

School District U-46

**Reports Required By
OMB Circular A-133 and
Government Auditing Standards
Year Ended June 30, 2010**

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**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Members of the Board of Education
School District U-46
Elgin, Illinois

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of School District U-46 (District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 10-01 through 10-03 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to warrant attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 10-04 and 10-05 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated January 19, 2011.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Chicago, Illinois
January 19, 2011



**Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Members of the Board of Education
School District U-46
Elgin, Illinois

Compliance

We have audited the compliance of School District U-46 (District) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2010, and have issued our report thereon dated January 19, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information, for the year ended June 30, 2010, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The information for the year ended June 30, 2009 was audited by other auditors, whose report, dated September 21, 2009, expressed an unqualified opinion on such information in relation to the 2009 financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Chicago, Illinois
January 19, 2011

ILLINOIS STATE BOARD OF EDUCATION
 100 NORTH FIRST STREET
 SPRINGFIELD, ILLINOIS 62777-0001

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR Ended JUNE 30, 2010

(attachment of ISBE 62-18)

County _____
 District/Joint Agreement Name _____
 School District U46 _____
 District/Joint Agreement No. _____
 U46 _____

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)
			7/1/08- 6/30/09 (C)	7/1/09- 6/30/10 (D)	7/1/08- 6/30/09 (E)	7/1/09- 6/30/10 (F)			
U.S. Department of Education:									
Direct grants:									
Fund for the Improvement of Education: Teaching American History	84.215X	U215X080096	\$ -	\$ 228,315	\$ -	\$ 228,315	\$ -	\$ 228,315	\$ 409,736
		U215X080096	151,453	67,139	218,592	-	-	218,592	314,976
Fund for the Improvement of Education: FIE Earmark Grant Awards	84.215K	U215K090314	-	94,662	-	94,662	-	94,662	238,000
Safe and Drug-Free Schools and Communities_National Program Comprehensive Safety and Emergency Response Plan	84.184E	Q184E090106	-	200,204	-	200,204	-	200,204	456,995
Safe and Drug-Free Schools and Communities_National Program School Emergency Response to Violence	84.184S	Q184S100007	-	19,221	-	19,221	-	19,221	47,509
Passed through Illinois State Board of Education:									
State Grants For Innovative Programs: Title V - Innovative Programs - Formula	84.298A	10-4100-00	5,877	-	5,877	-	-	5,877	5,877
Title I Grants to Local Education Agencies: Title I : Low Income	84.010A	10-4300-00	-	8,297,774	-	6,594,790	100,000	6,694,790	8,383,293
		09-4300-00	4,011,112	137,389	3,631,718	516,783	-	4,148,501	5,863,718
Title I Grants to Local Education Agencies: ARRA-Title I - Low Income	84.389A	10-4851-00	-	1,470,336	-	1,300,568	50,000	1,350,568	1,470,336
Title I Grants to Local Education Agencies: Title I : Low Income - Neglected Priv.	84.010A	10-4305-00	-	28,905	-	21,367	7,538	28,905	28,905
		09-4305-00	44,054	-	44,054	-	-	44,054	44,054

(attachment of ISBE 62-18)

County
District/Joint Agreement Name
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR Ended JUNE 30, 2010

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)
			7/1/08- 6/30/09 (C)	7/1/09- 6/30/10 (D)	7/1/08- 6/30/09 (E)	7/1/09- 6/30/10 (F)			
Title I Grants to Local Education Agencies: ARRA-Title I : Low Income - Neglected Priv.	84.389A	10-4852-00	\$ -	\$ 27,071	\$ -	\$ 25,767	\$ 1,300	\$ 27,067	\$ 27,071
Safe and Drug-Free Schools and Communities, State Grants Title IV : Safe and Drug Free Schools -Formula	84.186A	10-4400-00 09-4400-00	- 95,229	127,456 2,957	- 92,665	73,460 5,521	18,212 -	91,672 98,186	142,671 120,856
Twenty-First Century Community Learning Centers: Title IV - 21st Century Community Learning Centers	84.287C	10-4400-07 10-4400-10 09-4400-07	- - 273,006	256,300 359,300 7,369	- - 255,806	217,849 301,625 24,569	38,451 57,675 -	256,300 359,300 280,375	256,300 359,300 284,700
Special Education - Preschool Grants: Pre-School Flow Through	84.173A	10-4600-00 09-4600-00	- 169,982	211,677 -	- 169,982	211,677 -	- -	211,677 169,982	211,677 169,982
Special Education - Preschool Grants: ARRA-Pre-School Flow Through	84.392A	10-4856-00	-	112,136	-	98,136	14,000	112,136	112,136
Special Education - Grants to States: IDEA Flow Through	84.027A	10-4620-00 09-4620-00	- 7,058,609	6,487,926 (121,918)	- 6,213,613	6,239,600 723,078	235,000 -	6,474,600 6,936,691	7,632,056 7,235,116
Special Education - Grants to States: ARRA - IDEA Flow Through	84.391A	10-4857-00	-	4,245,744	-	3,724,549	521,195	4,245,744	4,265,467
Special Education - Grants to States: IDEA Room & Board	84.027A	2010-4625-00 2009-4625-00 2009-4625-XC	- 179,682 -	137,167 53,083 67,903	- 199,647 67,903	137,167 33,118 -	- - -	137,167 232,765 67,903	N/A N/A N/A
State Fiscal Stabilization Fund - Education State Grants, Recovery Act: ARRA - General State Aid - Education State Fiscal Stabilization Funds	84.394A	10-4850-00 09-4850-00	- 15,769,066	9,147,163 -	- 15,769,066	9,147,163 -	- -	9,147,163 15,769,066	N/A N/A

(attachment of ISBE 62-18)

County
 District/Joint Agreement Name
 School District U46
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 U46

ILLINOIS STATE BOARD OF EDUCATION
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 SPRINGFIELD, ILLINOIS 62777-0001

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR Ended JUNE 30, 2010

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)
			7/1/08- 6/30/09 (C)	7/1/09- 6/30/10 (D)	7/1/08- 6/30/09 (E)	7/1/09- 6/30/10 (F)			
State Fiscal Stabilization Fund - Education State Grants, Recovery Act: ARRA General State Aid - Government State Fiscal Stabilization Funds	84.397A	10-4870-00	\$ -	\$ 2,651,467	\$ -	\$ 2,651,467	\$ -	\$ 2,651,467	N/A
State Fiscal Stabilization Fund - Education State Grants, Recovery Act: ARRA - Early Childhood	84.397A	10-4875-00 10-4875-01 10-4875-70 10-4875-71	- - - -	3,260,662 153,704 220,320 128,520	- - - -	3,244,768 144,434 214,453 128,520	15,894 9,270 5,867 -	3,260,662 153,704 220,320 128,520	3,260,662 153,704 220,320 128,520
English Language Acquisition Grants: Title III : Language Instruction Program - Limited English	84.365A	10-4909-00 09-4909-00	- 885,709	2,150,521 (61,209)	- 723,515	1,502,076 100,985	154,514 -	1,656,590 824,500	2,150,521 1,583,221
Improving Teacher Quality State Grants: Title II : Teacher Quality	84.367A	10-4932-00 09-4932-00	- 765,280	1,114,750 370,370	- 706,266	577,067 429,384	75,000 -	652,067 1,135,650	1,397,217 1,298,532
Education Technology State Grants: Technology- Enhancing Education - Formula	84.318X	10-4971-00 09-4971-00	- 51,717	53,793 (3,422)	- 48,295	41,982 -	200 -	42,182 48,295	60,423 51,717
Passed through Illinois Department of Human Services Rehabilitation Services - Vocational Rehabilitation Grants to States: Rehabilitation Services	84.126	940CK001618 940CK001618	- 72,556	58,604 -	- 72,556	58,604 -	- -	58,604 72,556	N/A N/A
Passed through Illinois Community College Board: Adult Education - Basic Grants to States: Federal - Adult Education : Basic	84.002A	N/A N/A	- 128,229	108,235 -	- 128,229	107,964 -	- -	107,964 128,229	108,235 128,229
Passed through Northern Kane County Regional Vocational System: Career and Technical Education - Basic Grants to States: Perkins IIC Grant	84.048A	10-4810-00 09-4810-00	- 172,368	153,259 188,528	- 333,273	217,693 27,623	- -	217,693 360,896	378,416 375,005
Passed through Will County Regional Office of Education Special Education - Grants to States: McKinney - Vento ARRA Funds	84.387	10-4862-00	-	22,988	-	1,728	-	1,728	N/A
Total Department of Education			29,833,929	42,236,369	28,681,057	39,387,937	1,304,116	69,373,110	N/A

(attachment of ISBE 62-18)

County
District/Joint Agreement Name
School District U46
District/Joint Agreement No.
U46

ILLINOIS STATE BOARD OF EDUCATION
100 NORTH FIRST STREET
SPRINGFIELD, ILLINOIS 62777-0001

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR Ended JUNE 30, 2010

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)	
			7/1/08- 6/30/09 (C)	7/1/09- 6/30/10 (D)	7/1/08- 6/30/09 (E)	7/1/09- 6/30/10 (F)				
U.S. Department of Agriculture:										
Passed through Illinois State Board of Education:										
Commodity Supplemental Food Program	10.565	10-4299-00 09-4299-00	\$ - 667,214	\$ 758,656 -	\$ - 667,214	\$ 758,656 -	\$ - -	\$ 758,656 667,214	N/A N/A	
National School Lunch Program	10.555	10-4210-00 09-4210-00	- 5,642,437	6,252,655 1,101,548	- 5,642,437	6,252,655 1,101,548	- -	6,252,655 6,743,985	N/A N/A	
School Breakfast Program	10.553	10-4220-00 09-4220-00	- 1,216,863	1,220,042 185,910	- 1,216,863	1,220,042 185,910	- -	1,220,042 1,402,773	N/A N/A	
Fresh Fruits and Vegetables Program	10.582	10-4240-09 10-4240-10 09-4240-00 09-4240-09	- - 6,434 20,921	6,577 67,508 - -	- - 6,434 20,921	6,577 67,508 - -	- - - -	6,577 67,508 6,434 20,921	N/A N/A N/A N/A	
Child Nutrition Commodity/Salvage	10.550	09-4250-00	2,651	-	2,651	-	-	2,651	N/A	
Passed through United States Department of Defense:										
Fresh Fruits and Vegetables Program	10.582	10-4299-00 09-4299-00	- 107,430	77,883 -	- 107,430	77,883 -	- -	77,883 107,430	N/A N/A	
Total Department of Agriculture			7,663,950	9,670,779	7,663,950	9,670,779	-	17,334,729	N/A	
Corporation for National and Community Service										
Passed through Illinois State Board of Education:										
Learn and Serve America	94.004	10-4910-00 09-4910-00	- 11,147	15,625 4,853	- 6,306	7,788 9,694	6,167 -	13,955 16,000	15,625 16,000	
U.S. Department of Justice:										
Passed through Village of Streamwood:										
Secure our Schools	16.710	2008CKWX0652	-	115,002	-	14,628	-	14,628	473,700	
U.S. Department of Health and Human Services:										
Passed through Northwestern Illinois Association:										
Medical Assistance Program	93.778	10-4991-00 09-4991-00	- -	547,209 385,663	- 385,663	1,101,923 -	- -	1,101,923 385,663	N/A N/A	
Total Federal Awards			\$ 37,509,026	\$ 52,975,500	\$ 36,736,976	\$ 50,192,749	\$ 1,310,283	\$ 88,240,008	N/A	

CFDA Catalog of Federal Domestic Assistance

See Note to Schedule of Expenditures of Federal Awards

School District U-46

Notes to Schedule of Expenditures of Federal Awards

Note 1. Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of School District U-46 and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of financial statements. No funds were identified as having been provided to subrecipients by School District U-46 under the meaning of Sections 105 and 210 of OMB of Circular A-133, and accordingly, no funds under Section 310(b) of OMB Circular A-133. There were no federal awards expended for non-cash assistance, insurance or any loans or loan guarantees outstanding at year-end.

Basis of accounting: The schedule has been prepared using the modified accrual basis of accounting which is the same basis used in preparing the basic financial statements of the District.

School District U-46

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

II. FINANCIAL STATEMENT FINDINGS

Finding 10-01: Financial Reporting Process

Criteria:

A good system of internal controls requires that an entity's accounting period be closed in a timely manner and encompass all activities related to that period.

Condition:

The District does not have adequate controls in place over financial reporting. In addition, the District did not close the current fiscal year ended June 30, 2010 in a timely manner.

Context:

Several adjusting entries were made after the initial trial balance was provided to the auditors. During the course of the audit, the auditors prepared several analyses and proposed adjustments relating certain significant accounts. These journal entries ranged up to approximately \$35 million. The more significant adjustments are as follows:

- Property taxes receivables, deferred property taxes and property tax revenues were not properly recorded on the accrual basis of accounting. The auditors prepared relevant analyses and proposed adjustments to properly record property taxes for the fiscal year ended June 30, 2010.
- The auditors prepared several analyses and proposed adjustments relating to incurred but not reported (IBNR) liabilities relating to claims and judgments debt. The auditors prepared relevant analyses and proposed adjustments to properly record claims payable for the fiscal year ended June 30, 2010.
- The District did not record entries relating to the issuance of a debt refunding in April 2010. The auditors proposed an adjustment to properly record this transaction.
- The District did not properly record all liabilities relating to the fiscal year ended June 30, 2010. We noted invoices totaling approximately \$1.5 million, relating to services performed prior to the year-end date were not recorded as payables as of June 30, 2010.

Effect:

Failure to close the accounting period in a timely manner prevents management from accurately monitoring the financial activity of the District.

Cause:

This was due to the change in management, with the Chief Financial Officer, and the Director of Financial Services both leaving the District June 30th; the current staff needed help with some complex journal entries.

School District U-46

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 10-01: Financial Reporting Process (Continued)

Recommendation:

We recommend that the District establish a process for proper financial reporting to ensure that all accounts are closed in a timely manner and in the proper reporting period. Analyses of all accounts should be performed in a timely manner and all adjustments should be recorded in the proper period. We recommend that the District improve controls over financial reporting to ensure accurate presentation and disclosure in its financial statements. Specifically, we recommend that:

- All significant accounts should be reconciled on a regular basis, preferably monthly, to the underlying documentation. The account reconciliations should be reviewed by a second District employee to ensure that supporting documentation agrees to the general ledger and trial balance.
- Entries pertaining to the District's debt should be calculated as soon as the related debt agreements are executed by all parties involved and posted in a timely manner as of the fiscal year end.
- All significant estimates used in determining financial statement account balances and disclosures should be reviewed by management to ensure the estimates are based on reliable data and that the significant assumptions used in calculating the estimate are reasonable.

Views of responsible officials and planned corrective actions:

Management has worked to develop spreadsheets which financial staff can use for these entries in future years.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 10-02: Unrecorded Liabilities

Criteria:

In accordance with Generally Accepted Accounting Principles (GAAP), all liabilities and related expenses should be recorded in the period when the goods are purchased or when the services are performed.

Condition:

The District does not have adequate procedures in place to ensure that liabilities are recorded in the proper period.

Context:

During our testing on search for unrecorded liabilities, we noted an exception in which several invoices totaling approximately \$1.5 million, relating to services performed prior to the year-end date were not recorded as a payable as of June 30, 2010. Although the checks were written after year end, the invoices should have been accounted for in the period when the related services were performed.

Effect:

Not recording expenses in the proper period could lead to liabilities, expenses and the financial statements of the District being materially misstated.

Cause:

Some invoices dated after June 30th, were for partial month billings, so part of the invoice should have been accrued. The District did not include these in the initial accrual.

Recommendation:

We recommend that the District establish procedures to ensure that all invoices are recorded in the accounting system in the proper period. Proper cutoffs are critical for the accuracy of the accrual basis of accounting.

Views of responsible officials and planned corrective actions:

Management will work with the Accounts Payable department to capture all invoices for the year end accrual.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 10-03: Capital Assets

Criteria:

A good system of internal control requires that an entity design and establish adequate internal controls over the monitoring, accounting for and recording of capital assets.

Condition:

The District does not have a documented capitalization policy in place regarding capital assets.

Context:

During our testing of capital assets, we noted that the Financial Services personnel was unable to provide a documented capitalization policy relating to the District's capital assets. The District's Financial Services personnel stated that a threshold of \$10,000 per asset had been in use since 2002 and that no documented policy is being followed.

Effect:

Lack of a documented capitalization policy relating to the District's capital assets could lead to capital assets not being accounted for in a uniform manner. The District's capital assets cost and net book value totaled approximately \$583 million and \$384 million as of the current fiscal year ended June 30, 2010. Capital asset account balances could be misstated without a capitalization policy in place.

Cause:

The capitalization policy is not documented in the administrator's handbook or the board policy. A threshold of \$10,000 per asset has been used since 2002.

Recommendation:

We recommend that the District approve a capitalization policy relating to the monitoring, accounting for and recording of capital assets.

Views of responsible officials and planned corrective actions:

The capitalization policy is not documented in the administrator's handbook or the board policy. A threshold of \$10,000 per asset has been used since 2002. Management will work to get the policy in official form.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 10-04: Cash Receipts

Criteria:

A good system of internal control requires that cash receipts be deposited in a timely manner.

Condition:

The District does not have procedures in place to ensure that all cash receipts are deposited and recorded in the general ledger in a timely manner.

Context:

During the course of the audit, we noted that there is a significant time lapse (up to 7 days) between when the Plant Operations department receives a check to when the Plant Operations department forwards the check to the Financial Services department for deposit and recording in the general ledger.

Effect:

Not depositing and recording cash receipts within a reasonable time after receipt could lead to misappropriation of the District's assets. Cash receipts processed by the Plant Operations department for the year ended June 30, 2010 totaled approximately \$906,000.

Cause:

According to District management, the Plant Operations department may receive a check and hold it for deposit until the actual rental date expires. This would cause a time lag. Depending on the volume of checks received in the Plant Operations department, a deposit is processed either once or twice a month.

Recommendation:

We recommend the District put a process in place to ensure all checks received by the Plant Operations department are processed by the Financial Services department within a reasonable period of time.

Views of responsible officials and planned corrective actions:

Management will work with Plant Operations to get checks deposited in a timely manner.

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 10-05: Sales Report Reconciliation

Criteria:

Best business practices require that reconciliations of all accounts of an entity be done and in a timely manner. Additionally, deposit procedures should be in place to eliminate deposit errors.

Condition:

The District does not perform reconciliation between the individual schools' sales reports and the amounts reported in the District's general ledger. A reconciliation between the number of lunches served, (free/reduced and full price) and a la carte items, such as candy bars, sold and the total revenues posted by school was not performed. Additionally, sales of a la carte items were not tracked by type of item and therefore a reconciliation of the sales and inventory on hand by a la carte item was not performed. Also, we noted several instances of deposit corrections made by the bank for shortages in deposits to the Food and Nutrition bank account.

Context:

During the course of the audit, we noted that the food service reconciliations were not being performed for any of the schools in the District. The District records food sales revenues based on the deposits made by the individual schools in the District to the District's Food and Nutrition bank account. We noted instances of deposit corrections made by the bank for shortages in deposits to the Food and Nutrition bank account.

Effect:

Assets of the District are not properly safeguarded as the District cannot determine the level of food inventory items or the possible misstatement of food service revenues.

Cause:

The District has recently implemented new food service software designed to efficiently track inventories; however, the system has not yet been used to its full potential. The District has not implemented procedures to follow up on all deposit correction notices from the bank.

Recommendation:

We recommend the District finalize the implementation of the new food service software. At a minimum, the District should develop procedures to reconcile the items mentioned above. Additionally, deposit procedures should be examined and improved to reduce deposit errors.

Views of responsible officials and planned corrective actions:

Management is aware of the deficiencies noted above. The Food & Nutrition department is undertaking a multi-year system restructuring. When complete the new software system will be utilized to track and reconcile money collected to daily generated sales reports (includes Meals and a la cart items) to physical inventories. As of January 2011, many of the reconciliations and reports are in place to address this finding; however, during the fiscal year ended June 30, 2010, not all procedures were in place.

School District U-46

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs for federal awards required to be reported.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Finding 2009-1: Sales Report Reconciliation

Condition and Context: A reconciliation between the individual schools' sales reports and the amounts reported in the District's general ledger was not performed. A reconciliation between the number of lunches served, (free/reduced and full price) and a la carte items, such as candy bars, sold and the total revenues posted by school was not performed. Additionally, sales of a la carte items were not tracked by type of item and therefore a reconciliation of the sales and inventory on hand by a la carte item was not performed. Also, we noted several instances of deposit corrections made by the bank for shortages in deposits to the Food and Nutrition bank account.

Current Status: During the fiscal year 2010 audit, we noted that reconciliation between the individual schools' sales reports and the amounts reported in the District's general ledger was not performed. This finding is repeated as Finding 10-05 in the current year. Also, we noted several instances of deposit corrections made by the bank for shortages in deposits to the Food and Nutrition bank account.

Finding 10-01: Financial Reporting Process

Condition:

The District does not have adequate controls in place over financial reporting. In addition, the District did not close the current fiscal year ended June 30, 2010 in a timely manner.

Plan:

Management has worked to develop spreadsheets which financial staff can use for these entries in future years.

Anticipated Date of Completion:

June 30, 2011

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.

Finding 10-02: Unrecorded Liabilities

Condition:

The District does not have adequate procedures in place to ensure that liabilities are recorded in the proper period.

Plan:

Management will work with the Accounts Payable department to capture all invoices for the year end accrual.

Anticipated Date of Completion:

June 30, 2011

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.

Finding 10-03: Capital Assets

Condition:

The District does not have a documented capitalization policy in place regarding capital assets.

Plan:

The capitalization policy is not documented in the administrator's handbook or the board policy. A threshold of \$10,000 per asset has been used since 2002. Management will work to get the policy in official form.

Anticipated Date of Completion:

June 30, 2011

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.

Finding 10-04: Cash Receipts

Condition:

The District needs to put procedures in place to ensure that all cash receipts are deposited and recorded in the general ledger in a timely manner.

Plan:

Management will work with Plant Operations to get checks deposited in a timely manner.

Anticipated Date of Completion:

June 30, 2011

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.

Finding 10-05: Sales Report Reconciliation

Condition:

The District does not perform reconciliation between the individual schools' sales reports and the amounts reported in the District's general ledger. A reconciliation between the number of lunches served, (free/reduced and full price) and a la carte items, such as candy bars, sold and the total revenues posted by school was not performed. Additionally, sales of a la carte items were not tracked by type of item and therefore a reconciliation of the sales and inventory on hand by a la carte item was not performed. Also, we noted several instances of deposit corrections made by the bank for shortages in deposits to the Food service bank account.

Plan:

Management is aware of the deficiencies noted above. The Food & Nutrition department is undertaking a multi-year system restructuring. When complete, the new software system will be utilized to track and reconcile money collected to daily generated sales reports (includes Meals and a la cart items) to physical inventories. As of January 2011, many of the reconciliations and reports are in place to address this finding; however, during the fiscal year ended June 30, 2010, not all procedures were in place.

Anticipated Date of Completion:

June 30, 2011

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.