



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 #28**  
**BUREAU/HENRY/STARK COUNTIES**

**FINANCIAL AUDIT (In Accordance with the Single  
Audit Act and OMB Circular A-133)  
For the Year Ended: June 30, 2011  
Release Date: September 6, 2012**

**Summary of Findings:**  
**Total this audit: 5**  
**Total last audit: 4**  
**Repeated from last audit: 4**

**SYNOPSIS**

- The Regional Office of Education #28 did not:
  - have sufficient internal controls over the financial reporting process;
  - segregate cash and fund balances;
  - properly prepare grant budgets and report grant expenditures; and
  - utilize an indirect cost allocation plan for allocating shared costs to grant programs.
- The Regional Office of Education #28 claimed the same grant expenditures from its pass-through grantor and also to another grant.

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

**REGIONAL OFFICE OF EDUCATION #28**  
**BUREAU/HENRY/STARK COUNTIES**

**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>	\$2,450,753	\$2,317,350
Local Sources	\$325,253	\$234,466
% of Total Revenues	13.27%	10.12%
State Sources	\$1,121,314	\$1,171,580
% of Total Revenues	45.75%	50.56%
Federal Sources	\$1,004,186	\$911,304
% of Total Revenues	40.97%	39.33%
<b>TOTAL EXPENDITURES</b>	\$2,310,316	\$2,255,883
Salaries and Benefits	\$846,933	\$918,739
% of Total Expenditures	36.66%	40.73%
Purchased Services	\$351,979	\$331,291
% of Total Expenditures	15.24%	14.69%
All Other Expenditures	\$1,111,404	\$1,005,853
% of Total Expenditures	48.11%	44.59%
<b>TOTAL NET ASSETS</b>	\$1,356,786	\$1,216,349
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$126,671	\$76,900
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Bruce Dennison Currently: Honorable Angela Zarvell

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #28 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 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 #28 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the accrual basis of accounting for disbursements and the cash basis of accounting for receipts. 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.

In their review of the Regional Office's accounting records, auditors noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable and deferred revenue.
- Several adjustments were required to present financial statements in accordance with generally accepted accounting principles.

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 11-1, page 12-12a) **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 #28 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including

note 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 #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted 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 to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. The Regional Office also noted that if additional resources are made available through the State of Illinois, the Regional Office will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy. (For previous Regional Office response, see Digest Footnote #1.)

#### **SEGREGATION OF CASH AND FUND BALANCES**

**The Regional Office of Education #28 did not segregate cash and fund balances.**

Generally accepted accounting principles, good fiscal management, and some grant agreements require cash and fund balances to be segregated and reported by fund and individual grant program. The Regional Office of Education #28 maintains its cash in comingled bank accounts and does not segregate individual fund and grant program cash and fund balances in their accounting system. According to Regional Office officials, they were unaware of the requirement.

The auditors recommended that the Regional Office of Education #28 should begin tracking cash and fund balances in their accounting system segregated by fund and grant program.

The Regional Office of Education #28 responded that it is able to determine cash and fund balances by fund and grant program. Subsequent reports will reflect this information.

#### **INACCURATE BUDGETS AND EXPENDITURE REPORTS**

The Regional Office of Education #28 did not properly prepare grant budgets and therefore, did not report grant expenditures in accordance with ISBE *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* or the *Illinois Program Accounting Manual* for the

**The Regional Office of Education #28 did not properly prepare grant budgets and report grant expenditures.**

Title IV – 21st Century Community Learning Centers. The Regional Office budgeted the majority of its funds to the Payments to Other Governments function and the Purchased Services object code. The budget narrative indicated these funds were to be transferred to various school districts and for salaries and benefits of its program staff and to pay transportation costs associated with the programs.

The auditors' review of the supporting documentation showed that the Regional Office spent Title IV – 21st Century Community Learning Centers Program funds for allowable grant related program costs. These program costs were reported as payments to other governmental units under Payment to Other Districts and Governmental Units (function 4000). However, the Regional Office charged object code 300 for purchased services when object code 600 for transfers should have been utilized.

According to Regional Office officials, it has been budgeting, classifying, and reporting expenditures in this manner for the past seven years. Given that ISBE had not questioned their expenditure reports, the Regional Office was not complying with the State Board requirements. (Finding 11-3, pages 12c-12e) **This finding was first reported in 2009.**

The auditors recommended that the Regional Office of Education #28 should begin budgeting and reporting expenditures of the Title IV – 21st Century Community Learning Center Program in accordance with the *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*. In addition, the Regional Office should contact ISBE and amend the grant budgets for its programs.

The Regional Office of Education #28 responded that it utilized account 4000-300. The Regional Office noted that it was the only function-object code open when the budget was created. The Regional Office noted that it will file a budget amendment for FY12 when 4000-600 becomes an available function-object code on the required ISBE budget form. (For previous Regional Office response, see Digest Footnote #2.)

#### **COST ALLOCATION PLAN**

**The Regional Office of Education #28 did not utilize an indirect cost allocation plan for allocating shared costs to grant programs.**

Grants, cost reimbursement contracts and other agreements with the Federal Government (collectively known as Federal Awards) should bear their fair share of costs recognized under principles established by the federal Office of Management and Budget (OMB). Costs are allocable to Federal Awards if the goods or services involved are chargeable or assignable to the award in accordance with the relative benefits received. Where an accumulation of indirect costs will ultimately result in charges to a Federal Award, a cost allocation plan is

required as described in Attachments C, D and E of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Furthermore, for grants administered by the Illinois State Board of Education (ISBE), an indirect cost rate (ICR) or a cost allocation plan (CAP) must be used when charging certain direct and indirect costs to grants.

The Regional Office did not elect to utilize the indirect cost (ICR) in its application and did not have an adequate written plan for allocating shared costs to its grant programs. The Regional Office used a spreadsheet to allocate salary costs to various grants. Based on prior discussions with the Assistant Superintendent, the allocations were based on prior time studies, but there was not an adequate written plan to support the allocations. Furthermore, the indirect costs relating to utilities, rent, and office personnel were charged to the grant based on a spreadsheet, but there was also not an adequate written plan to support the allocations. The amount of questioned costs could not be determined without preparing an adequate cost allocation plan.

According to Regional Office officials, it did not request the use of an indirect cost rate in its grant application and does not have a written, approved cost allocation plan in accordance with the Office of Management & Budget (OMB). (Finding 11-4, pages 12f-12g)

The auditors recommended that the Regional Office of Education #28 should prepare an adequate written plan for allocating shared costs and retain the required documentation to support the distribution of costs to its grant programs.

The Regional Office of Education #28 responded that it will utilize an indirect cost rate.

## **REIMBURSEMENT OF PROGRAM EXPENSES**

**The Regional Office of Education #28 charged the same grant expenditures from its pass-through grantor and also to another grant.**

Generally accepted accounting principles do not allow grant expenses to be submitted for reimbursement to two different grants. The Regional Office of Education #28 requested expense reimbursements from the Social Emotional Learning grant that were already reimbursed or claimed as expenses in other grants.

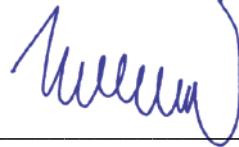
According to Regional Office officials, it claimed grant reimbursements from its pass-through grantor and also charged the same expenses to another grant in its accounting records. The Regional Office charged the same grant expenditures to two different grants. The Regional Office submitted program invoices to its pass-through granting agency for reimbursement but had already charged those same expenditures to other grants in its accounting records. (Finding 11-5, page 12h)

The auditors recommended that the Regional Office of Education #28 should implement internal control procedures to ensure that grant expenditures are only charged once to the appropriate grant program. The Regional Office should also amend/correct its reimbursement reports with this grantor.

The Regional Office of Education #28 responded that it has developed a plan to spend the balance of Social Emotional Learning funds within FY13.

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #28's financial statements as of June 30, 2011 are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

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AUDITORS ASSIGNED: Wipfli LLP were our special assistant auditors.

### **DIGEST FOOTNOTES**

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

In its prior response in 2011, the Regional Office of Education #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted 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 to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. The Regional Office also noted that if additional resources are made available through the State of Illinois, the Regional Office will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.

#### **#2: Inaccurate Budgets and Expenditure Reports-Previous Regional Office Response**

In its prior response in 2011, the Regional Office of Education #28 responded that it will report its grant expenditures by function and object code. The Regional Office noted that it contacted ISBE and made budget adjustments for FY 2011.