



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**REGIONAL OFFICE OF EDUCATION # 54**  
**VERMILION COUNTY**

**FINANCIAL AUDIT**  
**For the Year Ended: June 30, 2011**

**Release Date: February 21, 2012**

**Summary of Findings:**

<b>Total this audit:</b>	<b>3</b>
<b>Total last audit:</b>	<b>2</b>
<b>Repeated from last audit:</b>	<b>2</b>

**SYNOPSIS**

- The Regional Office of Education #54 did not have adequate internal control procedures.
- The Regional Office of Education #54 did not have sufficient internal controls over the financial statement preparation process.
- The Regional Office of Education #54 did not adequately record the American Recovery and Reinvestment Act awards.

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



## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### INADEQUATE INTERNAL CONTROL PROCEDURES

**The Regional Office of Education #54 did not have adequate internal control procedures.**

The Regional Office of Education #54 did not have adequate internal control procedures. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts, disbursements, and reporting to prevent errors and fraud.

Auditors noted the following weaknesses in the Regional Office of Education #54's internal control system:

- A. Due to inadequate segregation of duties, one person was responsible for receiving money, depositing funds, recording receipts in the general ledger, receiving unopened invoices and vendor statements, preparing disbursement checks, entering disbursements in the general ledger, and receiving the unopened bank statements.
- B. Prior-year audit adjustments were not posted to the general ledger; therefore, some current year opening fund balances were not correct.

Lack of effective internal control procedures could result in unintentional or intentional errors or misappropriation of assets that could be material to the financial statements and that may not be detected in a timely manner by employees in the normal course of performing their assigned duties. (Finding 11-01, page 10a) **This is a partial repeat of a finding that was first reported in 2009.**

Auditors recommended that:

- A. Although the Regional Office has improved segregation of duties for bank reconciliations, the Regional Office should segregate duties so that no one individual has access to all steps of an accounting process.
- B. After closing the prior year's financial statements, the opening fund balances for the current year should be compared to the ending balances on the prior year's financial statements. Any discrepancies should be reviewed and resolved.

The Regional Superintendent responded that she agrees with this finding. (For previous Regional Office response, see Digest Footnote #1.)

## **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

### **The Regional Office of Education #54 did not have sufficient internal controls over the financial statement preparation process.**

The Regional Office of Education #54 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 #54 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 revenues. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenues, no entries were provided to reconcile the Regional Office of Education #54's grant activity, such as posting grant receivables and deferred revenues.

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 11-02, pages 10b-10c)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #54 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 #54 responded that it accepts the degree of risk associated with this condition because the added expense to seek outside accounting expertise to prepare and/or review financial statements would take away from the funds available to provide educational services for the schools in the region. The Regional Office noted that it will review, approve, and accept responsibility for the audit adjustments, financial statements and related notes provided by the auditors. The Regional Office of Education #54 also noted that it 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.

#### **INADEQUATE RECORDING OF AMERICAN RECOVERY AND REINVESTMENT ACT AWARDS**

**The Regional Office of Education #54 did not adequately record the American Recovery and Reinvestment Act awards.**

The Regional Office of Education #54 did not adequately record the American Recovery and Reinvestment Act Awards for the Homeless Children and Youth Grants. Federal regulations require that American Recovery and Reinvestment Act (ARRA) award recipients maintain records that adequately identify the source and application of Recovery Act funds.

The Regional Office of Education #54's receipts and expenditures for the ARRA and non-ARRA Education for Homeless Children and Youth Grants were not accounted for in a way that segregated the ARRA from the non-ARRA award activity as required.

By not segregating ARRA and non-ARRA transactions, the actual ARRA receipts and expenditures were not easily identifiable and available to review. Additionally, there was a possibility that expenditures could have been reported inaccurately to granting agencies. (Finding 11-03, page 10d)

The auditors recommended that the Regional Office of Education #54 create a separate set of accounts to record the ARRA Homeless Education grant activity separately from the non-ARRA Homeless Education grant.

The Regional Superintendent responded that she agrees with this finding.

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #54's financial statements as of June 30, 2011 are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

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AUDITORS ASSIGNED: Kemper CPA Group, LLP were our special assistant auditors.

**DIGEST FOOTNOTES**

**#1: INADEQUATE INTERNAL CONTROL PROCEDURES—  
Previous Regional Office Response**

In its prior response in 2010, management of the Regional Office of Education #54 responded that he agrees with this finding.