



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #27
HENDERSON, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2013

Release Date: June 19, 2014

Summary of Findings:

| | |
|----------------------------------|----------|
| Total this audit: | 2 |
| Total last audit: | 2 |
| Repeated from last audit: | 1 |

SYNOPSIS

- The Regional Office of Education #27 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #27 did not have adequate controls over capital assets.

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

REGIONAL OFFICE OF EDUCATION #27
HENDERSON, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2013

| | FY 2013 | FY 2012 |
|--|--------------------------|----------------|
| TOTAL REVENUES | \$2,390,648 | \$2,187,941 |
| Local Sources | \$370,869 | \$369,315 |
| % of Total Revenues | 15.51% | 16.88% |
| State Sources | \$1,498,641 | \$1,395,253 |
| % of Total Revenues | 62.69% | 63.77% |
| Federal Sources | \$521,138 | \$423,373 |
| % of Total Revenues | 21.80% | 19.35% |
| TOTAL EXPENDITURES | \$2,283,850 | \$2,116,727 |
| Salaries and Benefits | \$1,295,531 | \$1,187,027 |
| % of Total Expenditures | 56.73% | 56.08% |
| Purchased Services | \$274,938 | \$294,483 |
| % of Total Expenditures | 12.04% | 13.91% |
| All Other Expenditures | \$713,381 | \$635,217 |
| % of Total Expenditures | 31.24% | 30.01% |
| TOTAL NET POSITION | \$1,071,878 ¹ | \$956,509 |
| INVESTMENT IN CAPITAL ASSETS | \$6,807 | \$0 |
| Percentages may not add due to rounding. | | |
| ¹ The beginning Net Position had a net increase of \$8,571 due to three restatements of prior period amounts. | | |

| REGIONAL SUPERINTENDENT |
|---|
| During Audit Period: Honorable Jodi Scott |
| Currently: Honorable Jodi Scott |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #27 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #27 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The ROE 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 #27 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting during the fiscal year. 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 of Education #27's financial information prepared by the Regional Office, 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 did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, not all entries were provided to reconcile the Regional Office of Education #27's grant activity, such as posting grant receivables and unearned revenue.

According to the Regional Office of Education #27 management, they did not have adequate funding to hire and/or train their accounting personnel in order to maintain a system of internal control over the preparation of financial statements in accordance with GAAP. (Finding 2013-001, 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, the Regional Office of Education #27 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 #27's activities and operations.

The Regional Office of Education #27 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 currently confident with the accounting staff and the preparation of financial information. The Regional Office stated that additional training will be pursued when it is considered cost beneficial and not detrimental to the funding for services the Regional Office provides. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE CONTROLS OVER CAPITAL ASSETS

The Regional Office of Education #27 did not have adequate controls over capital assets.

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, states that capital assets should be reported at historical cost. Capital assets include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operation and that have initial useful lives extending beyond a single reporting period. Capital assets should be depreciated over their estimated useful lives and reported net of accumulated depreciation in the Statement of Net Position. Depreciation expense should be reported in the Statement of Activities.

In addition, the Regional Office of Education (ROE) Accounting Manual requires each ROE 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 #27 had inadequate controls over capital assets. The Regional Office's property listing for the fiscal year ended June 30, 2013, included one addition over its capitalization threshold of \$5,000. Review of the invoice for this item indicated that the item was actually purchased in November 2011, which was during the fiscal year ended June 30, 2012. The item, a fingerprinting machine, was fully expensed during the fiscal year ended June 30, 2012 instead of being set up as a capital asset and depreciated. A material audit adjusting journal entry was needed to properly reflect a capital asset in the financial statements.

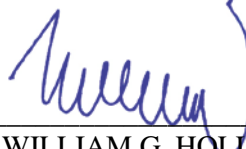
According to the Regional Office of Education #27's management, this capital asset was inadvertently overlooked when performing their physical inventory count and updating their property listing for the fiscal year ended June 30, 2012. (Finding 2013-002, pages 13-14)

The auditors recommended that as part of internal control over capital assets, the Regional Office of Education #27 should establish a procedure to update the capital asset records for property and equipment at the time an item is received. A physical count of property should then be taken periodically and compared to the items on the detailed capital asset listing, and significant differences investigated. This process will help improve the tracking of assets and help detect the loss or unauthorized use of valuable property.

The Regional Office of Education #27 responded that its staff will be more diligent in updating the inventory list throughout the year as items are purchased. The Regional Office stated that periodic reviews will also be established to ensure no item is overlooked.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #27's financial statements as of June 30, 2013 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Sulaski & Webb, CPAs 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 #27 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 currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed throughout the year. Management will review year end reporting controls annually and investigate the cost of

training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide education services for the schools in the region.