



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 #32**  
**IROQUOIS AND KANKAKEE COUNTIES**

**FINANCIAL AUDIT (In Accordance with the Single  
Audit Act and OMB Circular A-133)  
For the Year Ended: June 30, 2010  
Release Date: September 22, 2011**

**Summary of Findings:**  
**Total this audit: 4**  
**Total last audit: 0**  
**Repeated from last audit: 0**

**SYNOPSIS**

- The Regional Office of Education #32 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #32 did not have adequate internal control procedures.
- The Regional Office of Education #32 did not return interest earned on federal grant funds.
- The Regional Office of Education #32 did not have proper support for amounts claimed on expenditure reports.

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

**REGIONAL OFFICE OF EDUCATION #32**  
**IROQUOIS/KANKAKEE COUNTIES**

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

	<b>FY 2010</b>	<b>FY 2009</b>
<b>TOTAL REVENUES</b>	\$5,680,248	\$6,537,220
Local Sources	\$1,046,821	\$1,142,221
% of Total Revenues	18.43%	17.47%
State Sources	\$2,443,101	\$2,528,273
% of Total Revenues	43.01%	38.68%
Federal Sources	\$2,190,326	\$2,866,726
% of Total Revenues	38.56%	43.85%
<b>TOTAL EXPENDITURES</b>		
Salaries and Benefits	\$5,428,759	\$6,569,211
% of Total Expenditures	\$3,253,216	\$3,827,456
Purchased Services	59.93%	58.26%
All Other Expenditures	\$589,290	\$973,243
% of Total Expenditures	10.86%	14.82%
	\$1,586,253	\$1,768,512
	29.22%	26.92%
<b>TOTAL NET ASSETS</b>		
	\$2,535,128 <sup>1</sup>	\$2,118,286
<b>INVESTMENT IN CAPITAL ASSETS</b>		
	\$2,054	\$0
<sup>1</sup> Includes a restatement of the FY 2010 beginning net asset balance to record adjustments totaling \$165,353 to various ROE funds. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Kay Pangle
Currently: Honorable Kay Pangle

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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

**The Regional Office of Education #32 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #32 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 #32 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there were 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:

- The prior year general ledger and the current year balance sheet, including fund balance, had not been adjusted appropriately for prior year audit adjustments.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenue. While the Regional Office did maintain records to indicate the balances of some accounts payable, accounts receivable, and deferred revenue, the Regional Office's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

According to Regional Office officials, they did not have adequate funding to hire a certified public accountant or other financial professionals for their full-time staff. (Finding 10-01, pages 12a-12b)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #32 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. These 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's activities and operations.

The Regional Office of Education #32 responded that in an attempt to correct this finding, the Regional Office will send its fiscal staff to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP).

### **INADEQUATE INTERNAL CONTROL PROCEDURES**

**The Regional Office of Education #32 did not have adequate internal control procedures.**

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to prevent errors and fraud. During the audit, auditors noted the following weaknesses in the Regional Office of Education #32's internal control system:

- Disbursement checks are printed with an electronic signature and mailed by the bookkeeper without being reviewed by an individual independent of the check preparation and recording function.
- Lack of segregation of duties exists since the person who enters the State grant receipts into the general ledger also prepares the check for grant disbursement to the school districts without an independent review to verify the check agrees to the ISBE Financial Reimbursement Information System (FRIS).
- Three individuals had excessive access to the Payroll Accounting for Windows (PRWIN) system. One of these individuals was no longer employed by the Regional Office and the other two individuals had excessive access based on their job responsibilities.
- During testing of 14 credit card statements, one instance in which an item on a statement did not have a supporting invoice and another instance in which a late charge and interest was paid.
- Journal entries made by the bookkeepers are not consistently reviewed. In addition, if a review is

performed, the Regional Office's current procedures do not require formal documentation of the review.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriations of assets, in which the errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. (Finding 10-02, pages 12c-12d)

Auditors recommended the Regional Office implement specific internal control procedures to address the above identified weaknesses. The Regional Office of Education #32 responded that it agrees with the finding and will make changes to its internal control procedures to address the deficiencies identified above.

### **INTEREST EARNED ON FEDERAL GRANT FUNDS**

**The Regional Office of Education #32 did not return interest earned on federal grant funds.**

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 Code of Federal Regulations Part 80.21) requires that interest earned on federal fund balances in excess of \$100 be remitted back to the federal granting agency promptly or at least quarterly.

The Regional Office had interest income in excess of \$100 related to the following programs which was due back to the grantor agency:

- Title I-School Improvement and Accountability-System of Support -- \$25,520
- Title I-Reading First Part B SEA Funds -- \$2,115
- Title IV-21<sup>st</sup> Century Community Learning Centers -- \$5,229
- Title II-Teacher Quality-Leadership Grant -- \$6,514
- Title II-Teacher Quality-Leadership Grant-System of Support -- \$161
- McKinney Education for Homeless Children -- \$1,821

According to Regional Office officials, the failure to return interest earned on federal grant funds was due to oversight by Regional Office personnel. (Finding 10-03, pages 12e-12f)

Auditors recommended that the Regional Office should track interest earnings on federal funds so that any excess funds can be returned promptly. In addition, at the end of the grant period, unobligated or unspent interest on all grants plus any federal interest in excess of \$100 should be returned to the grantor.

The Regional Office of Education #32 responded that it agrees with the finding and will remit the appropriate amounts of interest to its grantor.

### **SUPPORT FOR AMOUNTS CLAIMED ON EXPENDITURE REPORTS**

**The Regional Office of Education #32 did not have proper support for amounts claimed on expenditure reports.**

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to prevent errors and fraud in its completion of quarterly expenditure reports required for grants administered by the Illinois State Board of Education.

Auditors noted that the Regional Office reimbursed a district, through its Title I-School Improvement and Accountability-System of Support program, from a purchase order rather than the invoice actually received. The invoice noted a TI-Nspire Navigator that had been back-ordered and was excluded from the billing which totaled \$2,355; however, the Regional Office reimbursed the district for this item since it paid the reimbursement based on the purchase order. In addition, the district purchased a second TI-Nspire Navigator when additional funds became available. The district used the invoice received for the back-ordered original purchase to request reimbursement for this second purchase, resulting in the purchase order number not matching the purchase order number on the invoice.

In addition, two reimbursements of \$4,382.50 for “business costs” and \$1,850.00 for “purchased services” did not have any supporting documentation.

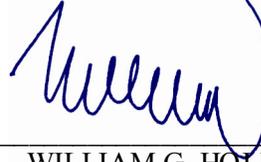
Lack of appropriate documentation for reimbursements could result in unintentional or intentional errors or misappropriations of assets, in which the errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. According to Regional Office officials, it was due to oversight by Regional Office personnel. (Finding 10-04, pages 12g)

Auditors recommended that the Regional Office should obtain proper documentation for all reimbursements including ensuring that purchase orders and invoices agree and that reimbursements are based only on valid vendor invoices and not purchase orders.

The Regional Office of Education #32 responded that it agrees with the finding.

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #32's financial statements as of June 30, 2010 are fairly presented in all material respects.

A handwritten signature in blue ink, appearing to read "William G. Holland", is written over a horizontal line.

WILLIAM G. HOLLAND  
Auditor General

WGH:JRB

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