



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #49
ROCK ISLAND COUNTY

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)**
For the Year Ended: June 30, 2015

Release Date: July 28, 2016

| FINDINGS THIS AUDIT: 2 | | | AGING SCHEDULE OF REPEATED FINDINGS | | | | |
|------------------------|-----|--------|-------------------------------------|----------------|------------|------------|------------|
| | New | Repeat | Total | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | 0 | 2 | 2 | 2007 | 15-1 | | |
| Category 2: | 0 | 0 | 0 | 2010 | 15-2 | | |
| Category 3: | 0 | 0 | 0 | | | | |
| TOTAL | 0 | 2 | 2 | | | | |
| FINDINGS LAST AUDIT: 2 | | | | | | | |

SYNOPSIS

- (15-1) The Regional Office of Education #49 did not have sufficient internal controls over the financial reporting process.
- (15-2) The Regional Office of Education #49 departed from generally accepted accounting principles (GAAP).

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| 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 #49
ROCK ISLAND COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2015

| | FY 2015 | FY 2014 |
|---|--------------------------|----------------|
| TOTAL REVENUES | \$4,239,734 | \$4,954,160 |
| Local Sources | \$433,688 | \$377,066 |
| % of Total Revenues | 10.23% | 7.61% |
| State Sources | \$2,901,393 | \$3,288,583 |
| % of Total Revenues | 68.43% | 66.38% |
| Federal Sources | \$904,653 | \$1,288,511 |
| % of Total Revenues | 21.34% | 26.01% |
| TOTAL EXPENDITURES | \$4,082,696 | \$4,871,795 |
| Salaries and Benefits | \$1,658,505 | \$1,935,349 |
| % of Total Expenditures | 40.62% | 39.73% |
| Purchased Services | \$1,590,118 | \$2,231,609 |
| % of Total Expenditures | 38.95% | 45.81% |
| All Other Expenditures | \$834,073 | \$704,837 |
| % of Total Expenditures | 20.43% | 14.47% |
| TOTAL NET POSITION | \$(250,060) ¹ | \$753,523 |
| INVESTMENT IN CAPITAL ASSETS | \$46,075 | \$58,556 |
| ¹ The FY 2015 beginning net position was restated by \$(1,160,621) due to a prior period adjustment for new reporting requirements for pensions. | | |
| Percentages may not add due to rounding. | | |

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| REGIONAL SUPERINTENDENT |
| During Audit Period: Honorable Tammy Muerhoff |
| Currently: Honorable Tammy Muerhoff |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #49 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #49 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #49 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on cash basis accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. 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.

During review of the Regional Office of Education #49's financial information prepared by the Regional Office, auditors noted 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 receivable, accounts payable, and unearned revenue, not all entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables, unearned revenue, and other accrual entries.

Through inquiries and discussions with the ROE's accounting personnel and Regional Superintendent, auditors noted the ROE did not have adequate controls to record and report the ROE's net accrued pension liabilities/assets, deferred outflows of resources, deferred

inflows of resources, and pension expenses in accordance with GAAP.

According to the Regional Office of Education #49's officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 2015-001, pages 15-16) **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 #49 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 understanding of applicable generally accepted accounting principles (GAAP), GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.

The Regional Office of Education responded that it has four positions which have some form of direct review, contact, and oversight of its financial statements. These individuals have attended and will continue to attend training opportunities to enhance their knowledge of the applicable accounting principles and other areas necessary in order to obtain a sufficient set of internal controls over financial statement preparation. The Regional Office noted there will be continued oversight, direct review, and contact of the financial statements of the Rock Island County Regional Office of Education. Further, the Regional Office stated that opportunities to review and provide additional oversight will be pursued to ensure the utmost level of monitoring of all financial assets. (For previous Regional Office response, see Digest Footnote #1 located at the end of the digest.)

DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Regional Office of Education #49 departed from generally accepted accounting principles (GAAP).

The Illinois Administrative Code (74 Ill. Adm. Code 420.320 (c) (1) and (2)) requires that each Regional Office of Education (ROE) maintain the accounting records necessary to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting*

by Employers for Postemployment Benefits Other Than Pensions (OPEB), requires that employers recognize and disclose 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 Regional Office of Education #49 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 the employees' services occurs, rather than when the benefits are paid. Currently, ROE #49's OPEB plan is financed on a pay-as-you-go basis, and as such, the financial statements do not report the financial effects of OPEB until the promised benefits are paid. The ROE #49 did not obtain an actuarial valuation of its postemployment benefits other than pensions 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 application of 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 ROE #49 as of June 30, 2015.

According to Regional Office officials, there was inadequate funding for the required actuarial services needed to be in compliance with the GASB Pronouncement. This led to the failure to implement GASB Statement No. 45. (Finding 2015-002, pages 17-18) **This finding was first reported in 2010.**

The auditors recommended the Regional Office of Education #49 obtain an actuarial valuation or apply the alternative measurement method to determine 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 responded that it is not currently funded adequately by the State of Illinois to perform an actuarial valuation check of retirement costs. The Regional Office noted that it will continue to research an actuarial valuation as funds become available by the Regional Office of Education. (For previous Regional Office response, see Digest Footnote #2 located at the end of the digest.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #49's financial statements as of June 30, 2015 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 Position and the Statement of Activities. Disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JRB

AUDITORS ASSIGNED: Ginoli & Company Ltd. were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2014, the Regional Office of Education responded that it has six positions which have some form of direct review, contact, and oversight of its financial statements. These individuals have attended and will continue to attend training opportunities to enhance their knowledge of the applicable accounting principles and other areas necessary in order to obtain a sufficient set of internal controls over financial statement preparation. The Regional Office noted that there will be

continued oversight, direct review, and contact of the financial statements of the Rock Island County Regional Office of Education. The Regional Office stated that opportunities to review and provide additional oversight will be pursued to ensure the utmost level of monitoring of all financial assets.

#2: Departure from Generally Accepted Accounting Principles - Previous Regional Office Response

In its prior response in 2014, the Regional Office responded that it is not currently funded adequately by the State of Illinois to perform an actuarial valuation check of retirement costs. The Regional Office noted that it will continue to research an actuarial valuation as funds become available by the Regional Office of Education.