

REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #40

CALHOUN/GREENE/ JERSEY/MACOU PIN COUNTIES

FINANCIAL AUDIT

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this audit	2
Total last audit	1
Repeated from last audit	1

Release Date:
June 24, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Regional Office of Education #40 does not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #40 had inadequate internal control procedures over disbursements.

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

REGIONAL OFFICE OF EDUCATION #40
CALHOUN/GREENE/JERSEY/MACOU PIN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2009

	FY 2009	FY 2008
TOTAL REVENUES	\$1,747,683	\$1,756,104
Local Sources	\$379,361	\$421,414
% of Total Revenues	21.71%	24.00%
State Sources	\$1,225,774	\$1,079,319
% of Total Revenues	70.14%	61.46%
Federal Sources	\$142,548	\$255,371
% of Total Revenues	8.16%	14.54%
TOTAL EXPENDITURES	\$1,780,279	\$1,795,472
Salaries and Benefits	\$1,162,271	\$1,182,306
% of Total Expenditures	65.29%	65.85%
Purchased Services	\$489,789	\$450,857
% of Total Expenditures	27.51%	25.11%
All Other Expenditures	\$128,219	\$162,309
% of Total Expenditures	7.20%	9.04%
TOTAL NET ASSETS	\$257,475	\$290,071
INVESTMENT IN CAPITAL ASSETS	\$64,034	\$87,209
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Larry D. Pfeiffer Currently: Honorable Larry D. Pfeiffer

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #40 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #40 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 #40 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:

- Numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.
- The Regional Office did not have adequate controls over the maintenance of complete records of monies due from other governments or deferred revenues. Detailed testing of monies due from other governments and deferred revenue noted the following: three items, totaling \$79,984, had been incorrectly recorded to due from other governments; one item, totaling \$11,498, had not

been recorded to due from other governments; and two items, totaling \$21,654, had not been recorded to 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 09-01, pages 11-12) **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 #40 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 #40 responded that it plans to contract the services of a local accounting firm to review the FY 2010 financial statements prior to the FY 2010 audit. Additionally, the Regional Office noted that with the departure of one ROE #40 employee from the bookkeeping division, the bookkeeping and accounting responsibilities were consolidated and transferred to the Jerseyville Office of the Regional Office of Education #40. The Regional Office believes that the aforementioned actions will help address this finding in FY 2010. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROL PROCEDURES

The Regional Office of Education #40 had inadequate internal control procedures over disbursements.

The Regional Office of Education #40 had inadequate internal control procedures over disbursements. The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over disbursements to prevent errors and fraud.

In testing 45 cash receipts, auditors noted the following exceptions:

- a. One instance where the Regional Office did not have a Payment Authorization Form for the payment of an expenditure.
- b. One instance where an unsigned check was mailed and cleared the bank.

In testing of 25 credit card transactions, auditors noted the following exceptions:

- a. One instance of expenditure misclassification, where supplies totaling \$169 were charged to a purchased services account.
- b. One instance where the amount paid exceeded the credit card charges by \$30.
- c. One instance where a \$15 personal expense for an employee was accidentally paid with the Regional Office's credit card. The amount was reimbursed by the employee.
- d. One instance where no invoice was provided for hotel charges of \$1,052 during a RESPRO trip. Per Regional Office personnel, RESPRO would not reimburse the Regional Office for the expenditure, only actual people. Therefore, the Regional Office paid the hotel charges. The employee received a reimbursement for the expenditure through RESPRO and reimbursed the Regional Office.
- e. One instance where there was no classification on the Payment Authorization Form. Although the expenditure was later reimbursed, it was coded to the incorrect function.
- f. In one instance, a \$586 payment was made to the wrong credit card company. The Regional Office has credit cards with two companies. Due to the misdirected payment, the credit cards from the second company had credit balances for a few months. Since no payment was due during this period of time, employees did not give the bookkeeper the credit card bills, which contained new purchases. Consequently the Regional Superintendent did not approve those new purchases. Furthermore, the incorrect payment

was never reversed on the general ledger. Instead, additional charges to the credit card were not recorded. Finally, when the correct credit card company was paid, the payment was made from different accounts than the first payment, even though both payments were made from the same invoice.

In testing of 18 payroll records, auditors noted the following exceptions:

- a. One instance where an employee was underpaid \$61 per pay over twenty pay periods. This was discovered by the Regional Office and corrected prior to the audit.
- b. Three instances where the employees' Hire/Pay Notices were either not present or not signed by the Regional Superintendent.

In addition, the Regional Office did not properly secure the Regional Superintendent's signature stamp or the blank checks. Both were in unlocked drawers in the bookkeeper's office.

Lack of proper review of the various accounting processes and documentation to support each disbursement could result in unintentional or intentional errors or misappropriations of assets, in which the errors or fraud could be material to the financial statements and may not be detected in a timely manner by employees in the normal course of performing their assigned duties. (Finding 09-02, pages 13-14)

The auditors recommended that the Regional Office should ensure that its established internal control procedures are being followed and should develop additional internal control procedures to help ensure that all disbursements are processed in compliance with established policies.

The Regional Office of Education #40 responded that the functions of bookkeeping and accounting responsibilities were consolidated and transferred to the Jerseyville Office of the Regional Office of Education #40 in November of 2009. The ROE noted that after receiving

the findings for the FY 2009 audit, the Regional Office of Education conducted an extensive review of internal control procedures. Bookkeeping and payroll policies were reviewed, modified and altered to ensure greater internal control over all bookkeeping and payroll practices. The Regional Office believes that the aforementioned actions will help address this finding in FY 2010.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2009 are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:JRB

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors were West & Company, LLC.

DIGEST FOOTNOTES

#1: Controls Over Financial Statement Preparation - Previous Regional Office Response

In its prior response in 2008, the Regional Office of Education #40 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 accepted 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 services for the schools in the Region. The Regional Office noted that it was in the process of training its personnel to meet the SAS 112 guidelines.