



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #46
BROWN/CASS/MORGAN/SCOTT COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2010

Release Date: December 21, 2011

Summary of Findings:

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

SYNOPSIS

- The Regional Office of Education #46 did not document its review and approval of building plans and specifications as required by the School Code.
- The Regional Office of Education #46 did not have adequate controls over property and equipment.
- The Regional Office of Education #46 did not have sufficient internal controls over the financial reporting process.

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

REGIONAL OFFICE OF EDUCATION #46
BROWN/CASS/MORGAN/SCOTT COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2010

	FY 2010	FY 2009
TOTAL REVENUES	\$1,945,909	\$1,943,550
Local Sources	\$268,553	\$275,971
% of Total Revenues	13.80%	14.20%
State Sources	\$1,458,362	\$1,425,992
% of Total Revenues	74.95%	73.37%
Federal Sources	\$218,994	\$241,587
% of Total Revenues	11.25%	12.43%
TOTAL EXPENDITURES	\$2,043,203	\$1,972,768
Salaries and Benefits	\$1,619,402	\$1,616,468
% of Total Expenditures	79.26%	81.94%
Purchased Services	\$315,044	\$218,188
% of Total Expenditures	15.42%	11.06%
All Other Expenditures	\$108,757	\$138,112
% of Total Expenditures	5.32%	7.00%
TOTAL NET ASSETS	\$631,247	\$728,541
INVESTMENT IN CAPITAL ASSETS	\$35,708	\$41,493
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Stephen Breese Currently: Honorable Jeffrey Stephens

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER COMPLIANCE WITH LAWS AND REGULATIONS

The Regional Office of Education #46 did not document its review and approval of building plans and specifications as required by the School Code.

The Illinois School Code (105 ILCS 5/3-14.20) requires the Regional Superintendent to inspect the building plans and specifications submitted by school boards, including but not limited to plans and specifications for the heating, ventilating, lighting, seating, water supply, toilets and safety against fire, of public school rooms and buildings, and to approve all those which comply substantially with the statutorily authorized school building codes. The Regional Superintendent is to approve or deny the plans and specifications within three months after the date they were submitted by the school board.

The Regional Office of Education #46 did not document its review and approval of all building plans and specifications as required by the School Code. During testing, auditors noted the following:

- Five of eight building plans submitted lacked required documentation showing Regional Office inspection.
- One of eight building plan inspections did not have the Regional Superintendent's signature on the building permit.
- The Regional Office did not maintain its own listing of building inspection submissions. It relied on a listing from the Illinois State Board of Education website that did not clearly identify submissions for building inspections.

According to Regional Office officials, the Regional Office attempts to comply with all statutory requirements. This situation happened in part due to a change in the personnel responsible for conducting this portion of the work within the office. (Finding 10-1, pages 10-11)

Auditors recommended that the Regional Office of Education #46 should comply with the requirements of 105 ILCS 5/3-14.20 and maintain all required documentation for building inspections and have it appropriately approved. In addition, the Regional Office should maintain documentation showing all building plans submitted by school boards for inspection.

The Regional Office responded that upon notification by the auditors of the paperwork exceptions, the ROE feels that they have been in full compliance after March 2010. The Regional Office also noted that they will continue to monitor this part of the operations to insure that all documentation is done.

INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT

The Regional Office of Education #46 did not have adequate controls over property and equipment.

The Regional Office of Education (ROE) Accounting Manual requires each ROE to maintain detailed fixed asset records for both accounting purposes as well as insurance purposes, for fixed assets costing \$500 or more. Generally accepted accounting principles require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

The ROE Accounting Manual also states that the fixed asset inventory records should include: the inventory control number (tag number); major asset class; function and activity; reference to the acquisition source document; acquisition date; vendor; a short description of the asset; unit charged with custody; location; fund and account from which purchased; method of acquisition; estimated useful life and method of depreciation; estimated salvage value; and date, method, and authorization of disposition.

Regional Office of Education #46 did not have adequate controls over fixed assets. The inventory listing provided by the Regional Office was inaccurate and incomplete. Auditors noted the following:

- Many items on the inventory listings did not include all information required by the ROE Accounting Manual and the Illinois State Board of Education's *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures*.
- There were many inconsistencies in the inventory listings and many items lacked sufficient detailed descriptions and information for identification.
- 2 items from the fixed asset listing did not have the correct value assigned at the time of donation.

The absence of a sound system of internal controls over fixed assets can result in inaccurate reporting and inadequate physical control for equipment items. An incomplete fixed asset listing does not provide an adequate basis for physical control and losses may occur without being detected.

According to Regional Office officials, most of the fixed assets that were underreported were items that had been donated to the program. The Regional Office also noted that while this equipment does have value, mostly it would be considered non-consequential to many businesses. At the time, the Regional Office felt it did not need to assign a value to these items, however, it does understand the need for better records. (Finding 10-2, pages 12-14)

Auditors recommended that the Regional Office of Education #46 establish and implement more detailed written policies and procedures for inventory. The policies and procedures should be updated on a periodic basis or at least annually and include the following:

- procedures for the individual responsible for annual inventory listings to ensure annually that all lists are consistently completed and accurate;
- procedures for documenting, recording, and assigning values for donated items;
- procedures for recording and updating inventory and asset listings as assets are purchased; and
- procedures for the disposition of assets.

The Regional Office of Education #46 responded that it has had property and equipment procedures in place for several years and continues to follow those procedures. The Regional Office noted that errors were made on the inventory and asset listing and have since been corrected. The vast majority of the equipment is used and donated, and not immediately, if ever, put into service. The ROE noted that these items are placed in storage and much of it is never used and goes directly to be recycled.

The Regional Office further responded that it has updated procedures to tag items and place them on the fixed asset listing only if and when the item is put into service. The ROE noted that it has also prepared for better tracking and documentation of equipment or inventory items before they are moved from one location to another. In addition, the ROE noted that it has implemented a more detailed listing of items being recycled. The ROE noted that it will also ensure that each employee's inventory listing for their area will be complete to include serial number and description.

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

Regional Office of Education #46 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 they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

The Regional Office of Education #46 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #46 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.

For example, auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office was unable to provide accurate trial balances and footnote disclosures to present financial statements in accordance with generally accepted accounting principles.
- The fiscal year 2010 beginning fund balances in the accounting records provided to auditors did not agree to the prior year's ending fund balance for some of the accounts due to prior year adjusting journal entries not being recorded correctly. Additional adjusting entries were necessary to correct the accounting records.

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 10-3, pages 15-16) **This finding was first reported in 2007.**

Auditors recommended that as part of internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #46 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 #46 responded that it has made great strides in improving its year-ending general ledger. The Regional Office noted that it continues to improve its system in an effort to meet the necessary requirements. The ROE noted that it is limited as to what adjusting journal entries can be made as its accounting system does not allow it to add new accounts to the chart of accounts going back to prior fiscal years. The ROE noted that it made efforts to try to book all audit adjustments proposed by auditors but were

limited due to the system limitations, which was understood between the auditing team and the ROE. The Regional Office noted that it understands errors were made and will continue to improve its review. Finally, the ROE noted that due to continued funding limitations and uncertainties, the ROE does not foresee the ability to hire a CPA to prepare full financial statements for future audits. (For previous Regional Office response, see Digest Footnote #1.)

AUDITORS' OPINION

Our auditors state the Regional Office of Education #46's financial statements as of June 30, 2010 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: This audit was performed by the Office of the Auditor General's staff.

DIGEST FOOTNOTE

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

In its prior response in 2009, the Regional Office of Education #46 responded that it will establish guidelines to more thoroughly review the books and the refinement of its close-out procedures before submitting them to the auditors. The Regional Office officials noted that while many improvements have already taken place, they understand this is an ongoing process and hope to reach the level of no finding by the end of next fiscal year.