

**URBANA FREE LIBRARY**

A COMPONENT UNIT OF THE CITY OF URBANA, ILLINOIS

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended June 30, 2017

# URBANA FREE LIBRARY

## TABLE OF CONTENTS

---

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
External Financial Reporting	2
Segregation of Duties – Payroll and Cash Disbursements	3 – 4
Segregation of Duties – Journal Entries	5
Information Technology Control Environment	6
Other Communications to Those Charged with Governance	
Two Way Communication Regarding Your Audit	7 – 8
Communication of Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	
Professional Standards Update	9 – 11
Required Communications by the Auditor to Those Charged with Governance	12 – 15
Appendix	
Management Representations	

**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, 2017, 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 a deficiency in internal control that we consider to be material weakness and others 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 deficiency in the Library's internal control to be material weaknesses:

> External Financial Reporting

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 deficiencies in the Library's internal control to be significant deficiencies:

- > Segregation of Duties – Payroll and Cash Disbursements
- > Segregation of Duties – Journal Entries
- > Information Technology Control Environment

The Urbana Free Library's written responses to the significant deficiencies 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.

*Baker Tilly Voichau Krause, LLP*

Oak Brook, Illinois  
December 20, 2017

---

## EXTERNAL FINANCIAL REPORTING

---

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 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 for this purpose. The Library will continue to rely on Baker Tilly to prepare the financial statements because of the significant effort and specialized skill involved in that work. It may be appropriate to review that decision in the future, after the new MUNIS financial system has been implemented in 2018 and financial processes have been streamlined.*

---

## SEGREGATION OF DUTIES – PAYROLL AND CASH DISBURSEMENTS

---

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 a deficiency related to proper segregation of duties around the payroll and cash disbursement processes.

### **Cash Disbursements**

- > The same individual is responsible for initiating the purchase of office supplies, processing invoices, and generating checks. One individual having such 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.

### **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 a review of payroll after it has been processed. However, an employee currently has the ability to process payroll without any review. 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.

The absence of these controls could result in errors to financial data or could allow the misappropriation of Library assets to be concealed. We noted that the Library implemented new procedures around the payroll process in an effort to mitigate risks associated with the lack of segregation of duties. Beginning in June 2016, the Executive Director began reviewing payroll registers and documenting approval of the registers through signature and dating. This control greatly mitigates the risk of material misstatement and misappropriation of City assets and has resulted in the downgrading of this item from a material weakness to a significant deficiency in the current year.

*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 has been expanded to two stations: One at the Office Manager's desk and one at the Assistant Manager of Circulation's Desk. Staff is in the process of implementing the new MUNIS financial management system to replace the current custom-built system, and expects to go live with financials on that system on February 5, 2018, and payroll on April 1, 2018. Workflows and permissions in MUNIS, will provide different, more segregated access to appropriate employees, and a review process. This will address the concerns mentioned.*

*In FY17, A new Administration Clerk position was created, and the Clerk adds an extra layer of oversight into the beginning of the payroll review process. He checks timesheets as the first payroll step and does not have the ability to process the payroll and run checks. Two people have been trained in the payroll process from beginning to end, and alternate doing each role to have a division of duties.*

---

## SEGREGATION OF DUTIES – CASH DISBURSEMENTS (cont.)

---

*Person A enters the timesheet data into the financial system and runs the report. Person B reviews the timesheets against the report and lets Person A know if there are errors. Only after this review is the payroll finalized and the checks run by Person B. In addition, a file of the first and last check cut for bills and payroll-related checks has been created. The person stamping checks signs off that the first check cut this payment cycle is the next one after the last check cut the last payment cycle. This control process has been in place for around two years.*

*Given the size of the organization and the limited number of staff, The Library utilizes a number of back-end controls. MUNIS will allow greater checks and balances. Currently, all checks are stamped by either the Office Manager or the Assistant Manager of Circulation for the Library's Secretary; and other Administrators for the Board President. The Director of the Champaign County Historical Archives signs and dates the sheet which matches the checks to the payroll amount. Except for the turn of the fiscal year, employee rates do not change often, and these changes are reviewed and documented using Personnel Action Request Forms, which is signed by the person's supervisor, the department Director, and the Executive Director. After changes in pay rates are made currently, the form is filed in the employee's personnel file.*

*Additional controls related to changes in pay rates and benefits will be part of MUNIS. However, the new financial management system will include a human resources component, which will allow staff with HR functions to initiate those changes and electronically route them for approval. Upon final approval, they will become active, requiring no entry by other staff.*

*The Library will continue to 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 City IT staff will develop to incorporate all relevant review items mentioned in the City's audit. Additional controls related to changes in pay rates and benefits should be part of a new financial management.*

*Disbursements are and have been available near the top of the Library's Your Right to Know webpage <http://urbanafreelibrary.org/your-right-know>.*

---

## SEGREGATION OF DUTIES – JOURNAL ENTRIES

---

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 deficiencies related to proper segregation of duties around the journal entries process.

### *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. We noted that the risks associated with this deficiency were mitigated by compensating controls in place at the Library. Specifically, the Office Manager sends an e-mail to all Department Heads bi-weekly, letting them know that updated Budget & Forecast and Detailed Trial Balances are available for them to view on the Urbana Free Library website. This information would include any entries that were posted within that two week period. Additionally, the Executive Director reviews Library-wide budgetary comparison schedules. Placing reliance on this control mitigates the risk of material misstatement and misappropriation of Library assets as the multiple layers of financial information review would likely identify material errors or fraud.

*Management Response: Independent review has been formalized. The Executive Director prints and signs a copy of the Budget & Forecast. Once a month, at an Admin Team meeting, the Administrative Team acknowledges that their budget lines are in order (or why they are not in order) and this is included in the minutes, which are available to all staff.*

*There is no system control requiring secondary review prior to posting. However, that will be part of a new financial management system. The new financial management system will allow electronic routing of journal entries for approval, with posting permitted only after final approval.*

---

## INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

---

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.
- > A formal 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.
- > All financially impacted applications should have a login and password which is unique for every user and the user name should not be shared by anyone. A user should not have more than one username and shared system accounts should be removed/disabled.

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: IT staff has agreed to review and consider a policy on change management. However, benefits are reduced by the lack of documentation on the status quo. Ultimately, this concern will be addressed by using a standardized financial management system, in which changes are controlled by an outside vendor. Staff is in the process of implementing a new financial management system to replace the current custom-built system, and expects to go live with financials on that system on February 5, 2018, and payroll on April 1, 2018.*

*IT staff has implemented complex password rules for the financial management system and other applications on the Power7 computer.*

*Review of access rights to the financial management system is complicated by the complicated nature of controls over access and has not been completed, although some adjustments have been made. The new financial system will provide a complete audit trail of all changes, which will be reviewed on a regular basis.*

*A secondary machine has been readied as a backup for the Power7 computer. The backup process has been automated and the fail-over process has been tested. The secondary machine has been moved off site so that conditions, such as a sustained power outage or natural disaster, affecting the current machine will be unlikely to affect the secondary machine. The new financial system is hosted at an out of State location and will automatically fall over to a backup location in the event of an outage at the primary site.*

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

---

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

---

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.

---

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

---

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 INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT  
MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

---

## PROFESSIONAL STANDARDS UPDATE

---

The following is a schedule of GASB projects:

<b>Task or Event</b>	<b>Effective Date</b>	<b>Impact</b>
GASB No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	June 30, 2018	This standard has similarities to the previous OPEB standards, most notably the definition of an OPEB and the option of the alternative measurement method for small governments. However, the calculation and reporting of the OPEB liability and various required disclosures will change under the new standard, becoming similar to the pension standards.
GASB No. 81 – Irrevocable Split-Interest Agreements	June 30, 2018	The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
GASB No. 83 – Asset Retirement Obligations	June 30, 2019	The objective of this Statement is to improve financial reporting by developing requirements on recognition and measurement for asset retirement obligations, other than landfills.
GASB No. 84 – Fiduciary Activities	June 30, 2020	The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
GASB No. 85 – Omnibus 2017	June 30, 2018	The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).
GASB No. 86 – Certain Debt Extinguishment Issues	June 30, 2018	The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.
GASB No. 87– Leases	June 30, 2021	The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

---

**PROFESSIONAL STANDARDS UPDATE (cont.)**

---

<b>Task or Event</b>	<b>Effective Date</b>	<b>Impact</b>
Current Agenda Project: Debt Disclosures—Including Direct Borrowing	Proposed effective date – June 30, 2019 (Exposure Draft issued in June 2017)	The objective of this project is to improve the information that is disclosed in notes to government financial statements related to debt, including debt borrowings and direct placements.
Current Agenda Project: Equity Interest Ownership Issues	The GASB is scheduled to issue an Exposure Draft in the first quarter of 2018	The objective of this project is to consider improvements in financial reporting related to the reporting of majority equity ownership in legally separate entities.
Current Agenda Project: Capitalization of Interest Cost	The GASB is scheduled to issue an Exposure Draft in the fourth quarter of 2017	The objective of this project is to reconsider the accounting and financial reporting standards for capitalization of interest cost, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting.

The GASB has a project on hold (conceptual framework for recognition) pending the reexamination of the financial reporting model.

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 December 2016, the GASB issued an Invitation to Comment, *Financial Reporting Model Improvements—Governmental Funds*, which discusses three proposed models for governmental fund recognition and reporting. The GASB is currently continuing deliberations on governmental funds recognition and reporting, and other areas of the project. The GASB plans to issue an Exposure Draft in the second quarter of 2020.

In addition, the GASB is deliberating revenue and expense recognition to develop a comprehensive application model for the recognition of revenues and expenses that arise from nonexchange, exchange, and exchange-like transactions, including guidance for exchange transactions that have not been specifically addressed in the current literature. The GASB is scheduled to issue an Invitation to Comment in the first quarter of 2018, which will be followed by an Exposure Draft in future years. 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**

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, 2017, and have issued our report thereon dated December 20, 2017. 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 December 9, 2016.

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. No new accounting policies were adopted and the application of existing policies was not changed during 2017. 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.

#### ***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:

- > 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.

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.

To the Library Board  
Urbana Free Library

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.

***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, 2017, 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

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.

To the Library Board  
Urbana Free Library

***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.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, 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.

*Baker Tilly Virchow Krause, LLP*

Oak Brook, Illinois  
December 20, 2017

## **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)

December 20, 2017

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, 2017 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 funds, 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, if any, 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 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 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, debt contracts, and IRS arbitrage regulations; 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, approving 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, except those already disclosed in the financial statement, if any.
- 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) accepted all management responsibility; 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

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. 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, if any.
29. The financial statements properly classify all funds and activities.
30. 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.
31. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
32. 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.
33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
34. 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.
35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
39. 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 which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
40. 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.

41. 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.

42. We assume responsibility for, and agree with, the findings of specialists in evaluating the other post employment benefit and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

43. We have appropriately disclosed all tax abatement agreements in accordance with GASB No. 77, if any.

Sincerely,

Urbana Free Library

Signed:

  
Celeste Choate, Executive Director

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

As of and For the Year Ended June 30, 2017

	Financial Statements Effect - Debit (Credit) to Financial Statement Total						
	<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>	<u>Change in Net Position/ Fund Balances</u>	<u>Beginning Net Position/ Fund Balances</u>
General Fund	\$ -	\$ (12,430)	\$ 12,430	\$ 6,194	\$ 14,719	\$ 16,335	\$ (2,289)
Trust Fund	-	-	-	7,659	-	7,659	(7,659)