



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, 2011
Release Date: January 26, 2012**

Summary of Findings:
Total this audit: 3
Total last audit: 4
Repeated from last audit: 2

SYNOPSIS

- The Regional Office of Education #48 did not have adequate internal controls over compliance with grant agreements.
- The Regional Office of Education #48 did not have sufficient internal controls over the financial reporting process.
- 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.

{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, 2011

| | FY 2011 | FY 2010 |
|--|--------------------------|----------------|
| TOTAL REVENUES | \$8,281,981 | \$9,761,516 |
| Local Sources | \$4,564,003 | \$2,015,018 |
| % of Total Revenues | 55.11% | 20.64% |
| State Sources | \$1,456,889 | \$5,680,045 |
| % of Total Revenues | 17.59% | 58.19% |
| Federal Sources | \$2,261,089 | \$2,066,453 |
| % of Total Revenues | 27.30% | 21.17% |
| TOTAL EXPENDITURES | | |
| Salaries and Benefits | \$6,336,554 | \$8,691,014 |
| % of Total Expenditures | \$3,530,178 | \$4,663,068 |
| Purchased Services | 55.71% | 53.65% |
| All Other Expenditures | \$1,821,101 | \$2,757,459 |
| % of Total Expenditures | 28.74% | 31.73% |
| | \$985,275 | \$1,270,487 |
| | 15.55% | 14.62% |
| TOTAL NET ASSETS | \$3,099,249 ¹ | \$2,096,440 |
| INVESTMENT IN CAPITAL ASSETS | \$109,261 | \$172,676 |
| ¹ Includes a (\$942,618) restatement to the FY11 beginning net asset balance due to a fund reclassification from a Governmental Fund to a Proprietary Fund. Percentages may not add due to rounding. | | |

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROLS OVER COMPLIANCE

The Regional Office of Education #48 did not have adequate internal controls over compliance with grant agreements.

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office must incorporate certain procedures into their operations in order to comply with the grant agreements with these entities. The Regional Office is required to accurately spend funding in accordance with budgets submitted to grantors and accurately submit expenditure reports timely. In addition, the Regional Office must supply any subrecipients of its federal awards with certain information on the related federal program.

During testing, auditors noted the following:

- A. The expenditure report submitted to the Illinois State Board of Education (ISBE) for the Communities for Youth Truants Alternative contained inaccuracies. The Regional Office did not have internal controls in place over the program that required the Program Director to submit, for approval, the expenditure reports to someone independent of recording the expenditures prior to submission to ISBE.
- B. The Regional Office did not receive pre-approval when it used funds for purposes different than what had originally been budgeted for a program funded by the University of North Carolina. The Regional Office staff was not aware there was a budgeting process for the Regional Office's agreement with the University of North Carolina.
- C. The Regional Office did not provide all required information to subrecipients for funding provided through the Title I Grants to Local Educational Agencies. The Regional Office staff was not aware of all the requirements related to required information in subrecipient agreements.
- D. The Regional Office did not timely file expenditure reports for the ARRA-Title I Grants to Local Educational Agencies. According to ROE staff, the expenditure report was inadvertently filed late.
- E. The Regional Office did not properly record reimbursements received from other local governments for joint costs incurred to put on a professional development workshop. According to ROE officials, the Regional Office was not aware of the proper reporting of cost reimbursements for joint activities.

- F. Payments made to subrecipients of ROE/ISC Operations funding were not reported as payments to other governments, but rather reported by the line item for which the ROE believed the subrecipient would use the funding. According to Regional Office officials, the ROE was not aware of the proper reporting of payments to subrecipients for the grant program. (Finding 11-1, pages 12 a-e)

The auditors recommended that the Regional Office should:

- A. Require that all expenditure reports be reviewed by someone independent of recording the expenditures prior to submission.
- B. Submit an amended budget to grantors if planned expenditures changed from the original budget.
- C. Review all compliance requirements related to information required to be communicated to subrecipients prior to sending any federal funding to the subrecipients.
- D. Have procedures in place to ensure all required reports are submitted to grantors prior to the due dates.
- E. Record cost reimbursements for joint functions as revenues from other local governments.
- F. Properly record payments to local government subrecipients.

The Peoria County Regional Office of Education #48 responded that:

- A. For most grants the Regional Office already requires someone other than the preparer to review grant reports prior to submission. The Regional Office has implemented additional procedures to ensure that these grant reports are reviewed prior to submission. The Regional Office also filed an amended grant report with the Illinois State Board of Education to correct the inaccurate expenditures reported.
- B. The Regional Office noted that many of the grants that the ROE receives have differing budgetary requirements and controls are in place to ensure budgetary compliance. However, in this case a misunderstanding about the specific budgetary requirements for this grant occurred. The Regional Office is currently investigating what procedures can be implemented to improve the Regional Office's controls to ensure that the budgetary requirements of each unique grant are met.
- C. The Regional Office noted that it is in the process of revising sub-recipient agreements to include the omitted information and going forward the Regional Office will regularly review the agreements to ensure that required information is included.
- D. The Regional Office noted that it has controls in place to ensure that reports are filed timely; however, the Regional Office will increase monitoring of this

- control to ensure that it is operating effectively. Further control changes will be considered if it is determined the controls are not operating effectively.
- E. The Regional Office noted that it will change its method of accounting so that cost reimbursements are properly recorded.
 - F. The Regional Office noted that it will change its method of accounting for recording payments to subrecipients.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

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

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 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 reporting 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 material adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.

According to Regional Office officials, although they have hired an outside Certified Public Accountant (CPA) to help review financials, there was not adequate funding to employ a full-time CPA to review the financials on a continuous basis. (Finding 11-2, pages 12 f-g) **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 working to implement controls and procedures to improve the accounting records that underlie the financial statements in order to reduce and eliminate the material adjustments required, as noted by the auditors, to present the financial statements in accordance with generally accepted accounting principles. The Regional Office also noted that while it has from time to time hired a CPA to work on special projects, the Regional Office will consider whether resources are available to provide for hiring experienced help in reviewing the financial statements, including disclosures. (For previous Regional Office response, see Digest Footnote #1.)

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 (GASB) Statement No. 45. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires that employers recognize and disclose Other Postemployment Benefits (OPEB) expense. Net OPEB obligations, if any, should be reported as liabilities (or assets, if overfunded) 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 \$12,440. The Regional Office did not obtain an actuarial valuation of its OPEB 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, 2011.

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 11-3, pages 12 h-i)

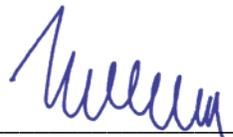
According to Regional Office #48 management, noncompliance with GASB No. 45 was due to budget restraints and the overall complexity of the pronouncement.

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 is aware of the requirements of GASB Statement No. 45, but has not obtained an actuarial valuation or pursued alternative methods due to the cost of doing so. The Regional Office also noted that it is exploring more cost effective options of implementing this requirement and is considering implementing it in 2012.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #48's financial statements as of June 30, 2011 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 2010, 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.