



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #51
SANGAMON COUNTY

**FINANCIAL AUDIT (In accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2010
Release Date: June 23, 2011**

Summary of Findings:
Total this audit: 3
Total last audit: 5
Repeated from last audit: 2

SYNOPSIS

- The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #51 did not have sufficient internal controls over receipts and disbursements.
- The Regional Office of Education #51 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 #51
SANGAMON 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	\$3,809,203	\$4,085,826
Local Sources	\$1,223,922	\$1,310,294
% of Total Revenues	32.13%	32.07%
State Sources	\$1,719,881	\$1,425,246
% of Total Revenues	45.15%	34.88%
Federal Sources	\$865,400	\$1,350,286
% of Total Revenues	22.72%	33.05%
TOTAL EXPENDITURES	\$3,849,108	\$4,111,731
Salaries and Benefits	\$1,935,422	\$2,025,582
% of Total Expenditures	50.28%	49.26%
Purchased Services	\$1,713,947	\$1,243,992
% of Total Expenditures	44.53%	30.25%
All Other Expenditures	\$199,739	\$842,157
% of Total Expenditures	5.19%	20.48%
TOTAL NET ASSETS¹	\$1,256,481	\$1,296,386
INVESTMENT IN CAPITAL ASSETS	\$23,437	\$17,293
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Helen Tolan
Currently: Honorable Jeff Vose

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #51 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #51 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 #51 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. 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's financial information required numerous adjusting entries to present the 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, accounts payable, or deferred revenue. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenue, no entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables and deferred revenue.

According to ROE officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 10-01, pages 12a-12b) **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 #51 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 #51 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office of Education staff has a reasonable understanding of the financial statements and can determine that the information in the financial statements is accurate, however, lacks the ability to prepare the notes to the financial statements. The recommendation that "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," has been noted by the Regional Office. The ROE noted that they will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #51 did not have sufficient internal controls over receipts and disbursements.

The Regional Office of Education #51 did not have sufficient internal controls over receipts and disbursements. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements to prevent errors and fraud.

During the audit, auditors noted the following weaknesses in the Regional Office's internal control system:

- A. The individual who reconciles the Regional Office's cash receipts was not independent of the receipts process.
- B. Prior year adjusting journal entries were not posted by the Regional Office, which caused certain program's current year fund balance to not roll forward correctly.
- C. There was a credit card expenditure which was not supported by an original receipt or reconciled to the credit card statement.
- D. There were no supporting documents for and no documented review of the Regional Office's general journal entries prior to posting to the accounting system.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriation of assets, in which errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. (Finding 10-02, pages 12c-12d)

Auditors recommended that:

- A. An individual independent of the cash receipts process should reconcile the cash receipts to the receipt book and deposit slip.
- B. In order for the Regional Office's accounting records to accurately reflect its financial position it should record all material audit adjustments provided by the auditors.
- C. All credit card charges should be supported by an original receipt that has been approved by the Regional Superintendent, as well as, reconciled to the credit card statement.
- D. All journal entries should be reviewed prior to being posted to the accounting system by an individual independent of the general ledger. This review should be documented on the journal entry's supporting documentation.

The Regional Office of Education #51 responded that:

- A. The Regional Office will implement procedures whereby the employee who reconciles the cash receipts to the receipt book and deposit slip does not collect cash payments.
- B. The Finance Manager will post all audit adjustments provided by the auditors to reconcile with the audited financial statements.
- C. No credit card statements will be authorized for payment without original receipts.
- D. All journal entry transactions will be authorized by the Regional Superintendent before posting to the accounting system.

DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLE

The Regional Office of Education #51 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 #51 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 (74 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).

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 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 #51 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. Currently, the Regional Office 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.

During fiscal year 2010, the Regional Office of Education #51 had 14 active employees, of whom 12 participated in the plan, and contributions to the OPEB plan totaled \$53,199. 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 #51 as of June 30, 2010.

Failure to apply the accounting and reporting requirements of GASB Statement No. 45 could result in misstatements of the Regional Office of Education #51 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.

According to Regional Office #51 management, noncompliance with GASB No. 45 was due to budget restraints and the overall complexity of the pronouncement. (Finding 10-03, pages 12e-12f)

The auditors recommended that the Regional Office of Education #51 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 Superintendent responded that he agrees with the finding.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #51'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:JRB

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 Regional Office of Education #51 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office of Education staff has a reasonable understanding of the financial statements and can determine that the information in the financial statements is accurate, however, lacks the ability to prepare the notes to the financial statements. The recommendation that “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,” has been noted by the Regional Office. The ROE noted that they will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that its employees possess the knowledge required to compile the necessary GAAP based financial statements.

