



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For the Year Ended: June 30, 2010

Release Date: July 14, 2011

Summary of Findings:

Total this audit:	4
Total last audit:	3
Repeated from last audit:	3

SYNOPSIS

- The Regional Office of Education #53 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #53 used restricted funds from the RESPRO Fund for unauthorized purposes.
- The Regional Office of Education #53 did not record expenditures in the proper account and period.
- The Regional Office of Education #53 submitted expenditure reports for ARRA – General State Aid to the Illinois State Board of Education which did not agree to the Regional Office general ledger.

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

REGIONAL OFFICE OF EDUCATION #53
TAZEWELL COUNTY

FINANCIAL AUDIT
For The Year Ended June 30, 2010

	FY 2010	FY 2009
TOTAL REVENUES	\$1,594,768	\$1,517,948
Local Sources	\$224,964	\$188,437
% of Total Revenues	14.11%	12.41%
State Sources	\$1,181,312	\$1,143,272
% of Total Revenues	74.07%	75.32%
Federal Sources	\$188,492	\$186,239
% of Total Revenues	11.82%	12.27%
TOTAL EXPENDITURES	\$1,557,435	\$1,500,230
Salaries and Benefits	\$552,176	\$568,509
% of Total Expenditures	35.45%	37.89%
Purchased Services	\$179,434	\$135,459
% of Total Expenditures	11.52%	9.03%
All Other Expenditures	\$825,825	\$796,262
% of Total Expenditures	53.02%	53.08%
TOTAL NET ASSETS	\$464,135	\$426,802
INVESTMENT IN CAPITAL ASSETS	\$15,931	\$23,966
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Robin G. Houchin Currently: Honorable Robin G. Houchin

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #53 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #53 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 #53 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 were not sufficient controls over the preparation/review 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, capital assets, or deferred revenue.
- Numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.
- Payroll benefits and deductions were calculated incorrectly. Neither the Regional Superintendent nor the Assistant Regional Superintendent reviewed payroll taxes and related payroll withholdings prior to payment.
- Adjustments to cash, as noted on the monthly bank reconciliations prepared by a CPA firm, were not recorded in the general ledger of Mid-Illini Educational Cooperative, a blended component unit of the Regional Office of Education #53.

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 10-01, pages 11-12) **Part of 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 #53 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 #53 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 management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate securing the services of a Certified Public Accounting Firm to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will continue to pursue additional training for the individual(s) responsible for financial statement preparation. (For previous Regional Office response, see Digest Footnote #1.)

RESTRICTED FUNDS USED FOR UNAUTHORIZED PURPOSE

The Regional Office of Education #53 used restricted funds from the RESPRO Fund for unauthorized purposes.

The Regional Office of Education #53 used restricted funds from the RESPRO Fund for unauthorized purposes. Grant monies can only be used for allowable expenditures as outlined in grant agreements. In addition, Institute Fund expenditures are restricted to uses as provided in 105 ILCS 5/3-12.

Due to late grant reimbursements, some funds lacked cash to pay for their expenditures, resulting in loans from other funds. A review of the amounts due between funds showed a \$50,545 loan from the Regional System Provider/Federal System of Support (RESPRO) Fund to the General Fund. Loans are not one of the allowed uses of the RESPRO Fund. The Institute Fund had a loan of \$5,000 to the McKinney Education for Homeless Children Fund, which is not one of the allowed uses as outlined in 105 ILCS 5/3-12.

According to Regional Office officials various funds share a pooled bank account. When expenditures for the General

Fund came due, they were paid out of the pooled bank account. While the bank account had enough cash to cover the expenditures, it did not have enough of the General Fund's money for the payments. This created a loan from other funds that had cash in that account. The only funds with sufficient cash in the pooled bank account to pay such expenditures were grants, one of which was the RESPRO Fund.

Regional Office officials also noted that the loan from the Institute Fund to the McKinney Education for Homeless Children Fund was made on August 28, 2009. At that time, Regional Office personnel were unaware that loans from the Institute Fund to other funds were not allowed. (Finding 10-02, page 13-14)

Auditors recommended that the Regional Office of Education #53 should monitor payments from pooled cash accounts to be sure that the particular fund paying expenditures has sufficient funds to cover the payments and should use the RESPRO Fund only for purposes allowed by the grant agreement. The Regional Office of Education #53 should keep track of Institute Fund expenditures to ensure that they are being used for the specific purposes as listed in 105 ILCS 5/3-12.

The Regional Office of Education #53 responded that it will closely monitor payments from pooled cash accounts to be sure that the particular fund paying expenditures has sufficient funds to cover the payments and should use the RESPRO Fund only for purposes as allowed by the grant agreement. The Regional Office noted that it has taken steps to ensure that Institute Fund expenditures are appropriate for the specific purposes as listed in 105 ILCS 5/3-12.

MISCODING OF EXPENDITURES

The Regional Office of Education #53 did not record expenditures in the proper account and period. Expenditures should be carefully monitored to make sure that they are recorded to the proper accounts in the proper period.

The Regional Office of Education #53 did not record expenditures in the proper account and period.

During the review of expenditures, auditors identified several instances where expenditures were miscoded. They were as follows:

- Equipment totaling \$4,511 had been ordered but not yet received as of June 30, 2010. This amount was reported as an expenditure and accounts payable, rather than as an encumbrance.
- A capital lease payment of \$391 and a capital outlay of \$1,143 had been classified as purchased services.
- Expenditures of \$6,131 had been noted for travel and registrations for a conference to be held in December

2010. Since no liability had been incurred for these expenditures prior to year-end, they should have been coded as prepaid items or removed from the accounts payable listing.

- In two funds, items included as payables and expenditures at June 30, 2009 totaling \$968 were included as expenditures for the fiscal year ended June 30, 2010. In one instance, these expenditures had been transferred to another fund. Therefore, when the expenditures were reversed out of the fund they had originally been posted to, the expenditures were no longer there to offset the reversal, resulting in negative expenditure account balances.
- To account for the allocation of \$3,900 in salaries from one fund to another, salaries were appropriately reduced in the first fund but reported as purchased services in the second fund.

Since many of the funds with the miscodings were grants, inaccurate expenditure reports were submitted, which could lead to the granting agency requesting reimbursements or adjusting the fiscal year 2011 grant amounts. In the case of the salaries reported as purchased services, the budget for this grant did not have an amount allocated for salaries, so the grant was not in compliance with its budget.

According to Regional Office of Education #53 officials, personnel were unaware of the accounting requirements for recording and reporting encumbrances and capital leases. They also did not realize that expenditures for a conference in a future accounting period should not be reported as current expenditures. The other miscodings had been oversights.

Auditors recommended that the Regional Office of Education #53 personnel responsible for coding expenditures should be made aware of all accounting requirements that pertain to recording and reporting the Regional Office's expenditures.

The Regional Office of Education #53 responded that a Certified Public Accounting firm has been contacted and preparations are taking place to secure services to address the auditors' recommendations.

EXPENDITURE REPORTS DID NOT AGREE TO THE GENERAL LEDGER

The Regional Office of Education #53 submitted expenditure reports for ARRA – General State Aid to the Illinois State Board of Education which did not agree to the Regional Office general ledger.

The Regional Office of Education #53 submitted expenditure reports for ARRA-General State Aid-Education SFSF and ARRA-General State Aid-Government SFSF to the Illinois State Board of Education which did not agree to the Regional Office general ledger. Expenditure reports submitted to the Illinois State Board of Education should agree with the

expenditures on the Regional Office of Education #53's general ledger.

The categorization of expenditures on the expenditure reports submitted to the Illinois State Board of Education for ARRA-General State Aid-Education SFSF and ARRA-General State Aid-Government SFSF did not agree with the Regional Office's books, resulting in inaccurate expenditure reports.

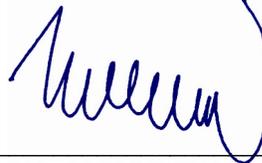
Inaccurate expenditure reports were submitted, which could lead to the granting agency requesting reimbursements. The funding from the ARRA grants was all passed through to another entity and was properly shown as such on the general ledger. However, the amounts were reported as salaries on the expenditure reports, since that is how they were used by the pass-through entity. (Finding 10-04, page 17-18)

Auditors recommended that the Regional Office of Education #53 personnel responsible for preparing expenditure reports should compare the categorization of expenditures by line item with the general ledger accounts and make necessary corrections before filing the reports.

The Regional Office of Education #53 responded that a Certified Public Accounting firm has been contacted and preparations are taking place to secure services to address the auditors' recommendations.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #53's financial statements as of June 30, 2010 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JRB

AUDITORS ASSIGNED: West & Company, LLC were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2009, the Regional Office of Education #53 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 management is currently confident with the abilities of the accounting staff to prepare cash basis financial information as needed for reporting throughout the year. Management will review year end reporting controls annually and investigate the cost of training staff to reach an appropriate level of expertise to do a comprehensive preparation and/or review of financial statements. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region. The Regional Office also responded that the Regional Superintendent will review and approve all journal entries along with supporting documentation prior to the entries being posted to the account records. The Regional Superintendent also responded that as a result of this finding, either the Regional Superintendent or the Assistant Regional Superintendent now approves all payroll amounts prior to payment. The Regional Office noted that an outside CPA reconciles the monthly bank statements with payroll checks included in this reconciliation. The CPA is aware that all employees are on a set contract each year and payroll checks should be issued for the same amount each payroll. The Regional Office noted that if the CPA notices any discrepancy in the payroll it would be brought to their attention.