



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

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, 2012
Release Date: March 28, 2013**

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 documentation of payroll expenditures charged to federal grants.

{ 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, 2012

	FY 2012	FY 2011
TOTAL REVENUES	\$5,001,084	\$6,619,450
Local Sources	\$2,053,200	\$2,816,821
% of Total Revenues	41.06%	42.55%
State Sources	\$2,135,741	\$2,675,388
% of Total Revenues	42.71%	40.42%
Federal Sources	\$812,143	\$1,127,241
% of Total Revenues	16.24%	17.03%
TOTAL EXPENDITURES	\$5,144,909	\$6,150,526
Salaries and Benefits	\$3,370,739	\$3,428,025
% of Total Expenditures	65.52%	55.74%
Purchased Services	\$1,325,367	\$1,781,427
% of Total Expenditures	25.76%	28.96%
All Other Expenditures	\$448,803	\$941,074
% of Total Expenditures	8.72%	15.30%
TOTAL NET ASSETS	\$2,898,112	\$3,041,937
INVESTMENT IN CAPITAL ASSETS	\$171,291 ¹	\$171,973 ¹
¹ Capital asset amounts include debt associated with a capital lease. Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
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 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 cash basis accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Regional Office maintains controls over the processing of most accounting transactions and prepares the governmental fund financial statements, 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.

During the review of the trial balance and financial statements prepared by the Regional Office, the following were noted:

- Numerous adjustments were required to present the financial statements in accordance with GAAP. Proposed adjusting entries resulted in an increase in the Regional Office's government-wide net assets by \$178,366.
- The Regional Office was unable to properly prepare the government-wide and fund financial statements and Schedule of Expenditure of Federal Awards in accordance with GAAP.

According to ROE #9's management, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with GASB requirements. (Finding 12-1, pages 13-14) **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 #9 should implement a comprehensive preparation and/or review procedure to ensure that the

financial statements are complete and accurate. These procedures should be performed by a properly trained individual possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE #9's activities and operations.

The Regional Office of Education #9 responded that it strives to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office noted that it prepared the individual funds financial statements as well as the notes to the financial statements for the first time in FY2011 and prepared the required reconciliation of government-wide and fund financial statements in FY2012. ROE #9 stated 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 responded that it will continue to work to alleviate this finding and to improve controls over financial statement preparation. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE DOCUMENTATION OF PAYROLL EXPENDITURES CHARGED TO FEDERAL GRANTS

The Regional Office of Education #9 did not have adequate documentation of payroll expenditures charged to federal grants.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require the expenditures must be allocable, reasonable, and supported by adequate documentation.

Part 4 of the OMB Circular A-133 Compliance Supplement for the Department of Education prescribes that employee time and effort distribution records must be maintained to document the portion of time and effort dedicated to the single cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources. Time-and-effort requirements vary under different circumstances. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards unless another substitute system has been approved by the cognizant federal agency.

Auditors noted that during review of payroll expenditures for 11 program employees, salaries and benefits totaling \$267,005 for 5 salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared to account for actual time charged by program. Failure to

prepare time allocation sheets did not provide a sufficient basis for the allocation of actual payroll charges incurred by program, which may result in a program being over or under charged for salary and benefits.

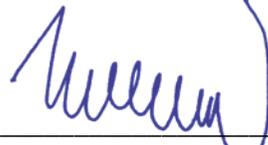
According to the Regional Office of Education #9 management, they did not have established policies and procedures regarding salaries and benefits that incorporate the requirements of Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement and the Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. In addition, the Regional Office staff did not anticipate significant differences between the budgeted and actual time spent by program. (Finding 12-2, pages 15-17)

The auditors recommended that the Regional Office of Education #9 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures should include requiring staff involved in multiple programs to submit time sheets by program or a time and effort report by program. The Regional Office should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs.

The Regional Office of Education #9 responded that it will revise procedures to ensure that documentation of payroll expenditures charged to federal grants meet the standards in OMB Circular A-87 and OMB Circular A-133.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #9's financial statements as of June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: E.C. Ortiz & Co., LLP, were our special assistant auditors.

DIGEST FOOTNOTE

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

In its prior response in 2011, the Regional Office of Education #9 responded that it strives to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office noted 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 also noted that it prepared the individual funds financial statements as well as the notes to the financial statements for the first time in 2011. The ROE #9 noted that as part of on-going efforts, it will continue to strive to improve controls over financial statement preparation. Beginning in FY 2012, it will attempt to prepare the required reconciliation of government-wide and fund financial statements.