



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

William G. Holland, Auditor General

SUMMARY 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, 2011
Release Date: June 19, 2012**

Summary of Findings:
Total this audit: 5
Total last audit: 4
Repeated from last audit: 3

SYNOPSIS

- The Regional Office of Education #2 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #2 had cash account balances with one bank which exceeded the Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral by \$276,870.
- The Regional Office of Education #2 did not comply with requirements over documentation of employee time and effort.
- The Regional Office of Education #2 did not adequately monitor subrecipients of federal grants.
- The Regional Office of Education #2 did not properly handle interest earned on federal funds.

{Revenues and expenditures 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, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$2,594,504	\$3,448,384
Local Sources	\$166,376	\$236,265
% of Total Revenues	6.41%	6.85%
State Sources	\$1,334,306	\$1,524,061
% of Total Revenues	51.43%	44.20%
Federal Sources	\$1,093,822	\$1,688,058
% of Total Revenues	42.16%	48.95%
TOTAL EXPENDITURES		
Salaries and Benefits	\$2,244,142	\$3,015,001
% of Total Expenditures	55.09%	41.37%
Purchased Services	\$391,671	\$534,031
% of Total Expenditures	17.45%	17.71%
All Other Expenditures	\$616,115	\$1,233,696
% of Total Expenditures	27.45%	40.92%
TOTAL NET ASSETS		
	\$2,784,299	\$2,433,937
INVESTMENT IN CAPITAL ASSETS		
	\$135,955	\$135,976
Percentages may not add due to rounding.		

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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. 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 revenue. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenue, not all entries were made by the Regional Office to reconcile their grant activity, such as posting grant receivables and deferred revenue. The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles. This included the Regional Office not recording adjusting entries from the prior year audit.

According to Regional Office officials, although they have contracted with a CPA to help with GAAP adjusting entries and review of the financial statements, the CPA was not contracted in time to help record the fiscal year 2010 audit entries and was not contracted to prepare the financial statements including disclosures. (Finding 11-01, pages 11-12) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of 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 Regional Office of Education #2 responded that it agrees with the finding. The Regional Office noted that it has hired a CPA to review its books and prepare its financial statements, but due to limited funding for the office, a full-time CPA is not an option. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE MONITORING OF COLLATERAL ON DEPOSITS

The Regional Office of Education #2 had cash account balances with one bank which exceeded the Federal Deposit Insurance Corporation coverage and pledged collateral by \$276,870.

The Regional Office of Education #2 had cash account balances with one bank which exceeded the Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral by \$276,870. The Public Funds Deposit Act (30 ILCS 225/1) gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institution's trust departments in the Regional Office of Education #2's name. In addition, prudent business practice requires that all cash and investments held by financial institutions for the ROE be adequately covered by depository insurance or collateral.

According to the Regional Office's management, the required additional collateral for the deposits was deficient due to the ROE's insufficient monitoring of account balances requiring collateral. (Finding 11-02, page 13)

Auditors recommended that the Regional Office of Education #2 should strengthen controls ensuring that amounts of collateral pledged by the bank exceed the amounts not covered by FDIC insurance.

The Regional Office of Education #2 agreed with the finding, noting that it will strengthen controls ensuring that amounts pledged by the bank exceed the amounts not covered by FDIC insurance so that even when funding is unexpectedly released by the State, it will still be covered.

NONCOMPLIANCE WITH REQUIREMENTS OVER DOCUMENTATION OF EMPLOYEE TIME AND EFFORT

The Regional Office of Education #2 did not comply with requirements over documentation of employee time and effort.

The Regional Office of Education #2 is required to document employee time and effort to justify payroll and benefit expenses charged to federal grants. *OMB Circular A-133*, Department of Education Cross-Cutting Section, established compliance requirements for charging payroll and benefit costs to Title I-School Improvement and Accountability grants. These rules require employees that have 100% of their payroll and benefits charged to these grants to provide a semi-annual certification that they have been engaged in activities solely to support the program's objective. For employees that have a percentage of their payroll and benefits charged to these grants, the rules required that specific time and effort documentation is prepared to justify the portion of their time charged.

The Regional Office did not maintain adequate time and effort documentation for some of the payroll and benefits costs charged to federal grants. The Regional Office only maintained adequate documentation for program staff who worked solely on the Title I-School Improvement and Accountability grants and for the program coordinator who had 100% of their payroll and benefits charged to these grants. No time and effort records were maintained for administrative staff with a portion of their payroll and benefits charged to these grants. For administrative personnel, the amount of payroll and benefits costs charged to the grants was based on budgeted amounts. Auditors' questioned costs were \$98,082.

According to Regional Office officials, they were unaware of the time and effort log requirements for administrative personnel. (Finding 11-03, pages 14-15)

Auditors recommended that the Regional Office should develop and implement policies and procedures to require that time and effort logs be prepared when required by *OMB Circular A-133*.

The Regional Office of Education #2 agreed with the finding, noting that it will make sure that documentation is prepared by all employees paid by federal funds requiring this documentation, including salaried employees.

INADEQUATE MONITORING OF SUBRECIPIENTS

The Regional Office of Education #2 did not adequately monitor subrecipients of federal grants.

The Regional Office of Education #2 is required to establish various internal controls with respect to monitoring subrecipients of federal grants. Specifically, *OMB Circular A-133*, Part 3 requires controls over subrecipient monitoring, and procurement, suspension and debarment.

The Regional Office did not inform their federal award subrecipients of the CFDA title and number, award name and number, if the award was for research and development, and the name of the federal awarding agency, as required by *OMB Circular A-133*. The Regional Office did not request reports from or otherwise verify that its subrecipients complied with the audit requirements of *OMB Circular A-133*. The Regional Office did not verify that subrecipients were not suspended or debarred from receiving subawards of federal grants. According to Regional Office officials, they were unaware of these requirements. (Finding 11-04, Pages 16-18)

Auditors recommended that the Regional Office should develop and implement controls to ensure that subrecipients are provided with the applicable grant identification information as required by *OMB Circular A-133*. The Regional Office should develop and implement controls to identify subrecipients for which audits under *OMB Circular A-133* are required and should request that these entities provide audit reports to the Regional Office. The Regional Office should develop and implement controls to verify that subrecipients of federal awards are not on the Excluded Parties List System.

The Regional Office of Education #2 responded that it agrees with the finding. The Regional Office noted that while it was unaware of these requirements, and has not been provided with this information from the auditors in previous years, it has now developed and implemented controls to ensure that subrecipients are provided with the applicable grant identification information as required by *OMB Circular A-133*, developed and implemented controls to identify subrecipients for which audits under *OMB Circular A-133* are required and request that these entities provide audit reports to the Regional Office, and developed and implemented controls to verify that subrecipients of federal awards are not on the Excluded Parties List System.

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.

The Regional Office earned excess interest income from federal funds of \$186 during the year ended June 30, 2011. The excess interest was earned on funds received for the System of Support-Title I-School Improvement and Accountability program. Auditors questioned costs of \$186.

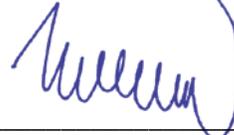
(Finding 11-05, pages 19-20) **This finding was first reported in 2009.**

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, unobligated or unspent interest on all grants plus any federal interest in excess of \$100 should be returned to the grantor.

The Regional Office of Education #2 agreed with the finding, noting that it will track interest earnings on federal funds so that any excess funds can be returned promptly. In addition, at the end of the grant period, unobligated or unspent interest on all grants plus any federal interest in excess of \$100 will be returned to the grantor. (For previous Regional Office response, see Digest Footnote #2.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #2's financial statements as of June 30, 2011 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: Doehring, Winders, & Co. LLP were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2010, 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 and who is willing to review and accept the responsibility for the financial statements.

#2: Interest Earned On Federal Grant Funds

In its prior response in 2010, the Regional Superintendent of the Regional Office of Education #2 responded that she agreed with the finding.