



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 #9**  
**CHAMPAIGN AND FORD COUNTIES**

**FINANCIAL AUDIT (In Accordance with the Single  
Audit Act and OMB Circular A-133)  
For the Year Ended: June 30, 2010  
Release Date: April 14, 2011**

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

**SYNOPSIS**

- The Regional Office of Education #9 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #9 did not have adequate controls over property records.

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

**REGIONAL OFFICE OF EDUCATION #9**  
**CHAMPAIGN AND FORD 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>	\$7,927,503	\$5,824,566
Local Sources	\$2,343,418	\$2,243,611
% of Total Revenues	29.56%	38.52%
State Sources	\$4,556,421	\$2,794,529
% of Total Revenues	57.48%	47.98%
Federal Sources	\$1,027,664	\$786,426
% of Total Revenues	12.96%	13.50%
<b>TOTAL EXPENDITURES</b>	\$7,729,036	\$5,578,484
Salaries and Benefits	\$3,936,661	\$3,413,283
% of Total Expenditures	50.93%	61.19%
Purchased Services	\$2,199,176	\$1,548,945
% of Total Expenditures	28.45%	27.77%
All Other Expenditures	\$1,593,199	\$616,256
% of Total Expenditures	20.61%	11.05%
<b>TOTAL NET ASSETS</b>	\$2,573,013	\$2,374,546
<b>INVESTMENT IN CAPITAL ASSETS</b>	\$190,965 <sup>1</sup>	\$189,828 <sup>1</sup>
<sup>1</sup> Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Jane Quinlan Currently: Honorable Jane Quinlan

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### CONTROLS OVER FINANCIAL STATEMENT PREPARATION

**The Regional Office of Education #9 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #9 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). ROE #9'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 #9 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 ROE #9 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.

- The ROE did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenue. While the ROE maintained records to indicate the balances of accounts receivable, accounts payable, and deferred revenues, not all entries were made by the ROE to reconcile their grant activity, such as posting grants receivable and deferred revenue.
- The ROE's financial information required numerous adjusting entries to present the financial statements in accordance with GAAP. These included multiple adjusting entries from the prior year's audit that were not recorded in the general ledger. The ROE reviews, approves, and accepts the responsibility for these audit adjustments.

According to ROE #9 management, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with GASB requirements. (Finding 10-1, pages 12-13) **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 #9 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of the applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the ROE #9's activities and operations.

The Regional Office of Education #9 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. The ROE noted that it has worked to alleviate this finding by consulting about accounting practices and preparation of GAAP-based financial statements with other ROE bookkeepers who have not received the finding and making changes to its procedures based on recommendations. The ROE #9 noted that as part of on-going efforts, it will continue to strive to improve controls over financial statement preparation. The ROE noted that beginning in FY 2011, a worksheet will be used to facilitate the preparation of financial statements that would meet the GASB requirements. (For previous Regional Office response, see Digest Footnote #1.)

## **CONTROLS OVER PROPERTY RECORDS**

**The Regional Office of Education #9 did not have adequate controls over property records.**

The Champaign/Ford Counties Regional Office of Education #9 did not have adequate controls over property records. 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 GAAP. In addition, Appendix B. Fixed Asset Accounting of the Illinois Program Accounting Manual (IPAM) and GAAP also require that capital assets be reported based on the invoiced cost plus any applicable ancillary charges necessary to make the capital asset ready for its intended use. Ancillary charges are costs that are directly related to asset acquisition, which include, among others, installation and freight charges.

In addition, the State and Federal Grant Administration Policy and Fiscal Requirements and Procedures issued by the Illinois State Board of Education dictates procedures for managing equipment acquired with State and/or federal funds. These include procedures to ensure, among others that (1) adequate records are maintained for all equipment, and (2) disposition or transfers are authorized in writing and that the transfers are recorded in the fixed assets inventory records.

The Regional Office did not have adequate controls over property records. Auditors noted the following:

- The Regional Office did not properly record certain capital asset acquisitions. Computer equipment totaling \$81,073 was erroneously recorded as supplies, instead of capital expenditures. This consisted of 112 netbooks with net acquisition cost of \$724 per unit. Acquisition cost per netbook includes \$387 invoice cost, plus \$337 for installation of operating system, application software, and shipping cost.
- Proper equipment transfer forms were not used to document transfer of 7 netbooks totaling \$5,068 to another agency.
- Fixed asset inventory records were not updated to record 13 netbooks totaling \$9,412.

Failure to update property records resulted in inaccurate and incomplete property records. It could also result in incorrect accounting information and inaccurate financial reporting.

According to ROE #9 management, the cost of computer equipment which included installation cost and freight charges were erroneously recorded as supplies instead of capital assets because only the basic unit cost of the computer equipment, which is below the capital asset capitalization threshold, was initially considered as acquisition cost. Consequently, the 13 netbooks were not included in the fixed asset listing. The transfer of 7 netbook computers to another agency, which was not properly documented on equipment transfer forms, was due to oversight. (Finding 10-2, pages 14-15)

Auditors recommended that the Regional Office establish procedures to ensure capital asset acquisitions are properly accounted for and recorded in accordance with GAAP, the Illinois Administrative Code, IPAM and the ROE Accounting Manual. To establish accountability, transfers of equipment should be properly supported by signed check-out or equipment transfer forms. Further, the fixed asset inventory records should be updated promptly to reflect accurate balances.

The Regional Office responded that based on suggestions from a previous auditor, it used the base cost of equipment in determining whether or not an item was a capital expenditure. The ROE notes that in this case, the acquisition cost of each netbook was \$387, and ROE #9 determined that it was below the \$500 standard and thus recorded it in supplies. The Regional Office noted that in the future, it will use the acquisition cost plus any ancillary charges necessary to make the capital asset ready for its intended use including installation and shipping charges, as the basis for determining whether an item is a capital expenditure.

**AUDITORS' OPINION**

Our auditors state the Regional Office of Education #9's financial statements as of June 30, 2010 are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:KJM

AUDITORS ASSIGNED: E.C. Ortiz & Co., LLP, Certified Public Accountants 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 #9 responded that it accepts the degree of risk associated with the 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 noted that it will continue to review, approve, and accept responsibility for the audit adjustments, financial statements and related notes provided by the auditors.