



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #28
BUREAU/HENRY/STARK COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2013
Release Date: July 24, 2014**

Summary of Findings:
Total this audit: 4
Total last audit: 1
Repeated from last audit: 1

SYNOPSIS

- The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #28 did not have adequate accounting software and segregation of assets, liabilities and fund balances.
- The Regional Office of Education #28 did not have adequate controls over capital assets.
- The Regional Office of Education #28 did not have adequate segregation of duties over cash receipts.

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

REGIONAL OFFICE OF EDUCATION #28
BUREAU/HENRY/STARK 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	\$2,953,991	\$2,423,496
Local Sources	\$233,693	\$287,843
% of Total Revenues	7.91%	11.88%
State Sources	\$1,191,540	\$1,097,449
% of Total Revenues	40.34%	45.28%
Federal Sources	\$1,528,758	\$1,038,204
% of Total Revenues	51.75%	42.84%
TOTAL EXPENDITURES	\$2,863,062	\$2,396,543
Salaries and Benefits	\$1,399,409	\$975,057
% of Total Expenditures	48.88%	40.69%
Purchased Services	\$283,298	\$319,315
% of Total Expenditures	9.89%	13.32%
All Other Expenditures	\$1,180,355	\$1,102,171
% of Total Expenditures	41.23%	45.99%
TOTAL NET POSITION	\$1,371,061 ¹	\$1,383,739
INVESTMENT IN CAPITAL ASSETS	\$38,117	\$141,068
¹ Beginning net position was restated due to a restatement of capital assets of (\$103,607). Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Angela Zarvell Currently: Honorable Angela Zarvell

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #28 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 and/or thoroughly review GAAP based financial statements to ensure they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process. 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 and correct financial statement misstatements and disclosure omissions in a timely manner.

During review of the Regional Office of Education #28's financial information prepared by the Regional Office, it was noted that it did not have adequate controls over the maintenance of records of cash and accounts receivable. While the Regional Office did maintain records to indicate the balances of cash and accounts receivable, material audit adjustments were proposed in order to ensure financial statement balances were materially accurate.

Management did not effectively detect all of the material adjustments needed in order to present financial statements in accordance with GAAP. (Finding 2013-001, pages 13-14)
This finding was first reported in 2007.

The auditors recommended that, as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #28 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education #28's activities and operations.

The Regional Office of Education #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE ACCOUNTING SOFTWARE AND SEGREGATION OF ASSETS, LIABILITIES AND FUND BALANCES

The Regional Office of Education #28 did not have adequate accounting software and segregation of assets, liabilities and fund balances.

The Regional Office of Education #28 is required by the Illinois State Board of Education to maintain their accounting system in accordance with the Regional Office of Education Accounting Manual. The Manual requires the Regional Office Education #28 to maintain an accounting system on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Regional Office of Education #28 utilizes an accounting software package which was not designed for governmental entities. The accounting software package did not provide the reporting features required for proper fund accounting. The accounting software package allowed for the revenues and expenses for the Regional Office of Education #28's programs to be accounted for separately, but combined all assets, liabilities and fund balances.

The Regional Office of Education #28 used an accounting software package that did not segregate assets, liabilities and fund balance on an individual fund basis. (Finding 2013-002, pages 15-16)

The auditors recommended that the Regional Office of Education #28 should implement an accounting software package that provides the necessary reporting features required for proper fund accounting. An appropriate accounting software package will support the multiple programs and funds administered by the Regional Office of Education #28. The accounting software package should have the capabilities necessary for the Regional Office of Education #28 to be in compliance with the Regional Office of Education Accounting Manual and provide the reporting detail necessary

to prepare financial statements in accordance with generally accepted accounting principles.

The Regional Office of Education #28 responded that it attempts to track assets, liabilities, and fund balance on an individual fund basis. However, the Regional Office will be acquiring accounting software that will produce trial balances.

INADEQUATE CONTROLS OVER CAPITAL ASSETS

The Regional Office of Education #28 did not have adequate controls over capital assets.

The Regional Office of Education Accounting Manual requires each Regional Office of Education to maintain detailed capital asset records for both accounting purposes as well as insurance purposes, for capital assets costing \$500 or more. Generally accepted accounting principles require an inventory of all capital assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

The Regional Office of Education Accounting Manual also states that the capital asset inventory records should include: the inventory control number (tag number); major asset class; function and activity; reference to the acquisition source document; acquisition date; vendor; a short description of the asset; unit charged with custody; location; fund and account from which purchased; method of acquisition; estimated useful life and method of depreciation; estimated salvage value; and date, method, and authorization of disposal.

The original capital asset listing provided to auditors was incomplete. The original capital asset listing was missing the purchase date, cost and disposal date of some assets. Additionally, the original capital asset listing did not include depreciation expense, accumulated depreciation or net book value of assets. Upon request of auditors, the Regional Office of Education revised their capital asset listing to reflect the missing information; however, corrections and adjustments were subsequently proposed by auditors. (Finding 2013-003, pages 17-18)

The auditors recommended that the Regional Office of Education #28 should maintain a capital asset listing that adheres to the requirements of the Regional Office of Education Accounting Manual. The Regional Office of Education #28 should review the capital asset listing for accuracy and existence through an annual physical inventory. Additionally, reconciliations should be performed between the capital asset listing and the recorded capital outlay expenditures each year to ensure the accuracy and completeness of the listing.

The Regional Office of Education #28 responded that it will properly maintain a capital asset listing.

INADEQUATE SEGREGATION OF DUTIES OVER CASH RECEIPTS

The Regional Office of Education #28 did not have adequate segregation of duties over cash receipts.

Internal controls should be in place to reduce to a relatively low risk the likelihood a material misstatement to the financial statements could occur and not be detected and corrected in a timely period by employees in the normal course of performing their assigned functions. A good system of internal controls includes an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

The bookkeeper collects cash receipt remittances along with cash and checks from the locked deposit box, prepares deposits slips, takes deposits to the bank on occasion, records the transactions in the accounting system and jointly performs monthly bank reconciliations.

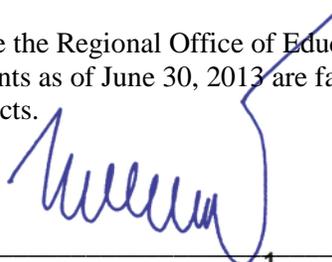
The Regional Office of Education #28 did not internally identify the lack of segregation of duties over cash receipts. (Finding 2013-004, page 19)

The auditors recommended that the Regional Office of Education #28 should assign the duties of preparing deposit slips and taking deposits to the bank among other Regional Office of Education #28 staff. The bookkeeper could continue to record deposit transactions in the accounting system, verify that cash receipt remittances agree to the bank deposits and perform the monthly bank reconciliations for review by the Regional Superintendent. Additionally, the Regional Office of Education #28 should regularly review controls which could be put in place to mitigate the risk that misstatement could occur and not be detected and corrected.

The Regional Office of Education #28 responded that monthly bank reconciliations are performed jointly and the Regional Superintendent signs all reconciliations. The Regional Office stated that it will regularly review controls which could be put in place to mitigate the risk that misstatement could occur and not be detected and corrected.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #28's financial statements as of June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Winkel, Parker & Foster, CPA PC 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 #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare and/or review financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. The Regional Office also noted that if additional resources are made available through the State of Illinois, the Regional Office will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.