



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #39
MACON AND PIATT COUNTIES

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2010
Release Date: June 28, 2011**

Summary of Findings:
Total this audit: 3
Total last audit: 0
Repeated from last audit: 0

SYNOPSIS

- The Regional Office of Education #39 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.
- The Regional Office of Education #39 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #39 did not properly record reimbursements and administrative fees between programs.

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

REGIONAL OFFICE OF EDUCATION #39
MACON AND PIATT 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	\$4,837,335	\$8,224,356
Local Sources	\$1,167,411	\$1,417,797
% of Total Revenues	24.13%	17.24%
State Sources	\$3,102,074	\$5,630,134
% of Total Revenues	64.13%	68.46%
Federal Sources	\$567,850	\$1,176,425
% of Total Revenues	11.74%	14.30%
TOTAL EXPENDITURES	\$4,580,143	\$7,767,179
Salaries and Benefits	\$3,188,833	\$6,053,128
% of Total Expenditures	69.62%	77.93%
Purchased Services	\$1,157,061	\$1,477,526
% of Total Expenditures	25.26%	19.02%
All Other Expenditures	\$234,249	\$236,525
% of Total Expenditures	5.11%	3.05%
TOTAL NET ASSETS	\$2,765,427	\$2,508,235
INVESTMENT IN CAPITAL ASSETS	\$106,733	\$72,810
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Matthew Snyder Currently: Honorable Matthew Snyder

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**DEPARTURE FROM GENERALLY ACCEPTED
ACCOUNTING PRINCIPLE**

The Regional Office of Education #39 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45.

The Regional Office of Education #39 did not properly recognize and disclose expenses and liabilities related to postemployment benefits other than pensions as required by Governmental Accounting Standards Board (GASB) Statement No. 45. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB), requires that employers recognize and disclose OPEB expense. Net OPEB obligations, if any, should be reported as liabilities (or assets if overfunded) in the financial statements. For financial reporting purposes, an actuarial valuation is required to measure and disclose the annual OPEB cost. In certain circumstances, an alternative measurement method can be applied instead of obtaining an actuarial valuation.

The Regional Office of Education #39 participates in a defined benefit OPEB plan that provides postemployment benefits other than pensions to its employees in exchange for employee services rendered. Under accrual accounting, the cost of OPEB, and any related OPEB liability, should generally be recorded in the period when the exchange for employees' services occurs, rather than when the benefits are paid. Currently, the Regional Office OPEB plan is financed on a pay-as-you-go basis, and as such, the financial statements do not report the financial effects of OPEB until the promised benefits are paid. During fiscal year 2010, the Regional Office of Education #39 had 14 active employees and contributions to the OPEB plan totaled \$77,629.

The Regional Office did not obtain an actuarial valuation of its postemployment benefits other than pension liability, or apply the alternative measurement method in order to be in compliance with GASB Statement No. 45.

In the absence of the actuarial valuation, or the application of the alternative measurement method, the auditors could not reasonably determine the amount by which this departure would affect the liabilities, fund balances, and expenditures of the Regional Office of Education #39 as of June 30, 2010.

Failure to apply the accounting and reporting requirements of GASB Statement No. 45 could result in misstatements of the Regional Office of Education #39's financial statements. This could also result in inaccurate and incomplete disclosure of the OPEB plan description, the funding policy, and the annual OPEB and net OPEB obligation.

According to Regional Office management, noncompliance with GASB Statement No. 45 was due to budget restraints and the overall complexity of the pronouncement. (Finding 10-01, pages 12a-12b)

The auditors recommended that the Regional Office of Education #39 obtain or perform an actuarial valuation of its other postemployment benefit liability to be in compliance with GASB Statement No. 45 and include all disclosures required by the Statement in its financial statements.

The Regional Office of Education #39 responded that it agrees with the finding and will have the GASB 45 available for next year's audit.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #39 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #39 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office'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 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 #39 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting during the year and records accruals at year end. 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. While the Regional Office did maintain records to indicate the balances of accounts payable and accounts receivable, not all material accruals were identified. For example, in their review of the Regional Office's accounting records, auditors noted that the following items required material adjustments:

- The Regional Office expensed in fiscal year 2010 the total cost of \$5,311 for 4 maintenance contracts with service terms of 3 years.
- The Regional Office expensed in fiscal year 2010 a prepayment, in the amount of \$17,068, for the Regional Office's fiscal year 2011 package and umbrella insurance.

- The Regional Office did not identify as accounts receivable two payments, in the amounts of \$16,105 and \$3,559, received after June 30, 2010 from Macon and Piatt Counties, respectively, for June 2010 expenses.
- The Regional Office identified a check, in the amount of \$17,099, received on June 30, 2010 as an account receivable instead of cash on hand.

According to Regional Office officials, internal controls over the Regional Office’s reporting were not sufficient to detect all reporting requirements. (Finding 10-02, 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 #39 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate.

The Regional Office of Education #39 responded that it does have sufficient internal controls over the financial reporting process. The Regional Office noted that it will make note of the minor infractions for the next audit.

Auditors commented that the Regional Office of Education #39 asserts that the Regional Office’s internal controls over their financial reporting process are sufficient, however, there were four material items noted during the audit that were not detected by their internal control system.

IMPROPER RECORDING OF REIMBURSEMENTS AND ADMINISTRATIVE FEES BETWEEN PROGRAMS

The Regional Office of Education #39 did not properly record reimbursements and administrative fees between programs. 23 Illinois Administrative Code (IAC), Part 100, *Requirements for Accounting, Budgeting, Financial Reporting, and Auditing* and the Illinois Program Accounting Manual for Local Education Agencies (LEA) states that purchased services are “amounts paid for personal services rendered by personnel who are not on the payroll for the LEA ...” The Regional Office of Education (ROE) Accounting Manual states that purchased services are “amounts paid for personal services rendered by personnel who are not on the payroll of the ROE ...” In addition, generally accepted accounting principles require revenues and expenditures to only be recognized once in an entity’s financial statements.

The Regional Office of Education #39 did not properly record reimbursements and administrative fees between programs.

Auditors, in their review of the Regional Office’s accounting records, noted the following:

- In two instances, the Regional Office recorded refunds in the amount of \$23,076 from worker's compensation insurance as local revenue instead of offsetting the original expenditure. As a result, the Regional Office's local revenue and purchased services were overstated by \$23,076.
- In budgets submitted to grantors, the Regional Office classified its internal administrative salaries, benefits, purchased services, and supplies, related to the administration of their grant programs, as purchased services, instead of salaries, benefits, purchased services, and supplies. Consequently, the Regional Office submitted budgets and expenditure reports to grantors utilizing an incorrect object code for its internal administrative cost.
- The Regional Office accounts for its administrative costs in the Business Office fund. When the amount budgeted as a purchased service in the grant program was expended, it was recorded as local revenue in the Business Office fund to reimburse the Business Office fund for the expenses and as a purchased service expenditure in the grant program. This resulted in the same revenue and related expenditures being reported twice in the grant fund and in Business Office fund. The Regional Office's local revenue and purchased services were overstated by \$155,284 because its administrative costs were reported once in the grant programs as a purchased service and then again in the Business Office fund as salaries, benefits, purchased services, and supplies. Also, the revenue was reported as State sources in the grant programs and local revenue in the Business Office fund. (Finding 10-03, pages 12e-12g)

The auditors recommended that when the Regional Office receives a refund from a vendor, the refund should be recorded as a reduction of the original expenditure. In addition, when preparing budgets for grant applications, the Regional Office should utilize the object code that is appropriate for the type of administrative cost the Regional Office is requesting reimbursement. Finally, the Regional Office should charge the internal administrative cost directly to the grant programs or funds based on the appropriate object code, which would eliminate the need to move the funding to the Business Office fund, as well as, eliminate the double reporting of the internal administrative cost and revenues.

The Regional Office of Education #39 responded that it disagrees with this finding. The Regional Office noted that it has never had an issue in how business costs have been charged to the programs with auditors in the past. The Regional Office also noted that auditors are assuming business costs are salaries, benefits, and supplies and materials. The

ROE noted that it includes those expenses as well as: liability insurance, errors and omissions insurance, maintenance on the AS400 system (payroll, purchasing and payables), bank fees, legal fees, professional development and travel for office personnel, telephone, fax and consultant for AS400 equipment. The Regional Office noted that these expenses are not charged off individually to any of the programs, but are combined in the total business costs. The ROE noted that business costs are submitted with the grants that allow the expense and are approved by either ISBE or ICCB. The ROE noted that because they are approved, the ROE will continue the process it has in place.

Auditors commented that the auditors do not disagree with the Regional Office as to what expenses comprise business costs. What the auditors do take issue with is the Regional Office's incorrect reporting of such expenses. Auditors further commented that the "purchased services" expense classification should be used for services purchased by the Regional Office, not for internal administrative expenses. Furthermore, auditors commented the ROE's current practices result in double counting of expenses, which distorts the true financial activity and position of the Regional Office, as well as results in noncompliance with generally accepted accounting principles.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #39's financial statements as of June 30, 2010 are fairly stated in all material respects except for the effects of not recognizing a liability for postemployment benefits other than pensions in the Statement of Net Assets and the Statement of Activities. Disclosure of that information is required to conform with accounting principles generally accepted in the United States of America.

WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: Kemper CPA Group LLP were our special assistant auditors.