



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**  
**For the Year Ended: June 30, 2014**

**Release Date: April 30, 2015**

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	1	2	2007	14-1		
Category 2:	0	0	0				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>1</b>	<b>1</b>	<b>2</b>				
FINDINGS LAST AUDIT: 2							

**SYNOPSIS**

- **(14-1)** The Regional Office of Education #48 did not have sufficient internal controls over the financial reporting process.
- **(14-2)** The Regional Office of Education #48 did not have adequate revenue recognition policies for the Illinois Virtual School Fund.

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).  
**Category 2:** Findings that are **significant deficiencies** in internal control and/or **noncompliance** with State laws and regulations.  
**Category 3:** Findings that have **no internal control issues but are in noncompliance** with federal and/or State laws and regulations.

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

**REGIONAL OFFICE OF EDUCATION #48**  
**PEORIA COUNTY**

**FINANCIAL AUDIT**  
**For The Year Ended June 30, 2014**

	<b>FY 2014</b>	<b>FY 2013</b>
<b>TOTAL REVENUES</b>	\$5,319,712	\$5,852,372
Local Sources	\$2,930,646	\$2,175,020
% of Total Revenues	55.09%	37.16%
State Sources	\$1,820,793	\$2,334,916
% of Total Revenues	34.23%	39.90%
Federal Sources	\$568,273	\$1,342,436
% of Total Revenues	10.68%	22.94%
<b>TOTAL EXPENDITURES</b>	\$4,969,227	\$6,312,545
Salaries and Benefits	\$3,435,390	\$3,650,883
% of Total Expenditures	69.13%	57.84%
Purchased Services	\$1,020,191	\$1,165,846
% of Total Expenditures	20.53%	18.47%
All Other Expenditures	\$513,646	\$1,495,816
% of Total Expenditures	10.34%	23.70%
<b>TOTAL NET POSITION</b>	\$3,469,107 <sup>1</sup>	\$3,190,078
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$106,650 <sup>2</sup>	\$74,289
<sup>1</sup> The Beginning Net Position was restated by (\$71,456) due to a prior period adjustment and reclassification of programs. <sup>2</sup> Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Gerald Brookhart (Retired effective December 30, 2013) Elizabeth Crider Derry (Effective January 10, 2014) Currently: Elizabeth Crider Derry

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**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, skills and experience 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 sufficient 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 did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, and unearned revenue. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and unearned revenue, not all entries were made by the Regional Office to reconcile its grant activity or the activities of the Illinois Virtual School.
- The Regional Office omitted the transactions for amounts received from the Illinois State Board of Education that are passed through to other governmental units in its Agency Funds and General Fund.
- The Regional Office improperly classified funds as to fund type in its June 30, 2013 financial report which resulted in reclassifications of funds and a prior period adjustment in its June 30, 2014 financial report.
- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles. This included adjusting entries to agree the opening balances to amounts reported in the June 30, 2013 financial statements.

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 2014-001, pages 10-11) **This finding was first reported in 2007.**

The auditors recommended that, as part of internal control over the preparation of financial statements, the Regional Office of Education #48 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough knowledge of applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.

The Regional Office of Education #48 responded that it is continuing to work 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 to present the financial statements in accordance with generally accepted accounting principles. (For previous Regional Office response, see Digest Footnote #1.)

#### **INADEQUATE REVENUE RECOGNITION POLICIES-ILLINOIS VIRTUAL SCHOOL FUND**

#### **The Regional Office of Education #48 did not have adequate revenue recognition policies for the Illinois Virtual School Fund.**

The Regional Office of Education #48 is the administrator for the Illinois Virtual School, a statewide program in which high school students can take classes not offered by their school districts and earn credits towards their graduation. The Illinois Virtual School operates like a normal school, except the classes are administered online and the Illinois Virtual School has many shorter term semesters rather than just Fall, Spring, and Summer like a traditional school.

The activities of the Illinois Virtual School are classified as a business-type activity in the Regional Office of Education #48's financial statements. As such, its financial activity is accounted for using an economic resources measurement focus and accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned.

The Regional Office of Education #48 did not properly apply all of the relevant accounting principles to its Illinois Virtual School business-type activity. Specifically, the Regional Office of Education did not properly apply relevant accounting principles with respect to revenue recognition. During the audit, auditors noted the following:

- For the periods ending June 30, 2013 and 2014, the Regional Office of Education #48 did not accrue tuition revenue for all school terms that began and were billable

during the fiscal year. As a result, additional revenue of \$149,940 and \$78,835 needed to be accrued at June 30, 2013 and 2014 respectively. This misstatement was corrected for its effects on the opening net position and on revenue recognized during the year ended June 30, 2014 in the Illinois Virtual School fund.

- For the periods ending June 30, 2013 and 2014, the Regional Office of Education #48 did not recognize unearned tuition revenue for school terms that began in the previous fiscal year and ended in the next fiscal year. To correct this matter, unearned revenue of \$235,805 and \$271,015 needed to be recorded at June 30, 2013 and 2014, respectively. The effects of this misstatement on opening net position of the Illinois Virtual School fund has been corrected through a prior period adjustment in this financial report.
- The Regional Office of Education did not reconcile the Illinois Virtual School tuition revenue and accounts receivable general ledger balances with the information contained in the Illinois Virtual School database in order to ensure there were no inconsistencies between the general ledger and the database.

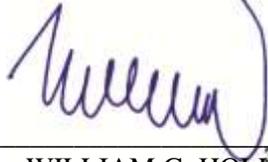
According to Regional Office of Education #48's officials, the above errors resulted from the Regional Office's accounting staff not having a complete understanding of the application of accounting principles related to revenue recognition under the accrual basis of accounting. (Finding 2014-002, pages 12-13)

The auditors recommended that the Regional Office of Education #48 should accrue unbilled tuition and recognize unearned tuition at year-end, record amounts billed for tuition as they occur, and perform periodic reconciliations of the amounts contained in the Regional Office of Education #48's general ledger with the amounts maintained in the Illinois Virtual School database.

The Regional Office of Education #48 responded that it had been focused on proper collection of billing and fees for the Illinois Virtual School and had not fully considered the adjustments to be made for financial statement purposes. The Regional Office stated that it will make the necessary changes in accordance with generally accepted accounting principles. The Regional Office noted that it will also periodically reconcile the general ledger reports to the Illinois Virtual School database to verify that both are in agreement.

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #48's financial statements as of June 30, 2014 are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Doehring, Winders & Co. LLP were our special assistant auditors.

**DIGEST FOOTNOTE**

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

In its prior response in 2013, the Regional Office 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 to present the financial statements in accordance with generally accepted accounting principles.