

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, 2016, 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, 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, Chief Financial Officer, and Accounting Clerk have the ability to access, record and monitor accounts payable. This creates a situation where errors or fraud within payables and cash disbursements could occur and not be detected in a timely manner.

Management's Response:

The Chief Financial Officer 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 Chief Financial Officer and the Board of Education review the financial statements monthly. The Chief Financial Officer also reviews all bank reconciliations monthly.

- The Accounting Manager and Payroll Processor have the ability to access, record and monitor payroll. This creates a situation where errors or fraud within payroll could occur and not be detected in a timely manner.

Management's Response:

The Chief Financial Officer reviews the general ledger monthly and all journal entries. The Treasurer (an independent person) signs all payroll checks. The Chief Financial Officer reviews the payroll register for each payroll. The Chief Financial Officer and the Board of Education review the financial statements monthly. It should also be noted the Accounting Supervisor does not generate the payroll unless the primary person is unavailable to do so. The Chief Financial Officer 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 Chief Financial Officer 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 per the statute, however the District has instances
- 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.

Management's written responses to the deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on those responses.

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 anonymously 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 six 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.

Local Government Travel Expense Control Act

During July 2016, the State of Illinois issued the Local Government Travel Expense Control Act. The act requires school districts to regulate, by resolution, the reimbursement of all travel, meal and lodging expenses for its officers and employees. The act also prohibits reimbursement of entertainment expenses, as defined within the act. Beginning September 20, 2016, a roll call vote of the Board of Education is required for approval of the expenses of an officer or employee that exceed the maximum allowable reimbursement set by the Board's resolution. On and after January 18, 2017 (180 days after the act was signed), no travel, meal or lodging expenses can be approved or paid unless regulations have been adopted by the Board of Education. We recommend the Board of Education review the act and adopt the appropriate resolution.

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 12, 2016