

REPORT DIGEST

REGIONAL OFFICE OF
EDUCATION #28

BUREAU/HENRY/STARK
COUNTIES

FINANCIAL AUDIT
(In Accordance with the
Single Audit Act and OMB
Circular A-133)

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this audit	2
Total last audit	1
Repeated from last audit	1

Release Date:
June 24, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #28 did not properly prepare grant budgets and report grant expenditures.

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

REGIONAL OFFICE OF EDUCATION #28
BUREAU/HENRY/STARK COUNTIES

FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For The Year Ended June 30, 2009

	FY 2009	FY 2008
TOTAL REVENUES	\$2,693,932	\$2,685,369
Local Sources	\$828,788	\$989,713
% of Total Revenues	30.77%	36.86%
State Sources	\$1,301,538	\$907,619
% of Total Revenues	48.31%	33.80%
Federal Sources	\$563,606	\$788,037
% of Total Revenues	20.92%	29.35%
TOTAL EXPENDITURES	\$1,860,660	\$2,661,814
Salaries and Benefits	\$749,874	\$943,605
% of Total Expenditures	40.30%	35.45%
Purchased Services	\$342,941	\$253,485
% of Total Expenditures	18.43%	9.52%
All Other Expenditures	\$767,845	\$1,464,724
% of Total Expenditures	41.27%	55.03%
TOTAL NET ASSETS	\$1,154,882	\$321,610
INVESTMENT IN CAPITAL ASSETS	\$109,695	\$105,985
Percentages may not add due to rounding.		

REGIONAL SUPERINTENDENT
During Audit Period: Honorable Bruce Dennison
Currently: Honorable Bruce Dennison

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Regional Office of Education #28 did not have sufficient internal controls over the financial reporting process.

The Regional Office of Education #28 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 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 #28 did not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the accrual basis of accounting for disbursements and the cash basis of accounting 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.

In their review of the Regional Office's accounting records, auditors noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable and deferred revenues.
- Several 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 09-1, page 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 #28 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 #28 responded that it retained the services of the former Special Assistant Auditors assigned to the office for a number of years, to assist in the preparation of the financial statements for audit. (For previous Regional Office response, see Digest Footnote #1.)

INACCURATE BUDGETS AND EXPENDITURE REPORTS

The Regional Office of Education #28 did not properly prepare grant budgets and report grant expenditures.

The Regional Office is required by the Illinois State Board of Education to prepare grant budgets and report grant expenditures in accordance with *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*.

According to these manuals, the breakdown in the grant budgets should be an itemization and description of the requested grant costs provided in enough detail to identify what costs are to be charged to the grants. In addition, regulations state that any amount reported in an expenditure report that is not for a budgeted item or not within the acceptable variance approved by the program cannot be accepted.

Grant expenditure reports should reflect program costs in the appropriate function and object codes regardless of where the costs were budgeted. Generally

accepted accounting principles state that expenditures should be classified in the appropriate expenditure category.

The Regional Office did not properly prepare grant budgets and, therefore, did not report grant expenditures in accordance with ISBE *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* or the *Illinois Program Accounting Manual* for the Title IV – 21st Century Community Learning Centers. The Regional Office budgeted the majority of its funds to the Payments to Other Governments function and the Purchased Services object code. The budget narrative indicated these funds were to be transferred to various school districts for salaries and benefits.

The auditors' review of the supporting documentation showed that the Regional Office actually spent \$402,749 on the Title IV – 21st Century Community Learning Centers Program of which \$260,483 of the funds were used to pay other allowable grant related costs (different than those budgeted) rendering the related expenditure reports for these funds inaccurate. The grant funds were used to pay salaries, benefits, workers' compensation insurance, and unemployment costs for Regional Office employees related to the program, transportation costs for school districts administering the program and various other program costs. These expenditures were for allowable grant costs under the terms of the Title IV – 21st Century Community Learning Centers Program. Therefore, there were no questioned costs.

In addition, Henry County processed and paid the Regional Office payroll. The Regional Office then reimbursed Henry County for the payroll amount. The Regional Office reported these payroll reimbursements in the Payments to Other Governments expenditure category rather than in the Salaries and Benefits expenditure category where the expenditures were actually incurred. The Regional Office reported the expenditures by vendor instead of expenditure type.

According to Regional Office officials, the ROE has been budgeting, classifying, and reporting expenditures in this manner for the past five years. Given that prior auditors or ISBE had not previously questioned the expenditure reports, the Regional Office was unaware that it was not complying with State Board requirements. For example, expenditures were made to Henry County which processes the Regional Office's payroll. The Regional Office classified these expenditures as a "payment to a governmental body", as opposed to payroll expenses, because Henry County is a governmental entity. (Finding 09-2, pages 12a-12b)

The auditors recommended that the Regional Office of Education #28 should begin budgeting and reporting expenditures of the Title IV – 21st Century Community Learning Centers Program in accordance with the *State and Federal Grant Administration Policy and Fiscal Requirements and Procedures* and the *Illinois Program Accounting Manual*. In addition, the Regional Office should contact ISBE and amend the grant budgets for its 2010 programs. The Regional Office should also report expenditures by the expenditure type instead of the vendor type.

The Regional Office of Education #28 responded that it will report grant expenditures by function and object code. The Regional Office noted that it will also contact ISBE regarding its FY 2011 budgets.

AUDITORS' OPINION

Our auditors state the Regional Office of Education #28's financial statements as of June 30, 2009 are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:KJM

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors were Lindgren, Callihan, Van Osdol & Co., LTD.

DIGEST FOOTNOTES

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

In its prior response in 2008, the Regional Office of Education #28 responded that it will continue to maintain its accounting records on the accrual basis of accounting for disbursements and the cash basis of accounting for receipts, as it historically has done. The Regional Office noted that, at the present time, the additional cost of hiring and training additional staff or contracting the service outweighs the benefits. The Regional Superintendent and Assistant Regional Superintendent will review financial transactions and financial reports on a periodic basis. They noted that the Regional Office will review, approve, and accept responsibility for the financial statements and related items. If additional resources are made available through the State of Illinois, the Regional Office will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.