



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #24
GRUNDY AND KENDALL COUNTIES

FINANCIAL AUDIT (In Accordance with the Single

Audit Act and OMB Circular A-133)

For the Year Ended: June 30, 2010

Release Date: July 14, 2011

Summary of Findings:

Total this audit: 2

Total last audit: 0

Repeated from last audit: 0

SYNOPSIS

- The Regional Office of Education #24 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #24 did not have sufficient internal controls over the preparation of financial statements.

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

REGIONAL OFFICE OF EDUCATION #24
GRUNDY AND KENDALL COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2010

	FY 2010	FY 2009
TOTAL REVENUES	\$5,536,149	\$7,148,860
Local Sources	\$384,275	\$298,694
% of Total Revenues	6.94%	4.18%
State Sources	\$3,924,799	\$5,079,937
% of Total Revenues	70.89%	71.06%
Federal Sources	\$1,227,075	\$1,770,229
% of Total Revenues	22.16%	24.76%
TOTAL EXPENDITURES	\$5,004,681	\$6,996,343
Salaries and Benefits	\$3,549,914	\$4,796,205
% of Total Expenditures	70.93%	68.55%
Purchased Services	\$700,861	\$976,218
% of Total Expenditures	14.00%	13.95%
All Other Expenditures	\$753,906	\$1,223,920
% of Total Expenditures	15.06%	17.49%
TOTAL NET ASSETS	\$1,028,609 ¹	\$644,805
INVESTMENT IN CAPITAL ASSETS	\$57,810	\$51,096

¹ Includes a (\$147,664) restatement to the FY10 beginning net asset balance.

Percentages may not add due to rounding.

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Paul Nordstrom
Currently: Honorable Paul Nordstrom

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The Regional Office of Education #24 did not have sufficient internal controls over the financial reporting process.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Regional Office of Education #24 is required to maintain a system of controls over the financial reporting process to be able to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles (GAAP).

The Regional Office did not have sufficient internal controls over the financial reporting process. Auditors noted the following deficiencies in internal control:

- There was a lack of segregation of duties in the cash receipts process. The same person receives the receipts, makes a listing of the receipts, and posts the receipts to the general ledger. There was also no independent review of the unopened bank statement prior to the bank reconciliation being prepared.
- There were inadequate controls over cash disbursements. The Regional Office had four signature stamps and the individual responsible for printing checks had access to these stamps.
- There were inadequate controls over payroll. There were no employment contracts issued for the year ending June 30, 2010 for Education Service Network, Not for Profit, Inc. (ESN) employees, which is a blended component unit of the Regional Office.
- The Regional Office maintains the general fund accounts in a different accounting software program than what is used by ESN. Additionally, the accounting software program used for the general fund accounts at the Regional Office is not being maintained using separate accounts by fund and the general ledger is not being closed at the end of the accounting period.

Management or employees in the normal course of performing their assigned functions may not prevent or detect financial misstatements or possible fraudulent activity in a timely manner. The Regional Office also may not be in compliance with laws, regulations, and contract provisions. (Finding 10-1, pages 12a-12c)

The auditors noted that the Regional Office has attempted to segregate some of the accounting responsibilities, but there are

areas that should be improved. The auditors recommended:

- The Regional Office of Education #24 should have someone receive the receipts who does not have access to the accounting software and someone independent of the receipt and disbursement processes should receive the bank statement unopened and review the statement before the bank reconciliation is prepared.
- All signature stamps should be kept in a secure location and only used by those who are independent of the cash disbursement process.
- All employees of the Regional Office should be issued new employment contracts each year.
- The Regional Office should convert all accounting records to the same accounting software system at ESN, since that software is better equipped to handle fund accounting.

The Regional Office of Education #24 responded that in the past, the Regional Office of Education attempted to keep roles separate from the Education Service Network. Now when receipts come in, the ROE secretary in Morris and the ROE secretary in Yorkville stamp incoming receipts before they go to the bookkeepers. The Regional Superintendent in Morris and the Assistant Regional Superintendent in Yorkville now open all bank statements, review them, and initial them before they go to the bookkeepers.

The Regional Office also responded that only the bookkeepers are now writing checks. The secretaries keep the check stamps and do the check stamping. With only two people available, the Regional Office noted it will do the best it can do in this area. The Regional Office has worked to create and have contracts signed by all employees. The plan is to have contracts prepared and signed in a timely manner. Finally, the Regional Office responded that the plan is to continue using both accounting software systems. The bookkeeper has created a separate file for each fund, as suggested, for both expenditures and revenues. The ROE financial records will be closed out for FY 10, and, if necessary, they may seek help from outside consultants.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #24 did not have sufficient internal controls over the preparation of financial statements.

The Regional Office of Education #24 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 #24 did not have sufficient internal controls over the financial reporting process. While the Regional Office maintains controls over the processing of some 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:

- Numerous adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.
- In testing general disbursements, two checks for insurance were found that had partial amounts that should have been recorded as prepaid expenses for fiscal year 2011. The entire amount of the check was expensed in fiscal year 2010.
- Two programs reported incorrect fund balances at June 30, 2009. These funds had to be adjusted to correctly show fund balances as of June 30, 2010.

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 10-2, pages 12d-12e)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #24 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 #24 responded that an outside accounting firm has been engaged to review the FY 11 financial statements for the Regional Office. Bookkeeping has been corrected to reflect the insurance expense in the year in which it is incurred.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #24'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.