

REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #2

ALEXANDER, JOHNSON,
MASSAC, PULASKI, AND
UNION COUNTIES

FINANCIAL AUDIT
(In Accordance with the
Single Audit Act and OMB
Circular A-133)

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this audit	4
Total last audit	2
Repeated from last audit	2

Release Date:
May 11, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Regional Office of Education #2 had not established sufficient internal control procedures over receipts and disbursements.
- The Regional Office of Education #2 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #2 did not have an adequate system to track capital assets and related depreciation.
- The Regional Office of Education #2 did not properly handle interest earned on federal funds.

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

REGIONAL OFFICE OF EDUCATION #2
ALEXANDER, JOHNSON, MASSAC, PULASKI, AND UNION COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2009

	FY 2009	FY 2008
TOTAL REVENUES	\$3,248,817	\$3,857,006
Local Sources	\$216,841	\$251,207
% of Total Revenues	6.67%	6.51%
State Sources	\$1,532,307	\$1,690,427
% of Total Revenues	47.17%	43.83%
Federal Sources	\$1,499,669	\$1,915,372
% of Total Revenues	46.16%	49.66%
TOTAL EXPENDITURES	\$2,935,300	\$3,595,120
Salaries and Benefits	\$1,304,640	\$1,547,897
% of Total Expenditures	44.45%	43.06%
Purchased Services	\$706,521	\$699,524
% of Total Expenditures	24.07%	19.46%
All Other Expenditures	\$924,139	\$1,347,699
% of Total Expenditures	31.48%	37.49%
TOTAL NET ASSETS	\$2,003,354	\$1,689,837
INVESTMENT IN CAPITAL ASSETS	\$139,110	\$167,393
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Janet Ulrich Currently: Honorable Janet Ulrich

**FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROL
PROCEDURES**

The Regional Office of Education #2 had not established sufficient internal control procedures over receipts and disbursements.

The Regional Office of Education #2 had not established sufficient internal control procedures over receipts and disbursements. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to prevent errors and fraud. During testing of 115 disbursement transactions, auditors noted there were three instances where the Regional Office did not document approval for transfers between bank accounts and one instance where the Regional Office did not document approval for the repayment of an interfund loan.

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. (Finding 09-01, page 12a) **Part of this finding was first reported in 2007.**

The auditors recommended that the Regional Office implement internal control procedures to document that interbank transfers are formally approved and to document that interfund loans are formally approved.

The Regional Superintendent responded that she agreed with the finding. However, the Regional Office noted that as of yearend, multiple bank accounts had been consolidated into one account. As a result, the Regional Office will no longer have any interbank transfers. The Regional Office noted that if any additional accounts are opened in the future, it will implement an approval process for interbank transfers. The Regional Office also noted that it has implemented the above recommendation related to interfund loans. (For previous Regional Office response, see Digest Footnote #1.)

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #2 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #2 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office 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 #2 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there were 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.

Auditors, in their review of accounting records, noted that 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, not all entries were made by the ROE to reconcile their grant activity, such as posting grant receivables and deferred revenues. The Regional Office's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

Auditors also noted that the Regional Office did not have adequate controls over the maintenance of complete records of its Distributive Fund. More specifically, the Regional Office did not properly record \$11,465,250 of receipts and disbursements that passed through the

Distributive Fund checking account. As a result, the Distributive Fund's receipts and disbursements were understated by \$11,465,250.

According to Regional Office officials, they did not have adequate funding to hire a certified public accountant or other financial consultant professionals. In addition, the Regional Office did not reconcile the Distributive Fund's general ledgers to the Illinois State Board of Education disbursement reports. (Finding 09-02, pages 12b-12c) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #2 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. 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.

The auditors also recommended that the Regional Office reconcile the Illinois State Board of Education disbursement reports to the general ledger monthly to ensure that all Distributive Fund's receipts and disbursements have been properly recorded.

The Regional Office of Education #2 responded that in an attempt to correct this finding, they sent the ROE Controller to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP). In addition, the Regional Office noted that it had contracted with a certified public accountant to assist the Regional Office with its yearend closing entries. (For previous Regional Office response, see Digest Footnote #2.)

The Regional Office agreed with the finding that it should reconcile the Illinois State Board of Education disbursement reports to the general ledger monthly to ensure that all Distributive Fund's receipts and disbursements have been properly recorded.

LACK OF ADEQUATE CAPITAL ASSET SYSTEM

The Regional Office of Education #2 did not have an adequate system to track capital assets and related depreciation.

The Regional Office of Education #2 did not have an adequate system to track capital assets and related depreciation. The Regional Office of Education Accounting Manual requires each Regional Office to maintain detailed capital asset records for both accounting purposes and insurance purposes, for capital assets costing \$500 or more. Accounting principles generally accepted in the United States of America require capital assets to be stated at acquisition cost, net of depreciation, in the financial statements.

The Regional Office of Education Accounting Manual also states that the capital asset inventory records should include: the inventory control number (tag number); major asset class; function and activity; reference to the acquisition source document; acquisition date; vendor; a short description of the asset; unit charged with custody; location; fund and account from which purchased; method of acquisition; estimated useful life and method of depreciation; estimated salvage value; and date, method, and authorization of disposition.

The Regional Office of Education #2 currently uses a spreadsheet to track its capital assets, including capital asset additions and deletions. However, the schedule does not adequately track the Regional Office's capital asset activity. Capital asset additions are simply added to the spreadsheet, deletions are simply removed, and transfers are moved on the schedule. The spreadsheet does not allow for the reconciliation of the schedule with beginning balances to ending balances, once additions, deletions and transfers have been considered.

In addition, auditors detected numerous errors in the spreadsheet including purchase costs being inadvertently changed and capital assets being incorrectly deleted from the schedule. The spreadsheet, which required frequent updating by accounting personnel, is limited with respect to asset tracking and data security and has a high risk of error. (Finding 09-03, page 12d)

Auditors recommended that the Regional Office of Education #2 consider purchasing a capital asset tracking

system in order to adequately track its capital assets and related depreciation.

The Regional Superintendent responded that she agrees with the finding.

INTEREST EARNED ON FEDERAL GRANT FUNDS

The Regional Office of Education #2 did not properly handle interest earned on federal funds.

The Regional Office of Education #2 did not properly handle interest earned on federal funds. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 Code of Federal Regulations, Part 80.21) requires that interest earned on federal fund balances in excess of \$100 be remitted back to the federal granting agency promptly or at least quarterly. Two instances were identified where excess interest was not properly handled:

- A program audit was performed for 2008 by the grantor agency. That audit calculated interest on the federal fund balances totaling \$4,345 which the Regional Office had to remit back to the grantor agency.
- The Regional Office had interest income which exceeded the \$100 threshold by \$25 related to the 2009 program which was due back to the grantor agency. (Finding 09-04, page 12e)

Auditors recommended that the Regional Office should track interest earnings on federal funds so that any excess funds can be returned promptly. In addition, at the end of the grant period, any unobligated or unspent interest on all grants plus any federal interest in excess of \$100 should be returned to the grantor.

The Regional Superintendent responded that she agrees with the finding.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #2's financial statements as of June 30, 2009 are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:JB

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors were Kemper CPA Group, LLP.

DIGEST FOOTNOTES

#1: Inadequate Internal Control Procedures - Previous Regional Office Response

In its prior response in 2008, the Regional Office of Education #2 responded that it had implemented the recommendation to correct any weaknesses identified.

#2: Controls Over Financial Statement Preparation - Previous Regional Office Response

In its prior response in 2008, the Regional Office of Education #2 responded that it accepts the degree of risk associated with this condition because the added expense of seeking additional 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 in an attempt to correct this finding, they sent the ROE Controller to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP).