

**URBANA FREE LIBRARY**  
A COMPONENT UNIT OF THE URBANA, ILLINOIS

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended June 30, 2014

# URBANA FREE LIBRARY

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Library Board  
Urbana Free Library  
Urbana, Illinois

In planning and performing our audit of the financial statements of the Urbana Free Library as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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 and other deficiencies that we consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Library's internal control to be material weaknesses:

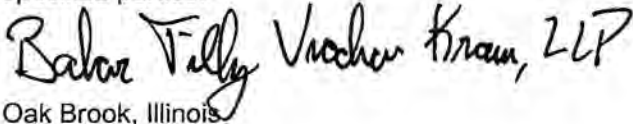
- > External Financial Reporting
- > Restatement of Prior Year Financial Statements
- > Segregation of Duties

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. We consider the following deficiency in the Library's internal control to be a significant deficiency:

- > Information Technology Control Environment

The Urbana Free Library's written responses to the significant deficiency and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Library Board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.



Oak Brook, Illinois  
June 5, 2015

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## EXTERNAL FINANCIAL REPORTING

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Internal controls encompass all external financial reporting. Like most libraries in Illinois, the Library does not maintain an external financial reporting department or function, but relies on its audit firm for this purpose. However, the external auditor is, by definition, external to the Library and cannot be a part of the Library's internal control structure since management is responsible for the fair presentation of the financial statements. This includes drafting the individual fund statements, making conversion entries, drafting the government-wide statements, and preparing note disclosures. Without the assistance of the audit firm, it is unlikely that the Library would be able to prepare financial statements in accordance with generally accepted accounting principles.

Common attributes of a properly designed system of internal control over financial reporting include:

- > Adequate staffing to prepare financial reports at the end of the year.
- > Training to ensure staff is knowledgeable to perform all financial reporting functions.
- > Identification and correction of material misstatements during the normal course of duties.
- > Preparation of complete and accurate financial statements including notes to the financial statements.
- > Review of financial reports by an individual who is not the preparer for completeness and accuracy.

While this is defined as a material weakness by accounting standards, it may not be practical or cost beneficial for the Library to mitigate this weakness. New accounting literature continues to be added at an astonishing pace and comes from a variety of sources. Employing an individual who remains current on the ever changing accounting and reporting standards can add significant financial cost to your internal control process. As such, the Library may choose to accept this risk as most libraries in this state have done.

During the course of the audit, we made certain adjustments to the Library's financial information to properly present the Library's financial information. In our opinion, had these adjustments not been made, the financial results of certain funds within the Library's financial statements would have been materially misstated. These entries have been brought to the attention of management.

*Management Response: Current staffing levels are not adequate to prepare financial reports at the end of each year. Additional training for the Office Manager, the Executive Director, and other appropriate staff who work with Finance would be beneficial and we will evaluate training opportunities, especially those specific to government accounting, which is provided by the Government Finance Officers Association. Travel and Training Funds are currently available.*

*Additional review will be incorporated to catch misstatements.*

*The Library will continue to rely on Baker Tilly to prepare the financial statements because of the significant effort involved in that work. It may be appropriate to review that decision in the future, after a new financial system has been implemented and financial processes have been streamlined.*

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## RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

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As noted above, the Library does not have a function system of controls over external financial reporting. The absence of this control resulted in errors not being detected in the June 30, 2013 financial statements which resulted in a restatement of certain amounts previously reported as follows:

- > The Library recognizes revenue in the government-wide financial statements when revenue is earned. The Library considers the first installment of the annual property tax levy that is adopted during the fiscal year to be utilized for current year operations and the second installment of the levy is to be utilized in the subsequent fiscal year. Therefore, the first installment of the levy (roughly 60% of the levy) is considered to be "earned" in the fiscal year it is adopted and the second installment is deferred for use in the subsequent fiscal year. In the prior year, the Library recognized both the first and second installment of the 2012 levy and did not defer the second installment of the 2012 levy on the government-wide financial statements. As a result, governmental activities net position was overstated as of June 30, 2013. Beginning net position of governmental activities has been restated (decreased by \$1,184,190) and properly reflected in accordance with the Library's revenue recognition policy for the June 30, 2014 financial statements.
- > GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, was effective as of July 1, 2012 (applicable for the fiscal year ending June 30, 2013). This standard changed the criteria for the presentation of component units. This standard was not implemented as required for the year ending June 30, 2013. As a result of the implementation of the standard, the Library Foundation is required to be presented as a discretely presented component unit of the Library. In prior years, the Foundation was presented as a governmental fund and included in governmental activities on the government-wide financial statements. To properly implement GASB Statement No. 61, beginning net position of governmental activities (decreased by \$349,674) and the discretely presented component unit (increased by \$349,674) as presented in the entity-wide financial statements have been restated and the Foundation is no longer presented in the governmental fund financial statements. Additionally, the Library was previously presented as a special revenue fund of the City. With the implementation of GASB Statement No. 61, the Library is reported as a discretely presented component unit of the City.

*Management Response: Errors were identified and corrected during the course of the audit, including the one mentioned above, which was undetected in the previous audit. Library staff have relied on the former City Comptrollers and the former auditors for these parts of the reporting process. This may have led staff to believe that the items were being handled appropriately. Library staff and City staff now both have a clearer understanding of how to properly handle these situations.*

*In the future, staff will consult with Baker Tilly about the handling of any unusual transactions or situations, if there is a question about how to properly record these accounting transactions.*

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## **SEGREGATION OF DUTIES**

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A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording responsibilities for transactions. We noted that there are several deficiencies related to proper segregation of duties around the payroll, cash disbursement, and journal entry processes. These include:

### ***Payroll***

- > The same individual is responsible for changing pay rates and benefits, updating time records for hourly employees, processing payroll, and printing, signing and distributing checks. This presents a segregation of duties concern as one individual has significant control over the entire payroll cycle. In an ideal control environment, the duties of entering employee information and time reporting would be separate from the person responsible for processing payroll. These employees would also not have access to print, sign, or distribute payroll checks. We recommend segregating these responsibilities among multiple employees and limit access within the system such that segregated responsibilities could not be circumvented.
- > We noted there was no review of payroll before or after it has been processed. Each payroll run should be reviewed by someone not involved in the payroll preparation process. We recommend that the review of payroll be completed before payroll is processed and once again before distribution of checks. Reviews should focus on rate changes and new employees and compare actual amounts to budget expectations. Reviews should be documented through signature or initial of the reviewer.

### ***Cash Disbursements***

- > The same individual is responsible for initiating the purchase of office supplies, processing invoices, and generating checks. One individual having such significant control over the cash disbursement process presents a significant risk. Although the Library has attempted to implement certain compensating controls to mitigate the risks resulting from the lack of segregation of duties, we noted that these controls cannot be deemed effective as they can be circumvented. We recommend that the Library segregate responsibilities within the cash disbursement process to the greatest extent possible. In lieu of ideal segregation of duties, the compensating controls in place should be altered to effectively mitigate risks resulting from a lack of segregation of duties. Recommendations on how to improve existing compensating controls are addressed below.
- > Although invoices are matched to purchase requests and/or packing slips, documentation of the review is not maintained. The reviewer, who does not initiate purchases or process cash disbursements, does not retain purchase requests and packing slips, providing only invoices to the individual responsible for processing disbursements without evidence of review. We recommend that the reviewer maintain copies of purchase requests and packing slips with invoices and provide documentation that the review has been completed.

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## SEGREGATION OF DUTIES (cont.)

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- > The Library does not have a formal purchase order policy. As a result, purchase requests are not reviewed or approved by department heads. Additionally, reviews by appropriate levels of management are not made in advance of the purchase taking place. Management and the Library Board complete reviews of bills lists, but these reviews are not completed until after the Library has taken on an obligation. Given the other deficiencies in controls around the cash disbursements process noted above, we recommend that reviews be completed on purchase requests before they are made in addition to the reviews already taking place. Multi-layered reviews would mitigate the risks resulting from the lack of segregation of duties and review procedures noted above.

### **Journal Entries**

- > The same individual responsible for all aspects of the payroll process is also the only person able to post entries to the Library's general ledger system. Although journal entries may be prepared by someone other than the individual posting them and an independent review by someone who did not prepare or post the entries may occur, individuals have access to both prepare and post entries and there is no documentation of the independent review. We recommend that the independent review of journal entries be documented and formalized through signature or initials of the reviewer.

The absence of these controls could result in errors to financial data or could allow the misappropriation of Library assets to be concealed.

*Management Response: The Library contracts with the City for access to the Payroll and Financial system, as well as support of the system. Access to the Payroll and Financial system is currently limited to the one station at the Office Manager's desk. There is active discussion of moving to a different accounting software system, which may provide different access to appropriate employees, addressing concerns mentioned. The Library will work with the City as it reviews security settings in the current financial system and makes changes to limit access to specific functions for its own purposes, consistent with appropriate segregation of duties. The Library will also evaluate implementation of the report that City Finance staff and IT staff will develop to incorporate all relevant review items mentioned in the City's audit.*

*Given the size of the organization and the limited number of staff, The Library does utilize a number of back-end controls. The Library will review work assignments and will determine whether printing, signing and distributing payroll checks can be assigned to another employee. Currently, payroll checks cut to individuals are stamped by two individuals and the Executive Director signs and dates the sheet which matches the check to the payroll amount. A process for payroll review of all employees will be created, including a review of all exceptions to the budget and changes to pay rates. Except for the turn of the fiscal year, employee rates do not change often, and will now be reviewed and documented.*

*The individual responsible for other stages of the transaction cycle is not an authorized check signer but is the only person aside from the Board Secretary/Treasurer allowed by the Finance Policy to apply the signature stamp of the Board Secretary/Treasurer. This process will be evaluated, and recommendations will be made to the Board that the Finance Policy be updated. Access to checks is already limited, a log of the last check issued the last week can be compared to the first checked issued the current week. Signature stamps can be housed in a locked cabinet to which only a couple of people have a key. Logs of access will be created.*

*One responsibility of the Acquisitions Manager is to compare packing lists and invoice and verify they match. She initials and dates each before payment. We will consider whether for an organization the size of the Library, this level of review seems adequate, as opposed to keeping the packing lists.*



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**SEGREGATION OF DUTIES (cont.)**

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*The Library does not have a formal purchase order policy but the Library has already implemented the use of pre-authorization forms for department heads to approve for expenditures by staff on items other than library collections. These include categories such as Travel and Training, Miscellaneous Funds, and petty cash.*

*Journal entries are reviewed by Management via the Detail Trial report, which includes all entries. This review process will be documented.*

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**INFORMATION TECHNOLOGY CONTROL ENVIRONMENT**

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An effective internal control system should include controls over the Library's information technology. These controls would provide the appropriate security for the Library's financial information to prevent unauthorized access or data loss. As the Library did not have sufficient controls in place over information technology, we are required to report this significant deficiency. Controls over information technology should include the following:

- > A formal change management policy covering procedures around program updates, system changes, and ongoing maintenance. Additionally, changes should be authorized, documented, and tested before being placed into operation.
- > Password policies should enforce levels of complexity, requiring a combination of alphanumeric and special characters.
- > Review of access to the financial accounting systems completed at least once a year by management to ensure that user access is appropriate for each individual's job responsibilities. Documentation of these periodic reviews should be retained.
- > Restorations of backups on a proactive, periodic basis to ensure effectiveness of existing procedures.

In addition to the weaknesses in the Library's information technology controls noted above, the Library relies upon the expertise of a single City employee to maintain the custom-built general ledger software. This individual has unlimited access to the system, including the ability to alter source coding and financial databases. With no other individuals at the City or Library possessing the skills to maintain the general ledger system, the Library would have no general ledger support if the individual were to cease employment with the City. Such reliance on one individual to maintain the Library's financial data presents a significant risk to the Library's ability to maintain accurate and timely financial records. If possible, multiple individuals should be trained to maintain the general ledger software in case of emergency. We also recommend the ability to alter programming code and financial databases are completely restricted or heavily monitored.

*Management Response: Access to the financial system the Library utilizes through the City is available only via one computer station at the Office Manager's desk for the sake of security. A limited number of people have access to the password to log into the system. The City provides backups. The Library will work with the City as they address current concerns raised and the Library will participate in a process to choose a new financial system, if that is the way the City chooses to proceed.*

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**INFORMATION TECHNOLOGY CONTROL ENVIRONMENT (cont.)**

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*The City's response to similar concerns in their audit:*

*"IT staff will review and consider a policy on change management. However, the benefits are reduced by the lack of documentation of the status quo. Ultimately, this concern may be best resolved by using a standardized financial management system, in which changes are controlled by an outside vendor.*

*IT staff plans to implement complex password rules for the financial system and other applications on the Power7 computer.*

*IT staff has produced a list of access rights on financial and payroll systems. The Finance Director and IT Manager will review this list and make appropriate changes.*

*IT staff maintains a list of employees with physical access to the servers."*

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT**

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As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential misstatements.
  - > Consider factors that affect the risks of material misstatement.
  - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the Library Board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the Library concerning:

- a. The Library's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of May or June and sometimes early July. Our final financial fieldwork, including the completion of single audit fieldwork, is scheduled during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 8-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES  
AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT  
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

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## **VENDOR MAINTENANCE POLICY**

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Review and maintenance of allowable vendors within the financial accounting software is an important control within the cash disbursement process. Restrictions on payments to approved vendors can significantly mitigate the risk of misappropriation of Library assets. We noted, for each distribution cycle, that a vendor analysis report is generated and reviewed. However, we noted that the review was completed by the individual preparing the bills list and the review was not documented. We recommend that the vendor analysis report be reviewed by someone independent of the cash disbursement process. This review should be documented through written signature or initials of the reviewer.

*Management Response: A review of the vendor analysis report will be implemented by someone independent of the cash disbursement process and it will be documented.*

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## **REVIEW PROCEDURES – MONTHLY FINANCIAL REPORTING**

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Periodic reviews of financial information and budgetary performance by management and the Library Board are important element of internal control. By reviewing monthly financial statements, including a comparison of actual performance to budget, aids management and the Board in their efforts to effectively manage the Library's fiscal position. We noted that monthly budgetary reports are made available on the Library's website for the benefit of the Board and local residents. However, there is no formal review procedure in place or evidence that reviews have taken place. We recommend that formal reviews of monthly budgetary performance reports be completed by management and the Board. Management review should be documented through signature or initials and Board review should be evidenced through inclusion in consent agendas.

*Management Response: Management and the Board currently review the budgetary performance reports and will begin documenting this process. The Executive Director and some Management team do this every other week as the reports are generated. The Board may do this every other week or monthly. Given this frequency of review, the opportunity for processes to be circumvented is limited.*

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**PROFESSIONAL STANDARDS UPDATE**

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<b>Task or Event</b>	<b>Effective Date</b>	<b>Impact</b>
GASB No. 68 – Accounting and Financial Reporting for Pensions	June 30, 2015	The Library belongs to the Illinois Municipal Retirement System (IMRF). IMRF is an agent, multiple-employer, defined-benefit, public employee retirement system. IMRF has represented that it will provide the information necessary for the employers to implement GASB No. 68. The Library's share of the net pension liability / asset will be reported in its full-accrual funds and the government-wide financial statements. Disclosures in the notes to the financial statements will have significant changes.
GASB No. 69 – Government Combinations and Disposals of Government Operations	June 30, 2015	This standard provides the guidance necessary for government combinations and disposals of government operations.
GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68	June 30, 2015	The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of the Library. This will be addressed with the implementation of GASB No. 68.
Current Agenda Project: Fair Value Measurement	Proposed effective date – June 30, 2016 (Exposure Draft issued in May 2014)	The objective of this project is to review and consider alternatives for the further development of the definition of fair value, the methods used to measure fair value and the applicability of fair value guidance to investments and other items currently reported at fair value, and the potential disclosures about fair value.
Current Agenda Project: Fiduciary Responsibilities	The GASB Board is expected to issue an Exposure Draft in October 2015	This project is to assess what additional guidance should be developed regarding the application of the fiduciary responsibility criteria in deciding whether and how governments should report fiduciary activities in their financial reports.
Current Agenda Project: Leases	The GASB Board is scheduled to issue an Exposure Draft in January 2016	The objective of this project is to re-examine issues associated with lease accounting, consider improvements to existing guidance, and provide a basis for the GASB Board to consider whether the current guidance is appropriate based on the definitions of assets and liabilities.



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**PROFESSIONAL STANDARDS UPDATE (cont.)**

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<b>Task or Event</b>	<b>Effective Date</b>	<b>Impact</b>
Current Agenda Project: Other Postemployment Benefits Accounting and Financial Reporting	Proposed effective date for plans – December 31, 2016; Proposed effective date for employers – December 31, 2017; Proposed effective dates for pensions not administered by a trust – June 30, 2017 (Exposure Drafts issued in May 2014)	The Board will consider the possibility of modifications to the existing standards of accounting and financial reporting for other postemployment benefits (OPEB) by state and local governmental employers and by the trustees, administrators, or sponsors of OPEB plans. GASB has stated that their objectives are to increase financial reporting transparency and to improve the usefulness of information to the various users of the financial statements.
Current Agenda Project: Blending Requirements for Certain Business-Type Activities	The GASB Board is expected to issue an Exposure Draft in June 2015	The objective of this project would be improve financial reporting by addressing issues related to inconsistent presentation of component units in financial reporting of governments engaged only in business-type activities.
Current Agenda Project: External Investment Pools	The GASB Board is expected to issue an Exposure Draft in June 2015	The objective of this project is to improve financial reporting by external investment pools and pool participants that report positions in investment pools.
Current Agenda Project: Irrevocable Charitable Trusts	The GASB Board is expected to issue an Exposure Draft in May 2015	The objective of this project is to determine what accounting and financial reporting guidance, if any, should be established for irrevocable charitable trusts held for the benefit of governmental entities.
Current Agenda Project: Tax abatement Disclosures	Proposed effective date – December 31, 2016 (Exposure Draft issued in October 2014)	The objective of this project is to determine what disclosure guidance for governments that have granted tax abatements, if any, are essential to financial statement users.

The GASB has two other projects which are on hold. They include the conceptual framework for recognition and economic condition reporting – financial projections.

The GASB revisits GASB standards ten (10) years after issuance. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements Nos. 37, 41, and No. 46 and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The GASB has indicated that they are revisiting the following major provisions of these standards: management’s discussion and analysis, government-wide financial statements, fund financial statements, capital asset reporting, budgetary comparisons, special purpose government reporting, and related notes to financial statements. In addition, the GASB is revisiting debt extinguishments, which includes a reexamination of GASB Statement Nos. 7, 23, and 62. We will share updates with you as they become available.

Full lists of projects, as well as many resources, are available on GASB’s website which is located at [www.gasb.org](http://www.gasb.org).

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**



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To the Library Board  
Urbana Free Library  
Urbana, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Urbana Free Library for the year ended June 30, 2014, and have issued our report thereon dated June 5, 2015. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated June 30, 2014.

To the Library Board  
Urbana Free Library

### ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

#### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Urbana Free Library are described in Note I to the financial statements. As described in Note I to the financial statements, the Urbana Free Library changed accounting policies related to reporting certain items previously reported as assets and liabilities by adopting Statement No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2014. As described in Note III F., net position and fund balances as of June 30, 2013 were restated to correct material misstatements, including the change in presentation of the Library Foundation from a special revenue fund to a discretely presented component unit. Additionally, the restatements of the City of Urbana's June 30, 2013 financial statements changed the presentation of the Library, as a whole, from a special revenue fund to a discretely presented component unit.

We noted no transactions entered into by the Urbana Free Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

#### ***Accounting Estimates***

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 most sensitive estimates affecting the financial statements were:

- Depreciation expense
- Other post-employment benefit obligation

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### ***Financial Statement Disclosures***

The disclosures in the financial statements are neutral, consistent, and clear.

### ***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

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

To the Library Board  
Urbana Free Library

#### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

During the audit, we identified material adjustments to the Library's financial information which were required to properly present the Library's financial results. The adjustments included the following:

- > Adjustments to accrue the property tax receivable and property taxes levied for future periods
- > Reversal of property tax revenue and cash related to July 2014 receipts
- > Adjustment to properly present beginning fund balances

Other adjustments identified during the audit were deemed, individually and in aggregate, to be immaterial to the financial statements, but were included in the financial statements. These entries have been furnished to management.

During the current year audit, we identified certain items that had previously been incorrectly reported in your prior period financial statements. These items required restatements of the Library's June 30, 2013 net position and fund balances. See Note III F. to the financial statements for further information.

In addition, we prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### ***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

#### ***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' 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.

#### ***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

To the Library Board  
Urbana Free Library

***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Urbana Free Library that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Urbana Free Library for the year ended June 30, 2014, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Urbana Free Library in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Urbana Free Library other than audit services provided in connection with the audit of the current year's financial statements and non-audit services which in our judgment do not impair our independence.

- > Financial statement preparation
- > Adjusting journal entries
- > Trial balance formatting from general ledger data

None of these non-audit services constitute an audit under generally accepted auditing standards.

***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 Urbana Free Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

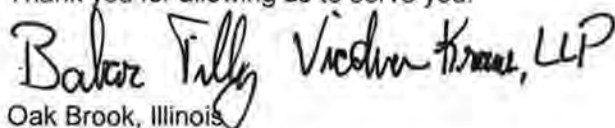
***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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 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.

This information is intended solely for the use of the Library Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

  
Oak Brook, Illinois

June 5, 2015

**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

**Urbana Free Library**  
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

June 30, 2014

	Financial Statements Effect - Debit (Credit) to Financial Statement Total					Change in Net Position/ Fund Balances
	<u>Total Assets/ Deferred Outflows</u>	<u>Total Liabilities/ Deferred Inflows</u>	<u>Total Net Position/ Fund Balances</u>	<u>Total Revenues</u>	<u>Total Expenses/ Expenditures</u>	
Governmental Activities	-	-	-	-	(31,592)	(31,592)
General Fund	-	-	-	-	(31,592)	(31,592)



## **MANAGEMENT REPRESENTATIONS**



# The Urbana Free Library

210 West Green Street, Urbana, Illinois 61801 • 217-367-4057 • fax: 217-367-4061 • [urbanafreelibrary.org](http://urbanafreelibrary.org)

June 5, 2015

Baker Tilly Virchow Krause, LLP  
1301 W. 22nd Street  
Suite 400  
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of The Urbana Free Library as of June 30, 2014 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund, and aggregate remaining fund information of The Urbana Free Library and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

#### *Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which The Urbana Free Library is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of Library Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
19. We have a process to track the status of audit findings and recommendations.
20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
22. The Urbana Free Library has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
24. There are no:
  - a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
  - c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

25. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

- a. Financial statement preparation
- b. Adjusting journal entries
- c. Trial balance formatting from general ledger data

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

26. The Urbana Free Library has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
27. The Urbana Free Library has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
30. The financial statements properly classify all funds and activities.
31. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
32. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
33. The Urbana Free Library has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
36. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.

39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
40. We have appropriately disclosed The Urbana Free Library's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.
41. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
42. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
43. We agree with the restatement presented in the current year's financial statements.
44. We have implemented GASB Statement No. 65 and believe that all deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications have been computed in compliance with the Standard.

Sincerely,

The Urbana Free Library

Signed:



Celeste Choate, Executive Director