



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

REGIONAL OFFICE OF EDUCATION #27
HENDERSON, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
For the Year Ended: June 30, 2012

Release Date: March 28, 2013

Summary of Findings:

| | |
|----------------------------------|----------|
| Total this audit: | 2 |
| Total last audit: | 1 |
| Repeated from last audit: | 1 |

SYNOPSIS

- The Regional Office of Education #27 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #27 did not have adequate internal controls over some areas of operations.

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

REGIONAL OFFICE OF EDUCATION #27
HENDERSON, MERCER AND WARREN COUNTIES

FINANCIAL AUDIT
For The Year Ended June 30, 2012

| | FY 2012 | FY 2011 |
|--|----------------|----------------|
| TOTAL REVENUES | \$2,187,941 | \$2,042,572 |
| Local Sources | \$369,315 | \$538,416 |
| % of Total Revenues | 16.88% | 26.36% |
| State Sources | \$1,395,253 | \$963,453 |
| % of Total Revenues | 63.77% | 47.17% |
| Federal Sources | \$423,373 | \$540,703 |
| % of Total Revenues | 19.35% | 26.47% |
| TOTAL EXPENDITURES | \$2,116,727 | \$1,354,287 |
| Salaries and Benefits | \$1,187,027 | \$1,004,139 |
| % of Total Expenditures | 56.08% | 74.15% |
| Purchased Services | \$294,483 | \$204,862 |
| % of Total Expenditures | 13.91% | 15.13% |
| All Other Expenditures | \$635,217 | \$145,286 |
| % of Total Expenditures | 30.01% | 10.73% |
| TOTAL NET ASSETS | \$956,509 | \$885,295 |
| INVESTMENT IN CAPITAL ASSETS | \$0 | \$0 |
| Percentages may not add due to rounding. | | |

| REGIONAL SUPERINTENDENT |
|--|
| During Audit Period: Honorable Jodi L. Scott Currently: Honorable Jodi L. Scott |

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #27 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #27 is required to maintain a system of controls over the preparation of financial statements, including disclosures, in accordance with generally accepted accounting principles (GAAP). The ROE 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 #27 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 ROE's accounting records, noted the following:

- Numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.
- The ROE did not maintain records of accounts receivable, accounts payable, or deferred revenue.

According to ROE officials, they did not have adequate funding to hire and/or train their accounting personnel in order to maintain a system of internal control over the preparation of financial statements in accordance with GAAP. (Finding 12-1, pages 10-11) **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 #27 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 #27 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 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 education services for the schools in the region. (For previous Regional Office response, see Digest Footnote #1.)

INADEQUATE INTERNAL CONTROLS

The Regional Office of Education #27 did not have adequate internal controls over some areas of operations.

The Regional Superintendent is responsible for establishing and maintaining an internal control system over accounting transactions to prevent errors and fraud. Additionally, good internal control procedures dictate the Regional Office of Education adequately segregate duties, thereby ensuring proper safeguarding of revenues and resources.

The Regional Office of Education #27 had inadequate segregation of duties and internal controls over some areas of its operations. For example, auditors noted the following:

- Bank reconciliations were not reviewed and approved by an independent party after preparation by the bookkeeper.
- A cash receipts list was not prepared for over-the-counter checks and checks received through the mail.
- Backups of the accounting software were only performed twice a month.

According to the Regional Office of Education #27's personnel, they stated that bank reconciliations were previously reviewed and approved by the Regional Superintendent, but that process had stopped. In addition, ROE personnel felt that the carbon copies in the receipt book and the software backups twice a month were sufficient. (Finding 12-2, pages 12-13)

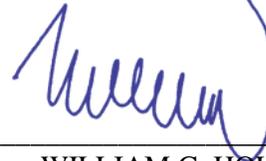
The auditors recommended that the Regional Office of Education #27 should put in place a procedure where an independent party reviews and approves the bank reconciliations after preparation by the bookkeeper. Both the preparer and the reviewer/approver should initial and date the reconciliation to document this procedure. Further, a cash

receipts list should be prepared by an individual with no access to the general ledger records for all checks and/or cash received directly in the mail or over-the-counter. The list should then be given to the individual preparing the deposit slip. At the end of the month, this list should be included with the reconciliation packet and given to the individual reviewing and approving the bank reconciliation to ensure all receipts were deposited. In addition, the ROE should backup the accounting program at least weekly to ensure safe storage of accounting data.

The Regional Office of Education #27 responded that the bank reconciliations are now reviewed and approved by the Regional Superintendent after preparation by the bookkeeper. The Regional Office noted that cash receipts are now recorded on a ledger sheet at the front desk upon receipt, either by mail or over the counter transactions. The Regional Office also stated that a log of software backups is now being maintained to indicate a new weekly backup policy.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #27's financial statements as of June 30, 2012 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:KJM

AUDITORS ASSIGNED: Sulaski & Webb, CPAs were our special assistant auditors.

DIGEST FOOTNOTES

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

In its prior response in 2011, the Regional Office of Education #27 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 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.