

ILLINOIS HEARTLAND LIBRARY SYSTEM

Edwardsville, Illinois

Report of Federal Financial Assistance

For the Year Ended

June 30, 2013

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2507 South Neil St.
Champaign, Illinois 61820
Phone 217.351.2000
Fax 217.351.7726
www.mhfa.net

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*

Board of Directors
Illinois Heartland Library System
Edwardsville, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contain 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 the Illinois Heartland Library System (the System) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated September 27, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express such 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 the 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 significant deficiencies. However, significant deficiencies 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 material weaknesses (2013-1 and 2013-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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*.

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. The 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin, Wood, Fries & Associates, LLC
Champaign, Illinois
September 27, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133

Board of Directors
Illinois Heartland Library System
Edwardsville, Illinois

Report on Compliance for Each Major Federal Program

We have audited the Illinois Heartland Library System's (the System) 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 the System's major federal programs for the year ended June 30, 2013. The System's major federal programs are identified in the summary of auditors' 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 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 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 the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2013.

Report on Internal Control over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the 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 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 over compliance that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (2013-3).

Illinois Heartland Library System's response to the internal control over compliance finding 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 compliance and, accordingly, we express no opinion on the response.

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 requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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 the Illinois Heartland Library System, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements. We issued our report thereon dated September 27, 2013, 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, as a whole. 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.

Martin Wood, Frazier & Associates, LLC

Champaign, Illinois
September 27, 2013

ILLINOIS HEARTLAND LIBRARY SYSTEM

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2013

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
WebJunction Grant	* 45.310	N/A	149,398
Illinois Machine Sublending Agency Grant	* 45.310	N/A	<u>129,877</u>
Total Expenditures of Federal Awards			<u>\$ 938,997</u>

* - Denotes a major program.

Notes to Schedule of Expenditures of Federal Awards:

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Illinois Heartland Library System's federal award programs presented on the accrual basis of accounting for the year ended June 30, 2013. The information in this schedule 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 the basic financial statements.

ILLINOIS HEARTLAND LIBRARY SYSTEM

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

1. Summary of Auditors' Results

- (i) Type of audit report issued on the financial statements: Unmodified
- (ii) Two material weaknesses disclosed during the audit of the financial statements are reported below. No significant deficiencies are reported.
- (iii) The audit did not disclose instances of noncompliance material to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.
- (iv) One material weakness in internal control over compliance for the major program was disclosed during the audit. No significant deficiencies in internal control over compliance are reported.
- (v) Type of report issued on compliance for the major program: Unmodified
- (vi) The audit disclosed a finding required to be reported in accordance with Section 510(a) of OMB Circular A-133. The finding (2013-3) is a material weakness in internal control over compliance in relation to allowable costs.
- (vii) Major Program:
 - National Endowment for the Humanities
 - Institute of Museum and Library Services Discretionary Awards
 - Grants to States Program – CFDA # 45.310
- (viii) The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
- (ix) The Illinois Heartland Library System does not qualify as a low risk auditee.

2. Findings: Financial Statement Audit

MATERIAL WEAKNESSES

2013-1 Segregation of Duties

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

Condition:

A. The following issues are noted in regards to the OCLC fiduciary activity:

- OCLC bank account reconciliations were not performed for an extended period of time during fiscal year 2013
- OCLC bank statements were not reviewed by a level of management above the staff responsible for processing cash receipts and cash disbursements
- OCLC bank reconciliations were not reviewed and approved by a level of management above the reconciliation preparer
- The staff responsible for processing cash receipts and cash disbursements had limited oversight during fiscal year 2013

B. The following issues are noted in regards to entity wide activity:

- Bank reconciliations were not reviewed and approved by a level of management above the reconciliation preparer
- Accounts receivable credits and adjusting journal entries were not formally reviewed and approved by a level of management above the accounting staff members responsible for processing cash receipts and cash disbursements transactions

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

Cause: There are no procedures in place requiring the performance of OCLC bank account reconciliations, management review of OCLC bank statements, management review of bank reconciliations, and management review and approval of credit memos and journal entries. Additionally, there is no management level staff assigned to oversee the OCLC fiduciary activities.

Recommendation:

The following recommendations are noted in regards to the OCLC fiduciary activity:

- OCLC bank accounts should be reconciled to the general ledger on a monthly basis.
- A member of management outside the OCLC function should be assigned program manager and should be responsible for monthly program oversight through the review of bank account reconciliations, review of bank statements, and review of general ledger management. To document the performance of the procedures, we suggest the member of management e-mail the results to the CFO when such procedures are complete.

The following recommendations are noted in regards to entity wide activity:

- 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.
- A member of management above the accounting staff responsible for processing cash receipts and cash disbursements transactions should formally review and approve all credit memos and adjusting journal entries.

View of Responsible Officials and Planned Corrective Actions:

Since IHLS's fiscal year end several changes regarding the OCLC billing project have taken place and we are in the process of correcting the weaknesses noted:

- IHLS has a team approach to oversee the OCLC function. A member of the IHLS cataloging staff has been named as grant coordinator. This staff member brings working knowledge of how OCLC (as a service to member libraries in the state) functions and considerable experience of coordinating with the member libraries. The CFO is the other part of the team. The CFO possesses financial knowledge to assist with financial oversight.
- IHLS is conducting an internal audit of OCLC billing account to confirm with member libraries their account balances and to update contact information.
- IHLS installed a new platform of the OCLC accounting software to better maintain the financial information related to the OCLC billing project and to provide more financial reporting capabilities to stakeholders.
- IHLS will be implementing monthly procedures on account reconciliation. The bank reconciliation and the monthly general

ledger will be prepared by either the OCLC accounting coordinator or the CFO and then will be reviewed by the Executive Director.

2013-2 Payroll Documentation

Criteria: Payrolls should be documented in accordance with generally accepted practice of the governmental unit. Illinois Heartland Library System's payroll practices require the approval of employee timesheets by an appropriate supervisor.

Condition: Timesheets lacked proper approval.

Context: 40 payroll transactions during fiscal year 2013 were tested and five lacked proper approval.

Effect: Employees may be compensated for something other than time worked.

Cause: The established procedures requiring timesheet approval were not enforced.

Recommendation: Existing procedures should be enforced requiring timesheet approval.

View of Responsible Officials and Planned Corrective Actions:

The payroll department has now been relocated to the same location as the CFO. The CFO is now reviewing the biweekly payroll. When procedural problems occur, such as the finding noted, the department manager is immediately contacted to assist in correcting the problem.

3. Findings and Questioned Costs: Major Federal Award Program Audit

MATERIAL WEAKNESS

2013-3 Allowable Costs - Segregation of Duties

Condition B noted in the financial statement audit Segregation of Duties material weakness is also a material weakness in the internal controls over allowable costs compliance.

ILLINOIS HEARTLAND LIBRARY SYSTEM

Summary Schedule of Prior Audit Findings for Federal Awards

For the Year Ended June 30, 2013

Illinois Heartland Library System was not subject to an audit under OMB A-133 for the year ended June 30, 2012. No prior year audit findings to report.

MARTIN
HOOD
FRIESE
& ASSOCIATES, LLC

2507 South Neil St.
Champaign, Illinois 61820
Phone 217.351.2000
Fax 217.351.7726
www.mhfa.net

Ms. Leslie Bednar, Executive Director
Ms. Rose Mary Barczewski, CFO
Illinois Heartland Library System
Edwardsville, Illinois

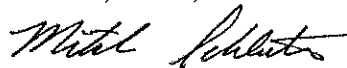
In planning and performing our audit of the financial statements of the Illinois Heartland Library System (the System) as of and for the year ended June 30, 2013 we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are 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 System's internal control.

During our audit we became aware of matters that we did not consider significant enough to be included in the schedule of findings and questioned costs, but were identified instead as opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those areas of potential improvement. A separate report dated September 27, 2013 contains our views on the System's internal control. This letter does not affect our report dated September 27, 2013 on the financial statements of the Illinois Heartland Library System.

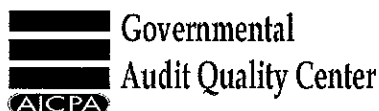
We will review the status of these comments during our next engagement. We have already discussed many of these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or assist the System's management in implementing the recommendations.

Sincerely,

MARTIN, HOOD, FRIESE & ASSOCIATES, LLC



Mitchell R. Schluter, CPA



CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

MEMORANDUM

To: Leslie Bednar, Executive Director
Rose Mary Barczewski, CFO
Illinois Heartland Library System
Edwardsville, Illinois

From: Martin, Hood, Friese & Associates, LLC

Date: September 27, 2013

Subject: Audit Recommendations

The following are matters we did not consider serious enough to include in our report on internal control and compliance, but which we believe merits the attention of the System's management.

ITEMS REPEATED FROM THE PRIOR YEAR

Disaster Recovery Planning

Two of the System's operating locations lack an information technology disaster recovery plan. The other locations with plans may need updates. We recommend that the System review and update existing disaster recovery plans and formulate disaster recovery plans for the locations lacking such guidance.

Staffing

The System currently has a Financial Procedures and Practices manual that provides some general outlines of accounting functions. Additionally, the System has one or two page job descriptions for each employee category. These are very useful documents; however, based on the System's experience of turnover in accounting personnel, we recommend that each employee in the accounting function develop a detail description of their daily, weekly, monthly, quarterly, and annual duties in order to allow for efficient and effective transition of work, if necessary.

NEW ITEMS NOTED IN THE CURRENT YEAR

Accumulated Vacation Policy

The accumulated vacation policy language in the System's Personnel Code (page 17, last paragraph of Item B.1.d), in conjunction with termination of employment policies (page 6, second paragraph of Item H) does not provide a clear explanation of the maximum accumulated vacation balance that an employee is allowed to carry. We recommend the revision of this language to provide a clearer explanation.

Payroll Documentation

In testing a sample of 40 payroll transactions during fiscal year 2013 we noted one instance in which an employee's personnel file lacked documentation of their current wage rate and one instance in which an employee's personnel file lacked documentation of their direct deposit approval. We recommend that all payroll related documentation is retained in each employee's personnel file and that those files are reviewed at least annually for completeness of documentation.