



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #49
ROCK ISLAND COUNTY

**FINANCIAL AUDIT (In Accordance with the Single
Audit Act and OMB Circular A-133)
For the Year Ended: June 30, 2011
Release Date: September 6, 2012**

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

SYNOPSIS

- The Regional Office of Education #49 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #49 did not obtain an actuarial valuation of its postemployment benefits other than pensions liability (OPEB), or apply the alternative measurement method in order to be in compliance with GASB Statement No. 45.

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

REGIONAL OFFICE OF EDUCATION #49
ROCK ISLAND COUNTY

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2011

	FY 2011	FY 2010
TOTAL REVENUES	\$6,261,946	\$6,032,687
Local Sources	\$354,861	\$396,701
% of Total Revenues	5.67%	6.58%
State Sources	\$3,929,221	\$3,649,444
% of Total Revenues	62.75%	60.49%
Federal Sources	\$1,977,864	\$1,986,542
% of Total Revenues	31.59%	32.93%
TOTAL EXPENDITURES	\$6,318,663	\$5,944,199
Salaries and Benefits	\$1,868,938	\$2,129,096
% of Total Expenditures	29.58%	35.82%
Purchased Services	\$4,143,386	\$3,576,630
% of Total Expenditures	65.57%	60.17%
All Other Expenditures	\$306,339	\$238,473
% of Total Expenditures	4.85%	4.01%
TOTAL NET ASSETS	\$662,251	\$718,968
INVESTMENT IN CAPITAL ASSETS	\$82,318	\$66,334
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable James Widdop Currently: Honorable Tammy Muerhoff

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #49 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #49 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office 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 #49 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the accrual basis for disbursements and the cash basis 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.

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

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, and deferred revenue.
- Numerous 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 11-1, pages 15-16) **This finding was first reported in 2007.**

The auditors recommended that, as part of internal control over the preparation of financial statements, including disclosures, the Regional Office of Education #49 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 #49 responded that it has six positions which have some direct review, contact and oversight of its financial statements. These individuals have attended and will continue to attend training opportunities to enhance their knowledge of the applicable accounting principles and other areas necessary in order to obtain a sufficient set of internal controls over financial statement preparation. The Regional Office noted that it will have continued oversight. Additional opportunities to crosscheck information will be investigated to ensure the utmost monitoring of all financial assets. (For previous Regional Office response, see Digest Footnote #1.)

DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Regional Office of Education #49 did not obtain an actuarial valuation of its postemployment benefits other than pensions liability, or apply the alternative measurement method in order to be in compliance with GASB Statement No. 45.

Governmental Accounting Standards Board (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 #49 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 the employees' services occurs, rather than when the benefits are paid. Currently, ROE #49's 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. The ROE #49 did not obtain an actuarial valuation of its postemployment benefits other than pensions 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 ROE #49 as of June 30, 2011.

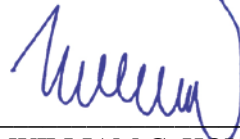
According to Regional Office officials, inadequate funding and the overall complexity of the GASB pronouncement led to the failure to implement GASB Statement No. 45. (Finding 11-2, pages 17-18)

The auditors recommended that the Regional Office of Education #49 should obtain or perform an actuarial valuation or apply the alternative measurement method to determine 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 responded that it is not currently funded in an adequate manner by the State of Illinois to perform an actuarial valuation check of retirement costs. The Regional Office noted that it will continue to research an actuarial valuation as funding becomes available.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #49's financial statements as of June 30, 2011 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: Ginoli & Company Ltd. were our special assistant auditors.

DIGEST FOOTNOTE

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

In its prior response in 2010, the Regional Office of Education #49 responded that it now has seven positions that have some direct

review, contact and oversight of its financial statements. These individuals have and will continue to attend training opportunities to enhance their knowledge of the applicable accounting principles and other areas needed to have a sufficient set of internal controls over financial statement preparation. Continued oversight and opportunities to crosscheck will be investigated.