



# BENNING GROUP, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Meridian Community Unit School District No. 223:

We have audited the financial statements of Meridian Community Unit School District No. 223 for the year ended June 30, 2018 and have issued our report thereon dated October 15, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated July 9, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with the cash basis of accounting and regulatory provisions prescribed by the Illinois State Board of Education, which is a comprehensive basis of accounting other than, and differs from, accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our responsibility is also to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Meridian Community Unit School District No. 223. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Meridian Community Unit School District No. 223's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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## Other Information in Documents Containing Audited Financial Statements

The auditor's responsibility for other information in documents containing audited financial statements does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. Our responsibility is to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. We are not aware of any documents or other information containing audited financial statements, and furthermore management has not requested us to devote attention to any documents containing audited financial statements.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by Meridian Community Unit School District No. 223 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements for which management has determined their effects to the immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, the following material misstatements detected as a result of audit procedures were corrected by management.

- Adjustment of \$329,218 to reclassify technology lease payments to capital outlay – within the Educational fund.

- Cumulative adjustment of \$159,844 to reclassify health insurance expenditures inappropriately recorded in liability accounts – within the Educational, Operations & Maintenance, and Transportation funds.
- Cumulative adjustments of \$67,561 to reclassify refunds/reimbursements to proper accounts for reporting purposes – within the Educational fund.
- Adjustment of \$64,058 to record prior year audit adjusting entry – within the Educational fund.
- Adjustment of \$55,724 to reclassify Title I expenditures to proper accounts for reporting purposes – within the Educational fund.
- Cumulative adjustments of \$26,852 to properly record expenditures as purchased services, supplies, and/or capital outlay – within the Educational and Operations & Maintenance funds.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 15, 2018.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the

information to determine that the information complies with the cash basis of accounting and regulatory provisions prescribed by the Illinois State Board of Education, which is a comprehensive basis of accounting other than, and differs from, accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Internal Control Matters*

In planning and performing our audit of the financial statements of Meridian Community Unit School District No. 223 as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Meridian Community Unit School District No. 223's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Meridian Community Unit School District No. 223's internal control. Accordingly, we do not express an opinion on the effectiveness of the Meridian Community Unit School District No. 223'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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 following deficiency in internal control to be a material weakness:

### **Financial Reporting & Material Adjustments**

In prior audits, we determined the District lacked adequate procedures over financial reporting to timely identify and record necessary adjustments throughout the year and during the year end reporting process, which in turn required several material adjusting journal entries during our audits. During those years, we considered this issue to be a significant deficiency. Similarly in prior audits, we determined the District's balance sheet contained various payroll liability accounts with debit (negative) balances that were not periodically reviewed or reconciled. We recommended the District review and reconcile these accounts on a monthly basis.

During our audit of the fiscal year ended June 30, 2018, we noted the continued existence of both issues as described above. Through our audit procedures we identified several material adjusting journal entries necessary to accurately present the financial statements, including entries to correct

transactions inappropriately recorded in capital outlay and capital outlay expenditures recorded in other object codes. The issue relating to negative, unreconciled payroll liability accounts worsened during the current fiscal year, as negative balances increased significantly, primarily in the Transportation fund. Due to the current nature of these control issues, we have determined it necessary to classify them as a material weakness.

Appropriate procedures should be implemented to ensure all balance sheet accounts are periodically reconciled, adjustments are timely identified, and corrections are recorded as necessary to ensure accurate financial reporting. The District has responded that Management will record all journal entries provided by the auditors and refrain from posting any adjustments directly to fund balance, as well as periodically review and reconcile payroll liability accounts and other general ledger accounts to identify possible misclassifications and proper recording of transactions.

\* \* \* \* \*

We have attached to this letter our summary of comments and recommendations as a result of our procedures.

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



Freeport, Illinois  
October 15, 2018

**Meridian Community Unit School District No. 223**  
**Letter of Comments**  
**June 30, 2018**

1. Activity Funds

- Controls over cash receipts and disbursements in the activity funds has improved significantly, however we again noted instances of document exceptions, including a lack of both supporting documentation and approved purchase orders.
- We noted continued instances in which disbursements issued to those in control of the activity fund were signed by the same individual. We recommend that any time a disbursement is made to an individual with control over the account, another authorized individual sign the check.
- During our review of the District's activity funds we noted activity in various accounts indicative of "convenience accounts." The Illinois State Board of Education, pursuant to the Illinois Administrative Code, Subchapter C, Section 100.80, no longer permits "convenience accounts" within the District's activity funds. We recommend the District review the activity occurring within the activity fund accounts and eliminate any such activity and/or accounts. Revenues and expenditures of this nature should be budgeted for and recorded within the District's financial statements.

2. During our detailed disbursement testing, we noted disbursements for credit card payments and utilities were not consistently reflected in the listing of bills presented to the board for approval. It was determined this exclusion was because these payments are often due prior to the board meeting. We recognize the necessity of issuing these payments in a timely manner, but recommend the District include any disbursements issued prior to the board meeting on the listing of bills presented to the board along with all other disbursements being approved for payment.

3. Grants

- During our testing of grant procedures and compliance we noted discrepancies and inconsistencies between Title IV grant budgets, expenditure reports, and the District's general ledger. We recommend the District conduct periodic review of the general ledger to ensure grant expenditures are being recorded properly. In addition, we would like to stress the importance of accurate and consistent expenditure reporting in the grant budgets and expenditure reports submitted to the Illinois State Board of Education as well as the general ledger.
- State and federal grant quarterly expenditure reports are required to be filed with the Illinois State Board of Education within 20 days of each quarter-end. Although we noted significant improvement in this regard compared to previous years, during our audit procedures we noted three instances in which expenditure reports were not filed timely. We wish to remind the District of this compliance requirement and the importance of filing quarterly expenditure reports within the required timeframe.

#### 4. Payroll

- While reviewing the District's UI 3/40 Employer's Contribution and Wage Reports, we noted the District had improperly reported wages for the 4<sup>th</sup> quarter of 2017. We recommend the District implement a secondary review function and carefully review these reports to source documents prior to submission.
  - During our review of the District's Tort fund salary expenditures, we noted principal's salaries recorded in excess of the stated allocation limit contained in the District's Risk Management Plan. Overall tort fund salary allocations were within the allowable amount for the year due to an under-allocation of the superintendent's wages; however, we recommend the District review this policy annually to ensure the allocation limits remain appropriate and adhere more strictly to this policy when calculating and recording salary expenditures.
5. The Illinois School Code requires the Treasurer's bond to be at least 25% of the funds the Treasurer has in custody. This requirement was not met during at least two months in fiscal year 2018. The District should increase the bond in fiscal year 2019 to an amount sufficient to maintain the 25% coverage requirement.