



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, 2012

Release Date: June 19, 2013

Summary of Findings:

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

SYNOPSIS

- The Regional Office of Education #8 did not have adequate internal control procedures.
- 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, 2012

| | FY 2012 | FY 2011 |
|------------------------------------------|----------------|----------------|
| TOTAL REVENUES | \$4,150,860 | \$5,222,773 |
| Local Sources | \$1,172,884 | \$1,281,411 |
| % of Total Revenues | 28.26% | 24.54% |
| State Sources | \$2,793,598 | \$3,658,068 |
| % of Total Revenues | 67.30% | 70.04% |
| Federal Sources | \$184,378 | \$283,294 |
| % of Total Revenues | 4.44% | 5.42% |
| TOTAL EXPENDITURES | \$3,955,154 | \$5,103,310 |
| Salaries and Benefits | \$2,414,079 | \$2,639,428 |
| % of Total Expenditures | 61.04% | 51.72% |
| Purchased Services | \$792,068 | \$945,690 |
| % of Total Expenditures | 20.03% | 18.53% |
| All Other Expenditures | \$749,007 | \$1,518,192 |
| % of Total Expenditures | 18.94% | 29.75% |
| TOTAL NET ASSETS | \$1,146,430 | \$950,724 |
| INVESTMENT IN CAPITAL ASSETS | \$41,486 | \$40,045 |
| Percentages may not add due to rounding. | | |

REGIONAL SUPERINTENDENT

During Audit Period: Honorable Aaron Mercier
Currently: Honorable Aaron Mercier

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #8 did not have adequate internal control procedures.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud. Auditors noted the following weaknesses in the Regional Office's internal control system for which there were no mitigating controls:

1. The activity for the Medical Reimbursement Fund was not recorded in the Regional Office's general ledger.
2. Adjusting journal entries were not presented to management for approval before entry into the general ledger.
3. The signature stamp was used and controlled by the same personnel who wrote checks and reconciled the bank statement.

The Regional Office of Education #8 had not established or documented sufficient internal control procedures. (Finding 12-1, pages 9a-9b)

Auditors recommended that the Regional Office of Education #8 should do the following:

1. All activities of the Regional Office should be included in the Regional Office's accounting system to ensure a complete accounting of the Regional Office's operations.
2. Management should review and document approvals of all adjusting journal entries before the entries are entered into the accounting software.
3. The signature stamp should be used and controlled by someone independent of check writing.

The Regional Office of Education #8 responded that it understands the nature of the conditions that indicate a lack of internal control procedures. In response, the Regional Office of Education will initiate a movement of the Medical Reimbursement Fund into the General Ledger; all adjusting journal entries will be presented to the Regional Superintendent monthly for approval before being entered into the general ledger; and the signature stamp of the Regional Superintendent will be put in the control of the Assistant Regional Superintendent to be used in the event that the Regional Superintendent is not available.

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 its 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 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 12-2, pages 9c-9d)

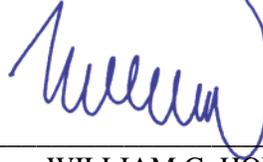
Auditors recommended that as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #8 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including note disclosures, are 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, 2012 are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Wipfli LLP were our special assistant auditors.