

SCHOOL DISTRICT U-46

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

YEAR ENDED JUNE 30, 2012

Contents

	<u>Page</u>
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 <i>Government Auditing Standards</i>	1 - 2
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	3 - 4
Schedule of Expenditures of Federal Awards	5 - 7
Note to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9 - 12
Summary Schedule of Prior Audit Findings	13 - 14
Corrective Action Plan	15



**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, 2012, which collectively comprise the District's financial statements and have issued our report thereon dated November 30, 2012. 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, we identified certain deficiencies described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies in internal control over financial reporting, findings 12-01 and 12-02. 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.

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*.

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

A handwritten signature in cursive script that reads "McGladrey LLP".

Chicago, Illinois
November 30, 2012



**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 U.S. Office of Management and Budget (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, 2012. 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, 2012.

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, 2012, and have issued our report thereon dated November 30, 2012, which contained an unqualified opinion on those financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2012 information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards for the year ended June 30, 2012 is fairly stated in all material respects in relation to the 2012 basic financial statements 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, 2011, which are not presented with the accompanying financial statements. In our report dated December 14, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. 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. In our opinion, the accompanying schedule of expenditures of federal awards for the year ended June 30, 2011 is fairly stated, in all material respects, in relation to the basic financial statements for the year ended June 30, 2011, 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 LLP

Chicago, Illinois
November 30, 2012

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR Ended JUNE 30, 2012

(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)
			7/1/10- 6/30/11 (C)	7/1/11- 6/30/12 (D)	7/1/10- 6/30/11 (E)	7/1/11- 6/30/12 (F)			
U.S. Department of Education:									
Direct grants:									
Fund for the Improvement of Education: Teaching American History	84.215X	U215X080096 U215X080096	\$ - 166,393	\$ 226,681 -	\$ - 166,393	\$ 194,844 -	\$ - -	\$ 194,844 166,393	\$ 364,428 409,736
Fund for the Improvement of Education: FIE Earmark Grant Awards	84.215K	U215K090314 U215K090314	- 108,040	28,762 -	- 108,040	114,823 -	- -	114,823 108,040	142,882 238,000
Total Fund for the Improvement of Education			274,433	255,443	274,433	309,667	-	584,100	1,155,046
Safe and Drug-Free Schools and Communities_National Program Comprehensive Safety and Emergency Response Plan	84.184E	Q184E090106 Q184E090106	- 100,091	158,700 -	- 100,091	158,050 -	- -	158,050 100,091	244,147 456,995
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
Total Safe and Drug-Free Schools and Communities_National Program			128,379	158,700	121,463	158,050	-	279,513	748,651
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	12-4300-00 11-4300-00	- 6,476,311	8,277,123 (1,479,795)	- 6,611,170	8,723,399 88,330	- -	8,723,399 6,699,500	9,500,851 8,076,840
Title I Grants to Local Education Agencies: ARRA-Title I - Low Income	84.389A	12-4851-00 11-4851-00	- 3,440,915	269,482 -	- 3,610,588	- 269,577	- -	- 3,880,165	- 3,534,760
Title I Grants to Local Education Agencies: Title I : Low Income - Neglected Priv.	84.010A	12-4305-00 11-4305-00	- 36,307	43,134 -	- 43,845	43,134 -	- -	43,134 43,845	43,134 36,307
Title I Grants to Local Education Agencies: ARRA-Title I : Low Income - Neglected Priv.	84.389A	11-4852-00	-	-	1,304	-	-	1,304	27,071
Total Title I Part A Cluster			9,953,533	7,109,944	10,266,907	9,124,440	-	19,391,347	21,218,963
Safe and Drug-Free Schools and Communities_State Grants Title IV : Safe and Drug Free Schools -Formula	84.186A	12-4400-00 11-4400-00	- 15,215	3,561 -	- 55,090	3,561 8,830	- -	3,561 63,920	5,291 53,476
Twenty-First Century Community Learning Centers: Title IV - 21st Century Community Learning Centers	84.287C	12-4421-12 12-4421-10 11-4421-07 11-4421-10	- - 201,505 340,075	595,947 325,089 - (1,961)	- - 230,557 330,726	595,947 312,638 7,049 65,063	- - - -	- 312,638 237,606 395,789	832,281 359,300 213,600 359,300

ILLINOIS STATE BOARD OF EDUCATION
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 SPRINGFIELD, ILLINOIS 62777-0001

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR Ended JUNE 30, 2012

(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)
			7/1/10- 6/30/11 (C)	7/1/11- 6/30/12 (D)	7/1/10- 6/30/11 (E)	7/1/11- 6/30/12 (F)			
Special Education Cluster (IDEA)									
Special Education - Preschool Grants: Pre-School Flow Through	84.173A	12-4600-00 11-4600-00	\$ - 167,158	\$ 162,663 (15,081)	\$ - 149,421	\$ 161,612 2,656	\$ 1,200 -	\$ 162,812 152,077	\$ 177,692 167,185
Special Education - Preschool Grants: ARRA-Pre-School Flow Through	84.392A	12-4856-00 11-4856-00	- 209,230	- 14,446	- 223,210	- 14,446	- -	- 237,656	- 249,153
Special Education - Grants to States: IDEA Flow Through	84.027A	12-4620-00 11-4620-00	- 7,551,975	7,284,052 922,233	- 6,613,399	6,853,382 2,109,135	- -	6,853,382 8,722,534	7,740,089 9,361,725
Special Education - Grants to States: ARRA - IDEA Flow Through	84.391A	11-4857-00	4,048,096	1,205,741	4,569,291	1,205,741	-	5,775,032	5,704,640
Special Education - Grants to States: IDEA Room & Board	84.027A	2012-4625-00 2011-4625-00	- 150,024	140,962 58,156	- 156,620	184,708 -	- -	184,708 156,620	N/A N/A
Total Special Education Cluster (IDEA)			12,126,483	9,773,172	11,711,941	10,531,680	1,200	22,244,821	23,400,484
State Fiscal Stabilization Fund - Education State Grants, Recovery Act: ARRA - Early Childhood	84.397A	11-4875-00 11-4875-01 11-4875-70 11-4875-71	- - - -	- - - -	15,894 9,270 5,867 -	- - - -	- - - -	15,894 9,270 5,867 -	3,260,662 153,704 220,320 128,520
English Language Acquisition Grants: Title III : Language Instruction Program - Limited English	84.365A	12-4909-00 11-4909-00	- 1,102,441	1,146,006 104,033	- 1,385,738	1,146,006 469,181	- -	1,146,006 1,854,919	1,429,631 1,832,904
Improving Teacher Quality State Grants: Title II : Teacher Quality	84.367A	12-4932-00 11-4932-00	- 1,193,684	405,416 -	- 992,045	996,752 147,986	- -	996,752 1,140,031	1,823,131 1,689,651
Education Technology State Grants: Technology- Enhancing Education - Formula	84.318X	11-4971-00	6,630	-	10,993	786	-	11,779	17,120
Education Technology State Grants: ARRA - Technology- Enhancing Education - Formula	84.410	12-4880-00 11-4880-00	- 4,622,728	69,487 -	- 4,622,728	69,487 -	- -	69,487 4,622,728	N/A N/A
Passed through Illinois Department of Human Services Rehabilitation Services - Vocational Rehabilitation Grants to States: Rehabilitation Services	84.126	940CK001618 940CK001618	- 58,604	55,815 -	- 58,604	55,815 -	- -	55,815 58,604	N/A N/A

ILLINOIS STATE BOARD OF EDUCATION
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR Ended JUNE 30, 2012

(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)
			7/1/10- 6/30/11 (C)	7/1/11- 6/30/12 (D)	7/1/10- 6/30/11 (E)	7/1/11- 6/30/12 (F)			
Passed through Illinois Community College Board: Adult Education - Basic Grants to States: Federal - Adult Education - Basic	84.002A	12-4810-00 11-4810-00	\$ - 108,109	\$ 102,302 (100)	\$ - 108,009	\$ 100,937 -	\$ - -	100,937 108,009	100,937 1,008,109
Passed through Northern Kane County Regional Vocational System: Career and Technical Education - Basic Grants to States: Perkins IIC Grant	84.048A	12-4745-00 11-4745-00	- 430,500	674,781 (217,332)	- 213,218	283,618 -	- -	283,618 213,218	392,128 392,128
Passed through Will County Regional Office of Education Special Education - Grants to States: McKinney - Vento ARRA Funds	84.387	11-4862-00	21,154	-	21,154	-	-	21,154	N/A
Total U.S. Department of Education			30,583,473	20,560,303	30,434,637	24,387,493	1,200	54,227,383	60,795,336
U.S. Department of Agriculture: Passed through Illinois State Board of Education: Commodity Supplemental Food Program	10.565	12-4299-00 11-4299-00	- 730,794	946,403 -	- 730,794	946,403 -	- -	946,403 730,794	N/A N/A
Child Nutrition Cluster									
National School Lunch Program	10.555	12-4210-00 11-4210-00	- 7,674,432	6,872,913 1,257,319	- 7,674,432	6,872,913 1,257,319	- -	6,872,913 8,931,751	N/A
School Breakfast Program	10.553	12-4220-00 11-4220-00	- 1,593,922	1,624,709 238,865	- 1,593,922	1,624,709 238,865	- -	1,624,709 1,832,787	N/A N/A
Total Child Nutrition Cluster			9,268,354	9,993,806	9,268,354	9,993,806	-	19,262,160	N/A
Fresh Fruits and Vegetables Program	10.582	12-4240-12 12-4240-11 11-4240-10 11-4240-11	- - 7,695 51,170	71,090 10,438 - -	- - 7,695 51,170	71,090 10,438 - -	- - - -	71,090 10,438 7,695 51,170	N/A N/A N/A N/A
Total U.S. Department of Agriculture			10,058,013	11,021,737	10,058,013	11,021,737	-	21,079,750	N/A
Corporation for National and Community Service Passed through Illinois State Board of Education: Learn and Serve America	94.004	12-4910-00 11-4910-00	- 15,625	9,197 (761)	- 9,300	9,197 5,564	- -	9,197 14,864	9,511 15,625
U.S. Department of Justice: Passed through Village of Streamwood: Secure our Schools	16.710	2008CKWX0652 2008CKWX0652	- 23,389	141,342 (8,761)	- 117,111	117,111 -	- -	117,111 117,111	473,700 473,700
U.S. Department of Health and Human Services: Passed through Northwestern Illinois Association: Medical Assistance Program	93.778	12-4991-00 11-4991-00	- 1,514,564	2,091,356 (940,521)	- 574,043	1,114,201 -	- -	- 574,043	N/A N/A
Total Federal Awards			\$ 42,195,064	\$ 32,873,892	\$ 41,193,104	\$ 36,655,303	\$ 1,200	\$ 76,139,459	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, 2012 and 2011. For the year ended June 30, 2012, the District did receive \$946,403 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 (CFDA #10.555). 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 (CFDA #10.555).

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, 2012

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 X No
Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified? Yes X 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 X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Expenditures</u>
84.010A/84.389A	Title I, Part A Cluster	\$9,124,440
84.173A/84.392A 84.027A/84.391A	Special Education Cluster	\$10,531,680
84.367A	Title II: Teacher Quality	\$1,144,738
93.778	Medicaid	\$1,114,201

Dollar threshold used to distinguish between type A and type B programs \$1,099,659

Auditee qualified as low-risk auditee? Yes X No

School District U-46

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

II. FINANCIAL STATEMENT FINDINGS

Finding 12-01: 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 the liability for medical claims was understated at year end.

Context:

During our testing on search for unrecorded liabilities, we noted that several invoices totaling approximately \$646,000 relating to goods delivered prior to the year end but not recorded as payables as of June 30, 2012. We also noted the District did not accrue for approximately \$180,000 of legal expenses incurred before year end. Though the checks and in some cases invoices were not written or received until after year end, the expenses should have been accounted for in the period when the related services were performed. In addition, we noted an adjustment of approximately \$325,000, to increase the liability for medical 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 claims liability 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 the accounts payable staff and 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 of the invoices should be included in the amounts payable at year end. For the medical claims, the department has established a method to review the history of 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, 2012**

II. FINANCIAL STATEMENT FINDINGS

Finding 12-02: Maintenance of Personnel Files

Criteria:

Good business practices require that adequate and relevant employee records be maintained in individual employee files from their dates of hire and maintained through the dates of separation of employment.

Condition:

The District does not have adequate procedures in place to ensure that personnel information is properly maintained. During payroll testing, we noted 2 instances of lack of adequate documentation in personnel files.

Context:

During our testing, we noted an employee on long-term disability was retired in the payroll system effective October 2011, but there was no documentation in the personnel file regarding the effective termination date. In addition, for a new hire, we noted discrepancies in the salary amount stated in the employment contract and actual salary payment to the employee. The auditors did note that the District was not informed of any error in salary payment by the employee.

Effect:

Lack of maintenance of adequate information in personnel files could result in discrepancies in approved employee compensation and actual compensation paid out to the employee. In addition, the District's expense and liability for payroll and post-retirement benefits could be misstated if adequate documentation is not maintained in personnel files to support employee's compensation, hire dates and termination dates.

Cause:

According to District management, the District does not have a formal process relating to the transition of employees from long-term disability to retirement status, but the District is currently working on a formal process. With regards to the salary discrepancy, District management stated that actual salaries are dependent on verification of education and experience; hence actual payment could differ from the initial salary stated in the employment contract or salary letter, once the verification process is complete.

Recommendation:

We recommend that the District establish a formal process for transitioning employees from long-term disability to retirement status. In addition, procedures should be established to ensure that adequate information is maintained in all personnel files. The Human Resources department should conduct a periodic review of all employee files to ensure relevant information is maintained therein, to support approved compensation for each employee.

Views of responsible officials and planned corrective actions:

The current system is very labor intensive for filing of employee documents. During the past year we have reviewed the Human Resource department procedures and are in the process of transitioning to new software for Human Resources. The new software will allow for electronic storage of employee documents, and improved reporting for employee information.

School District U-46

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

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, 2012**

Financial Statement Findings

Finding 11-01: Unrecorded Liabilities

Condition and Context: 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. 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.

Current status: During the fiscal year 2012 audit, we noted that the District did not properly record liabilities for invoices relating to certain goods received prior to year end. In addition, the auditors proposed an adjustment of approximately \$345,000, which was made to increase the liability for medical claims. This finding is repeated as Finding 12-01 in the current year.

Finding 11-02: Cash Receipts

Condition and Context: 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. 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 2012 audit, we noted that the District implemented a new process relating to deposit of cash receipts by the Plant Operations department. Cash receipts tested were deposited and recorded in the general ledger in a timely manner. We also noted an improvement in the 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 not repeated in the current year.

School District U-46

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012**

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings or questioned costs for federal awards.

School District U-46

**Corrective Action Plan
Year Ended June 30, 2012**

Finding 12-01: 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 the liability for medical claims was understated at year end.

Plan:

The Director of Financial Operations will have the accounts payable staff and 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 of the invoices should be included in the amounts payable at year end. For the medical claims, the department has established a method to review the history of claims, and will be able to provide better estimates in the future.

Anticipated Date of Completion:

June 30, 2013

Name of Contact Person:

Dale Burnidge

View of Responsible Officials:

Management concurs with the finding.

Finding 12-02: Maintenance of Personnel Files

Condition:

The District does not have adequate procedures in place to ensure that personnel information is properly maintained. During payroll testing, we noted 2 instances of lack of adequate documentation in personnel files.

Plan:

The current system is very labor intensive for filing of employee documents. During the past year we have reviewed the Human Resource department procedures and are in the process of transitioning to new software for Human Resources. The new software will allow for electronic storage of employee documents, and improved reporting for employee information.

Anticipated Date of Completion:

June 30, 2013

Name of Contact Person:

Dale Burnidge

View of Responsible Officials:

Management concurs with the finding.