



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, 2012  
Release Date: March 13, 2013**

**Summary of Findings:**  
**Total this audit: 2**  
**Total last audit: 3**  
**Repeated from last audit: 1**

**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 have adequate subrecipient monitoring and reporting.

{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, 2012**

	<b>FY 2012</b>	<b>FY 2011</b>
<b>TOTAL REVENUES</b>	\$6,611,874	\$6,834,993
Local Sources	\$1,809,533	\$1,655,076
% of Total Revenues	27.37%	24.21%
State Sources	\$2,759,598	\$3,407,366
% of Total Revenues	41.74%	49.85%
Federal Sources	\$2,042,743	\$1,772,551
% of Total Revenues	30.90%	25.93%
<b>TOTAL EXPENDITURES</b>	\$6,974,229	\$7,204,163
Salaries and Benefits	\$4,110,494	\$4,159,887
% of Total Expenditures	58.94%	57.74%
Purchased Services	\$1,215,888	\$1,803,012
% of Total Expenditures	17.43%	25.03%
All Other Expenditures	\$1,647,847	\$1,241,264
% of Total Expenditures	23.63%	17.23%
<b>TOTAL NET ASSETS</b>	\$4,461,558 <sup>1</sup>	\$4,744,710
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$20,325	\$29,323
<sup>1</sup> Includes \$79,203 restatement to the FY12 beginning net asset balance due to a prior period adjustment.  Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Lori Fanello
Currently: Honorable Lori Fanello

## 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). 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 #4 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains its 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 the following:

- 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 revenue. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenue, no entries were provided to reconcile the Regional Office's grant activity, such as posting grant receivables and deferred revenue.

According to Regional Office officials, they did not have adequate funding levels 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 2010.**

The auditors recommended that, as part of its internal control over the preparation of 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 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 it accepts the degree of risk associated with this condition. 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 of Education #4 noted that it has also expended time and resources to remedy conditions underlying this finding. The Regional Office stated that it has implemented staffing changes to provide more checks and balances to its accounting processes and contracted with an outside Software Specialist to bring its accounting system into compliance with ISBE accounting standards and to train its staff. In addition, the ROE also stated that it contracted with an outside accounting firm to assist in preparing trial balances in preparation for the FY12 audit. The Regional Office noted that it will continue to work with the Software Specialist to ascertain its accounting program is up to date and its staff possesses the knowledge required to compile the necessary GAAP based financial statements.

## **SUBRECIPIENT MONITORING AND REPORTING**

### **The Regional Office of Education #4 did not have adequate subrecipient monitoring and reporting.**

According to OMB Circular A-133, Section 400(d), a pass-through entity must ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of Circular A-133 for that fiscal year. The pass-through entity must monitor the subrecipient's annual audits and issue a management decision letter on audit findings related to federal funds received from the pass-through entity within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. The pass-through entity must consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records. In addition, the grant agreement between the Illinois State Board of Education and the Regional Office requires the Regional office of Education #4 to submit expenditure reports by the 20<sup>th</sup> day of the month.

The Regional Office of Education #4 had not followed up on a subrecipient's FY10 audit, which contained a finding related to the Title I-Grants to Local Educational Agencies funding, passed through the Regional Office where questioned costs in

the amount of \$61,303 had been identified. The Illinois State Board of Education froze the Regional Office's FY12 funding which alerted the Regional Office to the issue. In addition, the Regional Office had not submitted the Title I-Grants to Local Educational Agencies expenditures by the 20<sup>th</sup> day of the month on 2 of 5 expenditure reports tested.

The questioned costs were \$61,303, which has already been remitted back to the Illinois State Board of Education. The Regional Office of Education #4 was not aware of all subrecipient monitoring requirements under OMB Circular A-133, Section 400(d). (Finding 12-02, pages 13a-13b)

The auditors recommended that the Regional Office of Education #4 implement monitoring procedures to ensure that all compliance requirements for subrecipient monitoring for federal award programs are met. Specifically, we recommend that the Regional Office obtain timely copies of subrecipients' audit reports, review them for any findings or questioned costs that may affect the Regional Office's own records, issue a Management Decision Letter when there is a finding related to a pass-through federal award, and follow up on any findings to ensure that the subrecipient takes appropriate and timely corrective action. In addition, auditors recommended that the Regional Office of Education #4 implement procedures to ensure all grant expenditure reports are submitted to the grantor by their due dates.

The Regional Office of Education #4 responded that it accepts the recommendation. The Regional Office noted that it will implement procedures to ensure all subrecipient audit reports are reviewed and appropriate notification is made in a timely manner.

#### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #4's financial statements as of June 30, 2012 are fairly stated in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:KJM

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 2011, the Regional Office of Education #4 responded that it accepts the degree of risk associated with this condition. 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 of Education #4 noted that it will review, approve, and accept responsibility for the audit adjustments, financial statements and related notes provided by the auditors. The Regional Office of Education #4 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 prepare the necessary GAAP-based financial statements.