



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

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

FINANCIAL AUDIT
For the Year Ended: June 30, 2012

Release Date: July 11, 2013

Summary of Findings:

| | |
|----------------------------------|----------|
| Total this audit: | 3 |
| Total last audit: | 2 |
| Repeated from last audit: | 2 |

SYNOPSIS

- The Regional Office of Education #40:
 - did not have sufficient internal controls over the financial reporting process;
 - had weaknesses in internal control procedures; and
 - did not have adequate monitoring of collateral on deposits.

{Revenues and expenditures 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, 2012

| | FY 2012 | FY 2011 |
|--|----------------|----------------|
| TOTAL REVENUES | \$1,142,261 | \$1,592,278 |
| Local Sources | \$337,322 | \$305,938 |
| % of Total Revenues | 29.53% | 19.21% |
| State Sources | \$780,423 | \$1,099,284 |
| % of Total Revenues | 68.32% | 69.04% |
| Federal Sources | \$24,516 | \$187,056 |
| % of Total Revenues | 2.15% | 11.75% |
| TOTAL EXPENDITURES | \$1,113,007 | \$1,452,027 |
| Salaries and Benefits | \$827,877 | \$868,801 |
| % of Total Expenditures | 74.38% | 59.83% |
| Purchased Services | \$224,771 | \$333,177 |
| % of Total Expenditures | 20.19% | 22.95% |
| All Other Expenditures | \$60,359 | \$250,049 |
| % of Total Expenditures | 5.42% | 17.22% |
| TOTAL NET ASSETS | \$502,652 | \$473,398 |
| INVESTMENT IN CAPITAL ASSETS | \$35,116 | \$28,723 |
| 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:

- 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 some accounts payable, accounts receivable, and deferred revenue, the Regional Office's financial information required several adjusting entries to present the financial statements in accordance with generally accepted accounting principles.
- Several prior year proposed audit entries were either not correctly recorded or not correctly reversed, as necessary.
- Transfers and due to/from other fund amounts were not always correctly recorded. Adjusting audit entries were necessary to net transfers and due to/from other funds to zero.

According to Regional Office officials, they did not have adequate funding to hire a certified public accountant or other

financial professionals for their full-time staff. However, they did obtain the assistance of a local county Chief Financial Officer in the current year. (Finding 12-01, 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 #40 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review 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 a financial consultant from Macoupin County will continue to assist the Regional Office during FY 2013 to help address this finding and will specifically review the items noted above. (For previous Regional Office response, see Digest Footnote #1.)

The Regional Office of Education #40 had weaknesses in internal control procedures.

INEFFECTIVE INTERNAL CONTROL PROCEDURES

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system over receipts and disbursements sufficient to prevent errors and fraud. The following weaknesses in the Regional Office of Education #40's internal control system were noted:

- One (1) employee contract out of 40 was not signed by either the Regional Superintendent or the Assistant Regional Superintendent.
- Eight (8) instances out of 40 in which the individual approving the direct deposit voucher used a checkmark to document his review and approval, rather than a signature or initials.
- One (1) instance out of 60 in which the vendor invoice did not agree to the check written or to the payment authorization form.
- Bank reconciliations are not consistently signed or initialed by the reviewer as documentation of their review and approval.
- Internal controls over checks paid to the check authorizers are not designed effectively. In these instances, the addressee of the check is also the authorizer of payment and/or check signer.

Lack of effective internal control procedures 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 12-02, page 10c)

The auditors recommended the following:

- All employee contracts should be signed and approved by either the Regional Superintendent or the Assistant Regional Superintendent.
- Individuals approving the direct deposit voucher should document their review and approval with a live signature or initials.
- The individuals reviewing and approving vendor disbursement checks and the check preparer should perform a three-way match between the vendor invoice, the payment authorization form, and the check.
- Documentation of the review and approval of bank reconciliations should be maintained.
- Addressees of checks should not also be the authorizer of payment and/or check signer.

The Regional Office of Education #40 responded that it agrees with the finding and will make every effort to follow established internal controls.

INADEQUATE MONITORING OF COLLATERAL ON DEPOSITS

The Regional Office of Education #40 did not have adequate monitoring of collateral on deposits.

The Public Funds Deposit Act (30 ILCS 225/1) gives the authorization for deposits in excess of the federally insured limit to be covered by pledged collateral held by the financial institutions' trust departments in the Regional Office of Education #40's name. In addition, prudent business practice requires that all cash and investments held by financial institutions for the Regional Office of Education be adequately covered by depository insurance or collateral.

As of June 30, 2012, cash account balances with one financial institution exceeded the Federal Deposit Insurance Corporation (FDIC) coverage by \$103,693. The FDIC covers deposit balances up to a maximum of \$250,000 at each financial institution. No arrangement had been made with the bank to provide additional collateral for balances exceeding the FDIC coverage.

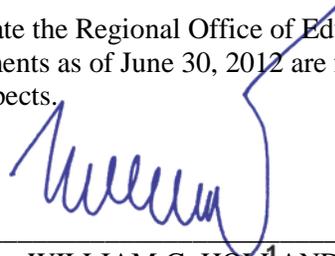
According to the Regional Office of Education #40 management, their cash balances at each financial institution have historically remained less than the FDIC coverage. Due to management oversight, the bank was not requested to provide additional collateral for balances exceeding the FDIC coverage. (Finding 12-03, page 10d)

The auditors recommended that the Regional Office of Education #40 should monitor collateral held for its bank accounts. The Regional Office of Education #40 should also establish controls for confirming amounts pledged by the bank on a regular basis, especially when cash balances exceed the FDIC level.

The Regional Office of Education #40 responded that it agreed with the finding. The Regional Office noted that management met with bank personnel and prepared an agreement for additional collateral for the ROE's bank balances and requested a regular statement showing the amounts that have been pledged. The Regional Office stated that staff will more closely monitor collateral pledged on bank account balances.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #40's financial statements as of June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

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

DIGEST FOOTNOTE

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

In its prior response in 2011, the Regional Office of Education #40 responded that a financial consultant from Macoupin County will continue to assist the Regional Office during FY 2012 to help address this finding and will specifically review the items noted above.