



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #24
GRUNDY AND KENDALL COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2012
Release Date: April 25, 2013**

Summary of Findings:

| | |
|----------------------------------|----------|
| Total this audit: | 4 |
| Total last audit: | 2 |
| Repeated from last audit: | 2 |

SYNOPSIS

- The Regional Office of Education #24 did not have:
 - sufficient internal controls over the financial reporting process;
 - sufficient internal controls over the preparation of financial statements;
 - sufficient controls over property and equipment; and
 - adequate internal controls over compliance.

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

REGIONAL OFFICE OF EDUCATION #24
GRUNDY AND KENDALL COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2012

| | FY 2012 | FY 2011 |
|--|----------------|----------------|
| TOTAL REVENUES | \$4,170,848 | \$4,627,720 |
| Local Sources | \$331,462 | \$316,973 |
| % of Total Revenues | 7.95% | 6.85% |
| State Sources | \$3,192,735 | \$3,341,528 |
| % of Total Revenues | 76.55% | 72.21% |
| Federal Sources | \$646,651 | \$969,219 |
| % of Total Revenues | 15.50% | 20.94% |
| TOTAL EXPENDITURES | \$3,843,514 | \$4,165,143 |
| Salaries and Benefits | \$2,961,980 | \$2,862,728 |
| % of Total Expenditures | 77.06% | 68.73% |
| Purchased Services | \$479,334 | \$750,604 |
| % of Total Expenditures | 12.47% | 18.02% |
| All Other Expenditures | \$402,200 | \$551,811 |
| % of Total Expenditures | 10.46% | 13.25% |
| TOTAL NET ASSETS | \$1,818,520 | \$1,491,186 |
| INVESTMENT IN CAPITAL ASSETS | \$48,397 | \$46,969 |
| Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|--|
| During Audit Period: Honorable Paul Nordstrom (Retired effective February 28, 2013) |
| Currently: Honorable Christopher Mehochko (Effective March 6, 2013) |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Regional Office of Education #24 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #24 is required to maintain a system of controls over the financial reporting process to be able to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles (GAAP).

The Regional Office did not have sufficient internal controls over the financial reporting process. Auditors noted the following deficiencies in internal control:

- The Regional Office of Education maintains several of its special revenue and general fund accounts in a different accounting software program than what is used by Education Service Network, Not for Profit, Inc. (ESN, NFP, Inc.), a blended component unit of the Regional Office. In addition, the accounting software program used for the special revenue and general fund accounts at the Regional Office did not have the correct fiscal year end dates set in the software.
- The general fund maintains one checking account and there is no allocation of cash to each program/account.

According to Regional Office officials, the special revenue and general funds have been maintained in the separate software system because the bookkeeper was familiar with the program. The bookkeeper maintaining the special revenue and general fund accounts was not aware that the year-end dates were incorrect in the accounting software. Also, the bookkeeper did not correctly allocate the cash to the various programs. (Finding 12-1, pages 12a-12b) **This finding was first reported in 2010.**

The auditors recommended that the Regional Office of Education #24 should use one accounting system to record the transactions of both the Regional Office and its blended component unit, Education Service Network, Not for Profit, Inc. (ESN, NFP, Inc.) The system used by ESN, NFP, Inc. is better equipped to handle fund accounting. Additionally, the funds should be maintained on the fiscal year of the Regional Office. The general fund cash account should be allocated among the programs/accounts held within the general fund.

The Regional Office of Education #24 responded that as of July 1, 2012, it has discontinued the use of the outdated

accounting software at one location, and has switched over to using the recommended accounting software for all accounting. The Regional Office noted that the bookkeeper has been instructed to allocate the general fund cash account among the programs/accounts within the fund. (For previous Regional Office response, see Digest Footnote #1.)

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #24 did not have sufficient internal controls over the preparation of financial statements.

The Regional Office of Education #24 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. While the Regional Office maintains controls over the processing of some 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:

- Numerous adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.
- The Regional Office had incorrectly recorded prepaid expenses and accounts payable.

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 12c-12d) **This finding was first reported in 2010.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #24 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 #24 responded that the bookkeeper is quite experienced. The Regional Office noted that she greatly reduced the number of entries this year. The ROE stated that it did not have the funding to hire a CPA or train staff in order to keep up with all accounting standard updates. (For previous Regional Office response, see Digest Footnote #2.)

CONTROLS OVER PROPERTY AND EQUIPMENT

The Regional Office of Education #24 did not have sufficient controls over property and equipment.

The Regional Office of Education #24's policy is to maintain detailed fixed asset records for fixed assets costing \$5,000 or more and a useful life greater than one year. Generally accepted accounting principles (GAAP) require inventory and depreciation schedules be maintained for all fixed assets meeting the capitalization threshold for reporting.

During testing of property and equipment, auditors noted two assets included in equipment accounts that were not included in the fixed asset inventory listing or depreciation schedule. Regional Office personnel have not been adequately trained to understand the standards associated with fixed asset reporting and were not following established internal control policies regarding the tracking of fixed assets. (Finding 12-3, page 12e)

Auditors recommended that the Regional Office of Education #24 should implement a procedure that requires a review of equipment and supply accounts at year end to ensure that all fixed assets have been properly added to the fixed asset inventory listing and depreciation schedule.

The Regional Office of Education #24 responded that its staff member has been notified that she needs to add asset additions of value over \$5,000.

INADEQUATE INTERNAL CONTROLS OVER COMPLIANCE

The Regional Office of Education #24 did not have adequate internal controls over compliance.

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office must incorporate certain procedures into their operations in order to comply with the grant agreements with these entities. The Regional Office is required to record disbursements in accordance with generally accepted accounting principles (GAAP). Additionally, the Regional Office is required to have grant agreements in place with all subrecipients.

Auditors noted the following in the testing of a grant:

1. A disbursement for July health insurance in the amount of \$625 was fully expensed in June instead of being recorded as a prepaid expense.
2. A payment was made in July on a credit card bill that included transactions for June in the amount of \$2,528, but no accounts payable was recorded.
3. The Regional Office did not have documentation that the required federal award information was provided to the subrecipient. Further, amounts paid to the subrecipient were netted with income accounts instead of being recorded as an expense.

According to Regional Office of Education #24's officials. ROE staff did not correctly record prepaid expenses or accounts payable. Also, Regional Office personnel were not aware of all of the grant requirements for subrecipients, including the need for subrecipient agreement, subrecipient monitoring and how to properly record payments to subrecipients as this was the first year they had subrecipients for this grant. (Finding 12-4, pages 12f-12g)

Auditors recommended that the Regional Office of Education #24 should do the following:

1. The Regional Office should record any disbursement made for a subsequent period as a prepaid expense.
2. The Regional Office should implement a procedure that involves reviewing all invoices received after year end to determine if they relate to liabilities before year end. Any amounts paid after June 30th of a fiscal year that relate to activity prior to June 30th should be recorded as accounts payable.
3. Prior to sending federal funding to any subrecipient, the Regional Office should provide all required federal award information to the subrecipient, review all subrecipient monitoring compliance requirements and develop policies and procedures relating to subrecipient monitoring.

The Regional Office of Education #24 responded that the Regional Superintendent and bookkeeper discussed this at length. The Regional Office noted that the bookkeeper stated that she will make every effort to record disbursements and receivables in such a manner that they are correctly recorded to be in compliance. The ROE stated that item 3 will no longer be an issue, as it no longer has the subrecipient as of July 1, 2012.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #24's financial statements as of June 30, 2012 are fairly presented in all material respects.

A handwritten signature in blue ink, appearing to read 'William G. Holland', with a small '1' at the end of the signature.

WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Kemper CPA Group, LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1: Inadequate Internal Controls Over Financial Reporting - Previous Regional Office Response

The Regional Office noted that as recommended by the auditors, the ROE staff came to the conclusion that the ROE should convert all accounting records to the accounting software program being used by ESN, NFP, Inc. and then work within that system to meet all of the requests listed in these sections.

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

The Regional Office of Education #24 responded that the Regional Superintendent contacted a local accounting firm to handle this recommendation, but, in consultation with the auditing firm, was told that there would be no guarantee that this would not be a finding regardless. The Regional Office noted that it would likely be spending tax money for this service without any benefit. The ROE also noted that the decision was made to accept the finding.