



STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #20
EDWARDS, HARDIN, GALLATIN, POPE, SALINE, WABASH, WAYNE AND
WHITE COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2011
Release Date: February 9, 2012**

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

SYNOPSIS

- The Regional Office of Education #20 did not have adequate internal control over financial processes.
- The Regional Office of Education #20 did not have sufficient controls over financial statement preparation.
- The Regional Office of Education #20 did not have adequate internal controls over compliance with grant agreements.

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

REGIONAL OFFICE OF EDUCATION #20
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FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$2,759,551	\$2,795,707
Local Sources	\$355,948	\$404,578
% of Total Revenues	12.90%	14.47%
State Sources	\$1,733,276	\$1,754,207
% of Total Revenues	62.81%	62.75%
Federal Sources	\$670,327	\$636,922
% of Total Revenues	24.29%	22.78%
TOTAL EXPENDITURES	\$2,793,133	\$2,853,356
Salaries and Benefits	\$2,011,824	\$2,026,710
% of Total Expenditures	72.03%	71.03%
Purchased Services	\$601,606	\$529,130
% of Total Expenditures	21.54%	18.54%
All Other Expenditures	\$179,703	\$297,516
% of Total Expenditures	6.43%	10.43%
TOTAL NET ASSETS	\$186,180	\$219,762
INVESTMENT IN CAPITAL ASSETS	\$22,247	\$44,523
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Lawrence Fillingim
Currently: Honorable Lawrence Fillingim

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE INTERNAL CONTROL OVER FINANCIAL PROCESSES

The Regional Office of Education #20 did not have adequate internal control over financial processes.

The Regional Office of Education #20 did not have sufficient internal controls over financial processes. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipt and disbursement processes to prevent errors and fraud.

During testing of internal controls, auditors noted the following:

- Harrisburg Project receipts were received by a person who was not independent of the general ledger entry process;
- The bookkeeper had access to the cash receipts and also records cash receipts in the general ledger;
- One instance in which the purchase order and requisition were issued after the product invoice date;
- One instance of insufficient documentation to support the disbursement;
- One instance in which the employee's annual salary and benefits had not been approved by the Regional Superintendent; and
- Three of 10 employees received an increase in gross pay for life and dental/vision insurance rate increases, which is contrary to the Regional Office's policy, and these increases of pay were not being properly approved by the Regional Superintendent. No documentation of the date of the approval was noted. (Finding 11-1, page 12a-12b)

The Regional Office of Education #20 did not have adequate controls in place over receipts, general disbursements, and payroll disbursements.

Auditors recommended that receipts for all areas of the Regional Office should be opened, restrictively endorsed, and listed by a person with no access to the bank accounts and independent of the general ledger entry function. Purchase orders and/or requisition forms should be completed and authorized before an item is ordered, invoiced, and payment is disbursed. All invoices and receipts should be maintained with the purchase order or requisition form to support the expenditure. The Regional Superintendent should authorize,

by signature and date, all changes in salary. This can be accomplished with a new contract or a pay increase authorization signed by the Regional Superintendent.

The Regional Office of Education #20 responded that it agrees that recordkeeping staff was the first to handle checks received for one fund before any other staff independent of recording information in the accounting program. The Regional Office noted that effective October 10, 2011 all receipts are recorded by a person that does not have access to the general ledger. The Regional Office noted that it agrees that its purchase order process needs improvement regarding the timing of purchase order preparation and approval, and include supporting documentation. Implementation began on October 10. The ROE noted that it agrees that authorization and approval of any adjustments to staff salaries need to be documented by signature and dated by Regional Superintendent. Implementation began on October 10.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #20 did not have sufficient controls over financial statement preparation.

The Regional Office of Education #20 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 #20 did not have sufficient internal controls over the financial reporting process. 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. In their review of the Regional Office's accounting records, auditors noted that:

- Numerous adjusting entries were required to present financial statements in accordance with generally accepted accounting principles.
- A restricted fund was found to be combined with a proprietary fund.
- Material amounts of cash remained unrecorded at year end.

- Receipts were not recorded as received, or periodically throughout the year; instead they were recorded subsequent to year end in preparation for the annual audit.
- The fixed asset listing incorrectly listed some assets that had already been fully depreciated as having current year depreciation expense.
- An expense was incorrectly recorded twice to a federal fund in the general ledger.

According to Regional Office officials, the bookkeeping staff does not enter receipts, receivables, and payables until they prepare for the annual audit at year end which does not allow time for analysis and review before submission to the auditors. (Finding 11-2, pages 12c-12d)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #20 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 #20 responded that it acknowledges that timely recording of receipts, receivables, and payables is a necessary part of accurate accounting, reporting, and detection of problems or errors. The Regional Office noted that every attempt is being made to get current with all aspects of data entry.

The Regional Office also noted that it agrees that an error in judgment was made when the restricted fund was combined with a proprietary fund. The ROE noted that it will make certain that all grants and funding will be recorded with transparency.

INADEQUATE INTERNAL CONTROLS OVER COMPLIANCE

The Regional Office of Education #20 did not have adequate internal controls over compliance with grant agreements.

As a recipient of federal, State, and local funds from various grantor agencies, the Regional Office must incorporate certain procedures into their operations in order to comply with the grant agreements with these entities. The Regional Office is required to accurately spend funding in accordance with budgets submitted to grantors and accurately submit expenditure reports timely. In addition, funding received under ARRA is required to be separately tracked from other funding sources.

For the Federal Special Education-Pre-School Discretionary program, the Regional Office of Education #20 did not have a process in place to verify that covered transactions were not entered into with contracted parties that are suspended or debarred, nor does the Regional Office have a procurement policy in place. Also, the federal program-ARRA Education Jobs fund activity was combined with General State Aid Sec. 18-8 activity and should have been separately tracked in the general ledger.

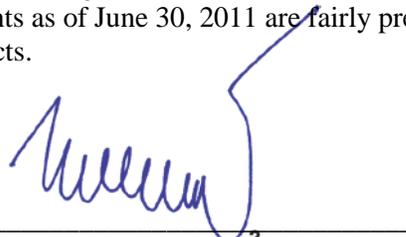
According to Regional Office officials, the Regional Office of Education #20 did not have internal controls in place that required the Program Director to follow the procurement, suspension, and debarment requirements of the federal program. Also, the Regional Office was not aware of the reporting requirements of ARRA funding. (Finding 11-3, page 12e-12f)

The auditors recommended the Regional Office of Education #20 should implement a documented procurement process which allows for full and open competition. Additionally, before entering into a contract, the Regional Office should verify that the parties are not listed as suspended or debarred on the Excluded Party List System. The Regional Office should separately track and report any ARRA funding.

The Regional Office of Education #20 responded that it has initiated steps to follow the procurement, suspension, and debarment requirements for federal funds. The Regional Office noted that it also now realizes that the term “reimbursement model” does not remove the need to report grant funding and expenditures in a separate fund.

AUDITORS’ OPINION

Our auditors state the Regional Office of Education #20’s financial statements as of June 30, 2011 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.