



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2012

Release Date: August 6, 2013

Summary of Findings:

Total this audit:	7
Total last audit:	7
Repeated from last audit:	5

SYNOPSIS

The Regional Office of Education #53:

- did not have sufficient internal controls over the financial reporting process;
- did not record revenues and expenditures in the proper accounts;
- was not in compliance with the Grant Funds Recovery Act;
- did not have adequate internal control procedures over disbursements;
- did not have adequate review of journal entries;
- did not have adequate internal controls over cash; and
- had expenditure reports that did not agree to the General Ledger.

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

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For The Year Ended June 30, 2012

	FY 2012	FY 2011
TOTAL REVENUES	\$1,715,065	\$2,427,959
Local Sources	\$369,606	\$245,303
% of Total Revenues	21.55%	10.10%
State Sources	\$1,247,456	\$1,828,033
% of Total Revenues	72.74%	75.29%
Federal Sources	\$98,003	\$354,623
% of Total Revenues	5.71%	14.61%
TOTAL EXPENDITURES	\$1,385,322	\$1,854,213
Salaries and Benefits	\$778,855	\$724,662
% of Total Expenditures	56.22%	39.08%
Purchased Services	\$245,924	\$189,941
% of Total Expenditures	17.75%	10.24%
All Other Expenditures	\$360,543	\$939,610
% of Total Expenditures	26.03%	50.67%
TOTAL NET ASSETS	\$1,545,766 ¹	\$1,037,881
INVESTMENT IN CAPITAL ASSETS	\$21,946	\$24,216
¹ Includes a \$178,142 restatement to the FY 2012 beginning net asset balance to correct the reporting of revenue and remove a liability. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Gail Owen Currently: Honorable Gail Owen

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #53 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #53 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 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 #53 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 were not sufficient controls over the preparation/review 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, auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of receivables, payables, capital assets, or deferred revenue.
- Numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.

According to Regional Office officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 12-01, pages 11-12) **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 #53 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 #53 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. Management will review year end reporting controls annually and investigate securing the services of a Certified Public Accounting firm to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. The Regional Office stated that because the State does not provide funding to the ROE for this purpose, and county funds will not allow for the services of a CPA firm, the ROE will continue to pursue additional training for the individual(s) responsible for financial statement preparation. (For previous Regional Office response, see Digest Footnote #1.)

MISCODING OF REVENUES AND EXPENDITURES

The Regional Office of Education #53 did not record revenues and expenditures in the proper accounts.

The Regional Office of Education #53 did not record revenues and expenditures in the proper accounts. Revenues and expenditures should be carefully monitored to make sure that they are recorded to the proper accounts.

During audit testing, auditors identified several instances where revenues and expenditures were miscoded. They were as follows:

- Various payroll expenditures were recorded in the wrong funds. According to documents provided by management, payroll was to be allocated between certain funds. When payroll was posted, those allocations were not followed and payroll expenses were posted to different funds.
- Receipts totaling \$127,764 from the Illinois State Board of Education (ISBE) were incorrectly recorded in the Regional Safe Schools Fund and the Truants Alternative/Optional Education Fund instead of the General State Aid Funds. Additionally, receipts totaling \$17,753 from the ISBE were incorrectly recorded in the General State Aid Funds instead of the Truants Alternative/Optional Education Fund.
- \$23,678 in revenue from local sources was incorrectly coded as State revenue sources.

Since many of the funds with the miscodings were grants, inaccurate expenditure reports could be submitted, which could lead to the granting agency requesting a return of grant

funds or adjusting the fiscal year 2013 grant amounts. In addition, revenues by source could be materially misstated if revenues are not recorded in the proper accounts. The Regional Office of Education #53's various miscodings appear to be a combination of oversights as well as personnel being unaware of accounting requirements. (Finding 12-02, pages 13-14) **This finding was first reported in 2010.**

The auditors recommended that the Regional Office of Education #53 personnel responsible for coding expenditures and revenues should be made aware of all accounting requirements that pertain to recording and reporting the Regional Office's revenues, reimbursements and expenditures. The Regional Superintendent and/or Assistant Regional Superintendent should review cash receipt and disbursement reports to determine that all transactions are recorded to the proper funds and accounts.

The Regional Office of Education #53 responded that personnel responsible for coding expenditures and revenues have been made aware of all accounting requirements that pertain to recording and reporting the Regional Office's revenues, reimbursements and expenditures. The Regional Superintendent and/or Assistant Regional Superintendent will review cash receipt and disbursement reports to determine that all transactions are recorded to the proper funds and accounts. (For previous Regional Office response, see Digest Footnote #2.)

NONCOMPLIANCE WITH THE GRANT FUNDS RECOVERY ACT

The Regional Office of Education #53 was not in compliance with the Grant Funds Recovery Act.

The Illinois Grant Funds Recovery Act (30 ILCS 705/5) requires that all grant funds that have not been expended or obligated by the end of the grant period be returned to the granting agency within 45 days after the end of the period.

Mid-Illini Educational Cooperative (MIEC), a component unit of the Regional Office of Education #53, had unspent grant funds in the following programs at the end of the prior audit periods. These programs and amounts were: Gifted Education \$28,021; Standards Aligned Classroom, \$29,392; RESPRO, \$104,128. These balances were not reflected on expenditure reports or returned to the granting agencies. MIEC was a grant subrecipient for each of these grants.

The Regional Office of Education #53 personnel did not realize that expenditure reports for grant funds not spent by a grant subrecipient by the end of the grant period are required to be adjusted. Additionally, the Regional Office of Education #53's personnel were unaware that unspent funds of the grant subrecipient are to be returned to the granting agencies within 45 days after the end of the period. (Finding 12-03, page 15)

The auditors recommended that the Regional Office of Education #53 personnel responsible for monitoring grants passed through to MIEC should be made aware of all grant compliance requirements that pertain to grants they are awarded. In addition, the Regional Office of Education #53 should return all unspent grant funds of subrecipients to the appropriate granting agencies.

The Regional Office of Education #53 responded that unspent grant funds will be returned to the appropriate grant agency as soon as final figures have been determined.

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #53 did not have adequate internal control procedures over disbursements.

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over disbursements to prevent errors and fraud. During review of cash disbursements, auditors tested 78 transactions and the following exceptions were noted:

- In 6 of the 78 (8%) transactions tested, there was no supporting documentation with the copy of the check. While the checks were signed by the Regional Superintendent or Assistant Regional Superintendent, there was no documentation that the invoices had been reviewed and approved, or checks were written for the correct amount.
- In 3 out of 78 (4%) transactions tested, there was no approval on the invoice by the Regional Superintendent or the Assistant Regional Superintendent. The checks were signed by management, but there was no documentation on the invoice noting review or authorization.

According to Regional Office officials, there were sporadic instances when management's signatures were not on the documents required for authorizing payments. However, there was a signature on the check disbursed so the Assistant Regional Superintendent was aware of what transaction took place. With respect to missing documentation, management believes this was due to multiple checks for the same purpose, as four of them were to the State Superintendent of Schools and the other two were from a smaller checking account used for a single purpose. (Finding 12-04, pages 16-17)

The auditors recommended that the Regional Office of Education #53's management should ensure that the Regional Office follows the established system of internal controls over disbursements to prevent errors and fraud. Regional Office management should ensure the Regional Superintendent or Assistant Regional Superintendent approves, by initialing, all check disbursement documentation, including invoices and

reports showing the recording of the payment. This verifies the check was written from the proper account for the correct amount.

The Regional Office of Education #53 responded that management will review procedures to ensure the Regional Office follows the established system of internal controls over disbursements to prevent errors and fraud. The Regional Superintendent or Assistant Regional Superintendent will approve, by initialing, all check disbursement documentation, including invoices and reports showing the recording of the payment. The ROE stated that this process will verify the check was written from the proper account for the correct amount.

INADEQUATE REVIEW OF JOURNAL ENTRIES

The Regional Office of Education #53 did not have adequate review of journal entries.

The Regional Office of Education #53 is responsible for establishing and maintaining an internal control system over journal entries to prevent errors or fraud. In addition, adequate controls over compliance with laws, regulations, and grant agreements require supervisory review of expenditures charged to grant programs.

The Regional Superintendent or Assistant Regional Superintendent did not sign off on journal entries in a timely manner. Upon review of the journal entries, all journal entries for the fiscal year were signed off on the same date. According to the Regional Office of Education #53 management, having multiple bookkeepers and periods of time without a formal bookkeeper caused the financial records to need adjustment. Management allowed the final bookkeeper to adjust the financial records. While management was informed verbally of changes, there was not proper documentation. (Finding 12-05, page 18)

The auditors recommended that the Regional Superintendent or Assistant Regional Superintendent should sign off his or her approval on all journal entries along with their documentation supporting the necessary adjustments prior to the entries being posted in the accounting records.

The Regional Office of Education #53 responded that the Regional Superintendent or Assistant Regional Superintendent will sign off her or his approval on all journal entries along with an explanation supporting the necessary adjustments prior to the final posting in the accounting records.

INADEQUATE INTERNAL CONTROLS OVER CASH

The Regional Office of Education #53 did not have adequate internal controls over cash.

Adequate internal controls over cash require that all cash in the custody of the Regional Office of Education be recorded in the general ledger and each month's bank statement be reconciled to the general ledger account balance.

The Regional Office of Education #53's ending general ledger balance for the Illinois Funds-Institute account was not reconciled to the bank balance and activity in the account was not included in the general ledger. In addition, the bank reconciliation for the pooled cash accounts did not agree to the total pooled cash accounts on the general ledger.

The Regional Office of Education #53 did not follow the internal controls in place to ensure that all bank statements were reconciled to the related general ledger cash accounts on a monthly basis. (Finding 12-06, page 19)

The auditors recommended that the Regional Office of Education #53's personnel should complete bank statement reconciliations to the general ledger for all bank accounts. Management should review all bank statement reconciliations to ensure the completion and accuracy of the general ledger.

The Regional Office of Education #53 responded that the ROE bookkeeper will complete bank statement reconciliations to the general ledger for all bank accounts. The Regional Office stated that management will review all bank statement reconciliations to ensure the completion and accuracy of the general ledger.

EXPENDITURE REPORTS DID NOT AGREE TO THE GENERAL LEDGER

The Regional Office of Education #53's expenditure reports did not agree to the general ledger.

Expenditure reports submitted to the Illinois State Board of Education and other granting agencies should agree with the expenditures on the Regional Office of Education #53's general ledger.

The expenditure reports submitted to the Illinois State Board of Education and other granting agencies for Regional Safe Schools, Truants Alternative Optional Education, and McKinney Education for Homeless Children did not agree with the Regional Office's books, resulting in inaccurate expenditure reports.

According to Regional Office officials, vacancies in the bookkeeping position caused difficulties in the proper recording of entries in the accounting software. (Finding 12-07, page 20)

The auditors recommended that the Regional Office of Education #53 personnel responsible for preparing expenditure reports should compare the categorization of expenditures by line item with the general ledger accounts and make necessary corrections before filing the reports.

The Regional Office of Education #53 responded that personnel responsible for preparing expenditure reports will

compare the categorization of expenditures by line item with the general ledger accounts and make necessary corrections before filing the reports.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #53's financial statements as of June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: West & Company, LLC were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2011, the Regional Office of Education #53 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The Regional Office management is not currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate securing the services of a Certified Public Accounting firm to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will continue to pursue additional training for the individual(s) responsible for financial statement preparation.

#2: Miscoding of Revenues and Expenditures-Previous Regional Office Response

In its prior response in 2011, the Regional Office of Education #53 responded that personnel responsible for coding expenditures and revenues have been made aware of all accounting requirements that pertain to recording and reporting the Regional Office's revenues, reimbursements and expenditures. The Regional Superintendent and/or Assistant Regional Superintendent will review cash receipt and disbursement reports to determine that all transactions are recorded to the proper funds and accounts.