

# REPORT DIGEST

REGIONAL OFFICE OF  
EDUCATION #46

BROWN/CASS/MORGAN/  
SCOTT COUNTIES

FINANCIAL AUDIT

For the Year Ended:  
June 30, 2009

## Summary of Findings:

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

Release Date:  
November 18, 2010



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

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## SYNOPSIS

- The Regional Office of Education #46 did not document its review and approval of building plans and specifications as required by the School Code.
- The Regional Office of Education #46 did not have adequate controls over receipts, disbursements, and purchases.
- The Regional Office of Education #46 did not have sufficient internal controls over the financial reporting process.

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

**REGIONAL OFFICE OF EDUCATION #46**  
**BROWN/CASS/MORGAN/SCOTT COUNTIES**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2009**

	<b>FY 2009</b>	<b>FY 2008</b>
<b>TOTAL REVENUES</b>	\$1,943,550	\$1,493,300
Local Sources	\$275,971	\$222,331
% of Total Revenues	14.20%	14.89%
State Sources	\$1,425,992	\$1,212,249
% of Total Revenues	73.37%	81.18%
Federal Sources	\$241,587	\$58,720
% of Total Revenues	12.43%	3.93%
<b>TOTAL EXPENDITURES</b>	\$1,972,768	\$1,659,045
Salaries and Benefits	\$1,616,468	\$1,344,926
% of Total Expenditures	81.94%	81.07%
Purchased Services	\$218,188	\$194,864
% of Total Expenditures	11.06%	11.75%
All Other Expenditures	\$138,112	\$119,255
% of Total Expenditures	7.00%	7.19%
<b>TOTAL NET ASSETS</b>	\$728,541	\$757,759
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$41,493	\$32,684
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Stephen Breese Currently: Honorable Stephen Breese

**FINDINGS, CONCLUSIONS AND  
RECOMMENDATIONS**

**CONTROLS OVER COMPLIANCE WITH LAWS  
AND REGULATIONS**

**The Regional Office of Education #46 did not document its review and approval of building plans and specifications as required by the School Code.**

The Regional Office of Education #46 did not document its review and approval of building plans and specifications as required by the School Code. The Illinois School Code (105 ILCS 5/3-14.20) requires the Regional Superintendent to inspect the building plans and specifications submitted by school boards for the heating, ventilating, lighting, water supply, and safety against fire of public school rooms and buildings, and to approve all those which comply substantially with the statutorily authorized school building codes. The Regional Superintendent is to approve or deny the plans and specifications within three months after the date they were submitted by the school board.

The Regional Office did not document this review and approval. According to the Regional Superintendent, his designee reviewed and gave a verbal approval for the building plans and specifications, but the review and approval was not documented to show that it occurred within the three month time frame outlined in the statute.

The Regional Superintendent stated that he was unaware of the requirements associated with the statute until July 2009. Prior to that time, an individual designated by the Regional Superintendent to be in charge of the Health Life Safety functions of the Office reviewed the plans and specifications proposed by the districts, but did not document the review and approval or complete the paperwork required by the statute. (Finding 09-1, pages 10-11)

Auditors recommended that the Regional Office of Education #46 should comply with the requirements of 105 ILCS 5/3-14.20 and inspect and approve or deny the building plans and specification within the three month time frame established in the statute.

The Regional Office of Education #46 responded that

it has been following the requirements of 105 ILCS 5/3-14.20 since July 2009. The ROE #46 noted that it is compliant with this requirement now.

## **INADEQUATE CONTROL PROCEDURES**

**The Regional Office of Education #46 did not have adequate controls over receipts, disbursements, and purchases.**

The Regional Office of Education #46 did not have adequate controls over receipts, disbursements, and purchases. The *Regional Office of Education (ROE) Accounting Manual* establishes that the Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts, disbursements, and purchases to prevent errors and fraud.

Auditors noted the following weaknesses in the Regional Office's internal control system:

- During detailed expenditure testing, in 6 out of 65 transactions, there was no approval on the check disbursement documentation by the Regional Superintendent or Assistant Regional Superintendent when an e-signature was used to sign the check. This process documents the verification that the amount the expenditure was approved for matches the amount on the check.
- There was no signature from the Regional Superintendent on any bank statement reconciliation for two of the Regional Office's bank accounts.
- In 3 out of 14 transactions tested, there were no initials on the bank statements indicating review by the Regional Superintendent.

These internal controls are important as mitigating controls, because the bookkeeping function is located in a different city than the Regional Office's primary office, making it more difficult for the Regional Superintendent to provide adequate oversight of the accounting function.

According to the Regional Office there were sporadic incidents when the Regional Superintendent's signature was not on one of the documents for authorizing payments. However, there was a signature on at least one of the five documents signed for transaction approval within the Office, so the Regional Superintendent was aware of what

transactions took place. (Finding 09-2, pages 12-14)

Auditors recommended that the Regional Office of Education #46's management should ensure that the Regional Office follows the established system of internal controls over receipts, disbursements, and purchases to prevent errors and fraud. The Regional Office should ensure that:

- The Regional Superintendent or Assistant Regional Superintendent approves, by initialing, the check disbursement documentation when an e-signature is used. This verifies the check was written for the approved amount.
- The Regional Superintendent provides an independent review of the Office's bank reconciliations and bank statements to maintain and document adequate oversight of the bookkeeping function.

The Regional Office of Education #46 responded that the Regional Superintendent does review all records and will continue to sign off on all of the different record sheets that have been created to make sure nothing is paid out that has not be viewed and authorized by the Regional Superintendent or the Assistant Regional Superintendent. The Regional Office noted that the system has proven to be effective to this point and that:

- Control deficiencies are mitigated by in-place compensating controls. Regional Superintendent pre-approves expenditures by signing all Purchase Orders, Invoices, and internal Grant Distribution forms.
- Bank reconciliations without Regional Superintendent signature are due to the bookkeeper having to re-reconcile bank accounts after audit adjustments were made. Bookkeeping staff failed to keep originally approved bank reconciliation reports that were signed by the Regional Superintendent.
- Bookkeeping staff and the Regional Superintendent will continue to make every effort to sign all bank statements.

## **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #46 did not have sufficient internal controls over the financial reporting process.**

The Brown, Cass, Morgan, and Scott Counties Regional Office of Education #46 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 #46 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting during the year and records accruals at year end. 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 Regional Office's accounting records noted the following:

- The Regional Office was unable to provide accurate trial balances and footnote disclosures to present financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, account payable, or deferred revenue. While the Regional Office did maintain and record many of the accounts receivable, accounts payable and deferred revenue transactions, not all transactions were captured and posted. Several adjusting journal entries needed to be made.

According to Regional Office officials, they misunderstood the extent of involvement necessary from

their outside consultants to correct this finding. The Regional Office hired two consultants to work with the Office during the year, one software and one C.P.A. While significant progress has been made with the Regional Office's accounting records, some additional improvements are needed. (Finding 09-3, pages 15-16) **This finding was first reported in 2007.**

Auditors recommended that as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #46 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 #46 responded that it will establish guidelines to more thoroughly review the books and the refinement of its close-out procedures before submitting them to the auditors. The Regional Office officials noted that while many improvements have already taken place, they understand this is an ongoing process and hope to reach the level of no finding by the end of next fiscal year. (For previous Regional Office response, see Digest Footnote #1.)

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #46's financial statements as of June 30, 2009 are fairly presented in all material respects.

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WILLIAM G. HOLLAND, Auditor General

WGH:KJM

## **AUDITORS ASSIGNED**

This audit was performed by the Office of the Auditor General's staff.

## **DIGEST FOOTNOTES**

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

In its prior response in 2008, the Regional Office of Education #46 responded that the interest accruals had been recorded in the system, but because this was earned on a 12 month CD that fell into two fiscal years, it was not broken out to the appropriate fiscal year. The classification of revenues for federal, State, or local was partially due to the Regional Office's role as a sub-contractor on some grants. Regional Office officials stated it was not clear to them what the source of funds were and that they are now aware of these situations and they are no longer an issue. ROE officials stated they will continue to work with outside support individuals to assist the bookkeeper in order to try and stay current with federal standards. While the ROE has had some difficulty with accounting practices, officials noted they have always used the funds they receive for the purposes they were intended.