



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, 2012
Release Date: January 30, 2012**

Summary of Findings:
Total this audit: 2
Total last audit: 1
Repeated from last audit: 1

SYNOPSIS

- The Regional Office of Education #26 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #26 did not have adequate internal control procedures.

{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, 2012

	FY 2012	FY 2011
TOTAL REVENUES	\$4,568,432	\$4,112,700
Local Sources	\$1,343,069	\$1,288,010
% of Total Revenues	29.40%	31.32%
State Sources	\$2,364,260	\$1,854,214
% of Total Revenues	51.75%	45.09%
Federal Sources	\$861,103	\$970,476
% of Total Revenues	18.85%	23.60%
TOTAL EXPENDITURES	\$4,389,155	\$3,831,046
Salaries and Benefits	\$2,232,347	\$1,932,037
% of Total Expenditures	50.86%	50.43%
Purchased Services	\$857,177	\$824,078
% of Total Expenditures	19.53%	21.51%
All Other Expenditures	\$1,299,631	\$1,074,931
% of Total Expenditures	29.61%	28.06%
TOTAL NET ASSETS	\$1,045,870	\$866,593
INVESTMENT IN CAPITAL ASSETS	\$130,429	\$106,674
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 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 #26 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 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 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's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenue. While the Regional Office maintained records to indicate the balances of accounts payable, accounts receivable, and deferred revenue, no entries were provided to reconcile the Regional Office of Education #26's grant activity, such as posting grant receivables and deferred revenue.

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 12-01, pages 12a-12b) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #26 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 #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. (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 two bank accounts, there was inadequate segregation of duties over the bank reconciliation process. Auditors also noted that for one of these accounts, a reconciliation of the June 2012 bank statement had not been completed. The same individual who prepares the bank reconciliations for both of these accounts 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. The activity for the Fingerprinting, State Superintendent, and Administrator's Roundtable Funds were not recorded in the Regional Office's general ledger.
- C. Auditors noted several instances where interfund transfers were recorded as local revenues and

expenditures rather than as transfers in and out in the affected funds or programs.

- D. Adjusting journal entries were recorded using the cash receipts and disbursements modules of the accounting software rather than as journal entries.
- E. 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.
- F. During payroll testing, auditors noted in 7 of 60 (12%) transactions tested the employee's timesheet was not approved by the supervisor. In addition, auditors noted 15 of 60 (25%) transactions tested the employment contract was not signed by the employee and the Regional Superintendent.
- G. During payroll testing, the Regional Superintendent was not documenting his review and approval of the direct deposit report for employees who have their pay deposited directly into their bank accounts.
- H. During testing of credit card transactions, auditors noted that in 4 of the 16 (25%) statements tested not all of the original credit card receipts were attached and reconciled to credit card statements. In addition, auditors noted two instances where there was no documented approval for the payment of the credit card purchases.

The Regional Office of Education #26 has not established or documented sufficient internal control procedures. (Finding 12-02, pages 12c-12e)

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. All activities of the Regional Office should be included in the Regional Office's accounting system

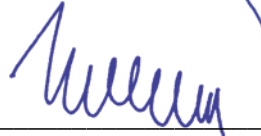
to ensure a complete accounting of the Regional Office's operations.

- C. Interfund transfers should be recorded as transfers in or out of the respective funds rather than as revenues in one fund and expenditures in the other. If an actual transfer of cash is not involved, revenues and expenditures should be recorded in the fund that received the funding and incurred the cost respectively.
- D. Corrections and other adjustments should be recorded as general journal entries rather than being entered as cash receipts or disbursements in order to provide a sufficient audit trail to support the Regional Office's adjustments.
- E. 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.
- F. The Regional Office should ensure all timesheets are approved by the employee's supervisor prior to processing the employee's payroll. In addition, the Regional Office should ensure that all employment contracts are signed by both the employee and the Regional Superintendent.
- G. Management should review and document approval of all direct deposit reports prior to the ACH transfer to employees' bank accounts being finalized.
- H. All original credit card receipts should be reviewed, approved, and reconciled to credit card statements prior to the credit card statement being paid.

The Regional Office of Education #26 responded that it accepts the current auditor's recommendations and has revised Hancock/McDonough Regional Office of Education and Western Area Purchasing Cooperative policies and procedures to address the findings noted. The Regional Office noted that several of the practices cited by the auditors have been in place for several years with no reported case of misappropriations or malfeasance.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #26's financial statements as of June 30, 2012 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 2011, the Regional Office of Education #26 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 accepts the degree of risk associated with this condition because the added expense of seeking additional 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.