



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, 2013

Release Date: May 29, 2014

Summary of Findings:

Total this audit:	5
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;
- 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; and
- did not have adequate controls over cash.

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

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For The Year Ended June 30, 2013

	FY 2013	FY 2012
TOTAL REVENUES	\$1,497,783	\$1,715,065
Local Sources	\$384,924	\$369,606
% of Total Revenues	25.70%	21.55%
State Sources	\$1,066,123	\$1,247,456
% of Total Revenues	71.18%	72.74%
Federal Sources	\$46,736	\$98,003
% of Total Revenues	3.12%	5.71%
TOTAL EXPENDITURES	\$1,404,469	\$1,385,322
Salaries and Benefits	\$996,490	\$778,855
% of Total Expenditures	70.95%	56.22%
Purchased Services	\$245,927	\$245,924
% of Total Expenditures	17.51%	17.75%
All Other Expenditures	\$162,052	\$360,543
% of Total Expenditures	11.54%	26.03%
TOTAL NET POSITION	\$1,628,080 ¹	\$1,545,766
INVESTMENT IN CAPITAL ASSETS	\$38,997	\$21,946
¹ The beginning net position was restated by -\$11,000 in the Fingerprinting Fund to correct the improper recording of revenue in a prior year. 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, 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 #53 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 were 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 #53's financial information prepared by the Regional Office, the following were noted:

- The Regional Office did not have adequate controls over the maintenance of complete records of cash and an accurate breakdown of cash per fund. (See finding 2013-005)
- The Regional Office recorded \$11,226 of local revenue as State revenue. Additionally, \$28,700 of federal revenue was recorded as State revenue.

According to Regional Office management, a reversing journal entry was not made which caused cash to be understated. Additionally, the accounting software used by the Mid-Illini Education Cooperative did not easily allow for cash to be broken down by fund. The revenue postings were an oversight while posting to the general ledger. (Finding 2013-001, pages 12-13) **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 #53 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 possessing a thorough understanding of the applicable GAAP, 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 public accounting 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.)

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 blended component unit of the Regional Office of Education #53, had unspent grant funds in the Gifted Education Fund of \$28,021. This balance was not reflected on expenditure reports or returned to the granting agencies in accordance with the Illinois Grant Funds Recovery Act. MIEC was a grant subrecipient for this grant.

According to Regional Office of Education officials, they could not get confirmation from the Illinois State Board of Education on where and how to return the unspent grant money. (Finding 2013-002, page 14) **This finding was first reported in 2011.**

The auditors recommended that the Regional Office of Education #53 personnel should continue to contact the Illinois State Board of Education to learn the appropriate procedures for sending back the excess cash. In addition, the Regional Office should monitor all grants for compliance with the Illinois Grant Funds Recovery Act (30 ILCS 705/5).

The Regional Office of Education #53 responded that letters were sent to granting agencies requesting procedures for returning unspent grant funds. In addition, management will

also monitor all grants for compliance with the Illinois Grant Funds Recovery Act (30 ILCS 705/5). (For previous Regional Office response, see Digest Footnote #2.)

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 60 cash disbursement transactions, auditors noted the following exceptions:

- In five (5) of the sixty (60) (8.3%) 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.
- In four (4) of sixty (60) (6.7%) transactions tested, sales tax was paid when it should not have been paid.

According to Regional Office officials, an individual within management reviews all invoices prior to checks being written and any exceptions were oversight. Additionally, the Regional Office has made an effort to not pay sales tax and the exceptions noted were oversights. (Finding 2013-003, pages 15-16) **This finding was first reported in 2011.**

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, as well as ensures that sales tax is not paid.

The Regional Office of Education #53 responded that a review of the aforementioned unsigned invoices revealed to the management that this had primarily occurred during the short employment of a former bookkeeper. The Regional Office noted that following the departure of the previous bookkeeper all procedures were reviewed and revised. Management has reviewed internal controls and procedures with staff members and re-worked the process for the approval of invoices prior to checks being signed. The ROE stated that management has addressed the issue of paying sales tax with employees and has made available the sales tax exemption letter for those to whom it may apply. (For previous Regional Office response, see Digest Footnote #3.)

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. Journal entries entered by a hired consultant were not approved by management in writing.

According to the Regional Office of Education #53 management, they were aware of all journal entries being made into the accounting software. Management allowed the consultant to adjust the financial records. While management was informed verbally of changes, there was not proper documentation of this approval maintained. (Finding 2013-004, page 17)

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 it hired a Certified Public Accountant. The consultant told the bookkeeper to make the journal entry adjustments which she did without prior approval of management. The Regional Office stated that it has been brought to her attention that management (not the consultant) must sign off on all journal entries. While management was informed verbally of changes, there was not proper documentation.

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 all cash in the custody of the Regional Office of Education be recorded in the correct fund and be reasonably stated. The Mid-Illini Education Cooperative's (MIEC), a blended component unit of the Regional Office of Education #53, ending general ledger balance for the Local Workshop Fund account was understated due to a reversing journal entry not being made during the fiscal year. In addition, the Mid-Illini Education Cooperative maintains its cash in a pooled cash account and did not segregate individual cash transactions in the proper fund within the accounting system.

The bank reconciliation for MIEC had numerous outstanding items from previous audit adjustments that were never cleared.

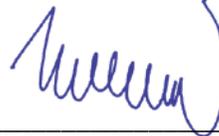
Having that many outstanding items did not allow for management to know the cash balance was incorrect. Furthermore, management was not aware of the requirement to segregate individual cash balances by fund because the cash was in a pooled cash account. (Finding 2013-005, page 18) **This finding was first reported in 2011.**

The auditors recommended that the Regional Office of Education #53's personnel should clear outstanding items on the bank reconciliation and segregate individual cash balances by fund within the accounting software.

The Regional Office of Education #53 responded that it was determined that personnel did not have a clear understanding of the limitations of their accounting software for fund accounting use. The Regional Office stated that it has switched to a different accounting software starting in fiscal year 2014. (For previous Regional Office response, see Digest Footnote #4.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #53's financial statements as of June 30, 2013 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 2012, 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.

**#2: Noncompliance with the Grant Funds Recovery Act-
Previous Regional Office Response**

In its prior response in 2012, 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.

**#3: Inadequate Internal Control Procedures-Previous Regional
Office Response**

In its prior response in 2012, 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.

**#4: Inadequate Controls Over Cash-Previous Regional Office
Response**

In its prior response in 2012, 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.