



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #8
CARROLL, JO DAVIESS, AND STEPHENSON COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2011

Release Date: June 7, 2012

Summary of Findings:

Total this audit:	2
Total last audit:	1
Repeated from last audit:	1

SYNOPSIS

- The Regional Office of Education #8 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 #8 did not have sufficient internal controls over the financial reporting process.

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

REGIONAL OFFICE OF EDUCATION #8
CARROLL, JO DAVIESS, AND STEPHENSON COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$5,222,773	\$4,915,074
Local Sources	\$1,281,411	\$1,367,761
% of Total Revenues	24.54%	27.83%
State Sources	\$3,658,068	\$3,280,369
% of Total Revenues	70.04%	66.74%
Federal Sources	\$283,294	\$266,944
% of Total Revenues	5.42%	5.43%
TOTAL EXPENDITURES	\$5,103,310	\$4,768,538
Salaries and Benefits	\$2,639,428	\$1,914,250
% of Total Expenditures	51.72%	40.14%
Purchased Services	\$945,690	\$1,956,635
% of Total Expenditures	18.53%	41.03%
All Other Expenditures	\$1,518,192	\$897,653
% of Total Expenditures	29.75%	18.82%
TOTAL NET ASSETS	\$950,724	\$831,261
INVESTMENT IN CAPITAL ASSETS	\$40,045	\$56,610
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT

During Audit Period: Honorable Marie Stiefel (7/1/10 to 6/15/11)
Honorable Aaron Mercier (6/16/11 to 6/30/11)
Currently: Honorable Aaron Mercier

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**DEPARTURE FROM GENERALLY ACCEPTED
ACCOUNTING PRINCIPLE**

The Regional Office of Education #8 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 #8 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 #8 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 pensions 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 #8 as of June 30, 2011.

According to Regional Office management, noncompliance with GASB No. 45 was due to budget restraints and the

overall complexity of the pronouncement. (Finding 11-1, pages 9a-9b)

The auditors recommended that the Regional Office of Education #8 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 Regional Office of Education #8 responded that it understands the nature of this finding and has contracted with a firm to provide the actuarial valuation to come into compliance.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #8 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #8 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 financial statements to ensure they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #8 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting for disbursements and receipts. 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 and correct financial statement misstatements and disclosure omissions in a timely manner. Auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, deferred revenue, and interfund loans.
- Several adjustments were required to present financial statements in accordance with generally accepted accounting principles.

According to Regional Office officials, they did not have adequate funding to hire and /or train their accounting personnel in order to comply with these requirements.

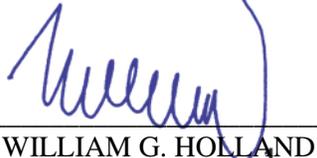
(Finding 11-2, pages 9c-9d)

Auditors recommended that as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #8 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including note 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 #8 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare and/or review financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office also noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. If additional resources are made available through the State of Illinois, the Regional Office will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #8'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.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Wipfli LLP were our special assistant auditors.