



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #4
BOONE AND WINNEBAGO COUNTIES

**FINANCIAL AUDIT (In accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2013
Release Date: March 20, 2014**

Summary of Findings:
Total this audit: 2
Total last audit: 2
Repeated from last audit: 1

SYNOPSIS

- The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #4 had insufficient collateralization of bank deposits.

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

REGIONAL OFFICE OF EDUCATION #4
BOONE AND WINNEBAGO COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2013

	FY 2013	FY 2012
TOTAL REVENUES	\$5,952,349	\$6,611,874
Local Sources	\$1,674,987	\$1,809,533
% of Total Revenues	28.14%	27.37%
State Sources	\$2,151,558	\$2,759,598
% of Total Revenues	36.15%	41.74%
Federal Sources	\$2,125,804	\$2,042,743
% of Total Revenues	35.71%	30.90%
TOTAL EXPENDITURES	\$6,479,568	\$6,974,229
Salaries and Benefits	\$4,282,880	\$4,110,494
% of Total Expenditures	66.10%	58.94%
Purchased Services	\$908,862	\$1,215,888
% of Total Expenditures	14.03%	17.43%
All Other Expenditures	\$1,287,826	\$1,647,847
% of Total Expenditures	19.88%	23.63%
TOTAL NET POSITION	\$3,934,339	\$4,461,558
INVESTMENT IN CAPITAL ASSETS	\$113,694	\$20,325
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Lori Fanello Currently: Honorable Lori Fanello

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #4 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 #4 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its 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, in their review of the Regional Office's accounting records, auditors 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 and made entries to record them, not all accounts payable, accounts receivable, and deferred revenue were correctly recorded.

According to Regional Office officials, current funding levels were not adequate to hire and/or train accounting personnel in order to comply with these requirements. (Finding 2013-001, pages 14a-14b) **This finding was first reported in 2010.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #4 should implement a comprehensive preparation and/or review procedure to ensure 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 #4 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 of Education #4 noted that it has also expended time and resources to remedy conditions underlying this finding. The Regional Office stated that it has implemented staffing changes to provide more checks and balances to its accounting processes and contracted with an outside Software Specialist to bring its accounting system into compliance with ISBE accounting standards and to train its staff. The Regional Office noted that it will continue to work with the Software Specialist to ascertain its accounting program is up to date and its staff possesses the knowledge required to compile the necessary GAAP based financial statements. (For previous Regional Office response, see Digest Footnote #1.)

INSUFFICIENT COLLATERALIZATION OF BANK DEPOSITS

The Regional Office of Education #4 had insufficient collateralization of bank deposits.

The Regional Office's investment policy indicates that it follows the Illinois Public Funds Investment Act (30 ILCS 235/1 et.seq.) (Act). The Act gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institutions' trust departments in the Regional Office of Education #4's name. In addition, prudent business practice requires that all cash and investments held by the financial institutions for the Regional Office be adequately covered by depository insurance or collateral.

At June 30, 2013, \$1,451,208 of the Regional Office of Education #4's \$4,688,899 cash deposited with financial institutions was uncollateralized and uninsured. Uncollateralized and uninsured bank deposits are subject to custodial credit risk, which is the risk that, in the event of bank failure, the Regional Office of Education #4's deposits may not be returned to it. The financial institution and the Regional Office of Education #4 failed to monitor deposit and collateral balances. (Finding 2013-002, page 14c)

The auditors recommended that the Regional Office of Education #4 should monitor collateral balances throughout the year to ensure sufficient collateral is held to secure its bank deposits.

The Regional Office of Education #4 responded that it has contacted its bank, which raised the collateralization amount to sufficiently cover its monies. The Regional Office stated that together with a representative from the bank, it will continue to monitor the collateralization.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #4's financial statements as of June 30, 2013 are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

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

DIGEST FOOTNOTE

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

In its prior response in 2012, the Regional Office of Education #4 responded that it accepts the degree of risk associated with this condition. 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 of Education #4 noted that it has also expended time and resources to remedy conditions underlying this finding. The Regional Office stated that it has implemented staffing changes to provide more checks and balances to its accounting processes and contracted with an outside Software Specialist to bring its accounting system into compliance with ISBE accounting standards and to train its staff. In addition, the ROE also stated that it contracted with an outside accounting firm to assist in preparing trial balances in preparation for the FY12 audit. The Regional Office noted that it will continue to work with the Software Specialist to ascertain its accounting program is up to date and its staff possesses the knowledge required to compile the necessary GAAP based financial statements.