



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**REGIONAL OFFICE OF EDUCATION #19**  
**DUPAGE COUNTY**

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

**Summary of Findings:**  
**Total this audit: 6**  
**Total last audit: 1**  
**Repeated from last audit: 0**

**SYNOPSIS**

The Regional Office of Education #19:

- did not have sufficient internal controls over the financial reporting process;
- did not have adequate internal control procedures;
- had expenditure reports that did not agree to general ledger;
- did not have adequate documentation of payroll expenditures;
- did not have adequate controls over property and equipment; and
- did not have proper application of matching principle.

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

**REGIONAL OFFICE OF EDUCATION #19**  
**DUPAGE COUNTY**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act and OMB Circular A-133)**  
**For The Year Ended June 30, 2011**

	<b>FY 2011</b>	<b>FY 2010</b>
<b>TOTAL REVENUES</b>	\$10,440,272	\$9,582,982
Local Sources	\$2,038,159	\$2,851,216
% of Total Revenues	19.52%	29.75%
State Sources	\$6,970,330	\$5,117,401
% of Total Revenues	66.76%	53.40%
Federal Sources	\$1,431,783	\$1,614,365
% of Total Revenues	13.71%	16.85%
<b>TOTAL EXPENDITURES</b>	\$9,878,422	\$9,416,406
Salaries and Benefits	\$2,674,812	\$3,369,942
% of Total Expenditures	27.08%	35.79%
Purchased Services	\$2,560,886	\$2,218,618
% of Total Expenditures	25.92%	23.56%
All Other Expenditures	\$4,642,724	\$3,827,846
% of Total Expenditures	47.00%	40.65%
<b>TOTAL NET ASSETS</b>	\$3,693,720 <sup>2</sup>	\$3,152,422
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$354,635 <sup>1</sup>	\$410,155
<sup>1</sup> Capital asset amounts are not net of related debt which associated with a capital lease. <sup>2</sup> Includes a (\$20,552) restatement to the FY2011 beginning net asset balance due to fund reclassifications. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Darlene Ruscitti Currently: Honorable Darlene Ruscitti

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT  
PREPARATION**

**The Regional Office of Education #19 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education # 19 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 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting during the fiscal year and posts year end accrual entries for audit purposes. The Regional Office did not have 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. For example, review of the Regional Office's accounting records noted the following:

- The Regional Office did not maintain adequate internal controls over the processing of all financial transactions and numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not appropriately account for transfers between funds and numerous adjustments were required to net transfer amounts from revenue and expense accounts.
- The Regional Office did not have a reporting mechanism to identify the specific expenditures that should be applied to each grant year when program grants have overlapping grant terms and are accounted for in the same trial balance.
- The Regional Office was unable to reconcile capital asset inventory listings with amounts reported in financial statements.

The Regional Office's accounting personnel have not obtained necessary training to become proficient in the preparation and review of GAAP based financial statements and to ensure inclusion of all disclosures as required by the Governmental Accounting Standards Board (GASB). (Finding 11-01, pages 16-17)

The auditors recommended that as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office 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 an individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office's activities and operations.

The Regional Office of Education #19 responded that it agrees with the finding. The Regional Office noted that it will continue the relationship with a private Certified Public Accountant to prepare (GAAP based) financial statements that will include all disclosures required by the Governmental Accounting Standards Board. The Project Managers will play a key role as they will be responsible along with the Finance Office in the review of their respective financial documents. The ROE stated that these reviews will be done every quarter. In addition, the Regional Office's accounting personnel will receive training in detecting misstatements and disclosure omissions in a timely manner.

## **INADEQUATE INTERNAL CONTROL PROCEDURES**

### **The Regional Office of Education #19 did not have adequate internal control procedures.**

The Regional Office of Education No. 19 is required to maintain a system of controls over receipts, disbursements, and reporting to prevent errors and fraud. The Regional Office has not established sufficient controls over its accounting functions. Auditors, in their review of the Regional Office's accounting records, noted the following:

- There is a lack of segregation of duties in the cash disbursements and accounting process. The fiscal staff has full, unrestricted access to the accounting software and also can affix the Regional Superintendent's electronic signature to checks.
- There is a lack of segregation of duties in the cash receipts and accounting process. The Accountant opens mail, has full, unrestricted access to the accounting software and is responsible for monitoring accounts receivable.

- The Regional Office did not adhere to their policy of requiring the Regional Superintendent's approval of purchases. In 11 of 63 (17%) instances, purchase orders were not completed or signed by the Regional Superintendent and/or were approved by the Accountant using a signature stamp of the Regional Superintendent.
- The Regional Office charged an expenditure to only one fund when the supporting documentation indicated that the expenditure applied to three separate funds.

According to Regional Office officials, employees were not aware of what duties should be segregated to have a more effective process. (Finding 11-02, pages 18-19)

The auditors recommended that the Regional Office should adequately segregate duties so that one individual is not involved in all aspects of the cash receipts and disbursement processes. Additionally, the Regional Office should implement a system of internal controls that ensures expenditures are properly approved before disbursements are made and posted to the accounting software correctly.

The Regional Office of Education #19 responded that it agrees with the finding. A thorough review will be completed to accomplish the maximum segregation of duties possible with the two full time and two part time members of the finance office. The Regional Office stated that a new policy will be written to insure that there will be three signatures on every purchase order. Included in this policy will be the authorized back-up's for the Regional Superintendent and the Director of Finance. The initiator of the purchase order should always sign the original. The ROE noted that the Finance Office and all employees who create purchase orders will be trained to record the proper fund to avoid corrections that lead to audit questions.

#### **EXPENDITURE REPORTS DID NOT AGREE TO GENERAL LEDGER**

**The Regional Office of Education #19 had expenditure reports that did not agree to general ledger.**

Expenditure reports and reimbursement requests for education programs submitted to the Illinois State Board of Education (ISBE) and the Will County Regional Office of Education #56 should agree with the expenditures reported on the Regional Office of Education #19's general ledger.

A comparison of expenditure reports to the Regional Office of Education #19's general ledger revealed instances where the totals on the final 2011 expenditure reports submitted to the Illinois State Board of Education did not agree with the Regional Office's general ledger. Additionally, a comparison

of reimbursement requests submitted to the Will County Regional Office of Education #56 also revealed instances where the amounts requested for reimbursement did not agree to the general ledger amounts. For example:

- The expenditure report submitted to ISBE for the Regional Safe Schools program reported total expenditures related to salaries of \$212,441 while the general ledger reported total salaries expenditures of \$199,555, a difference of \$12,886.
- The expenditure report submitted to ISBE for the Technology for Success program reported total expenditures related to purchased services of \$55,548. However, \$6,200 of costs charged as support services under purchased services had no documentation other than the program budget to support these costs. Further, the fiscal year 2010 grant period crossed over into fiscal year 2011. The Regional Office reported \$102,573 of total costs expended during the 2010 grant period including \$90,656 of expenditures recognized in fiscal year 2010, leaving the remaining \$11,917 to be recognized in fiscal year 2011. All expenditures in the general ledger for fiscal year 2011 appear to have been applied to the fiscal year 2011 grant leaving \$0 expenditures to be applied to the \$11,917 remaining from the 2010 grant.
- The expenditure report submitted to ISBE for the Gifted Education program reported total expenditures related to salaries of \$18,205 while the general ledger reported total salaries of \$0 for fiscal years 2009, 2010 and 2011 (duration of grant period), a difference of \$18,205.
- The expenditure report submitted to the Illinois Violence Prevention Authority for the Social/Emotional Learning program reported total grant expenditures of \$167,373 while the general ledger reported total expenditures of \$144,620 for fiscal years 2010 and 2011 (duration of grant period), a difference of \$22,753.
- The expenditure report submitted to ISBE for the ARRA-Title I-Grants to Local Educational Agencies program reported total expenditures of \$156,719 while the general ledger reported total expenditures of \$140,105. The Regional Office submitted a final expenditure report to ISBE that reported \$10,601 of costs charged as support services but had no documentation other than the program budget to support these costs. Further, the Regional Office did not report all expenditures under the appropriate ISBE

functional category (except for supplies and materials). Total unsupported costs were \$16,614.

- In 4 of 12 (33%) reimbursement requests submitted to the Will County Regional Office of Education #56 for the Title I-Grants to Local Educational Agencies, and Improving Teacher Quality State Grants, the request did not agree to general ledger detail in total and/or by category. As an example, in the April 2011 reimbursement request, expenditures were over reported in two separate categories. The Regional Office reported \$13,130 in reimbursement request for subs/stipends but the general ledger reported total expenditures for this category of \$7,177, a difference of \$5,953. Further, the Regional Office reported \$27,933 in reimbursement request for materials, books, and supplies to support training but the general ledger reported total expenditures for this category of \$19,933, a difference of \$8,000. Total unsupported costs were \$18,184.

According to Regional Office officials, the Regional Office personnel responsible for expenditure reports prepared the reports based on numbers that were not adjusted for year-end entries. (Finding 11-03, pages 20-23)

The auditors recommended that the Regional Office personnel responsible for preparing the expenditure reports should ensure all expenditure reports are supported by the appropriate adjusted general ledger maintained in the Regional Office's accounting software.

The Regional Office of Education #19 responded that it agrees with the finding. The Regional Office stated that the expenditure reports may not always agree with the general ledger. An example would be a program that is funded by a state grant and local funds. In Finding 11-01, the ROE talked about quarterly reviews with the Project Managers. The ROE noted that this is the time to correct items charged to the grant in error. The journal entry will be done promptly and adequately explained and identified to the proper year (Ex. FY 12) on the general ledger report. The Regional Office stated that a reconciliation will be prepared thoroughly documenting the difference between the expenditure report and the general ledger report.

#### **INADEQUATE DOCUMENTATION OF PAYROLL EXPENDITURES**

**The Regional Office of Education #19 did not have adequate documentation of payroll expenditures.**

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through

grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require the expenditures must be allocable, reasonable, and supported by adequate documentation.

Part 4 of the OMB Circular A-133 Compliance Supplement for the Department of Education prescribes that employee time and effort distribution records must be maintained to document the portion of time and effort dedicated to the single cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources.

During our review of 10 payroll transactions for 10 separate employees, auditors noted the following:

- In 2 of 10 (20%) payroll transactions were not approved by a responsible official of the governmental unit.
- In 4 of 10 (40%) payroll transactions were not adequately supported by personnel activity reports or equivalent documentation.
- In 1 of 63 (2%) expenditure transactions, the Regional Office allocated and charged costs related to administration support to the ARRA - Title I – Grants to Local Educational Agencies program solely based on budgets. No personnel activity reports were prepared or completed to support these costs nor does the Regional Office utilize a cost allocation plan.

The Regional Office did not have established policies and procedures regarding salaries and benefits that incorporates the requirements of Allowable Costs/Cost Principles of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* for compensation for personnel services. (Finding 11-04, pages 24-27)

The auditors recommended that the Regional Office should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* for compensation for personnel services. These policies and procedures should include requiring staff involved in multiple programs to submit personnel activity reports by program or a time and effort report by program. The Regional Office should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-

determined allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs.

The Regional Office of Education #19 responded that it agrees with the finding. The Regional Office stated that it is in the process of revising its time sheets to insure that the time spent is properly recorded against the program employees are working on and is approved by the respective project managers. A training session sponsored by the Finance Office will be held with all ROE employees and consultants to insure compliance with all of the requirements of OMB Circular A-87. The Regional Office noted that a Certification from employees of federal programs will be required every six months indicating they worked full time on these programs. A policy will be developed to create a cost allocation plan. The ROE stated that as indicated in Finding 11-01, a training session for the Finance Office will be held to determine if all of the changes above meet the requirements of OMB Circular A-87.

#### **INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT**

**The Regional Office of Education #19 did not have adequate controls over property and equipment.**

The Regional Office of Education (ROE) Accounting Manual requires each ROE to maintain detailed fixed asset records for both accounting purposes as well as insurance purposes, for fixed assets costing \$500 or more. Generally accepted accounting principles require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

The ROE Accounting Manual also states that the fixed 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 did not have adequate controls over property and equipment. The Regional Office maintains two inventory listings, one kept by Information Technology (IT) personnel and one kept by Fiscal personnel. The Regional Office has not performed a reconciliation between the two listings. The annual physical inventory is conducted from the IT inventory listing. The inventory listings provided by the Regional Office were inaccurate and incomplete. Auditors noted the following:

- Many items on both inventory listings did not include all information required by the ROE Accounting Manual and the Illinois State Board of Education's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*.
- There were many inconsistencies in both inventory listings and many items lacked sufficient detailed descriptions, information for identification and/or reconciliation of items between listings.
- 2 of 25 (8%) items selected for testing from the Fiscal Department inventory listing could not be located.
- 2 of 25 (8%) items selected for testing from the Fiscal Department inventory listing were found in locations inconsistent with the location noted on the inventory listing.
- 1 of 25 (4%) tagged items selected for testing was incorrectly described in the IT inventory listing.
- The Regional Office did not have a formal process in place to track dispositions of assets.

According to the Regional Office, fiscal employees were not aware of requirements of the ROE Accounting Manual and the Illinois State Board of Education's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*. (Finding 11-05, pages 28-30)

The auditors recommended the Regional Office should establish and implement detailed written policies and procedures for inventory that comply with the requirements of both the ROE Accounting Manual and the Illinois State Board of Education's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* to effectively and efficiently monitor property acquisitions, transfers and disposals, and provide for accurate reporting of fixed asset balances.

The Regional Office of Education #19 responded that it agrees with the finding. The Regional Office is currently reconciling the fixed assets inventory to reflect items over \$2,000 and include all information required by the ROE Accounting Manual and the Illinois State Board of Education's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*. In addition, the ROE's policies and procedures for inventory are being revised to insure full compliance and include the use of the accounts payable system for fixed assets which is used to compile the list of

purchases for future audits. The Regional Office stated that the procedure will include all of the items in the recommendation provided by the Auditor for Finding 11-05.

### **IMPROPER APPLICATION OF MATCHING PRINCIPLE**

**The Regional Office of Education #19 had improper application of matching principle.**

According to generally accepted accounting principles, revenues should be recognized when they are realized and realizable and are earned, no matter when cash is received. When applying the matching principle, expenses are incurred and offset against recognized revenues which were generated from those expenditures, regardless of when cash is paid out.

The Regional Office did not always properly apply the matching principle. It appears the Regional Office did not properly match grant revenues to grant expenses in the prior fiscal year resulting in revenue being recognized in the current year without having expenditures to support the revenues. However, as noted in finding 11-01, the Regional Office did not have a reporting mechanism to identify the specific expenditures that should be applied to each grant year when program grants had overlapping grant terms and were accounted for in the same trial balance. This makes the matching principle difficult to apply and calculation of any overstatement or understatement of revenue impossible to determine.

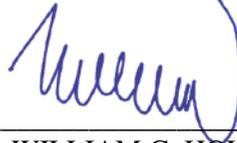
According to the Regional Office, fiscal staff lacks the training and understanding of generally accepted accounting principles regarding the application of the matching principle. (Finding 11-06, pages 31-32)

The auditors recommended that the Regional Office of Education #19 should implement procedures to track grant expenditures by each grant when grant terms overlap to ensure the matching principle is applied properly and the appropriate amount of grant revenue is recognized. The Regional Office should also ensure its fiscal staff is knowledgeable of generally accepted accounting principles.

The Regional Office of Education #19 responded that it agrees with the finding. The Regional Office noted that in finding 11-03, grant expenditures and revenue should be identified to the proper year (Ex. FY 12) thus making it possible to apply the GAAP Matching Principle. In addition, the ROE indicated in finding 11-01, accounting personnel will be trained in the applicable GAAP standards.

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #19's financial statements as of June 30, 2011 are fairly presented in all material respects except for the effects of such adjustments, if any, as might have been determined to be necessary had auditors been able to satisfy themselves about the existence and valuation of the capital assets.



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WILLIAM G. HOLLAND  
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Sikich LLP were our special assistant auditors.