



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #16
DEKALB COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2013

Release Date: September 25, 2014

Summary of Findings:

Total this audit:	2
Total last audit:	1
Repeated from last audit:	1

SYNOPSIS

- The Regional Office of Education #16 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #16 did not fully insure and collateralize cash balances.

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

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #16 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #16 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, skills and experience to prepare GAAP based financial statements and includes all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #16 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on the cash basis of accounting during the fiscal year and posts the adjusting journal entries proposed by the auditor to convert financial statements from cash to accrual at year-end. While the Regional Office maintains controls over the processing of most accounting transactions and reviews revisions to the financial statements and notes proposed by the auditor, there are not sufficient controls over the preparation of 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.

During review of the Regional Office of Education #16's trial balance prepared by the Regional Office, auditors noted the Regional Office did not have adequate controls over the maintenance of complete records of cash balances, grants receivable, accounts payable, or earned/unearned revenue. Material adjusting journal entries were identified during the audit to correct the trial balance.

According to Regional Office management, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 2013-001, pages 10-11) **This finding was first reported in 2007.**

The auditors recommended that, as part of internal control over the preparation of financial statements, the Regional Office of Education #16 should implement a comprehensive preparation procedure to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a

thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.

The Regional Office of Education #16 responded that the finding above consists of two parts. The first is financial statement preparation and the second material journal entries. The Regional Office stated that it will use the DeKalb County Financial Office as a resource to review the financial statements to ensure that the financial statements are complete and accurate once the audit is complete. However, as mentioned above, the ROE did not have adequate funding to hire personnel during the fiscal year to convert the financial statements from cash basis to accrual basis of accounting. However, the Regional Office is hopeful fiscal 2014 will be fully converted to accrual by the time of the next audit cycle. The Regional Office also noted that it has purchased an update of the accounting software and an independent accountant is being used to set up the accounting software and train existing personnel on how to record financial transactions on accrual basis throughout the year. (For previous Regional Office response, see Digest Footnote #1.)

FAILURE TO FULLY INSURE AND COLLATERALIZE CASH BALANCES

The Regional Office of Education #16 did not fully insure and collateralize cash balances.

The Public Funds Deposit Act (30 ILCS 225/1) gives the Regional Office of Education #16 the authorization to request financial institutions to pledge collateral for deposits in excess of the federally insured limit. In addition, prudent business practice requires that all cash and investments held by financial institutions for the ROE be adequately covered by depository insurance or collateral.

The Regional Office of Education #16 did not have sufficient internal controls to ensure proper collateralization of all cash deposits. At June 30, 2013, the bank balance was \$361,699. Of the total bank balances, \$102,064 was uninsured and uncollateralized.

According to the Regional Office of Education #16's management, they were unaware of the level of cash toward the end of the year and were unable to make the proper arrangement with the financial institution to ensure the cash balances were insured and/or collateralized. (Finding 2013-002, pages 12-13)

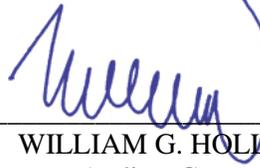
The auditors recommended that as part of internal control over cash collateralization, the Regional Office of Education #16 should implement procedures to ensure all cash deposits are properly collateralized. This includes monitoring the bank balances of all accounts and working with the financial institution to provide collateral or enter into an agreement with

the financial institution to have the cash balances monitored for adequate collateral periodically and adjusted as necessary.

The Regional Office of Education #16 responded that it will monitor cash balances closely in fiscal year 2014, especially near the end of the fiscal year and will take appropriate action to ensure cash balances are either deposited in various financial institutions in order to mitigate the risk of uncollateralized cash balances or will enter into a pledged collateral agreement.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #16's financial statements as of June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Martin, Hood, Friese & Associates, LLC 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 #16 responded that it has begun utilizing the DeKalb County Finance Office as a resource for additional support. The Regional Office has purchased an update of the accounting software program currently in use. The ROE noted that an independent accountant is also being used to set up the upgraded accounting software that will allow for internal preparation and review of financial statements. The Regional Office also stated that these procedures must be performed internally because the added expense of hiring properly trained individuals is cost prohibitive for a small entity such as the ROE. Funding for ROE services is extremely tight, and paying for a service such as was noted would take away from the funds available to provide educational services for the schools in the Region. The Regional Office responded that it will continue to do the best it can with the limited resources available.