



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #28
BUREAU/HENRY/STARK COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2010
Release Date: August 18, 2011**

Summary of Findings:
Total this audit: 4
Total last audit: 2
Repeated from last audit: 2

SYNOPSIS

- The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #28 did not properly prepare grant budgets and report grant expenditures.
- The Regional Office of Education #28 did not prepare an indirect cost allocation plan for allocating joint costs to grant programs.
- The Regional Office of Education #28 charged the same federal grant expenditures to two different federal grants.

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

REGIONAL OFFICE OF EDUCATION #28
BUREAU/HENRY/STARK 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	\$2,317,350	\$2,693,932
Local Sources	\$234,466	\$828,788
% of Total Revenues	10.12%	30.77%
State Sources	\$1,171,580	\$1,301,538
% of Total Revenues	50.56%	48.31%
Federal Sources	\$911,304	\$563,606
% of Total Revenues	39.33%	20.92%
TOTAL EXPENDITURES	\$2,255,883	\$1,860,660
Salaries and Benefits	\$918,739	\$749,874
% of Total Expenditures	40.73%	40.30%
Purchased Services	\$331,291	\$342,941
% of Total Expenditures	14.69%	18.43%
All Other Expenditures	\$1,005,853	\$767,845
% of Total Expenditures	44.59%	41.27%
TOTAL NET ASSETS	\$1,216,349	\$1,154,882
INVESTMENT IN CAPITAL ASSETS	\$76,900	\$109,695
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Bruce Dennison Currently: Honorable Angela Zarvell

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**CONTROLS OVER FINANCIAL STATEMENT
PREPARATION**

The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #28 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 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 #28 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the accrual basis of accounting for disbursements and the cash basis of accounting for receipts. 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 the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable and deferred revenue.
- Several adjustments were required to present financial statements in accordance with generally accepted accounting principles.

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 10-1, page 12-12a) **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 #28 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including

note 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 #28 responded that it understands the nature of this finding and realizes that this circumstance is not unusual in an organization this size. The Regional Office noted that it accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare and/or review financial statements would take away from the funds available to provide educational services to students and teachers. The Regional Office noted that the cost of hiring and training additional staff or contracting services outweighs the benefit. The Regional Office also noted that if additional resources are made available through the State of Illinois, the Regional Office will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy. (For previous Regional Office response, see Digest Footnote #1.)

INACCURATE BUDGETS AND EXPENDITURE REPORTS

The Regional Office of Education #28 did not properly prepare grant budgets and report grant expenditures.

The Regional Office of Education #28 did not properly prepare grant budgets and report grant expenditures. Grant expenditure reports should reflect program costs in the appropriate function and object codes regardless of where the costs were budgeted.

The Regional Office did not properly prepare grant budgets and therefore, did not report grant expenditures in accordance with *ISBE State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* or the *Illinois Program Accounting Manual* for the Title IV – 21st Century Community Learning Centers. The Regional Office budgeted the majority of its funds to the Payments to Other Governments function and the Purchased Services object code. The budget narrative indicated these funds were to be transferred to various school districts and to the county for salaries and benefits.

The auditors' review of the supporting documentation showed that while the Regional Office spent Title IV – 21st Century Community Learning Centers Program funds for allowable grant related costs, they were different than those budgeted, rendering the related expenditure reports for these funds inaccurate. The grant funds were used to pay salaries, benefits, workers' compensation insurance, and unemployment costs for Regional Office employees related to

the program, transportation costs for school districts administering the program, and various other program costs.

In addition, Henry County processes and pays the Regional Office payroll. The Regional Office then reimburses Henry County for the payroll amount. The Regional Office reported these payroll reimbursements in the Payments to Other Governments expenditure category rather than in the Salaries and Benefits expenditure category where the expenditures were actually incurred. The Regional Office reported the expenditures by vendor instead of expenditure type.

Although the Regional Office was not properly budgeting and reporting its expenditures, the expenditures claimed were for allowable grant costs under the grant terms of the Title IV – 21st Century Community Learning Centers Program, without material exception. Therefore, there were no current year questioned costs.

According to Regional Office officials, it has been budgeting, classifying, and reporting expenditures in this manner for the past six years. For example, expenditures were made to Henry County which processes the Regional Office’s payroll. The Regional Office classified these expenditures as a “payment to a governmental body” because Henry County is a governmental entity as opposed to payroll related expenses. (Finding 10-2, pages 12b-12c)

The auditors recommended that the Regional Office of Education #28 should begin budgeting and reporting expenditures of the Title IV – 21st Century Community Learning Centers Program in accordance with the *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*. In addition, the Regional Office should contact ISBE and amend the grant budgets for all of its programs going forward. The Regional Office should also report expenditures by the expenditure type instead of the vendor type.

The Regional Office of Education #28 responded that it will report its grant expenditures by function and object code. The Regional Office noted that it contacted ISBE and made budget adjustments for FY 2011.

INDIRECT COST ALLOCATION PLAN

The Regional Office of Education #28 did not prepare an indirect cost allocation plan for allocating joint costs to grant programs.

Grants, cost reimbursement contracts and other agreements with the Federal Government (collectively known as Federal Awards) should bear their fair share of costs recognized under principles established by the federal Office of Management and Budget (OMB). Costs are allocable to Federal Awards if the goods or services involved are chargeable or assignable to the award in accordance with the relative benefits received.

Where an accumulation of indirect costs will ultimately result in charges to a Federal Award, a cost allocation plan is required as described in Attachments C, D and E of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

Grants administered by the Illinois State Board of Education (ISBE) require the charging of direct and indirect costs to be applied to grants in accordance with the *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*. An indirect cost rate (ICR) or a cost allocation plan (CAP) must be used when charging certain direct and indirect costs to grants.

The Regional Office did not elect to utilize the indirect cost (ICR) in its application and does not have a written plan for allocating joint costs to its grant programs. The Regional Office uses a spreadsheet to allocate salary costs to various grants. The allocations are based on prior time studies, but no written plan exists to support the allocations. In addition, indirect costs relating to utilities, rent, and office personnel are charged to the grants based on remaining grant funds, not a cost allocation plan or indirect cost rate.

The amount of questioned costs cannot be determined without preparing a cost allocation plan. Of the items tested, the Regional Office of Education allocated a total of \$14,906 of indirect costs to the 21st Century Community Learning Center program. While those costs appear to be allowable costs, without documentation of the basis for, and rationale behind, the allocation, the amount over- or under- charged to the program cannot be readily determined. (Finding 10-3, pages 12d-12e)

The auditors recommended that the Regional Office of Education #28 should prepare a written plan for allocating joint costs and retain the required documentation to support the distribution of costs to its grant programs. The Regional Office of Education #28 responded that it will prepare a written cost allocation plan to ensure the equitable distribution of joint costs to grant programs.

ALLOWABLE COST

The Regional Office of Education #28 charged the same federal grant expenditures to two different federal grants.

OMB Circular A-87 (2 CFR, Part 225) states that costs allocated to a particular federal award or cost objective may not be charged to other federal awards. The Regional Office of Education #28 requested expense reimbursements from the federal Title I RESPRO grant that were already reimbursed or claimed as expenses in other federal grants.

According to Regional Office officials, it claimed federal grant reimbursements from its pass-through grantor and also charged the same expenses to another federal grant in its accounting records. The Regional Office charged the same federal grant expenditures to two different federal grants. The Regional Office overstated expenditures in the Title I – Grants to Local Education Agencies grant by \$61,303. The amount of questioned costs is approximately 45.38% of the total expenditures. The Regional Office of Education #28 misunderstood the substantiation qualifications of the grant. (Finding 10-4, page 12f-12g)

The auditors recommended that the Regional Office of Education #28 should implement internal control procedures to ensure that grant expenditures are only charged once to the appropriate grant program. The Regional Office should also amend its reimbursement reports with this grantor.

The Regional Office of Education #28 responded that in order to meet payroll deadlines, the Regional Office allocated costs to appropriate grant programs pending reimbursement of costs. The Regional Office noted that it will amend protocol within the office.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #28's financial statements as of June 30, 2010 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Wipfli 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 #28 responded that it retained the services of the former Special Assistant Auditors assigned to the office for a number of years, to assist in the preparation of the financial statements for audit.