



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #2
ALEXANDER, JOHNSON, MASSAC, PULASKI, AND UNION COUNTIES

**FINANCIAL AUDIT (In accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2010
Release Date: May 19, 2011**

Summary of Findings:
Total this audit: 4
Total last audit: 4
Repeated from last audit: 2

SYNOPSIS

- The Regional Office of Education #2 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #2 had cash account balances with one bank which exceeded the Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral by \$373,035.
- The Regional Office of Education #2 did not properly handle interest earned on federal funds.
- The Regional Office of Education #2 did not properly report grant funds that were obligated but not expended on initial grant yearend expenditure reports.

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

REGIONAL OFFICE OF EDUCATION #2
ALEXANDER, JOHNSON, MASSAC, PULASKI, AND UNION COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2010

	FY 2010	FY 2009
TOTAL REVENUES	\$3,448,384	\$3,248,817
Local Sources	\$236,265	\$216,841
% of Total Revenues	6.85%	6.67%
State Sources	\$1,524,061	\$1,532,307
% of Total Revenues	44.20%	47.17%
Federal Sources	\$1,688,058	\$1,499,669
% of Total Revenues	48.95%	46.16%
TOTAL EXPENDITURES	\$3,015,001	\$2,935,300
Salaries and Benefits	\$1,247,274	\$1,304,640
% of Total Expenditures	41.37%	44.45%
Purchased Services	\$534,031	\$706,521
% of Total Expenditures	17.71%	24.07%
All Other Expenditures	\$1,233,696	\$924,139
% of Total Expenditures	40.92%	31.48%
TOTAL NET ASSETS	\$2,433,937 ¹	\$2,003,354
INVESTMENT IN CAPITAL ASSETS	\$135,976	\$139,110
¹ Net assets for FY10 were adjusted by a reduction in deferred revenue of \$2,800. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Janet Ulrich Currently: Honorable Janet Ulrich

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #2 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #2 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 #2 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 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.

Auditors, in their review of accounting records, noted that 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 did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenue, the Regional Office's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

Auditors also noted that the Regional Office had not recorded several prior period audit adjustments within its basic financial statements.

According to Regional Office officials, they did not have adequate funding to hire a certified public accountant or other financial professionals for their full-time staff. The omission of several prior period adjustments was due to oversight by Regional Office personnel. (Finding 10-01, pages 12a-12b)
This finding was first reported in 2007.

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #2 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 #2 responded that in an attempt to correct this finding, they sent the ROE Controller to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP). In addition, the Regional Office noted that it had contracted with a Certified Public Accountant to assist the Regional Office with its yearend closing entries and who is willing to review and accept the responsibility for the financial statements. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE MONITORING OF COLLATERAL ON DEPOSITS

The Regional Office of Education #2 had cash account balances with one bank which exceeded the Federal Deposit Insurance Corporation coverage and pledged collateral by \$373,035.

The Regional Office of Education #2 had cash account balances with one bank which exceeded the Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral by \$373,035. The Public Funds Deposit Act (30 ILCS 225/1) gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institution's trust department in the Regional Office of Education #2's name. In addition, prudent business practice requires that all cash and investments held by financial institutions for the ROE be adequately covered by depository insurance or collateral.

As of June 30, 2010, cash account balances with one bank exceeded FDIC coverage and pledged collateral by \$373,035. Failure to secure full collateral on cash and investment balances may result in monetary losses to the Regional Office.

According to the Regional Office's management, the required additional collateral for the deposits was deficient due to the ROE's insufficient monitoring of account balances requiring collateral. (Finding 10-02, page 12c)

Auditors recommended that the Regional Office of Education #2 should monitor collateral held for its bank accounts. The Regional Office should also establish controls for confirming amounts pledged by the bank on a regular basis, especially when cash balances exceed the FDIC level.

The Regional Office of Education #2 agreed with the finding. The ROE noted that management will meet with bank personnel to review their agreement about additional collateral for the Regional Office and will request a regular statement showing the amounts that have been pledged. The Regional Office's staff will also more closely monitor collateral pledged on bank account balances.

INTEREST EARNED ON FEDERAL GRANT FUNDS

The Regional Office of Education #2 did not properly handle interest earned on federal funds.

The Regional Office of Education #2 did not properly handle interest earned on federal funds. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (34 Code of Federal Regulations, Part 80.21) requires that interest earned on federal fund balances in excess of \$100 be remitted back to the federal granting agency promptly or at least quarterly.

The Regional Office had interest income of \$514 earned from federal funding in excess of \$100 related to the 2009 System of Support – Title I – School Improvement and Accountability program, dated September 1, 2008 through August 31, 2009, which was due back to the grantor agency. Auditors questioned costs of \$514. (Finding 10-03, page 12d)

Auditors recommended that the Regional Office should track interest earnings on federal funds so that any excess funds can be returned promptly. In addition, at the end of the grant period, any unobligated or unspent interest on all grants plus any federal interest in excess of \$100 should be returned to the grantor.

The Regional Superintendent responded that she agrees with the finding.

IMPROPER COMPLETION OF EXPENDITURE REPORTS

The Regional Office of Education #2 did not properly report grant funds that were obligated but not expended on initial grant yearend expenditure reports.

The Regional Office of Education #2 did not properly report grant funds that were obligated but not expended on initial grant yearend expenditure reports. When grants have expenditures that are obligated, but not yet expended at the end of a grant period, the Illinois State Board of Education requires these amounts to be reported as obligations on initial grant yearend expenditure reports.

The Regional Office was not in compliance with the Illinois State Board of Education grant expenditure report filing requirements. In addition, final June 30, 2010 expenditure reports could not be filed until revisions were made to the initial reports filed. (Finding 10-04, page 12e)

Auditors recommended that the Regional Office should implement procedures to ensure that expenditure reports are filed correctly with the Illinois State Board of Education.

The Regional Superintendent responded that she agrees with the finding. The Regional Office did become aware of the problem upon the filing of their final expenditure reports for the grants. The ROE noted that at that time, revisions were made to the initial grant yearend reports to report obligations so that the final grant reports could be filed with an increase in expenditures.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #2's financial statements as of June 30, 2010 are fairly presented in all material respects.

WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: Kemper CPA Group, LLP were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2009, the Regional Office of Education #2 responded that in an attempt to correct this finding, they sent the ROE Controller to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP). In addition, the Regional Office noted that it had contracted with a certified public accountant to assist the Regional Office with its yearend closing entries and who is willing to accept the responsibility for the financial statements.