

ILLINOIS HEARTLAND LIBRARY SYSTEM
REPORT OF FEDERAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2015

ILLINOIS HEARTLAND LIBRARY SYSTEM

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ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON BARTELSO BETHALTO

October 16, 2015

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 Board of Directors of
Illinois Heartland Library System

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Illinois Heartland Library System, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Illinois Heartland Library System's basic financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Illinois Heartland Library System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Illinois Heartland Library System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Illinois Heartland Library System's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. We consider item 2015-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Illinois Heartland Library System's financial statements are free from 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*.

Illinois Heartland Library System's Response to Findings

Illinois Heartland Library System's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Illinois Heartland Library System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Alton, Illinois



ALTON EDWARDSVILLE BELLEVILLE HIGHLAND
JERSEYVILLE COLUMBIA CARROLLTON BARTELSO BETHALTO

October 16, 2015

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 Board of Directors of
Illinois Heartland Library System

Report on Compliance for Each Major Federal Program

We have audited Illinois Heartland Library System's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Illinois Heartland Library System's major federal programs for the year ended June 30, 2015. Illinois Heartland Library System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Illinois Heartland Library System's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Systems*. 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 Illinois Heartland Library System'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Illinois Heartland Library System's compliance.

Opinion on Each Major Federal Program

In our opinion, Illinois Heartland Library System complied, in all material respects, with the types of 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, 2015.

Report on Internal Control Over Compliance

Management of Illinois Heartland Library System is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Illinois Heartland Library System's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Illinois Heartland Library System'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Illinois Heartland Library System, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Illinois Heartland Library System's basic financial statements. We issued our report thereon dated October 16, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Alton, Illinois

ILLINOIS HEARTLAND LIBRARY SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor Agency/Program Pass-Through Grantor Title/Grant Name	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
National Endowment for the Humanities			
Institute of Museum and Library Services Discretionary Awards			
Grants to States Program			
<i>Passed through the Illinois State Library</i>			
Operating Grant	* 45.310	N/A	\$ 659,722
Illinois Machine Sublending Agency Grant	* 45.310	N/A	<u>327,409</u>
Total Expenditures of Federal Awards			<u><u>\$ 987,131</u></u>

* Denotes a major program.

ILLINOIS HEARTLAND LIBRARY SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of Illinois Heartland Library System. The reporting entity is defined in Note 1 to the basic financial statements.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the basic financial statements.

Noncash Assistance, Federal Insurance and Loans/Loan Guarantees

Illinois Heartland Library System did not receive any noncash assistance, federal guaranteed loans or federal insurance for any of its programs for the year ended June 30, 2015.

Subrecipient Monitoring

Illinois Heartland Library System did not pass through any of its federal funds to subrecipients during the year ended June 30, 2015.

ILLINOIS HEARTLAND LIBRARY SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

A. SUMMARY OF AUDITOR'S RESULT

- 1) The auditor's report expresses an unmodified opinion on the basic financial statements of Illinois Heartland Library System.
- 2) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements of Illinois Heartland Library System. This significant deficiency is not considered to be a material weakness.
- 3) No instances of noncompliance material to the basic financial statements of Illinois Heartland Library System which would be required to be reported in accordance with *Governmental Auditing Standards* were disclosed during the audit.
- 4) No significant deficiencies in internal control over major federal award programs were disclosed during the audit of the major federal award program of Illinois Heartland Library System.
- 5) The auditor's report on compliance for the major federal award program for Illinois Heartland Library System expresses an unmodified opinion on all major federal programs.
- 6) The audit did not disclose any instances required to be reported in accordance with Section .510(a) of OMB Circular A-133 relative to the major Federal programs.
- 7) The programs tested as a major program:

National Endowment for the Humanities
Institute of Museum and Library Services Discretionary Awards

Grants to State Program – CFDA # 45.310
- 8) The threshold used for distinguishing between Types A and B programs was \$300,000.
- 9) Illinois Heartland Library System does not qualify as a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2015-1 – Internal Control over Financial Statements

Statement of Condition – The System does not prepare their own set of annual financial statements in accordance with accounting principles generally accepted in the United States of America.

Criteria – An Organization is considered to have a deficiency when it does not have the personnel or staff with sufficient training or expertise to prepare the System's financial statements and relies on the auditor to assist in the preparation of the annual financial statements.

Effect of Condition – Management may not be able to reasonably determine that a material misstatement exists nor allow them to prevent, detect, nor correct one on a timely basis.

Cause of Condition – The System does not have personnel or staff with sufficient training or expertise to ensure the System's annual financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

ILLINOIS HEARTLAND LIBRARY SYSTEM
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Recommendation – The System should consider the costs and benefits of hiring additional expertise or training existing accounting staff to ensure the System's annual financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Response – We believe our accounting staff maintains adequate books and records of the System's transactions. Additionally, we do not believe it is cost beneficial to hire additional accounting expertise to ensure the System's annual financial statements are prepared in accordance with accounting standards discussed above.

ILLINOIS HEARTLAND LIBRARY SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2014-1 – Internal Control over Financial Statements

Criteria – An adequate segregation of duties or effective compensatory controls are necessary to safeguard assets and report financial statements are free of material misstatements.

Condition:

- Bank reconciliations were not performed during an extended period of time during fiscal year 2014
- Bank reconciliations were not reviewed and approved by a level of management above the reconciliation preparer

Effect of Condition – Management of Illinois Heartland Library System may fail to prevent, or detect and correct, material misstatements of the entity's financial statements, or misstatement of the asset balance maintained in relation to the OCLC fiduciary activity.

Cause of Condition – The procedures in place requiring the preparation of bank account reconciliations and management review of those bank account reconciliations were not adhered to during an extended period of time during fiscal year 2014 because of a vacancy in the CFO position and other factors.

Recommendation:

- All bank reconciliations should be reconciled to the general ledger on a monthly basis.
- All bank reconciliations should be reviewed and approved on a monthly basis by a member of management above the reconciliation preparer. The reviewer should initial and date the reconciliation to document the completion of this procedure.

Response:

- IHLS purchased a new accounting software system at the beginning of FY2015. The fund accounting system (Abila MIP 100) includes cash management module.
- Chief Fiscal Officer will approve all bank reconciliations.
- Executive Director will review all bank reconciliations.
- Activity in OCLC account is controlled by the Illinois State Library (ISL). Disbursements are generated based on direction of ISL. Billing of OCLC transactions are calculated and prepared by the ISL. Customer service inquiries regarding OLCL billing are resolved by the ISL.
- With respect to time constraints, IHLS decided to accept external auditor's adjusting entry recommendations. We maintain that recording actual payroll expenditures (i.e. 26 payrolls per fiscal year) represents a more accurate picture of our true expenses. The auditor's recommendation was to accrue only additional wages for actual calendar days (and not work days) and not accrue the actual employer FICA match and IMRF contribution.
- In addition IHLS did not agree with recording additional prepaid expenses and unearned revenue due to the nature of our billing arrangement with the vendor on behalf of our members. This is a pass-through expenditure and revenue performed for the benefit of our member libraries.
- IHLS is reviewing and revising the cash disbursement policy to reflect only non-routine disbursements requiring approval.

ILLINOIS HEARTLAND LIBRARY SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2014-2 – Material Adjusting Journal Entries Identified as a Result of Procedures Applied by the System’s External Auditors

Criteria – Management is responsible for the preparation of financial statements. Part of this responsibility is the identification, calculation, and recording of all significant adjusting journal entries required to present the financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition – Audit procedures identified material misstatements of financial statement amounts provided to us by management. Subsequent to identifying the misstatements, the auditor proposed, and management approved, adjusting journal entries, which have corrected the identified misstatements in the financial statements.

Effect of Condition – The System’s financial statements as of and for the year ended June 30, 2014, were misstated prior to the application of auditing procedures by the System’s external auditors.

Cause of Condition – No specific causes are noted.

Recommendation - Illinois Heartland Library System’s management should record all adjusting journal entries to report the account balance and transactions of the System prior to providing the trial balance summarization to the auditor for use in the annual financial statement audit. Also, if there are adjusting journal entries that management knowingly leaves for the auditor to calculate and record as part of the audit, this fact should be made clear to the auditor prior to the engagement. In addition, a member of management possessing the necessary accounting skills, knowledge, or experience must review the adjusting journal entries and supporting documentation and provide specific approval of the calculation and the drafted adjusting journal entries.

Response – See responses to item 2014-001

Finding 2014-3 – Adherence to Cash Disbursement Policies

Criteria – Cash disbursement approvals should be documented in accordance with generally accepted practice of the governmental unit. The System’s cash disbursement practices require the approval of the invoice and supervisor approval of the check request form.

Condition – Invoices and check request forms lacked proper approval.

Population of Items Tested: The Auditor tested 40 cash disbursement transactions from fiscal year 2014 and five lacked approval of the invoice and lacked supervisory approval of the check request form.

Effect of Condition – Disbursements may be made for unauthorized purchases.

Cause of Condition – The established procedures requiring approval of the invoices and supervisor approval of the check request form were not followed.

ILLINOIS HEARTLAND LIBRARY SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2014-3 – Adherence to Cash Disbursement Policies

Recommendation – Existing procedures should be enforced requiring approval of the invoice and supervisor approval of the check request form.

Response – See responses to item 2014-001

FINDINGS – MAJOR FEDERAL PROGRAMS

Finding 2014-4 – Allowable Costs – Segregation of Duties

The condition items noted in the financial statement audit Segregation of Duties material weakness (Finding 2014-1) are also a material weakness in the internal controls over allowable costs compliance.