



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**REGIONAL OFFICE OF EDUCATION #34**  
**LAKE COUNTY**

**FINANCIAL AUDIT (In Accordance with the Single  
Audit Act and OMB Circular A-133)  
For the Year Ended: June 30, 2010  
Release Date: September 1, 2011**

**Summary of Findings:**  
**Total this audit: 5**  
**Total last audit: 1**  
**Repeated from last audit: 1**

**SYNOPSIS**

- The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.
- The Regional Office of Education #34 did not apply appropriate accounting principles.
- The Regional Office of Education #34 did not have proper internal controls for reporting accrued compensated absences.
- The Regional Office of Education #34 did not have adequate controls over purchased services expenditures.
- The Regional Office of Education #34 did not have adequate documentation for payroll expenditures.

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

**REGIONAL OFFICE OF EDUCATION #34**  
**LAKE COUNTY**

**FINANCIAL AUDIT**  
**(In Accordance with the Single Audit Act and OMB Circular A-133)**  
**For The Year Ended June 30, 2010**

	<b>FY 2010</b>	<b>FY 2009</b>
<b>TOTAL REVENUES</b>	\$8,324,192	\$6,840,745
Local Sources	\$3,060,180	\$1,980,780
% of Total Revenues	36.76%	28.96%
State Sources	\$3,829,324	\$3,485,234
% of Total Revenues	46.00%	50.95%
Federal Sources	\$1,434,688	\$1,374,731
% of Total Revenues	17.24%	20.10%
<b>TOTAL EXPENDITURES</b>		
Salaries and Benefits	\$8,822,028	\$6,520,295
% of Total Expenditures	\$3,946,483	\$2,775,649
Purchased Services	44.73%	42.57%
All Other Expenditures	\$1,672,675	\$1,128,889
% of Total Expenditures	18.96%	17.31%
	\$3,202,870	\$2,615,757
	36.31%	40.12%
<b>TOTAL NET ASSETS</b>		
	\$1,985,331 <sup>1</sup>	\$2,623,486
<b>INVESTMENT IN CAPITAL ASSETS</b>		
	\$16,776	\$11,532
<sup>1</sup> Includes a restatement of the FY 2010 beginning net asset balance to record accrued liabilities totaling \$140,319. Percentages may not add due to rounding.		

<b>REGIONAL SUPERINTENDENT</b>
During Audit Period: Honorable Roycealee Wood
Currently: Honorable Roycealee Wood

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **CONTROLS OVER FINANCIAL STATEMENT PREPARATION**

**The Regional Office of Education #34 did not have sufficient internal controls over the financial reporting process.**

The Regional Office of Education #34 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The Regional Office's internal control 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 #34 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.

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, accounts payable or deferred revenue. While the Regional Office maintained records to support the balances of accounts receivable, accounts payable and deferred revenue, not all entries were made by the Regional Office to reconcile their grant activity, such as posting grants receivable and deferred revenue.
- The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with GAAP. These included multiple adjusting entries from the prior year's audit that were not recorded in the general ledger. In addition, many of the fund balance accounts listed on the trial balance received from the Regional Office did not agree to the amounts reported in the prior year.

The Regional Office made adjustments to the beginning fund balances, however, for financial statement preparation, the prior year ending balances were used as the beginning balances.

- Trial balance reports for 36 funds had positive or negative amounts, rather than being \$0.
- A bank account for the Regional Safe School Program fund was not reconciled with the general ledger balance.
- Balances of income statement (nominal) accounts from the trial balance and general ledger for the Regional Safe School Program captured only the transactions from January 1, 2010 through June 30, 2010. Balances of the same nominal accounts from July 1, 2009 through December 31, 2009 were closed into the fund balance account. Auditors had to review the detail of cash receipts and disbursements for the July 1, 2009 through December 31, 2009 time period in order to determine the proper account balances.
- Errors were noted during our review of individual account balances. For example, investments totaling \$24,714 were recorded as accounts receivable and \$71,115 due to other governmental units were recorded as accounts payable.

According to Regional Office officials, delays in receiving the auditors' FY 09 adjusting journal entries impacted the Regional Office's ability to maintain up-to-date accounts and accurate balances. In addition, delays in payments of grant funds by the State of Illinois severely affected closeout of the year's accounts and contributed to insufficiency of funding to adequately train accounting personnel to prepare financial statements in compliance with GAAP, as required by GASB. (Finding 10-1, pages 13-15)

The auditors recommended that, as part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #34 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 #34 responded that it agrees with the finding. The ROE #34 noted that it will implement

preparation and/or review procedures to ensure that financial statements, including disclosures, are complete and accurate.

## **FAILURE TO APPLY APPROPRIATE ACCOUNTING PRINCIPLES**

### **The Regional Office of Education #34 did not apply appropriate accounting principles.**

Generally accepted accounting principles require that a lease be capitalized if any one of following four criteria is a characteristic of the lease transaction: 1) the lease transfers ownership of the property to the lessee by the end of the lease term, 2) the lease contains bargain purchase options, 3) the lease term is equal to 75% or more of the estimated economic life of the leased property, or 4) the present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property. In addition, sound internal controls require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained properly.

Interfund loans should be reported as interfund receivables by the lender fund and interfund payables by the borrower fund. Interfund Reimbursements should not be reported in the governmental entity's financial statements as revenues and expenses in order to avoid "double counting" of revenues and expenses/expenditure items.

The Regional Office of Education #34 did not properly record several transactions and, as a result, did not properly apply the appropriate generally accepted accounting principles (GAAP).

- For FY 2010, payments on leases of certain equipment with lease terms equal to the estimated economic life of the leased property, were treated as operating leases and recorded as purchased services (\$48,499). These leases met the criteria for capital leases.
- The ROE #34 capitalizes items costing \$5,000 or more. Based on our review of the schedule of capitalized assets and related depreciation (schedule), the following were noted:
  1. Items costing less than \$5,000 were included in the schedule.
  2. Two of six capital lease equipment items tested were listed at cost equal to the total lease payments and not at the present value of the lease obligations.
  3. Four of six capital lease equipment items tested were not included in the schedule.
  4. Due to an inaccurate basis of calculating the depreciation expense, the computed net book

value and depreciation expense was overstated by \$52,268 and understated by \$12,001, respectively.

- Interfund receipts and disbursements pertaining to reimbursements of TRS and THIS employee contributions (\$181,106) were recorded as revenues and expenses instead of receivables and payables.

According to Regional Office of Education #34 officials:

- The ROE #34 generally does not keep the equipment items through the end of the lease term and considered the recording of the lease transactions as purchased services proper.
- For monitoring purposes, the ROE #34 maintains a fixed asset listing with equipment items costing \$500 and above. The ROE #34 did not properly exclude items below the capitalization threshold of \$5,000 when calculating and recording fixed asset additions and depreciation expense. In addition, the ROE #34 did not have personnel with adequate training and knowledge to record capital lease transactions in accordance with GAAP.
- For the reimbursements of TRS and THIS employee contributions, the ROE #34 maintains a separate fund to account for the receipts which are recorded as revenues and disbursements which are recorded as expenses. (Finding 10-2, pages 16-18)

Auditors recommended that the Regional Office of Education #34 should establish procedures to ensure that transactions are properly accounted for and reported in accordance with generally accepted accounting principles. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP. The fixed asset schedule should also be completed to include all capital lease items, and only capital assets above the capitalization threshold.

The Regional Office of Education #34 responded that it agrees with the finding and will post proposed adjusting entries to record transactions in accordance with GAAP. The Regional Office noted that adjustments will be made to the fixed assets/inventory schedule to allow appropriate identification of capital lease items and separation of items above and below the \$5,000 capitalization threshold. The Regional Office also noted that this will also ensure accurate future calculations of fixed asset additions and depreciation expenses.

## CONTROLS FOR REPORTING ACCRUED COMPENSATED ABSENCES

**The Regional Office of Education #34 did not have proper internal controls for reporting accrued compensated absences.**

Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*, requires that vacation leave, sick leave, and other compensated absences with similar characteristics be accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement (termination payments).

Alternatively, the liability should be measured based on the sick leave and other compensated absences with similar characteristics accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

Under terms of employment at ROE #34, employees are granted general and sick leave in varying amounts. Upon the termination of an employee eligible to use general leave, all accumulated leave credit will be paid as of the date of termination up to a maximum of 330 hours.

The Regional Office of Education #34 did not have adequate controls in place for identifying and reporting the Regional Office's liability for accrued compensated absences. During our review of the liability for accrued compensated absences for 25 employees, we noted that the ROE #34 did not recognize a compensated absences liability in its financial statements for fiscal years 2009 and 2010. Based on auditors' computation, compensated absences liability for fiscal years 2009 and 2010 totaled \$140,319 and \$140,361, respectively. Auditors proposed adjusting entries on the government wide and fund financial statements to correct the compensated sick and vacation expenses and to restate beginning net assets.

In addition, the Regional Office's Education Services Division maintains a spreadsheet to monitor vacation leave hours earned by each eligible employee. Based on auditors' review of vacation leave balances for five (5) employees, the following errors were noted:

- Hours earned by two (2) employees were overstated by a total of 19 hours due to an error in summarizing the numbers from the timecard.
- Hours earned by one (1) employee were overstated by a total of 29 hours due to an error in computation. The computed vacation hours exceeded the maximum of 330 hours.

Failure to implement adequate internal control procedures for identifying, calculating and reporting the Regional Office's liability for accrued compensated absences may result in a material misstatement of the ROE #34's financial statements. This also could result in incomplete and inaccurate disclosure of compensated absences liability.

According to Regional Office of Education #34 officials, the ROE #34 did not have personnel with adequate training and knowledge to comply with GASB Statement No. 16, *Accounting for Compensated Absences*. (Finding 10-3, pages 19-20)

Auditors recommended that the Regional Office of Education #34 should implement adequate internal controls to ensure that financial information is complete and accurate. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP.

The Regional Office of Education #34 responded that it agrees with the finding and will incorporate GASB Statement No. 16, *Accounting for Compensated Absences* into office processes and procedures. The Regional Office also noted that it will record proposed adjusting entries and calculate compensated absences liability for FY 2011 and future years.

#### **INADEQUATE CONTROLS OVER PURCHASED SERVICES EXPENDITURES**

**The Regional Office of Education #34 did not have adequate controls over purchased services expenditures.**

During their review of expenditures, auditors noted that the contractual agreement for 1 of 11 (9%) contracts for the time period July 1, 2009 through June 30, 2010 was executed and signed on June 28, 2010. In addition, the Regional Office #34 did not maintain documentation to support the hours worked and services provided. The amount paid totaled \$35,721 and was paid from local funding. The contract was executed with the Assistant Regional Superintendent under a consultant agreement to act as the Executive Director for the Regional Office #34's blended component unit, Education Services Division (ESD). The ESD is responsible for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators and for serving as the primary regional delivery system for State and federal grant supported programs and services in education. The Regional Office is the administrative and fiscal agent for the ESD.

Good internal controls require that all contracts be executed prior to services being performed and payments being made to contractors. In addition, the Regional Office is responsible for ensuring that contractors maintain documentation of the hours worked and services provided under the contract.

Failure to execute contracts prior to when the services begin and not maintaining documentation of the hours worked and the services provided, may result in services being provided that are inconsistent with program goals and activities, inadequate protection of the Regional Office's interests, and unallowable costs charged to the program.

Regional Office management stated that the services and amount of the contractual services to be provided were established when the employee began working at the Regional Office. As a result, the ROE #34 did not have a current written contract on file. (Finding 10-4, pages 21-22)

The auditors recommended that the Regional Office of Education #34 establish procedures to ensure that all program costs are sufficiently documented and adequately supported. Auditors noted that all consultant agreements should be supported by a current written contract with detailed scope of services and rates of compensation. The ROE #34 should also maintain documentation to support hours worked and the services provided.

The Regional Office of Education #34 responded that it agrees with the finding. The Regional Office noted that corrective documents were created in June 2010 for FY2009, FY2010 and FY 2011 contracts. The Regional Office noted that it will continue to follow established procedures to ensure program costs are sufficiently documented and adequately supported. The ROE also noted that all consultant agreements will be supported by a current written contract with detailed scope of services and rates of compensation.

#### **INADEQUATE DOCUMENTATION FOR PAYROLL EXPENDITURES**

**The Regional Office of Education #34 did not have adequate documentation for payroll expenditures.**

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, established principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require the expenditures must be allocable, reasonable, and supported by adequate documentation.

Part 4 of the OMB Circular A-133 Compliance Supplement for the Department of Education prescribes that employee time and effort distribution records must be maintained to document the portion of time and effort dedicated to the single cost objective and each program or other cost objective

supported by non-consolidated Federal funds or other revenue sources.

During review of payroll expenditures, auditors noted the following:

- Salaries and benefits totaling \$666,607 for nine (9) salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared to account for actual time charged by program.
- Three (3) employees who worked solely on Title I-School Improvement and Accountability grant, did not prepare the required semi-annual certification stating that they had worked full time on this program. Salaries and benefits for these employees totaled \$287,885.

Failure to prepare time allocation sheets did not provide a sufficient basis for the allocation of actual payroll charges incurred by program, which may result in a program being over or under charged for salary and benefits. Also, noncompliance with the Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement may result in the federal funds being expended for unallowable purposes.

The Regional Office of Education #34 did not have established policies and procedures regarding salaries and benefits that incorporate the requirements of Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement and the Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. In addition, the Regional Office staff did not anticipate significant differences between the budgeted and actual time spent by program and therefore did not see the need to summarize time charges and re-allocate salary costs based on actual time spent. (Finding 10-5, pages 23-26)

Auditors recommended that the Regional Office of Education #34 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures should include requiring staff involved in multiple programs to submit time sheets by program or a time and effort report by program. The Regional Office should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program should be based on the time

devoted and identified specifically to the performance of those programs.

The Regional Office of Education #34 responded that it agrees with the finding and will develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. The Regional Office noted that the policies and procedures will include requiring staff involved in multiple programs to submit a time and effort report by program. The ROE noted that it will also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged to budgeted allocation rates on a regular basis. The ROE stated that payroll charges by program will be based on the time devoted and identified specifically to the performance of those programs.

The Regional Office noted that these corrective actions will be developed for full implementation in FY 2012. The ROE noted that FY 2011 time and effort estimations will be based upon budget allocations as compared to completed employee time and effort reports used to calculate monthly cumulative pay entitlements.

#### **AUDITORS' OPINION**

Our auditors state the Regional Office of Education #34's financial statements as of June 30, 2010 are fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

WGH:KJM

AUDITORS ASSIGNED: E.C. Ortiz & Co., LLP were our special assistant auditors.