

Board of Education  
Urbana School District No. 116  
Urbana, Illinois

In planning and performing our audit of the financial statements of Urbana School District No. 116 (District) as of and for the year ended June 30, 2014, 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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.

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 of the District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 District's financial statements will not be prevented or detected and corrected on a timely basis.

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 observed the following matters that we consider to be deficiencies.

## **DEFICIENCIES**

### **Segregation of Duties**

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the District's accounting department is difficult because of the limited number of personnel. However, there are compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the District's accounting department. Following are the incompatible duties that we noted with management's response to our comments.

- The Accounting Manager, Director of Business, and Accounting Clerk have the ability to access, record and monitor accounts payable.

#### Management's Response:

The Director of Business reviews the general ledger monthly and all journal entries. The Treasurer (an independent person) signs all checks after the Board of Education approves the listing of bills at their monthly meeting. The Director of Business and the Board of Education review the financial statements monthly. The Director of Business also reviews all bank reconciliations monthly.

- The Accounting Manager and Payroll Processor have the ability to access, record and monitor payroll.

#### Management's Response:

The Director of Business reviews the general ledger monthly and all journal entries. The Treasurer (an independent person) signs all payroll checks. The Director of Business reviews the payroll register for each payroll. The Director of Business and the Board of Education review the financial statements monthly. It should also be noted the DP Supervisor does not generate the payroll unless the primary person is unavailable to do so. The Director of Business also reviews all bank reconciliations monthly.

### **Internal Control Reporting**

The District does not report to the Board of Education on how the internal controls serve to prevent or detect material misstatements of the financial statements.

#### Management's Response:

The Board of Education reviews all Board procedures and discusses the annual internal control letter. Any corrective plans of action or areas of potential improvement are discussed by the Board at that time.

## **Information Technology Personnel**

The District does not prohibit Information Technology (IT) personnel from engaging in data entry, processing or approving transactions. We recommend the District implement a policy to prohibit IT personnel from engaging in these types of activities to assist in strengthening internal controls and segregation of duties.

### Management's Response

The Director of Business reviews the general ledger, all journal entries and payrolls.

## **Activity Funds**

During our testing we noted several instances of noncompliance with 23 IL Administrative Code Part 100.80. Following are the exceptions noted:

- Negative balances are not allowed
- Accounts discontinued or ones with no activity for greater than 1 year should be carried over unless approved by the Board of Education

We recommend the District revise their policy to address the above deficiencies.

## **Payroll Controls**

Each payroll period, the final payroll run is reviewed for accuracy by Human Resources prior to the payment; however, there is no formal documentation of this review. We recommend management formally document their approval of the payroll amount.

## **OTHER MATTERS**

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

## **Property and Equipment Records**

The largest single investment that the District maintains is its land, buildings and equipment. The District has done an adequate job of maintaining the financial records over the general fixed asset additions. However, detailed information for property and equipment is not readily available. We recommend the District consider performing a physical inventory of property and equipment. District personnel could perform the inventory in-house or management could utilize an outside consultant to prepare a listing for the District. The updated listing should then be used to update the capital inventory listing for the District. In addition, we suggest that the District establish procedures to ensure all deletions of capital assets (sales, trade-in, theft, destruction, obsolescence, etc.) be reported to accounting. An accurate record of all property and equipment would provide the information necessary for adequate insurance coverage and minimizing the risk of loss by the District.

### **Antifraud Program and Controls**

The District does not have a formal antifraud program to identify and measure risks of fraud, design and implement steps to mitigate identified risks and implement and monitor appropriate preventive and detective internal controls. There is also no hotline or other mechanism available for employees and others to report suspected instances of wrongdoing and requests to commit wrongdoing. We recommend the District consider the implementation of a formal program to address these matters.

### **Disaster Recovery Plan**

The District does not have a formalized written technology disaster recovery plan. A formal, written disaster recovery plan provides procedures for recovery and restart for both hardware and software, so that a company would be operational in a timely, efficient manner. In addition, the plan usually includes: procedures for back-up, provisions for dealing with emergency situations, procedures for prioritizing applications to be restored, provisions for obtaining alternate support if a disaster should arise, provisions to convert rapidly to the alternate support and restoration methods to the normal operation environment.

We recommend establishment of a formal, written plan to allow recovery, should the District experience a disaster. A disaster recovery plan can be essential for protection of District assets and continuation of business operations.

### **Economic Interest Statements**

During our review of the economic interest statements, filed by Board members and employees, it was noted that two statements were not filed by the required due date of May 1. We recommend the submission deadlines be monitored to ensure that all statements are filed in accordance with the regulations.

### **Bonding Requirement**

During our review of the State of Illinois bonding requirements, it was noted only the Board Treasurer is bonded. Per Illinois' statute 105 ILCS 5/10-20.19, all District employees with custody of funds should be bonded for at least 25% of such funds. This requirement includes general funds, as well as such accounts as Petty Cash, Imprest Accounts, Cafeteria Funds, Athletic Funds, etc. We recommend the District review for proper compliance with this bonding requirement.

### **New Accounting Pronouncements**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and GASB 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014, therefore, the District's fiscal year 2015. Earlier application is encouraged.

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This communication is intended solely for the information and use of the Board of Education, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

Decatur, Illinois  
October 16, 2014