

SCHOOL DISTRICT U-46

**REPORTS REQUIRED BY
OMB CIRCULAR A-133 AND
*GOVERNMENT AUDITING STANDARDS***

YEAR ENDED JUNE 30, 2011

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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***

To the 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, 2011, which collectively comprise the District's financial statements and have issued our report thereon dated December 14, 2011. Our report was modified to include an emphasis of a matter paragraph regarding the adoption of the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54. 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

Management of the District is responsible for establishing and maintaining effective 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 defined in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness 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 a 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 deficiency described in the accompanying schedule of findings and questioned costs as finding 11-01 to be a material weakness.

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 merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 11-02 and 11-03 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 December 14, 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
December 14, 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**

To the 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, 2011. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 of the District's compliance with those requirements.

In our opinion, School District U-46 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine the 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, 2011, and have issued our report thereon dated December 14, 2011. Our report included an emphasis of a matter paragraph relative to the adoption of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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, 2011 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. We also have previously audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the District's basic financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our report dated January 19, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the accompanying schedule of expenditures of federal awards for the year ended June 30, 2010 is fairly stated, in all material respects, in relation to the basic financial statements for the year ended June 30, 2010, 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 these specified parties.

McGladrey & Pullen, LLP

Chicago, Illinois
December 14, 2011

(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, 2011

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)	
			7/1/09- 6/30/10 (C)	7/1/10- 6/30/11 (D)	7/1/09- 6/30/10 (E)	7/1/10- 6/30/11 (F)				
U.S. Department of Education:										
Direct grants:										
Fund for the Improvement of Education:										
Teaching American History	84.215X	U215X080096	\$ -	\$ 166,393	\$ -	\$ 166,393	\$ -	\$ 166,393	\$ 364,428	
		U215X080096	228,315	-	228,315	-	-	228,315	409,736	
Fund for the Improvement of Education:										
FIE Earmark Grant Awards	84.215K	U215K090314	-	108,040	-	108,040	-	108,040	142,882	
		U215K090314	94,662	-	94,662	-	-	94,662	238,000	
Total Fund for the Improvement of Education			322,977	274,433	322,977	274,433	-	597,410	1,155,046	
Safe and Drug-Free Schools and Communities_National Program										
Comprehensive Safety and Emergency Response Plan	84.184E	Q184E090106	-	100,091	-	100,091	-	100,091	244,147	
		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	-	28,288	-	21,372	-	21,372	47,509	
		Q184S100007	19,221	-	19,221	-	-	19,221	47,509	
Total Safe and Drug-Free Schools and Communities_National Program			219,425	128,379	219,425	121,463	-	340,888	796,160	
Passed through Illinois State Board of Education:										
Title I Part A Cluster										
Title I Grants to Local Education Agencies:										
Title I : Low Income	84.010A	11-4300-00	-	7,880,937	-	6,312,812	225,000	6,537,812	8,076,840	
		10-4300-00	8,297,774	(1,404,626)	6,594,790	298,358	-	6,893,148	8,383,293	
Title I Grants to Local Education Agencies:										
ARRA-Title I - Low Income	84.389A	11-4851-00	-	3,534,760	-	3,534,665	95	3,534,760	3,534,760	
		10-4851-00	1,470,336	(93,845)	1,300,568	75,923	-	1,376,491	1,470,336	
Title I Grants to Local Education Agencies:										
Title I : Low Income - Neglected Priv.	84.010A	11-4305-00	-	36,307	-	36,307	-	36,307	36,307	
		10-4305-00	28,905	-	21,367	7,538	-	28,905	44,054	
Title I Grants to Local Education Agencies:										
ARRA-Title I : Low Income - Neglected Priv.	84.389A	10-4852-00	27,071	-	25,767	1,304	-	27,071	27,071	
Total Title I Part A Cluster			9,824,086	9,953,533	7,942,492	10,266,907	225,095	18,434,494	21,572,661	
Safe and Drug-Free Schools and Communities_State Grants										
Title IV : Safe and Drug Free Schools -Formula	84.186A	11-4400-00	-	53,476	-	39,355	-	39,355	53,476	
		10-4400-00	127,456	(38,261)	73,460	15,735	-	89,195	120,856	

(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 62777-0001SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR Ended JUNE 30, 2011

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)
			7/1/09- 6/30/10 (C)	7/1/10- 6/30/11 (D)	7/1/09- 6/30/10 (E)	7/1/10- 6/30/11 (F)			
Twenty-First Century Community Learning Centers: Title IV - 21st Century Community Learning Centers	84.287C	11-4421-07 11-4421-10 10-4421-07 10-4421-10	\$ - - 256,300 359,300	\$ 213,600 348,810 (12,095) (8,735)	\$ - - 217,849 301,625	\$ 204,201 281,786 26,356 48,940	\$ 9,399 - - -	\$ 213,600 281,786 244,205 350,565	\$ 213,600 359,300 256,300 359,300
Special Education Cluster (IDEA)									
Special Education - Preschool Grants: Pre-School Flow Through	84.173A	11-4600-00 10-4600-00	- 211,677	167,158 -	- 211,677	149,421 -	17,737 -	167,158 211,677	167,185 211,677
Special Education - Preschool Grants: ARRA-Pre-School Flow Through	84.392A	11-4856-00 10-4856-00	- 112,136	223,210 (13,980)	- 98,136	223,210 -	- -	223,210 98,136	249,153 112,136
Special Education - Grants to States: IDEA Flow Through	84.027A	11-4620-00 10-4620-00	- 6,487,926	7,629,945 (77,970)	- 6,239,600	6,443,043 170,356	- -	6,443,043 6,409,956	9,361,725 7,632,056
Special Education - Grants to States: ARRA - IDEA Flow Through	84.391A	11-4857-00 10-4857-00	- 4,245,744	4,498,899 (450,803)	- 3,724,549	4,498,899 70,392	- -	4,498,899 3,794,941	5,704,640 4,265,467
Special Education - Grants to States: IDEA Room & Board	84.027A	2011-4625-00 2010-4625-00	- 137,167	156,620 -	- 137,167	156,620 -	- -	156,620 137,167	N/A N/A
Total Special Education Cluster (IDEA)			11,194,650	12,133,079	10,411,129	11,711,941	17,737	22,140,807	27,704,039
State Fiscal Stabilization Fund Cluster									
State Fiscal Stabilization Fund - Education State Grants, Recovery Act: ARRA - General State Aid - Education State Fiscal Stabilization Funds	84.394A	10-4850-00	9,147,163	-	9,147,163	-	-	9,147,163	N/A
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
Total State Fiscal Stabilization Fund Cluster			15,561,836	-	15,530,805	31,031	-	15,561,836	3,763,206
English Language Acquisition Grants: Title III : Language Instruction Program - Limited English	84.365A	11-4909-00 10-4909-00	- 2,150,521	1,570,150 (467,709)	- 1,502,076	1,205,002 180,736	23,627 -	1,228,629 1,682,812	1,832,904 2,150,521
Improving Teacher Quality State Grants: Title II : Teacher Quality	84.367A	11-4932-00 10-4932-00	- 1,114,750	1,648,405 (454,721)	- 577,067	909,083 82,962	200,000 -	1,109,083 660,029	1,689,651 1,397,217

(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 62777-0001SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR Ended JUNE 30, 2011

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)
			7/1/09- 6/30/10 (C)	7/1/10- 6/30/11 (D)	7/1/09- 6/30/10 (E)	7/1/10- 6/30/11 (F)			
Education Technology State Grants: Technology- Enhancing Education - Formula	84.318X	11-4971-00 10-4971-00	\$ - 53,793	\$ 17,120 (10,490)	\$ - 41,982	\$ 9,672 1,321	\$ 7,448 -	\$ 17,120 43,303	\$ 17,120 60,423
Education Technology State Grants: ARRA - Technology- Enhancing Education - Formula	84.410	11-4880-00	-	4,622,728	-	4,622,728	-	4,622,728	N/A
Passed through Illinois Department of Human Services Rehabilitation Services - Vocational Rehabilitation Grants to States: Rehabilitation Services	84.126	940CK001618 940CK001618	- 58,604	58,604 -	- 58,604	58,604 -	- -	58,604 58,604	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	- 108,235	108,380 (271)	- 107,964	108,009 -	- -	108,009 107,964	1,008,109 108,235
Passed through Northern Kane County Regional Vocational System: Career and Technical Education - Basic Grants to States: Perkins IIC Grant	84.048A	11-4810-00 10-4810-00	- 153,259	366,066 64,434	- 217,693	213,218 -	- -	213,218 217,693	392,128 378,416
Passed through Will County Regional Office of Education Special Education - Grants to States: McKinney - Vento ARRA Funds	84.387	11-4862-00 10-4862-00	- 22,988	21,260 (21,260)	- 1,728	21,154 -	- -	21,154 1,728	N/A N/A
Total U.S. Department of Education			41,528,180	30,568,915	37,526,876	30,434,637	483,306	68,444,819	65,388,667
U.S. Department of Agriculture: Passed through Illinois State Board of Education: Commodity Supplemental Food Program	10.565	11-4299-00 10-4299-00	- 758,656	730,794 -	- 758,656	730,794 -	- -	730,794 758,656	N/A N/A
Child Nutrition Cluster									
National School Lunch Program	10.555	11-4210-00 10-4210-00	- 6,252,655	6,518,112 1,156,320	- 6,252,655	6,518,112 1,156,320	- -	6,518,112 7,408,975	N/A
School Breakfast Program	10.553	11-4220-00 10-4220-00	- 1,220,042	1,357,063 236,859	- 1,220,042	1,357,063 236,859	- -	1,357,063 1,456,901	N/A N/A
Total Child Nutrition Cluster			7,472,697	9,268,354	7,472,697	9,268,354	-	16,741,051	N/A
Fresh Fruits and Vegetables Program	10.582	11-4240-10 11-4240-11 10-4240-09 10-4240-10	- - 6,577 67,508	7,695 51,170 - -	- - 6,577 67,508	7,695 51,170 - -	- - - -	7,695 51,170 6,577 67,508	N/A N/A N/A N/A
Child Nutrition Commodity/Salvage	10.550	10-4250-00	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	77,883	-	77,883	-	-	77,883	N/A N/A
Total U.S. Department of Agriculture			8,385,972	10,058,013	8,385,972	10,058,013	-	18,443,985	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, 2011

Federal Agency/ Pass-through Grantor/ Program Name	CFDA Number (A)	ISBE Project Number (B)	Revenues		Expenditures		Obligations/ Encumbrances (G)	Final Status (H)	Budget (I)
			7/1/09- 6/30/10 (C)	7/1/10- 6/30/11 (D)	7/1/09- 6/30/10 (E)	7/1/10- 6/30/11 (F)			
Corporation for National and Community Service Passed through Illinois State Board of Education: Learn and Serve America	94.004	11-4910-00 10-4910-00	\$ - 15,625	\$ 15,625 -	\$ - 7,788	\$ 9,300 7,837	\$ 6,325 -	\$ 15,625 15,625	\$ 15,625 15,625
U.S. Department of Justice: Passed through Village of Streamwood: Secure our Schools	16.710	2008CKWX0652 2008CKWX0652	- 115,002	123,763 (100,374)	- 14,628	14,628 -	- -	14,628 14,628	473,700 473,700
U.S. Department of Health and Human Services: Passed through Northwestern Illinois Association: Medical Assistance Program	93.778	11-4991-00 10-4991-00	- 547,209	959,850 554,714	- 1,101,923	574,043 -	- -	574,043 1,101,923	N/A N/A
Total Federal Awards			\$ 50,591,988	\$ 42,180,506	\$ 47,037,187	\$ 41,098,458	\$ 489,631	\$ 88,625,276	N/A

CFDA Catalog of Federal Domestic Assistance
See Note to Schedule of Expenditures of Federal Awards

School District U-46

Note 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 Circular A-133, and accordingly, no funds identified in the Schedule of Expenditures of Federal Awards are attributable to subrecipient entities as required under Section 310(b) of OMB Circular A-133. There were no federal awards expended for insurance or any loans or loan guarantees outstanding for the years ended June 30, 2011 and 2010. For the year ended June 30, 2011, the District did receive \$730,794 of noncash assistance in the form of food commodities that is included under the Department of Agriculture passed through the Illinois State Board of Education. For the year ended June 30, 2010, the District did receive \$758,656 and \$77,883 of noncash assistance in the form of food commodities that is included under the Department of Agriculture passed through the Illinois State Board of Education and Department of Defense, respectively.

Basis of accounting: The schedule has been prepared using the modified cash 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
Year Ended June 30, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010A/84.389A	Title I, Part A Cluster
84.173A/84.392A	Special Education Cluster
84.027A/84.391A	
84.365A	Title III: Language Instruction Program – Limited English
10.553/10.555	Child Nutrition Cluster
84.410	ARRA - Education Technology Grant

Dollar threshold used to distinguish between type A and type B programs \$1,232,954

Auditee qualified as low-risk auditee? Yes No

School District U-46

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

II. FINANCIAL STATEMENT FINDINGS

Finding 11-01: 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. In addition, we noted that claims for incurred but not reported (IBNR) liability was understated at year end.

Context:

During our testing on search for unrecorded liabilities, we noted that several invoices totaling approximately \$1.1 million relating to services performed prior to the year end were not recorded as payables as of June 30, 2011. Though the checks were written after year end, the invoices should have been accounted for in the period when the related services were performed. In addition, we noted an adjustment of approximately \$2.9 million, to increase the liability for incurred but not reported (IBNR) claims.

Effect:

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

Cause:

According to District management, 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. We also recommend that the District establish procedures to determine a reasonable IBNR estimate based on historical activity of actual claims incurred and actual claims paid.

Views of responsible officials and planned corrective actions:

The Director of Financial Operations will have a second staff member review the invoices paid after June 30th. The department staff will also set up an analysis of the legal fees to enable the District to determine if any monthly invoices are missing. For the incurred but not reported claims, the department has established a method to review the history of workers' compensation claims, and will be able to provide better estimates in the future.

School District U-46

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 11-02: 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, 2011 totaled approximately \$985,000.

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 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:

The Financial Services department has provided a deposit scanner to the Plant Operations department, so the deposit can be made without going to the bank. The Director of Plant Operations has established a procedure to deposit all checks received each week on Friday. After scanning, the checks are sent to the Finance department to be recorded in the general ledger.

School District U-46

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

II. FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 11-03: Sales Report Reconciliation

Criteria:

A good system of internal controls 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:

According to District management, the District has recently implemented new food service software designed to 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:

The new food service software was fully implemented in March 2011; as such, this software did not run through the entire fiscal year 2011. The Food Service Auditor Supervisor has established new cash handling procedures, which include daily balancing of each register and verification with the Manager, so deposits are verified before going to the bank.

School District U-46

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

III. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs for federal awards.

School District U-46

Summary Schedule of Prior Audit Findings Year Ended June 30, 2011

Finding 10-01: Financial Reporting Process

Condition and Context: The District did 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. 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 to certain significant accounts, including property taxes and liability for incurred but not reported claims (IBNR). These journal entries ranged up to approximately \$35 million.

Current status: During the fiscal year 2011 audit, we noted that the District closed its books for the fiscal year 2011 in a timely manner. Finance personnel prepared and provided adjusting entries pertaining to property taxes, debt and IBNR, prior to providing the auditors with a final trial balance. As such, this finding is not repeated in the current year.

Finding 10-02: Unrecorded Liabilities

Condition and Context: The District did not have adequate procedures in place to ensure that liabilities are recorded in the proper period. 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.

Current status: During the fiscal year 2011 audit, we noted that the District did not properly record liabilities for invoices relating to goods received or services performed prior to year end. In addition, the auditors proposed an adjustment of approximately \$2.9 million, which was made to increase the liability for incurred but not reported (IBNR) claims. This finding is repeated as Finding 11-01 in the current year.

Finding 10-03: Capital Assets

Condition and Context: The District did not have a documented capitalization policy in place regarding capital assets. 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 pre asset had been in use since 2002 and that no documented policy is being followed.

Current status: During the fiscal year 2011 audit, we noted that the District has a formal, documented capitalization policy in place regarding capital assets. This finding is not repeated in the current year.

School District U-46

Summary Schedule of Prior Audit Findings (Continued) Year Ended June 30, 2011

Finding 10-04: Cash Receipts

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

Current status: During the fiscal year 2011 audit, we noted that there is a significant time lapse 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. This finding is repeated as Finding 11-02 in the current year.

Finding 10-05: 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 2011 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 11-03 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.

School District U-46

**Corrective Action Plan
Year Ended June 30, 2011**

Finding 11-01: Unrecorded Liabilities

Condition:

The District does not have adequate procedures in place to ensure that liabilities are recorded in the proper period. In addition, we noted that claims for incurred but not reported (IBNR) liability was understated at year end.

Plan:

The Director of Financial Operations will have a second staff member review the invoices paid after June 30th. The department staff will also set up an analysis of the legal fees to enable the District to determine if any monthly invoices are missing. For the incurred but not reported claims, the department has established a method to review the history of workers' compensation claims, and will be able to provide better estimates in the future.

Anticipated Date of Completion:

June 30, 2012

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.

Finding 11-02: Cash Receipts

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.

Plan:

The Financial Services department has provided a deposit scanner to the Plant Operations department, so the deposit can be made without going to the bank. The Director of Plant Operations has established a procedure to deposit all checks received each week on Friday. After scanning, the checks are sent to the Finance department to be recorded in the general ledger.

Anticipated Date of Completion:

June 30, 2012

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.

School District U-46

**Corrective Action Plan (Continued)
Year Ended June 30, 2011**

Finding 11-03: 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 and Nutrition bank account.

Plan:

The new food service software was fully implemented in March 2011; as such, this software did not run through the entire fiscal year 2011. The Food Service Auditor Supervisor has established new cash handling procedures, which include daily balancing of each register and verification with the Manager, so deposits are verified before going to the bank.

Anticipated Date of Completion:

June 30, 2012

Name of Contact Person:

Dale Burnidge

Management Response:

Management concurs with the finding.