



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**REGIONAL OFFICE OF EDUCATION #4**  
**BOONE AND WINNEBAGO COUNTIES**

**FINANCIAL AUDIT (In accordance with the Single  
Audit Act and OMB Circular A-133)  
For the Year Ended: June 30, 2010  
Release Date: June 28, 2011**

**Summary of Findings:**  
**Total this audit: 3**  
**Total last audit: 0**  
**Repeated from last audit: 0**

**SYNOPSIS**

- The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #4 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.
- The Regional Office of Education #4 maintains its cash in comingled bank accounts and does not segregate individual funding and grant program cash and fund balances in its accounting system.

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

**REGIONAL OFFICE OF EDUCATION #4**  
**BOONE AND WINNEBAGO COUNTIES**

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

	<b>FY 2010</b>	<b>FY 2009</b>
<b>TOTAL REVENUES</b>	\$8,886,001	\$6,930,984
Local Sources	\$2,099,185	\$1,177,518
% of Total Revenues	23.62%	16.99%
State Sources	\$3,746,456	\$3,399,255
% of Total Revenues	42.16%	49.04%
Federal Sources	\$3,040,360	\$2,354,211
% of Total Revenues	34.22%	33.97%
<b>TOTAL EXPENDITURES</b>	\$8,542,826	\$6,766,290
Salaries and Benefits	\$4,051,613	\$2,969,060
% of Total Expenditures	47.43%	43.88%
Purchased Services	\$1,728,697	\$2,098,319
% of Total Expenditures	20.24%	31.01%
All Other Expenditures	\$2,762,516	\$1,698,911
% of Total Expenditures	32.34%	25.11%
<b>TOTAL NET ASSETS</b>	\$4,932,783	\$4,589,608
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$83,733	\$52,404
Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Richard Fairgrievs Currently: Honorable Richard Fairgrievs

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #4 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #4 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). 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 #4 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, in their review of the Regional Office's accounting records, auditors noted that:

- The Regional Office's financial information required numerous adjusting entries to present 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 revenues. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenues, no entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables and deferred revenues.

According to Regional Office officials, they did not have adequate funding to hire and/or train accounting personnel in order to comply with these requirements. (Finding 10-01, pages 12a-12b)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #4 should

implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review 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 #4 responded that each month the grants bookkeeper for Kishwaukee Intermediate Delivery System (K.I.D.S.) of the Boone-Winnebago Regional Office of Education #4 provides each grant director a copy of their applicable financial statement. The directors review the report and if they find any discrepancies, report such findings to the bookkeeper. After the problems are resolved, the directors initial the report and return it to the bookkeeper.

The Regional Office noted that the Fund Balance Report is prepared by the Administrative Assistant after the bank statements have been reconciled by the bookkeepers. If an error is discovered, it is corrected immediately and noted on the Fund Balance Report.

**Auditors commented** that while the monthly procedures referenced in the Regional Office's response are an important part of the Regional Office's maintenance of financial records, they do not address the financial statement shortcomings noted in the finding. Review of cash basis financial statements by a program director does not encompass either the adjustments needed to convert cash basis financial information to GAAP based financial statements or the completion of accurate and comprehensive footnote disclosures.

#### **DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLE**

**The Regional Office of Education #4 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.**

The Regional Office of Education #4 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45. The Illinois Administrative Code (74 Ill. Adm. Code 420.320 (c) (1) and (2)) requires that each Regional Office of Education maintain the accounting records necessary to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB), requires that employers recognize and disclose OPEB expense. Net OPEB obligations, if any, should be reported as liabilities (or assets if overfunded) in the financial

statements. For financial reporting purposes, an actuarial valuation is required to measure and disclose the annual OPEB cost. In certain circumstances, an alternative measurement method can be applied instead of obtaining an actuarial valuation.

The Regional Office of Education #4 participates in a defined benefit OPEB plan that provides postemployment benefits other than pensions to its employees in exchange for employee services rendered. Under accrual accounting, the cost of OPEB, and any related OPEB liability, should generally be recorded in the period when the exchange for employees' services occurs, rather than when the benefits are paid. Currently, the Regional Office OPEB plan is financed on a pay-as-you-go basis, and as such, the financial statements do not report the financial effects of OPEB until the promised benefits are paid.

The Regional Office did not obtain an actuarial valuation of its postemployment benefits other than pension liability, or apply the alternative measurement method in order to be in compliance with GASB Statement No. 45.

In the absence of the actuarial valuation, or the application of the alternative measurement method, the auditors could not reasonably determine the amount by which this departure would affect the liabilities, fund balances, and expenditures of the Regional Office of Education #4 as of June 30, 2010.

Failure to apply the accounting and reporting requirements of GASB Statement No. 45 could result in misstatements of the Regional Office of Education #4 financial statements. This could also result in inaccurate and incomplete disclosure of the OPEB plan description, the funding policy, and the annual OPEB and net OPEB obligation.

According to Regional Office management, noncompliance with GASB No. 45 was due to budget restraints and the overall complexity of the pronouncement. (Finding 10-02, pages 12c-12d)

The auditors recommended that the Regional Office of Education #4 obtain or perform an actuarial valuation of its other postemployment benefit liability to be in compliance with GASB Statement No. 45 and include all disclosures required by the Statement in its financial statements.

The Boone-Winnebago Regional Office of Education #4 responded that it has evaluated its responsibility regarding other post employment benefits liability. Former employees who have pension coverage under the Illinois Municipal Retirement Fund (IMRF) are eligible to retain their rights to health insurance through the Boone-Winnebago Regional Office of Education #4 and are required to pay 100% of the

current premium. However, no former employees have chosen to stay in the Boone-Winnebago Regional Office of Education #4's health insurance plan. Therefore, there has been zero percent utilization and no implicit subsidy to calculate in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Regional Office noted that after reviewing health insurance rates and costs with their insurance agent, along with the status of the Federal Health Coverage Program, they determined that any liability factor that they could arrive at would be a diminutive amount. For these reasons the Boone-Winnebago Regional Office of Education #4 has not recorded any post employment benefit liability as of June 30, 2010.

**Auditors commented** that the Regional Superintendent of Schools stated at the exit conference that a valuation of the liability **would not be completed** and that the Regional Office would accept the finding associated with the lack of compliance with the GASB Statement.

The auditors commented further that while the Regional Superintendent's response is now that an evaluation has been performed, documentation supporting the Regional Office's determination that the liability associated with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* would be immaterial to their FY 2010 financial statements was not presented to auditors for evaluation and review.

## **SEGREGATION OF CASH AND FUND BALANCES**

**The Regional Office of Education #4 maintains its cash in comingled bank accounts and does not segregate individual funding and grant program cash and fund balances in its accounting system.**

The Regional Office of Education #4 maintains its cash in comingled bank accounts and does not segregate individual funding and grant program cash and fund balances in its accounting system. Generally accepted accounting principles, good fiscal management, and some grant agreements require cash and fund balances to be segregated and reported by fund and individual grant program.

The Regional Office was unable to determine cash and fund balances by fund and grant program. The Regional Office was unaware of this requirement. (Finding 10-03, pages 12e-12f)

Auditors recommended that the Regional Office of Education #4 should track cash and fund balances in its accounting system segregated by fund and grant program.

The Boone-Winnebago Regional Office of Education #4 responded that the auditors are saying the condition of the Regional Office of Education is that the ROE was unable to determine cash and fund balances. This is an untrue

statement. The previous 15 years of auditors never required this action to be implemented into the software and when Kemper and Associates arrived – they made this an implementation of their own. This can and will be done in the Excel program vs. adding over 1000 accounts to each software program – and there are (7) in total – to accommodate one set of auditors and then to have new auditors arrive in 5-6 years and not require this action.

The Regional Office response continued, secondly, when the auditor asked the ROE to breakdown all the checking accounts and account for cash with each of the checking accounts this was done, the error was the auditor adding in the Prime Fund Money Market checking account and using totals from the FY2009 audit provided from the previous auditor that had adjustments made in the auditor's paperwork that the ROE did not receive. Once the Prime Fund Money Market account was removed from the Excel spreadsheet total everything came together and balanced after MUCH RESEARCH and TIME on both parties end.

The Regional Office response continued, given this was the first year for this set of auditors the expectations were not made clear before arriving and was asked of the ROE as the auditors went through the books in person. To say the ROE was unaware of the requirement is a false statement and one done so after they were here and reviewed the books.

**Auditors commented** that while previous auditors ascertained fund balances by rolling forward cash balances (adding receipts and subtracting expenditures), in May 2010 the Regional Office moved funds between major account groupings (referred to as “software programs” by the ROE) and did not properly adjust its records to accurately and completely reflect this activity. Consequently, the Regional Office of Education #4 **was unable** to provide auditors with individual fund balances. Auditors attempted to tie out amounts in the checking accounts with fund balances from the prior audit report. If the Regional Office had accurate fund balances for auditors to review, neither the auditors nor the Regional Office would have had to incur the time and research in attempting to resolve this matter. Consequently, the auditors recommended that the Regional Office track individual cash and fund balances, as required by generally accepted accounting principles and many federal and State grant programs, in its accounting system.

The auditors commented further that the Regional Office references the need to add over 1,000 accounts to each software program. In actuality, the Regional Office had a total of thirty funds and grant programs at June 30, 2010, which would have required the addition of thirty cash accounts and thirty fund balance accounts to track its fund balances.

The auditors commented further that the Regional Office's response indicates that it **was** aware of the requirement that cash and fund balances be segregated and maintained by fund and individual program. Since the Regional Office did not comply with this requirement, auditors concluded that it was unaware of this requirement. If, as the Regional Office asserts, it was aware of this requirement, the auditors will follow up on this matter in our next audit.

### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #4's financial statements as of June 30, 2010 are fairly stated in all material respects except for the effects of not recognizing a liability for postemployment benefits other than pensions in the Statement of Net Assets and the Statement of Activities. Disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

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WILLIAM G. HOLLAND  
Auditor General

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