



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #26
HANCOCK AND MCDONOUGH COUNTIES

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

Summary of Findings:
Total this audit: 4
Total last audit: 2
Repeated from last audit: 2

SYNOPSIS

The Regional Office of Education #26:

- did not have sufficient internal controls over the financial reporting process;
- did not have adequate internal control procedures;
- did not have adequate internal controls over expenditures; and
- was not in compliance with reporting requirements for a grant.

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

REGIONAL OFFICE OF EDUCATION #26
HANCOCK AND MCDONOUGH 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 | \$3,802,296 | \$4,568,432 |
| Local Sources | \$939,754 | \$1,343,069 |
| % of Total Revenues | 24.72% | 29.40% |
| State Sources | \$2,098,196 | \$2,364,260 |
| % of Total Revenues | 55.18% | 51.75% |
| Federal Sources | \$764,346 | \$861,103 |
| % of Total Revenues | 20.10% | 18.85% |
| TOTAL EXPENDITURES | \$4,038,696 | \$4,389,155 |
| Salaries and Benefits | \$2,111,673 | \$2,232,347 |
| % of Total Expenditures | 52.29% | 50.86% |
| Purchased Services | \$810,301 | \$857,177 |
| % of Total Expenditures | 20.06% | 19.53% |
| All Other Expenditures | \$1,116,722 | \$1,299,631 |
| % of Total Expenditures | 27.65% | 29.61% |
| TOTAL NET POSITION | \$809,470 | \$1,045,870 |
| INVESTMENT IN CAPITAL ASSETS | \$76,848 | \$130,429 |
| Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|--|
| During Audit Period: Honorable John Meixner Currently: Honorable John Meixner |

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

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

The Hancock/McDonough Regional Office of Education #26 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 #26 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its accounting records on cash basis accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions, 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. For example, auditors, in their review of the Regional Office's financial information prepared by the Regional Office of Education #26, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Regional Office maintained records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, no entries were provided to reconcile the Regional Office of Education #26's grant activity, such as posting grant receivables and unearned revenue.
- A loan of cash between two general fund accounts was recorded as an expenditure in the Interest Fund and as a revenue in the Online Payment Fund.

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 2007.**

The auditors recommended that, as part of internal control over the preparation of financial statements, the Regional Office of Education #26 should implement comprehensive preparation procedures to ensure that the financial statements, are complete and accurate. These procedures should be

performed by a properly trained individual(s) 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 #26 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 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. The organization will also research the possibility of having another accounting company prepare its financial statements independent of the auditors. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #26 did not have adequate internal control procedures.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud. Auditors noted the following weaknesses in the Regional Office of Education #26's internal control system for which there were no mitigating controls:

- A. For one bank account, there was inadequate segregation of duties over the bank reconciliation process. The same individual who prepares the bank reconciliations for this account also opens the bank statements when received in the mail. In addition, there was no documented review of the related bank reconciliations by management or an individual independent of the reconciliation and general ledger process.
- B. Several instances where administrative costs and the associated reimbursing transfer of cash were recorded as revenues and expenditures in both the special revenue fund that incurred the cost and in a general fund from which expenses were paid, resulting in double-booking of revenues and expenditures.
- C. Capital asset additions in the amount of \$11,511 were not included on the Regional Office's asset listing.
- D. There was not adequate documentation of inventory counting procedures by the employees of the Western Area Purchasing Co-op when inventory is received, segregated for delivery to Co-op members, and delivered to the Co-op members.

- E. One instance where a member of management did not review or approve the payroll report.
- F. Two instances where the bank reconciliation did not agree to the general ledger cash balance. In the case of the Administrators Roundtable Fund, two months of activity in the fund were not recorded in the accounting system. In the case of the Fingerprinting Fund, the opening balance was not correctly recorded and an outstanding disbursement check was not recorded in the accounting system.
- G. Revenue of \$6,145 in the Education for Homeless Children and Youth grant that remained unspent at the end of the final grant period in the Adult Learning Resource Center Fund was not recorded as due back to the grantors.
- H. The disbursements for the Fingerprinting Fund are not subject to the Regional Office's established internal control procedures over disbursements. In addition, this Fund included credit card payment receipts from three additional special revenue funds that were not transferred to and recorded in the appropriate funds.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures. (Finding 2013-002, pages 14c-14f)

The auditors recommended that the Regional Office of Education #26 should do the following:

- A. Management or an individual independent of the bank reconciliation process should receive the unopened bank statements to review prior to the reconciliation preparation. In addition, management or an individual independent of the reconciliation process should review the bank reconciliations for all bank accounts to ensure that the reconciliation is completed in a timely manner and that the reconciled balance agrees to the general ledger. The bank reconciliation should be initialed and dated by both the preparer and the reviewer.
- B. Administrative costs should be recorded in the fund that incurred the expenses. The associated transfer of cash to reimburse the fund that paid the costs should be recorded as an offset to the associated expenditure account in the reimbursed fund, or this activity should be recorded in an internal service fund.
- C. The Regional Office should establish procedures to ensure their capital asset listing is maintained in

accordance with the Regional Office's capital asset policy.

- D. To provide documentation of the Regional Office's internal controls over inventory, the Western Area Purchasing Co-op employees should document who performed the inventory count and the date each count was completed when inventory is received, segregated for Co-op members, and delivered to Co-op members. This information should be documented on the packing slips, Co-op member's order forms, and delivery forms respectively.
- E. A member of management should review and approve all payroll disbursements prior to payment.
- F. All activity in all funds should be timely recorded in the accounting system. Reconciled bank balances should be reviewed to ensure they agree with the general ledger.
- G. Absent an extension or permission from the grantor to carry unspent funding forward to the next grant period, any unspent grant funds at the end of the grant period should be returned to the grantor or recorded as due to the grantor.
- H. All disbursements of the Regional Office should follow the established internal control procedures governing support, review, and approval of disbursements. Receipts of restricted funding for other special revenue funds should be recorded in the appropriate fund.

The Regional Office of Education #26 responded that it accepts the current auditors' recommendations and has revised Hancock/McDonough Regional Office of Education policies, procedures and/or practices to address the findings noted.

INADEQUATE INTERNAL CONTROLS OVER EXPENDITURES

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over accounting transactions, including disbursements, to prevent errors and fraud and to ensure compliance with applicable requirements for federal awards.

The Regional Office of Education #26 did not have adequate internal controls over expenditures.

During testing, auditors noted the following:

- A. In 4 out of 17 (24%) credit card statements examined, original receipts were not attached and reconciled to the statements; one (1) of the statements included costs that were charged to the Special Education-

Grants for Infants and Families grant (CFDA 84.181). In addition, there was no indication of management's approval of the expenditure or authorization for payment of the charges on one of the statements.

- B. Most journal entries were not supported by documentation, and none had evidence of review by someone independent of the general ledger process. Five journal entries affecting costs charged to the Special Education-Grants for Infants and Families grant (CFDA 84.181) had adequate support but were lacking evidence of independent review.
- C. Original supporting documentation for two expenditures charged to the Special Education-Grant for Infants and Families grant (CFDA 84.181) could not be located. One (1) expenditure charged to the Fund for the Improvement of Education grant (CFDA 84.215X) lacked supporting documentation indicating review by someone independent of the general ledger process.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures over expenditures. (Finding 2013-003, pages 14g-14i)

The auditors recommended that the Regional Office of Education #26 should do the following:

- A. All original credit card receipts should be reviewed, approved, and reconciled to credit card statements prior to the credit card statement being paid.
- B. All journal entries should be accompanied by supporting documentation and have documented review and approval by someone independent of the general ledger processes.
- C. Supporting documentation for all transactions should be maintained in such a way that it can be timely located in the event of any questions or disputes from vendors, grantors, clients, or auditors about their occurrence, amount, classification, timing, or obligations.

The Regional Office of Education #26 responded that it accepts the current auditors' recommendations and has revised policies, procedures and/or practices to address the findings noted.

COMPLIANCE WITH REPORTING REQUIREMENTS

According to the grant agreement for the Fund for the Improvement of Education and federal regulations included by

The Regional Office of Education #26 was not in compliance with reporting requirements for a grant.

reference, the Regional Office is required to administer the grant using a financial management system that provides for the accurate, current, and complete disclosure of the financial results in accordance with applicable reporting requirements. The grant agreement requires an annual performance report and a final performance report at the end of the grant period that explains the variances between budgeted and actual expenditures.

The auditors noted that actual expenditures reported on the final grant performance report for this grant award did not agree to the Regional Office's accounting records. Total expenditures were underreported by \$27,741.

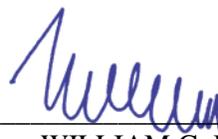
The Regional Office of Education #26 did not prepare the grant performance report using information obtained from the Regional Office's accounting system. (Finding 2013-004, pages 15a-15b)

The auditors recommended that the Regional Office of Education #26 should prepare grant reports that disclose financial information using current and accurate financial data based on reports obtained from the Regional Office's accounting system. The final grant performance report should be amended to reflect accurate expenditures by line item and in total and be resubmitted to the granting agency.

The Regional Office of Education #26 responded that it accepts the auditors' recommendations and has revised policies, procedures and/or practices to address the findings noted.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #26's financial statements as of June 30, 2013 are fairly presented 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 #26 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 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.