



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2011

Release Date: July 19, 2012

Summary of Findings:

| | |
|----------------------------------|----------|
| Total this audit: | 7 |
| Total last audit: | 4 |
| Repeated from last audit: | 3 |

SYNOPSIS

The Regional Office of Education #53:

- did not have sufficient internal controls over the financial reporting process;
- used restricted funds from the RESPRO Fund for purposes not included in the grant agreement;
- did not record revenues and expenditures in the proper accounts;
- was not in compliance with the Grant Funds Recovery Act;
- did not have adequate internal control procedures;
- did not have adequate internal controls over cash; and
- did not file expenditure reports timely.

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

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For The Year Ended June 30, 2011

| | FY 2011 | FY 2010 |
|--|----------------|----------------|
| TOTAL REVENUES | \$2,427,959 | \$1,594,768 |
| Local Sources | \$245,303 | \$224,964 |
| % of Total Revenues | 10.10% | 14.11% |
| State Sources | \$1,828,033 | \$1,181,312 |
| % of Total Revenues | 75.29% | 74.07% |
| Federal Sources | \$354,623 | \$188,492 |
| % of Total Revenues | 14.61% | 11.82% |
| TOTAL EXPENDITURES | \$1,854,213 | \$1,557,435 |
| Salaries and Benefits | \$724,662 | \$552,176 |
| % of Total Expenditures | 39.08% | 35.45% |
| Purchased Services | \$189,941 | \$179,434 |
| % of Total Expenditures | 10.24% | 11.52% |
| All Other Expenditures | \$939,610 | \$825,825 |
| % of Total Expenditures | 50.67% | 53.02% |
| TOTAL NET ASSETS | \$1,037,881 | \$464,135 |
| INVESTMENT IN CAPITAL ASSETS | \$24,216 | \$15,931 |
| Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|---|
| During Audit Period: Honorable Robin G. Houchin Currently: Honorable Gail Owen |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #53 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #53 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 #53 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 were not sufficient controls over the preparation/review 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 receivables, payables, capital assets, or deferred revenue.
- Numerous adjustments were required to present 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. (Finding 11-01, pages 11-12) **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 #53 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 #53 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 management is not currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate securing the services of a Certified Public Accounting firm to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will continue to pursue additional training for the individual(s) responsible for financial statement preparation. (For previous Regional Office response, see Digest Footnote #1.)

RESTRICTED FUNDS USED FOR UNAUTHORIZED PURPOSE

The Regional Office of Education #53 used restricted funds from the RESPRO Fund for purposes not included in the grant agreement.

The Regional Office of Education #53 used restricted funds from the RESPRO Fund for purposes not included in the grant agreement. Grant monies can only be used for allowable expenditures as outlined in grant agreements.

Due to late grant reimbursements, some funds lacked cash to pay for their expenditures, resulting in interfund loans. A review of the amounts due between funds showed a \$16,269 loan from the Regional System Provider/Federal System of Support (RESPRO) Fund to the ARRA-Title I-School Improvement and Accountability Fund. Loans are not one of the allowed uses of the RESPRO Fund.

According to Regional Office officials, various funds share a pooled bank account. When expenditures for the ARRA – Title I-School Improvement and Accountability Fund came due, they were paid out of the pooled bank account. While the bank account had enough cash to cover the expenditures, it did not have enough of the ARRA –Title I-School Improvement and Accountability Fund's money for the payments. This created a loan from other funds that had cash in that account. The only funds with sufficient cash in the pooled bank account to pay such expenditures were grants, one of which was the RESPRO Fund. (Finding 11-02, page 13) **This finding was first reported in 2009.**

Auditors recommended that the Regional Office of Education #53 should monitor payments from pooled cash accounts to be sure that the particular fund paying expenditures has sufficient funds to cover the payments and should use the RESPRO Fund only for purposes allowed by the grant agreement.

The Regional Office of Education #53 responded that it will monitor payments from pooled cash accounts to be sure that the particular fund paying expenditures has sufficient funds to cover the payments and use the RESPRO Fund only for purposes as allowed by the grant agreement. (For previous Regional Office response, see Digest Footnote #2.)

MISCODING OF REVENUES AND EXPENDITURES

The Regional Office of Education #53 did not record revenues and expenditures in the proper accounts.

The Regional Office of Education #53 did not record revenues and expenditures in the proper accounts. Revenues and expenditures should be carefully monitored to make sure that they are recorded to the proper accounts.

During audit testing, auditors identified several instances where revenues and expenditures were miscoded. They were as follows:

- Expenditures of \$1,697 for the Teacher and Administrators Mentoring Program were reimbursed by funding from another Regional Office of Education. \$885 of the same expenditures were included on the expenditure report for the Regional Office of Education #53's Teacher and Administrators Mentoring Program grant through the Illinois State Board of Education, resulting in expenditures of \$885 being reimbursed twice.
- A receipt of \$10,000 from the Illinois State Board of Education was incorrectly posted to State revenue in the ROE/ISC Operations grant instead of federal revenue in the Title II-Teacher Quality-Leadership Grant.
- The Teacher and Administrators Mentoring Program State revenue of \$23,449 and local revenue of \$1,697 were incorrectly coded as federal revenue.
- Gifted Education Fund expenditures were overstated by \$200 due to \$200 of expenditures reimbursed by another Regional Office of Education being recorded in the wrong fund.
- Refunds of \$1,500, \$468, and \$468 in the Teacher and Administrators Mentoring Program, Title II-Teacher Quality-Leadership Grant Fund and the ARRA-Title I-School Improvement and Accountability Fund, respectively, were recorded as other income rather than offsetting the expenditure that created the refunds, resulting in overstated expenditure reports.

Since many of the funds with the miscodings were grants, inaccurate expenditure reports were submitted, which could lead to the granting agency requesting reimbursements or adjusting the fiscal year 2012 grant amounts. In addition, there were instances where the same expenditures were improperly reimbursed twice. The Regional Office of Education #53's various miscodings appear to be a combination of oversights as well as personnel being unaware of accounting requirements. (Finding 11-03, pages 14-15)

Auditors recommended that the Regional Office of Education #53 personnel responsible for coding expenditures and revenues should be made aware of all accounting requirements that pertain to recording and reporting the Regional Office's revenues, reimbursements and expenditures. The Regional Superintendent and/or Assistant Regional Superintendent should review cash receipt and disbursement reports to determine that all transactions are recorded to the proper funds and accounts.

The Regional Office of Education #53 responded that personnel responsible for coding expenditures and revenues have been made aware of all accounting requirements that pertain to recording and reporting the Regional Office's revenues, reimbursements and expenditures. The Regional Superintendent and/or Assistant Regional Superintendent will review cash receipt and disbursement reports to determine that all transactions are recorded to the proper funds and accounts.

NONCOMPLIANCE WITH THE GRANT FUNDS RECOVERY ACT

The Regional Office of Education #53 was not in compliance with the Grant Funds Recovery Act.

The Illinois Grant Funds Recovery Act (30 ILCS 705/5) requires that all grant funds that have not been expended or obligated by the end of the grant period be returned to the granting agency within 45 days after the end of the period.

Mid-Illini Educational Cooperative (MIEC), a component unit of the Regional Office of Education #53, had unspent grant funds in the following programs at the end of the August 31, 2010 grant period: Reading First \$1,695 and Gifted Education \$28,021. These balances were not reflected on expenditure reports or returned to the granting agencies. MIEC was a grant subrecipient for both of these grants.

The Regional Office of Education #53 personnel did not realize that expenditure reports for grant funds not spent by a grant subrecipient by the end of the grant period are required to be adjusted. Additionally, the Regional Office of Education #53's personnel were unaware that unspent funds of the grant subrecipient are to be returned to the granting agencies within 45 days after the end of the period. (Finding 11-04, page 16)

The auditors recommended that the Regional Office of Education #53 personnel responsible for monitoring grants passed through to MIEC should be made aware of all grant compliance requirements that pertain to grants they are awarded. In addition, the Regional Office of Education #53 should return all unspent grant funds of subrecipients to the appropriate granting agencies.

The Regional Office of Education #53 responded that it will contact granting agencies to determine the proper way to return or use unspent grant funds.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #53 did not have adequate internal control procedures.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over disbursements and payroll to prevent errors and fraud. Auditors noted the following weaknesses in the Regional Office's internal control system:

- Ten (10) out of 62 transactions tested showed no approval on the invoice by the Regional Superintendent or Assistant Regional Superintendent. While the checks were subsequently signed by the Assistant Regional Superintendent, there was no documentation that the invoices had been reviewed.
- Three employees were overpaid by one payroll totaling \$6,221, including benefits.
- Medicare payroll taxes were calculated incorrectly. Neither the Regional Superintendent nor the Assistant Regional Superintendent reviewed payroll taxes or payroll withholdings and benefits prior to payment.

According to Regional Office officials, there were sporadic instances when management's signatures were not on the documents required for authorizing payments. However, there was a signature on the check disbursed so the Assistant Regional Superintendent was aware of what transaction took place. With respect to payroll miscalculations, bi-weekly payroll amounts were not adjusted to account for 27 pay periods during the fiscal year ending June 30, 2011. Inconsistencies in the payroll program were not discovered by Regional Office management. (Finding 11-05, pages 17-18)

The auditors recommended that the Regional Office of Education #53's management should ensure that the Regional Office follows the established system of internal controls over disbursements and payroll to prevent errors and fraud. Regional Office management should ensure the Regional Superintendent or Assistant Regional Superintendent

approves, by initialing, all check disbursement documentation, including invoices and reports showing the recording of the payment. This verifies the check was written from the proper account for the correct amount. As part of the internal control over the payroll process, the Regional Superintendent should review payroll tax documents and other payroll related expenditures prior to payment to detect any possible problems or miscalculations.

The Regional Office of Education #53 responded that its management will follow the established system of internal controls over disbursements and payroll to prevent errors and fraud. Regional Office management will ensure that the Regional Superintendent or Assistant Regional Superintendent approves, by initialing, all check disbursement documentation, including invoices and reports showing the recording of the payment. This will verify the check was written from the proper account for the correct amount. As part of the internal control over the payroll process, the Regional Superintendent or Assistant Regional Superintendent will review payroll tax documents and other payroll related expenditures to detect any possible problems or miscalculations.

INADEQUATE INTERNAL CONTROLS OVER CASH

The Regional Office of Education #53 did not have adequate internal controls over cash.

Adequate internal controls over cash require that all cash in the custody of the Regional Office of Education be properly reported in the general ledger and that such general ledger accounts be reconciled to each month's bank statement.

The general ledger cash accounts for Mid-Illini Educational Cooperative (MIEC), a component unit of Regional Office of Education #53, were not properly reconciled to the bank statements. Throughout the year, adjustments necessary to reconcile cash were compiled on the bank reconciliations rather than entered into the general ledger. At year-end, total adjustments required to tie out cash as listed on the reconciliation netted to \$334,796. Additionally, the reconciliation incorrectly listed a negative deposit in transit of \$48,387. Backdated checks totaling \$44,361 also contributed to improper general ledger cash balances.

The Regional Office relied on an outside CPA firm to prepare the bank reconciliations but did not review the reconciliations or record adjustments to properly reconcile cash accounts to the general ledger. (Finding 11-06, page 19)

The auditors recommended that the Regional Office of Education #53's management should review all original bank reconciliations and compare them to their related general ledger account balances monthly to ensure the reconciliations are completed in a timely manner and that all reconciling items are recorded to the general ledger as needed.

The Regional Office of Education #53 responded that its management will review all original bank reconciliations and compare them to their related general ledger account balances monthly to ensure the reconciliations are completed in a timely manner and that all reconciling items are recorded to the general ledger as needed.

EXPENDITURE REPORTS WERE NOT FILED TIMELY

The Regional Office of Education #53 did not file expenditure reports timely.

Expenditure reports for various Illinois State Board of Education (ISBE) grants have specific due dates. For the fiscal year ended June 30, 2011, quarterly expenditure reports were due within twenty days following the end of the reporting quarter. Completion expenditure reports were due twenty days following the project end date. If a completion report is submitted with outstanding obligations, a final expenditure/liquidation report must be submitted no later than ninety days after the project ending date.

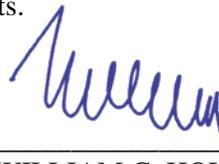
All three fiscal year 2010 expenditure reports for ISBE grants with reporting periods ending during the year ended June 30, 2011 were submitted late. In addition, over half of the quarterly expenditure reports for fiscal year 2011 ISBE grants were submitted late. (Finding 11-07, pages 20-21)

The auditors recommended that the Regional Office of Education #53 personnel should monitor expenditure report deadlines and review report submission information as shown on the ISBE's FRIS system.

The Regional Office of Education #53 responded that its personnel will monitor expenditure report deadlines and review report submission information as shown on the ISBE's FRIS system.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #53's financial statements as of June 30, 2011 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: West & Company, LLC were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2010, the Regional Office of Education #53 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 management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate securing the services of a Certified Public Accounting Firm to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will continue to pursue additional training for the individual(s) responsible for financial statement preparation.

#2: Restricted Funds Used for Unauthorized Purpose-Previous Regional Office Response

In its prior response in 2010, the Regional Office of Education #53 responded that it will closely monitor payments from pooled cash accounts to be sure that the particular fund paying expenditures has sufficient funds to cover the payments and should use the RESPRO Fund only for purposes as allowed by the grant agreement. The Regional Office noted that it has taken steps to ensure that Institute Fund expenditures are appropriate for the specific purposes as listed in 105 ILCS 5/3-12.