and (2)) requires that each Regional Office of Education maintain the accounting records necessary to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB), requires that employers recognize and disclose OPEB expense. Net OPEB obligations, if any, should be reported as liabilities (or assets if overfunded) in the financial statements. For financial reporting purposes, an actuarial valuation is required to measure and disclose the annual OPEB cost. In certain circumstances, an alternative measurement method can be applied instead of obtaining an actuarial valuation.

The Regional Office of Education #4 participates in a defined benefit OPEB plan that provides postemployment benefits other than pensions to its employees in exchange for employee services rendered. Under accrual accounting, the cost of

OPEB, and any related OPEB liability, should generally be recorded in the period when the exchange for employees' services occurs, rather than when the benefits are paid. Currently, the Regional Office OPEB plan is financed on a pay-as-you-go basis, and as such, the financial statements do not report the financial effects of OPEB until the promised benefits are paid. The Regional Office did not obtain an actuarial valuation of its postemployment benefits other than pension liability, or apply the alternative measurement method in order to be in compliance with GASB Statement No. 45.

In the absence of the actuarial valuation, or the application of the alternative measurement method, the auditors could not reasonably determine the amount by which this departure would affect the liabilities, fund balances, and expenditures of the Regional Office of Education #4 as of June 30, 2011. Failure to apply the accounting and reporting requirements of GASB Statement No. 45 could result in misstatements of the Regional Office of Education #4's financial statements. This could also result in inaccurate and incomplete disclosure of the OPEB plan description, the funding policy, and the annual OPEB and net OPEB obligation.

According to Regional Office management, noncompliance with GASB Statement No. 45 was due to budget restraints and the overall complexity of the pronouncement. (Finding 11-02, pages 12c-12d)

The auditors recommended that the Regional Office of Education #4 obtain or perform an actuarial valuation of its other postemployment benefit liability to be in compliance with GASB Statement No. 45 and include all disclosures required by the Statement in its financial statements.

The Boone-Winnebago Regional Office of Education #4 responded that to ascertain its obligation for postemployment benefit liability in compliance with GASB Statement No. 45, the Regional Office has contacted an actuary to obtain an actuarial valuation. The Regional Office of Education #4 noted that it will include the required disclosures in the fiscal year 2012 financial statements.

SEGREGATION OF CASH AND FUND BALANCES

The Regional Office of Education #4 maintains its cash in common bank accounts and does not segregate individual fund and grant program cash and fund balances in its accounting system.

The Regional Office of Education #4 maintains its cash in common bank accounts and does not segregate individual fund and grant program cash and fund balances in its accounting system. Generally accepted accounting principles, good fiscal management, and some grant agreements require cash and fund balances to be segregated and reported by fund and individual grant program.

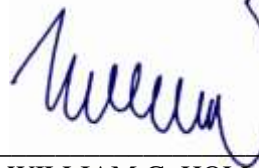
The Regional Office was unable to determine cash and fund balances by fund and grant program. According to the Regional Office, personnel incorrectly believed they had segregated or lacked the expertise to segregate cash and fund balances by programs and funds in their current accounting system. (Finding 11-03, page 12e)

Auditors recommended that the Regional Office of Education #4 should begin tracking cash and fund balances in its accounting system segregated by fund and grant program.

The Boone-Winnebago Regional Office of Education #4 responded that it is currently working with three entities to improve its reporting of cash and fund balances according to acceptable accounting principles. The Regional Office noted that these entities are: a local CPA firm, its accounting program representative, and a bookkeeper in another ROE using the same accounting program.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #4's financial statements as of June 30, 2011 are fairly stated in all material respects except for the effects of not recognizing a liability for postemployment benefits other than pensions in the Statement of Net Assets and the Statement of Activities. Disclosure of that information is required to conform with accounting principles generally accepted in the United States of America. In addition, except for the effects of such adjustments, if any, as might have been determined to be necessary had records concerning the balance of cash and fund balance in each major fund and the aggregate remaining fund information been adequate, such information is fairly stated in all material respects in relation to the financial statements as a whole.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

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