



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #9
CHAMPAIGN AND FORD COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2011
Release Date: April 17, 2012**

Summary of Findings:
Total this audit: 2
Total last audit: 2
Repeated from last audit: 1

SYNOPSIS

- The Regional Office of Education #9 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #9 did not apply appropriate accounting principles for certain lease transactions and capital asset acquisitions.

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

REGIONAL OFFICE OF EDUCATION #9
CHAMPAIGN AND FORD 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 | \$6,619,450 | \$7,927,503 |
| Local Sources | \$2,816,821 | \$2,343,418 |
| % of Total Revenues | 42.55% | 29.56% |
| State Sources | \$2,675,388 | \$4,556,421 |
| % of Total Revenues | 40.42% | 57.48% |
| Federal Sources | \$1,127,241 | \$1,027,664 |
| % of Total Revenues | 17.03% | 12.96% |
| TOTAL EXPENDITURES | \$6,150,526 | \$7,729,036 |
| Salaries and Benefits | \$3,428,025 | \$3,936,661 |
| % of Total Expenditures | 55.74% | 50.93% |
| Purchased Services | \$1,781,427 | \$2,199,176 |
| % of Total Expenditures | 28.96% | 28.45% |
| All Other Expenditures | \$941,074 | \$1,593,199 |
| % of Total Expenditures | 15.30% | 20.61% |
| TOTAL NET ASSETS | \$3,041,937 | \$2,573,013 |
| INVESTMENT IN CAPITAL ASSETS | \$171,973 ¹ | \$190,965 ¹ |
| ¹ Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|--|
| During Audit Period: Honorable Jane Quinlan Currently: Honorable Jane Quinlan |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #9 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #9 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). ROE #9'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 they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #9 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains controls over the processing of most accounting transactions and prepares the governmental fund financial statements.

In FY 2011, the Regional Office was able to prepare the individual funds financial statements as well as the notes to the financial statements. However, the government-wide financial statements which include the Statement of Net Assets, Statement of Activities, Governmental Funds Balance Sheet, Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, and the required reconciliation of government-wide and fund financial statements were not prepared.

According to ROE #9 management, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with GASB requirements. (Finding 11-1, pages 12-13) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of its financial statements, the Regional Office of Education #9 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of the applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the ROE #9's activities and operations.

The Regional Office of Education #9 responded that it strives to maintain a system of controls over the preparation of financial statements in accordance with generally accepted

accounting principles (GAAP). The Regional Office noted that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The ROE noted that it has worked to alleviate this finding by consulting about accounting practices and preparation of GAAP-based financial statements with other ROE bookkeepers who have not received the finding and making changes to its procedures based on recommendations. The ROE #9 also noted that it prepared the individual funds financial statements as well as the notes to the financial statements for the first time in 2011. The ROE #9 noted that as part of on-going efforts, it will continue to strive to improve controls over financial statement preparation. Beginning in FY 2012, it will attempt to prepare the required reconciliation of government-wide and fund financial statements. (For previous Regional Office response, see Digest Footnote #1.)

FAILURE TO APPLY APPROPRIATE ACCOUNTING PRINCIPLES

The Regional Office of Education #9 did not apply appropriate accounting principles for certain lease transactions and capital asset acquisitions.

Generally accepted accounting principles (GAAP) require that a lease be capitalized if any one of following four criteria is a characteristic of the lease transaction: (1) the lease transfers ownership of the property to the lessee by the end of the lease term, (2) the lease contains bargain purchase options, (3) the lease term is equal to 75% or more of the estimated economic life of the leased property, or (4) the present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property. Capital leases are treated as an acquisition of assets and the incurrence of obligations by the lessee.

The Champaign/Ford Counties Regional Office of Education #9 did not properly record certain lease transactions and capital asset acquisitions, and as a result, did not properly apply the appropriate generally accepted accounting principles. Payments on capital leases were accounted for as operating leases and recorded as purchased services. The leases met two of the criteria requiring them to be capitalized: the lease contained bargain purchase options, and the lease terms of the equipment were more than 75% of the estimated economic lives of the equipment. As of June 30, 2011, the total net book value of the leased equipment and the present value of the related lease payable were \$19,302 and \$19,660, respectively. Auditors proposed adjusting entries to record the lease transactions in accordance with GAAP.

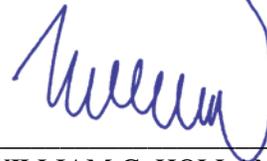
According to ROE #9 management, they generally do not keep the equipment items through the end of the lease term and, therefore, considered the recording of the lease transactions as operating expenses proper. (Finding 11-2, pages 14-15)

Auditors recommended that the Regional Office establish procedures to ensure lease transactions and capital asset acquisitions are properly accounted for and reported in accordance with generally accepted accounting principles. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP.

The Regional Office of Education #9 responded that it recognizes that certain lease transactions were not properly recorded as capital asset acquisitions. The Regional Office noted that it will make adjusting entries to record the lease transactions in accordance with GAAP.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #9's financial statements as of June 30, 2011 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: E.C. Ortiz & Co., LLP, were our special assistant auditors.

DIGEST FOOTNOTE

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

In its prior response in 2010, the Regional Office of Education #9 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The ROE noted that it has worked to alleviate this finding by consulting about accounting practices and preparation of GAAP-based financial statements with other ROE bookkeepers who have not received the finding and making changes to its procedures based on recommendations. The ROE #9 noted that as part of on-going efforts, it will continue to strive to improve controls over financial statement preparation. The ROE noted that beginning in FY 2011, a worksheet will be used to facilitate the preparation of financial statements that would meet the GASB requirements.