

Urbana School District #116
Pre-audit Report to the Board of Education
June 2017

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Introductory Matters

The purpose of this report is to summarize various matters relating to the planned scope and timing for the June 30, 2017 audit of the financial statements of Urbana School District No. 116 and their compliance with specified requirements applicable to their major federal award programs.

Audit of Financial Statements

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards require that we plan and perform:

- ✓ The audit of the financial statements to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- ✓ The audit of compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Compliance Supplement* that are applicable to each major federal award program to obtain reasonable rather than absolute assurance about whether noncompliance having a direct and material effect on a major federal award program occurred.

An audit of the financial statements does not relieve management or the Board of Education of their responsibilities.

Other Services

Other services we will provide include:

- ✓ Proposing for your review and approval of adjusting journal entries to convert your cash-basis accounting

Our audit focuses on the likelihood of a material misstatement in the financial statements.

**Planned Scope &
Timing of the Audit**

- records to accrual-basis accounting records. Management is responsible for the propriety of the accrual adjustments.
- ✓ Preparing a draft of the financial statements and related notes.

The actual terms of our engagement are more fully documented in an engagement letter dated December 19, 2016 and signed by you and BKD.

Our audit approach emphasizes the areas of higher risk, focusing on the unique characteristics of the operating environment, the effectiveness of your internal control and your financial statement amounts and disclosures.

Based on our understanding of your entity and our assessment of your internal control, we plan our audit to achieve the appropriate level of assurance regarding material misstatements and material weaknesses in internal control over financial reporting.

We have preliminarily identified the following areas as significant risks of material misstatement due to error or fraud and propose to address these areas as described:

Risk Area	Audit Approach
Risk of management override of controls	Review accounting estimates for bias, review of journal entries, evaluate business rationale for unusual transactions
Improper revenue recognition	Confirmation with third parties, perform cutoff testing

We welcome any input you may have regarding the risk areas identified above, any other significant risk areas in your opinion or other matters you believe warrant particular attention during the audit.

We may develop additional significant risks as we complete risk assessment procedures.

We propose the following timeline:

✓ **Delivery and Review of Draft Financial Statements, Auditors' Reports and Management Letter – early October 2017**

Drafts of the financial statements, auditors' reports and management letter, together with our letter regarding auditor responsibilities, will be furnished to the administration for review prior to finalizing.

✓ **Final Reports – by October 15, 2017**

Final reports to the Board of Education will be issued prior to the scheduled meeting of the Board of Education.

✓ **Ongoing Communication**

Regular communication between the Board of Education and the auditors is critical to the success of the audit. Accordingly, the audit team may be available to the Board of Education at any time throughout the audit, not just the prescribed times identified above. In addition, there may be instances which require communication during the audit (prior to delivery of the financial statements) such as:

- ✓ Fraud involving senior management
- ✓ Illegal acts
- ✓ Significant deficiencies and/or material weaknesses
- ✓ Material instances of noncompliance for federal award programs

We understand the appropriate person in the governance structure with whom to communicate is Mr. John Dimit, President of the Board of Education.

If for any reason, any member of the Board of Education would need to contact us, please call Heather M. Powell, at 217.421.6869.

Auditing & Accounting Matters

We wish to communicate the following significant matters related to the financial statement audit to you that are, in our judgment, relevant to your responsibilities in overseeing the financial reporting process:

Critical Accounting Policies and Practices

- ✓ Basis of accounting/measurement focus
- ✓ Budgetary accounting
- ✓ Reserve Fund Balances

Alternative Treatments of GAAP

- ✓ Modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

Critical Audit Areas

- ✓ Cash receipts
- ✓ Revenue

Consideration of Errors or Fraud

One of the most common questions we receive from Boards of Education is, “How do you address fraud in a financial statement audit?” Our responsibility, as it relates to fraud, in an audit of financial statements is addressed in auditing standards generally accepted in the United States of America. Our audit approach includes such procedures as:

- ✓ **Engagement Team Brainstorming**
 - ✓ Discussions include how and where they believe the entity’s financial statements might be susceptible to material misstatement due to errors or fraud, how management could perpetrate and conceal fraudulent financial reporting and how assets of the entity could be misappropriated
 - ✓ An emphasis is placed on the importance of maintaining the proper state of mind throughout the audit regarding the potential for material misstatement due to errors or fraud

Our Engagement Team

- ✓ **Inquiries of Management and Others**
 - ✓ Personnel interviewed include the Superintendent, Director of Business and others
 - ✓ Inquiries are directed towards the risks of errors or fraud and whether personnel have knowledge of any fraud or suspected fraud affecting the entity
- ✓ **Reviewing Accounting Estimates for Bias**
- ✓ **Evaluating Business Rationale for Significant Unusual Transactions**
- ✓ **Incorporating an Element of Unpredictability into the Audit Each Year**

BKD's #1 asset is our outstanding team of people who strive daily to deliver on our commitment to unmatched client service. They put a face on the **BKD Experience**. You'll find the following team members personally committed to delivering results to you in accordance with applicable professional standards.

Heather M. Powell, CPA, *Managing Director*

Heather provides audit and consulting services for not-for-profit organizations, including government, health care, charitable organizations and colleges and universities. She has experience with single audit requirements and federal grant reporting requirements. Heather has more than 20 years of public accounting experience. She also serves as the assistant director of accounting & auditing for BKD's Decatur, Illinois, and St. Louis, Missouri offices.

She is a member of the American Institute of Certified Public Accountants, Illinois CPA Society and Illinois Association of School Business Officials. Heather also serves on the BKD Foundation board, which directs contributed funds to charitable organizations and organizes an annual office-wide charitable project.

Heather is a 1996 graduate of Illinois State University, Normal, with a B.S. degree in accounting.

Kyle J. Talleur, CPA, Senior Manager

Kyle has more than eight years of experience providing assurance services for not-for-profit, state and local governmental entities, manufacturers, contractors, electrical cooperatives and financial institutions, as well as employee benefit plans.

He is knowledgeable of single audits and federal grant reporting requirements from his experience with not-for-profits and governmental entities. He also has significant experience with accounting and operational aspects of the various clients he serves.

Kyle is a member of the American Institute of Certified Public Accountants and Illinois CPA Society.

He is a 2008 graduate of Illinois State University, Normal, Illinois, with B.S. and master's degrees in accounting.

Confirmation of Independence

BKD does not perform any services to the District that impairs our independence with respect to the District.

Questions, Observations or Suggestions from the Board of Education

We would certainly welcome any additional questions that the Board of Education may have. As always, you may contact Heather M. Powell at 217.421.6869 at any time.

Our clients deserve, and to the best of our ability, receive unmatched client service. We welcome the opportunity for you to experience the same as we deliver the services outlined above.

Our goal is to deliver results with integrity: results that are unquestionably ethical while also practical, timely and affordable.