



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #27
HENDERSON, MERCER AND WARREN COUNTIES

**FINANCIAL AUDIT (In accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2010
Release Date: May 5, 2011**

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

SYNOPSIS

- The Regional Office of Education #27 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #27 had not fully insured or collateralized its cash balances.

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

REGIONAL OFFICE OF EDUCATION #27
HENDERSON, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2010

	FY 2010	FY 2009
TOTAL REVENUES	\$2,575,508	\$2,263,244
Local Sources	\$537,510	\$526,148
% of Total Revenues	20.87%	23.25%
State Sources	\$1,704,258	\$1,583,793
% of Total Revenues	66.17%	69.98%
Federal Sources	\$333,740	\$153,303
% of Total Revenues	12.96%	6.77%
TOTAL EXPENDITURES	\$2,483,483	\$2,231,264
Salaries and Benefits	\$1,374,072	\$1,170,306
% of Total Expenditures	55.33%	52.45%
Purchased Services	434,947	\$397,720
% of Total Expenditures	17.51%	17.82%
All Other Expenditures	\$674,464	\$663,238
% of Total Expenditures	27.16%	29.72%
TOTAL NET ASSETS	\$197,010 ¹	\$403,547
INVESTMENT IN CAPITAL ASSETS	\$0	\$0
¹ Net assets were decreased by \$298,562 for the cumulative effect of a change in the ROE's revenue recognition policy. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Jodi L. Scott Currently: Honorable Jodi L. Scott

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #27 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #27 is required to maintain a system of controls over the preparation of financial statements, including disclosures, in accordance with generally accepted accounting principles (GAAP). The ROE 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 #27 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. For example, auditors, in their review of the ROE's accounting records, noted the following:

- Numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.
- The ROE did not maintain records of accounts receivable, accounts payable, or deferred revenue.

According to ROE officials, they did not have adequate funding to hire and/or train their accounting personnel in order to maintain a system of internal control over the preparation of financial statements in accordance with GAAP. (Finding 10-1, 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, including disclosures, the Regional Office of Education #27 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 #27 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 management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region. (For previous Regional Office response, see Digest Footnote #1.)

FAILURE TO FULLY INSURE AND COLLATERALIZE CASH BALANCES

The Regional Office of Education #27 had not fully insured or collateralized its cash balances.

The Regional Office of Education #27 had not fully insured or collateralized its cash balances. The Public Funds Deposit Act (30 ILCS 225/1) gives the Regional Office of Education #27 the authorization to request financial institutions to pledge collateral for deposits in excess of the federally insured limit. In addition, prudent business practice requires that all cash and investments held by financial institutions for the ROE be adequately covered by depository insurance or collateral.

As of June 30, 2010, the Regional Office had four cash accounts with bank balances totaling \$625,865 at one financial institution. The Federal Deposit Insurance Corporation (FDIC) covers up to a maximum of \$250,000. The financial institution pledged additional collateral with a market value at June 30, 2010 of \$287,584. The ROE did not have depository insurance or collateral for the remaining \$88,281. Failure to fully insure and collateralize the full amount of cash and investment balances may result in monetary losses to the ROE in the event of a bank failure.

According to ROE officials, the unsecured deposits were an oversight. The ROE had an informal agreement with the financial institution to pledge securities as collateral for deposits that exceed the FDIC insurance limits; however, the accounts the financial institution considered part of the ROE did not include the Progressive Alternative Secondary School (PASS) account. Therefore, the amount pledged was insufficient to secure all deposits at June 30, 2010. (Finding 10-2, page 14)

The auditors recommended that the Regional Office of Education #27 should monitor collateral requirements for all its bank accounts. The ROE should also establish controls for

confirming amounts pledged by the financial institution to ensure that all accounts are being secured.

The Regional Office of Education #27 responded that as of July 1, 2010, all of Progressive Alternative Secondary School's funds have been transferred into the Regional Office of Education #27's accounts. The ROE management noted that they will monitor the account balances so as to be sure to have sufficient amounts of pledged collateral for their deposits.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #27's financial statements as of June 30, 2010 are fairly presented in all material respects.

WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Sulaski & Webb CPAs were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2009, the Regional Office of Education #27 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 management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed throughout the year. Management will review year end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region.