



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #22
FULTON AND SCHUYLER COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2010

Release Date: June 28, 2011

Summary of Findings:

Total this audit:	3
Total last audit:	1
Repeated from last audit:	1

SYNOPSIS

- The Regional Office of Education #22 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #22 did not record year end obligations as liabilities.
- The Regional Office of Education #22 did not report expenditures according to grant agreements.

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

REGIONAL OFFICE OF EDUCATION #22
FULTON AND SCHUYLER COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2010

	FY 2010	FY 2009
TOTAL REVENUES	\$1,041,153	\$815,106
Local Sources	\$223,879	\$207,320
% of Total Revenues	21.50%	25.43%
State Sources	\$706,330	\$592,933
% of Total Revenues	67.84%	72.74%
Federal Sources	\$110,944	\$14,853
% of Total Revenues	10.66%	1.82%
TOTAL EXPENDITURES	\$887,683	\$805,954
Salaries and Benefits	\$695,374	\$647,243
% of Total Expenditures	78.34%	80.31%
Purchased Services	\$122,339	\$120,282
% of Total Expenditures	13.78%	14.92%
All Other Expenditures	\$69,970	\$38,429
% of Total Expenditures	7.88%	4.77%
TOTAL NET ASSETS	\$558,040	\$404,570
INVESTMENT IN CAPITAL ASSETS	\$31,861	\$17,791
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Louise Bassett
Currently: Honorable Louise Bassett

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #22 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #22 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 #22 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, auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office's financial information required numerous adjusting entries to present the 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 of Education #22's grant activity, such as posting grant receivables and deferred revenue.

According to Regional Office officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements. (Finding 10-01, pages 10a-10b) **This finding was first reported in 2007.**

The auditors recommended that, as part of its internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #22 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 #22 responded 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 accepts the degree of risk associated with this condition because the added expense of seeking additional 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 responded that in an attempt to correct this finding the Regional Office sent the controller to various trainings to better understand accrual accounting and reporting under generally accepted accounting principles (GAAP). In addition, the Regional Office will solicit help in preparing financial statements from the new County accountant. (For previous Regional Office response, see Digest Footnote #1.)

RECORDING OBLIGATIONS

The Regional Office of Education #22 did not record year end obligations as liabilities.

Generally accepted accounting principles require obligations at year end to be recorded as liabilities to the entity. The Regional Office prepared and signed payroll checks for its July 15, 2010, July 31, 2010, and August 15, 2010 pay periods prior to June 30, 2010, but did not disburse the checks to the employees until the appropriate pay dates. The Regional Office posted the payroll expenditures for these pay periods to their general ledger prior to June 30, 2010 as reductions of cash and as expenditures.

The Regional Office's cash and liabilities were understated. According to Regional Office officials, they were not aware of the proper reporting of obligated salaries at year end.

The auditors recommended that the Regional Office should report obligated salaries at year end as liabilities to the Regional Office and prepare the actual payroll checks at the end of the appropriate payroll period.

The Regional Superintendent of the Regional Office of Education #22 responded that she agrees with the auditor's recommendation.

EXPENDITURE REPORTING

Grant agreements require the Regional Office to report actual expenditures incurred rather than reporting expenditures based

The Regional Office of Education #22 did not report expenditures according to grant agreements.

on the amount budgeted in the grant agreement. The Regional Office did not document the time and effort of employees that work for or are paid from multiple grants so that salaries can be allocated to the grants based on actual cost. Grant programs may have been over or under allocated for salary and benefit costs.

According to Regional Office officials, they were not aware of the requirement to formally document the time and effort of employees paid from multiple grants.

The auditors recommended that the Regional Office should formally document the time and efforts spent on each grant for employees paid from multiple grant sources and allocate actual costs to each grant accordingly.

The Regional Superintendent of the Regional Office of Education #22 responded that she agrees with the auditor's recommendation.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #22's financial statements as of June 30, 2010 are fairly presented in all material respects.

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 2009, the Regional Office of Education #22 responded 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 management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region.

