



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #48
PEORIA COUNTY

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

Summary of Findings:
Total this audit: 4
Total last audit: 5
Repeated from last audit: 1

SYNOPSIS

- Salaried employees of the Regional Office of Education #48 working on more than one grant funded program did not record their actual time worked on a per program basis.
- The Regional Office of Education #48 did not have sufficient internal controls over the financial statement preparation process.
- The Regional Office of Education #48 used cash balances that were designated for specific grant programs to fund expenditures for purposes other than those for which the revenue source was designated.
- The Regional Office of Education #48 did not properly recognize and disclose expenses and related liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.

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

REGIONAL OFFICE OF EDUCATION #48
PEORIA COUNTY

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	\$9,761,516	\$7,435,356
Local Sources	\$2,015,018	\$1,171,164
% of Total Revenues	20.64%	15.75%
State Sources	\$5,680,045	\$3,310,021
% of Total Revenues	58.19%	44.52%
Federal Sources	\$2,066,453	\$2,954,171
% of Total Revenues	21.17%	39.73%
TOTAL EXPENDITURES	\$8,691,014	\$7,769,006
Salaries and Benefits	\$4,663,068	\$3,212,005
% of Total Expenditures	53.65%	41.34%
Purchased Services	\$2,757,459	\$2,057,678
% of Total Expenditures	31.73%	26.49%
All Other Expenditures	\$1,270,487	\$2,499,323
% of Total Expenditures	14.62%	32.17%
TOTAL NET ASSETS	\$2,096,440	\$1,025,938
INVESTMENT IN CAPITAL ASSETS	\$172,676	\$269,730
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Gerald Brookhart Currently: Honorable Gerald Brookhart

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**LACK OF ADEQUATE POLICIES AND PROCEDURES
OVER CERTAIN ADMINISTRATIVE FUNCTIONS**

Salaried employees of the Regional Office of Education #48 working on more than one grant funded program did not record their actual time worked on a per program basis.

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office must incorporate certain administrative polices and procedures into their operations in order to comply with the grant agreements with these entities. The Regional Office is required to account for each employee's time and effort by program in order to properly allocate salary.

Salaried employees working on more than one grant funded program do not record their actual time worked on a per program basis. During the audit period these salaries were allocated by program on an annual basis based on budgets without regard to actual time and effort.

In documenting internal control over payroll processes, auditors noted that salaried employees of the Regional Office working on multiple projects are receiving their compensation as an allocation from grant funding based on budgeted amounts. No time and effort reports are submitted.

The Regional Office did not have adequate administrative policies and procedures in place to demonstrate compliance with grant agreements and State statutes. The Regional Office did not properly allocate the Regional Office's salary expenditures. (Finding 10-1, pages 12 a-b)

The auditors recommended that the Regional Office of Education #48 should ensure that in future fiscal years actual time and effort reports are submitted by employees on a per program basis. Expenditure reports should accurately reflect the activity within a program.

The Peoria County Regional Office of Education #48 responded that as of September 2010, when this was brought to the attention of the Regional Office, all employees working on grant programs are required to keep and submit actual time and effort sheets detailing their work within each of those grant programs. Expenditure reports will accurately reflect the activity within each grant program.

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #48 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting

The Regional Office of Education #48 did not have sufficient internal controls over the financial statement preparation process.

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 #48 did not have sufficient internal controls over the financial statement preparation process. While the Regional Office maintains controls over the processing of some 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 that numerous adjusting entries were required 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 and/or train their accounting personnel in order to comply with these requirements. The Regional Office attempted to address this issue following the issuance of the audit report for fiscal year 2009; however, the Regional Office did not post all adjusting entries in its accounting records to comply with GAAP during the fiscal year 2010 audit. (Finding 10-2, pages 12 c-d) **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 #48 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 Peoria Regional Office of Education #48 responded that it is in the process of refining its plan to identify and correct the issues that resulted in the need for numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles. Further, the ROE noted that they are exploring options to strengthen their ability to review the financial statements to ensure that the financial statements, including disclosures, are complete and accurate. (For previous Regional Office response, see Digest Footnote #1.)

USE OF DESIGNATED GRANT BALANCES

The Regional Office of Education #48 used cash balances that were designated for specific grant programs to fund expenditures for purposes other than those for which the revenue source was designated.

The Regional Office runs several grant funded programs. Programs funded by State and federal grants must be tracked and maintained separately. The Regional Office of Education #48 used cash balances that were designated for specific grant programs to fund expenditures for purposes other than those for which the revenue source was designated.

The Regional Office of Education #48 pools program and local revenue into the same bank accounts. Cash that was granted to the Regional Office, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

Because the Regional Office is primarily funded on a reimbursement basis, the delay in funding receipt from the State of Illinois has caused programs which the Regional Office was already in the midst of operating to have severe cash deficits. To continue operating as the grant agreement stipulates, cash had to be used from other sources in order to fund expenditures that were to be reimbursed by the State. (Finding 10-3, page 12e)

The auditors recommended that the Regional Office of Education #48 should not use cash designated for specific grant purposes to cover deficit cash balances in programs for other than those for which the cash was granted.

The Regional Office of Education #48 responded that due to an unprecedented non-payment of more than \$1,000,000 in State grant funds for FY 2010 by the State of Illinois to the Peoria Regional Office of Education #48, and due to the fact that the Regional Office tried but was unable to borrow such funds from local banking institutions, the Regional Office was forced to use cash designated for specific grant purposes to cover deficit cash balances in programs other than those for which the cash was granted – i.e. for cash flow. The Regional Office noted that it was still owed almost \$900,000 by the State of Illinois for program expenditures made in FY 2010, but as of the beginning of the new fiscal year 2011, the Regional Office has eliminated all State programs that are not fiscally self-sustaining. The Regional Office noted that all cash funds are now, and will continue to be, expended only for those specific grant purposes for which they were intended.

DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLE

The Regional Office of Education #48 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.

The Regional Office of Education #48 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.

The Illinois Administrative Code (Ill. Adm. Code 420.320 (c) (1) and (2)) requires that each Regional Office of Education maintain the accounting records necessary to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Government Accounting Board Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires that employers recognize and disclose this Other Postemployment Benefits (OPEB) expense. Net OPEB obligations, if any, should be reported as liabilities (or assets) in the financial statements. For financial reporting purposes, an actuarial valuation is required to measure and disclose the annual OPEB cost. In certain circumstances, an alternative measurement method can be applied instead of obtaining an actuarial valuation.

The Peoria County Regional Office of Education #48 participates in a defined benefit OPEB plan that provides postemployment benefits other than pensions to its employees in exchange for employee services rendered. Under accrual accounting, the cost of OPEB, and any related OPEB liability, should generally be recorded in the period when the exchange for employees' services occurs, rather than when the benefits are paid. During the audit period, the Peoria County Regional Office of Education #48 had 14 active employees and contributions to the OPEB plan totaled \$6,615. The Regional Office did not obtain an actuarial valuation of its postemployment benefits other than pension liability, or apply the alternative measurement method in order to be in compliance with GASB Statement No. 45.

In the absence of the actuarial valuation, or the alternative measurement method, the auditors could not reasonably determine the amount by which this departure would affect the liabilities, fund balances, and expenditures of the Regional Office of Education #48 as of June 30, 2010.

Failure to apply the accounting and reporting requirements of GASB Statement No. 45 could result in misstatements of the Peoria County Regional Office of Education #48's financial statements. This could also result in inaccurate and incomplete disclosure of the OPEB plan description, the funding policy, and the annual OPEB and net OPEB obligation. (Finding 10-4, pages 12 f-g)

According to Regional Office #48 management, noncompliance with GASB No. 45 was due to budget restraints and the overall complexity of the pronouncement.

The auditors recommended that the Regional Office of Education #48 obtain or perform an actuarial valuation of its other postemployment benefit liability to be in compliance

with GASB Statement No. 45 and include all disclosures required by the Statement in its financial statements.

The Regional Office of Education #48 responded that it will consider obtaining an actuarial valuation or pursuing an appropriate alternate measurement method of its other postemployment benefit liability to be in compliance with GASB No. 45 and include all disclosures required by the Statement in its financial statements. Due to current uncertainties in funding of the Regional Office by the State of Illinois, however, this effort will be prioritized along with several other vital management duties and requirements for FY 2011.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #48's financial statements as of June 30, 2010 are fairly stated in all material respects except for the effects of not recognizing a liability for postemployment benefits other than pensions in the Statement of Net Assets and the Statement of Activities. Disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

WILLIAM G. HOLLAND
Auditor General

WGH:KJM

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

DIGEST FOOTNOTES

#1: CONTROLS OVER FINANCIAL STATEMENT PREPARATION —Previous Regional Office Response

In its prior response in 2009, the Peoria Regional Office of Education #48 responded that it is in the process of developing a plan to identify and correct the issues that resulted in the need for numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles. Further, the ROE noted that they are exploring options to strengthen their ability to review the financial statements to ensure that the financial statements, including disclosures, are complete and accurate.