

REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #25

HAMILTON AND JEFFERSON COUNTIES

FINANCIAL AUDIT (In Accordance with the Single Audit Act and OMB Circular A-133)

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this audit	3
Total last audit	2
Repeated from last audit	1

Release Date:
July 22, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Regional Office of Education #25 did not have sufficient internal controls over the financial reporting process.
- The Regional Superintendent did not review and approve all journal entries.
- The Regional Office of Education #25 had unallowable administrative charges and excess working capital reserves in its Internal Service Fund.

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

REGIONAL OFFICE OF EDUCATION #25
HAMILTON AND JEFFERSON COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2009

	FY 2009	FY 2008
TOTAL REVENUES	\$3,665,900	\$4,142,220
Local Sources	\$885,888	\$1,396,035
% of Total Revenues	24.17%	33.70%
State Sources	\$2,356,864	\$2,390,087
% of Total Revenues	64.29%	57.70%
Federal Sources	\$423,148	\$356,098
% of Total Revenues	11.54%	8.60%
TOTAL EXPENDITURES	\$3,790,776	\$4,060,762
Salaries and Benefits	\$2,254,711	\$2,552,132
% of Total Expenditures	59.48%	62.85%
Purchased Services	\$1,251,151	\$1,278,422
% of Total Expenditures	33.01%	31.48%
All Other Expenditures	\$284,914	\$230,208
% of Total Expenditures	7.52%	5.67%
TOTAL NET ASSETS	\$716,123 ¹	\$610,184
INVESTMENT IN CAPITAL ASSETS	\$826,553 ¹	\$32,865
¹ In prior years, the Hamilton-Jefferson Educational Services Cooperative (COOP Board) was reported as an agency fund. However, activities in this fund have changed over the years and in FY09 the fund is being reclassified as a blended component unit and included in the ROE's General Fund. The FY09 net assets and capital assets reflect the inclusion of the Coop Board in the Regional Office's General Fund. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Bryan Cross
Currently: Honorable Bryan Cross

FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #25 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #25 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 of Education #25 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. 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 and financial statements, noted that material adjustments were required to present financial statements in accordance with generally accepted accounting principles.

Regional Office officials stated that they were aware of their responsibility to properly prepare financial statements in accordance with GAAP and are taking steps to ensure that the controls over the financial reporting process continue to improve so the financial statements can be prepared on a timely basis. (Finding 09-01, pages 13-14) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #25 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 #25 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office accepts the degree of risk associated with this condition because the added expense of seeking additional accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region.

The Regional Office noted that in an attempt to correct this finding, they contracted with a Certified Public Accountant to assist the Regional Office with its yearend closing entries and who is willing to accept responsibility for the financial statements. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE REVIEW OF JOURNAL ENTRIES

The Regional Superintendent for Regional Office of Education #25 did not review and approve all journal entries. The Regional Office of Education #25 is responsible for establishing and maintaining an internal control system over journal entries to prevent errors or fraud. In addition, adequate controls over compliance with laws, regulations, and grant agreements require supervisory review of expenditures charged to grant programs.

Without appropriate review, unallowable costs could be charged to grant program expenditures or errors in calculating allocations could be made and not be detected

The Regional Superintendent for Regional Office of Education #25 did not review and approve all journal entries.

in a reasonable period of time. The Regional Superintendent did not realize the need for supervisory review of the general journal entries. (Finding 09-02, page 15)

The auditors recommended that the Regional Superintendent should review and approve all journal entries along with supporting information documenting the allocations before the entries are posted to the accounting records. The Regional Superintendent agreed with this recommendation.

UNALLOWABLE ADMINISTRATIVE CHARGES AND EXCESS WORKING CASH IN INTERNAL SERVICE FUND

The Regional Office of Education #25 had unallowable administrative charges and excess working capital reserves in its Internal Service Fund.

The Internal Service Fund is used to account for the administrative services which are provided for many funds of the Regional Office of Education #25. Revenue is generated through charges to other funds using interfund billings. Regulations set forth by *OMB Circular A-87* require charges by an internal service activity to provide for the establishment and maintenance of a reasonable level of working capital reserve. The full recovery of costs is allowable. A working capital reserve of up to 60 days cash expenses for normal operating purposes is considered reasonable. A working capital reserve exceeding 60 days may be maintained for exceptional cases; however, it requires approval of the cognizant federal agency.

In addition, to be allowable under federal awards, costs must meet general criteria under *Circular A-87*, including being necessary and reasonable for the performance and administration of federal awards.

Over the last two years, average expenses within the administrative Internal Service Fund were \$290,096. Cash on hand in the administrative Internal Service Fund at June 30, 2009 totaled \$136,986, representing approximately 172 days of average expenses.

The Regional Office of Education #25 had unallowable administrative charges and excess working capital reserves in its Internal Service Fund.

The Internal Service Fund showed a profit of \$90,157 for fiscal year 2009 due to billings in excess of actual costs. Several of the individual programs billed were grants that did not allow for charges in excess of actual costs.

During the year ended June 30, 2009, the individual programs paid approximately \$90,157 more than the actual, allowable administrative expenses. The amount the individual grant funds were overcharged was unknown.

The Regional Office of Education #25's indirect cost rate was too high. The Regional Office's indirect cost rate was calculated to include funding for computer upgrades for the business office and playground equipment. (Finding 09-03, pages 16-18)

The auditors recommended that the Regional Office of Education #25 should lower the indirect cost rate and reimburse the excess funds to the individual programs. Funds for future equipment purchases should be accumulated in the general fund or in a special revenue fund designated for that purpose. The Regional Office should not charge grants for this expenditure, unless it is specifically allowed by the grant.

The Regional Office of Education #25 responded that staff have reviewed the requirements of indirect cost allocations and have modified the Regional Office's method. The Regional Office noted that it will designate a general fund to accumulate funds for the purpose of purchasing equipment utilized by multiple programs.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #25's financial statements as of June 30, 2009 are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:KJM

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors were West & Company, LLC.

DIGEST FOOTNOTES

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

In its prior response in 2008, the Regional Office of Education #25 responded that 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 for the schools in the region.

The Regional Office noted that in an attempt to correct this finding, they sent the ROE Controller to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP).