



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 #56**  
**WILL COUNTY**

**FINANCIAL AUDIT (In Accordance with the Single  
Audit Act and OMB Circular A-133)  
For the Year Ended: June 30, 2011  
Release Date: April 19, 2012**

**Summary of Findings:**  
**Total this audit: 2**  
**Total last audit: 2**  
**Repeated from last audit: 2**

**SYNOPSIS**

- The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #56 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 #56**  
**WILL COUNTY**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act and OMB Circular A-133)**  
**For The Year Ended June 30, 2011**

	<b>FY 2011</b>	<b>FY 2010</b>
<b>TOTAL REVENUES</b>	\$12,880,790	\$13,244,040
Local Sources	\$2,274,432	\$1,504,242
% of Total Revenues	17.66%	11.36%
State Sources	\$3,778,258	\$4,454,906
% of Total Revenues	29.33%	33.64%
Federal Sources	\$6,828,100	\$7,284,892
% of Total Revenues	53.01%	55.01%
<b>TOTAL EXPENDITURES</b>	\$11,511,956	\$11,757,784
Salaries and Benefits	\$3,020,250	\$2,260,488
% of Total Expenditures	26.24%	19.23%
Purchased Services	\$2,398,745	\$2,587,233
% of Total Expenditures	20.84%	22.00%
All Other Expenditures	\$6,092,961	\$6,910,063
% of Total Expenditures	52.93%	58.77%
<b>TOTAL NET ASSETS</b>	\$5,230,772	\$3,861,938
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$3,016	\$8,104
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Jennifer Bertino-Tarrant Currently: Honorable Jennifer Bertino-Tarrant

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

**CONTROLS OVER FINANCIAL STATEMENT  
PREPARATION**

**The Regional Office of Education #56 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #56 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 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 #56 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. In their review of the Regional Office's accounting records, auditors noted that:

- The Regional Office's financial information required numerous adjusting entries to present 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 of Education #56's grant activity, such as posting grant receivables and deferred revenue.

According to the Regional Office, current funding levels are not adequate to hire and/or train accounting personnel in order to comply with these requirements. (Finding 11-01, pages 12a-12b)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #56 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 #56 responded that it accepts the degree of risk associated with this condition because the additional 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 noted that it will continue to work with the other Regional Offices of Education to determine the most effective method of ensuring that their employees possess the knowledge required to compile the necessary GAAP-based financial statements.

#### **DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLE**

**The Regional Office of Education #56 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 #56 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board (GASB) Statement No. 45. 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 #56 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 2011, the Regional Office of Education #56 had an average of 13 active employees and contributions to the OPEB plan totaled \$168,799. 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 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 the Regional Office of Education #56 as of June 30, 2011.

Failure to apply the accounting and reporting requirements of GASB Statement No. 45 could result in misstatements of the Regional Office of Education #56's 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.

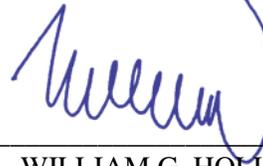
According to Regional Office management, noncompliance with GASB No. 45 was due to budget constraints and the overall complexity of the pronouncement. (Finding 11-02, pages 12c-12d)

The auditors recommended that the Regional Office of Education #56 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 Office of Education #56 responded that due to the complexity of the pronouncement, the Regional Office received an actuarial valuation which was based on "like" entities, not an actuarial valuation for the Regional Office of Education #56. The Regional Office of Education #56 will obtain an actuarial valuation of its other postemployment benefit liability to be in compliance with GASB Statement No. 45, and will include the disclosures required by the Statement where applicable in its financial statements.

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #56's financial statements as of June 30, 2011 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.



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WILLIAM G. HOLLAND  
Auditor General

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